

# EXPLORATION OF KINGFISHER AIRLINE'S FIASCO

(With Reference to Ethical and Governance Issues)

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## **Abstract:**

*The concept of corporate governance is not new to us. This subject has incited interest since 90's when a series of corporate scams like Enron, Wal-Mart, WorldCom, Satyam etc took place around the globe and raised questions on the management of the company. A similar case of mismanagement has recently occurred in India which is the Kingfisher Airline's Failure. In this paper we have tried to put a light on to what went wrong with Kingfisher Airlines. Kingfisher Airlines was an Indian based airline group established and started by Vijay Mallya in 2003 which started its commercial operations on May 9, 2005. In a very short span of time, Kingfisher Airlines established itself as a high service-oriented airline and obtained several rewards for its services and also received many awards for being India's best airlines. However the airline couldn't retain this position for long due to financial mismanagement, frequent unplanned and unthought-of decisions taken up by the company. This paper attempts to provide a comprehensive and thorough analysis of Kingfisher Airlines, its growth, the financial crisis the airlines had gone through and the inconsistent decisions and strategies adopted by the Airlines which led to the debacle.*

*Keywords: Kingfisher Airlines, Ethical and Governance issues, Mismanagement, Financial Crises.*

## **INTRODUCTION**

Although the Companies Act, 1956 did contain provisions to deal with fraud by corporates, the measures were felt insufficient in the light of Satyam like frauds unearthed in recent years and

accordingly opportunity has been taken to make the provisions of the Companies Act, 2013 more stringent with regard to frauds.

This prompted our lawmakers to statutorily address the growing problem of corporate frauds by introducing stringent provisions in the new Companies Act, 2013 (New Act), ranging from increasing the role and duties of independent directors and that of the auditors. There is also a realization in the minds of corporate India to adhere to strict standards and they are becoming cautious and serious about the problems of fraud.

### **OBJECTIVE OF THE STUDY:**

The main objective of this paper is to provide a comprehensive and thorough analysis of Kingfisher Airlines, its growth, the financial crisis the airlines had gone through and the inconsistent decisions and strategies adopted by the Airlines which led to huge loss and further a huge failure, the ethical and governance issues which were involved in the decline of the well-known airlines.

### **RESEARCH METHODOLOGY:**

The data for the current study has been taken from the secondary sources such as newspapers, research articles, reports and books.

### **VIJAY MALLYA: THE MAN BEHIND KINGFISHER AIRLINE'S**

Vijay Mallya who is known to be the chairman and owner of an Indian conglomerate company called "United Breweries Group" the "UB Group" was born to Vittal Mallya and Lalitha Ramaiah on 18<sup>th</sup> December 1955 in Bantwal, India. His father was a famous industrialist who chaired the United Breweries Group and Kingfisher Airlines. He did his schooling from La Martiniere School, Calcutta and B.Com (Honours) from St Xaviers College, Calcutta. While doing his graduation, Mallya interned in his family business and later went to USA to intern with Hoechst AG. He was conferred with Doctor of Philosophy in Business Administration by Southern California University of Professional Studies in 1997. Vijay Mallya joined his family

business after the death of his father in the year 1983. He was chosen as the chairman of United Breweries. As a part of his modernisation bid, all other companies were consolidated under the brand name of UB group. He discarded loss making companies and focussed his entire attention on alcohol business. Currently his brand Kingfisher Beer holds more than 50% share of the Indian beer market .Kingfisher beer is sold in more than 52 countries and has a been a leading beer even in the international market. In the year 1986, he got married to Air India air hostess named Sameera Tyabjee and had a son named Siddharth Mallya in May 1987.

