# The Kingfisher Airlines: Castle in Air

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### *Abstract*

It is about the indomitable ambition of Mr. Vijay Mallya to create and nurture a new brand of Kingfisher Airlines. Kingfisher's schizophrenic approach to a business model launched as an all-economy, single-class configuration aircraft with food and entertainment systems. When an airline keeps changing its model and takes to random expansion, there is no time for the airline to stabilise. He attempted to expand aggressively in both international and domestic sectors. The rise in the oil prices, high taxes and other operational costs plunged the airline into deep financial trouble and accumulated debt on its books of over Rs.7000 crore.

The airline had everything going for itself: great brand visibility, loyal customers and a wide network but lacked the undivided attention of Mr. Vijay Mallya and the team of professionals. He should have first consolidated its domestic operations and then introduced international routes because on the foreign routes, the competition only gets bigger.

The case attempts to charts the many twists and turns in the fortunes of the airlines and the unscrupulous pursuit of ambitions by manipulating those in the corridors of power. There were alleged irregularities in the running the airline, the non-payment of staff salaries, huge debts to public sector banks and inability to pay airport operators and tax authorities and finally the insolvency.

### *Key Words*

Kingfisher Airlines, debts to public sector banks, insolvency.

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## 1. History

The Kingfisher Airlines owned by Bengaluru based United Breweries Group was established in 2003. The airline inducted a fleet of four new Airbus A320-200s, commencing its commercial operation on 9th May 2005 with a flight between Mumbai and Delhi. It embarked on international destinations on 3 September 2008 by connecting Bengaluru with London and later added new international destinations, namely Hong Kong, Dhaka, Colombo, Singapore, Dubai and Bangkok. In 2010 Kingfisher joins one world alliance (The alliance's stated objective is to be the first-choice airline alliance for the world's frequent international travellers). The registered office of the Company is at UB Tower, Level 12, UB City, 24, Vittal Mallya Road, Banglore 560001. But the Kingfisher's head office is located in The Qube in Andheri (East), Mumbai.

On June 15, 2005, it became the first (and only) Indian airline to order the Airbus A380. It placed orders for five A380s, five Airbus A350-800 aircraft and five Airbus A330-200 aircraft in a deal valued at over $3 billion. Delivery of the A330 was due to start in late 2007, followed by the A380s in 2010 and the A350s in 2012.

Kingfisher pioneered innovations in on board facilities and services which gave the passenger a whole new range of inflight experience. They treated the customers as 'guests' and not just passengers and welcomed them with complimentary kit that contain a pen, facial tissue and headphone to use with in-flight entertainment (IFE) system. They also provided live TV entertainment (Dish TV) to passengers.

## 2. The Merger

Vijay Malya buys over the crises ridden no frill Air Deccan owned by Capt Gopinath in 2007. The United Breweries Holdingd Ltd. (UBHL), the holding company of the UB group made an open offer to acquire a minimum of 20 percent of Deccan Aviation at a price of Rs.155 per share in compliance with Securities and Exchange Board of India regulations.

This board of Deccan Aviation approved the allotment of equity shares amounting to 26 percent of the expanded paid-up capital of the company to UBHL and its nominees. The new shares were allotted at Rs. 155 per share, representing about a 10 percent premium to the current market price of the shares of Deccan Aviation.

The UB group Chairman clarified that there was no intention to acquire 100 percent of Deccan Aviation. Through a reverse merger, Kingfisher Airlines became Air Deccan and once the entire acquisition was completed with necessary approvals from the regulator SEBI in place, Mr. Vijay Mallaya quickly changed the airline's name back to Kingfisher Airlines in 2008. The merged group planned to save up to Rs.300 crore on costs with a combined fleet strength of 71 aircraft.

The merger between Air Deccan and Kingfisher Airlines became effective April 2008, with Vijay Mallya becoming the chairman and CEO of the new company, while G. R.

Gopinath became its Vice-Chairman. Kingfisher Airlines' parent company United Breweries Group acquired a 26 percent stake in Air Deccan's parent company Deccan Aviation. The combined fleet of 71 Airbus A320 family and ATR aircraft operated 537 flights to 69 Indian cities taking advantage of synergy benefits arising from a common fleet of aircraft that improved financial prospects for both carriers. It straddled all segments of air travel from low fares to premium fares. Kingfisher Airlines continued to serve the corporate and business travel segment while Air Deccan focused on serving the low-fare segment.

