Study of Corporate Distress in Real-Time Environment - Case Analysis of Kingfisher Airlines

Vidhyalakshmi. K and Madhavi Lokhande

Abstract

The study undertakes the analysis of Corporate distress and applies them comparatively to the case of 'Kingfisher Airlines- The king of good times' which is not really facing a good time, in an effort to understand the reasons for the business' continuous under performance and mismanagement with the operating environment. The finale integrates explicit recommendations to Kingfisher airlines by providing an insight as how kingfisher has to restructure itself to survive despite such imprudent corporate decisions and how it can use the time to reconsider the number of business' fundamental financial and strategic decisions. This project is undertaken in the time period of January 2012 – May 2012.

Kewords : *Corporate distress, Underperformance and Mismanagement*

Introduction

What is success in airline business? The airline has to maintain a viable business and to retain the trust of its stakeholders. The term 'viable' indicates increase in the conversion rate of customers and thereby increasing the profits in the business.

The study undertakes the analysis of Corporate distress and applies them comparatively to the case of 'Kingfisher Airlines- The king of good times' which is not really facing a good time, in an effort to understand the reasons for the business' continuous underperformance and mismanagement with the operating environment.

The case analysis discussions are expected to be focused in order to reveal serious counts of corporate distress empirically and failure on the part of Kingfisher's strategic and financial decisions with analysis of financial statements of Kingfisher airlines. Analyzing the corporate distress as a whole, to an extent, the results are consistent to all the firms that filed for bankruptcy. Hence the analysis helps solve, at least in part, 'The peso problem'. Peso problem occurs generally in analysis that do not include realizations of severe negative events because these events occur only rarely.

The analysis is expected to provide clear explanations as to why the incorrect path has contributed to the firm's current challenges. The finale integrates explicit recommendations to Kingfisher airlines by providing an insight as how kingfisher has to restructure itself to survive despite such imprudent corporate decisions and how it can use the time to reconsider the number of business' fundamental financial and strategic decisions.

"It is decisions made at the micro economic level of the firm that determine the overall performance of industries and indeed of the macro economy." – Bernstein (1987; p.50)

Statement of the problem

Kingfisher Airlines is not making success in the airline business. Snapped with losses, improper fundamental financial and strategic divulged it in the verge of corporate distress. Kingfisher owes the consortium 70 billion rupees ($1.29 billion). It has put up 65 billion rupees in collateral including shares in United Breweries (Holdings) Ltd., United Spirits and Mangalore Chemicals & Fertilizers Ltd., as well as Mr. Mallya's personal property in Goa and Kingfisher's offices in Mumbai. The consortium will soon serve notice of possession if Kingfisher fails to repay loans it has already called in. Mr.Mallya is struggling to keep the airline afloat and has pledged personal and UB Group assets as collateral against the loans.

Literature Review

Theory of Corporate Distress cycle

Corporate distress

Corporate distress is a condition in which the promises made by a company/an organization to the creditors of the company are broken or defaulted which is followed by bankruptcy.

Bankruptcy is a legal status of an insolvent person or an organization that can't repay the debts to creditors.Insolvent person refers to the person with insolvency. i.e., the inability to repay one's debts as they fall due is called as insolvency.

Stages of Corporate Distress

A company is said to experience corporate distress when it undergoes the following stages.

1. Pre-distress
2. Rescue
3. Formal Insolvency
4. Liquidation

Corporate sector can be pro-cyclical or counter-cyclical. When it faces corporate distress, it could either recover or could be even cremated further on. Banks plays a lead role to rescue corporates from this condition.

Pre-distress stage

Pre-distress stage is the prolonged period of disequilibrium. The base cause of a firm entering the pre-distress stage is mismanagement at every micro level of the organization left unnoticed. Further, fluctuations in economic environment expose the weaknesses in corporate operations which might be hardly noticed during normal or robust economic conditions. And the resultant cross-sectional variation of the organization makes the organization more vulnerable to the economic disruptions.

In pre-distress stage the organization show signs of - failure in making important payments of interest or repayments, occurrence of losses, frequent breaches of borrowing limit, and a request for larger borrowing facilities accompanied by deterioration in the business or concern over the company's business strategy.

Rescue

The failure of an organization affects far more people than merely its employees and creditors. The quotable advantage of corporate rescue is that it prevents limitless job losses. In rescue stage, the debt financers of an organization help

the borrower well before the company begins to fail.

It includes calling back some or all of the bank debt, restructuring the business including asset sales, and managerial replacement. Depending upon the firm's response the bank may decide whether to initiate formal procedures, return the account to branch, or request the firm to bank elsewhere.

A company in corporate distress could finance their debts mainly through Main banks and Trade creditors. Other creditors include factoring, hire-purchase and owners' loans. On an average, companies source their debt finance in the following fashion.

Table 1 : Sources of Debt finance

Sources	Proportion (% of total credit)
Main banks	43.03
Trade credit	33.87
Other financial institutions	04.20
Other creditors	15.23
Owners-Directors	3.64

The organization can collateralize its securities in order to recover from the distress. Security is created where the creditor obtains rights exercisable against some property in which the debtor has an interest in order to enforce the discharge of the debtor's obligation to the creditor.

It is possible to rescue a company or other form of business enterprise by using informal and thus unregulated methods or by using statutory procedures that are not specifically aimed at business rescue, such as liquidation and compromise. But, it is a risky measure which involves high cost and the cumbersome processes may lead to lack of protection of company assets against the individual creditors who are unwilling to support an informal rescue attempt.

The main characteristic of the rescue process is the willingness of the Banks to forgive the insolvent and accepting a haircut. With reference to Wikipedia, Haircut refers to the collateral less market value of the collateral. It reflects the perceived risk associated with holding the asset. However, the lender has a lien for the entirety of the asset. Lien refers to the form of 'security interest' granted over an item of property to secure the payment of a debt or performance of some other obligation.