### **MERGERS AND ACQUISITIONS**

In 1988, in a leverage buyout, Mallya acquired global Berger Paints Group with operating companies across four continents and divested it at significant value in 1996 through a successful exit strategy that included five initial public offerings on the stock exchanges in London, Singapore (Main Boards), Nairobi, Jamaica and Abidjan. He also acquired “Best and Crompton”, an engineering firm in 1988 and in 1990 he acquired the ailing Mangalore Chemicals and Fertilisers, which was renamed as Malabar Chemicals and Fertilisers. In 1991 Mallya sold his stake in Berger Paints Group to Dhingra Brothers and the complete stake was sold in 1996 for a profit of \$66 million. In 1999 UBL launched Kingfisher strong to cater to the needs of growing beer segment in the country. In 2001 Mallya acquired The Asian Age newspaper and Cine Blitz, a bollywood magazine. In the year 2002 he was elected as a member of Rajya Sabha. In 2004, Britain’s largest brewer, Scottish & Newcastle buys 37.5 % stake in United Breweries limited. In the year 2005, Mallya entered into the aviation industry with the launch of Kingfisher airlines on his son’s 18<sup>th</sup> birthday. He also obtained 54.54 percent share from Vidya Chhabria, in Shaw Wallace & Company (SWC), whose husband had refused Mallya, management control of the company in 1985 and became second largest spirits maker. By September in the same year he acquired Herbertsons Ltd, which was the owner of Romanov vodka and Bagpiper, India’s biggest selling whisky brand. In July 2006, Mallya grabbed on to Bouvet Ladubay SAS, French winemaker for Rs 866 million. In 2007, United Spirits Ltd, the flagship of the UB Group, bought the UK-based scotch distiller Whyte & Mackay and Liquidity Inc. for Rs 4800 crore. In 2009 UBL signed a deal with Netherlands-based Heineken Group for manufacture and distribution of Heineken beer in India. In 2012 Diageo Plc acquired 53.4 per cent stake in United Spirits.

## **VIJAY MALLYA'S SPECIAL INTERESTS AND AWARDS**

Apart from business Mallya holds interest in various sports, especially Formula One, where India has its own team with the name "Sahara Force India". Other teams which are held by "UG Group" are "Kingfisher" derby team, "McDowell Indian" horse racing team, signature golf tournaments, as well as "East Bengal" club. Mallya is also a member of "The World Motor Sport Council". Vijay Mallya became the member of Rajya Sabha in 2002 and was re-elected in 2010. He is also a member of several committees like Committee on Industry, Consultative Committee for the Ministry of Civil Aviation, and Committee on Chemicals and Fertilizers. Vijay Mallya has been conferred with several awards like doctorate of Philosophy in Business Administration, by the Southern California University, Global leader for tomorrow by World Economic Forum and "Entrepreneur of the Year" award.

## **INTRODUCTION TO KINGFISHER AIRLINES**

Kingfisher Airlines was an Indian based airline group established started by Vijay Mallya in 2003, owned by the Bengaluru based United Breweries Group with its head office in Qube Andheri (East), Mumbai and registered office in UB City, Bangalore. On May 9, 2005, Kingfisher Airlines started its commercial operations with its four Airbus A320-200s aircraft with inaugural flight from Mumbai to Delhi. By September 2007, Kingfisher had 34 aircraft in its fleet (4 A-319, 12 A-320, 6 A-321, 12 ATR-72) and served 34 destinations.

## **MERGER WITH AIR DECCAN**

In 2007, 26 % stake was acquired by Kingfisher Airlines in Air Deccan a low cost and later the stake was increased to 50% and both the organisations merged. After the merger Air Deccan was renamed as Kingfisher Red and remained largely a low-cost arm of Kingfisher Airlines. In September 2008, Kingfisher Airlines started its international operations by connecting Bengaluru with London. In 2011, 63 domestic destinations and 8 international destinations in 8 countries across Asia and Europe were served by Kingfisher Airlines. In a very short span of time, Kingfisher Airlines established itself as a high service-oriented airline and obtained several rewards for its services and also received more awards for being India's best airline.

