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A study on Wilful Defaults with special reference to 'King of Good Times, Dr. Mallya's Kingfisher Airlines'

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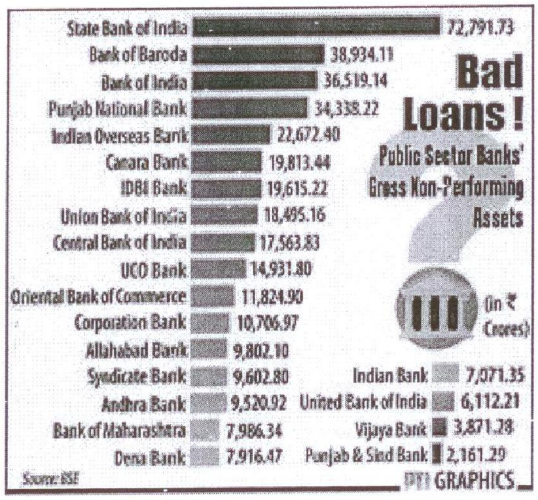
Abstract

The banking system and its effective operations are backbone for any economy to grow. India is not an exception. Indian banking sector is well regulated by RBI through its guidelines on borrowing and lending. But there are various problems or difficulties that banks have to overcome. One such problem is managing NPA (Non Performing Asset). The problem of NPA is hazardous to banking sector. When such NPA becomes a Wilful Default it is thorny to analyze its impact. The recent case of Kingfisher's Dr.Vijay Mallya who has been declared as wilful defaulter is analyzed to understand how Kingfisher Airbus arrived on a defaulters' platform. The methodology used to conduct the research is purely based on secondary data which are sourced from annual reports of Kingfisher Airlines (KA), RBI reports, news papers, journals, etc.

Key Words: Wilful Default, NPA, Kingfisher Airlines (KA), RBI, Commercial Banks, etc

Introduction

ancial Institutions and their effective functioning are vital for any economy to grow. India not an exception. The Banking sector is an indispensable financial service sector which pports development of economy through channelizing the savings to productive use. The dian Banking sector accounts for a major portion of financial intermediation and knowledged as the main vehicle for monetary policy signals, credit channel and facilitator payment systems. The banking system is crucial for capital formation for business tivities. Loans and advances of banks are one of the key sources of capital formation for porate houses. The growth and diversification of corporate are directly affected by the king finance. It is also important for banks to have quality loan portfolio. A major threat anking sector is prevalence of Non-Performing Assets (NPAs). NPA represent bad loans, borrowers of which failed to satisfy their repayment obligations. Therefore while tioning credit the banker should appraise the project reasonably or else it leads to the non-repayment or default of loans and advances. The Figure 1 shown below is a bird's eye view on such bad loans of public sector banks.



(Figure 1 - Bad loans)

(Source: FPJ Bureau | Feb 17, 2016)

Such default may be wilful for several reasons such as deliberate non repayment of loans, diversion of borrowed funds, siphoning of funds, misrepresentation of cash flows etc. Reserve Bank of India, the regulator of Indian banking sector has issued Master Circulars to guide banks to deal with various aspects of loans and advances and NPA management during the course of their operations. One such Master Circular (MC) relates to Willful Defaults (WD) which aims to put in place a mechanism to identify and declare such accounts, deny further banking facilities to such defaulters and recently, even deny opportunity to access capital markets (to be implemented by SEBI)[2]. The Table 1.0 gives the details of how many FIs have declared such WD during 2015 and the value of the same bad debt. The total number cases recorded are 2699 as WD worth Rs 30000 crores (approximately) during the year 2014-15.

Table 1		
	No. of records	Value (Rs. in Lacs)
FINANCIAL INSTITUTIONS	42	72793.71
FOREIGN BANKS	38	46297.42
NATIONALISED BANKS	1549	1416823.47
PRIVATE SECTOR BANKS	756	1003511.85
SBI AND ITS ASSOCIATE BANKS	314	437772.10
GRAND TOTAL	**2699**	**2977198.55**

(**Source**: CIBIL reports on Wilful Defaulters)

In this context the paper is structured to cover literature on Wilful Defaults and conceptual framework on wilful defaulter as per the MC of RBI. The paper also covers the case of Dr. Vijay Mallya, a declared Wilful Defaulter of Kingfisher Airlines. Vijay Malaya's dream bird, Kingfisher Airlines is witnessing its worst phase. The paper covers to understand the departure of Kingfisher airlines with dreams of flying high to reach the leading position in Indian airline industry, its downfall, and reasons with consequences of being included in the list of WD by banks in India.

