

Case Study

From Riches to Rags: The Story of Vijay Mallya

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Introduction

Vijay Mallya is an Indian business baron, multibillionaire, Chairman of the Conglomerate- United Breweries Holdings (UB). He was one of the most talked about and prominent business personalities of India. After the death of his father, Mallya became the Chairman of United Breweries Group in 1983 at the age of 28. Afterwards, the group has grown into a multi-national conglomerate of over 60 companies. Once upon a time, the United Breweries Holdings (UB) Group was a sprawling conglomerate with interests in pharmaceuticals, agrochemicals, paints, petrochemicals and plastics, batteries, food and carbonated beverages.

Mallya is also a member of the Rajya Sabha, the upper house of the Parliament of India. Popularly known for having launched Kingfisher Airlines, a new airline established as a major business venture in the year 2005. Vijay Mallya is known for his extravagant lifestyle and is popularly termed as called the "King of Good Times" and "the playboy of the East".

Vijay Mallya owned India's biggest liquor company, a private jet, an Airbus and many other riches such as a fleet of luxury cars and a private yacht.

Achievements of Vijay Mallya

1. Kingfisher beer: United's Kingfisher beer has a major market share in India's beer market and is available in 52 countries outside India and leads among Indian beers in the international market.
2. Formula One team: Vijay Mallya also co-owns the Formula One team Sahara Force India F1 team.
3. Kingfisher Calendar: Kingfisher Calendar published by the United Breweries (UB) Group of India annually since 2003 features top models in swimsuits. This calendar has limited edition and has its credit models and actresses like Katrina Kaif, Deepika Padukone, Yana Gupta etc.
4. Royal Challenger Bangalore: Royal Challengers Bangalore one of the team of Indian Premier League (IPL) is also owned by Vijay Mallya.
5. Sword of Tipu Sultan: Vijay Mallya in a bid of

approximately 1.7 crore for the sword of Tipu Sultan at an auction in London won the sword and brought it back to India. He has also bought 30 other items belonging to Tipu Sultan from auction houses in the UK that includes a cannon, other weapons, and some personal items.

6. Represents Sports: Vijay Mallya is a member of the World Motor Sport Council representing India in the Federation Internationale de l'Automobile (FIA). He sponsored Kolkata based soccer clubs Mohun Bagan, and East Bengal. He is also the first Indian tycoon to sponsor an entire cricket team, West Indies. In 1996, when Kingfisher had sponsored the West Indies cricket team, it gave birth to the famous jingle 'Oo la la la le o'.
7. Bidding for the country: In March 2009, Vijay Mallya successfully bid for the personal belongings of Mahatma Gandhi iconic items that included his glasses, sandals, pocket watch, plate and a bowl for US\$1.8 million, in a New York auction. It was only made possible to bring Mahatma Gandhi's item to India with the help of Mr. Mallya.
8. Personal assets: He owns private jets, yachts, a personalized Boeing 727, stud farms with around 200 horses, and close to 250 vintage cars among others.
9. Member of Rajya Sabha: Mallya joined politics in 2000 and joined the Janata Party. He is also a member of the Rajya Sabha, the upper house of the Parliament of India.

Kingfisher: A collective failure of the system

2005: Launch of Kingfisher Airlines

In 2005, Vijay Mallya launched Kingfisher. Kingfisher Airlines began its operations in 2005 with its inaugural flight from Mumbai to Delhi. Kingfisher Airlines was soon becoming an airline synonym with five star air travel and was becoming famous among business travellers. In 2006, Kingfisher announced to offer its passengers with live in flight entertainment which was first of its kind.

By the Year 2007, Kingfisher Airlines had carried 17.5 Million passengers with a fleet of 41 aircrafts and a schedule of 255 flights. But Mallya wasn't content with flying only on

domestic routes. He wanted to fly overseas routes but Indian rules allowed airlines that have been in existence for at least five years to fly to international routes and therefore, Mr. Mallya decided to acquire one.

2007: Kingfisher Acquired Air Deccan

He bid for the Air Sahara in 2006 but he could not buy it as it was bought by Jet. Jet bought Air Sahara and rebranded it as JetLite. Then, in 2007, he bought the bleeding Air Deccan, India's first low-fare carrier, promoted by G.R. Gopinath.

In the end of 2007 Kingfisher Airlines had acquired entire 46% of Deccan Aviation in Air Deccan. 2008 was a good year for the airlines as things went well.

In 2008, Kingfisher Airlines was carrying 10.9 Million passengers annually with a fleet of 77 aircrafts operating 412 domestic flights daily. In this year only Kingfisher Airlines got permit to operate on international routes and it flew for the first time overseas from Bangalore to London.

Kingfisher was now offering 3 classes of travel to passengers:

1. Kingfisher First: Premium Business Class
2. Kingfisher Class: Premium Economy or the basic economy
3. Kingfisher Red: Low fare basic class

In 2009 Kingfisher Airlines continued to be nation's largest passenger carrier with a marketshare 22.9% with 11 Million passengers. During this time, Kingfisher also won numerous awards and was rated as India's Five Star Airline.

