Kingfisher Airlines—King of Good Times Trapped in Bad Weather




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On October 4th, 2012, Mrs. Sushmita Chakarborti, wife of Mr. Manas Chakraborti, a Store Manager with Kingfisher Airlines, committed suicide at their South-West Delhi residence. She was battling depression and wrote a suicide note stating that her husband works with Kingfisher Airlines, where they have not paid him salary for the last six months and due to acute financial crisis of the family, she committed suicide1[1].

Kingfisher Airlines, launched in 2003 by UB Group Chairman Vijay Mallya as a premium full-service carrier is in deep - trouble now. The Airline is burdened with huge debt, accumulated losses, dues to airport authorities and unpaid employee salaries. Presently, the crises-ridden Kingfisher Airlines has only 10 operational aircrafts and its license to fly cancelled by the Directorate General of Civil Aviation on the grounds that the Airline has failed to sketch a "Revival plan" and has caused huge inconvenience to customers owing to frequent flight cancellations.

Chairman Vijay Mallya has asserted that he along with his team is working to make the grounded carrier fly again, and is hopeful towards a comprehensive rehabilitation plan, including recapitalization of the airline. Thus, time will unfold what in reality happens to the ailing carrier and whether Kingfisher Airlines will fly again or not.

Background

UB Group, the parent company of Kingfisher Airlines started off as United Breweries Ltd (UBL) in the year 1915, and marked its presence in the Indian Alcoholic beverages industry under the leadership of Vittal Mallya, the first Indian director of UBL in the year 1947[2]. In 1951, UBL added liquor to its product mix, with McDowell as its first subsidiary. Vittal Mallya's son Vijay Mallya, who previously, managed the Brewery and Spirits division of UBL, was elected by the shareholders as the Chairman of UB Group, in 1983. Mallya expanded the UB groups' business into pharmaceuticals, paints, petrochemicals, plastic, electro-mechanical batteries, food products, carbonated beverages, Pizza chains, software, TV channels, and IPL, transforming UB Group as one of the largest business conglomerates with defined corporate structure and corporate governance policy 2. UB Group's foray into the aviation industry was marked with the launch of Kingfisher Airlines on 9th May, 2005, as a premium full-service carrier, with its inaugural flight from Mumbai to Delhi[3].

Kingfisher Airlines which is a wholly owned subsidiary of UB Group Ltd. ever since its launch in May 2005, had pioneered a range of market-firsts that had completely redefined the entire experience of flying. Kingfisher Airlines was the first Indian airline to introduce in-flight entertainment (IFE) system on domestic flights. Passengers onboard were provided complimentary 'welcome kit' that contained a pen, facial tissue and headphone to use with the IFE system[4]. Kingfisher Airlines had alliance with Dish TV to provide live TV entertainment to passengers with 16 channels on each seat and also other tools such as web chat, in-seat plug-ins for music and 100 percent E-ticketing. Passengers were served exquisite cuisines on most flights and before take-off, passengers were served bottled lemonade. Kingfisher airlines made a mark in the Indian aviation scenario in terms of plush air travel experience for its passengers, modern and pleasurable services on board its flight, lavish airport lounges, which set Kingfisher apart as high class flying carrier. In June

[1]*http://www.ndtv.com/article/cities/wife-of-kingfisher-employee-commits-suicide-over-his-salary-problems-275577*
[2]*http://www.theubgroup.com/profile_genesis.aspx*
[3]*http://www.flykingfisher.com*
[4]*http://www.iseindia.com/ResearchPDF/Air%20Transport%20Service_Update1.pdf*

2005, Kingfisher airlines was the first and only Indian airline operator to order five A380, Five Airbuses A350-8—aircraft, and five airbuses A330-200 aircraft worth $3 billion[5]. In 2007, Kingfisher Airlines merged with low-cost carrier Air Deccan increasing its total market share to 20.8% and thereby starting its international operations on September 2008 by connecting Bengaluru with London.

After the merger, Air Deccan was renamed Simplifly Deccan and subsequently to Kingfisher Red, the low-cost service of Kingfisher Airlines on domestic routes. In May 2009, Kingfisher Airlines carried more than 1 million passengers, giving it the highest market share among airlines in India[6].

The Indian Civil Aviation Industry

The liberalization of the Indian aviation sector marked a massive makeover of the airlines industry. From being mainly a Government owned industry, the Indian airline industry is now dominated by privately-owned full-service airlines and low cost carriers[7]. Earlier air travel was a privilege only a few could afford, with privatization, air travel has become much cheaper, and can be afforded by large number of people. India's civil-aviation sector, anticipated to be growing at a healthy annual rate of 15-20 percent, is considered India's second most promising industry after Information Technology[8]. The growth rate is one of the greatest in the Asia-Pacific region, and the country is presently the ninth-largest aviation market in the world. A substantial boom in the tourism industry, together with a growing cash-rich middle class population and strong government support has helped. With growing private involvement and foreign investment, India's civil aviation passenger growth is among the biggest in the world[9].

