



Air India - Vistara Merger: Deal Summarized

30th November 2022



Background

Tata Sons took over Air India at the end of January 2022, following its privatization by Govt. of India for Rs. 18,000 crores.

Vistara's holding company, TATA SIA Airlines Limited, was incorporated in 2013. SIA and Tata Sons have invested about Rs 4,591 crore (till 31 Mar 2022). SIA currently holds a 49% stake in Vistara, while Tata Sons holds the rest.

Tata Sons which currently owns 4 aviation entities will streamline them into two entities, a low-cost and a full-service carrier, to simplify its businesses, boost efficiency and significant cost savings. Tata Group comprises of four airline brands:

- Air India, a full service product servicing domestic and long-haul international routes.
- Vistara, another full-service product servicing domestic and regional international routes.
- Air India Express, low-cost product primarily servicing regional international routes.
- AirAsia India, low-cost product servicing domestic routes.

As of September 2022, Air India and Air India Express fleet had 165 planes and Vistara had 53 planes. Air India and Air India Express services 51 domestic destinations between them while Vistara connects 31 domestic destinations. In terms of international network, Air India and Air India Express services 38 destinations whereas Vistara connects 10 destinations.

India International Air Market Recovery



International Flown Pk (millions)	2019 (Jan19-Dec19)	2020	2021	Jan22-Sep22	Market share of local airlines: 2019	Market share of local airlines: 9M22
Indigo	6.8	2.4	2.5	4.0	38%	36%
Air India Group (Air India, Vistara, AI Express, AirAsia India)	7.4	2.6	2.8	5.6	42%	51%
• Air India	7.3	2.4	2.5	5.0	41%	45%
• Vistara	0.1	0.2	0.3	0.6	1%	5%
SpiceJet	2.7	1.0	0.7	0.9	15%	8%
Go First (GoAir)	0.8	0.4	0.6	0.6	5%	5%
TOTAL - above 5 airlines	17.7	6.4	6.6	11.0	100%	100%
TOTAL - all airlines (local and foreign)	64.2	15.1	12.0	NA	-	-
Share of Indian carriers in total Int'l traffic	28%	43%	55%	NA	-	-

Source: Company earning releases, The Directorate General of Civil Aviation India, VIDECON Consultants

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Tata is aiming for a 30% market share for Air India in the domestic market as part of a five-year transformation plan named 'Vihaan.AI'. Vistara has close to 4,500 employees, while Air India has over 12,000 employees. Tata Sons is also in the process of merging Air India Express and AirAsia India, both low-cost airlines. Tata Sons recently acquired full ownership of AirAsia India from the Malaysia based AirAsia group.

India Domestic Air Market Recovery



Domestic Flown Pk (millions)	2019 (Jan19-Dec19)	2020	2021	Jan22-Sep22	Market share: 2019	Market share: 9M22
Indigo	68	33	46	49	47%	56%
Air India Group (Air India, Vistara, AI Express, AirAsia India)	33	14	19	21	23%	23%
• Air India	16	6	8	8	11%	9%
• Vistara	7	4	6	8	5%	9%
• AirAsia India	9	4	5	5	6%	6%
SpiceJet	22	9	9	8	15%	9%
Go First (GoAir)	15	5	7	8	11%	9%
TOTAL - above 6 airlines	137	62	81	86	96%	98%
TOTAL - all local airlines	144	63	83	87	-	-

Source: Company earning releases, The Directorate General of Civil Aviation India, VIDECON Consultants

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Key Points

- SIA will hold a 25% stake in the entity with a fresh infusion of Rs 2,059 crore. Tata Sons will hold the rest.

- SIA will be investing Rs 5,020 crore in the combined entity as additional capital for FY23 and FY24.
- The Vistara brand will be retired, as Air India has a better brand recall. Till the completion of the merger, both entities will continue to operate.
- The merger is to be completed by March 2024, subject to regulatory approval.

Benefits

1. Market Share:

- Merger will enable the new Air India to attain the size, reach and quality befitting of a global airline.
- Air India and Vistara will together have a fleet of 218 aircrafts. This will make the combined entity India's largest international carrier and second-largest domestic carrier behind IndiGo.

Airline Passenger Revenue Comparison (INR Crores)



	FY19-20 (Apr19- Mar20)	FY20-21	FY21-22	1HFY22-23 (Apr22-Sep22)	Market Share: FY19-20	Market Share: FY21-22
Indigo	33,800	13,000	20,300	25,400	41%	43%
Air India Group (Air India, Vistara, AI Express, AirAsia India)	30,500	11,000	18,900	NA	37%	40%
• Air India	22,600	7,400	12,600	NA	27%	27%
• Vistara	4,600	2,200	4,500	NA	6%	10%
• AirAsia India	3,300	1,400	1,800	NA	4%	4%
SpiceJet	11,400	3,500	4,400	4,000	14%	9%
Go First (GoAir)	6,700	2,100	3,500	NA	8%	7%

Source: Company earning releases, The Directorate General of Civil Aviation India, VIDEC Consultants

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2. Service & Operational Efficiency:

- Air India will gain from Vistara's experience in maintaining higher standards of service quality.
- "The skills, people, systems and processes that have driven Vistara's success will complement, strengthen and accelerate Air India's Vihaan.AI transformation program," the CEO and MD of Air India said.

3. Aircraft Lease and Maintenance:

- Better negotiating power with the aircraft and parts suppliers, in light of the supply side constraints.

4. Enhanced Network:

- For Singapore Airlines, the stake widens its geographic reach as part of its multi-hub strategy considering the absence of any domestic market. This deal also leads to a significant boost in its passenger base.
- Global synergizing of networks, which gives the airline a larger access into Indian traffic. Both SIA and Air India are part of the global Star Alliance.

Note: The insights in this article are based on publicly available information, coupled with VIDEAC's proprietary research.