Collapse of companies

Done by:

- Name: Ahmed Ihab Elmessery ID: 5035
- Name: Aya Allah Mahmoud ID: 5632
- Name: Ibrahim Mosafa Ibrhim ElSenhapy ID: 4715
- Name: Mazen Sherif Mostafa ID: 4625
- Name: Youssef Mostafa Farag ID: 4583

Under Supervision of:

Dr. Wael Hassan

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Introduction:

India, one of the major airlines, Kingfisher, has become a disaster, while on the market scene, other Kingfisher competitors are flying high. During 2012, the global aviation industry was going through a difficult phase due to the innovative price of fuel. increase in the last 4 years, tumultuous financial markets and economic slowdown. Vijay Mallya Kingfisher Airlines' dream adventure, widely known as The King of Good Times, has seen its worst phase.

Kingfisher was initially launched as the totally budget-friendly aircraft, with a one-of-a-kind design with high-quality food and entertainment systems. Vijay Mallya's jovial nature, she knew quite well how to live the life of a king and focused only on this thought that any air traveler would look forward to his journey similar to a king's journey on Kingfisher Airlines.

A year after the airline's inception, the focus shifted to the high-luxury class. The airline could not maintain stability with the changing weather and ideas of its models and waiting for a random expansion.

The government's wrong policies caused all of India's national aviation to go into a major market failure, which required ministers to act quickly to resolve it. he required vital support from the government and the banking sector and focused on managing most of the commercial funds with foreign money. Since 2005, when the airline began operating, the company has announced losses.

In India, a large number of planes have been added by most of the subsequent flights since 2006 and they have been used mainly in the metropolitan sectors, causing a terrible price war between all airlines. Even today, almost all Indian airlines are suffering operating losses. acquired Air Deccan in 2007, the situation became even worse, and this caused the airline financial problems for a long time. Kingfisher Airlines, which held the second largest share of India's domestic air travel market in December 2011, faced an extreme financial crisis.

King fisher airline History:

Kingfisher Airlines Limited was an airline group based in India, its head office is in Andheri (East), Mumbai and registered office in UB City, Bengaluru.

Kingfisher Airlines Ltd was the largest charter aviation company in India, their principal activity was to provide commercial passenger airlines, private helicopters and airplane chartering services in India.

Kingfisher Airlines Ltd was incorporated on June 15, 1995, as a private limited company with the name Deccan Aviation.

The company was promoted by G R Gobinath K J Samuel and Vishnu Singh Rawal and in January 2005 the company was converted into a public limited company.

In September 1997, the company opened their first base at Jakkur and launched their first Helicopter.

In June 1998, they opened their second base in Hyderabad and in December 1998 they commenced offshore flying operations.

In June 2001, the company introduced first fixed wing aircraft and in November they introduced the second fixed wing aircraft.

In August 2003, first Air Deccan flights take place on Bangalore to Hubli and Bangalore to Mangalore.

In December 2003, the company incorporated Deccan Aviation (Lanka) Pvt Ltd which is a joint venture company, the company was established as a 52% subsidiary company to undertake helicopter services and airline operations in Sri Lanka.

In August 2004 they introduced first Airbus A 320. In March 2005 Air Deccan entered into tie up arrangement with Club HP.

On June 27, 2005, Deccan Aviation (Lanka) Pvt Ltd ceased to be a subsidiary consequent to the transfer of 4% of their share to Sri Lanka nationals.

In March 2007 they forayed into Air Cargo Business through a wholly owned subsidiary. The company hived off Charter Services into a separate entity and also transfers the Maintenance and Repair Facility into a separate entity.

The Airline business of Kingfisher Airlines Ltd merged with the company with effect from April 1, 2008, and the name of the company was changed to Kingfisher Airlines Ltd.

Kingfisher Airlines, through its parent company United Breweries Group, had a 50% stake in low-cost carrier Kingfisher Red. Until December 2011, Kingfisher Airlines had the second largest share in India's domestic air travel market. However, the airline had been facing financial issues for many years, and due to a severe financial crisis faced by the airline at the beginning of 2012, this share dropped to the lowest in the market in April 2012.

The airline had shut down its operations and locked out its employees for several days when on 20 October 2012 the DGCA suspended its flight certificate. The suspension resulted from the airline's failure to give an effective response to the show-cause notice issued by the DGCA. On 25 October 2012, its employees agreed to return to work.

However, in February 2013 the Indian government announced the withdrawal of both domestic and international flight entitlements allocated to the airline. The CEO, Sanjay Aggarwal, quit on 17 February 2014.

