

A PROJECT REPORT ON FINANCIAL CRISIS OF KINGFISHER AIRLINES

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INTRODUCTION

KINGFISHER
AIRLINES

COMPANY PROFILE



Kingfisher Airlines Limited is an airline group based in India. Its head office is in Andheri (East), Mumbai and Registered Office in UB City, Bangalore. Kingfisher Airlines, through its parent company United Breweries Group, has a 50% stake in low-cost carrier Kingfisher Red. The airline has been facing financial issues for many years. Until December 2011; Kingfisher Airlines had the second largest share in India's domestic air travel market. However due to the severe financial crisis faced by the airline, it has the lowest market share currently.

In May 2009, Kingfisher Airlines carried more than 1 million passengers, giving it the highest market share among airlines in India. Kingfisher also won the Skytrax award for India's best airline of the year 2011.

Kingfisher Airlines is also the sponsor of F1 racing outfit, Force India, which Vijay Mallya also owns.

VIJAY MALLYA, THE CHAIRMAN OF KINGFISHER



Kingfisher Airlines

<u>IATA</u> IT	<u>ICAO</u> KFR	<u>Call sign</u> KINGFISHER
Founded	2003	
<u>Hubs</u>	<ul style="list-style-type: none"> • Bengaluru International Airport (Bangalore) • Chhatrapati Shivaji International Airport (Mumbai) 	
<u>Secondary hubs</u>	<ul style="list-style-type: none"> • Indira Gandhi International Airport (Delhi) 	
<u>Focus cities</u>	<ul style="list-style-type: none"> • Chennai International Airport • Pune International Airport 	
<u>Frequent-flyer program</u>	King Club	
<u>Airport lounge</u>	Kingfisher Lounge	
<u>Alliance</u>	One world (future)	
<u>Subsidiaries</u>	Kingfisher Xpress	
Fleet size	16	
Destinations	25	
Company slogan	<i>Remembering The Good Times</i>	
<u>Parent company</u>	United Breweries Group	
Headquarters	The Qube, Mumbai , Maharashtra	
Key people	<ul style="list-style-type: none"> • Vijay Mallya (CMD) • Sanjay Aggarwal (CEO) • Hitesh Patel (EVP) 	



Financial crisis of kingfisher airlines

The **Kingfisher Airlines financial crisis** refers to a series of events that led to severe disruptions within Kingfisher Airlines. Ever since the airline commenced operations in 2005, it has been reporting losses. After acquiring Air Deccan, Kingfisher suffered a loss of over 1,000 crore (US\$199.5 million) for three consecutive years. By early 2012, the airline accumulated losses of over 7,000 crore (US\$1.4 billion) with half of its fleet grounded and

several members of its staff going on strike. Kingfisher's position in top Indian airlines on the basis of market share had slipped to last from 2 because of the crisis.

Kingfisher Airlines financial crisis



Basic information

Duration 2008 - Ongoing

Loss > US\$1.50 billion

Crisis

Fleet grounded, Salaries delayed, Bank accounts frozen,
Staff on strikes

Current condition

Airline suspended from IATA

Start of the Crisis

The start of the crisis of the crisis was the freezing of the bank accounts of the airline by the Income Tax Department. Following are the year by year financial results of Kingfisher Airlines; all values are depicted in Indian rupee (INR) crore except EPS, which is in plain INR.

#	From	To	Months	Total Income	Cost	Net Profit	EPS
01	Apr-05	Jun-06	15	1,352	1,689	-337	-68
02	Jul-06	Jun-07	12	2,142	2,562	-420	-42
03	Jul-07	Mar-08	09	1,546	1,734	-188	-11
04	Apr-08	Mar-09	12	5,577	7,186	-1,609	-55
05	Apr-09	Mar-10	12	5,271	6,918	-1,647	-54
06	Apr-10	Mar-11	12	6,496	7,523	-1,027	-16
07	Apr-11	Sep-11	06	3,410	4,142	-732	n/a
Total			78	25,793	31,754	-5,960	

Debt Recast

In Nov 2010, Kingfisher Airlines has completed restructuring 8,000 crore (US\$1.6 billion) debt, with all 18 lenders agreeing to cut interest rates and convert part of loans to equity. Lenders have converted 650 crore (US\$129.68 million) debt into preference shares which will be converted into equity when the airline lists on the Luxembourg Stock Exchange by selling global depositary receipts (GDR). Shares will be converted into ordinary equity at the price at which the GDRs are sold to investors. Besides the 1,400 crore (US\$279.3 million) debt which will be converted into preference shares, another 800 crore (US\$159.6 million) debt has been converted into redeemable shares for 12 years.

