Chapter 3: Financial Restructuring and Turnaround Plan of AIL

3.1 Approved Financial Restructuring Plan (FRP)

AIL had an outstanding debt liability of ₹42350 crore as on 31 March 2011. This included aircraft loan of ₹20185 crore (of which ₹15400 crore was guaranteed by GoI) and working capital loan of ₹22165 crore. Besides, AIL had outstanding payments of ₹4600 crore (approx.) due to oil marketing companies, tax authorities, vendors etc. The cash flow from operation of the company was not sufficient to service the high level of aircraft loan and working capital borrowings. Financial Restructuring Plan (FRP) including equity support and debt realignment to the operations and financial turnover of AIL was approved by the Cabinet Committee on Economic Affairs (CCEA) on 12 April 2012. The approved FRP included infusing of equity, restructuring of working capital and monetisation of assets.

A. Infusing of Equity

Government agreed (12 April 2012) to infuse equity of ₹42182 crore during the period from FY 2011-12 to FY 2031-32. The equity would consist of the following:

- Upfront equity infusion of ₹6750 crore towards payment of pending dues to Oil Marketing companies/vendors, Airport/Tax Authorities etc.
- Cash Deficit Equity of ₹4552 crore to be paid upto FY 2017-18, by which time AIL was expected to turn cash positive.
- Equity of ₹11951 crore to be paid upto FY 2031-32 for servicing interest on Non-Convertible Debentures (NCDs) which were to be issued by the Company.
- Equity of ₹18929 crore to be paid upto FY 2020-21, towards repayment of GoI guaranteed aircraft loans of ₹ 15400 crore.

B. Restructuring of Working Capital

The working capital loan of ₹ 22157 crore[5] (31 March 2011) was to be restructured in the following manner:

[5] *₹ 22157 crore was as approved by CCEA. As of September 2011 the working capital loan outstanding was reduced to ₹ 21474.43 crore which was as per the Master Restructuring Agreement (MRA) between AIL and its bankers.*

Table 3.1: Restructuring of working capital loan

	Components	Details
1	Cash Credit Limit: ₹3645.87 crore	This amount was expected to be sufficient to meet the working capital requirements of AIL, post restructuring. Interest at average rate of 6% per annum for FCNR[6](B)/Buyers Credit and at 11% p.a. towards remaining cash credit
2	Long Term Loan: ₹11112[7] crore	This was towards Part of working capital loan being restructured as a long term loan over a 15-year tenure. Interest at the rate of 11% p.a. Interest moratorium-1 year, Principal moratorium-2 years Repayment Period- 15 years.
3	Short Term Loan (STL) to be repaid from proceeds of NCDs: ₹7400[8] crore	The balance working capital loan was to be met from issuing non-convertible debentures, which would be repaid by Government through equity over the period from 2011-12 to 2031-32 Interest Rate on interim short term loan was 11% p.a. Interest on NCD was 9.5% p.a. Interest on NCD to be repaid by GoI through equity

Source: MoCA note to CCEA

C. Monetisation of Assets

It was agreed that AIL would monetise its assets and it was estimated that asset monetisation would result in revenues of ₹5000 crore to AIL over a span of ten years (FY 2012-13 to FY 2021-22) with approx. ₹500 crore revenue being earned each year.

It was expected that post restructuring, AIL would generate positive EBITDA from FY 2012-13, become cash positive from FY 2017-18 and generate positive Profit before Tax (PBT) from FY 2019-20.

3.2 Status of financial restructuring in AIL

Following the approval of the FRP by GoI, the Company received equity from Government, the year-wise equity received being as shown in the table below:

Table 3.2 Commitment vis-à-vis release of equity

(₹ in crore)

Year	MoCA Commitment	MoCA Release	Shortfall (-) /Excess	Progressive total of shortfall/excess at the end of year
2011-12	8536	1200	(-)7336	(-)7336
2012-13	3678	6000	2322	(-)5014
2013-14	3560	6000	2440	(-)2574
2014-15	3441	5780	2339	(-)235

[6] *Foreign Currency Non-Resident (Bank)*
[7] *Long term loan of ₹11112 crore decreased to ₹10436.89 crore as on September 2011 as per the MRA.*
[8] *Short term loan of ₹7400 crore decreased to ₹7391.67 crore as on September 2011 as per the MRA*

Year	MoCA	MoCA	Shortfall (-) /Excess	Progressive total of shortfall/excess at the end of year
	Commitment	Release		
2015-16	3394	3300	(-)94	(-)329
Total	22609	22280	(-)329	-

Source: Data received from Finance department of AIL.

As can be seen, the overall equity infusion over FY 2011-12 to FY 2015-16 broadly matches with the commitments. However, there was a significant shortfall in FY 2011-12 which was made good subsequently. The short release in these years led to increase in short term borrowings of AIL during those years.

The financial restructuring of the working capital loan was implemented through the Master Restructuring Agreement (MRA) between AIL and its bankers (SBI and 18 other lender banks). Non-convertible debentures of ₹7,400 crore were issued by December 2012 as against the schedule of September 2012. Working capital loans of ₹10,436.89 crore were restructured as long term loans. Outstanding aircraft loan as of March 2016 reduced to ₹13,340 crore (of which ₹6,574.60 crore was guaranteed by GoI).

Monetisation of assets in AIL has, however, not progressed as intended. The specific findings regarding equity infusion by GoI, restructuring of working capital loans and monetisation of AIL assets are summarized in the paragraphs below.

