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The Denouement: Thrust Mode And Effect Analysis Of Kingfisher Airlines

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ABSRACT: A strapping civil aviation set-up is the key to unblemished flow of investment, trade and tourism, with noteworthy multiplier effects through the economy. A Bangalore based United Breweries Group, the Kingfisher Airlines and its aviation base was breathtaking in the initial years. But after it was saddled with a debt of more than Rs.13000 crores and has never made a profit in its eight years of operations and subsequently its license was suspended. The primary objective of the study is to find the optimal capital structure for Kingfisher Airlines. An initiative to study the financial statements of Kingfisher Airlines from financial Year 2003 to 2012 in order to understand its financial status is made in this research paper. The other objectives are to analyse the existing capital structure of Kingfisher Airlines, the proportion of debt and equity and its implications so far. And a search for various options for raising fresh capital for Kingfisher Airlines to keep it running, under the assumption that it would be able to generate certain revenue.

Key words: Rate of return, debt equity mix, optimal capital structure, leverage,..

I.INTRODUCTION

Aviation as an infrastructure sector is been playing essential role in facilitating the growth of business and financial system in India. A muscular civil aviation set-up is the key to unblemished flow of investment, trade and tourism, with noteworthy multiplier effects through the economy. Established in 2003 and owned by the Bangalore based United Breweries Group, the Kingfisher Airlines started its commercial operations in 9th May 2005 with a fleet of four new Airbus A320-200s operating a flight from Mumbai to Delhi. It started its international operations on 3rd September 2008 by connecting Bengaluru with London.

In December 2011, for the second time in two months, Kingfisher's pool accounts were frozen by the Mumbai Income Tax department for non-payment of levy. Kingfisher Airlines owes ₹70 crore (US$12 million) to the service tax department. Indian tax department also stated that Kingfisher Airlines is jarring. On 20th October 2012; Kingfisher's license was suspended by the Directorate General of Civil Aviation after it catastrophic to address the Indian regulator's concerns about its operations. On 25th Feb 2013, its international flying rights and domestic slots were scrapped by the Indian aviation authorities.

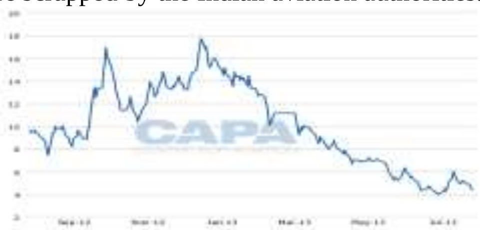

Figure 1: Kingfisher Airlines share price

Kingfisher airline is saddled with a debt of more than Rs.13000 crore and has never made a profit in its eight years of operations. It owes a syndicate of 17 banks, has dues towards payment of service tax, income tax, the provident fund of employees and dues of the oil companies. Besides, it has to pay huge amounts to the lessors of its aircraft and service providers like the Airports Authority of India. Kingfisher has over Rs. 15,000 crore in debt, accumulated losses and various dues, has remained grounded since October 1, 2011 and its flying license, suspended that month, expired on December 31, 2011. It reported a net loss of Rs. 755.17 crore for the third quarter ending December 31, a period in which it did not operate a single flight. The airline also did not report any revenue for the quarter as against Rs.1367.71 crore in the year-ago period.

II.REVIEW OF LITERATURE

Omer Brav(2009) found that based upon a large data set of public and private firms in the United Kingdom, compared to their public counterparts, private firms rely almost solely on debt financing, have higher leverage ratios, and tend to avoid external capital markets, leading to a greater sensitivity of their capital structures to fluctuations in performance. **Jeremy Bertomeu, Anne Beyer, Ronald A. Dye** (2011) developed a model of financing that jointly determines a firms capital structure, its voluntary disclosure policy and its cost of capital. Investors who receive securities in return for supplying capital sometimes incur losses when they trade their securities with an informed trader. **Panayiotis G Artikis, Georgia Nifora** (2011) investigated the impact that the capital structure of a firm has on its stock price performance. They apply regression analysis at a sample consisting of Greek listed non financial companies over a period 1998-2009, both are the full sample level and at four leverage deciles. **Raiyani Jagdish R.** (2011) stated that financing decisions are one of the most critical areas for finance managers. It has always been an area for impact on capital structure and financial risk of the companies. **Amarjit Gill, Nahum Biger, Neil Mathur** (2011) explained that the relationship between capital structure and profitability cannot be ignored because the improvement in the profitability is necessary for the long term survivability of the firm.

III.OBJECTIVES OF THE STUDY

- The primary objective of the study is to find the optimal capital structure for Kingfisher Airlines
- To study the financial statements of Kingfisher Airlines from financial Year 2003 to 2012 in order to understand its financial status
- To analyse the existing capital structure of Kingfisher Airlines, the proportion of debt and equity and its implications so far
- To analyse the various options for raising fresh capital for Kingfisher Airlines to keep it running, under the assumption that it would be able to generate certain revenue

IV.LIMITATIONS OF THE STUDY

- Limitations of the study include the time constraint. As the study had to be completed in a time span of two and a half months, primary data collection about Kingfisher Airlines was not possible. The study is dependent on secondary data.
- The calculation of the various combinations of capital structure is based on a lot of assumptions. If Kingfisher Airlines is unable to raise the necessary capital, the different combination would be meaningless.