Once Kingfisher Airline was one of the best rated airlines in India, but it failed to sustain.

With 2008 economic slowdown and increase of fuel prices. In 2011 Kingfisher declared having some serious cash flow problems blaming the rise of fuel costs. So, they started not paying its dues to oil companies.

Creditors give them warning to rise their equity to 159 million else they will not be able to restructure its debt.

Mean While Jet airways surpassed Kingfisher’s airlines with market share of 25.5% whereas Kingfisher came down to 19.8% and this is where the collapse started.

The Crisis

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.

The start of Crisis

After acquiring Air Deccan, Kingfisher suffered a loss of over 1,000 crores for three consecutive years. By early 2012, the airline accumulated losses of over 7,000 crores.

That is leads the largest creditor of kingfisher (State Bank of India) in 2012 to declared that Kingfisher Airlines as a non-performing asset.

Freezing of the bank accounts of the airline by the Income Tax Department.

In 2011, Not depositing service tax collected from passenger with the department on regular basis and instead has been diverting it for other purpose on regular basis.

In 2012, Kingfisher Airlines has service tax arrears of 60 crore.

The Problem

The acquiring of Air Deccan was from the main reason of collapsing. Kingfisher failed to Study the models carefully and blindly acquired Air Deccan. Kingfisher was a five-star airliner then there was no reason to operate on two different business models at the same time. These were simply the over ambitious plans of the management of Kingfisher airlines.

The problem was that Kingfisher almost trashed all the marketing strategies of Air Deccan thinking of reducing the operational costs as Air Deccan had been in the market much before them; they thought it would bring their financial statements into green very soon.

Till December 2011, KFA was considered among top 5 passenger airlines in India but after that it suffered high losses, heavy debts and finally shutdown in 2012.

Causes

- **Operational Reasons**
  - The maintenance, navigation, landing cost of KFA in 2012 was 3% more than that of Jet Airways and has big value from revenue reaches 11% of total revenue.
  - The employee cost of KFA was also higher than any other airlines.
  - The cost of Value-added Service by KFA was also very high with bad service provided.
- **Rise in Fuel Prices**

  Due to rising demand for fuel and competition among various airlines there was continuous increase in the price of jet fuel and KFA was not able to pay the bills of fuel consumed.
- **Worst Decision Made**

  In 2007, KFA merged with Air Deccan that was a low-cost carrier that charges low fares while kingfisher was a high-cost carrier that was known for its luxury. Kingfisher thought that Air Deccan was in market before it so it would uplift the financial position of the company and another reason was that Kingfisher did not have 5 years of domestic experience, but Air Deccan had and to get international license in aircraft it must have 5 years of domestic experience that is why it acquired Air Deccan.

Problem analysis

- **Poor Judgment & Hasty Decisions:**

  Kingfisher failed to study the models carefully and blindly acquired Air Deccan. This is followed by unfulfilled studies or backing up their plans and examining if the two business models would go along. For Kingfisher, Air Deccan was a totally new business so it should have considered that Kingfisher Red will take some years to completely reap benefits of being a low-cost carrier but Kingfisher believed that Air Deccan has been in the market much before Kingfisher Airlines so it should bring Kingfisher Airlines financial statements into green very soon.

- **Excessive Decisions:**
  Not only was the merge between the two companies poorly studied but also was unnecessary. Kingfisher was a five-star airliner then there was no reason to operate on two different business models at the same time. These were simply the over ambitious plans of the management of Kingfisher Airlines.

  Kingfisher Airlines was a favorite among business travelers hence it should have continued being a business centric airline and even if it would have increased the prices say by ten per cent business travelers would have still travelled by Kingfisher only because they were sure of getting five-star treatment along with on time departures and arrivals.

- **Unused Advantage:**
  The primary way any low-cost carrier makes money is by operating on non-primary routes using secondary airports which reduces costs for the airlines and then the benefits are passed on to the customers unlike Kingfisher which charged low fare for Kingfisher Red but continued operating at prime routes including metros. Kingfisher should have avoided flying even a single aircraft to metros and should have taken advantage of hundreds of uncommon routes and we all know that India is under penetrated market and much advantage could have been taken by exploring newer routes.

- **Losing Its Own Strength Point:**
  Kingfisher most probably believed that people in majority are more important than people in minority, but it forgot that there are four other players in the country serving most people and it was the only one serving the minority and hence failed to capitalize upon its own strength and unique selling point (USP). The business fliers which were earlier loyal to Kingfisher Airlines used all their frequent flier miles, bought free tickets, gave the same to their family to enjoy and they never returned to Kingfisher. For them Kingfisher Airlines became a compromised airliner and they started going back to Jet Airways which also is cash strapped but has a sustainable business model.