Kingfisher Airlines promoted by UB Group with its chief Vijay Mallay was the third major private airline when it took its maiden flight from Bangalore to Mumbai. It expected to corner five percent of domestic flying. Kingfisher Airlines Limited is one of the India's leading airlines, operating more than 100 flights a day with a wide network of destinations. In May 2009, it had the highest market share among airlines in India, and carried more than a million passengers.

## 3. Kingfisher Airlines all out efforts to raise the resources

In 2009, Vijay Mallya led Kingfisher Airlines board of directors approved to raise $100 million (nearly Rs.487.8 Crore) by various fund raising instruments including Global Depository Receipts (GDRs). The proposal was subject to shareholders approval. They also took the decision to raise Rs.500 crore by a rights issue of equity shares. The board also approved to raise the authorised share capital of the company to Rs.100 Crore from Rs.500 Crore, subjected to shareholders approval.

## 4. Airlines' crisis: constantly losing the money

The airline since its launch in 2005 never made money and by the year 2012 the accumulated losses stood at Rs.6000crore. The airlines business is one where companies can never control their costs because of the scale of operation. The rise in the prices of oil to $120 drastically increased the expenditure of running the airlines and thereby increased the primary expense. The intense competition from the low cost airlines deters the increasing cost to be passed on to the customers.

Kingfisher was launched as an all-economy, single-class configuration aircraft with food and entertainment systems. After about a year of operations, the airline suddenly shifted its focus to luxury. It changed the configuration of its Airbus 320 aircraft (around 14 of them in the fleet back then) to 20 business class and 114 economy class seats from 180 all-economy seats.

Kingfisher was a relatively late entrant into the business with a business model that catered the upper end of the market where the distinction between economy class and business class ended. And when Air Deccan ran into financial difficulties, promoter Mallya decided to acquire that company and combine his “luxury”, full-service airline (Kingfisher) with a no-frills twin, Kingfisher Red. All this was occurring at a time when the market was already showing signs of saturation, fuel prices were volatile, and cost consciousness was the prerequisite for survival. The decisions to expand were not grounded on a viable business plan were the reasons of courting disaster. In the event, when rising fuel prices put pressure on costs, the Kingfisher myth was shown to be what it was, more a show than a business.

However, the problem with Kingfisher did not catch public attention for two reasons. First, it managed to fund much of the business with outside money, especially money in the form of credit from the banks. Second, it managed to reduce the cost of this capital by getting the banks to convert a part of this debt to equity. Interest on debt has to be paid even when a company makes losses. But dividends on equity need to be distributed only if profits are made. By 2009 Kingfisher reported a net loss of Rs.418.77 crore during the second quarter of the fiscal. Its income from operations also declines by 13.6 per cent during the quarter compared to the same period last year.

### 5. Kingfisher Airlines Board approves debt recast package

By November 25, 2010 Kingfisher Airlines board 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 board decided to convert lenders debt of up to Rs.1,355 Crore into share capital and also approved converting promoters debt of up to Rs.648 crore into share capital. Kingfisher Airlines will issue and allot up to 135,50,00,000 shares to lenders and another 65,77,00,000 shares to United Breweries Holdings. The board also proposed to lenders the rescheduling of repayment of balance of debt over nine years with a moratorium of two years. It also accepted the lenders readiness to reduce the interest rates and sanction of additional fund and non-fund based facilities. To make the package effective, the Board has also resolved to issue and allot shares to lenders, UB Holdings and Star Investment, among others. Besides, the company would also issue and allot up to 2-crore debentures to Star Investments Ltd, 3-crore debentures to Margosa Consultancy Pvt Ltd and 3-crore debentures to the Redect Consultancy Pvt Ltd of Rs. 100 each.

### 6. Kingfisher Airlines to exit low-cost business

At the annual General meeting of the Kingfisher Airlines at Banglore in September 2011, it was decide to do away with Kingfisher Red because they don’t intend to compete in the low-cost segment. They believed that there are more than enough guests who prefer to travel the full-service Kingfisher Class, the load factors in Kingfisher Class were more than in Kingfisher Red.

Since the margins of Kingfisher Class are better than Kingfisher Red as the yields are better they decided to reconfigure of 21 aircraft (the Air Deccan fleet) in a span of four months. This would add significant number of seats and generate additional revenue at minimal cost. All of the Kingfisher's Airbus aircraft will have a first class with incremental seats in economy.