As a result of rescue process, the company may either recover from its debt in their entirety, by re-banking or by substantially liquidating/ selling the firm.

Formal Insolvency

In the rescue process, if the banks are not happy with the level of recovery of the borrower, it tends to apply for formal procedures, receivership or liquidation.

In this process, the procedures to maximize the returns of creditors either through rescue of the company or, where this is not possible, at least maximizing returns to the creditors will be carried out. Trade creditors suffer heavy losses when the firm ends in insolvency, but they may receive a better deal than the bank when the firm is saved and swings back in action. The organizations fails to recover in the recovery process will be announced as sick unit.

As per the definition of RBI, A company whose net worth is eroded below 50% at the end of any FY is termed as sick unit.

Sick Industrial Companies Act requires that when an industrial company has become a sick

industrial company, the Board of Directors of the said company shall, within sixty days from the date of finalization of the duly audited accounts of the company for the financial year as at the end of which a company has become a sick industrial company, make a reference to the Board for Industrial and Financial Reconstruction for determination of the measures which shall be adopted with respect to the company. However, if the Board of Directors has sufficient reasons even before finalization of accounts to form an opinion that the company has become a sick industrial company, it shall, within sixty days after it has formed such an opinion, make a reference to the BIFR. (Board of Industrial and Financial Reconstruction)

Liquidation

If the organization fails to reengineer and recover during all the above processes the company is declared to be bankrupt and it is entitled to file a petition for the compulsory liquidation of the company. Upon hearing the application, the court may either dismiss the petition or make the order for winding-up. In case, the order for winding up is received, the assets of the bankrupted organization will be sold as quickly as possible, and relegate to a later stage, the adjudication of claims and distribution of proceeds obtained from selling of assets.

Scope

This research work is done in a motive to identify the causes that lead a business to corporate distress. This analysis would be helpful in understanding various factors influencing a business towards corporate distress such as financial mismanagement, improper strategic decisions and it also touches upon solutions attempting to identify the peso problem. This shall be studied so that a business shall understand what goes wrong if these factors appears in business and shall take adequate preventive measures before it is too late.

Objectives

1. To analyze the various causes that lead Kingfisher Airlines into Corporate Distress
2. To analyze people's opinions on the causes

Research Methodology

Business Summary

Kingfisher Airlines Limited is engaged in rendering scheduled and unscheduled aircraft passenger and cargo services, including charter services. The Company offers three classes of service: Kingfisher First, which offers premium business class of service; Kingfisher Class, which offers premium economy class of service, and Kingfisher Red, which offers low fare basic class of service.

As of March 31, 2011, the airline carried more than 12 million passengers across domestic and international sectors. During the fiscal year ended March 31, 2011(fiscal 2011), it had a fleet size of 66 aircraft used in scheduled operations, having an average schedule of 366 domestic and 28 international flights daily and a route network covering 59 domestic and eight international destinations.

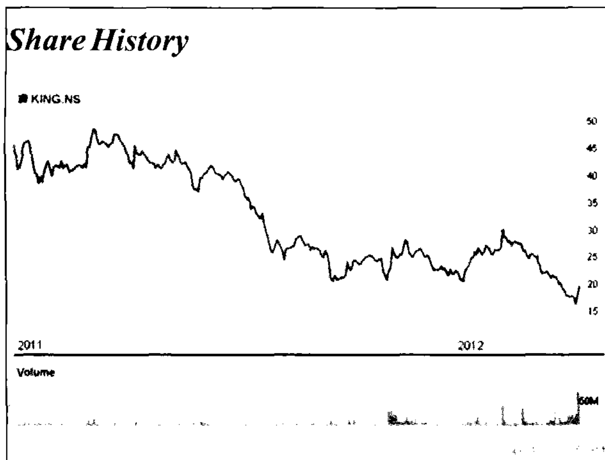
During fiscal year 2011, the Company commenced flight operations to new sectors, such as Mysore and Belgaum and commenced four new international destinations out of Delhi and two out of Mumbai.

Market Watch

Share Performance

Price (INR): 18.55 52 Week High: 49.00 Currency: INR
Volume (millions): 21.5 52 Week Low: 14.90 P/E: -
Employees: 7,317 Market Cap: 9,233.80 (Millions)
Shares Outstanding: 497.78 Float: 112.54

Graph 1 : History of Kingfisher Airlines Limited 2011 as on April 4,2012



8 years' CAGR

- Revenue : 78%
- Net Income: CAGR cannot be calculated because of negative numbers.
- EPS Basic: CAGR cannot be calculated because of negative numbers.
- FCF/Share CAGR cannot be calculated because of negative numbers.

Further, The average annual compound return on the share price in the last 5 years was -32.1%, under performing the average annual compound return on the BSE Sensex index of 5.8%.

Analysis of Financial Statements

Ratio Analysis

Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

Financial Strength

Financial Strength looks at business risk. The stronger a company is from a financial standpoint, the less risky it is.