Airline's average interest rate is now down to 11%, helping the airline save 500 crore (US\$99.75 million) crore every year on interest cost. Consortium of banks was represented by SBI Capital Markets. Kingfisher Airlines Ltd has informed BSE that the Board of Directors of the Company at its meeting held on November 25, 2010, has approved a Debt

Recast Package (DRP) with lending banks, following a one-time relaxation in restructuring guidelines sanctioned by the Reserve Bank of India. The salient features of the DRP include:

1. Conversion of debt of up to 1,355 crore (US\$270.32 million) from lenders into share capital.
2. Conversion of debt of up to 648 crore (US\$129.28 million) from promoters into share capital.
3. Reschedulement of repayment of the balance debt to lenders over 9 years with a moratorium of 2 years.
4. Reduction in interest rates.
5. Sanction of additional fund and non-fund based facilities by the lenders.

The recast plan involved the issuing of the following types of preference shares.

Share type	Dividend	Quantity	Price	Recipient
Redeemable Cumulative Preference Shares	8%	575,000,000	10 (US\$0.2)	Consortium of lenders
Compulsorily Convertible Preference Shares	7.5%	780,000,000	10 (US\$0.2)	Consortium of lenders
Compulsorily Convertible Preference Shares	7.5%	648,000,000	10 (US\$0.2)	United Breweries (Holdings) Ltd, Kingfisher Finevest India Ltd
Optionally Convertible Debentures	8%	20,000,000	100 (US\$2)	Star Investments Ltd.
Optionally Convertible Debentures	8%	30,000,000	100 (US\$2)	Margosa Consultancy Pvt. Ltd.
Optionally Convertible Debentures	8%	30,000,000	100 (US\$2)	Redect Consultancy Pvt. Ltd.

In addition to these issues, 9,700,000 units of 6% Redeemable Preference Shares of 100 (US\$2) each issued to United Breweries (Holdings) Ltd. (Promoter Company) were converted to 97,000,000 units of 6% Compulsorily Convertible Preference Shares of 10 (US\$0.2) each.

Kingfisher Airlines, in Nov 2011 was attempting for a second debt recast. However second debt recast has been ruled out by Government of India. Minister of state for Finance made a statement on 09th Dec 2011.

Payment problems

Delayed salary

Kingfisher Airline has staff strength of 6,000 and spends 58 crore (US\$11.57 million) on salaries a month. According to the first quarter financial results, it has 173.66 crore (US\$34.65 million) under the employees cost head, which has increased from 163.41 crore (US\$32.6 million) during the same quarter last year. Kingfisher Airlines delayed salaries of its employees in August 2011, and for four months in succession from October 2011 to January 2012. In a report to DGCA on 09th Jan 12, Kingfisher had stated that it has paid past (salary) dues to 60% of its employees and that by 31st Jan 12, payment of December 2011 salary for all its employees will be done. Protesting at the delays in payment, Kingfisher pilots started making in-flight announcements citing "It is their sense of duty towards the guest that is making them fly despite not being paid salaries for the past two months". Kingfisher also defaulted on paying the Tax Deducted at Source from the employee income to the tax department.

Fuel Dues

- HPCL: In Jul 2011, Hindustan Petroleum Corporation Limited (HPCL) stopped the fuel (ATF) supplies for about two hours to Kingfisher airlines owing to the non-payment of dues. Situation was later resolved by Vijay Mallya meeting the CBDT Chairman to unfreeze some A/C's. In the past several years, a Kingfisher airline has had trouble paying their fuel bills.
- BPCL: Bharat Petroleum Corporation in 2009 had filed a case against Kingfisher airlines for non-payment of dues. High court in an order said that the entire amount (245 crore (US\$48.88 million)) had to be paid by Nov 2010 and the airline paid it in installments.