2.0 Literature Review

2.1 Samaresh Bardhan and Vivekananda Mukherjee (2013)[1] in their paper titled **'Willful Default in developing country banking system: a theoretical exercise'**, deals with the implications of willful default for profitability and ultimate loan decision-making process of the banks. One of the most important results of the paper is that if limited liability condition holds and if the condition of willful default is satisfied, the bank will extend loans to its capacity which is exogenously fixed. Another important result of this paper is that as the loan capacity of the bank increases, the incidence of willful default also increases.

2.2 Deva Dubey, A S Binilkumar, (2015)[2] in their research paper on **"Estimating Moral Hazard in Indian Banks a Study of 6 Large Banks from India"** found that the incidences of WD have increased in recent years almost for all banks. Ratio of WD / Advances shows the proportion of loans disbursed which end up being classified as WD varies from 0.1% to 1% for banks. Ratio of WD / GNPA shows the proportion of loans reported as Gross NPA over a period of time and which end up being classified as WD varies from 2% to 48%.

2.3 Peter Nunnenkamp and Hartrnut Picht[3] (1989) in their paper on **"Willful Default by Developing Countries in the 1980s: A Cross-Country Analysis of Major Determinants"** found that the empirical evidence on the various hypotheses on willful default differs considerably.

2.4 Prachi Narayan of Vinod Kothari & Company[4], (2015) explains the RBI guidelines and norms on wilful defaulter and the mechanism of reporting to be done by banks to credit information agencies.

2.5 Anu Satyal and Ashis Taru Deb[5] (2015), in their research paper **"Crime and Punishment - The problem of Willful Default in Indian scenario and its resolution"** seeks to contribute to the current debate on how to resolve the issue of willful default in Public Sector Banks (PSBs). Should default be treated as a civil or a criminal offence? It was concluded that the phenomenon of willful default has emerged as a critical problem in the Indian context. It needs to be resolved so that market economy in India is able to function properly. Post 1991, the problem has been formally recognized and a partial framework has been created to deal with the problem. It is too early to say whether willful should be treated as a criminal offence or not. Further research on other country experiences in dealing with NPA / willful default shall provide lessons for devising a suitable policy to deal with the problem.

2.6 Sushma Yadav[6] (2014), in the research paper **titled "NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors"**, has said that the strength of the economy is closely related to the reliability of its banking system. The problem of NPAs can be achieved only with appropriate credit appraisal and risk management mechanism. It is required that the banking system is to be equipped with prudential norms to reduce if not completely to keep away from the problem of NPAs. It is better to avoid NPAs at the budding stage of credit consideration by putting in place of precise and proper credit appraisal mechanisms. So, it is very necessary for bank to keep the level of NPA as low as possible. Because NPA is one kind of barrier in the success of bank and affects the performance of banks negatively so, for that the management of NPA in bank is necessary.

2.7 Summary of literatures

NPA is a crucial factor which affects the performance of banks. When such NPA is turned to be a Wilful Default, it is a criminal offence or a civil offence to defend and judge, is very difficult. Though the consequences are severe for such wilful defaulters, year on year such defaulters list is escalating. In this context it is interesting to know the conceptual framework, regulatory guidelines, and reporting structure for banks on WD.

3.0 Introduction to WILFUL DEFAULT

As per the instructions of Central Vigilance Commission all the financial institutions in India are compelled to submit the details of Wilful Defaults of Rs.25 lakhs and above to RBI. This was made effective from 1st April 1999. This scheme of reporting was modified in May 2002 based on the recommendations of working group on willful defaulters.

3.1 How RBI does define WILFUL DEFAULT?

3.1.1 Wilful Default: A 'wilful default' would be deemed to have occurred if any of the following events is noted:

(a) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honor the said obligations.

(b) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.

(c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

(d) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.

1.1.2 The terms **lender** and **unit** are been defined in the master circular of RBI as given below-

The term **'lender'** covers all banks / FIs to which any amount is due, provided it is arising on account of any banking transaction, including off balance sheet transactions such as derivatives, guarantees and letters of credit.

The term **'unit'** includes individuals, juristic persons and all other forms of business enterprises, whether incorporated or not.

1.1.3 The term **Diversion of Fund** refers to any one of the undernoted occurrences-

Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;

Deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;

Transferring borrowed funds to the subsidiaries / Group companies or other corporate by whatever modalities;

Routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;

Investment in other companies by way of acquiring equities / debt instruments without approval of lenders;

Shortfall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.