3.3 Audit findings relating to infusion of Equity by GoI

3.3.1 Reduction in GOI guaranteed aircraft loan and consequent need for adjustment of GOI equity

A significant portion of the equity amounting to ₹18,929 crore out of ₹42,182 crore committed by GoI was for repayment of aircraft loans taken from various banks which had already been guaranteed by GoI (as on March 2011). The aircraft loan of ₹15,400 crore as on March 2011 guaranteed by GoI included loan taken for purchase of eight B-777-200 LR aircraft. Five of these B-777-200 LR aircraft were sold by the Company during the period from 2013 to 2015. The sale proceeds were utilised to liquidate the outstanding loan amounting to USD 298.44 million (₹1,804.96 crore[9]) for these five aircraft during February to May 2014. However, equity released by GoI during 2014-15 had not been adjusted (reduced) to account for premature liquidation of aircraft loan taken for these five B777-200LR aircraft. As the equity committed by Government was specific to repayment of GoI guaranteed aircraft loans, future equity releases need to be adjusted for the reduction in the loan component arising out of sale of five aircraft and consequent repayment of loan pertaining to them.

[9] *@1 USD = ₹60.48- average of 2013-14 and 2014-15 exchange rates*

MoCA in its reply (30 August 2016) accepted the fact and stated that reduction in equity has to be made on yearly basis and accordingly appropriate adjustments will be made from equity from 2014-15 onwards. However, adjustment of equity has not been made by the MoCA till date (August 2016).

3.3.2 Excess payment of equity toward payment of interest on NCD

The equity proposed to be infused for servicing interest on non-convertible debentures (NCD) was ₹11951 crore. The interest rate envisaged on NCD was 9.5 *percent*. The equity commitment of Government for repayment of interest on NCD amounting to ₹11951 crore (till 2031-32) was worked out considering this rate. The actual interest rate on NCD was 9.08 *percent*. Considering the difference in the interest rates (9.5 *percent* vis-à-vis 9.08 *percent*), the equity sanctioned by GoI for this purpose was higher than the requirement by ₹521.53 crore over the entire repayment period (up to 2032).

During the period under audit (FY 2012-13 to 2015-16), actual commitment towards interest worked out to ₹2022.59 crore against which GoI total equity commitment was ₹2461 crore. This resulted in excess equity commitment by GOI to the tune of ₹438.41 crore which included ₹103.54 crore on account of interest differential and equity commitment of ₹334.87 crore due to delayed issue of NCD in November-December 2012.

AIL in reply (02 February 2016) accepted the facts and stated that equity requirements would be modified in future to take care of the differential.

MoCA in its reply stated (30 August 2016) that the equity sanctioned was higher by ₹528.36 crore due to difference in rates of interest over the average maturity of 17 years. The difference for the period 2012-13 to 2014-15 worked out to ₹93.24 crore instead of ₹407.33 crore. This difference of ₹93.24 crore had not yet been adjusted in the equity commitment because of variations in exchange rate and variations in date of infusion of equity.

The calculation of the excess equity by MoCA was on estimation basis whereas audit considered the actual sanction of equity commitment as well as actual outgo on yearly basis. The contention of MoCA that due to considerable Foreign Exchange fluctuation which was not factored in TAP, equity commitment has not been adjusted is not relevant as AIL took advantage of the substantial reduction in fuel cost. This element also had not been factored in TAP. Further to overcome the delay in release of government equity, GoI extended guarantee for additional loan which made it possible to bridge the gap. Non-adjustment of the excess interest after knowing actual quantum of NCD interest amounted to extension of implicit subsidy to AIL.

3.4 Audit findings on debt restructuring

3.4.1 Cash credit exceeding limits set by FRP

The FRP had envisaged a future working capital (cash credit) requirement of AIL as ₹3645.87 crore, post restructuring. Audit, however, noticed that the actual working capital requirements of the Company were far in excess of this limit resulting in additional short term loans taken by the Company. The actual short term loans of AIL during 2012-16 are tabulated below:

Table 3.3: Short term loans of AIL

(₹ in crore)

Year	2012-13	2013-14	2014-15	*2015-16*
Short term loans as on 31 March	9,160.51	12,005.47	14,416.85	14550.88

Short term loans were on the rise and amounted to ₹14416.85 crore as on March 2015 and of ₹14550.88 as on March 2016. The high volume of short-term loans had eroded the benefits of the financial restructuring exercise carried out under the FRP which intended to provide relief to the Company from its debt servicing obligations.

Audit analysed the reasons for the increase in working capital requirements and consequent short term borrowings. It was seen that the actual revenues earned by the Company were consistently lower than the projected revenues as could be seen in the table below

Table 3.4: TAP Projected vs Actual revenue

(₹ in crore)

	2012-13	2013-14	2014-15	*2015-16*
TAP targets	18511	21521	24069	26889
Actual revenue as per financial statements	16072	19093	20613	20526
Difference	2439	2428	3456	6363

The shortfall in revenue coupled with the delay in release of overall equity in the initial years (later bridged by release of additional equity in the subsequent years) and non-realisation of ₹1935.94 crore asset monetisation resulted in a deficit which needed to be addressed through additional short term borrowings. Some of the significant items of income and expenditure, controllable by AIL, which showed considerable divergence from projection in the Plan during the period from 2012 to 2016 are tabulated below:

Table 3.5: Projected vis-à-vis Actual significant items of Income and Expenditure

(₹ in crore)