But according to the CEO of kingfisher, Alex Wilcox, the airline would not adopt the low-cost, no-frills model but chart the middle course. It has outsourced the maintenance and group support to Indian Airlines for nearly Rs. 150 crore annually and would have a reduced strength of about 70 personnel an aircraft to cut down on costs.

## 7. Government bailouts the cost of open skies

India's aviation industry has been lobbying for a government bailout. With Kingfisher Airlines on the verge of bankruptcy, there are a number of ideas on how the bailout can be delivered: getting oil companies to lower aviation fuel prices, reducing taxes on fuel, persuading banks to restructure debt and offer new credit on easier terms, and changing the rules to allow foreign airlines to bring in capital in return for equity.

The promoters and top executives of leading private sector airlines met the Prime Minister late November to make their case. Their arguments went along expected lines: aviation fuel costs amount to as much as 40 per cent of operating costs; fuel prices have risen sharply; government taxes tend to push up prices even more; and aviation fuel prices in India are as much as 70 per cent higher than elsewhere in Asia. The net result according to them is a substantial loss that is challenging their viability. So the state must step in to rescue the airlines.

It is explained by the fact that part of the mess in aviation today is because of the government's open skies policy. That policy was influenced by the view that opening up the airline industry to new and multiple private operators would enhance competition, reduce prices and improve the quality of customer service.

One danger, however, is that "competitive markets" often results in failure. Wrong decisions leading to excess capacities, price wars that reduce margins and just plain bad management can lead to losses and the bankruptcy of one or more players in the market. According to the votaries of the market mechanism this is inevitable. So when losses occur for these reasons, governments should not intervene but should let markets work. If some firms go bankrupt, so be it. It is merely the way in which the market imposes its discipline, penalising wrong decisions or poor management, and delivering a meaner, leaner and more efficient industrial landscape.

In the Kingfisher case, the ailing airline has been on life support from three sources among others: huge volumes of credit from the banking sector, including public sector banks; a conversion of part of the loans provided by banks into equity such that the banks hold 23 per cent of the shares in the airline; and short term credit from the oil distribution companies on the aviation fuel being consumed by the airline. It has been known for some time now that the company had accumulated losses that exceeded its equity and reserves. But it was when the airline could not meet its bills for aviation fuel and the oil companies stopped supply on credit that the cancellations and the crisis began.

As a result of that indiscriminate opening up, over the years the business has seen the entry of a large number of private players. Knowingly or unknowingly these investors had bought the argument that the only reason for the poor profit performance of the public sector airlines was their incompetence. Any number of efficient operators that could keep costs down and offer better services at a cheaper price would be able to quickly turn a profit. The net result was irrational investment, excess capacity on many routes and severe price competition on some. The government's view was that this was merely a temporary process of adjustment. Wrong decisions by private operators would lead to a "shake out" and some airlines would close down and others would survive, resulting in a fitter, leaner and more customer-friendly industry.

Like the American banks during the crisis, Kingfisher was presented as "too big to fail". The failure of the airline would lead to a sudden disruption of air traffic. It would result in a loss of access of finance to other airlines, which could trigger more bankruptcies in the business. It could badly damage the banks that are heavily exposed to the airline, which could have repercussions elsewhere in the economy. But most important for the government is that it would give liberalisation a bad name.

It is this which explains why the Prime Minister, Manmohan Singh, and the Civil Aviation Minister, Vayalar Ravi, were quick to declare that Kingfisher needs to be "saved". Though they have subsequently turned silent or retracted their statements, the effort to "bail-out" Kingfisher is on. The bailout strategy seems to be one in which the oil companies, the banks and the government (read the tax payer) would share the cost of rescuing the company suffering because of the wrong decisions of its original promoters.

## 8. Left in Lurch

In November 2011, after much delay, the Government of India has finally decided to come to the rescue of Air India, which was grounded in a sea of financial trouble. If it took so long to hammer out a rescue package for the national carrier, there should be no question of even thinking of a bailout for a private airline, Kingfisher. Several airlines have got into a financial mess and cannot now queue up for relief from the Union Civil Aviation or Finance Ministries. They found it profitable when the going was good and there were fewer competitors. Now that competition is tight and airfares cannot be raised at will, the business model, financial management, and operational efficiency make all the difference to success or failure. In the case of Kingfisher, the entire industry knew that the crisis was imminent. Salaries to staff were being delayed; aviation fuel bills were not being paid on time; dues to the Airports Authority of India and the new private airports were also mounting. Pilots and other staff began deserting the troubled airline. In the face of such turbulence, the airline started cancelling 40 to 50 services a day over the past week. Kingfisher claims to be operating, on an average, some 300 out of 350 daily services, and the DGCA promptly slapped a notice on the airline for doing so without prior announcement.