1.1.4 The term **'Siphoning of Funds'**, should be construed to occur if any funds borrowed from banks / FIs are utilized for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender.

3.1.5 Cut-off Limits- The present limit of Rs 25 lakh is fixed by Central Vigilance Commission for reporting of cases of willful defaults by banks / FIs to RBI. Any willful defaulter with an outstanding balance of Rs.25 lakh or more would attract the penal measures stipulated.

3.1.6 Penal Measures- The following measures should be initiated by the banks and FIs against the wilful defaulters-

a) No additional facilities should be granted by any bank / FI to the listed wilful defaulters. In addition, such companies (including their entrepreneurs / promoters) where banks / FIs have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance from the scheduled commercial banks, Financial Institutions, NBFCs, for floating new ventures for a period of 5 years from the date of removal of their name from the list of wilful defaulters as published/disseminated by RBI/CICs.

b) The lenders may initiate criminal proceedings against wilful defaulters, wherever necessary.

c) Wherever possible, the banks and FIs should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit.

d) In the loan agreement banks / FIs should have a covenant from the board of management of the companies that the board shall not have any members whose name is listed as a wilful defaulter by any banks/FIs. In any of such cases, company should take expeditious and effective step to remove such person from the board.

3.2 End-Use of Funds- For all long term projects financing, Banks / FIs shall obtain certificate from Chartered Accountants for the purpose. In case of short term financing, a detailed due diligence approach shall be adopted and such loans shall be restricted to those borrowers who have integrity and reliability. It is also stated by RBI that banks/FIs should not completely rely on Certificates from Chartered Accountants; it should strengthen its internal control and credit risk management system to enhance the quality of the loan portfolio. Banks/FIs shall consider the measures to ensure the end use of funds by borrowers as their loan policy document. To monitor the end use of funds banks/FIs can demand for the quarterly / semi annually progress reports from the borrowers, conduct regular inspection of asset underlined as security by the borrower, periodic visit for physical inspection, periodic stock audit, comprehensive management audit, etc can be conducted to monitor and control the end use of funds.

case of a Government undertaking being a wilful defaulter, name of the director should not be included instead 'a legend Government of ....undertaking' should be added. Ministry of Corporate Affairs had introduced the concept of a Director Identification Number (DIN) with the insertion of Sections 266A to 266G of Companies (Amendment) Act, 2006. This was introduced to ensure that directors of the companies on wilful default are correctly identified and to avoid the person/people who have similar names to be included in list of wilful defaulters. Banks / FIs have been advised to include the Director Identification Number (DIN) as one of the fields in the data submitted by them to Reserve Bank of India / Credit Information Companies.

4.0 Overview on Aviation Industry-

One can trace the history of Indian aviation to 1947, when British gave us the Independence several small airlines were operated in India. In 1953 the Government of India (GOI) initiated an evolution by having monopoly in aviation sector with two state owned carriers- Air India for international travel and Indian Airlines for domestic travel. The deregulation of aviation industry was aggressively processed after the New Economic Policy 1991. Over the following years, several new airlines including Damania, EastWest, Jet, Sahara, Modiluft and NEPC started operations. Soon during 1995 the industry faced a downturn with closure of operations of major airlines. Rapid changes brought several changes in the regulatory policy Viz., minimum size of airline (5 Aircraft), foreign capital flow (up to 49%), etc. during 1997 Captain Gopinath lead Deccan Aviation was started with small aircrafts and chartered helicopters across India. He saw tremendous potential for aviation in India if flying could be brought down to a reasonable price ("everyone can fly"). The rapid entry of new players into the Indian Airline industry changed its competitive dynamics. On the one hand, the low fares of the "low -cost" players changed the growth dynamics of the industry. As per Airport Authority of India (AAI) statistics, there are 127 airports in India which incorporates 13 international, 80 domestic, 28 civil and 7 custom airports. Moreover India has around 1091 registered aircrafts. Domestic passenger traffic expanded at a compound annual growth rate (CAGR) of 11.8 per cent over FY06–15. International passenger traffic posted a CAGR of 9.5 per cent over FY06-15. Total freight traffic registered a CAGR of 6.7 per cent over FY06-15. The growth in passenger and freight traffic has been made possible by growth in total aircraft movement, which recorded a CAGR of 5.1 per cent over FY07-15. India's civil aviation industry is on a high-growth trajectory. India is the ninth largest civil aviation market in the world having a potential to become the third-largest aviation market by 2020 and the largest by 2030. India is one of the flourishing global aviation markets.

4.1 Challenges faced by the industry- Rising Operational costs, higher air fares, challenges with policies & procedures, taxation are few areas of challenges for aviation industry in India.