## **AFTERMATH OF THE MERGER**

The airline was reporting losses since the time it commenced its operations in 2005. Kingfisher suffered a loss of more than 1000 crores for three consecutive years after it acquired Air Deccan. (Annexure 1)

## **KINGFISHER AIRLINES FINANCIAL CRISIS**

In August 2009 Board of directors consented to a resolution to raise about Rs 487.8 crore by way of Global Depository Receipts (GDRs) in addition to the decision taken earlier to generate Rs 500 crore through right issue of equity shares. The airline was reporting losses since the time it commenced its operations in 2005. Kingfisher suffered a loss of more than 1000 crores for three consecutive years after it acquired Air Deccan. The company went for loans to overcome the situation of weak financial condition due to incurring losses. Because of the loans the company had a huge burden of interest and debt. To reduce the burden of heavy debt and interest board of directors decided to go debt restructuring in November 2010 with the lenders under which total of 18 lenders who had given Rs 8000 crores to the company agreed to cut down the rates of interest and convert part of loan into equity. As part of the contract, Rs. 650 crores debt was converted into preference shares by the lenders which later got converted into equity when the company got listed on the Luxembourg Stock Exchange by selling global depository receipts (GDR). Shares were converted into ordinary equity at the price at which the GDRs were sold to investors. Besides the 1,400 crore debt which was converted into preference shares, another 800 crore debt was converted into redeemable shares for 12 years. Due to debt restructuring, the average rate of interest came down to 11% and the company could be able to save Rs. 500 crores every year in interest cost. As a part of debt restructuring, loans of Rs. 750.10 Crores were converted into 7.5% compulsorily convertible preference shares out of which Rs 648 crores were later converted into equity shares and loans of Rs 553.10 crores were converted into as non-convertible cumulative redeemable preference shares to be redeemable after 12 years out of which Rs 97 crores were converted into equity shares. The banks also sanctioned an additional fund based loan facilities of Rs.768.32 Crores and non-fund based facilities of Rs.444.40 Crores. Interest rate was reduced on term loan which came into effect from July 1, 2010 and also on Working Capital loan/ PDP loan to 11.1% from 14% p.a. from October 1, 2010. Rs. 297.4 Crores of Working Capital converted into Working Capital Term Loan (WCTL). The banks funded the

Interest payment for the period from July 2010 to March 2011 banks and got converted into Funded Interest Term Loan (FITL) which amounted to Rs. 349.88 crores out of which Rs.101.46 crores was converted into CCPS . In September 2011, Vijay Mallya decided close down its low cost carrier Kingfisher Red.

### **THE ONGOING TROUBLE**

By November 2011, the losses doubled to Rs 469 crore. On December 1, 2011 a notice was served on the airlines by Mumbai International Airport Pvt. Ltd. (MIAL) for clearing outstanding dues of Rs 90 crore. Later in the same month 11 accounts were seized by service tax department for not paying Rs 70 crores which were de-frozen after clearing the dues. In February 2012 some accounts were frozen by Income tax department due to which the airlines had to cancel some of its flights. On 7 March 2012 Kingfisher Airlines was barred from participating in billing and cargo settlement systems by International Air Transport Association (IATA) for its failure to provide IATA with a cash deposit which was required to continue its participation in the BSP and CASS. Moreover over 30,000 of the affiliated travel agents were directed by International Air Transport Association (IATA) to immediately stop booking tickets for Kingfisher. But Kingfisher could somehow manage to make an alternative arrangement for selling its tickets.

On 12 March 2012 several pilots and other members of the staff didn't report on duty as a protest against the delays in payment of their salaries which led to cancellation of at least 30 flights. The Revenue department warned the airlines for dragging it to court for not depositing service tax collected from passengers with the department since November last on a regular basis and instead has been diverting it for other purposes on a regular basis. On March 20, 2012 Directorate-General of Civil Aviation (DGCA) was given assurance by Kingfisher chief Vijay Mallya for meeting all the safety norms and following the schedule. by the end of this month the airlines was burdened by the huge amount of debt of Rs 7000 crore due to which it had to discontinue its operations from some major cities like Kolkata, Hyderabad, Patna, Lucknow, Thiruvananthapuram and Bhubaneswar. The daily flights came down to 150 from 400 earlier. On July 14, 2012, part of pilots went on strike but they returned to work after getting assurance

from the upper management. On August 18, 2012, a section of pilots went on a strike for the second time in a month after the management failed to keep the promise to pay the delayed salary and demanded the immediate payment for the March month salary. The strike led to the cancellation of seven flights from Mumbai.