The civil aviation industry began its journey in the year 1912, with the domestic air route between Delhi and Karachi under the joint initiative of then "Indian State Air Services" and "Imperial Airways", UK. In 1948, the Government of India and Air India (earlier Tata Airline) jointly established Air India International Ltd and in 1953, the Government nationalized the airlines through the Air Corporations Act, 1953, which led to the formation of Indian Airlines and Air India. Indian Airlines came into being with the merger of eight domestic airlines namely Deccan Airways, Bharat Airways, Himalayan Aviation, Kalinga Airlines, Indian National Airways, Air Services of India, Ambica airways, and Mistry airways, to operate domestic services, while Air India International was to run the International services[10]. The second phase of the aviations sector began during the 1990's and with the Government's liberalization policy. Many private airlines like Damania Airways, East-West Airlines, Modiluft, Jagsons, NEPC Airways, Gujarat Airways and Span Air, started their operations during the said period.

It was during 1994-95, that Air Sahara and Jet Airways came into the Indian aviation scenario and sustained to operate, although the other private carriers like East-West Airlines, Skyline, NEPC and ModiLuft discontinued flight operations by 1998 and the capital losses caught up after these closures, were approximately of Rs. 10 billion to the aviation industry[11].

By the year 2005, Jet Airways was the largest airline company in India followed by Government owned Indian Airlines, while Air Sahara (now Jetlite) controlled 17% of the Indian aviation industry market share[12]. But the market share of Jet and Sahara as private carriers was challenged by Air Deccan - India's first Low Cost Carrier (LCC) which revolutionized the LCC model in the Indian Aviation Sector with its arrival in 2003. On observing the success of the LCC Model, in terms of market share and passenger growth rate, other airlines also started to venture in the sector and adopted the No-Frills Model. Some of them are Kingfisher Airlines (which acquired LCC Air Deccan in 2007), Jet Lite, Indigo; Go Air etc. New carriers such as Star Airlines, Skylark, Magic Air, Air One were also given license to operate in the low-cost segment. Thus, the advent of the low cost carriers into the Indian aviation sector further intensified domestic competition.

Subsequently, in the year 2006, the Indian aviation industry witnessed the merger of two major private airlines, with Jet Airways acquiring 100% stake in Air Sahara for nearly USD 500 million (about Rs. 2,300 crore) in an-all cash deal. In the year 2007, there were two other mergers and acquisition taking place, one was of the Indian Airlines—Air India merger and the other major alliance happened between Kingfisher Airlines and Air Deccan. Kingfisher airlines acquired a 46% stake in Air Deccan's parent company Deccan Aviation with a deal worth Rs. 550 crores[13]. (***Annexure 1***)

Gradually the Indian aviation industry was attacked by some major setbacks in the form of high fixed cost, cyclic demand, severe competition, susceptibility to external shocks. The effect of the global economic slowdown of 2008 and increased price of aviation turbine fuel added to the woes of the global airline industry[14].

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[5] *Centre for Asia Pacific Aviation (CAPA)*

[6] *http://mospi.nic.in/Mospi_New/upload/statistical_year_book_2011/sector-4-service%20sector/ch-23-civil%20aviation/civil%20aviation-writeup.pdf*

[7] *http://www.iseindia.com/ResearchPDF/Air%20Transport%20Service_Update1.pdf*

[8] *Journal of Asian Aviation (Singapore)*

[9] *http://www.asianaviation.com/articles/192/Indian-aviation-faces-challenges/opportunities*

[10] *http://info.shine.com/Industry-Information/Aviation/140.aspx*

[11] *www.asianaviation.com/articles/192/Indian-aviation-faces-challenges-opportunities*

[12] *Delloite Research*

[13] *ICRA Research fillings*

[14] *http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

In India too high ATF prices, severe competition, high losses, inflated cost, and liquidity crunch, have raised concerns about the operational viability of many Indian carriers including Government owned Air India, the flagship carrier which currently has debts in excess of 460 billion rupees and an accumulated loss in excess of Rs. 200 billion. Increasing labour costs, shortage of competent pilots, high tax structure, increasing fare prices, low percentages of non-aeronautical revenues and escalating debt has become an industry wide problem, to send most of India's private airlines into red zone[15].

The Global aviation industry is also going through challenging times due to unparalleled fuel price climb during the last 4 years, turbulent financial markets and economic recession.