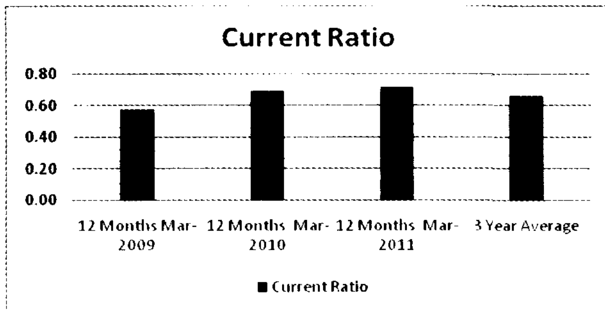
Table 2 : Financial Strength Ratios

	Financial Strength Ratios	Mar-2009 12 Months	12 Months Mar-2010	12 Months Mar-2011	3 Year Average
1	Current Ratio	0.57	0.69	0.71	0.66
2	Quick Ratio	0.27	0.39	0.41	0.36
3	LT Debt/equity Ratio	12.56	17.58	2.94	11.03
4	Total Debt/equity Ratio	12.57	17.62	2.94	11.05

Current ratio

The Current Ratio compares year-ahead liabilities to cash on hand now plus other inflows (e.g. Accounts Receivable) the company is likely to realize over that same twelve-month period.Ideal current ratio is 2:1. Increase in the current assets by 46.26% compared to 2009, induced the increase in current ratio by 2.9%. Further there is a 73% increase in cash with respect to 2010, which triggered an increase in current assets. The high current ratio is not desirable since it also got impacted by slow moving stocks with increase in the inventory by 27.43% which indicates the stocks piled up.A company can get into serious trouble very quickly if its customers are not paying the bills or if its inventory is piling up in warehouses. More A/R and inventory on the balance sheet means less cash for the business.

Graph 2 : Current Ratio

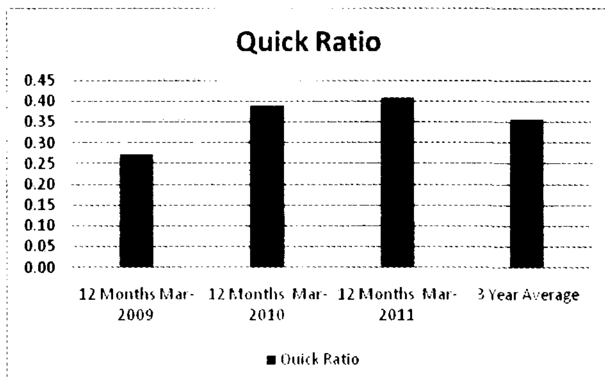


Quick Asset Ratio

The Quick Ratio compares cash and short-term investments (investments that could be converted to cash very quickly) to the financial liabilities they expect to incur within a year's time.

Ideal Quick ratio is 1:1. Kingfisher Airlines recorded a 3 year average of 0.36.Increase in Quick ratio from 2010 to 2011, is due to 41.57% increase in Receivables w.r.t. 2010. However there is a steep decline in short term investments to 21.83% as compare to 2009.

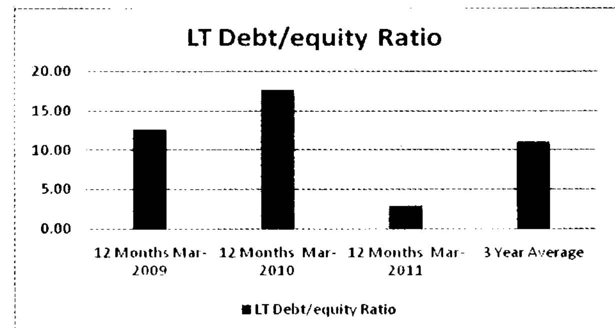
Graph 3 : Quick Ratio



Long term debt to Equity ratio

The Long Term Debt/Equity Ratio looks at the company's capital base. A ratio of 1.00 means the company's long-term debt and equity are equal. Since 3 year average is 11.03, Every 11.03 rupees of long-term debts are being backed by an investment of 1 rupee by the shareholders. Thus the safety margin for creditors is 0.There is a steep increase in debt of 39.84% in 2010 and 24.56% in 2011 with a debt of 70570.8 millions in 2011.

Graph 4 : LT Debt/equity Ratio



Total Debt/Equity ratio

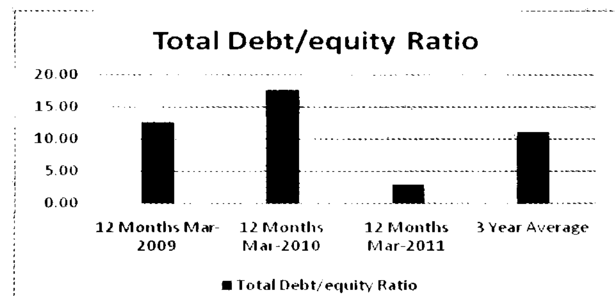
The Total Debt/Equity Ratio includes long-term debt and short term debt.

3 year average of Total Debt/Equity Ratio is 11.05.It has 70570.11 million in debt overhang which may eventually ground the airline completely and already this reflected in KFA losing its market share to its competitors from 19% in 2011 to 6.4% as on April, 2012.

It continues to struggle with volatile-to-high jet fuel costs and other overhead expenses, while trying to keep coach travel affordable. Kingfisher Airlines' stock on India's National Stock Exchange is down 59% over the last 12 months.Debt-to-Equity ratio varies across industries but many companies have a ratio larger than 1 that is they have more debt than equity.

If the ratio is very high, raising more cash through borrowing could be difficult. Capital intensive industries such as auto manufacturing tend to have a debt/equity ratio above two.

Graph 5 : Total Debt/Equity Ratio



Profitability

These ratios realize overall profitability, or the bottom line.

