

CORPORATE GOVERNANCE

CASE STUDY- KINGFISHER AIRLINES

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OUTLINE

- ▶ Introduction to Corporate Governance
- ▶ Need of Corporate Governance
- ▶ Corporate Governance in India
- ▶ Kingfisher Airlines
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- ▶ Findings on Corporate Governance
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CORPORATE GOVERNANCE

Cadbury Committee

- ▶ Corporate governance is the system by which business corporations are directed and controlled. Board of Directors is responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

Organization for Economic Co-operation and Development

- ▶ Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

The Institute of Company Secretaries of India

- ▶ Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.

NEED OF CORPORATE GOVERNANCE

- ▶ Safeguards The Money Of Investors
- ▶ Ensures Success Of The Corporate
- ▶ Gives Ease Of Access To Cheap Funds
- ▶ Lays Foundation For Good Corporate Citizenship
- ▶ Attaches Global Perspective

EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

Evolution of Legal Framework of Corporate Governance in India

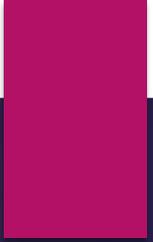
- Prior To Independence And Four Decades Into Independence
- Coming Of Age

Reformation in Corporate Governance

- First Phase Of India's Corporate Governance Reforms: 1996-2008
- Second Phase Of Corporate Governance: After Satyam Scam

Legal Framework on Corporate Governance

- The Companies Act, 2013
- SEBI Guidelines
- Standard Listing Agreement Of Stock Exchanges
- Accounting Standards Issued By ICAI
- Secretarial Standards Issued By ICSI



KINGFISHER AIRLINES CASE STUDY

About the company

KINGFISHER AIRLINES LIMITED

- ▶ Kingfisher Airlines Limited was an Airline group based in India.
- ▶ Its head office is in Andheri (East), Mumbai and registered office in UB City, Bengaluru.
- ▶ Kingfisher Airlines, through its parent company United Breweries Group, had a 50% stake in low-cost carrier Kingfisher Red.
- ▶ Until December 2011, Kingfisher Airlines had the second largest share in India's domestic travel market.
- ▶ The chairman of the company is Mr. Vijay Mallya, who has now cases pending against him.



Founded	2003
COMMENCED OPERATIONS	9 TH May 2015
CEASED OPERATIONS	<ul style="list-style-type: none"> ➤ Oct 12 (Flights Suspended) ➤ Feb 2013 (License Revoked)
HUBS	Bengaluru International Airport
Focus Cities	<ul style="list-style-type: none"> ➤ Chennai International Airport ➤ Pune International Airport
FREQUENT-FLYER PROGRAM	King Hub
SUBSIDIARIES	Kingfisher Express
COMPANY SLOGAN	Fly The Good Times
PARENT COMPANY	United Breweries Group
HEADQUARTERS	Mumbai, Maharashtra
KEY PEOPLE	<ul style="list-style-type: none"> ➤ Sanjay Aggarwal (CEO) ➤ Vijay Mallya
REVENUE	₹25,982.78 crore (US\$4.1 billion) (2012)
NET INCOME	₹8,765.9 crore (US\$1.4 billion) (2012)
EMPLOYEES	5,696 (2012)

Initial Troubles

- ▶ KFA's troubles started right from the start of its operations in 2005. It is also a well-known fact that the fixed costs for Airlines are very high. Fuel expenditure accounted for 50% of aviation firm's operating costs. In 2005, the oil prices were soaring at nearly \$75 per barrel.
- ▶ For 2005, KFA had a revenue of ₹ 305.55 crore (\$ 61 million), and the net loss was ₹ 19.53 crores (\$ 4 million). In 2006 the revenue increased three fold to ₹ 989.12 crores (\$197.8 million), and net loss has grown to an alarming ₹ 272.44 crores (\$54.4 million).
- ▶ In order to increase crew size and start foreign service, KFA went for a reverse merging with Air Deccan.