Launch of Kingfisher Airlines

To comprehend Kingfisher Airlines current state of distresses better, we need to go back to the launch year of Kingfisher Airlines in 2005. Vijay Mallya in line with his glitzy image, unveiled Kingfisher Airlines as a five-star carrier, with personal in-flight systems, captivating customer support, and exquisite cuisines for the passengers. The launch of Kingfisher happened during the period when aviation industry in India was in a boom and the launch of several new private airlines between 2004 and 2008 helped the matter more. Mallya's business plans and fashion of execution deviated from the core competence of UB Group, as the entire Group did not have any links with the airline business. For Mallya, there was no bending on the lure of getting into the airline division; there was the glamour, something he couldn't get enough, regardless of the yachts and islands[16]. So, through Kingfisher Airlines he promised passengers a class of service not habitually seen among the domestic airlines.

Jet Airways was good and on time, but was for busy executives; Air Deccan was for the common people, a kind of shuttle service. In time, the airline became a stepping stone for the chase of other adventures like acquiring White and Mackay. He bought newspapers (Asian Age) fashion and movie magazines, bought and sold a TV company and added football teams to his ever expanding empire. He even added a cricket team to his list of acquisitions and called it Royal Challengers[17].

Mallya brought glamour into the trade of running airlines. Each seat in his aircraft had a TV display just like the global air carriers offered welcoming guests by appearing on the screen and asking them to write to him personally if they were discontented with any service[18]. The corporate sector wanted all top executives to fly Kingfisher and they came back admiring the service. After starting its operations Kingfisher Airlines faced stiff competition from the upcoming low-cost carriers and also Mallya was keenly waiting to fulfill his international ambitions as in India, an airline needs to complete five years of domestic services before it can endeavour into international skies[19].

Merger with Air Deccan

Kingfisher Airlines took over low-cost carrier Air Deccan in 2007. Captain G.R. Gopinath of Deccan Aviation, the parent company of Air Deccan, was urgently looking for a potential buyer for the airline and had also tied up with Reliance's Anil Ambani for a sell-out, but last minute delays, led to the collapse of the deal. Eventually, Vijay Mallya linked in and forked out Rs. 550 crores for acquiring 46% stake in Deccan Aviation. The acquisition happened in three phases, at first, UB holdings Ltd. the holding company of Kingfisher Airlines acquired 26% stake in the company and in the second phase another 20% were acquired by giving open public offer to the shareholders of Deccan Aviation[20]. The shares were allotted at Rs.155 per share approximately a 10% premium for the current market price (CMP) and at the final phase open market purchase of 2.95% stake. UB holdings Ltd spent around Rs. 1000 crores for the acquisition[21]. Subsequently, in December 2007 the boards of both the airlines decided to merge Kingfisher Airlines and Air Deccan. From a 100% full-service model, Mallya switched to two brand strategy—Kingfisher Airlines and Kingfisher Red (the low cost-service of Kingfisher, after the merger) (***Annexure 2***).

Kingfisher Airlines got Air Deccan's huge market share and several aircrafts as well as an immediate listing of the airline. It also availed the license to fly on international routes, as Air Deccan had been in the business for more than five years. Kingfisher Airlines' merger with distraught budget carrier Air Deccan gave Kingfisher prompt control over 29% of the domestic passenger market to meet arch rival Jet Airways head on, as Air Deccan had a domestic market share of 19% and a passenger base of three million by June 2006, but also acquired the losses incurred by Air Deccan, since financially the carrier wasn't in a sound position.

As per Air Deccan Prospectus, prior to the merger, Air Deccan had a loss burden of Rs.725.01 crores for the

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[15]*Directorate General of Civil Aviation (DGCA)*

[16]*CMC Senior Theses CMC Student Scholarship 2010," Airline Bankruptcy: The Determining Factors Leading to an Airline's Decline" By Jason Tolkin, Claremont McKenna College*

[17]*in.reuters.com/.../india-kingfisher-vijay-mallya-idINDEE81P00H201...*

[18]*www.indianexpress.com/news/kingfisher-on-a-wing-and-a.../6*

[19]*http://businesstoday.intoday.in/story_image.jsp?Img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpgandcaption=*

[20]*http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[21]*Civilserviceindia.com*

quarter ending September, 2005. The merger of two thinly capitalized entities was aggravated by global meltdown and rising oil prices and by March 31, 2009 the merged entity's borrowings had accelerated from Rs. 900 crores to Rs. 5,600 crores[22].

The Aftermath of The Merger

After the merger with Air Deccan, Kingfisher selected to give up the cost efficacies, which the acquisition brought in; instead the airlines encompassed the inadequacies of a full-service model. Kingfisher gave up the web ticketing system, and extended all bookings through global distribution systems. Other low cost carrier tactics like keeping overhead costs reduced by flying a single class arrangement of aircraft, quick aircraft turnaround, selling tickets online, selling of food on board were never assimilated into the main operations of Kingfisher Airlines.