- **Unwanted confusion:**
  Kingfisher requires double personnel just because it operates aircrafts of two different makes. As mentioned, before it used Airbus 320 but then wasted millions on ordering A-380 jumbo aircrafts just to show dominance over other domestic airlines companies. This is absolutely an unwanted headache caused due to management's poor decision-making skills. If it would have relied only on Airbus, then it could have easily reduced its operational costs.

- **Aircrafts Assets:**
  Aircrafts are the most important assets of any airliner. Choosing and inducting the same requires major decision-making skills. Kingfisher Airlines started with an Airbus A-320 aircraft and went on using aircrafts on the same line. Now the business model of Kingfisher Airlines is such that it does not have any aircraft of its own. All the aircrafts of Kingfisher Airlines are dry leased. They have been offered a minimum of two years without insurance, crew, ground staff, supporting equipment, maintenance, etc.
  The problem here is that aircrafts instead of being fixed assets for the airlines becomes an operational asset and plays a crucial role in cash flow calculations.

Effect on the Company's performance

Financial Analysis for the year 2011

Short Term Solvency Ratios:

Current Ratio= $\frac{\textbf{Total Current Assets}}{\textbf{Total Current Liabilities}}$ **= 0.36 times**

- This means that the total current assets can cover the current liabilities 0.36 times per year only.

Quick Ratio = $\frac{\textbf{Total Current Assets} - \textbf{Inventory}}{\textbf{Total Current Liabilities}}$ **= 0.32 times**

- This means that the current assets without the inventory cannot cover the current liabilities where it can only cover it 0.32 times per year

Cash Ratio = $\frac{\textbf{Cash}}{\textbf{Total Current Liabilities}}$ **= 0.05 times**

- Cash can only cover current liabilities 0.05 times per year which is a very low Ratio.

Activity Ratios:

Total Assets Turnover = $\frac{\textbf{Total Operating Revenue}}{\textbf{Total Average Assets}}$ **= 0.77 times**

- This means that the company is not using its assets efficiently
- The airline makes 0.77 in sales to every 1 in assets.

Receivables Turnover = $\frac{\textbf{Total Operating Revenue}}{\textbf{Total Receivables}}$ **= 14.14 times**

- This means that the company collects its receivables 14.14 times per year

Days of Collection = $\frac{\textbf{365}}{\textbf{14.14}}$ **= 25.8 days**

- This means that the receivables are collected every 25.8 days

NB: the company doesn't make production to any product so there is no product sales and times of selling the inventory.

Financial Leverage Ratios:

Debt Ratio = $\frac{\textbf{Total Debt}}{\textbf{Average Total Assets}}$ **= 1.39 times**

- This means that every 1 RS assets is financed by 1.39 RS of debt which is so high.

Equity Multiplier = $\frac{\textbf{Average Total Assets}}{\textbf{Average Total Equity}}$ **= 4.7 times**

Interest Coverage = $\frac{\textbf{EBIT}}{\textbf{Interest Expense}}$ **= 0.38**

- This means that the firm can cover interest expense 0.38 time.
- The interest coverage is below 1, this indicates the company is not generating sufficient revenues to satisfy the interest expense.

Total Average Equity = 170090.255 RS

- This ratio is used to measure the company's financial leverage.
- The higher this ratio it means that the company has been using more debt than equity.

Debt to Equity Ratio = $\frac{\textbf{Total Debt}}{\textbf{Total Equity}}$ **=6.59 times**

- Which means that the firm has in every 1 RS equity , 6.59RS debt

Profitability:

Gross Profit Margin = $\frac{\textbf{EBIT}}{\textbf{Total Operating Revenues}}$ **= 0.014%**

- The business can extract 0.014 profit from its total sales after deducting COGS.

Net Profit Margin = $\frac{\textbf{Net Income}}{\textbf{Total Operating Revenues}}$ **= 0.010**

- The net income that comes after paying all expenses represents 0.010%.

Net Return On Assets $\frac{\textbf{Net Income}}{\textbf{Average Total Assets}}$ **= 0.0079850**

- The business can generate 0.0079 net income from its total assets.

Gross Return On Assets = $\frac{\textbf{EBIT}}{\textbf{Average Total Assets}}$ **= 0.001109%**

- The company can generate 0.0011 from its total assets.
- The ratio is very low; it indicates that using assets to generate earnings is not effective.

