

Chapter 9: Hiving off Maintenance, Repair & Overhaul and Ground Handling Business to subsidiaries

The Turnaround Plan intended that AIL would focus on core air transport operations and hive off other activities like Maintenance Repair & Overhaul (MRO) and Ground Handling (GH) activities to subsidiaries. These subsidiaries would be established as self-sufficient and profitable entities, in line with international standard practices. As per the milestones approved by Government for turnaround of the Company, AIL was to hive off the MRO and GH activities to its subsidiaries by January 2012. The Master Restructuring Agreement signed (30th March 2012) subsequently with State Bank of India and other bankers for implementing the turnaround plan envisaged hiving off to be completed by 31st March 2012. The process of hiving off MRO and GH activities was scrutinised in Audit and the following issues were noticed.

9.1 Delay in hiving off MRO and GH activities to AIL subsidiaries

As against the target date of 31st March 2012, the MRO services could actually be hived off to Air India Engineering Services Limited (AIESL) only on 1 January, 2015. AIESL could take over MRO functions only with approval of Director General of Civil Aviation (DGCA) under Rule 145 of Civil Aviation Rule for which approval was obtained only in January 2015. Air India Air Transport Services Limited (AIATSL) could likewise be operationalised only on 01 April 2014. Operationalisation of both the subsidiaries, AIESL and AIATSL were thus delayed by two to three years.

Management (02 February 2016) /MoCA (02 September 2016) accepted the delay in hiving off and replied that hiving off was delayed due to various court cases filed by the unions in High Courts and Supreme Court of India resisting the transfer and that unless this issue was resolved the transfers could not be effected. The decisions of Supreme Court of India and Madras High Court permitted hiving off in July 2013. However AIESL could be operationalised w.e.f. January 2015 when DGCA certification was received after following a lengthy process and delay from July 2013 to January 2015 was on account of the process which involved setting up of the manpower structure in AIESL, preparation of manuals, completion of external and internal audit etc. MoCA has not replied to delay in operationalisation of AIATSL after vacation of stay in July 2013 by Supreme Court of India.

The reply needs to be considered in the light of the fact that the actual stay order of the Madras High Court had been for the period less than two months (15 May 2013 to 08 July 2013). The Supreme Court of India decided (09 May 2013) that hiving off was a policy decision of GOI. In view of the order of Supreme Court of India, the Madras High Court vacated the stay on July 8, 2013. Following vacation of the stay order, action for transfer of staff and operationalisation of the subsidiaries was with the Company. Hiving off was an approved milestone which was to be achieved by January 2012 (as per TAP) /March 2012 (as per MRA). Procedural formalities were known to the Company and action on the same could have been taken up simultaneously.

9.2 Inaccurate information reported to Oversight Committee regarding milestone achievement

Management reported to the Oversight Committee (August 2013) that employees of AIL performing ground handling activities had been transferred to AIATSL, however, all staff continued to be on the rolls of AIL with actual transfer of payrolls for AIATSL taking place w.e.f. April 2014 and that for AIESL being effected from October 2014. Similarly Management informed the committee (August 2014), that both AIESL and AIATSL had been operationalised by February 2013. In reality, however, AIATSL could be operationalised only by April 2014 and AIESL by January 2015.

Management in its reply (02 February 2016) stated that around 4500 technical employees were transferred to AIESL w.e.f. 01 February 2013 and that administrative staff/officers attached to engineering department were also deputed to AIESL though the payroll transfer was effected from October 2014.

MoCA replied (02 September 2016) that the information provided to the Oversight Committee (August 2013) was as per situation prevalent then. Air India issued transfer letters to Engineering employees to AIESL in February 2013. Thereafter, several court cases were filed and the last court case was resolved in July 2013. However, at this stage, AIESL had not obtained CAR 145 approval from DGCA to function independently. The Engineering functions, therefore, had to be necessarily performed under the umbrella of Air India. To comply with the regulation requiring adequate staff in the MRO in order to obtain the licence, a policy decision was taken in October 2014 to transfer the employees to AIESL. As regards AIATSL the transfer was delayed as the assets and liabilities were to be identified and transferred. The transfer was made effective from the start of financial year 2014-15.

The reply is not tenable as the GH and MRO staff continued to remain on the rolls of AIL till March and September 2014 respectively. The financial statements of the two subsidiaries (AIESL and AIATSL) for the year 2013-14 also did not indicate transfer of staff from AIL or revenue/expenditure pertaining to MRO and GH activities. The response is contradictory to information reported to Oversight Committee (August 2013) that employees performing ground handling activities were transferred to AIATSL. MoCA did not reply on inaccurate reporting (August 2014) of operationalisation of AIESL and AIATSL in February 2013 to Oversight Committee.

9.3 Deviations noticed in actual operationalisation of AIESL and AIATSL

Audit noticed certain deviations from the envisaged plan in actual operationalisation of the two subsidiaries which are listed below:

Non Infusion of equity for capital expenditure: AIL was to provide a total equity of ₹375 crore to AIESL during the first three years beginning from the date of operationalisation of AIESL. Likewise, AIATSL was to be provided an equity of ₹393 crore, of which ₹150 crore was to be infused in the first year. However, AIL is yet to infuse this equity towards capital expenditure in AIESL and AIATSL (March 2016).

Management stated (02 February 2016) that funds could not be infused on account of its financial problems. MoCA (02 September 2016) accepted that the equity as envisaged in TAP has not been infused in the two subsidiaries. It is also stated that whenever they are required for capital projects, AIL has been infusing the necessary resources to fund the capital expenditure.