Merging of Air Deccan

- ▶ Acquisition of Air Deccan Towards the end of 2007, KFA in order to meet this requirement decided to acquire 46% of 'Air Deccan' another low cost Airliner, to compete with other low cost carriers and most importantly to be able to open international operations.
- ▶ Air Deccan was in existence for more than five years and this acquisition would allow KFA to fly on international routes. To facilitate this, a reverse merger was engineered, first Air Deccan acquiring KFA and few months later the merged Airline becoming KFA again.
- ▶ KFA also hoped that the acquisition would save ₹ 300 crore (\$60 million) annually and also increase the fleet strength to 71. This acquisition was financed with ₹ 550 crore (\$110 million) from the group's holding company UB Ltd.

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- ▶ By March 2008, the debt stood at ₹ 934 crore (\$186.8 million)
 - ▶ In 2009 KFA board of directors approved a resolution to raise ₹ 500 crore (US \$ 100 Million) by using Global Deposit Receipts (GDRs) and also other means. Further they approved raising another ₹ 500 Crore (\$100 Million) by issuing rights shares to existing shareholders
 - ▶ By the end of 2009 the net-worth of the company has become negative.

Banks Came To The Rescue

- ▶ In 2009, IDBI approved a loan of ₹ 950 crore (\$190 million) in spite of turning down the same request in 2006.
- ▶ Mallya approached a number of other banks between 2008 and 2010 and managed to get huge amount of loans from a number of banks.
- ▶ Surprisingly these banks provided the loans to KFA by taking the company's 'brand value' into consideration and seven trademarks as collateral. They included Fly Kingfisher (Label Mark and Word), Flying Models of Kingfisher, Fly the Good Times, Funliner and Kingfisher, which were valued by global consultancy firm Grant & Thornton.

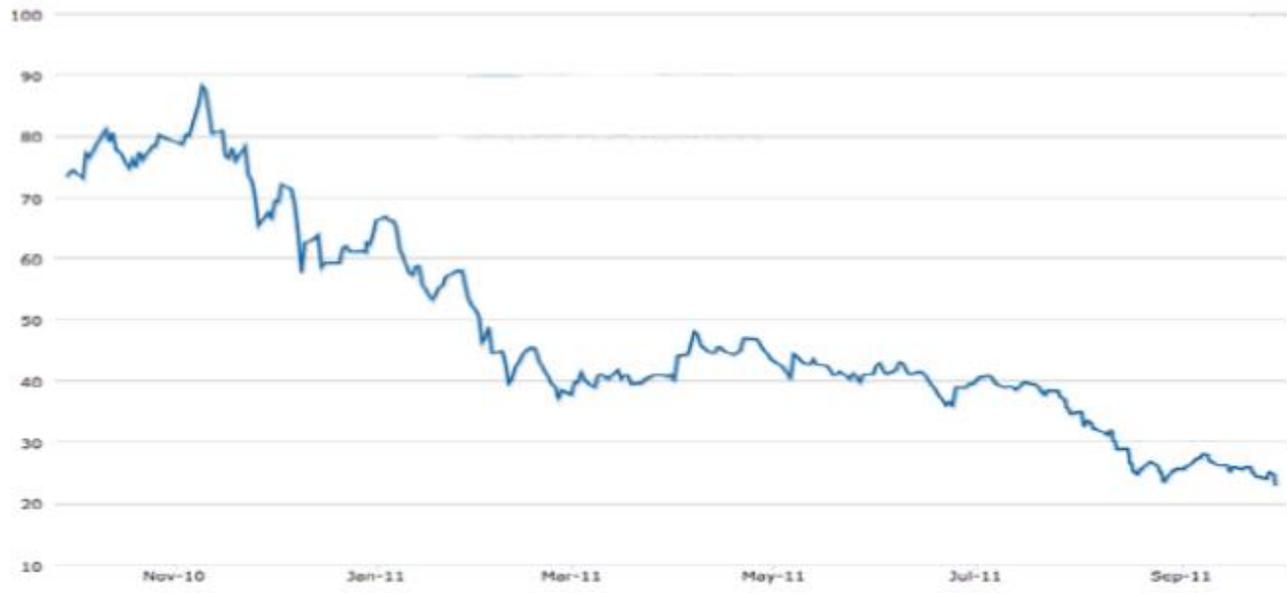
Ser#	Bank	Amt in Indian Rupees	Amt. in US \$	Year	Collateral Security
1.	State Bank of India	1,600	\$212million	2010	Trademarks & Goodwill
2.	IDBI Bank	800	\$106million	2009	Trademarks
3.	Punjab National Bank	800	\$106million	2010	Trademarks
4.	Bank of India	650	\$130million	2010	Trademarks
5.	Bank of Baroda	550	\$110million	2010	Trademarks
6.	United Bank of India	430	\$86million	2010	Trademarks
7.	Central Bank	410	\$82million	2010	Sales & lease to be deposited an escrow account
8.	UCO Bank	320	\$64million	2010	Trademarks
9.	Corporation Bank	310	\$62million		Trademarks
10.	State Bank of Mysore	150	\$30million		Trademarks
11.	Indian Overseas Bank	140	\$28million	2008	Two Helicopters
12.	Federal Bank	90	\$18million		Trademarks
13.	Punjab & Sindh Bank	60	\$12million	2010	Kingfisher house
14.	Axis Bank	60	\$12million	2010	Trademarks
15.	(Vijaya Bank & others)	603	\$120million	2010	Trademarks