Aircraft lease rental dues

Since 2008, it has been reported that Kingfisher Airlines has been unable to pay the aircraft lease rentals on time.

- GECAS: In Nov 2008, GE Commercial Aviation Services threatened to repossess 04 leased planes in lieu of default. Kingfisher Airlines initially denied that it missed the payments. GECAS had filed a complaint with DGCA saying Kingfisher had defaulted on rentals for four Airbus A320 aircraft, and sought repossession of the planes. In Jan 2009, The Karnataka High Court rejected petition by Kingfisher Airlines to restrain GECAS from taking any step to deregister and repossess the 04 aircraft in dispute. As a result, Kingfisher had to return the A320 aircraft to GECAS.

- DVB: In Jul 2010, DVB Aviation Finance Asia Ltd (a lesser from Singapore), sued Kingfisher Airlines for lease rental default. Case was filed in a UK court on Jul 16, 2010 after Kingfisher did not pay for three month lease rental for A320 aircraft it leased from DVB.

Kingfisher Airlines has grounded 15 out of 66 aircraft in its fleet as it was unable to meet the maintenance and overhaul expenses.

AAI reports

Kingfisher received a notice from the Airports Authority of India on February 2012 regarding accumulated dues of 255.06 crore (US\$50.88 million). The airline was operating on a cash and carry basis for the last six months, with daily payments amounting to 0.8 crore (US\$159,600)

Income Tax

On 9 December 2011, MC Joshi, Chairman CBDT announced that IT is considering legal action against Kingfisher for not paying tax and may go for prosecution. As on 10th Jan 2012, Kingfisher Airlines has service tax arrears of 60 crore (US\$11.97 million). The Ministry of Finance has given a concession to Kingfisher and instructed them to pay the dues by 31st Mar 2012. In Jan 2012, Kingfisher paid 20 crore (US\$3.99 million) towards its dues for December 2011 and part of the arrears.

Bank arrears

Kingfisher Airlines had not paid some bankers (Lenders) as per the Debt Recast Package (DRP) with lending banks. Till the end of Dec 2011, the arrears were estimated to be 260 crore (US\$51.87 million) to 280 crore (US\$55.86 million). Lenders hence had told Kingfisher Airlines to clear its dues before they can release any more money sought by the Airline. Ravi Nedungadi, chief financial officer of UB Group however said that the arrears were 180 crore (US\$35.91 million). If arrears were not paid in time (Dec 2011); Kingfisher Airlines would automatically have been treated as NPA, (Non-performing asset). On the last working day of the third quarter of financial year 2011-2012, Kingfisher Airlines made one month interest amount to the banks; thus saving the account from turning a non-performing asset. State Bank of India (SBI) on 5th Jan 2012 declared Kingfisher Airlines a NPA (Non-performing asset). SBI is largest creditor and the leader of the consortium of banks in the DRP (Debt Recast Package) and has an exposure of 1,457.78 crore (US\$290.83 million). By Feb 2012, Kingfisher has been declared NPA by following banks;

- [SBI](#)
- [Bank of Baroda](#)
- [PNB](#)
- [IDBI](#)
- [Central bank](#)
- [BOI](#)
- [Corporation Bank](#)

In December 2011, for the second time in two months, Kingfisher's bank accounts were frozen by the Mumbai Income Tax department for non-payment of dues. Kingfisher Airlines owes 70 crore (US\$13.97 million) to the service tax department. Indian tax body also stated that Kingfisher Airlines is delinquent

As response, Dr. Vijay Mallya called on the Chairman CBDT and offered to pay up the dues by 13 Dec 11 Kingfisher bank accounts were unfrozen on 14th Dec 11. Due non-payment, several Kingfisher's vendors had filed winding up petition with the High Court. As on Nov 2011, winding up petition of seven creditors was pending before the Bangalore High Court. In the past Lufthansa **Technik** & Bharat Petroleum Corporation Limited (BPCL) had also filed winding up petition against Kingfisher Airlines