## INVESTIGATIONS

On 12 October 2012 a non bailable warrant was issued against Kingfisher Airlines, its chairman Vijay Mallya and other directors for not appearing in cases relating to bouncing of cheques issued against GMR Hyderabad International Airport Limited (GHIAL) for user charges. On 20 October 2012, licence of Kingfisher Airlines was suspended by the Directorate General of Civil Aviation for its failure to come up with a viable plan for its financial and operational revival and resolve the impasse with its employees over payment of their salary dues. On 20<sup>th</sup> December 2012, the airlines submitted an application to Directorate General of Civil Aviation (DGCA) for the renewal of its operating licence which would expire on 31<sup>st</sup> December 2012. But Kingfisher Airlines lost its flying licence on 31<sup>st</sup> December 2012 when the Directorate General of Civil Aviation (DGCA) denied giving Air operator permit (AOP) to the debt ridden airlines as they were not satisfied with the plan given by the airlines. On 21<sup>st</sup> February 2013, summons was issued to Vijay Mallya by special court for economic offenses on the basis of the criminal case filed by the Income Tax department for not paying the TDS deducted from the salaries of the employees. On 10<sup>th</sup> March 2013, the airline was asked by DGCA to clear all the dues in terms of unpaid salaries of the employees, vendors, lessor before applying for renewal for the licence. Finally on 27<sup>th</sup> March 2013 the DGCA announced that 15 aircrafts of Kingfisher Airlines had been deregistered so that they can be taken back by the global leasing companies for default in payment of lease rental by the airlines. Kingfisher Airlines was declared as non-performing asset (NPA) on 17<sup>th</sup> July 2014 by SBI on account of continuous default in paying the debts of over Rs 4000 crore. SBI has the maximum exposure of Rs 1500 crore as compared to other banks which had given loans to the airlines. Three cases were filed by the Income Tax department against Kingfisher Airlines and Vijay Mallya for non-payment of Tax deducted at source (TDS) of Rs 400 crore to the government for the financial year 2009-10, 2010-11 and 2011-12. He was granted bail by the Special Court for Economic Offences in Bangalore on 1<sup>st</sup> August 2014 on the direction of depositing Rs 1 lakh as cash surety against each case, bail bonds and solvent surety

