

FDI revision Quick Take

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Cabinet approves the Foreign Direct Investment policy on Civil Aviation

The Union Cabinet has approved to amend the existing Foreign Direct Investment (FDI) policy on civil aviation which will now permit non-resident Indian nationals to invest up to 100% under the automatic route.

As per the present FDI Policy, 100% FDI is permitted in scheduled Air Transport Service/Domestic Scheduled Passenger Airline (Automatic route upto 49% and Government route beyond 49%). The amended proposal would permit foreign investments in Air India by non-residents of India (NRIs) up to 100% on automatic routes. Earlier, just 49% was available for sale to non-resident Indians in Air India. Further, FDI is subject to the condition that Substantial Ownership & Effective Control (SOEC) shall be vested in Indian Nationals as per aircraft rules, 1937.

Concluding Remarks

- The above amendment to the FDI Policy is meant to liberalise, simplify and should illicit foreign investments in Air India given this is the government's 2nd attempt to sell its stake in the national carrier, which has a debt of nearly Rs 58,351 crore (as on March 31, 2019) and has some of India's most lucrative international and domestic landing and parking slots.
- There has already been EOIs from Indian entities who seem to be interested in the domestic carrier. Now with the change in the policy NRI conglomerates can also potentially invest fully in Air India where the government is offering a 100% stake sale (from the prior 76% which was offered in the 1st attempt).

This also indicates that the government is very keen to ensure that the disinvestment programme does go through this year and hence has been opened up to a broader class of investors.

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