V.RESEARCH METHODOLOGY

This is a descriptive study on the existing capital structure of Kingfisher Airlines and its capital restructuring. This study tries to find out the various combinations that the restructured capital can have and which is the best among them all. The sources of data include the balance sheet and profit & loss account of Kingfisher Airlines which are available in the annual reports of Kingfisher Airlines from financial year 2003 to 2012. In order to obtain more recent data, articles in newspapers such as The Hindu, Business Line & online news portal such as Money Control, NDTV, Economic times, IATA, CAPA etc.,

VI.ANALYSIS AND INTERPRETATION

6.1.1 DEBT EQUITY ANALYSIS

King fisher Airlines has gone on accumulating debt in their capital structure. It has reached its peak of debt in the financial year 2010. The optimal debt equity is 1:2. But here Kingfisher Airlines has gone far beyond those bounds and has debt equity ratio of 4.70:1, -2.67:1, -2.03:1, -2.39:1 and -1.58:1 in years from 2008 to 2012. Only after reaching such a high rate of debt has the Kingfisher brought down its operations, thereby reducing the loss and slightly reducing the debt volume.

A complete restructuring of its capital structure and operational expenses need to be done in order to sustain the business of Kingfisher Airlines. The shareholders fund has increased since 2010 till 2012. But the Equity content includes both shareholders fund and reserves/surplus. The reserves and surplus has been decreasing from Rs.249.23 crores in 2007 to –Rs. 6213.15 crores in 2012. This is the reason for down fall of Equity in the last few years. The company must have made use of the amount from reserves and surplus for operational purposes.

Table 6.1.1 Debt Equity Ratio 2003 to 2006

(Rs. In crores)	**Mar'03**	**Mar'04**	Mar '04 %Change	**Mar'05**	Mar '05 %Change	**Jun'06**	Jun '06 %Change
Debt	11.16	34.92	213%	284.48	715%	451.66	59%

Equity	5.26	14.12	168%	13.66	-3%	224.13	1541%
Debt/Equity	**2.12**	**2.47**		**20.83**		**2.02**	

Table 6.1.2 Debt Equity Ratio 2007 to 2009

(Rs. In crores)	**Jun'07**	Jun '07 %Change	**Mar'08**	Mar '08 %Change	**Mar'09**	Mar '09 %Change
Debt	916.71	103%	934.38	2%	5665.56	506%
Equity	384.7	72%	198.88	-48%	-2125.34	-1169%
Debt/Equity	**2.38**		**4.70**		**-2.67**	

Table 6.1.3 Debt Equity Ratio 2009 to 20012

(Rs. In crores)	**Mar'10**	Mar '10 %Change	**Mar'11**	Mar '11 %Change	**Mar'12**	Mar '12 %Change
Debt	7922.6	40%	7057.08	-11%	8030.00	14%
Equity	-3898.45	83%	-2951.19	-24%	-5082.4	72%
Debt/Equity	**-2.67**		**-2.03**		**-2.39**	

6.2.1 CAPITAL STRUCTURE ANALYSIS

Based on the information obtained in a website, 'www.indianexpress.com', in a news article obtain from NDTV Kingfisher Airlines has over Rs.15000 crore in debt, accumulated losses and various dues.

Table 6.2.1. EPS Calculation for Expected ROI of 10%, 15%, 20%, 30% and a capital investment of Rs.17000 crores

Debt/Equity	25/75	40/60	50/50	60/40	75/25
ROI					
10%	-0.09	-0.36	-0.63	-1.03	-2.24
15%	0.37	0.22	0.07	-0.16	-0.84
20%	0.84	0.8	0.77	0.72	**0.56**
30%	1.77	1.97	2.17	2.47	3.36

Figure 6.2.1: EPS Calculation for Expected ROI of 20% and Capital investment of Rs.17000 crores

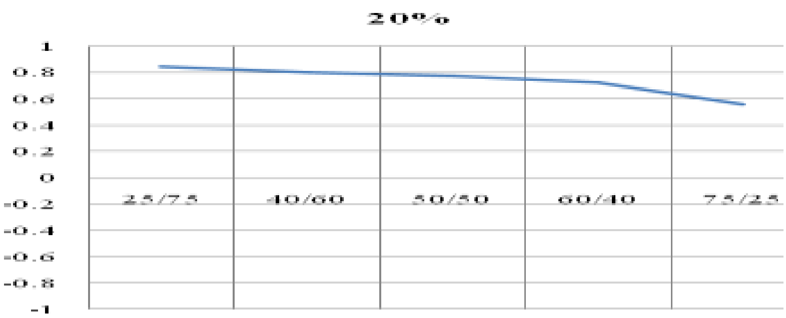

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Table 6.2.2: EPS Calculation for Expected ROI of 10%, 15%, 20%, 30% and a capital investment of Rs.19000 crores

