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Plan to buy beleaguered Jet Airways flies into rough winds with Tata bosses

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Aneesh Phadnis & Nivedita Mookerji | Mumbai/New Delhi November 20, 2018 Last Updated at 05:30 IST



“No” is getting louder than “yes” in the Tata-Jet deal talks, sources close to the development said.

Top representatives of the Tata group — the salt-to-software conglomerate — have red-flagged “reputational issues” of Naresh Goyal-led Jet Airways, from the time of inception of the airline, including sources of its funding. This could adversely affect the progress of a deal between the two.

While Tata Sons, after a board meeting on Friday, said it was in preliminary talks with Jet and that there was no proposal yet, an internal panel has been constituted within the Tata group to carry out due diligence on the financial aspects and funding of Jet. The findings of the committee will determine the direction of the talks for a possible acquisition of Jet Airways by the Tatas, sources indicated.

As things stand now, apart from a clean chit from the internal committee, the Tatas would need some more conditions to be fulfilled for the transaction with Jet to fructify.

The group is likely to insist on Goyal selling his entire 51 per cent stake in the airline and relinquishing the board positions held by him and his family. More than anything else, any decision on Jet is likely to hinge on what Tata Trusts Chairman Ratan Tata has to say on the matter, said a source.



The recent board meeting of Tata Sons discussed whether the proposed acquisition would fit into the group's overall strategy, especially in relation to aviation. The Tatas and Singapore Airlines have already invested Rs 20 billion in Vistara (the largest single equity infusion ever) to support its expansion plan. Scaling up business is a priority but a few board members are believed to have expressed doubts over the proposed acquisition of Jet. In pursuit of scaling up, when the Tatas did not go for Air India, what is the need to buy Jet.

A source said Jet's high debt and regulatory issues such as inquiries by several ministries and government agencies over the years also weighed in.

Jet had a debt of Rs 84 billion as of end-September, including Rs 18 billion of aircraft-related debt. The airline was trying to sell and lease back its Boeing 777 and Airbus A330 planes to pare down debt, but large repayment is an area of concern.

In addition, there could be operational concerns as well.

For instance, Tata's joint venture (JV) partner in Vistara, Singapore Airlines, would like to tread cautiously on the deal. If the deal were to mature, the Tatas would want to merge Jet with Vistara. Tatas run two joint airlines in India — Vistara in partnership with Singapore Airlines and AirAsia India with Malaysia's AirAsia Berhad. Fleet alignment could come in the way too. Vistara operates an all-Airbus A320 fleet, while Boeing 737 is the mainstay of Jet's fleet.

Vistara is a 51:49 per cent JV between the Tatas and Singapore Airlines. According to the civil aviation ministry, Tata Singapore Airlines (Vistara) is an Indian controlled entity. However, the Federation of Indian Airlines, or FIA (of which Jet Airways is a part) has challenged the grant of permit to Vistara in the Delhi High Court. Among other things, the FIA has alleged that Vistara is controlled by Singapore Airlines and that litigation is still pending.

Simone Reis, co-head M&A practice at Nishith Desai Associates, said, "Foreign airlines investing in an Indian company cannot hold more than 49 per cent (under the government route) and control of such company must be with Indian residents. In the absence of specific restrictions, any downstream investment by such an Indian company (including in another airline company) should be considered Indian. Should the original government approval permitting the airline to invest have conditionalities (including how the Indian JV company will invest going further), those will have to be taken into consideration."

Analysts believe the Tatas will not rush into an acquisition and will drive down the purchase price by prolonging the transaction.