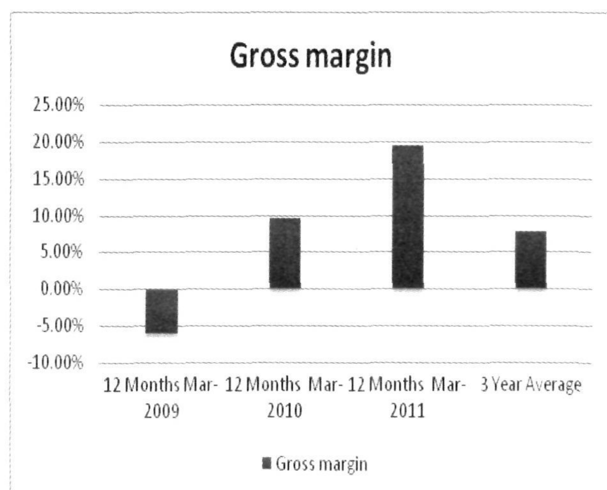
Table 2 : Profitability Ratios

	Profitability Ratios	12 Months Mar- 2009	12 Months Mar-2010	12 Months Mar-2011	3 Year Average
1	Gross margin	-5.99%	9.67%	19.54%	7.74%
2	Operating margin	-50.66%	-45.87%	-23.41%	-39.98%
3	Net Profit margin (or) Return on sales	-40.35%	-31.25%	-15.82%	-29.14%
4	Interest coverage ratio	-3.86	-2.40	-1.36	-2.54

Gross Margin

Gross Margin shows the amount of revenue left over after deducting direct costs of producing the goods or services. 22.5% increase in Revenue w.r.t. 2009 and gross margin is what remains after cost of goods sold is deducted from amount of revenue.

Graph 6 : Gross Margin



Operating Margin

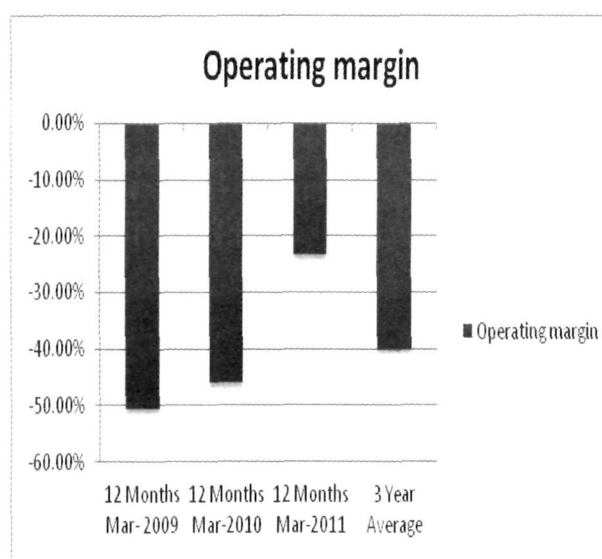
Operating Profit and Operating Margin trace the progress revenue down to another important level. From gross profit, we now subtract indirect costs, often referred to as overhead.

e.g. facilities and salaries associated with headquarters operations.

Net Income (Income Statement) and Cash from operations (Cash Flow Statement) should ideally be parallel. If there are major deviations between the two it signals an accounting red flag. A consistently falling Cash Flow despite a rising net profit is also a cause for concern.

Decrease in Net Income to 56.62% w.r.t. 2009 followed by increase in cash from operating activities from -6457.8 Mn in 2009, -16650.9 Mn in 2010 to 22.3 Mn w.r.t. 2011. Operating cash flow is negative in case of KFA.

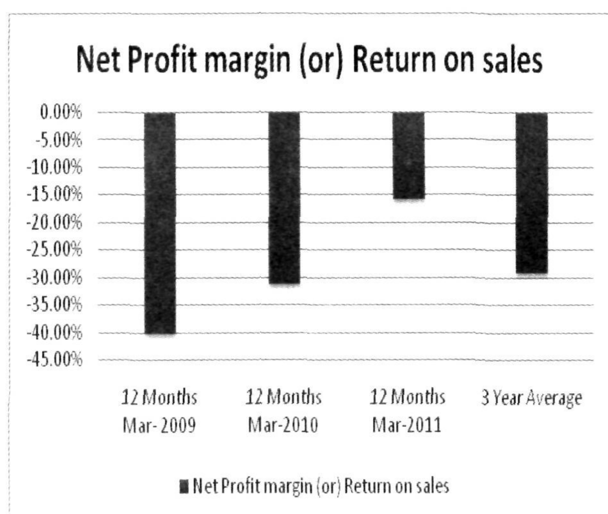
Graph 7 : Operating Margin



Net profit Margin (or) Return on Sales

Finally, Profit Margin shows you how much of each revenue dollar is left after all costs, of any kind, are subtracted. These other costs include such items as interest on corporate debt and income taxes.A slump in the net profit of 37.6% tells us how much out of every sale KFA gets to keep after everything else has been paid for. For 3 consecutive years Return on Sales is negative. KFA is losing money on each sale and can't pay their fixed cost with revenues. Temporary recovery is possible, but not sustainable.

Graph 8 : Return on Sales

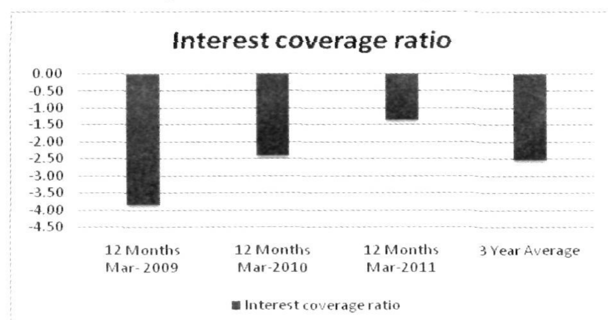


Interest coverage ratio

The ratio of earnings before interest and taxes to annual interest expense. This ratio measures the firm's ability to pay interest.An interest coverage ratio less than 1.5 is a red flag. The higher the ratio the less a company is burdened by debt.

If a company has no debt or the loan interest is being paid by interest income from investments or other activities the ratio is zero which of course is excellent.In case of KFA, it is -2.54 (3 year Average) with a slump of 32.3%.A negative ratio tells us that the company cannot even pay its interest on loans from its operating income, and it is in the verge of corporate distress.All the total debt (short and long term), leases, debentures and preferred stock are expenses which the company has to repay with interest.