4.2 Many factors are responsible for the high operational costs in India- Higher cost of fuel in India, high taxation due to excise duty, customs duty; sales tax, high airport fare etc are few factors responsible for high operational cost in India for aviation industry.

4.3 Main players in the industry- Indian aviation industry are dominated by the Low Cost Carriers (LCC). These players can be classified into three major categories.

1. Public Players- Air India & Alliance Air- Air India Regional- LLC
2. Private Players - Jet Airways, Kingfisher India, IndiGo, Spice Jet & Go Air

Also in 2014 the industry has witnessed entry of five new players. These new players are: JET Etihad deal has been finalized (FDI), Tata-Singapore airlines Ltd-VISTARA, Air Costa (Part of LEPL Group), Tata-Air Asia Ltd & Air Pegasus Ltd.

5.0 "Dream Bird, Kingfisher Airlines"

Kingfisher Airlines came as a Dream Bird to fly for Indian middle class. Dr. Vijaya Mallya's (who was once known as "King of Good Times") brain child Kingfisher airlines was established in 2003 and was said by him that, the airline was intended to ***"break the shackles of conservative socialism and give the middle class a standard of living that is enjoyed in the West."*** The airline started its commercial operations in May 2005, with a brand new fleet of four Airbuses, on a domestic flight from Mumbai to Delhi. It was the first airline in India to operate with all new aircraft. It was the first company in India to introduce premium flying experience in domestic travel, it managed to quickly build a strong brand and high visibility. The company made all efforts to make the flight and the whole travel experience as luxurious and comfortable as possible. The company built a strong reputation as a luxury carrier and received numerous, prestigious industry rewards and prizes for innovation and customer service. Kingfisher quickly expanded its fleet from 04 to 77 aircraft and the number of destinations reached 412 in 2008-09. By the end of 2009, Kingfisher was the largest passenger carrier in the country and had made its name as the Five Star Airline of India going to pose a serious threat to the 12 year old market leader Jet Airways. Within five

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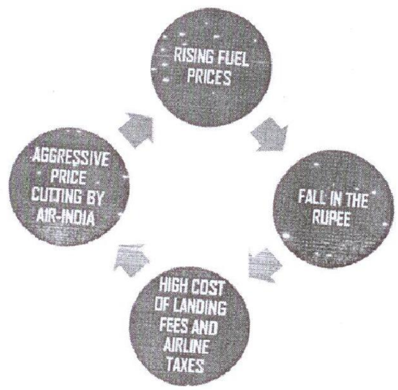
years, Kingfisher had everything going for it: great brand visibility, loyal customers and a wide network of national locations. When all was set to fly high, Kingfisher Airline had to plunge.

5.1 Apprehension that led to the downfall of Kingfisher's reign-

That was the time when the global market was facing financial crisis which resulted in suicidal price war among all the airlines. All other players in the industry were having operating loss. All the major reasons for industry downfall can be traced to four main factors. Rising fuel prices, depreciation of rupee against dollar, high cost of landing fee and taxes on international flies and aggressive pricing strategies of Air India lead to the fall of the entire industry. A kingfisher airline was not exceptional.



(Source : Jayant Srivastava, Asad Ali & **Akansha** Tiwari[7])

Vijay Malaya's (popularly known as The King of Good Times) dream bird, Kingfisher Airlines - – started witnessing its worst phase after 2008-09. Kingfisher stopped its airline services because of huge debt, not in a position to pay the employee salaries, airport charges, fuel bills to the oil companies, bank loan payments, Vijay Mallya asked the Government of India to bailout the company from the crisis. Government of India refused to bailout the private company, because government airlines Air India itself is running with loses. This section of the paper explains the reasons for downfall and its consequences along with the present scenario.

5.2 Reasons for Downfall- The reasons can be classified under two heads- Internal and External. **5.2.1 The Internal factors** which lead to the downfall of the company are-

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a. **Frequent changes on focus:** Kingfisher was emerged as economic class airlines with food and entertainment facilities. But soon the focus was deviated to luxury business class without proper analysis. And it was quite successful in gaining the appreciation of customers but soon after the acquisition of Air Deccan, focus was again deviated towards low cost air travelling. This was creating lot of confusion for managerial executives to have a strategic plan.