Debt/Equity ROI	25/75	40/60	50/50	60/40	75/25
10%	-0.02	-0.27	-0.52	-0.9	-2.02
15%	**0.45**	0.31	0.18	-0.02	-0.62
20%	0.91	0.9	0.88	0.85	0.78
30%	1.85	2.06	2.28	2.6	3.58

Figure 6.2.2: EPS Calculation for Expected ROI of 15% and Capital investment of Rs.19000 crores

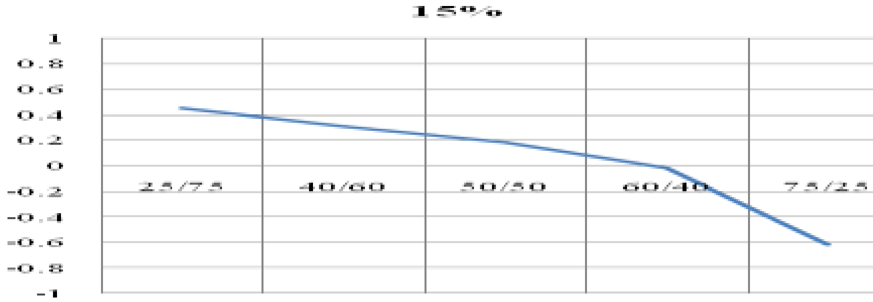
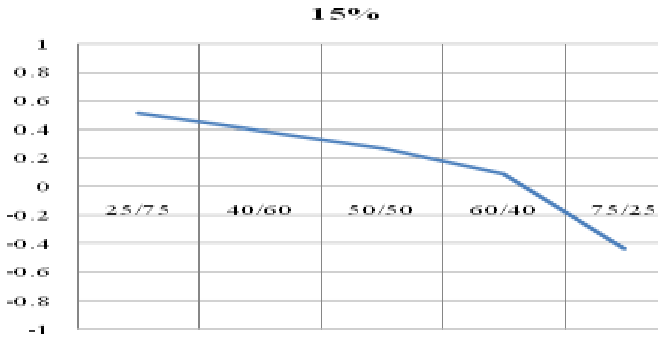


Table 6.2.3: EPS Calculation for Expected ROI of 10%, 15%, 20%, 30% and a capital investment of Rs.21000 crores

Debt/Equity ROI	25/75	40/60	50/50	60/40	75/25
10%	0.04	-0.2	-0.43	-0.78	-1.84
15%	**0.51**	0.39	0.27	0.09	-0.44
20%	0.97	0.97	0.97	0.97	0.96
30%	1.91	2.14	2.37	2.72	3.76

Figure 6.2.3: EPS Calculation for Expected ROI of 15% and Capital investment of Rs.21000 crores



Kingfisher Airlines has to go in for issue of debentures to raise the debt capital that it anticipates to raise. In a logic-defying trend, number of shareholders at Kingfisher Airlines has zoomed to a record-high of about 2.4 lakh, even as the carrier has remained grounded for over nine months and its market value has plummeted by over 90 per cent. The overall investor base of the company stood at more than 2.38 lakh at the end of last financial year.

According to the company's latest shareholding pattern, over 2.3 lakh small retail shareholders own shares in Kingfisher Airlines, accounting for nearly 97 per cent of the overall base while other investors include about 3,600 high net worth individuals (HNIs) and close to 2,300 non-resident Indians (NRIs).Total number of promoter shareholders is just six. Moreover, the number of institutional investors has continued to decline for many months now even as the retail investor base went on rising. The heavily debt-laden aviation venture has witnessed a continuous up trending its shareholders base for past few years - from about 1.4 lakh at the end of 2011-12, about 98,000 as on March 2011, about 84,000 a year prior to that, 67,000 in March 2009 and just about 50,000 in March 2008.

VII.FINDINGS AND SUGGESTIONS

When the capital structure of a company has a huge volume of debt, the fixed financial charge associated with it is a commitment the business cannot afford not to keep up.

Learning is that if debt is not supported by sufficient revenues, the mistake of incurring debt once cannot be rectified easily. Kingfisher Airlines cannot afford to continue with its present capital structure which has a huge volume of debt.

A restructured capital with a debt equity ratio of 1:2, can be adopted by Kingfisher Airlines by increasing the capital to rupees twenty one thousand and return on investment of 10%. Such a capital structure will obtain a positive inflow of funds with a fresh issue of shares through venture capitalists, foreign direct investors or other investors. Similarly the debt portion of the restructures capital need to rise through debentures as further loans from banks might not be easy to obtain.

VIII.CONCLUSION:

Kingfisher Airline has consistently been a loss making company until 2012. With improved revenues, aided by the growing demand and focused cost cutting measures, the company can generate profits. With debt restructuring and new avenues to raise short term capital, the company is well poised to continue improve its profits in the near term.

The key challenges for the airline are to successfully conduct a capital rising and to apply continued focus on reducing costs, grow revenue and inculcate a more performance-oriented culture. The debt restructuring provides breathing space to do this, an opportunity which should not be squandered.

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