For Kingfisher the ongoing cancellations were on account of “route rationalisation” and “reconfiguration of aircraft for full service market.” The management is laying the blame on oil prices, high taxes imposed by the States, the fall in the value of the rupee, and the operation of services on “non-profitable routes.” When ordinary citizens are being forced to pay more for the fuel, there can be no reason to subsidise airlines. The central government has repeatedly urged the States to lower the VAT or Sales tax on petrol and diesel, and some States have obliged. The time is ripe for a review of the Civil Aviation policy.

Union Minister for Civil Aviation Vayalar Ravi has said “the Centre has no plan for any package to salvage the crisis-ridden Kingfisher Airlines.” The government believed “it is for the private airlines to manage their finance and other affairs and the government cannot do anything for a particular company because the aviation industry as a whole is facing a crisis.” “This is mainly because of the high price of aviation fuel and the high sales tax of 30 per cent charged on it by the State governments.” Mr. Ravi said he had written to the State governments to bring down the sales tax on aviation fuel from 30 per cent to 4 per cent.

## 9. Regulatory Authorities Grounded the Airline

In December 2011, Mumbai International Airport Pvt. Ltd. (MIAL) has sent a notice to cash-strapped Kingfisher Airlines to pay the Rs.90-crore outstanding dues. MIAL will also put Kingfisher Airlines on cash-and-carry mode wherein the airline will have to pay around Rs.50-60 lakh daily to the authorities to operate from the Mumbai airport.

In March 2012, Cash-strapped private carrier Kingfisher Airlines, which is struggling to stay afloat, was, on Wednesday, dealt with yet another blow when the International Air Transport Association (IATA), a leading international association, asked travel agents to immediately stop booking tickets on the behalf of private airline's for failure in settling dues since February. The IATA had also barred Kingfisher from its international ticket clearing house (ICH) system, but reinstated it later after some payments were made. The Director-General of Civil Aviation recently approved curtailed flight schedule of Kingfisher, allowing it to operate 175 domestic and 24 international flights a day with a fleet of 28 aircraft. The airline earlier used to operate more than 400 flights a day and had 70 aircraft in its fleet.

In October 2012, another round of fresh trouble for the grounded Kingfisher Airlines, aviation regulator Directorate General of Civil Aviation (DGCA), under the provisions of Section 15(2)(b) of Schedule XI of the Aircraft Rules 1937 as the Airline has failed to establish a safe, efficient and reliable service, issued a show-cause notice asking why its flying permit should not be suspended or cancelled. Further the Directorate General of Civil Aviation (DGCA), asked the beleaguered Kingfisher Airlines to stop booking tickets immediately, and ordered suspending its licence indefinitely until it submitted a concrete and reliable revival plan. This not only grounded the airline but left in its wake turbulent times for travellers, employees, lenders and shareholders.

Despite all its efforts Kingfisher Airlines, in December 2012, the Kingfisher airlines lost its flying licence as the Directorate-General of Civil Aviation (DGCA) refused to renew its Air Operator Permit (AOP) without a viable turnaround plan. The Union Civil and Aviation Ministry, February 2013, stripped the beleaguered Kingfisher Airlines of international and domestic flying slots. The move was likely to make available 25,000 additional seats for passengers for other airlines.

The Airports Authority of India (AAI), in March 2013, released the deregistered leased aircraft of grounded Kingfisher Airlines for the lessors only after a formal nod from the Civil Aviation Ministry. The aviation regulator DGCA wants grounded Kingfisher Airlines to clear all dues, including pending salaries of employees, before taking up for consideration its application for renewal of flying licence. Further the Directorate-General of Civil Aviation (DGCA), deregistered 15 aircraft of Kingfisher Airlines paving way for global leasing companies to take them back on grounds of default on their lease rentals by the crisis-ridden carrier. In December 2014, fresh trouble courted the Airline, since Mumbai International Airport (MIAL), to recover the dues decided to sell a mid-sized corporate jet owned by his group company.