b. **Merger with Air Deccan:** In 2008, Kingfisher merged with Air Deccan, an all-economy airline formed in 2003, entering the cheaper flights segment of the airline business. The time when the merger took place Kingfisher had a market share of 11% and that of Air Deccan was 14%. Kingfisher was aiming at creating Market power of more than 25% through synergy. The merger was also aiming at taking advantage of economies of scale on the grounds of increasing costs, to maintain the brand image of the company, to face the competition from LCC, to gain access to the new routes and to get international operations license. But after the merger Kingfisher only used Deccan Airlines to get the license for international operations. The Captain G R Gopinath, who sold his low-cost airline- Deccan Airline to Kingfisher Airlines, admitted that there was disconnection between the two arms of the airline models. Low-cost aviation business was treated as a step-child. The strengths of Air Deccan were not integrated to Kingfisher's instead it was used only to gain the license for international flies. Since both the entities were highly levered and under loss, operating synergy became just a dream plan.

c. **International Flights:** Without having minimum of 5 years of domestic operations (as per norms), with the help of Deccan, Kingfisher succeeded to get the license for international operations. Dazed by its rapid success, the company decided to conquer international skies, before reaching its break-even point in its domestic business. This lead to increase in cost and decrease in operating income.

d. **Unfair Fares:** While KFA truly offered a premium and luxury service it took pride in calling itself a budget airlines. It refrained itself from calling as an LCC (Low-cost-carrier) as its services were better than the other LCCs and also it kept its fares lower than few major players viz, Jet Airways, Indian Airlines (now Air India) and Sahara.

e. **Aggressive Expansion:** Lured by opportunities presented by the expanding tourist industry and the low-penetration of the domestic airlines industry, Kingfisher was very aggressive with its expansion, both in India and internationally, before it reached

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its breakeven point. The company launched long-haul, as well as cheaper short-haul flights at the same time, despite the advice to take it slowly coming from Ministry of Civil Aviation officials. In 2011, the company flew 366 domestic and 28 international flights, owning 67 aircraft.

f. **Lavish Spending :** Add to all this the high cost of advertising, putting up exclusive lounges at airports, gourmet cuisine, tele-booking centre's, the expensive frills (touch screen seat controls, sensuous mood lighting, unique starry sky, in-seat chargers, in-seat massagers, an exclusive amenity kit and facilities like jacket ironing, music streaming through Bose noise cancellation headphones), etc.

5.2.2 The external factors are-

g. **Tough Competition:** Kingfisher faced tough competition from low-cost carriers. More than 10 players in the industry were dominating the market during 2006-2010. The strategies adopted by each of these competitors to gain market share were affecting the Kingfishers. Kingfisher gained around 14% of market share in just 4 years of experience. But there were much bigger sharks in this ocean which had better experience and management skills at the time of global crisis.

h. **Burning Fuel**: Rising airport fees, taxes and fuel prices played a big part in Kingfisher's struggle. Although fuel prices had rocketed and touched, $150 [per barrel]. The Indian industry was hit even more adversely, due to the cumulative impact of Customs Duty and Sales Tax. Then came the 2008 recession that made fundamentals in the airline industry worse, which is when the Kingfisher launched its international operations. The hike in price of Aviation Turbine Fuel (ATF) during 2008 jolted the Indian aviation industry. During 2004 to 2008 the prices were roughly tripled. Then Civil Aviation Minister Praful Patel was scared of aviation industry turning to sick with the total industry loss of Rs 40 billion. "Kingfisher's expenditure on fuel reached $503.7million in 2012, equating to 36% of total expenditure.

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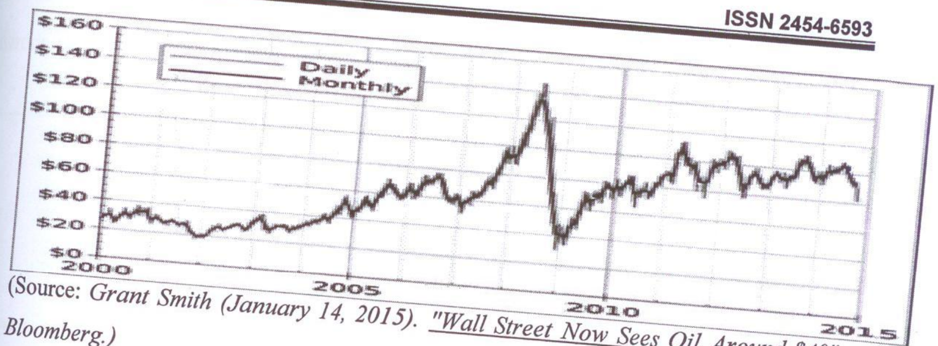
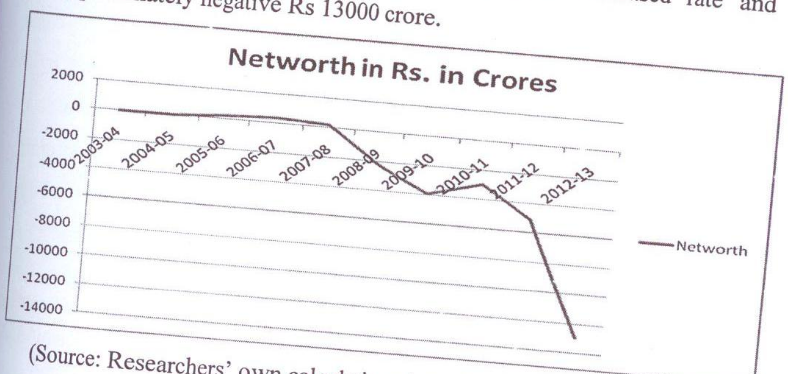