Major items – FY	Mar-2013		Mar-2014		Mar-2015		Mar-2016	
	Projected	Actual/% of variation (A) w.r.t (P)	Projected	Actual/% of variation (A) w.r.t (P)	Projected	Actual/% of variation (A) w.r.t (P)	Projected	Actual/% of variation (A) w.r.t (P)
	(P)	(A)	(P)	(A)	(P)	(A)	(P)	(A)
Income								
Operating Revenue	16700	16027.84 (-4.02%)	19564	18370.87 (-6.1%)	22277	19801.71 (-11.11%)	24730	19992.34 (-19.15)
Passenger Revenue	14253	12573.86 (-11.78%)	16725	14290.4 (-14.56%)	19139	15919.33 (-16.82%)	21297	15773.86 (-25.93)
SESF[10]/VVIP and Charter	668	1074.02 (60.78%)	668	1119.85 (67.64%)	668	1136.31 (70.11%)	668	1075.34 (60.97)
Other Operating Revenue	1778	1559.02 (-12.32%)	2171	1920.7 (-11.53%)	2470	2093.54 (-15.24%)	2765	2324.67 (-15.92)
Revenue From in-house MRO & GH	0	598.22 (-)	0	748.84 (0%)	0	261.48 (0%)	-	399.58 (0%)
Monetisation of Assets (Net of Taxes)	500	0 (-100%)	500	0 (-100%)	500	0 (-100)	500	64.06 (-83%)
Staff Costs	2325	3254.73 (39.99%)	2355	3152.19 (33.85%)	2478	2466.64 (-0.46%)	2659	2345.52 (-11.78)
Expenditure								
Aircraft Maintenance	1672	830.81 (-50.31%)	1901	1484.04 (-21.93%)	2059	2280.2 (10.74%)	2260	2125.52 (-5.95)
Interest & Financial Charges	2553	3868.96 (51.55%)	2542	4071.34 (60.16%)	2518	4028.28 (59.98%)	2447	4474 (82.84)

Source: FRP and Annual report of AIL

- <u>Reduced operating revenue</u>: AIL failed to generate its projected revenue even though it achieved the projected passenger load targets[11]. This was largely on account of lesser operations arising from lack of adequate number of appropriate aircraft and efficient operation of available fleet. The problems regarding aircraft availability, deployment and operation are discussed in Chapters 4 and 5 of this Report. Besides passenger operations, AIL also did not enhance its revenue arising from other activities like ground handling, engineering, cargo activities.

---

[10] *SESF-Special Extra Section Flights*
[11] *Refer table 11.1 of Chapter 11.*

- Monetisation: AIL could not achieve the monetisation target of ₹500 crore annually. In 2015-16, AIL was able to earn only ₹64.06 crore. Specific audit findings on monetisation are included at Para 3.5.
- Staff costs: The staff costs were consistently higher than the projected cost (other than 2014-15 and 2015-16 when it was marginally lower). This was partly on account of delay in operationalisation of subsidiaries (AIATSL and AIESL) besides non-implementation of recommendations of Justice Dharmadhikari Committee as discussed at Chapter 8 of this report.
- Aircraft maintenance: The aircraft maintenance charges remained lower than projections (except 2014-15 and 2015-16 which indicates a sharp rise). The lower expenditure on maintenance proved detrimental to AIL as seen in AIL's admission that the A 320 fleet was more than 20 years old. Their grounding was on account of engineering issues besides shortage of funds for maintenance. Audit also noticed numerous instances of grounding of aircraft on account of shortage of spares. These issues have been elaborated at chapter 5 of this report.
- Interest charges: The interest charges exceeded the projection as the Company availed short term loans to meet the working capital shortfall.

AIL in reply (02 February 2016) stated that increase in working capital debt was on account of multiple factors such as increase in fuel costs, exchange rate, constraints in capacity addition, delay in operationalisation of subsidiary companies, lower proceeds of monetisation of assets, etc.

MoCA in its reply (30 August 2016) attributed the increase in the working capital to the Bridge loan taken for sale and lease back of B787 aircraft, pending receipt of government sanction for its guarantee besides impact of foreign exchange variations and increased fuel cost. It admitted the fact that shortfall in passenger revenue, delay in monetisation of assets and operation of subsidiary companies had adversely affected the working capital.

However, even after exclusion of the bridge loan there was increase in the short term loan taken for working capital requirement. Further, substantial reduction in the fuel cost in 2014-16 had offset the impact of foreign exchange variation. There was an increase in short term debts in 2014-15 and 2015-16 while the fuel costs were lower than the projected levels. The subsidiaries had been operationalised leading to lower burden of staff costs on AIL.

3.4.2 Additional interest burden of ₹11.30 crore

As per the FRP, the non-convertible debentures (NCD) were to be issued by 30 September 2012. However, the NCD could be issued only by 18th December 2012. The proceeds from the NCD were to liquidate the short term borrowings of the Company. The delay in issue of NCDs led to additional interest payment on the short term borrowings for the interim period (September to December 2012) amounting to ₹11.30 crore[12].

[12] *Considering the payment of differential interest between 11 percent (Bank rate of interest) and 10.08 percent (NCD interest of 9.08%+ GOI guarantee fee of 1%) for the delay in refund of Short Term Loans.*

AIL/MoCA in its reply (02 February 2016/30 August 2016) stated that the delay in issue of NCD was due to procedural formalities and contended that AIL or MoCA was not responsible for the delays.

AIL as well as MoCA, have accepted that there was an additional expenditure of ₹11.30 crore towards payments of interest on banks short term loans in the interim period due to delay in issue of NCDs. Considering the significant financial impact of the delay in issue of NCD, the processes involved in issue of NCD ought to have been fast-tracked.