The twin brand strategy of Kingfisher Airlines, in the domestic market confused the passengers, and with time, the price-conscious passengers drifted from the mother brand – the full service carrier- to the no-frills subdivision. The other aggressive airline operators in the low-cost segment such as Indigo and Spicejet persuaded away passengers with attractive fares[23]. The no–frills segment in the Indian aviation industry grew but the market share of Kingfisher Airlines did not. Kingfisher Airlines had slipped to the number 3 position with 16.7% market share in October 2011, having conceded the lead position to Indigo (19.6% market share)[24] (***Annexure 3***) Kingfisher's fleet size also reduced from its highest 85 in December 2008 to 66 in the October 2011. In contrast Jet and Indigo had 100 and 64 aircrafts respectively.

In September 2011, Kingfisher Airlines changed its business model by withdrawing its Kingfisher Red brand and completely transforming its fleet to a dual class, full service conformation. In the aviation industry the operative costs of Kingfisher was the highest (apart from Air India) in the month of October, 2011.

In the second quarter of financial year 2012, Kingfisher's cost per available seat was Rs. 4.31, but for Jet Airways, another full service carrier was Rs. 3.31. For the no-frills airline like Spicejet and indigo, it was much lower ranging from Rs. 2.7 to Rs. 2.9[25]. (***Annexure 4***)

Kingfisher was unsuccessful to scale up its transnational operations as intended, even after acquiring the low cost carrier with the plan of flying globally. The unveiling of Kingfisher's transnational routes coincided with global financial meltdown of 2008, impacting air travel harshly over the world and jet fuel prices sky rocketed and touched a high of $150. Global operations are more money-making for airlines because of the price variance for ATF between India and foreign destinations like Dubai where airlines tend to refuel. For Jet airways international operations contributed around 57% of Jet airways earnings in FY'11 while the corresponding figure for Kingfisher Airlines was only 22%.

The market value of UB holdings is only Rs 4,713.4 crore in contrast to the debt on its books of Rs 2,331.6 crore, in addition to debt guarantees and collateral offered on behalf of Kingfisher of Rs 16,852.9 crore as per its 2010-11 annual report[26]. Even though Kingfisher earned adequate revenues but the margin with costs was not sufficient to service the liability of ever increasing interest rates. The interest cost for the company went up from 11 per cent at the time of debt recast package to 14 per cent in the month of May, 2012[27]. The merger of the loss making Air Deccan with Kingfisher did not help matters financially adding to higher debt and interest payouts. For Kingfisher airlines things went out of control further because the airline never had a professional airline management in place. When Kingfisher airlines was launched in 2005 Nigel Harwood was appointed as the CEO but, left after a year since then, the airline did not have a CEO till 2010, until appointing Sanjay Aggarwal as CEO[28].

Kingfisher Flies into Red Zone

Kingfisher was propelled as an all economy, single class arrangement aircraft, with food and entertainment structures. After about a year of operations, the airline abruptly shifted its focus to luxury and subsequent to its merger with Air Deccan, launched its international flights as well as low-cost services. Kingfisher had too many changes in their business model and approaches that led to strategic failure and this had major influence on the airline because haphazard expansion didn't give time for the airline to stabilize[29]. Kingfisher at present needs USD 400 million with the carrier seeking more bank loans to support its operations, and the airline will also require over USD 800 million to fully finance its business plan[30].

Kingfisher Airlines for the four financial years beginning from 2008 has negative EBITDA (***Annexure 5***), but the airlines loan amounts have also jumped, especially in the year 2009. As on March 31, 2009, debt levels increased from Rs. 934 crores to a whopping Rs. 5665 crores, indicating a major risk burden on the banking

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[22]*http://kaipullai.com/2011/11/28/the-curious-case-of-vijay-mallya-and-his-bailout-and-one-more-scam/*

[23]*http://zeenews.india.com/news/exclusive/kingfisher-airlines-hurt-by-vijay-mallya-s-over enthusiasm_762836.html*

[24]*The Hindu*

[25]*Business Standard*

[26]*Kingfisher Airlines Annual Report, 2010-11*

[27]*http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[28]*http://zeenews.india.com/news/exclusive/kingfisher-airlines-hurt-by-vijay-mallya-s-overenthusiasm_762836.html*

[29]*CNN-IBN Reports*

[30]*http://www.moneycontrol.com/financials/kingfisherairlines/results/yearly/KA02*

system. (***Annexure 6***) Kingfisher is burdened with an accumulated loss of Rs 8,000 crore and has never reported a net profit since its inception, the following data extracted from the yearly results of Kingfisher airlines supports the fact of reported losses posted by the company for the last 7 years of its journey[31]

Financial Year	2011	'10	'09	'08	'07	'06	'05
Reported Net	(1027.40)	(1647.22)	(1608.83)	(188.14)	(419.58)	(340.55)	(19.53)
Profit/Loss Secured	5184.53	4842.43	2622.52	592.38	716.71	448.16	159.42
Loans Unsecured Loans	1872.55	3080.17	3043.04	342.00	200.00	3.50	125.06

Source: Dion Global Solutions Ltd
((http://www.moneycontrol.com/financials/kingfisherairlines/results/yearly/KA02)