Graph 9 : Interest coverage ratio



Management effectiveness

Table 3 : Profitability Ratios

	Management Effectiveness ratios (%)	12 Months Mar- 2009	12 Months Mar-2010	12 Months Mar-2011	3 Year Average
1	Return on Assets	-21.35%	-13.36%	-7.35%	-14.02%
2	Return on Investments	-27.3%	-16.3%	-9.8%	-17.77%
3	Return on Equity	-439%	-314%	-42%	-265.11%
4	EV/EBITDA	-215.5%	-323.1%	-543.3%	-360.66%

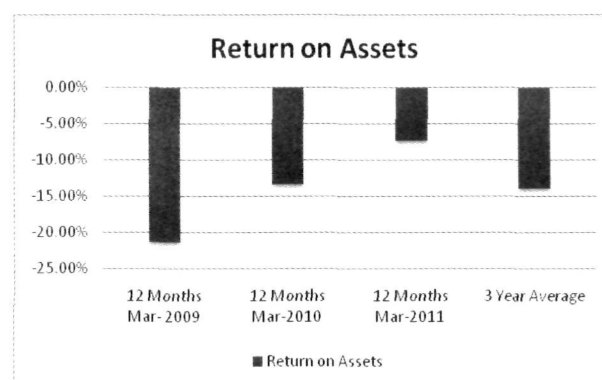
Return on Assets

A company's ability to operate profitably can be measured directly by measuring its return on assets. ROA (Return on Assets) is the ratio of a company's net profit to its total assets, expressed as a percentage. ROA measures how well a company's management uses its assets to generate profits. It is a better measure of operating efficiency than ROE, which only measures how much profit is generated on the shareholders equity but ignores debt funding. This ratio is particularly relevant for banks which typically have huge assets.

This indicates KFA could not sustain its operations over time. ROA is negative because of the increase in debts for consecutive 3 years even after debt re-cast.

KFA has a negative ROA of -7.35%.

Graph 10 : Return on Assets

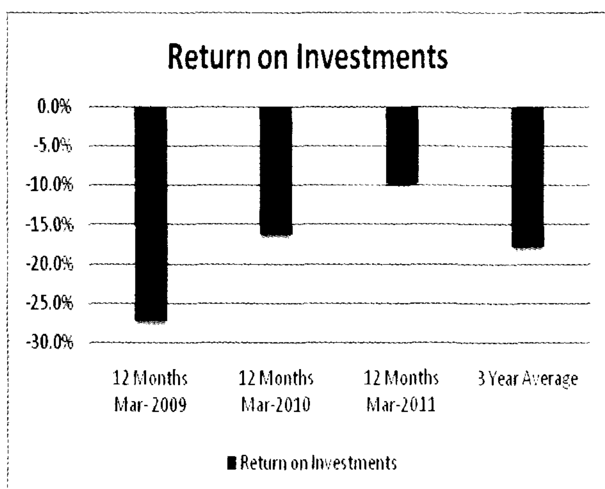


Return on Investments

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

It tells us how efficiently a company's operations and management can invest and reinvest capital to generate even more cash. Capital intensive companies such as KFA tend to have very low ROI because they require huge capital investments to generate relatively small amounts of cash.A negative ROI of -17.8% indicates the company is losing its money and it implies the return on investment obtained is less than initial invested committed to the business. 8 year Median ROI for Kingfisher Airlines Limited is -31.2 % which again generates negative returns.

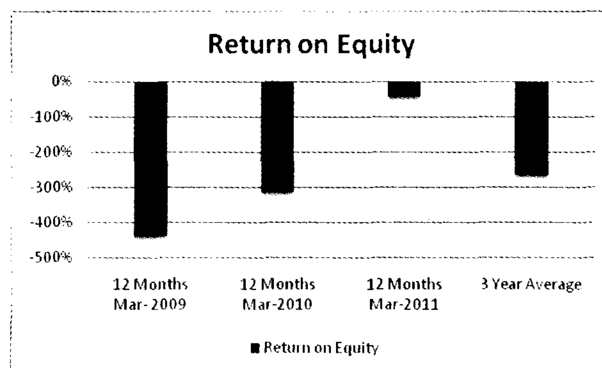
Graph 11 : Return on Investments



Return on Equity

ROE encompasses profitability, asset management, and financial leverage. It indicates the management's ability to get the job done. It is used to evaluate whether a company is an asset creator or a cash consumer. An average negative ROE of 42% indicates the amount of risk borne by shareholders because of asset fluctuations. Total Equity increased five folds and the income available to common stockholders decreased to one-half w.r.t. 2009. This stimulated an average of 42% of Negative Return on Equity.It indicates that the company is not profitable at all. The assets are valued at low cost or MV sudden decrease in market value may result in negative equity although the assets in physical sense are intact and performing as before.

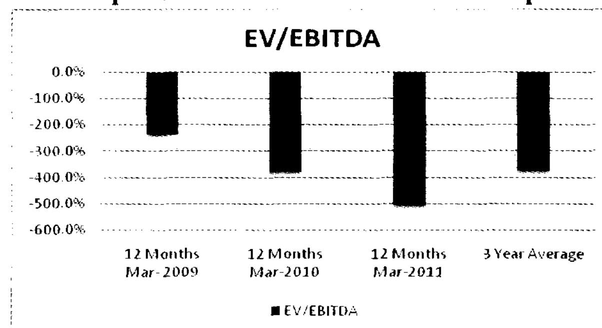
Graph 12 : Return on Equity



EV/EBITDA Valuation

Enterprise value-to-EBITDA (EV/EBITDA) is a valuation metric that compares a company's overall value to its earning power. A company's enterprise value is its value as a whole, including the market value of its stock and the value of its debt. The amount of earnings before interest, taxes, depreciation and amortization (EBITDA) is an estimate of a company's cash flow from its core business operations. EV/EBITDA, or EV multiple is used to compare the value of a company's operations with the value of other companies.Operating Income is down 34.5% to 45.5%. EBITDA is down 38.8%. It ignores the capital structure.EV/EBITDA average for 3 years is down 374.6%.Comparatively, EV/EBITDA for Jet Airways is 8.81X. EV/EBITDA for SpiceJet is 10.20X. This indicates Jet gains from Kingfisher's losses.