However, the shareholders of Kingfisher Airlines were still waiting to receive first dividend from the company but company continued its run of losses in 2010. Soon, Kingfisher failed to capture the market like its competitors and this could be considered as a warning signal for the company but it went unnoticed by the company.

2010: Restructuring of the loan

By the year 2010, Kingfisher Airlines had accumulated a huge debt. Moreover, it continued to pile up losses and had turned its net-worth negative in the previous financial year. In 2010, Kingfisher Airlines turned into a non-performing asset for banks. In November 2010, therefore, banks for the first time restructured Kingfisher's debt. The consortium of lenders led by State Bank of India converted Rs 1,355 crore of debt into equity at a 61.6 per cent premium to the market price of the Kingfisher Airlines stock. In addition, the bankers stretched the period of repayment of loans to nine years with a two-year moratorium, cut the interest rates, and sanctioned a fresh loan.

Though in the Year 2011, the Airlines for the very first time

declared issues in the cash flows. The blame however was laid on the rising costs of fuel. In that year, Kingfisher was not able to pay the fuel cost to the oil companies and salaries to the employees. It was because of this reason that pilots left Kingfisher for rival airlines.

2012: Kingfisher Airlines declared a Non-performing Asset

The year 2012 was the most turbulent year of all for Kingfisher Airlines. Just in the beginning of the year 2012, State Bank of India (largest creditor of cash strapped Kingfisher Airlines) declared Kingfisher Airlines as a non-performing asset. After incurring huge losses, and failing to pay its employees, Kingfisher Airlines was grounded in October 2012 and its license was canceled in December 2012.

Reasons behind the failure of Kingfisher Airlines

Lack of Strategy

Kingfisher initially launched all economy class and later shifted to luxury business class. The services of the airlines were appreciated by the travellers as the hospitality and aircraft condition of the Airlines were above average. But soon, the airlines shifted to low-cost air traveling, frequent changes made travelers lose interest in the airlines. In addition to that, they didn't focus on highly profitable routes in domestic area.

Lack of delegation

Mr. Mallya was too involved in the business and unlike his other two major businesses - the spirits and beer segments - which were running smoothly under the managing directors, this airline had no long term CEO or MD.

Recession

It was not only the poor policies of the management of Kingfisher that led to its collapse. One of the major reasons that contributed to the collapse was Recession that hit the world in 2008. Recession affected the whole world and had an indirect impact on the air travel occupancy in international routes, fuel prices, airport charges etc. All these factors had a negative impact on the health of Kingfisher Airlines and soon the airlines saw its downfall.

Separate treatment to Air Deccan

Captain GR Gopinath, who sold his low-cost airline Deccan Airline to Kingfisher Airlines has admitted that there was lack of connection between Deccan Airline and Kingfisher Airlines. Low-cost aviation business was treated as a step-child. Every time, there was an Air Deccan and Kingfisher flight at same time-slots, then a decision was taken to cancel the Air Deccan flight and run Kingfisher Airlines. But this didn't work well as potential customers shifted to their competitors.

High Operational Cost

Operational costs of airline industry are very high compared to other industries. Airline companies require licenses for the routes, investment in the aircraft maintenance, salaries for employees (which are generally on high end), airport charges, huge taxes to the government. Above all, The cost of fuel was very high and as such Kingfisher found it difficult to recover those high fuel cost and was making losses. There is lot of competition between airline companies, all these high operational costs without good profit margin caused the Kingfisher to downfall.

Frequent Change in Business Model

Kingfisher was launched as an all-economy, single-class

configuration aircraft in 2005. However, just after about a year of operations, the airline shifted its focus from economy to luxury. After Kingfisher's plunge into luxury came the next thing that is a merger with Air Deccan, which was a low cost airline. It is very simple to understand that frequent change in the business model is not good as it gives no time to adjust in the existing business model. The same happened with Kingfisher as they had no time to stabilize in the market.

What Kingfisher Owes Bank (2016)

Today, Kingfisher Airlines owes banks around Rs.7,000 crore. Here is a brief statement of the money Kingfisher owes to the banks.

BANK	Rs (in crores)
SBI	1600
IDBI bank	800
PNB	800
BOI	650
Bank of Baroda	550
United Bank of India	430
Central Bank	410
UCO Bank	320
Corporation Bank	310
State Bank of Mysore	150
Indian Overseas Bank	140
Federal Bank	90
Punjab & Sind Bank	60
Axis Bank	50
3 other banks	603
Total	6963

Source: Indian Express, March 14, 2016

Banker's sad tale in the Year 2016

State Bank of India

SBI, the biggest lender to Vijaya Mallya managed to recover only a fraction out of the 1600 crore amount. According to the hypothecation deed signed between State Bank of India and Kingfisher Airlines in 2010, SBI becomes the owner of all trademarks and goodwill of Kingfisher Airlines, in case of default by the Airlines. Now that the bank has made default, SBI is finding it difficult to sell the Kingfisher trademarks which were valued at 4111 crore in 2009 by global consultancy firm Grant & Throrton. The current value of these trademarks has now plummeted to not more than 6 crores.