for the same sum. On 21<sup>st</sup> August 2014 a notice was served to Kingfisher Airlines by Punjab National Bank alleging for non-payment of dues of over Rs 770 crore and asking to give the response to the same within 7 days, else the airline and its guarantors, United Breweries (Holdings) Ltd (UBHL) and Vijay Mallya would be declared as "wilful defaulters". On 1<sup>st</sup> September 2014, Vijay Mallya along with three directors naming A.K. Ganguly, Subhash Gupte and Ravi Nedungadi were declared as wilful defaulters which was challenged in supreme court by filing special leave petition. The Supreme Court denied any relief to the airlines. On 7<sup>th</sup> November 2014, the two top exchanges BSE and NSE made an announcement for the suspension of trading in shares of Kingfisher Airlines and UB Engineering for a month for non-compliance of Listing Clause relating to timely preparation and disclosure of financial results by a listed company for two consecutive quarters. On December 2014, chairman of UB Group, Vijay Mallya resigned from the Board of Directors of Mangalore Chemicals and Fertilizers Ltd with immediate effect in the midst of a takeover battle between the Shailesh Mehta-led Deepak Fertilizers and the Saroj Poddar controlled Adventz Group and the prices of the shares rose from Rs 80 to Rs 92. The Ministry of Corporate Affairs also rejected an application filed by Kingfisher airlines for the re-appointment of Vijay Mallya as a Managing Director for a period of five years beginning on October 16, 2013 "without remuneration". On 3<sup>rd</sup> December 2014, United Breweries Holdings the guarantor of Kingfisher Airlines was stated as wilful defaulter by United Bank of India because as per the bank, the company had additional resources which could have been used to repay their loans. On December 5, 2014, Kingfisher Airlines disapproved to be considered as wilful defaulter by UCO Bank, according to which the airline has defaulted in paying Rs 450 crore of loan. On December 11, 2014 the Delhi High court reserved its judgement on the plea filed by Punjab National Bank that the lawyers of Kingfisher cannot come in the process of considering the debt ridden airline, its guarantors, UB Holding Limited as wilful defaulter. On December 29, 2014, Calcutta High court dismissed United Bank of India decision to declare Kingfisher airlines as wilful defaulter as the bank failed to form grievance redressal committee which was supposed to be formed as per the regulatory guidelines. On January 6, 2015 a contempt application was filed by the consortium of 17 banks with Karnataka High court against Kingfisher Airlines, United Breweries Holdings Limited (UBHL) and Vijay Mallya for violating the undertaking given to Debt Recovery Tribunal that they would not alienate unencumbered assets nor deal with them. On February 2015, State Bank of India consortium

took over 17,000-sq ft. property at Vile Parle, to recover the Rs 6,800 crore loans which were granted to Kingfisher Airlines. Later on October 10, 2015 CBI raided Vijay Mallya's offices in regard to the investigation for default in paying Rs 900 crore loan to IDBI bank ltd. On March 7, 2016 money laundering case was filed against Vijay Mallya by Enforcement Directorate and banks also approached Supreme Court for debarring him to visit abroad. But even after so many efforts, after two days it was informed by the government that he has left India. And in the month of April, in an interview he said that he has no plans to return to India. In between Vijay Mallya's diplomatic passport has been suspended by Ministry of External Affairs.

## **ETHICAL AND CORPORATE GOVERNANCE ISSUES**

Following are some ethical and governance problems which lead to the failure of Kingfisher Airlines.

### **Unpaid Fuel Dues**

The company was taking fuel from BPCL. But the airlines defaulted in payment due to which, BPCL filed a case in Bombay High court for paying the unpaid bills. In November 2010 BPCL thought of revoking back the settlement due to non-payment of dues by Kingfisher Airlines. After this, Kingfisher Airlines resorted to HPCL for the supply of fuels. The airline was buying approx. Rs 115 cr. of fuel every month. There also, the airline repeatedly defaulted in paying fuel bills which led to the accumulation of Rs 603 cores as an outstanding month of March 2010. Later Kingfisher airlines was asked to clear the dues of Rs 258 crores by HPCL, for which KFA issued a cheque of Rs. 200 crores dated 31.3.2011 and it got bounced on 4<sup>th</sup> April, 2011. By April outstanding of the company touched Rs. 602 crore and Rs. 702.88 on 18<sup>th</sup> July 2011. On December 31, 2008, Kingfisher had an outstanding bill of Rs 523.34 crore towards HPCL, Rs 314.32 to BPCL crore and another Rs 37.36 crore to IOC. On August 2010 Kingfisher had a liability to pay Rs. 536.04 crore to HPCL, 248.55 crore to BPCL Rs. and Rs. 29.9 crore. Indian Oil Corporation (IOC). As result of non-payment of dues, the company was put on cash and carry mode since July 2010 by HPCL and a petition was filed by BPCL in the Bombay High court. The Airlines owed an outstanding amount over Rs 425 crores as fuel dues to

HPCL. Kingfisher Airlines owed HPCL Rs523.45 crore and had paid only Rs100.85 crore while it had paid only Rs165.42 crore out of the Rs333.96 crore outstanding it ran with BPCL. Of the Rs172.78 crore outstanding with IOC, it had cleared only Rs19 crore by 31 December.