Out of the total debt exposure of various public and private sector banks in Kingfisher Airlines, Government owned State Bank of India takes the lead position, whose accounted loan exposure is Rs. 1400 crores along with an equity exposure of Rs. 182 crores and recently with the fresh bailout package of Rs. 1500 crores, amounting to total exposure of Rs. 3139 crores in the airline[32]. (***Annexure 7***)

SBI is followed by another Government owned bank, IDBI bank which is the second highest in terms of loan exposure to the ailing airline for Rs.719 crores. The banking consortium also includes private banks such as ICICI, Federal Bank etc. Kingfisher Airlines has a total debt burden of about Rs. 7524 crores, of which over Rs. 1300 crores have been converted into equity as part of the debt restructuring process. The PSU banks are now burdened with a substantial ownership of Kingfisher Airlines on account of debt converted to equity, and are holding 23 per cent stake in the airline, thus they also have to protect minority shareholder interests besides their own balance-sheets[33].

In early 2012, the airline missed one of the milestones to raise Rs. 1,000 crore through global depository receipts (GDR). Because of the crisis in the Arab world, the lenders had to convert part of their loans to equity at a premium to market price. In the year 2009, IDBI Bank had warned UB Group Chairman Vijay Mallya that Kingfisher Airlines was in the red, but despite the report, since 2009 the bank has sanctioned loan to the airline of over Rs 900 crore[34]. The report was prepared in November 2009 on Kingfisher's request for loan of Rs 900 crore for six months. IDBI Bank, in which the government is the largest shareholder, sanctioned the Rs. 900 crores loan to Kingfisher Airlines in 2009 in two tranches. One was an Rs 150-crore short-term loan to pay overseas vendors and the other Rs 750-crore loan to repay creditors.

Owing to its large debt, Kingfisher spends more than 20% of its revenue on interest, which leads to high level of debt becoming out of control and exceeding the carrier's operating profit result. The airline has accumulated losses of about Rs. 6000 crores, recording a loss of Rs. 1027.40 crores in financial year 2010-11. About nine-tenths of Mallya's 58.61 percent stake in Kingfisher is pledged. These loans for Kingfisher have also come at an enormous cost for the UB group[35].

Furthermore, the strapped for cash Kingfisher Airlines has failed to deposit the Income tax deducted from its employees' salaries for the last two financial years, and has about Rs. 130 crores tax deducted at source due to be deposited[36].

The Government of India also has frozen 40 bank account of the airlines. The airline has defaulted on the payment of airport landing, parking, catering and aviation turbine fuels, and owes Rs. 1424 crores to the Airports Authority of India and to add its woes the carrier has been put on a cash and carry-mode by the Airports Authority of India (AAI) Kingfisher Airlines is indebted for a total sum of approximately Rs. 890 crores to all its fuel providers like Indian Oil, HPCL and BPCL. Like the AAI, Indian Oil has put the airline on cash and carry mode and the other two suppliers have blocked supplying fuel, with BPCL filing a court case against Kingfisher Airlines for recovery of unpaid dues of over Rs. 250 crores and for this the Airlines is

[31] *http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[32] *http://businesstoday.intoday.in/story_image.jsp?img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpg&caption=*

[33] *www.asianaviation.com/articles/192/Indian-aviation-faces-challenges-opportunities*

[34] *http://business.rediff.com/slide-show/2010/sep/21/slide-show-1-indias-top-airlines.htm*

[35] *ICRA Research fillings*

[36] *Directorate General of Civil Aviation (DGCA)*

importing jet fuel to save on high sales tax charged by State Governments[37].

Kingfisher Airlines currently has only 10 operational aircraft compared to 66 a year ago. The financial crisis hit Kingfisher's operations since January 2012 and the airlines had been forced to cancel 50-75 flights on a daily basis for its schedules of 340 flights daily, due to which the airlines according to Government estimates, lost Rs. 3-4 crores a day, which is approximately Rs. 100-120 crores per month[38]. Besides all the aircrafts of Kingfisher Airlines are leased, from leasing companies such as International Lease and Finance company, and also Dublin based Irish firm Investec Global Aircraft Leasing (ATR leases) and GE Commercial Aviation, which had arranged for leases with Europeans aircraft manufacturer Airbus, which is in talks with Kingfisher airlines over taking back the leased planes[39].

Kingfisher Airlines asked the banks for another debt recast and possibly some easier provisions to pay interest costs. But the airline has entirely no assets that it can sell or mortgage for acquiring new loans from banks, since all its aircrafts are pledged with its lenders. The Banking consortium of 17 banks has been meeting regularly to help the cash-strapped airline. The consortium, led by SBI, has made available a total Rs 7,000 crores to Kingfisher to help it keep flying.