### 10. Accounts frozen due Tax and Payments defaults

In March 2012, The Service Tax Department has frozen as many as 40 accounts of Kingfisher Airlines for defaulting Rs.220 crore on service tax. It froze 11 accounts of Kingfisher Airlines last week for non-payment of Rs.70 crore. The amount has been calculated for the period April to August, 2011. Its IATA accounts too have been frozen. Later when the airline complied by paying 9 crore towards its service tax, The Central Board of Excise and Customs (CBEC) has defreeze 10 bank accounts of debt-ridden Kingfisher Airlines when a written “undertaking” was given that it would pay the remaining dues toward service tax by March 31, 2012.

In a setback to Kingfisher Airlines, the Karnataka High Court, in December 2012, directed the company to deposit 50 per cent of the total amount of Rs.371 crore that the company is required to remit to the Income Tax Department as tax deducted at source (TDS) from its employees and payments made towards company expenses. The Special Court for Economic Offences, Bangalore, in February 2013 issued summons to the beleaguered Kingfisher Airlines chief Vijay Mallya on a criminal case filed by the Income-Tax Department for not remitting to the government tax deducted at source (TDS). It also complained that Kingfisher owed the government Rs. 401 crore by way of TDS amount, deducted from salaries of its employees and from payments made to others in the financial years 2008-2012. But the company did not respond to many communications demanding payment, and even objected to the computation of TDS at Rs. 401 crore. This assessment was made after the department raided the company premises in March 2011.

**11. Lenders with new ammunition to tackle bad loans**

In November 2010, a consortium of banks decided to convert 10 percent of Kingfisher Airlines debt into equity, giving the airline a new lease of life. Banks purchased the shares of Kingfisher at a premium price of 61 per cent. This price was arrived at following the formula approved by the Securities & Exchange Board of India, or Sebi: the average price of the last 30 days or the last six months, whichever was higher. In hindsight, it was a bad investment, since the stock tanked and the banks had to book the losses, which drew widespread flak. While restructuring its debt, which was to the tune of Rs 1,350 crore, bankers could not foresee what was coming. Not even the Reserve Bank of India, or RBI, which actually granted regulatory forbearance to banks in terms of waiving off higher provisioning that is required for restructured standard advances. It was perhaps the biggest lesson for banks and regulators on the perils of converting debt into equity. Unfortunately for the banks, it came at a time when credit growth had started to taper off and they got burdened with bad loans. The gross non-performing assets, or NPAs, of the banking system went up from 2.3 per cent of total advances in March 2009 to 4.5 per cent in September 2014.

In July 2012, Kingfisher Airlines has a total outstanding debt of around Rs.7,500 crore to a consortium of 17 banks led by State Bank of India (SBI). The debt-trapped airlines with a truncated service were given a 15-day time by its lenders to come up with a plan to improve its operations. To the SBI (Rs.1,400 crore), Punjab National Bank (around Rs.700 crore) and Bank of Baroda (around Rs.500 crore) are the major lenders. Since launching its operations in 2005, the Airlines have not reported any profit. Another lender, ICICI Bank, recently sold its exposure of Rs.450 crore in Kingfisher to Srei Venture Capital Ltd., a group company of Srei Infrastructure Finance Ltd. Meanwhile, Kingfisher Airlines refuted charges that the banks had started recovery process by attaching properties of the airlines. The Airline proposed to liquidate the unutilised asset Kingfisher House which was lying vacant after the staff moved to our new offices at The Qube in Mumbai.

In September 2012, the lenders turned down a request from Mr. Mallya for an immediate working capital loan of Rs.200 crore and debt restructuring. Since January, the airline has not been servicing its Rs.7,000 crore bank debt. The State Bank of India-led lenders consortium, asked SBI Capitals to chalk out a fresh revival plan. According to the lenders, Mr. Mallya did not offer any concrete revival plan as he could not commit on equity infusion by the promoters. In another reprimand, the Bombay Stock Exchange, halved its circuit limits on shares of Kingfisher Airlines and group firm United Breweries Holdings, capping their maximum movement in a day at 5 per cent and 10 per cent, respectively.

In October 2012, the bankers gave the airline temporary relief by agreeing to release Rs.60 crore locked in an escrow account to pay employees' salaries. Meanwhile, aviation think tank Centre for Asia Pacific Aviation (CAPA) has suggested that the airline should voluntarily shutdown to reorganise and restructure. The CAPA estimates that a fully-funded successful turnaround of Kingfisher will require over $billion, which may be conservative. This would involve an immediate capital infusion of $600 million. The banks appear to be willing to help, in some ways they have no option, but they want to see the UB Group take the first step.