### **Bank Arrears**

Kingfisher airlines had an outstanding of Rs 7500 crores towards the consortium of 17 banks with state bank of India at the top with the loan amount of Rs 1600 crore. The other banks (lenders) which gave loan to Kingfisher included PNB and IDBI Bank (Rs 800 crore each), Bank of India (Rs 650 crore), Bank of Baroda (Rs 550 crore) United Bank (Rs 430 crore), Central Bank (Rs 410 crore), Uco Bank (Rs 320 crore), Corporation Bank (Rs 310 crore), State Bank of Mysore, (Rs 150 crore), Indian Overseas Bank (Rs 140 crore), Federal Bank (Rs 90 crore), Punjab & Sind Bank (Rs 60 crore) and Axis Bank (Rs 50 crore). There were some lenders who were outside the consortium named Srei Infra Finance (Rs 430 crore), J&K Bank (Rs 80 crore) and Oriental Bank of Commerce (Rs 50 crore).

### **Failure to Analyse the Airlines Industry**

Vijay Mallya made certain mistakes which led to the failure. Firstly, in a country like India where there is high fuel and related costs, the success of the aviation industry depends on lowering the costs but Mallya on the other hand came up with higher cost model. Secondly, he failed to understand the competitive advantage and realise the fact that there was a difference between running a business which had 25-35 percent margins (booze) and other one with just 1 to 2 percent margins, and even losses for long periods of time (aviation). Moreover he also lacked the managerial capabilities to run the airline business. He was confident that if he was successful in liquor, so he could adopt the same strategies with the airline business and would be successful. He also failed to analyse the aviation industry in India, where atleast 10 where it was clearly visible that in India at least 10 airline companies failures since aviation was opened up to the private sector in the 1990s.

### **Frequent Changes in Business Model**

Kingfisher Airlines was started as all economy premium class in the year 2005. Kingfisher was the first Indian airline which provided in-flight entertainment (IFE) systems on every seat even on domestic flights. All passengers were given a "welcome kit" consisting of goodies such as a pen, facial tissue and headphones to use with the IFE system. After a year, the airline moved its focus to luxury class and changed its configuration of 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 made too many changes with its business model and strategies which led to strategic weakness.

### **Merger with Air Deccan**

Vijay Mallya acquired Air Deccan, a low cost carrier in 2007, which turned out to be a biggest mistake made by him. In India, an airline can fly on international routes only if it had served the domestic routes for 5 years. He should have waited till his airline to be turned profitable in the domestic routes and then he could have gone international as per the rule in India rather than buying a loss making airline for a huge amount. But Vijay Mallya was in hurry to go international, which was why he decided to merge Kingfisher Airlines into Deccan Aviation in 2007. Another mistake which Mallya made was changing the name of Air Deccan to Kingfisher Red. He should have kept the two brands separate. Kingfisher Airlines and Kingfisher Red had a very less difference as they offered the same kind of services and looked almost the same.

### **Lack of Delegation**

Vijay Mallya was blind by the love of his son who was blinded by love for a starlet. Then the question comes who would run the airlines? The lack of maturity and poor management skills were seen when Mallya's son got into an online squabble about rude behavior of his staff with an actress. Vijay Mallya, chairman of Kingfisher Airlines always adopted the attitude of 'Ekla Chalo Re' in airline venture which caused him much harm than good as he didn't delegate the business operations and decision making rights to other skilled executives who could have taken much better decisions than him.

### **Auditor's Disagreement to Accounting Policies**

The net worth of Kingfisher Airlines completed eroded as at March 31, 2013, The license to fly was suspended by Director General of Civil Aviation, Government of India (Permit) and the Airlines was asked by consortium banks to pay back their debts to the Company. Even then the management considered the airlines as a going concern which was sharply criticised by the auditors. Moreover the Auditors “qualified” reported financials of the company on multiple occasions and suggested for bringing the changes in the accounting policy and expressed their disagreement with management’s interpretation of Indian Accounting Standards. But their disagreements were overruled by the management. Therefore, the investors had neither reliable nor timely information on Kingfisher.