(Source: *Grant Smith (January 14, 2015).* *"Wall Street Now Sees Oil Around $40".* *Bloomberg.)*

i. **Multifold:** Failing to analyze new emerging operational and strategic risks, including tougher international competition and changing Indian airlines industry dynamics, salaries, high interest etc compounded the woes of Kingfisher eventually striking a death knell to the King of Good Times.

5.3 What were the consequences?

i. **Erosion of Net worth-** In September 2011, the chairman and managing director of Kingfisher Airlines made following disclosure to the Bombay Stock Exchange; "The Company has incurred substantial losses and its net worth has been eroded. The Net worth which was approximately Rs 200 Crore plus during 2005 to 2007 turned negative and went on decreasing at an increased rate and reached approximately negative Rs 13000 crore.



(Source: Researchers' own calculations based on financial reports values)

ii. **Shrink in stock price-** The stock Market was inclined in Kingfishers growth till 2008, when it acquired Deccan airlines investors were positive in decision of the company. But due to the huge debt, financial crisis, negative returns, failure to synergize the merger with Deccan, etc the stock market became bearish. The stock

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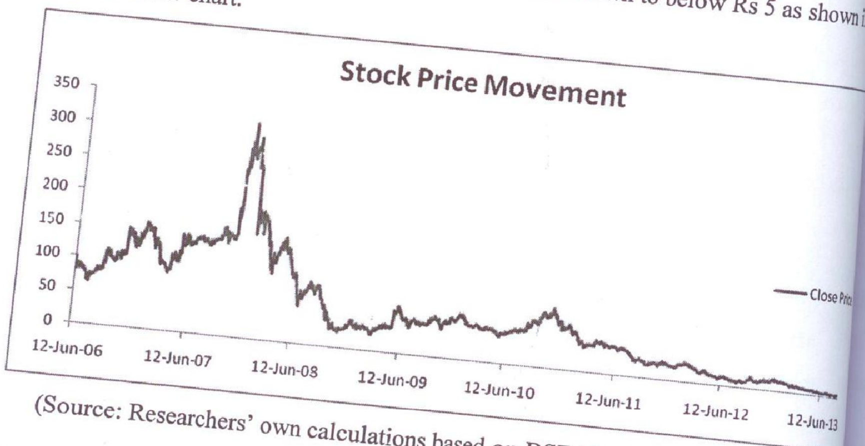
which was getting traded at nearly Rs. 100 came down to below Rs 5 as shown in the below chart.



(Source: Researchers' own calculations based on BSE historical prices)

iii. **Amplifying Debt**- The Kingfisher airlines failing to surmount the problems relied majorly on debt. The total debt of Kingfisher airlines by the end of 2008-09 touched Rs. 5665 Crores from Rs 934 Crores during 2007-08. Just in a year it increased by 6 times. It was the period when the entire industry and economy at large was unrest on the grounds of global financial crisis. Debt of company reached to the all time peak level to Rs. 8650 Crores by the end of 2012-13. As shown in the below chart, the total debt includes both secured and unsecured debt. During the year 2012-13 due to take over of underlying assets secured loan came out through auctioning such assets. But unsecured debt increased almost by 3 times. The secured loan was borrowed by offering the securities like Fixed assets, Helicopters, assignment of rights under purchase agreement entered with Aircraft Manufacturer for purchase of Aircrafts, charge on Current Assets, loan secured by personal guarantee of a director, Kingfisher brand & non disposal undertakings of certain aircrafts taken by the Company on hire purchase, Secured by mortgage of Kingfisher house.