Financial Analysis for the year 2011

Short Term Solvency Ratios:

Current Ratio= $\frac{\textbf{Total Current Assets}}{\textbf{Total Current Liabilities}}$ **= 0.19 times**

- This means that the total current assets can cover the current liabilities 0.19 times per year only.

Quick Ratio = $\frac{\textbf{Total Current Assets} - \textbf{Inventory}}{\textbf{Total Current Liabilities}}$ **= 0.17 times**

- This means that the current assets without the inventory cannot cover the current liabilities where it can only cover it 0.17 times per year

Cash Ratio = $\frac{\textbf{Cash}}{\textbf{Total Current Liabilities}}$ **= 0.02 times**

- Cash can only cover current liabilities 0.02 times per year which is a very low ratio.

Activity Ratios:

Total Assets Turnover = $\frac{\textbf{Total Operating Revenue}}{\textbf{Total Average Assets}}$ **= 0.63 times**

- This means that the company is not using its assets efficiently
- The airline makes 0.63 in sales to every 1 in assets.

Receivables Turnover = $\frac{\textbf{Total Operating Revenue}}{\textbf{Total Receivables}}$ **= 17.5 times**

- This means that the company collects its receivables 17.5 times per year

Days of Collection= $\frac{365}{17.5}$**= 20.86 days**

- This means that the receivables are collected every 20.86 days

NB: the company doesn't make production to any product so there is no product sales and times of selling the inventory.

Financial Leverage Ratios:

Debt Ratio= $\frac{\text{Total Debt}}{\text{Average Total Assets}}$**= 1.63 times**

- This means that every 1 RS assets is financed by 1.63RS of debt which is so high.

Equity Multiplier= $\frac{\text{Average Total Assets}}{\text{Average Total Equity}}$**= 2.16 times**

- This ratio is used to measure the company's financial leverage
- The higher this ratio it means that the company has been using more debt than equity

Interest Coverage = $\frac{\text{EBIT}}{\text{Interest Expense}}$**= -1.699**

- This means that the firm has the ability to cover interest expense 0.38 time
- The interest coverage is below 1, this indicates the company is not generating sufficient revenues to satisfy the interest expense.

Debt to Equity Ratio = $\frac{\text{Total Debt}}{\text{Total Equity}}$**= 3.5 times**

- Which means that the firm has in every 1 RS equity, 3.5 RS debt

Profitability:

Net Return on Assets =$\frac{\text{Net Income}}{\text{Average Total Assets}}$**= 0.0067199**

- The company gets 0.00067 net income from its total assets.

Gross Return on Assets =$\frac{\text{EBIT}}{\text{Average Total Assets}}$**= -0.0025027**

- The company can generate -0.0025 from its total assets.
- The ratio is very low; it indicates that using assets to generate earnings is not effective.

Net Profit Margin = $\frac{\textbf{Net Income}}{\textbf{Total Operating Revenues}}$ **= 0.01**

- The net income that comes after paying all expenses represents 0.01% .

Gross Profit Margin = $\frac{\textbf{EBIT}}{\textbf{Total Operating Revenue}}$ **= -0.0039497**

- The business can extract -0.0039 profit from its total sales after deducting COGS.

**PS: all the negative values indicate loss not profit.*

Solution

Obviously, kingfisher have exhibited a strong case of financial mismanagement that has led to their imminent unofficial bankruptcy. However, there are a few potential steps to be taken by the airline to improve their situation in the airline market:

- Change the entire board of directors.
- Management should be given to different or new system.
- Decentralization in authority
- leasing out their planes (unused or minimally used planes) to other carriers.
- cancelling all orders of airplanes
- Cut costs by not flying to expensive sectors and airports resulting in huge parking costs and low returns.
- Focus on tier II ND tier III cities where other airlines may n have made considerable inroads and judge the operating costs of the same.
- FDI in aviation must be permitted.

Conclusion

Operating an airline in India is child's play. Once defined as the simple business of "putting bums on seats" - more "bums" means better outcomes - the way Indian industry is run, one wonders if "bums" are paying enough for seats in India. those who sit.

Almost paradoxically, despite its continued contraction in the domestic market, Kingfisher continued to record strong, albeit unspectacular, operating data in the domestic market. Kingfisher plans to increase revenue through more efficient operations, while controlling costs by abandoning some real estate (including its

Mumbai corporate office), entering the sale and leasing of some Airbus aircraft, and exchanging some loans in rupees. loans.

It has also been speculated that the airline will permanently reduce its fleet from 66 aircraft (the same level as in June 2010) to 35 aircraft. Kingfisher Airlines is also working "vigorously" with a consortium of banks, which have a 23% stake in the company, to further reduce interest costs and increase working capital.