### **Funding at Employees Stake**

Kingfisher airlines was supposed to deposit the amount of Rs.0.75 lakhs, in respect of employees state insurance, Rs 43.80 lakhs towards provident fund, Rs. 42,297.52 lakhs for tax deducted at source, Rs.1,047.76 lakhs, for service tax, Rs.2.46 lakhs as professional tax (In all cases relating to the years 2008-09, 2009- 2010 and 2010 - 2011) and fringe benefit tax of Rs. 450.70 lakhs (balance of tax and interest for the financial year 2008-09) which remained unpaid for a period of more than six months from the date from which they were supposed to pay. The airline utilised the above amount for its own funding.

### **Delay in Payment of Salaries**

Kingfisher Airlines had staff strength of 6,000 and spent Rs 58 crore on salaries a month. As per the financial results, employee cost head increased from 168.03 in December 2010 to 175.66 crores in December 2011. Kingfisher Airlines delayed the payment of salaries to its employees for the month of July, August 2011, and for four successive months from October 2011 to January 2012 due to which 3,500 employees resigned in the last one year which led to fall in employee costs. On 12 March 2012 several pilots and other members of the staff didn’t report on duty as a protest against the delays in payment of their salaries which led to cancellation of atleast 30 flights. On September 6, 2012, for the fourth time since May, company’s engineers went on strike demanding payment of salaries which led to cancellation Kingfisher Airline's ATR operation from Delhi. The Carrier lost its flying license as the Directorate General of Civil Aviation (DGCA) refused to renew its Air Operator Permit (AOP) in December 2012.

### **Unethical Conduct**

Kingfisher couldn't pay salaries to its employees for several months. As result wife of Kingfisher Airlines store manager hanged herself at her residence because her husband wasn't paid for six months and because of acute financial crisis she committed suicide. But even on the happening of such tragic event Vijay Mallya, the chairman of the company didn't spoke a word. The pilots, engineers and other staff member were not paid for several months due to which they were protesting. Even then, Vijay Mallya instead of assuring them about the payment of delayed salaries rather warned them that the strike will not produce cash but would damage the reputation of the airline in the eyes of the public. He appeared to be completely disengaged from the situation his employees were facing. He could have handled the situation in a much better way by showing a little bit of humility and sharing of pain but instead he never took the moral responsibility for his actions that caused so much tragedy in the lives of his employees.

### **Expansion Plans Gone Wrong**

Vijay Mallya was in a hurry to expand his airline business which is why he rushed to buy planes. His airline was started with four-five planes but ordered many more in a very short time frame without doing any analysis regarding the cost and benefit. Since 2005, Kingfisher airlines got one Airbus A-320 every month until March 2012 and by that time the airline already had about 92 planes flying and orders were pending for over 60 more. Moreover he wanted to compete with Naresh Goyal's of Jet Airways, which is why he decides to go international. As per the rules in India an airline must complete five years of domestic operations before it can go for international routes. But Mallya wanted to go by shortcut and he decided to acquire Air Deccan in 2007. He spent a huge amount deal of Rs 550 crore for acquiring a loss making airline.<sup>ii</sup>In his quest for doing everything in trademark style, Mallya adopted the "customer-at-any-cost" approach. From air-hostesses to food and in-flight entertainment, the cost per passenger as a whole was "double of what Jet Airways was offering". It was a perfect case of excesses over financial discipline. Food served in KFA, recalls an aviation sector CEO, and was about Rs 700-800 per passenger compared to Rs 300 of Jet's.