However in April 3, 2013, The Bombay High Court, on Tuesday, refused to grant any interim relief to United Breweries Holdings (UBH), which had filed a petition to prevent Kingfisher Airlines' lenders from selling pledged shares of UB group companies. After recalling loans, State Bank of India (SBI), which has an exposure of over Rs.1,500 crore, has started selling United Spirits Ltd. (USL) and Mangalore Chemicals & Fertilizers Ltd. (MCF) shares , which were pledged by the airline promoters towards collateral security. The UBH had moved the court seeking a restraint. The UBL's contention is that the company along with USL had already entered into an agreement with Diageo Plc. to sell stake in USL and any sale of pledged shares by the lenders would affect the transaction. However, the Bombay High Court did not provide any interim relief to UBH.

The SBI sold 13,000 USL shares much above the open offer price of Rs.1,440. USL shares. UBL is also contract-bound to transfer a sizable stake in USL at Rs.1,440 a share, and bulk of these shares now pledged are being sold by the lenders. The move to recover dues by lenders comes on the heels of the Finance Minister asking banks to take action against rich promoters of ailing companies.

By September 24, 2013, crisis-hit Kingfisher Airlines (KFA) is in talks with a foreign investor for potential stake sale. Although the Civil Aviation Ministry has proposed that the government allow 24 per cent Foreign Direct Investment (FDI) by foreign airlines in Indian carriers. Current rules allow 49% FDI in Indian aviation companies, but do not permit foreign airlines to own stake in India's carriers. While a majority of Indian airlines are opposed to FDI as they fear that foreign partners would eventually take over the carriers in which they invest. A number of banks which have exposure to domestic carriers are also finding it hard to restructure their loans. Kingfisher Airlines has remained grounded for almost a year now under the burden of huge debts, totalling over Rs.7,000 crore and accumulated losses of more than Rs.16,000 crore. Meanwhile, the Directorate General of Civil Aviation (DGCA) decided to allocate slots at airports vacated by Kingfisher Airlines to other airlines. Kingfisher announced that it would slash about 40 daily flights where the company was making losses following a plan to reconfigure aircraft and cut costs.

In April 2014 SBI Caps has been tasked by a 17-member consortium of lenders, led by SBI, to recover their dues running into over Rs.7,500 crore in principal alone from Kingfisher Airlines, promoted by Vjay Mallya. Kingfisher Airlines lenders put on the block nine trademarks of the grounded carrier to recover dues running into crores of rupees. The trademarks put on the block include Fly Kingfisher and Fly Kingfisher (Label), both registered with KFA and each having a validity of up to January 10, 2017. Flying Models registered with United Breweries (airline promoter) and valid up to August 6, 2014, is also put up on sale. The others are: Fly the Good Times and the Funliner (registered with KFA and valid up to August 6, 2014); the Kingfisher (Label) registered with UB and valid up to November 1, 2014; and the Flying Bird Device, registered with UB and valid up to November 5, 2014.

In August 2014, IDBI Bank and Kingfisher Airlines (KFA) have come under the Central Bureau of Investigation scanner for sanction of a loan of Rs. 950 crore to the beleaguered airline. The CBI also instituted two preliminary enquiries to ascertain whether there were any irregularities in the grant of loans by the UCO Bank and the Bank of Maharashtra. The preliminary inquiry was instituted to ascertain how the bank sanctioned the loan when KFA had a negative net-worth and negative credit rating.

In September 1, 2014 United Bank of India (UBI) has declared Vijay Mallya and three directors of Kingfisher Airlines (KFA) as wilful defaulters. Further the Supreme Court denied relief to debt-ridden Kingfisher Airlines challenging the decision of the Grievance Redressal Committee (GRC) of United Bank of India (UBI) to declare the airline and its promoter Vijay Mallya as wilful defaulters. In Februrary 24, 2015, a 17 bank consortium led by state run SBI initiated the process of taking over the physical possession of the prized 17,000 sq ft Kingfisher House at Vile Parle, worth Rs.100 crore.