3.5 Monetisation of assets

The financial restructuring plan approved by CCEA (in its meeting of 12 April 2012) envisaged monetisation of AIL assets to generate ₹5000 crore over a ten-year period with annual revenues anticipated at ₹500 crore. Subsequently, the Company signed a Master Restructuring Agreement (MRA) with State Bank of India (SBI) and other bankers which listed an indicative set of twelve properties for monetisation. The list of these properties is at Annexure 1.

3.5.1 Assets of which immediate monetisation is not feasible

Audit noticed that monetisation of five out of twelve properties was not feasible owing to their status or terms and conditions of their lease to AIL as discussed below:

Table 3.7: Status of five properties

<table>
<tr><th>S.no</th><th>Name of the property</th><th>Purpose for allotment</th></tr>
<tr><td>1</td><td>Property at Vasant Vihar, Delhi</td><td>27.2 acres of land allotted in 1967 for construction of staff quarters</td></tr>
<tr><td>2</td><td>Two CIDCO plots in Navi Mumbai</td><td>• 100021 sq. mtrs area allotted to erstwhile AI in 1983 for construction of staff quarters.
• 5 hectares and 2 hectares of land allotted in 1984 & 1985 respectively to erstwhile IA for construction of staff quarters.</td></tr>
<tr><td>3</td><td>Building at Old Airport, Kalina, Santa Cruz, Mumbai</td><td rowspan="2">Land allotted by AAI which was subsequently taken over by MIAL.</td></tr>
<tr><td>4</td><td>Office Building, NITC, Santa Cruz, Mumbai</td></tr>
<tr><td>5</td><td>Land at Baba Kharak Singh Marg, Delhi</td><td>Land allotted in 1983 for construction of city terminal office.</td></tr>
</table>

Land in Vasant Vihar, Delhi was allotted to erstwhile Indian Airlines (IAL) for construction of staff quarters. However due to unauthorised constructions in contravention of clause no. 2(iv) of the allotment letter, Land and Development Officer (L&DO) imposed additional premium and ground rent along with interest on the unauthorised constructed area in October 1980. As IA did not pay, L&DO cancelled (October 1983) the allotment of land and also served (November 2014) a demand notice of ₹373 crore for unauthorised occupation of Govt. land/unauthorised construction/misuse of staff quarters. The lease has not been reinstated till 31 March 2016.

Plots were allotted by CIDCO to erstwhile IA and AI for construction of staff quarters. Company did not possess the lease deed for AI plot till date. Further Company failed to execute the agreement in respect of 7 hectare plots allotted to erstwhile IA. CIDCO clarified that it should not allow monetisation of the said properties as they were given for specific purpose. The only option was to give the land back to CIDCO at 50 *percent* of the market value, subject to Board Approval of CIDCO.

Airport Authority of India (AAI) had entered into an agreement with AIL (March 2006) for leasing land at Chatrapati Shivaji International Airport (CSIA), Mumbai for a period of 10 years (from 1 April 2001 to 31 March 2011). The AIL buildings at old airport, Kalina and NITC, Santa Cruz were on this leased land. Mumbai International Airport Ltd (MIAL) took over CSIA, Mumbai in May 2006. An interim agreement was entered into by AIL with MIAL on 22 February 2010 for facilities at CSIA. The agreement for facilities had since expired and fresh agreement with MIAL was yet to be finalised. Thus, these buildings could not be monetised.

AIL had earmarked a plot of land (3.54 acres) at Baba Kharak Singh Marg, Delhi for monetisation. Ministry of Urban Development (MoUD) allotted the plot in November 1983 to erstwhile IA on lease for construction of city terminal offices and related facilities. M/s DTZ had estimated the value of the plot at ₹584 crore. Further in 2008, MoUD allotted 1565.25 sq.mtrs of the plot to Delhi Metro Rail Corporation (DMRC). The current estimated value of this area is ₹63.8 crore (considering the valuation report of M/s DTZ). However DMRC did not pay any amount to Air India. AIL does not possess title deeds of such land and the land is still vacant. MoUD refused to give permission for Monetisation (March 2014 & August 2014) on ground that land is to be used only for the intended purpose.

Thus the above properties could not be monetised as the same were allotted for specific purposes and also the concerned authorities denied the permission for monetisation.

MoCA in its reply (30 August 2016) stated that meetings have taken place at the level of Secretary with MoUD and Land and Development Officer (L&DO) and a request had been made to withdraw the penalty of ₹373 crore and regularisation of the allotment of land in Vasant Vihar, Delhi. CIDCO had not yet agreed to change the end use of the plot at Nerul, Mumbai and hence the same could not be monetised. Properties at old airport could not be monetised as the land belonged to AAI. Efforts were on to monetise land at Baba Kharak Singh Marg, Delhi through NBCC (India) Limited. The issues of restoration of title and modalities for monetisation were under discussion with MoUD.

The facts remained that at present there was no certainty regarding possible monetisation of the land by AIL even in future. Ministry has also confirmed that the waiver of penalty had still not been done. Further, as the Company was aware of the issues relating to the buildings at old airport, Kalina and NITC, Santa Cruz, these properties ought not to have been earmarked for monetisation in the first place.

3.5.2 Assets for which no efforts at monetisation was made

Audit observed that following four properties, though earmarked for monetisation, were currently in use by AIL, thereby impacting their immediate monetisation:

- Freehold land and residential flats at Palavanthangal village and IA staff housing colony, Chennai.