Graph 13 : EV/EBITDA valuation multiple



Per Share data

The most important Per Share Data item is Earnings per Share. That's because ultimately, the price of your stock is related in some way to the value of the stream of earnings attributable to that share. This section also includes the amount of Cash per Share the company had at the time of its most recent quarterly or annual report. Most of the time, this number will be far below the stock price.In a healthy industrial company, cash per Share figure that is close the stock price might suggest that investors are underestimating the worth of the company's ongoing business, thereby creating an interesting investment opportunity for investors.

Table 4 : Per Share Data

	Per Share data	12 Months Mar- 2009	12 Months Mar-2010	12 Months Mar-2011	3 Year Average
1	Earnings Per share	-96.19	-61.95	-40.16	-66.10
2	Sales Per share	238.39	198.23	243.70	226.77
3	Book Value Per share	16.97	16.95	48.16	27.36
4	Cash Flow	-96.19	-61.95	-40.16	-66.10
5	Cash per Share	6.09	4.31	2.26	4.193

Snapshot of Analysis

A slump in the EPS by 35.2% throws the indications of stock dilution.Stock dilution occurs when a company issues additional shares. This increase in common shares occurs when employees exercise their stock options, secondary market offering or by conversion of convertible bonds, preferred shares or warrants into stock. When a company can increase its profitability at a rate greater than the dilution then the dilution is acceptable but in most cases the company is not able to do so resulting in higher net income but lower EPS because of which the shareholders suffer badly.The below chart reveals, if the company is issuing additional shares thus decreasing shareholder's ownership. An ideal company should not even issue a single additional share after an IPO.The revenue growth rate is decreasing and it also impacted in net income and EPS growth and dragged them down.The EPS growth rate should closely follow the Net Income growth rate but here it does not because of share dilution.

There is a growth rate of 34% still, the EPS remains negative. When the company issues more stock or when debentures and preferred stock are converted to common stock or employees and others exercise their stock option the total number of shares are increased which dilutes the EPS and the ownership.

Graph 14 : Earnings Per Share

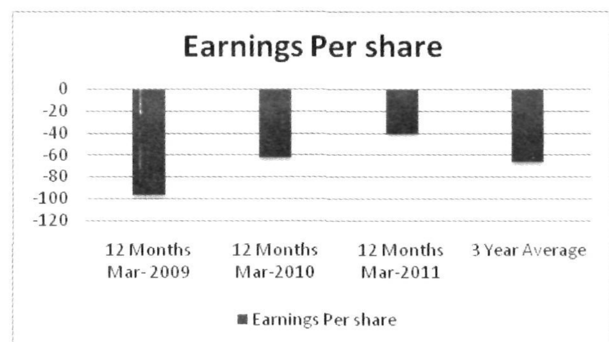


Table 5 : SWOT Analysis

	SWOT ANALYSIS OF KINGFIS HER AIRLINES LIMITED	
	STRENGTHS	**WEAKNESSES**
1	Successful brand differentiation strategy with attractive cabin crew, gourmet meals and personal screens giving a premium experience- Advantage of its value proposition	Acquisition of Air-Deccan and Entry in to LCC- Unrelated diversification
2	capabilities: It caters to economy, Business and low fare services and it carries 12 million passengers across domestic and International sectors as on March 31,2011	Interrupted flight service during crisis time and flights ran out of schedule with delays & DGCA investigating the abrupt cancellations
3	Price, value and Quality: 1.Was the first to introduce a T.V on an Indian domestic flight 2. Was single-handedly responsible for increasing the quality of air hostesses in Indian Aviation. 3.Best cabin crew	Running operations in a touch and Go manner, No fuel supply assurance back-up as it follows cash and carry method since its default of non-payment of dues with HPCL and BP with a debt of 890 Crores to its fuel suppliers
4	Competitive Advantage: Brand Positioning (Premium Business class, Premium Economy class, Premium Low cost)	Could not render uninterrupted and scheduled service with Cancellation of 175 flights out of 418 flights during a winter schedule
5	USP: Luxury, Glamour, vibrancy and lifestyle yet premium product	Inability to pay taxes, salaries with a third quarter loss of INR 444 Crore as on Dec'11
6	Cultural, attitudinal and behavioral aspects: Youth and excitement, energy, enthusiasm, freedom but with a touch of professionalism.	Created inconvenience to customers, Inability to maintain safety of the flight travel, created a balance sheet mess with its financial tribulations and trials and creating a disgraceful situation to a once-5 star rated airline.

7	Marketing: International quality within the reach of an Indian Customer	It scrapped its International flights for fund raising
8	**Tactics- major contracts - FDI policy - Foreign airlines can have a stake of 49% in Indian Airlines**	**Low cost carriers eating up the market share**
9	Business and product development - Unexplored domestic destinations like direct flights from Mumbai-Tirupati	Scrapping of Kingfisher's license by the Government
10	market development: Untapped Air Cargo market	market demand is only from Business travellers and Leisure travellers and availability of substitutes is high
11	Partnerships, Agents and Distributors: Alliances and Interactive marketing, Mergers& Acquisitions, Global network establishment	Regulations and Policies are not Industry friendly
12	Information and research: Leveraging growth in Disposable Income	No financial back-up left out to enter new market or acquisition or diversification as the operating margin and the net profit margin is negative.
13	Seasonality, weather and Fashion influences - Increasing Demand for Deal centric business packages- vacation packages (incl. return trip with Hotel booking), Events such as IPL matches grabs attention of foreigners	Weather is variable and unpredictable. Extreme heat, cold, fog and snow can shut down airports and cancel flights, which costs airline money.
14	Volumes, Production and economy - rapid growth of industry of 16% CAGR in 2011-12, Large and growing Middle class population, favorable demographics, GDP growth- 6-7%, Freeze on International career permissions to pvt. carriers removed, Financial funding to debt-ridden airlines by Govt.	In aviation, Cost> revenue. High labor cost Airlines must pay pilots, flight attendants, baggage handlers, dispatchers, customer service and others.
15	competitor's vulnerabilities- Expensive fares, very less direct flights, No better customer service, Unreliability	The airline business is mainly dominated by LCCs and availability of substitutes like SpiceJet, IndiGo and JetAirways. For this