The Directorate General of Civil Aviation (DGCA) has suspended Kingfisher's Scheduled Operator's Permit (SOP) on October 19th, 2012 till further orders after a lockout and its failure to come up with a viable plan of financial and operational revival[40]. According to DGCA, Kingfisher had failed to run a "safe, efficient and reliable operations." The SOP suspension came after a lockout by the management on October, 2012 following a standoff with its employees who struck work from September 30, 2012 demanding payment of overdue salaries[41]. The lockout was lifted on October 25, owing to payment of three months pending salaries and an assurance to clear salary dues for seven months by December, 2012. Meanwhile, Kingfisher said it is working on a comprehensive revival plan which will be given to aviation regulator DGCA. According to Aviation Ministry sources, once Kingfisher submits the plan, DGCA would hold consultations with airport operators, oil companies and other agencies to which the airline owes money, before considering giving it the clearance to fly again.

Epilogue

Airlines industry has always been a very challenging one to operate in. Very few companies are actually earning profit in this industry. Kingfisher Airlines, a dream venture of Vijay Mallya also ventured into this industry to make a difference and to redefine the experience of flying. But Kingfisher Airlines once known for its premium quality and class is in the deep crisis now and is actually struggling for its space in the sky[42]. The Directorate General of Civil Aviation (DGCA) had suspended Kingfisher's SOP on October 19, 2012 till further orders after a lockout and its failure to come up with a viable plan of financial and operational revival. DGCA had said Kingfisher had failed to run a "safe, efficient and reliable operations." State Bank of India (SBI), the lead bank to ailing Kingfisher Airlines, cautioned the carrier that it "will not fly" if it fails to bring in fresh capital by November 30, 2012. India will not renew Kingfisher Airlines' licence to fly if the ailing carrier fails to provide a turnaround plan by end-December[43]. The government is now concerned about how the cash-strapped carrier would pay the salary dues to employees and the dues to its service providers, including airport operators, aircraft lessors and oil companies.

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[37]*www.asianaviation.com/articles/192/Indian-aviation-faces-challenges-opportunities*

[38]*http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[39]*http://www.moneycontrol.com/news/business/kfa-permit-wont-be-renewed-if-no-revival-plan-by-dec-31_777653.html*

[40]*http://www.moneycontrol.com/news/business/kingfisher-wont-fly-if-doesnt-get-capital-by-nov-30-sbi_778396.htm*

[41]*http://www.moneycontrol.com/news/business/kfa-permit-wont-be-renewed-if-no-revival-plan-by-dec-31_777653.html*

[42]*http://www.ijbmc.com/issue/656.pdf*

[43]*http://www.moneycontrol.com/news/business/kfa-permit-wont-be-renewed-if-no-revival-plan-by-dec-31_777653.html*

ANNEXURE

Annexure 1

Industry Evolution
1953 Nine Airlines existed including Indian Airlines and Air India
1953 Nationalization of all private airlines through Air Corporations Act;
1986 Private players permitted to operate as air taxi operators
1994 Air Corporation act repealed; Private players can operate schedule services
1995 Jet, Sahara, Modiluft, Damania, EastWest granted scheduled carrier status
1997 4 out of 6 operators shut down; Jet and Sahara continue
2001 Aviation Turbine Fuel (ATF) prices decontrolled
2003 Air Deccan starts operations as India's first LCC
2005 Kingfisher, SpiceJet, Indigo, Go Air, Paramount start operations
2007 Industry consolidates; Jet acquired Sahara; Kingfisher acquired Air Deccan
2010 SpiceJet starts international operations
2011 Indigo starts international operations, Kingfisher exits LCC segment
2012 Government allows direct ATF imports, FDI proposal for allowing foreign carriers to pick up to 49% stake under consideration.
Source: ICRA Research

Annexure 2

BIT BY BIT

The UB Group has mopped up a 49 per cent stake in Air Deccan in three phases.

MAY 2007
- TYPE: Negotiated deal
- STAKE: 26 per cent
- PRICE: Rs 155 per share

OCTOBER 2007
- TYPE: Open offer
- STAKE: 20 per cent
- PRICE: Rs 155 per share

DECEMBER 2007
- TYPE: Open market purchase
- STAKE: 2.95 per cent
- PRICE: Rs 275 per share

Source:http://businesstoday.intoday.in/story_image.jsp?img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpg&caption=

Annexure 3

SHRINKING MARKET SHARE

Kingfisher has dropped to No. 3, just about ahead of Air India. Post Air Deccan buy-out, Kingfisher had combined market share of 29.1%.

	Oct '11 %	Jun '08 %
Jet Airways	24.8	29.8
IndiGo	19.6	10.3
Kingfisher	16.7	14.5
Air India	16.6	14.7
Spicejet	16.1	10.3
Go Air	6.2	4.4
Air Deccan	nil	14.6
Paramount	nil	1.3

Source: DGCA

Source: Directorate General of Civil Aviation

Annexure 4

GOING DOWN

Most operational key indicators for Kingfisher are negative.