- Airlines House, 113, Gurudwara Rakabganj Road, Delhi. This is the registered office and corporate headquarters of AIL.
- Unit no. 264, 297, 310, 489, 631, 678, 684, 714, Asiad Village complex, New Delhi.
- Freehold land and buildings in Central Training Establishment complex, Hyderabad which has been marked for development into a profit centre as per the GOM/Oversight Committee decision.

No action for monetisation of the freehold properties viz. flats at Asiad Village complex New Delhi and residential flats in Chennai had been initiated.

Management in reply (02 February 2016) stated that assets illustrated for monetisation under TAP were indicative and might differ from actual monetisation program considering prevailing market conditions, its utility and future requirements etc. on advice of the Oversight Committee on monetisation and recommendations of Utilisation & Survey Committee.

MoCA in its reply (30 August 2016) further stated that the properties mentioned by Audit were being used by Air India either as an office or as residential quarters and hence the management had decided to retain the properties.

It was observed that even after a lapse of four years, the company had not exercised due diligence by substituting the identified properties for monetisation which has resulted in non-achievement of the monetisation target.

3.5.3 Audit findings on efforts made by AIL for monetisation of properties during the period from 2012-13 to 2015-16

3.5.3.1 Appointment of consultant for valuation of properties for monetisation

AIL appointed (January 2012) M/s DTZ International Property Advisers Private Limited (DTZ) for valuation of 108 properties including three properties located outside India.

Audit noticed that the selection of 108 properties for monetisation was improper. Of the 108 properties 48 properties had been given on lease by state government/Airport Authority of India/other government agencies of which 31 properties were given only for the purpose for which they were allotted. 18 properties did not have a clear title. Hence monetisation of these properties was uncertain.

Title deeds relating to 35 properties were not made available to Audit and as such their availability could not be assured in Audit.

Management in reply (02 February 2016) stated that at the time of formulating the TAP/FRP, no “reality check” was done on whether assets could actually be monetised or not. The list given was only indicative and not “final”. Efforts were being taken for regularisation of the title deeds, reinstatement of the properties with various restrictions as well as certain defects in the title as well as disposal of assets. Properties identified initially in RFP (for M/s DTZ) are based on property found surplus, vacant, not required on long term basis, balance FSI which could be monetised through JV/developer. However, properties actually selected for monetisation were based on management decisions from time to time.

MoCA in its reply (30 August 2016) stated that a database of all the properties belonging to AI giving the latest status of each of these properties had been prepared by Air India. Based on this database, AI had selected certain properties for the next phase of monetisation.

The company was aware that most of the properties given for valuation to M/s DTZ had title issues, were allotted for specific purpose and required prior permission of Ministry/Authority, etc for monetisation. Despite this most of the properties were given for valuation and also shown in the TAP for monetisation.

3.5.3.2 Leasing of Air India building at Nariman Point, Mumbai

In February 2012, the Management decided to lease out vacant space in 19 floors of AIL building at Nariman Point, Mumbai, with expected revenue of ₹5.77 crore per month from nine floors. The actual procedure for leasing out the vacant space was, however, initiated only in October 2012. Presently (March 2016) 17 floors had been leased to SBI, Income Tax and Service Tax Departments with most of the leases finalised after April 2015. The leases will result in a revenue of ₹85 crore per annum to the Company. Leasing of the balance space on two floors is pending.

Management in reply (02 February 2016) stated that the delay in leasing was on account of poor response. The tender issued by AIL in October 2012 and March 2013 had to be postponed twice due to poor response. The quote received was much below the market rate. The lease to Income Tax and Service Tax departments was finalised with a clause to hand over the floors in a phased manner as the space was occupied by AIL offices and had to be relocated before vacant floors could be handed over. AIL had kept minimum space with them at Air India building for the essential offices/ maintenance office and booking office.

MoCA in its reply (30 August 2016) stated that AI has finalised the lease of all floors except 21st, 22nd, ground, first and second floors. These floors were being retained by AI for its own use. The only floors remaining to be leased out were some portions of 8th and the entire 10th floor. Formalities for completing the documentation would be finalised shortly.

Based on the Audit observation, the management had expedited the process of leasing of most of the floors. However, some space was still lying vacant due to documentation formalities which need to be expedited so as to increase the revenue.

3.5.3.3 E-auction of properties of AIL

Six properties were identified for monetisation in phase-I in line with the decision taken by the Board on 14 February 2013. These properties and the current status of their monetisation are summarized in the table below:

Table 3.8: Status of properties for monetisation

S. No.	Property	Result of e-auction
1	Residential Flat no. 6B, Middleton Street, Kolkata.	No bid received against the auction carried out during November 2013 to January 2014.
2	Land & Building at AI Colony, Kaikhali, Kolkata.	Bid received was for ₹19.71 crore. However, the value of the property, as determined by the Vigilance Department of the Company was ₹27.96 crore. The bid was rejected. Presently, it is intended to hand over the property to NBCC. Board approval for this was awaited.
3	Land at Coimbatore.	The highest bid received for land was for ₹19.81 crore from NBCC. Approval of Cabinet for sale was received late and the property had been offered to NBCC.
4	Plot of Land (Lakshmi House) at Mount Road, Teynampet, Chennai.	Bid received was rejected since it was lower than the reserve price. No efforts had been seen thereafter for its monetisation.
5	04 Flats at Sterling Apartment, Mumbai.	No bids received. However subsequently, received an offer for the four flats at Sterling Apartment, Mumbai from SBI which was negotiated and proposed to be sold to them for a price of ₹88 crore. The approval of CCEA for the sale had been received in November 2015.
6	AI plot no. V-37/13 at DLF Qutab Enclave, Phase-III, Gurgaon.	No bids received

In two cases, where bids were not received by the Company, no further progress was noticed. AIL was yet to complete monetisation of the above six properties identified as early as February 2013. It was noticed however, that AIL had incorrectly informed the Oversight Committee (7th meeting held on 23 January 2014) that the properties at Coimbatore and Kolkata had already been sold at ₹40 crore. In fact, both sales were yet to be formalised even a year later.

