



IIMC CASE RESEARCH CENTRE (IIMCCRC)

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## AIR ASIA AND THE TATA GROUP: CLEAR SKIES AHEAD?

*"I'm ecstatic."*

- Tony Fernandez, CEO of Air Asia<sup>1</sup>

It was the 8<sup>th</sup> of May 2014. Air Asia had just been granted an airline operator's license (AOP) by the Directorate General of Civil Aviation (DGCA) as the seventh airline in India. Being the butt of vociferous opposition, intense resistance from rival airlines and delays, Tony had finally got his heart's desire. He reminisced about the yearlong arduous journey he had been through. **Exhibit 1** shows the timeline for Air Asia's entry into India. Dwelling on the strategy he would adopt for India, his thoughts focused on the most immediate challenge of getting the validity of the AOP authenticated as it hinged on a ruling by the High Court slated in July 2014. It was based on a public interest litigation filed by the BJP's (Bharatiya Janata Party - a leading political party in India) leader, Subramanian Swamy (Swamy) stating that the venture had violated FDI guidelines.

Air Asia India was a US\$ 30 million tripartite joint venture (JV) between Air Asia BHD a Malaysian based airline with a 49% stake and two Indian stakeholders with the balance 51%. One was the US\$ 100 billion Tata Sons a leading business group popularly known as the salt to software conglomerate with a 30% stake and the other was Telestra Tradeplace with a 21% stake.

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<sup>1</sup>[http://economictimes.indiatimes.com/articleshow/34788864.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://economictimes.indiatimes.com/articleshow/34788864.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

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*This case was written by Professor Indranil Bose at the Indian Institute of Management Calcutta and M. Rao. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation.*

*"It was amply clear from the construct of the shareholder's arrangements that while the majority shareholding of 51% is divided between Tata Sons and Telestra, the effective control lies with the foreign investor."<sup>2</sup>*

- Subramaniam Swamy, Leader of Bharatiya Janata Party

This according to Swamy was a violation as control had to remain with Indian nationals as per Indian law. India's aviation was steeped in bureaucratic knots and Tony had several political nuances and undercurrents to combat before taking to the skies. He also had to operate in a hostile environment with six other struggling airlines to stay afloat, imbalanced costs, lax regulations and inadequate infrastructure. However the potential was huge. To strategically capitalize on this opportunity despite his experience in running low cost carriers (LCCs), he wondered if he needed additional capabilities.

Tony was not without troubles back home as well. At his Malaysian headquarters, the groups operating expenses had gone up by 6.4% in 2013 from 2012 and net profits for 2013 had gone down to 341.1 million ringgit (approximately US\$ 109 million) as compared to a profit of 789.6 million ringgit in 2012 (approximately US\$ 252 million). **Exhibit 2** provides the financial statements for Air Asia. Furthermore Air Asia X, the company's long haul service was also under pressure as the 2014 first quarter results showed net losses of 60.3 million ringgit (approximately US\$ 19.3 million). Added to Air Asia's financial turbulence, Tony's problems were compounded with the disappearance of MH370 a Malaysian airline in the first week of March 2014. This would have a ripple effect on other airlines associated with the country, most predicted.

With these grey areas as a backdrop, onlookers had mixed feelings about Air Asia's India debut. But Tony envisioned success. Mittu Chandilya seconded Tony's sentiments stating:

*"I have promised myself that in the next four-five years India will be the largest of Air Asia subsidiaries."<sup>3</sup>*

- Mittu Chandilya, CEO of Air Asia

Only time would tell if Tony and Mittu were right or the skeptics.

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<sup>2</sup>ibid

<sup>3</sup>AirAsia India aims to start operations in May - Latest - New Straits Times, <http://www.nst.com.my/business/latest/airasia-india-aims-to-start-operations-in-may-1.499352#ixzz31EDQ7b5R->