	July-Sept '11 (Q2, FY12)	July-Sept '10 (Q2, FY11)	Better/ (Worse)
No. of departures	32,926	30,277	9%
ASKMs (million)	4,414	3,757	17%
RPKMs (million)	3,337	2,967	12%
Passenger load factor (%)	76%	79%	(-3 points)
Block hours	60,074	54,783	10%
Revenue passengers (Million)	3.01	2.69	12%
Total revenue per ASKM (₹)	3.69	4.03	-8%
Cost per ASKM (₹)	4.31	3.89	11%
Ex-fuel cost per ASKM (₹)	2.4	2.61	-6%
Average gross revenue per passenger (₹)	4,531	4,620	-2%
Fleet size*	66	66	—

[illegible]

Source: Kingfisher Airlines Analyst Reports

Annexure 5

Comparative Balance Sheet of Kingfisher Airlines (Rs. in Crores)

Sources Of Funds	Mar '11	Mar '10	Mar '09	Mar '08	Jun '07	Jun '06	Mar'05
Total Share Capital	1,050.88	362.91	362.91	135.80	135.47	98.18	16.20
Equity Share Capital	497.78	265.91	265.91	135.80	135.47	98.18	16.20
Share Appl. Money	2.95	7.48	8.11	10.09	0.00	0.00	0.00
Pref. Share Capital	553.10	97.00	97.00	0.00	0.00	0.00	0.00
Reserves	-4,005.02	-4,268.84	-2,496.36	52.99	249.23	125.95	-2.54
Net worth	**-2,951.19**	**-3,898.45**	**-2,125.34**	**198.88**	**384.70**	**224.13**	**13.66**
Secured Loans	5,184.53	4,842.43	2,622.52	592.38	716.71	448.16	159.42
Unsecured Loans	1,872.55	3,080.17	3,043.04	342.00	200.00	3.50	125.06
Total Debt	7,057.08	7,922.60	5,665.56	934.38	916.71	451.66	284.48
Total Liabilities	***4,105.89***	***4,024.15***	***3,540.22***	***1,133.26***	***1,301.41***	***657.79***	***298.14***
Application Of Funds							
Gross Block	2,254.26	2,048.14	1,891.80	322.33	340.77	247.33	55.25
Less: Accum. Dep.	682.37	493.62	316.29	43.55	33.74	16.40	4.52
Net Block	**1,571.89**	**1,554.52**	**1,575.51**	**278.78**	**307.03**	**230.93**	**50.73**
Capital WIP	673.35	980.61	1,630.95	346.25	357.62	286.53	153.09
Investments	0.05	0.05	0.05	0.00	0.41	0.41	0.45
Inventories	187.65	164.88	147.25	48.64	61.62	57.26	36.40
Sundry Debtors	440.53	322.49	229.84	27.16	35.24	13.06	8.27
Cash & Bank Bal.	88.18	50.91	49.41	5.84	422.05	181.17	47.08
Total CA	**716.36**	**538.28**	**426.50**	**81.64**	**518.91**	**251.49**	**91.75**
Loans & Adv.	5,380.19	4,604.31	3,640.42	832.49	149.77	232.03	47.28
FDs	164.18	155.56	122.45	274.29	395.00	75.31	35.85
CA, Loans & Adv.	6,260.73	5,298.15	4,189.37	1,188.42	1,063.68	558.83	174.88
Current Liabilities	**4,463.86**	**3,908.03**	**3,814.63**	**687.31**	**449.15**	**434.05**	**108.77**
Provisions	62.11	46.77	45.55	9.52	6.94	5.93	1.07
Total CL & Prov.	4,525.97	3,954.80	3,860.18	696.83	456.09	439.98	109.84
Net Current Assets	**1,734.76**	**1,343.35**	**329.19**	**491.59**	**607.59**	**118.85**	**65.04**
Misc. Expenses	125.84	145.64	4.51	16.64	28.75	39.08	28.83
Total Assets	***4,105.89***	***4,024.17***	***3,540.21***	***1,133.26***	***1,301.40***	***675.80***	***298.14***

Source: http://www.moneycontrol.com/financials/kingfisherairlines/balancesheet/KA02#KA02

Comparative Profit and Loss Account of Kingfisher Airlines (Rs. in Crores)