IDBI

IDBI is also a victim of the bad loans by Kingfisher airlines. CBI sources reveal that IDBI had extended a loan of Rs 700

crore to Kingfisher despite being warned by some board members. Now the bank has ended up with bad debts of Rs 700 crore and is finding it a difficult task to cover the amount of bad loans.

Bank of India

Bank of India has extended a loan of Rs 308 crore against all the current assets of the Kingfisher airline. The question that arises is that how come a bank has given a loan of such huge amount based on items like air conditioners, tractors and monetarily unsubstantial items like folding chairs. Now, Bank of India is struggling to recover even a fraction of its loan from the sale of these current assets. It will be interesting to know how the bank gave over Rs 300 crore after being pledged office stationary like boarding pass printers & folding chairs.

Indian Overseas Bank

IOB lent nearly Rs 100 crore to the airlines against two helicopters in 2008. It is believed that the Eurocopters are not in flying condition and the bank is finding it difficult to sell those helicopters to recover its bad debts.

Similarly, other banks such as Punjab National Bank, Axis Bank, Corporation Bank, Punjab & Sind Bank are finding it difficult to recover the money lent to Kingfisher Airlines.

Vijaya Mallya's side of the Story

Vijay Mallya has consistently defended himself against accusations of defaulting loan payment and said he's the victim of a media campaign. According to him, statements made against him are biased.

To save his reputation for getting spoilt, Vijay Mallya in 2016 blamed media for spoiling his reputation and sought to clarify why Kingfisher failed.

He made the following statements in the media "I have always lived an honorable life and the calumny notwithstanding, shall continue to do so. As to the allegations in media, all I can say is I hope some sobriety and sense will prevail and truth not held a hostage to TRPs."

He stated that Kingfisher Airlines was launched in 2005 on the basis of viable business plan after background check by SBI Capital Markets and international aviation consultants. He further stated the Kingfisher airline was an unfortunate commercial failure caused by macro-economic factors and then government policies.

"The truth about Kingfisher Airlines and its financial stress due to external factors has been reported by State Bank of India (SBI) to the Reserve Bank of India (RBI) in their letter dated 31st January 2012," he said in the statement.

He also commented on being made the poster boy of all banks' NPAs (non-performing assets) that he has pledged blue chip securities and depositing unspecified amounts in court. Further he stated that banks have NPAs of Rs. 11 lakh crore and borrowers owe much more than Kingfisher. Even then none of these large borrowers have been declared wilful defaulters like Kingfisher. He challenged these declarations of UB Holdings and himself been declared wilful defaulters by the banks on technical grounds.

He also said that his invested Rs 4,000 crore into the airline which stands impaired so it is not only the bank that have lost money. According to him, banks will recover a substantial part of their debt but the losses made by his group are unrecoverable.

On the reports of him being an absconder, he commented that he had been a non-resident for around 28 years and even Reserve Bank of India had acknowledged this in writing.

Vijay Mallya Offers Rs 4000 Crore to Settle all his accounts

The Supreme Court received on behalf of Vijay Mallya to pay 4000 crore rupees as settlement of the dues he owes to a consortium of banks led by State Bank of India.

The proposal was given by Senior counsel C.S. Vaidyanathan on behalf of Vijay Mallya and his company Kingfisher before a bench of Justices Kurian Joseph and Rohinton Nariman. When asked about the whereabouts of Vijay Mallya by the court, the court was told that Mr. Mallya is out of the country and that he does not want to return due to the "surcharged atmosphere" against him. The confidential proposal included payment of Rs 2,000 crore by September and the rest Rs 2000 crore subject to conditions.

However, the banks are not willing to settle for the amount being offered as settlements. According to the news reports, lenders together have decided that they want a minimum of Rs 4,900 crore to be paid up front, which the principal loan amount is granted to Vijay Mallya. The banks have further demanded the interest component as well.

Now, that bankers have rejected his proposal to accept 4000 crore. It will be interesting to see how the government will recover the huge amount from Vijay Mallya who is out of the country on his diplomatic passport.

Discussion:

1. "Experience is the name everyone gives to their mistakes." Now that Vijaya Mallya has become a defaulter in loan payment. What lesson do you think banks can learn from the incident?
2. Do you think Vijay Mallya's strong business background and political influence played a major role in bank lending such a huge amount to him? Did the bank really forgot the basic rules of the game while lending to Vijay Mallya?
3. Is it correct to blame Vijay Mallya solely for defaulting the bank loan? Do you think banks are equally responsible for not keeping a proper check on how the money was being utilized that was taken as a loan?
4. The reasons for the downfall of the Kingfisher airlines have been numerous. What reasons do you think could have been avoided by the Kingfisher Airlines that have been responsible for its fall?
5. Vijay Mallya has offered Rs 4000 crores to the bankers to settle the accounts to a consortium of banks led by State Bank of India. Do you think bankers made a good decision by rejecting the settlement with Vijay Mallya?
6. Kingfisher Airlines acquired Air Deccan, a low cost airline. Do you think it was a correct decision to acquire it when Kingfisher was a luxury airline?

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