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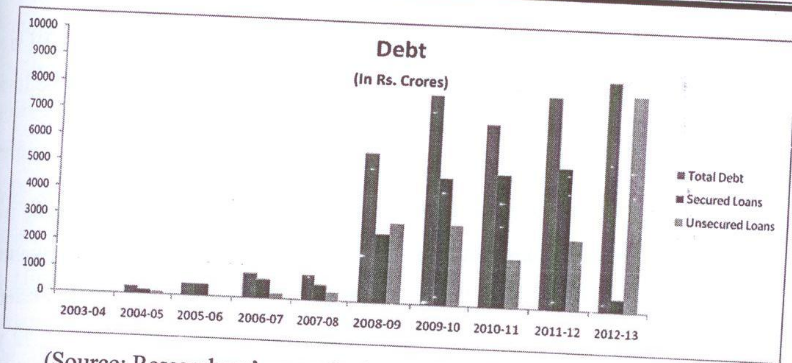


(Source: Researchers' own calculations based on Financial Reports)

Vii. Bad debt- Dr. Vijay Malaya's dream bird, Kingfisher Airlines started witnessing its worst phase only after 2008-09. Kingfisher Airlines had not paid bankers (Lenders) as per the Debt Recast Package (DRP) with lending banks. State Bank of India (SBI) on 5 January 2012 declared Kingfisher Airlines a non-performing asset. SBI is the largest creditor and leader of the consortium of banks in the DRP (Debt Recast Package) and has an exposure of Rs 1468 crore. Totally 17 banks have lent the KA with an outstanding of Rs 8000 crore plus. The table given below shows the partial list of total amount of borrowings of Kingfisher Airlines from various banks.

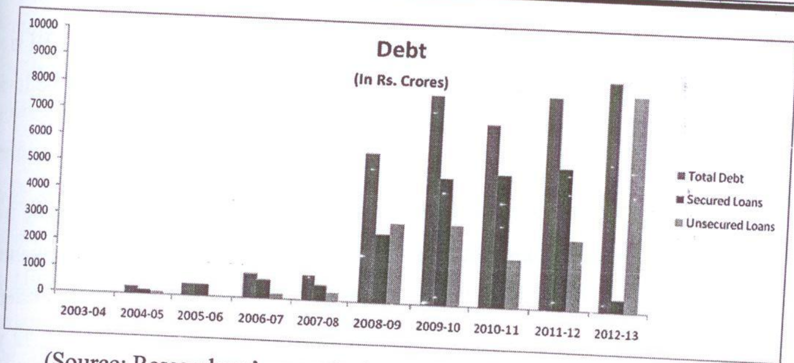
What Kingfisher Airlines Owes To Banks

State Bank of India	Rs 1,468 crore
IDBI	Rs 700 crore
Corporation Bank	Rs 400 crore
State Bank of Mysore	Rs 400 crore
Vijaya Bank	Rs 400 crore
United Bank of India	Rs 400 crore
Central Bank of India	Rs 350 crore
Bank of India	Rs 308 crore
Punjab National Bank	Rs 290 crore
Indian Overseas Bank	Rs 108 crore

This is a partial list. In total, there are 17 lenders

(Source: http://www.scoopwhoop.com/Banks-Will-Get-Only-Rs-6-Crore-Of-The-Rs-7000-Crore-That-Kingfisher-Airlines-Owes-Them/)

By February 2012, Kingfisher has been declared a Non-Performing Asset by the following banks; State Bank of India (SBI), Bank of Baroda, Punjab National Bank (PNB), IDBI Bank (IDBI), Central Bank of India, Bank of India (BOI) and Corporation Bank. SBI has formed a 17-bank consortium that is trying to recover its loans from the carrier. According to a public notice issued in Dec 2013 by SBI Caps,



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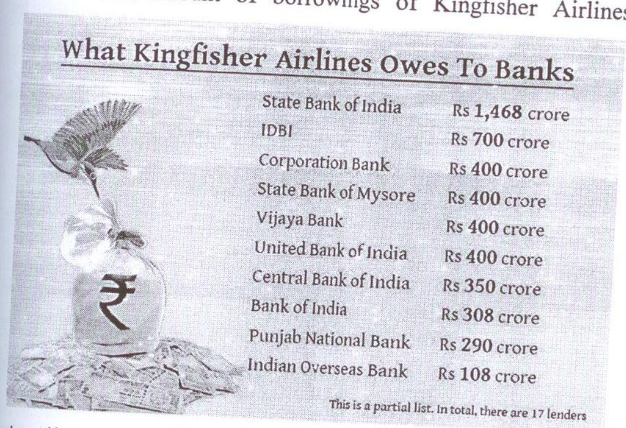