## **DUBIOUS ROLE OF BANKERS**

The role of bankers and regulators in Kingfisher failure is questionable. Kingfisher had a debt of 7000 crore and SBI had the maximum exposure. The early warnings were given by private equity analysts. Then why didn't the lenders put pressure on Mallya earlier? Why was Mallya able to push his luck with SBI? Why didn't he think it was important to attend the meetings with the lenders when the company was in terrible position? Somewhere it raises the question, whether this fallout is a result of snug relationship between promoters and bankers? Were the banks didn't realise the incapacity of Kingfisher to pay its debts, that they got ready to further provide loans to it?

### QUESTIONABLE ROLE OF REGULATORS

What is the job of the regulators? The aviation ministry could have seen this coming. The job of the regulator is preventive not curative. Had the timely action was taken, the crises could have been averted. When warnings didn't work the government should have raised the alarm. Instead of this the government kept it procrastinating, keeping actual affairs from public, investors, employees.

### DESIRED COURSE OF ACTION ON PART OF THE MANAGEMENT

A lesson needs to be learnt from Kingfisher Airlines failure, so that in coming future such failures do not take place. Desired action is required on the part of the management.

**Assess brand viability:** A brand is as good as its performance. Mallya did not assess his brand's viability on the performance metric. By not paying salaries to his employees, and with his planes being grounded; it was only a matter of time before the brand faced erosion in its market value.

**Depersonalise the Brand:** If Mallya would have had depersonalised himself from the brand, it could have been sold to anyone. But Mallya faced a trust deficit with his stakeholders, employees, banks and the public at large, which further eroded the brand.

**Maintain Vigil on Cost-Effectiveness:** Mallya overpaid for things at kingfisher that were good on their own like the premium service it provided that benefitted its passengers. However, this service bled the airline as it was not cost-effective.

**Cut down the Losses:** In order to deal with the financial stress faced by KFA, Mallya should have sold his IPL cricket team and cut down on other advertising expenses including the F1 team. As the last attempt to save his wealth, he should have sold KFA itself rather than borrow from banks on personal guarantees.

## CONCLUSION

Kingfisher Airlines which was once established itself as a high service-oriented airline and obtained several rewards for its services and also considered as India's best airlines later failed and became the case of failure because of severe mismanagement and inconsistent decisions and strategies adopted by the Airlines. Major decisions which were taken were taken without proper forecasting and in an abrupt manner. An insight has been provided into the Ethical and Corporate Governance issues faced by the Airlines which had led to the sad demise of the well reputed Kingfisher Airlines.

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## ANNEXURES

| From   | To           | Months    | Total Income  | Cost          | Net Profit    | EPS |
|--------|--------------|-----------|---------------|---------------|---------------|-----|
| Apr-05 | Jun-06       | 15        | 1,352         | 1,689         | -337          | -68 |
| Jul-06 | Jun-07       | 12        | 2,142         | 2,562         | -420          | -42 |
| Jul-07 | Mar-08       | 09        | 1,546         | 1,734         | -188          | -11 |
| Apr-08 | Mar-09       | 12        | 5,577         | 7,186         | -1,609        | -55 |
| Apr-09 | Mar-10       | 12        | 5,271         | 6,918         | -1,647        | -54 |
| Apr-10 | Mar-11       | 12        | 6,496         | 7,523         | -1,027        | -16 |
| Apr-11 | Sep-11       | 06        | 3,410         | 4,142         | -732          | n/a |
|        | <b>TOTAL</b> | <b>78</b> | <b>25,794</b> | <b>31,754</b> | <b>-5,960</b> |     |

Annexure 1

Source: Wikipedia

History of Kingfisher Airlines

<sup>i</sup> <http://www.quora.com/What-is-the-main-reason-for-Vijaya-Malyas-failure-Why-did-he-take-so-much-debt-from-the-banks>

<sup>ii</sup> [http://archive.tehelka.com/story\\_main54.asp?filename=Op271012Kingfisher.asp](http://archive.tehelka.com/story_main54.asp?filename=Op271012Kingfisher.asp)