Management in reply (02 February 2016) stated that specific approval of Cabinet was required in each case of sale or long term lease of land belonging to government or government controlled statutory authorities after discovering sale price of each property through proper tender process. Cabinet approval for the sale of land in Coimbatore was received two years later, after close follow up with the ministry by AIL.

MoCA in its reply (30 August 2016) stated that the property at Coimbatore was sold to NBCC being the highest bidder and the same was subject to Cabinet approval which was received in November 2015. It is pertinent to note that both the properties i.e. at Coimbatore and Kolkata were put up for sale by E-auction on 12 November 2013 and M/s NBCC was declared as the highest bidder. Normally, when a party was the highest bidder, the property is sold to him under the auction rules. In the case of Kolkata, the Vigilance Department had opined that the "bid price" is much lower than the circle rate, and hence the sale of the property in Kolkata to NBCC was held up. The property at Coimbatore and 4 flats at Sterling Apartment had been sold for ₹19.81 crore and ₹88 crore respectively. NBCC had been given the mandate to finalise the project plan for rest of the properties selected for monetisation.

The fact remained that the management was aware that even when a party was the highest bidder, the property could be sold to it only after the approval of the government and delay should have been avoided.

3.5.4 Additional debt and interest burden due to non-monetisation of AIL properties

The FRP had fixed a target of ₹500 crore per annum for monetisation of assets by AIL. AIL had initially identified 12 properties in the TAP. However 108 properties were given to M/s DTZ for valuation. So far (February 2016), the Management has identified only six properties with overall value of ₹224 crore for monetisation (as determined by M/s DTZ). The sale of these properties is yet to be finalised even after three years. The short-receipt of funds from monetisation during the period from 2012-13 to 2015-16 contributed to reduced cash flow over these years leading to additional debt burden and interest payouts.

Management in reply (02 February 2016) stated that actual implementation of monetisation plan was on the basis of relevant rules and regulations in vogue at the time of taking a decision. Management also stressed that there was no additional payment of interest as a result of non-monetisation since banks waived their penalty charges due to the problems encountered by AIL.

MoCA in its reply (30 August 2016) stated that the observations of Audit that shortfall in meeting the monetisation target had led to increased payouts of interest was valid. However, AIL was able to sell four flats at Sterling Apartments and land at Coimbatore at value of ₹88 crore and ₹19.81 crore respectively. In addition, AI has also monetised by way of leasing the area lying idle in AI building, Nariman Point wherein nearly 17 storeys have been rented out at an annual rental of ₹85 crore p.a. (2016-17). The rentals will be escalated at 8 *percent* p.a. Further, the real estate market had also fallen in the intervening period which had also hampered the process. Continuous efforts were being made by Air India to monetise the properties by identifying the properties that could be sold easily.

Although the management sold two properties for ₹108 crore and also earned rental income of ₹85 crore during 2016-17, the same was short of the monetisation target of ₹500 crore per year.

3.6 Delay in payment of dues by GoI for VVIP flights

AIL had earmarked three B747-400 aircraft for the sole purpose of operating special extra section flights for VVIP operation.

Audit noticed that dues worth ₹452.54 crore towards operation of VVIP flights during 2011-12 to 2014-15 were pending. In addition, ₹15.32 crore were due from the Ministry of External Affairs for the evacuation flight services provided during June 2006 to November 2014. The total unpaid dues amounted to ₹467.86 crore. The Company had taken six months to raise formal invoices for claiming these expenses despite its revenue constraints.

AIL in its reply (02 February 2016) stated that the delay was on account of information to be gathered from various stations and that in view of audit observations, efforts were being made to speed up the invoices.

In addition, MoCA stated (30 August 2016) that continuous efforts were being made by AIL for recovery of dues with the various ministries.

Though with continuous efforts, AIL was able to recover 50 *percent* of the old dues, the position of dues outstanding as on 31 March 2016 indicated that the total unpaid dues as on 31 March 2016 were ₹513.27 crore (₹472.09 crore for operation of VVIP flights and ₹41.18 crore for MEA). Hence considering the significant quantum of pending dues and in the context of government support to AIL for turnaround, more efforts need to be made for early action for reimbursement of dues by both AIL and government.

3.7 Status of Implementation of Turnaround Plan

The approved Turnaround Plan identified specific milestones relating to various functional areas of the Company to be achieved, which were linked to release of equity. Audit noticed that deadlines of certain milestones viz. Productivity Linked Incentive (PLI), operationalisation of MRO/GH, IT system, monetisation of assets etc. had already expired before the period of approval of TAP/ FRP. Status of implementation and achievement of the milestones/objectives set by the TAP in major functional areas are highlighted below (refer Annexure 2 for details).