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- ▶ By the end of year 2010 KFA had an accumulated debt of ₹ 7000 crores (\$1.4 billion) and suffered a loss of ₹ 1 608 crores (\$320 million). For the lending banks the loans to KFA have become NPA (Non Performing Assets).
 - ▶ In November 2010 consortium of banks led by State Bank of India, the largest lender restructured the KFA debt for the first time. According to the agreement reached the banks converted ₹ 1355 crores (\$271 million) into equity at a premium of 61% to the market price of around ₹ 80 (\$14).
 - ▶ Finally on September 28, 2011 KFA decided to exit the low-cost part of their business in India. But by this time, the troubles for KFA started mounting. By December 2011, KFA had outstanding dues of ₹ 93 Crore (\$18.5 million) to Mumbai International Airport Pvt. Ltd
 - ▶ Finally, in 2012 King Fisher airlines was grounded.

- ▶ In December 2012 the company's license got cancelled. In 2013 the KFA's flying permits were withdrawn. The company suffered a loss of ₹ 4000 crore (\$ 800 million) in 2012-13 taking accumulated losses to ₹ 16,023 crore (\$3.2 billion) and by 2013 the net worth of the company has fallen to negative (- ₹ 12,919 crore (2.54 billion)).
- ▶ in 2014, United Bank of India declared Mallya as 'wilful defaulter', followed by State Bank of India and Punjab National Bank. Mallya has challenged these declarations in various courts. Banks also started acting on his collateral securities. In 2015, the consortium of banks have taken over the prestigious Kingfisher House in Mumbai valued at Rs 100 crores.
- ▶ As it stands today KFA has a total debt of \$1.3 Billion. State Bank of India managed to get Rs 155 crore (\$31 million) out of the loaned amount ₹ 1,623 Crore (\$324 million). The value of KFA assets pledged to various banks for ₹ 4000 crore (\$800 million) is only ₹ 6 crore (\$1.2 million) as of now.