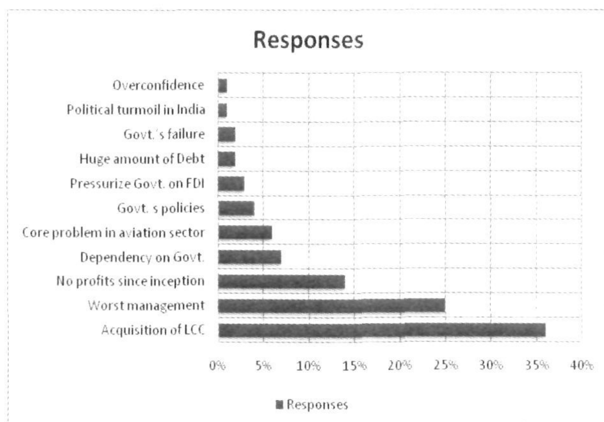
Market Research-Analysis of reasons for corporate distress

Data collection method employed: Survey

Number of Responses collected: 101

Means of collection: Social Media Polls

Graph 15 : Responses for collapse of Kingfisher Airlines



Interpretation

From the above graph it is evident that 36% of the respondents feel 'the acquisition of LCC' is the reason for the sudden embark of KFA in to corporate distress. KFA is in Borderline Insolvent situation. Kingfisher Airlines' stock on India's National Stock Exchange is down 59% over the last 12 months and 83.68% over the last five years. Airlines continue to struggle with volatile-to-high jet fuel costs and other overhead expenses, while trying to keep coach travel affordable. Purchasing a loss-making, low-cost carrier to grab market share and urgency to fly international routes in the early days was the first downfall.

"Failing to differentiate with regards to service quality levels between the low cost Kingfisher Red (the erstwhile Air Deccan) services and the premium Kingfisher services, especially on high traffic lucrative routes"

Also 25% respondents feel that 'Worst management' of KFA is the reason for its situation to land up in corporate distress. It is clearly evident that in February, Kingfisher reported a 75% increase in its losses to 4.44 billion rupees, or $90 million, between October and December 2011, compared with 2.54 billion lost rupees a year before. Its 64 fleet of aircraft are under utilized, and the company has failed to make a profit since it launched in 2005. The dues of KFA run into Crores of rupees and also from the interpretations drawn from the analysis of ratios above it is clearly evident that the company mismanaged its operations and finances. The collapse of KFA is because of its mismanagement and abandonment by the government.

14% of the respondents feel that KFA generated no profits since inception. Their profitability ratios show that the Airline incurred losses since its inception and till date the profits were negative. And this is one of the reasons as why foreign investors are reducing their exposure in Kingfisher Airlines. The steep depreciation of the Indian rupee coupled with consistently high crude oil prices has led to the firm posting losses for the third quarter of the current fiscal.

"Too much requirement of working capital, being financed by short term loans at higher rate of interest made it debt laden."

7% of the respondents feel that KFA expected Govt. to bail out the struggling Air carrier but civil Aviation Ministry strictly said that Govt. will not bail out KFA and it was the responsibility of promoter Vijay Mallya to steer it out of the crisis and the ministry added that the Government cannot and will not bail out private companies, but that does not mean we want private airlines to close down. The airline has a debt of Rs 7,057.08 crore as per its income statement.

The financial crunch has hit its operations with dozens of flights being cancelled regularly. Tax authorities have added to its woes by freezing its bank accounts for non-payment of dues. Also it is wrong to bail out Kingfisher airline as it is a commercial venture. A commercial venture either swims or sinks as per its performance. That is the ethics of market management. So in case the promoter has mismanaged his airline, no help of poor taxpayers' money need to be squandered on Kingfisher.

6% of the respondents feel that there is a core problem in Aviation sector itself. The industry is down due to the hike in AT fuel prices, Bankrupting airlines, pilots with false documents and tax systems often ruinous for still relatively frail infrastructures have forced *respondents to describe the industry as 'sick'.*

The lack of modern infrastructure, shortage of trained manpower, high taxes, bureaucratic procedures plaguing the scene – air carriers need to understand that all these areas require some major investments in order to establish a reliable company.

One of the most productive ways to achieve tangible results is to remake airlines policies to look at other investments to avoid the minus profit and bankrupting as the cost of training pilots, the cost of land acquisition for airports and establishments, the cost of building related transport infrastructure – it seems the entire eco-system needs to be reinvented for the healthy growth of the aviation sector.

"The fuel charges can also be one of the factor, for a company which is already in debt... though not completely, because the policy will be equal for all other carriers and they have quiet been able to sustain it.. What u guys say?"

3% of the respondents feel that this is just a drama reaction by the promoter of KFA. Even Business standard stated that Mallya is not acting promptly and expecting Govt. to bail out and pressurizing Govt. to throw the doors open for FDI policy.

2% of the respondents feel that it ventured to corporate distress because of the huge debt burden as discussed above in the ratio analysis and 2% feel that it is Govt.'s failure to hold its reigns before this collapse and 1% feel it happened because of overconfidence of the management.