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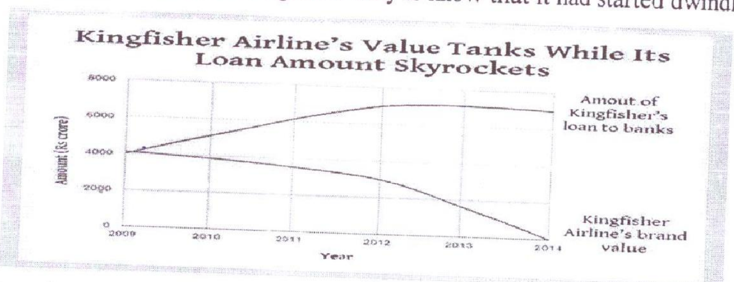
By February 2012, Kingfisher has been declared a Non-Performing Asset by the following banks; State Bank of India (SBI), Bank of Baroda, Punjab National Bank (PNB), IDBI Bank (IDBI), Central Bank of India, Bank of India (BOI) and Corporation Bank. SBI has formed a 17-bank consortium that is trying to recover its loans from the carrier. According to a public notice issued in Dec 2013 by SBI Caps, the amount due by the troubled airline to the consortium of banks lead by SBI is about Rs 6,963 crore, as on 31 January, 2014, excluding interest rate which will be levied at 15.5 per cent per annum.

5.4 Consequences of the crisis-

1. During 2010-11 the company decided to restructure its debt by implementing a Debt Recast Package with its consortium of bankers. Through this company converted Rs 750 Crores (Rs. 7500 Million) of debt into 7.5% Compulsory Convertible Preference Shares. Around Rs 550 Crores (Rs 5530 Million) were converted into 8%, 12 years Cumulative Preference Shares. And balance loans were rescheduled to pay over subsequent 7 years. Around Rs 700 Crores were converted into 8% Optionally Convertible Debentures (OCD). However second such debt recast has been ruled out by the Government of India.
2. The company was able to rise more than Rs 1000 Crores loan against collateral as Kingfishers' Brand value. But during 2012 the RBI came out with notifications to all the commercial banks instructing not to consider the intangible assets like Brand for collateral debt. This announcement opened the eyes of bankers to look into the revaluation of brand of Kingfisher only to know that it had started dwindling.



(Source:http://www.scoopwhoop.com/Banks-Will-Get-Only-Rs-6-Crore-Of-The-Rs-7000-Crore-That-Kingfisher-Airlines-Owes-Them/)

3. **Substantial assets only to realize less**- The Kingfisher had secured loans with many assets as collateral. The company continuously failed to meet its obligations and banks declared it as a substandard for unsecured and doubtful for secured category of NPA. Banks took over the secured assets to realize very less compared to the loan borrowed by the company.

5.5 Conclusion

In case of Kingfisher Airlines, it seemed court had come forward to rescue loan Defaulter. When United Bank declared Mallya as a Wilful Defaulter in 2014, Kolkata Court gave dict to remove his name from the list just on the ground that there should be only 3 mbers in Grievances Redressal Committee but there were 4 members. And then SBI had declare Kingfisher airlines as Wilful Defaulter in 2015. The same was sent to RBI and dit information companies for further action to be taken. However, while as per the serve Bank of India's (RBI) Wilful Defaulter Guidelines, does not require a lawyer to be sent at the Grievance Redressal Committee meetings, Kingfisher Airlines had moved to Bombay High Court seeking intervention. In reply to this, *"We feel as frustrated that our rts yield results so slowly,"* said Arundhati Bahattacharya, Chairman of SBI. In beginning 2016 PNB declared Vijay Mallya as a wilful defaulter. United Bank of India, IDBI and others are in verge of declaring.

is fight the banking system is getting affected. The reserve price for the assets going on has been set at Rs 65 lakh. The auction will let the lenders recover just a small fraction of 6,963 crore that the Kingfisher owes to banks. Until then, banks were competing with other to lend to the company. Interestingly, even when its financials were deteriorating ly, the banks sounded hopeful of a revival story. But the end came too fast, leaving a bad loan pile of Rs 7,000 crore to banks. To put the amount in perspective, that's almost of what state-run banks used to get from the government as annual capital infusion. Was allya's political influence or business muscle that prompted banks to forget the basic s of the game? Was the collateral sufficient against lending such a large amount? Did s have a clear idea about how the money would come back from a loss-making airline? e are questions still unanswered. But one thing for sure: banks were always unusually to Dr.Mallya.

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