1. **Human Resources:** The Turnaround Plan (TAP) intended to stop the payment of Productivity Linked Incentive (PLI) till AIL generated Profit Before Tax(PBT). TAP also required that a Voluntary Retirement Scheme (VRS) be worked out by the end of December 2011. However, AIL failed to fulfil these requirements as a significant component of PLI continued to be paid as 'adhoc pay'. AIL had decided not to implement VRS.
2. **Hiving Off Subsidiaries:** Subsidiaries for MRO and Ground Handling (GH) were required to be operationalised by January 2012. As against this target date, the MRO subsidiary was operationalised only in January 2015 and GH subsidiary in April 2014.
3. **IT Integration :** As per Turnaround Plan, AIL was required to implement IT systems for ticket pricing and sales, network planning, crew scheduling and operational efficiency by December 2011. However, till March 2016 though the remaining systems were in place, AIL could partially implement only the Central Planning and Control System and the Flight Planning System.
4. **Financial Restructuring:** The Turnaround Plan objective to earn the targeted annual revenue of ₹ 500 crore per annum from monetisation of assets could not be achieved by AIL. AIL could generate revenue of only ₹64.06 crore from 2012 to 2016. The Financial Restructuring Plan of AIL had also envisaged that AIL would achieve positive EBITDA by 2012-13. Though AIL reported a positive EBITDA of ₹166 crore (April-December 2014) from a negative ₹191 crore (April-December 2013) both statutory auditors and CAG of India had expressed qualified opinion on the accounts of AIL for all the three years (2012-13 to 2014-15) pointing out significant understatement of losses in the financial statements presented by the Company. The understatement of losses were ₹1455.8 crore (2012-13), ₹2966.66 crore (2013-14) and ₹1992.77 crore (2014-15).

Considering the effect of these qualifications on the financial statement, the EBITDA of AIL would be negative (up to March 2015).

5. **Operational Performance:** There was shortfall in achievement of TAP targets relating to operational performance of the Company relating to on-time performance. AIL could however achieve the targets set by the FRP for achievement of Passenger Load Factor (PLF) and Network Yield. AIL was required as per TAP to improve the on-time performance (OTP) from 71.7 *percent* (October 2011) to 90 *percent* within two years. However in 2015-16, AIL could achieve OTP of 78 *percent* as against the TAP target of 90 *percent.* AIL claimed (October 2016) that the OTP in 2015-16 was 79.2 *percent.*

   AIL was required to achieve Passenger Load Factor (PLF) of 73.4 *percent* by 2016 and 75 *percent* by 2020. As against this, AIL was able to achieve overall PLF of 75.8 by the end of FY 2015-16. AIL achieved by FY 2015-16 a PLF of 74.5 *percent* and 78 *percent* for wide body and narrow body aircraft respectively as against the corresponding TAP targets of 73.5 *percent* and 73.2 *percent.*

   The TAP target for Network Yield was ₹3.76 per Passenger km and ₹3.75 per passenger km during 2014-15 and 2015-16 respectively against which AIL could achieve Network Yield of ₹4.27 per passenger km and ₹4.0 passenger km in the respective years. During these years the yield performance of wide body aircraft was ₹3.49 per passenger km and ₹3.46 per passenger km respectively against the target of ₹3.36 per passenger km. For the same period the yield performance of narrow body aircraft was ₹5.46 per passenger km and ₹4.87 per passenger km respectively against target of ₹4.39 per passenger km and ₹4.40 per passenger km for the respective years.

6. **Aircraft Utilisation :** Against the TAP target of 12.25 hours of utilisation for narrow body aircraft, the actual utilisation was 9.57-10.57 hours in 2014-15 and 9.22-11.16 hours in 2015-16. Similarly, against a TAP target of 13-15 hours for the same period for wide body aircraft, the Company could achieve 2.04-12.94 hours in 2014-15 and 6.89-12.07 hours in 2015-16.

Reasons for short achievement of TAP have been discussed in the succeeding chapters.

3.8 Audit findings on monitoring of achievement of objectives envisaged in TAP

3.8.1 Monitoring framework

Cabinet Committee on Economic Affairs (CCEA) while approving the Turnaround Plan (TAP) and Financial Restructuring Plan (FRP) of AIL had stipulated (April 2012) periodic monitoring of their implementation by an oversight committee, regular review by Group of Ministers (GoM) and directed that report on progress on implementation be placed before the CCEA every six months.

MoCA constituted (May 2012) an Oversight Committee (OC) headed by 'Secretary, MoCA' (other members included Secretary, Department of Expenditure, Additional Secretary & Financial Advisor, MoCA, CMD, AIL, Chairman, SBI Capital Markets Limited and Joint

Secretary handling AI matters at MoCA). It was intended that OC would prepare actionable items of milestones to be achieved by AIL and review them rigorously on a monthly basis.

3.8.2 Shortfall in review meetings by Oversight Committee (OC)

Against the mandatory 50 meetings to be held from May 2012 to June 2016 audit noticed that the OC had met only 14 times during this period. The long intervening gap between meetings (upto seven months) assumed significance in view of the direction of CCEA to report on the progress of TAP and FRP every six months.

MoCA attributed (02 February 2016) delays in meeting to the non-availability of the senior officials and stated that it was of the view that quarterly review by the OC was desirable. AIL further stated that as and when the Prime Minister's Office (PMO) desired information on the implementation of TAP, the same was furnished and it was not considered necessary to report progress of implementation to CCEA.