Table 6 : Rationale for collapse of Kingfisher Airlines

	Rationale	No of Positive Responses
1	Acquisition of LCC	36
2	Worst management	25
3	No profits since inception	14
4	Dependency on Govt.	7
5	Core problem in aviation sector	6
6	Govt.'s policies	4
7	Pressurize Govt. on FDI	3
8	Huge amount of Debt	2
9	Govt.'s failure	2
10	Political turmoil in India	1
11	Overconfidence	1

Explicit Recommendations and Conclusion

"More than a cutting-costs move it's just another step closer towards bankruptcy. There is absolutely no hope for Kingfisher; we are just witnessing a slow death of an airline."- Aviation analysts.

During the past three months Kingfisher has dropped from being India's second-largest domestic airline – carrying about a fifth of domestic passengers – to fifth, transporting 11.3 per cent of people flying in Asia's third-largest economy.Indian banks, which hold about 25 per cent of the carrier, have said they are unlikely to lend any more money to the airline because it is not in a position to repay the loans.

Kingfisher owes money to airports, tax authorities, banks and its disgruntled staff, and needs at least $400m in the next few weeks to stay in business, according to the Centre for Asia Pacific Aviation, an industry consultancy.The carrier reported a net loss of Rs4.44bn ($90m) for the three months ending December 31, a 75 per cent increase from a year earlier. Many of its remaining pilots have gone on strike and the airline has been suspended from the International Air Transport Association's account settlement system – which settles accounts between the world's airlines and travel agencies – for non-payment of fees.

Here are some explicit recommendations that could soothe the current situation to normal.

Recommendations

1. This will satisfy his critics and buy him some time is to sell off his stake in Sahara Force India F1 team. He sold a 42.5-per cent stake in the team to Sahara for $100 million and his remaining stake of 42.5 per cent could fetch a similar price. That would help ease the cash crunch the airline is facing.

2. This is more logical, whereby he manages to arrange for foreign investment worth $1 billion for working capital needs. Salaries and tax liabilities can then be paid off and the airline can start normal operations.

3. If he finds a buyer (that might be difficult in the current scenario), the Indian aviation sector is reeling under massive losses and an investor willing to sink in his money at the moment might be difficult to find.

4. The most practical of the ones available to him is put one of his smaller companies on the block to raise capital.

5. In case Mr Mallya wants to exit the airline, he can start reducing his stake to a level where he becomes a marginal stakeholder while slowly increasing his stake to the level he held earlier in one of the group companies in which he had sold part of his stake.

6. Try to look for foreign entrant's weakness such as Virgin Atlantic which lacks in Indian values & tastes. Penetrate in that particular segment to raise funds.

7. The company has a mountain of debt and has a huge liability towards employees, oil companies and leasing companies. Without infusion of Equity from his own pockets (Mr. Mallya), no white knight investor will be willing to recover the debt-laden Airline.

8. As it is the mind of a typical Indian consumer, who, at the core is a bargain hunter, someone who will try to strike a deal even when he wants to buy a Mercedes Benz. He can enter Domestic Luxury LCCs to attract Indian customers in a Niche market in particular travel routes alone say, from Mumbai- Tirupati.

9. It can collaborate with its competitor JetAirways to ; a) Manage fuel expenses jointly b) Share some pilots c) Cross-selling of tickets d) Sharing training facilities e) Accepting each other's frequent flier miles

10. They shall restrict the flights to domestic alone initially and after getting stabilized and gathering back its loyal customers it can resume its operations in abroad. Airlines that stand by customers in bad times win many hearts. In that meanwhile time they can strengthen their financials by infusion of Equities by selling its stake in IPL and F1 teams.

11. The cargo sector in the domestic industry is very much unexploited and the company can exploit this because they have access to some of the most profitable routes in the industrial towns and cities in India. The company has got a sound infrastructure to support its cargo operations and they should take advantage of this before their competitors do.

Limitations

- The college tried its best for conducting research at the Airlines. Owing to the complexities involved in the process this research was done theoretically.
- Since the topic is narrowed to Corporate Distress the rationale pertaining to it alone is discussed through out the paper.

Scope for Further Research

Apart from the reasons dealt in the paper, there are further reasons why Mr. Mallya has to continue his business in India since the fundamentals for aviation growth opportunities in India and it is compelling with challenges. Innovative measures arise only when there are ample challenges. The innovative measures aviation sector shall step in to aid the business is beyond the scope of the project.

References

Financial References - © Thomson Reuters 2012 report (read- only licence)

Internet Information:

Financial Times – ft.com

Home Page: http://www.flykingfisher.com.

News Releases: http://www.flykingfisher.com./media-center/press-releases.aspx

Investor Relations:http://www. flykingfisher.com./investor-relations/kingfisher-shares/share-price.aspx

Financial Information: http://www. flykingfisher.com./investor-relations/information-packs/financial-information.aspx

Corporate History/Profile: http://www.flykingfisher.com./about-us.aspx

Executives:http://www.flykingfisher.com./investor-relations/corporate- governance/directors-profile.aspx

Products/Services: http://www. flykingfisher.com./business-travel/kingfisher-elite.aspx

Employment Opportunities: http://www.flykingfisher.com./careers.aspx

Annual report of kingfisher Airlines Limited – www.flykingfisher.com

Financial definitions - Investopedia.com, fool.com

Julian Franks and Oren Sussman, The Cycle of Corporate Distress, Rescue and Dissolution : A Study of Small and Medium Size UK Companies, April 19, 2000

About the Authors

Vidhyalakshmi. K, Ebiz is a student at Welingkar Institute of Management, Bangalore. The author can be reached at vidhya36@gmail.com.

Madhavi Lokhande is an Academic Head at Welingkar Institute of Management, Bangalore. The author can be reached at madhavilokhande@welingkar.org