2012 crisis

Fleet grounding

During late February, 2012, Kingfisher Airlines started to sink into a fresh crisis. Several flights were cancelled and aircraft were grounded. The cash-strapped airline claimed that the disruptions *will continue for four days due to unexpected events including bird strikes which rendered aircraft out of service*. The airline shut down most international short-haul operations and also temporarily closed bookings. Out of the 64 aircraft, only 22 were known to be operational by February 20. With this, Kingfisher's market share clearly dropped to 11.3%. The cancellation of the flights was accompanied by a 13.5% drop in the stocks of the company on 20 February 2012. The CEO of the airlines, Sanjay Agarwal was summoned by the Directorate General of Civil Aviation to explain the disruptions of the operations.

The State Bank of India, which is the lead lender to Kingfisher airlines said that they would not consider giving any more loans to Kingfisher unless and until it comes up with a new equity by itself. Political activists also claimed that bailing or helping a private airline would lead to problems within the Government. By February 27, Kingfisher operated only above 150 out of its 400 flights and only 28 aircraft were functional. Reuters reported that if Kingfisher were to shutdown, it would be the biggest failure in the History of Indian

Aviation. It was announced that the *direct* flights to the smaller airports of Jaipur, Thiruvananthapuram, Nagpur and also to Hyderabad's Rajiv Gandhi International Airport were all shut down and only one/two-stop flights from its main hubs of Delhi and Mumbai would operate. In response to a situation as bad as bankruptcy, Vijay Mallya announced that he had organized funds to pay all the employees' overdue salaries. With bank accounts frozen and huge debts due, it is unknown so as from where he arranged the money. But he apologized to his workers and said that he would pay them immediately. By this time, Kingfisher had accumulated losses of 444 crore (US\$88.58 million) during the third quarter of the fiscal year 2011-12. Reuters then reported that Etihad Airways was interested in investing in Kingfisher by providing equity in exchange for a stake in the airline. Also involved in the talks was the International Airlines Group, owner of British flag carrier British Airways and Spanish flag carrier Iberia.

Frozen bank accounts

On March 3, 2012, The CBDT of India froze many more Kingfisher accounts as it was unable to pay all the dues as per schedule. Kingfisher was meant to pay 1 crore (US\$199,500) per working day. It reportedly missed the deadline set by the board and could not pay the dues until the evening on February 29. This led to more accounts being frozen. The airline neither did comment on the situation, nor pay the taxes. Aviation minister Ajit Singh warned the airline about the temporary suspension of the license until the crisis was sorted out. He announced that the rest of the airline's fleet would be grounded and all flights cancelled until the crisis came to an end. This would be only one step from permanently closing the airline.

IATA Suspension

On March 7, 2012 IATA suspended ticket sales of Kingfisher airlines citing non-payment of dues as the primary reason, and they said that sales services will only be restored once Kingfisher settles ICH (IATA Clearing House) account. IATA also immediately directed all travel agents to stop booking tickets for Kingfisher. According to preliminary reports, this would affect Kingfisher's business by around 30%. Kingfisher claimed that frozen bank accounts was the main cause of being unable to pay the IATA, and the airline started making alternate arrangements for the sale of tickets. Soon it became difficult for the airline to follow the much smaller schedule that it earlier released as even more pilots began to go on strike. A pilot later claimed that from March 12, about 80% of the pilots would not fly as they mentioned in their letter to Vijay Mallya. The airline's plans on restating all services by April 4 did not seem too real at the moment.

RECOMMENDATION:-

- To cut down debt kingfisher should sale out its property.
- We don't support the bail-out plan from the Government for Kingfisher Airlines.
- Private sector players must not be supported by the Government for their Survival. This will spoil the competition between the private sector players. It's a free entry and exit.
- Vijay Mallya of kingfisher airlines must sale-off its assets to minimize its debts.
- The plan to raise more debt is completely a wrong idea and an unhealthy plan.
- Demanding for more debts even when the airline is making no profits is a wrong judgment or view. Airlines must not play with the money of investors otherwise more adverse effect will be marked in the future.