**12. Staff unrest grounds Kingfisher**

In November 2009, due to huge losses and capacity reduction, Kingfisher Airlines put close to 100 pilots, decided not to renew their service contracts. Earlier they had cut the salaries of these pilots by nearly 80 percent. Again in March 2012, thirty Kingfisher Airlines got cancelled due to protest by several pilots and staff for delays in salary payment. The major centres from where the flights were cancelled or delayed include Mumbai, Delhi, Kolkata, Bangalore and Chennai, besides some State capitals. Informed sources say that out of its already curtailed winter schedule of 240 daily flights, the airline was operating only about 180 flights.

By March 2012, the credibility of functioning of Kingfisher Airlines got even more suspected as the three independent directors, Vijay Amritraj, Anil Kumar Ganguly and Diwan Arun Nanda resigned. But according to Clause 49 of the SEBI Listing Agreement, the beleaguered Kingfisher Airlines succeeded in getting the consent of Manmohan Singh Kapur, Lalit Bhasin and Shrikant Ruparel to join the board as independent directors.

In April 2012, the private carrier staff threatened to go on strike if their salary dues are were not paid within a day. Mr. Vijay Mallya gave the assurance that all junior staff will be paid by 4$^{th}$ April and pilots and engineers on 9$^{th}$ April 2012. Mr. Mallya warned them that any agitation could lead to cancellation of Kingfisher's flying permit by aviation regulator DGCA if its services were disrupted any further. Eventually a large section of Kingfisher Airlines employees, including pilots and engineers, received their salaries on Monday after a delay of nearly four months.

However in May 2012, around 12 Kingfisher flights were cancelled after the pilots reported sick in protest against non-payment of due salaries. Again in July 2012, several flights of Kingfisher were cancelled due to a strike by pilots to protest against the non-payment of wages for almost five months. Three flights from Mumbai and several across the airline's entire network were cancelled.

In August 2012, a section of its employees, including pilots and engineers did not report for work to protest non-payment of salary. As a result the Kingfisher Airlines cancelled over 30 flights from Delhi and Mumbai due to a strike by a section of its employees protesting non-payment of salary. The situation worsened in September, 2012, since engineers demanding payment of salary strike halted Kingfisher's ATR operations. The airline, which is facing severe fund crunch for over a year now, witnessed labour unrest at regular intervals in the last six months with one section of employees or the other resorting to agitation for release of salaries.

In October 2012, the Vijay Mallya-owned private carrier said it has been forced to declare a "partial lock-out" following a series of "protracted and unabated incidents of violence, criminal intimidation, assault, wrongful restraint and other illegal acts" including refraining from attending work, by a small section of “recalcitrant” employees. The decision of the Directorate General of Civil Aviation (DGCA) on 20th October 2012, to suspend the airline’s licence had fuelled fears among employees that the airline would close down its operations, leaving everybody in the lurch. By the end of October 2012, the engineers, technicians and pilots have called off their 26-day strike and have agreed to join work immediately by accepting the management’s offer of disbursal of three months salary before Diwali, which gave partial relief for troubled Kingfisher Airlines. Kingfisher Airlines Chairman Vijay Mallya on Saturday said he was never out of reach of his striking employees during the 26-day impasse over non-payment of salaries since March this year and had played an active part in the wage settlement. The offer of three months’ salary by Kingfisher Airlines to its employees has divided them. Many desperate employees were willing to accept whatever possible with the fear of losing everything, including their jobs. However the Director General of Commercial Aviation laid the condition of clearing all the dues before they seek renewal of licence. Moreover, the renewal of Kingfisher Airlines’ air operator permit (AOP) is not only linked to the unpaid staff wages, but also to the massive dues towards its vendors and lessors. In January 7, 2014 the employees of grounded Kingfisher airlines intensified efforts to recover their unpaid salaries of last 17 months by going for indefinite hunger strike at Jantar Mantar in New Delhi and have filed criminal complaint with the Parliament Street police station seeking the registration of an FIR against the airline’s promoter among others. The employees have written to the Prime Minister’s Office (PMO) seeking intervention, have approached trade unions and among others have approached the Aam Admi Party to mediate.

## 13. Conclusion

But as the saying goes, the quickest way to become a millionaire is for a billionaire to invest in the airline sector. Kingfisher Airlines was set up in 2003 but hasn't seen a single year of profit since it got listed in 2006. Today, accumulated losses stand at about Rs 8,200 crore and the money to pay for fuel, salaries and airport fees is running out, prompting Mallya to approach the government for a bailout.