Income	**Mar '11**	**Mar '10**	**Mar '09**	**Mar '08**	**Jun '07**	**Jun'06**	**Mar'05**
Net Sales	6,233.38	5,067.92	5,269.17	1,456.28	1,800.21	1285.42	305.55
Other Income	81.58	-333.30	598.90	113.62	342.10	59.64	14.73
Total Income	**6,314.96**	**4,734.62**	**5,868.07**	**1,569.90**	**2,142.31**	**1345.06**	**320.28**
Expenditure							
Raw Materials	56.69	40.89	51.19	43.79	45.94	36.73	5.77
Power & Fuel Cost	2,274.03	1,802.99	2,602.62	889.30	979.50	625.45	92.98
Employee Cost	680.54	689.38	825.42	244.96	247.72	163.04	31.76
Other Manu. Exp.	1,192.80	1,108.82	1,112.85	408.21	617.56	425.48	104.78
Sell. & Admn Exp	997.34	996.85	1,062.74	180.39	146.78	114.38	29.13
Misc. Exp.	87.94	108.58	167.55	14.81	25.11	33.78	9.85
Total Expenses	**5,289.34**	**4,747.51**	**5,822.37**	**1,781.46**	**2,062.61**	**1398.86**	**274.27**
PBDIT	***1,025.62***	***-12.89***	***45.70***	***-211.56***	***79.70***	***-53.80***	***46.01***
Interest	2,340.32	2,245.59	2,029.33	434.44	466.05	250.72	55.33
PBDT	***-1,314.70***	***-2,258.48***	***-1,983.63***	***-646.00***	***-386.35***	***-304.52***	***-9.32***
Depreciation	203.02	162.80	133.20	18.28	17.67	13.34	3.06
Other Written Off	38.01	54.49	38.39	18.31	26.25	18.94	5.73
Profit Before Tax	***-1,555.73***	***-2,475.77***	***-2,155.22***	***-682.59***	***-430.27***	***-336.80***	***-18.11***
Extra-ordinary items	72.99	31.28	0.00	-0.97	14.09	0.00	-2.74
Tax	-455.35	-700.00	-546.38	-494.45	3.40	3.75	-1.32
Reported Net Profit	***-1,027.40***	***-1,647.22***	***-1,608.83***	***-188.14***	***-419.58***	***-340.55***	***-16.79***
Per share data (annualised)							
Shares in issue (lakhs)	4,977.79	2,659.09	2,659.09	1,357.99	1,354.70	981.82	31.06
EPS (Rs)	-20.64	-61.95	-60.50	-13.85	-30.97	-34.69	-54.05
Equity Dividend (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book Value (Rs)	-70.46	-150.54	-83.88	13.90	28.40	22.83	43.96

Source: http://www.moneycontrol.com/financials/kingfisherairlines/profit-loss/KA02#KA02

Annexure 6

HEADWINDS

Debts outweigh gains at Kingfisher Airlines.

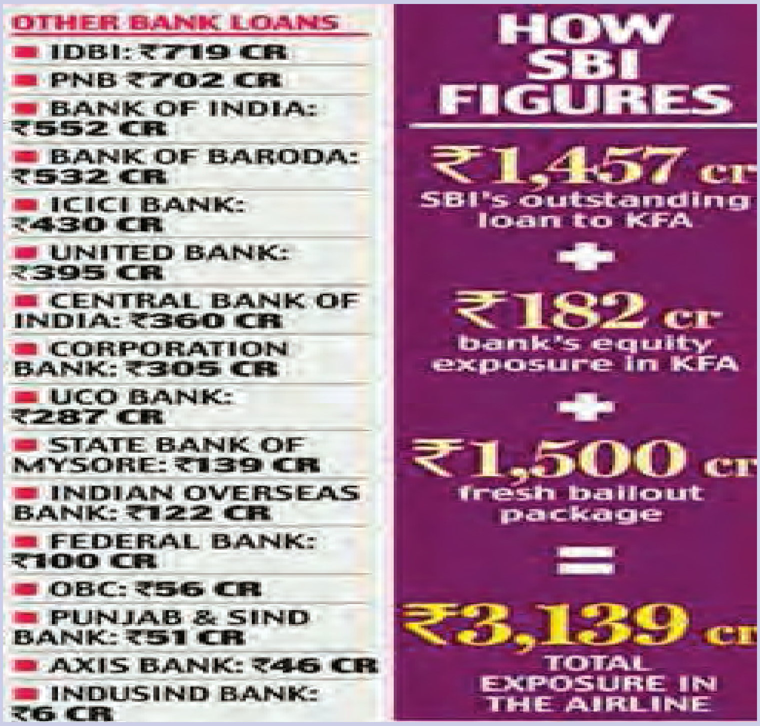
	FY08	FY09	FY10	FY11
Total revenues	1,441	5,239	5,068	6,233
Operating expenses	1,810	(5,860)	(4,867)	(5,371)
EBITDA	(724)	(1,806)	(893)	(122)
Interest	(50)	(778)	(1,102)	(1,313)
Depreciation	(18)	(133)	163	(203)
Net debt to equity (ratio)	0.60	12.20	17.10	2.80
Secured/Unsecured loans	934	5,665	7,923	7,057
Shareholder's funds	1,166	451	451	2,397
Net loss	188	1,609	1,647	1,027

Note: Figures in ₹cr

Source: Kingfisher Airlines annual report

Source: Kingfisher Airlines Annual Report

Annexure 7



Source:http://businesstoday.intoday.in/story_image.jsp?img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpg&caption=