The reply is not acceptable as lack of equity support might adversely affect the operation and profitability of the newly formed subsidiaries. AIATSL had brought to the notice of its Board (July 2015) that the Company required Ground Support Equipment of approx. ₹250 crore. Besides, AIL had to infuse equity in both the subsidiaries for operationalisation of subsidiaries as approved by Cabinet.

Deputation of AIL employees to subsidiaries instead of transfer: It had been envisaged (August 2012) that all employees of AIL engaged in MRO and GH activities would be transferred to AIESL and AIATSL. However, 1656 employees were on deputation from AIL to AIATSL. Likewise 803 employees of AIL were on deputation to AIESL instead of being transferred.

Management replied (02 February 2016) that the administrative control of deputed staff/officers is with the subsidiary companies. MoCA replied (02 September 2016) that all the operational staff were transferred and support staff were deputed.

The reply of AIL management needs to be viewed in the light of the fact that a number of personnel on deputation have been subsequently reverted to AIL which may create operational problems for the subsidiaries. The reply of MoCA is also not tenable as all employees of AIL engaged in MRO and GH activities were to be transferred to subsidiaries as per Cabinet approval for operationalisation of subsidiaries. Moreover, AIL staff on deputation to AIATSL included commercial staff performing core GH activities.

9.4 Delay in commissioning new AIESL facilities at Nagpur

AIL had decided to establish two new facilities, an MRO facility and an engine overhaul facility;

- M/s Boeing had committed to invest upto USD 100 million for establishing and operating a facility in India dedicated to provide maintenance and logistics services as a part of the purchase agreement signed in December 2005. This MRO facility was decided (May 2009) to be established at Special Economic Zone (SEZ) area of Maharashtra Airport Development Company Limited (MADC) near Nagpur Airport. As per the original agreement between M/s Boeing and AIL (August 2006), the MRO facility was to be operational by August 2009. The facility was however, completed in January 2014 and operationalised in August 2015. The delay in operationalisation was on account of delay in creation of infrastructure facilities like power supply, taxiway completion, sewage treatment plant by MADC. Even after completion of the facility, the MRO services for the new Boeing fleet (B-777 and B-787 aircraft) continue to be carried out at Mumbai.
- Consequent to the purchase of new Boeing aircraft fitted with GE engines, AIL decided (March 2009) to set up GE branded GEnx and GE 90 Engine overhaul facility. It was

decided during September 2010 to set up the facility in Nagpur. The project costing USD 89 million was to be funded through GE credits (USD 64.5 million) and internal resources of AIL (USD 24.5 million). The facility was to be operational by 2013. The facility is still under construction and is expected to be fully operational only by December 2017. Due to delay in completion of overhaul facility, AIL had to pay higher amounts to GE for engine overhaul services. The avoidable amount incurred by AIL over January 2013 to March 2016 on this account was ₹64.75 crore. Besides, the intended third party revenue from the new MRO unit and engine overhaul facility could not be realised during the interim period.

It is pertinent to note that Expression of Interest (EoI) was invited (January 2016) from units engaged in MROs and Airlines across the world to 'Operate and Manage' the Air Frame MRO at Nagpur on revenue sharing model, with the objective of enhancing revenues of AIL. The Board accorded its approval (74 Meeting, 12 July 2016) to float global tenders, inviting applications from interested parties to take on lease the MRO Airframe facility on a long term basis for thirty years.

Management in reply (02 February 2016) stated:

- i) The MRO facility was delayed due to issues relating to acquisition of land, levelling of the taxiway and other issues with MADC. These issues were not within the control of AIL or Boeing. As regards third party revenue from MRO facility, it was informed that discussion with Indian Airforce and other Indian operators were going on.
- ii) The delay in commissioning of engine facility was on account of delay in civil construction and the liquidity problems faced by AIL. The extra expenditure of ₹17 crore per annum mentioned by Audit would also have been incurred at Mumbai, had the whole facility been made available at Mumbai.

MoCA replied (02 September 2016) that

- (i) The setting up of MRO in Nagpur and GE facilities in Nagpur was accepted by the Board of Air India in 2009. As such considering the complicated nature of project, the MRO facility has been set up at the earliest possible time as a green field project building of an MRO facility would normally take at least four years.
- (ii) The delay in GE Test Cell facility is due to delayed civil work. The engines of Air India also are presently under ON Point agreement with GE. The ON Point programme is a power by hour programme and as such delay of the GE facility in Nagpur has not resulted in any additional cost to Air India.

The reply needs to be viewed in light of the following:

- i) MRO facility, which should have been ready by August 2009, had been operationalised after six years only in August 2015. The reply of Management only explained the delay post January 2014 and did not address the larger segment of the delay prior to this date i.e. August 2009 – January 2014. Reply of MoCA was also not tenable as the approval of Board was internal to AIL.

ii) Considering the steep additional expenses being borne by the Company on engine overhaul due to delay in completion of the overhaul facilities, efforts ought to have been made by AIL to avoid such delays. Besides, the avoidable expenditure worked out by Audit is based on the difference in rates offered to AIL by GE in the absence of the GE overhaul facilities and not on expenses being incurred in transport between Nagpur and Mumbai.

Operationalisation of AIESL/AIATSL was delayed by two to three years vis a vis the TAP milestones. Inaccurate information regarding operationalisation of these subsidiaries was reported to the Oversight Committee.

Some shortfalls have been noticed in operation of subsidiaries – eg. No infusion of committed equity by AIL, deputation instead of transfer of employees from AIL to subsidiaries. Besides, the MRO and engine facilities for the new Boeing wide body aircraft and engines were delayed leading to excess expenditure on the part of the airline in repair/maintenance of GE engines.