The company blames the government for its predicament the high cost of aviation fuel, the requirement to service non-profitable routes. But the market analysts believe flaws in Mallya's business plans and style of functioning lie at the root of Kingfisher airlines' woes. In a controversial report on the airline, Veritas Investment Research analysts point out that Mallya should have never got into the airline business. “We believe that the ill-conceived foray into the airline business has already cost UB shareholders dearly, and that their ownership of India's premier liquor and beer assets has been sacrificed at the altar of egoistic ambitions,”.

### 13.1 Three key mistakes

It was when the good times seemed to last forever that Mallya made his first strategic mistake, buying of Air Deccan.

It seemed a good deal in the beginning. Mallya got Air Deccan's huge market share and several aircraft as well, plus an immediate listing. He spun off Air Deccan's fleet into a subsidiary called Kingfisher Red. It was picture perfect. Thrown in was another goody: the licence to fly on international routes as Air Deccan had been in the business for five years — a requirement by the regulator for any airline to fly overseas. But he also acquired the losses incurred by the airline.

Further the Kingfisher’s schizophrenic approach to a business model. Kingfisher was launched as an all-economy, single-class configuration aircraft with food and entertainment systems. After about a year of operations, the airline suddenly shifted its focus to luxury. Kingfisher made too many changes in their business model and strategies and that led to strategic weakness.

The airline had everything going for itself: great brand visibility, loyal customers and a wide network. Mallya was more like an absentee landlord. This was where his second mistake came in. There was cannibalisation from the mother brand. If two brands look alike, then obviously, passengers will opt for the cheaper priced. Industry analysts say the third mistake was that the airline should have first consolidated its domestic operations and then introduced international routes because on the foreign routes, the competition only gets bigger and with those who have deeper pockets.

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## Annexure 1

| Balance Sheet - Kingfisher Airlines Ltd. | | | | | |
|---|---|---|---|---|---|
| | | | | | Rs (in Crores) |
| Particulars | Mar'13 | Mar'12 | Mar'11 | Mar'10 | Mar'09 |
| Liabilities | 12 Months | 12 Months | 12 Months | 12 Months | 12 Months |
| Share Capital | 1361.82 | 1130.75 | 1053.83 | 370.39 | 371.02 |
| Reserves & Surplus | -14281.64 | -6213.15 | -4005.02 | -4268.84 | -2496.36 |
| Net Worth | -12919.82 | -5082.40 | -2951.19 | -3898.45 | -2125.35 |
| Secured Loan | 504.20 | 5368.76 | 5184.53 | 4842.43 | 2622.52 |
| Unsecured Loan | 8153.44 | 2661.24 | 1872.55 | 3080.17 | 3043.04 |
| TOTAL LIABILITIES | -4262.18 | 2947.60 | 4105.88 | 4024.15 | 3540.21 |
| Assets | | | | | |
| Gross Block | 1287.37 | 2193.66 | 2254.26 | 2048.14 | 1891.80 |
| (-) Acc. Depreciation | 575.43 | 750.63 | 682.37 | 493.62 | 316.29 |
| Net Block | 711.93 | 1443.03 | 1571.89 | 1554.51 | 1575.52 |
| Capital Work in Progress | .00 | .00 | 673.35 | 980.61 | 1630.95 |
| Investments | .03 | .03 | .05 | .05 | .05 |
| Inventories | 166.07 | 204.79 | 187.65 | 164.88 | 147.25 |
| Sundry Debtors | 20.05 | 187.59 | 440.53 | 322.49 | 229.84 |
| Cash and Bank | 19.05 | 182.27 | 252.36 | 206.47 | 171.87 |
| Loans and Advances | 1893.92 | 7062.33 | 5380.19 | 4604.31 | 3640.42 |
| Total Current Assets | 2099.09 | 7636.98 | 6260.73 | 5298.13 | 4189.37 |
| Current Liabilities | 6993.49 | 6046.66 | 4463.86 | 3908.03 | 3814.63 |
| Provisions | 79.73 | 85.77 | 62.11 | 46.77 | 45.55 |
| Total Current Liabilities | 7073.22 | 6132.43 | 4525.97 | 3954.80 | 3860.18 |
| NET CURRENT ASSETS | -4974.13 | 1504.54 | 1734.76 | 1343.34 | 329.19 |
| Misc. Expenses | .00 | .00 | 125.84 | 145.64 | 4.51 |
| TOTAL ASSETS (A+B+C+D+E) | -4262.18 | 2947.60 | 4105.88 | 4024.15 | 3540.21 |

Source: www.etmarkets.com