The response of AIL was not tenable as even the quarterly meetings were not held as desired. After FY 2012-13, the meetings were held after considerable gap with the period intervening between two OC meetings ranging from three to seven months. Further, many of the TAP targets remained elusive or were unduly delayed. The need for appropriate monitoring had also been emphasised by the Secretary, MoCA in October 2014 by setting up an Expert Committee consisting of senior professionals to review the implementation of TAP due to mismatch between achievements and projections in TAP.

MoCA further replied (30 August 2016) that a mechanism for regular monitoring of performance of Air India through a process of information gathering, whereby regular reports on on-time performance (OTP), route profitability and financial performance were obtained on a monthly basis from AI. In addition, Secretary (Civil Aviation) reviewed the performance of AI through fortnightly review meetings.

However, the mechanism prescribed for monitoring the progress of TAP/FRP involved reporting by OC to a supervisory inter-ministerial body, rather than reporting only to the head of a particular Ministry. This mechanism was bypassed in favour of a process of review by only the Secretary. Thus, the failure to adhere to the stipulated mechanism affected the efficient implementation of TAP.

3.8.3 Non- Review of Monitoring by Group of Ministers

The Group of Ministers (GoM) was to meet periodically to review the achievement of the prescribed milestones and the progress/report thereof was to be placed before the CCEA every six months. The GoM was re-constituted on 17th July 2012. Scrutiny of records, however, did not reveal any evidence of meetings to review the progress of the TAP/FRP (2012-2014) having been conducted. The GoM was abolished in June 2014. Thus, monitoring by GoM and CCEA were not carried out as envisaged.

MoCA (30 August 2016) accepted the audit observations.

3.8.4 Non linking of achievement of milestones to release of equity

Infusion of equity was dependent upon achievement of specified milestones by AIL. AIL was initially directed to present its performance against the milestones before the OC in order to enable any request for further equity infusion to be considered. However, MoCA in its note to CCEA preferred to take into consideration the request of the restructuring lenders and the direction of Reserve Bank of India that equity infusion by the Government of India (GoI) should be unconditional and not linked to any milestones.

MoCA stated (02 February 2016) that it would not be possible to strictly link the release of equity to achievement of milestones due to various factors which were not under the control of AIL. Ministry further stated (September 2016) that non-infusion of equity as laid down in the TAP, would have resulted in serious liquidity issues/constraints for AI.The position of AI vis-à-vis its creditors/lenders would have deteriorated and that the very purpose of the TAP/FRP would have been defeated if it was starved of funds from Government.

The reply of the Ministry was not acceptable as the approval of the TAP clearly indicated that infusion of equity was to be made on achievement of specified milestones by AIL resulting in turnaround of the financial position of AIL.

In the report of the Comptroller and Auditor General of India No. 18 of 2011-12 on Civil Aviation equity infusion was recommended to be clearly and categorically linked to demonstrable, realistic operational improvements (in line with the performance of competitors) according to specified timelines, and also undertaking necessary reforms (e.g. linkage of PLI to specific performance), such as those delineated in that report. Audit however noticed that equity had been released to AIL regularly without linking such releases with achievement of prescribed milestones. As seen from para 3.7 above and table at Annexure II of this Report, some of the milestones which were to be achieved by March 2015 were yet to be achieved by the Company (September 2016).

Financial Restructuring Plan sanctioned by the Government in April 2012 envisaged infusion of equity of ₹42,182 crore during the period from 2012 to 2032. The outstanding liabilities were re-structured over a longer term with the expectation that in future, cash credit would be within the limit of ₹3645.87 crore. It was also expected that in addition to incremental cash flow from core air transport operations, AIL would earn annual revenues of ₹500 crore through monetisation of its assets, totaling ₹5000 crore over ten years.

However, the targets for financial restructuring of the Company were not met fully. Though GoI released almost the entire equity commitment during the period from 2011-12 to 2015-16, the release of equity during the initial years was lower than planned. The cumulative release planned upto the end of FY 2015-16 was however achieved through additional releases of funds over and above that planned during subsequent years (FY 2012-13 and 2015-16). The short release of equity led to higher borrowings of AIL during those years. Besides, as equity committed by GoI was for specific purpose, its quantum should have been adjusted (reduced) due to the reduced requirements of AIL arising from lower levels of GoI guaranteed aircraft loans and lower interest rate on NCD than envisaged.

The Company failed to meet its cash credit limits leading to short term loans rising to ₹14,550.88 crore as on 31 March 2016 against the TAP target of ₹3645.87 crore. The significantly higher working capital shortfall was on account of lower revenue generation. Revenue generated by AIL in 2014-15 and 2015-16 were lower than the targets in TAP by 14 *percent* and 24 *percent* respectively. The positive impact of lower fuel costs and lower staff costs arising from rationalisation and transfer of staff to subsidiaries could not offset the shortfall in working capital.

The cash deficit worsened as the company was able to earn only ₹64.06 crore from monetisation during the period from 2012-13 to 2015-16 against the TAP target of ₹2000 crore over the four years. The assets identified by AIL for monetisation were not available for monetisation due to absence of title deeds or due to conditions attached to the terms of lease.

Considering the qualifications of statutory auditors and that of C&AG of India, the Company was yet to achieve positive Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) by March 2015.

Achievement of milestones prescribed in TAP for rationalisation of staff costs, hiving off subsidiaries, integration of IT systems, monetisation of assets, aircraft deployment and operational performance targets were partial or were significantly delayed.

The monitoring framework for ensuring achievement of milestones did not function effectively. The linkage of equity release to achievement of milestones was not adhered to. Even as the Company failed to achieve its objectives, equity continued to be released to the Company.