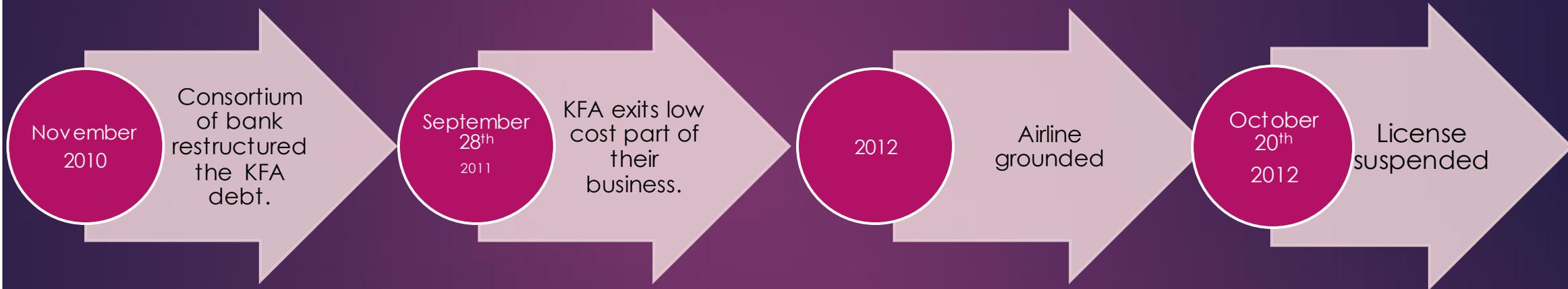
Aftermath

- ▶ At the end of 2015 Mallya is fighting 27 cases in courts and 22 of them pertain to KFA.
- ▶ Mallya flew out of country to UK on March 02, 2016.
- ▶ On April 2017: Mallya arrested in London on India's request for extradition.
- ▶ On December 10, 2018: UK court orders extradition of Vijay Mallya
- ▶ The then UK Home Secretary Sajid Javid orders Mallya's extradition to India.
- ▶ The coming of “Fugitive Economic Offenders Act 2018 “.



Stock Price Change Of KFA





November
2010

Consortium
of bank
restructured
the KFA
debt.

September
28th
2011

KFA exits low
cost part of
their
business.