Over the past few days, a lot has been said, and even more speculated by the media and the common man about the Kingfisher Airlines working schedule and their losses. There was a phase when we even heard news like "Poor days for the Good Times", "Kingfisher to shut down", and even "Kingfisher asks for a bailout plan". While the first one can be said to be correct, the media speculating about the future of the airlines without knowing much about its plans was nothing less than rubbish talks. As everybody knows, media in India is more about making hype of a thing than to present its actual reality, and this being such big news had no chances of being spared. Kingfisher Airlines, no doubt, is trouble-ridden and desperately needs some capital to get rid of its debts. But never has Dr. Mallya asked the Indian Government for a bailout. While on the one hand, Dr. Mallya has never seen Kingfisher Airlines gain profit from its operations, one cannot ignore the fact that he is also the Chairman of the United Breweries Group, India's number 1 and world's number 3 spirits company. He has enough assets held with the UB Group, and at any point of time, he will consider going for a capital exchange with UB Group rather than asking the government for a bailout by using the taxpayers' money. And why should he continue flights to routes that only make losses? We don't see logic behind it, at all. In fact, cutting down the flights will only boost up the airline's performance and will help them provide better services in future. Coming to the demands made by him; we did not find a single point where we could prove him wrong, or even 'greedy'. After all, being a businessman, you always aim at making profit, and there's nothing wrong with it. When he asks for lowering of taxes on the ATF, he is not asking that for Kingfisher Airlines only. The Indian Government has been offering infinite subsidies on items like LPG,



Diesel and Kerosene for years now. The airline companies just want lowering of the taxes, not a subsidy, and this will ultimately improve the performance of the worst performing air carrier of the country, Air India, as well. For the last two years, the civil aviation departments have been infusing millions of Rupees in Air India to sustain its capabilities. And we are not surprised that the media has not taken the hype to a great level, after all the media is controlled by the Government policies. Let's forget about the ATF prices for some time and talk about the Forex. Today, Rupee hit an all-time low of 52.65/1\$, and the RBI has till now only hinted for some actions. There have been earlier periods of volatility and the RBI was quick to respond all those times. A weakening rupee results in increase of costs of the imported items, mainly fuel, and if the RBI wants to reduce the inflation rate, awakening rupee is certainly not going to help it out. Today, even the auditors of Jet Airways have asked the company to raise funds in order to continue its operations in an efficient manner. Jet Airways has the biggest market share with a quarter of passengers using the airlines. However, the Forex has troubled the airline way too much. Air India, no matter how much debt-ridden it is, will continue funding from the Central Government. But something needs to be done desperately for saving the private airline companies. They cannot groom until and unless they earn some profits. The state government, even if it reduces the taxes on the ATF, can perform much better with less capital with a better and corruption-free system. However, we know that this is not possible and the airlines are paying for it.

Anyways, all said and analyzed, the only thing we, the common people, can do is hope that the airlines do get some relief from the government in the form of either tax reduction, or inclusion of Foreign Direct Investments. Air traffic in India is growing at the rate of about 20-25% per quarter, and it will only hurt the travelers if they have to pay higher prices for a journey because of a low competition caused by the shutting down of companies/routes due to excessive losses.

Conclusion

After analyzing the entire scenario, there are strong possibilities of more difficult situation in the last month of fiscal year 2011-12. The company is in dilemma of finding help, but from where? Government has refused for bailing and all the lenders and bankers have no more trust. The employees are also not able to tolerate the salary crisis and the slipping market share leads the more difficulties. Promoter Vijay Malya has to decide the way ahead. Whether is it possible to save the company? There are very few alternatives. As per the previous news, Etihad Airways was interested in investing in Kingfisher by providing equity in exchange for a stake in the airline. Also involved in the talks was the International Airlines Group, owner of British flag carrier British Airways and Spanish flag carrier Iberia. But the question is the permission by Government. So at present there is very tough situation for Vijay Malya and for the company. Will new fiscal year bring any solution for the company?

Let's wait and watch.



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