2012

Airline
grounded

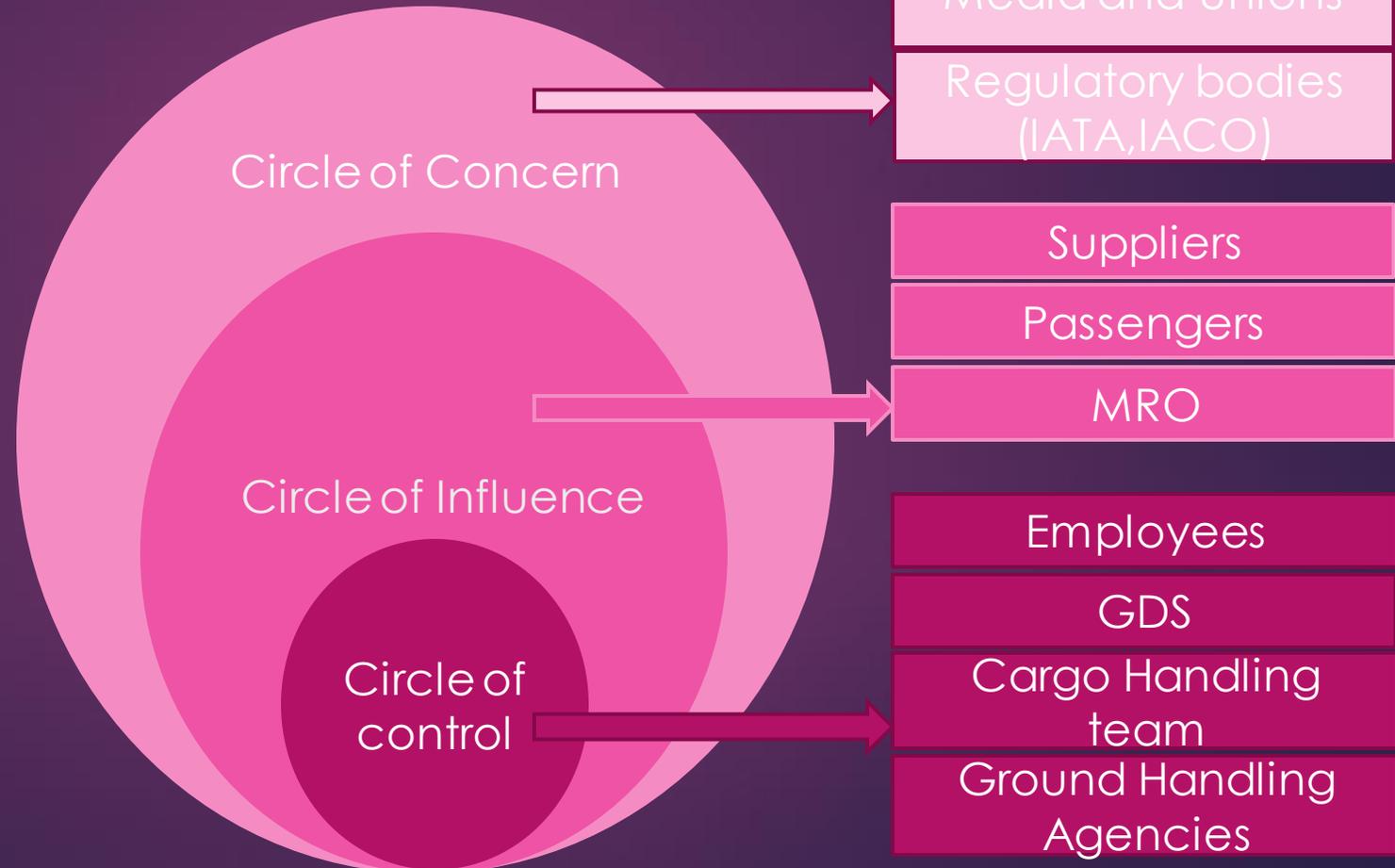
October
20th
2012

License
suspended

Findings on Corporate Governance

- ▶ The board of directors KFA comprised of insiders and outside independent directors on paper, as stipulated by SEBI guidelines. However the board was dominated by the Chairman and Managing director Mallya all along.
- ▶ Effect on employees. As of 2012, KFA owed ₹ 300 Crores (\$60 million) in salaries to 3000 employees. Employee's provident fund was deducted but not deposited with the Provident fund organization, as legally required. Employee Income Tax deducted at source has not been deposited with Income Tax authorities and adding insult to injury.
- ▶ Executive compensation.
- ▶ Effect on shareholders.
- ▶ Effect on suppliers KFA owed a lot of amount to Mumbai Airport towards service charges.

STAKEHOLDER MAPPING



OUR SUGGESTIONS

- ▶ To have a clear vision and a supporting business strategy.
- ▶ Set a fixed minimum serving period for all the post of top management especially CEO.
- ▶ Key decisions of merging and reverse merging plans should be passed only after formulating a detailed study analysis team constituted by the board.
- ▶ New system established to take valuable opinion of the employees.



WIPRO
AN ETHICAL COMPANY

CORE VALUES OF WIPRO

- ▶ Be passionate about clients' successes.
- ▶ Treat each person with respect.
- ▶ Be global and responsible.
- ▶ Unyielding integrity in everything we do.

WHAT MAKES WIPRO ETHICAL?

▶ **Accountability and discipline**

- Violating relevant laws, regulations, or encouraging others to do so, exposes the Company to liability and puts the Company's reputation at risk.
- The Compliance process at Wipro has the oversight of the Board of Directors, Audit Committee and Corporate Compliance Committees comprising of Board Members.
- Wipro will take appropriate disciplinary action including up to termination against any employee, agent, contractor or consultant.

▶ **Customer Relations**

- Customers purchase our services and products, Advertising is an essential instrument for effective brand building and communicating with customers.
- Wipro ensure that all advertisements of Wipro's services and products are done ethically.
- Advertising never misrepresent, deceive or be likely to mislead customers. Marketing and advertising of Wipro services and products are truthful and accurate.
- Wipro avoid political or religious remarks in advertisements that may be offensive.

WHAT MAKES WIPRO ETHICAL?

▶ **Protecting customer information**

- Wipro have access to personal information related to customers and others
- Data privacy has always been a matter of trust and respect for others.
- IT Protect the confidentiality of personal information of current and former customers, as well as job applicants, business partners and customers.

▶ **Gifts, entertainment & business courtesies**

- Employee are not involved in giving, offering, promising to offer anything of value (such as money, securities, goods or services) to government officials, customers, potential customers, foreign officials including officials
- Gifts, entertainment and business courtesies are offered or accepted if all of the following conditions are met:
 - It cannot be reasonably construed as payment or consideration for influencing or rewarding a decision or action.
 - It cannot be offered when there is an ongoing active business negotiation.

WHAT MAKES WIPRO ETHICAL?

▶ **Social media and networking**

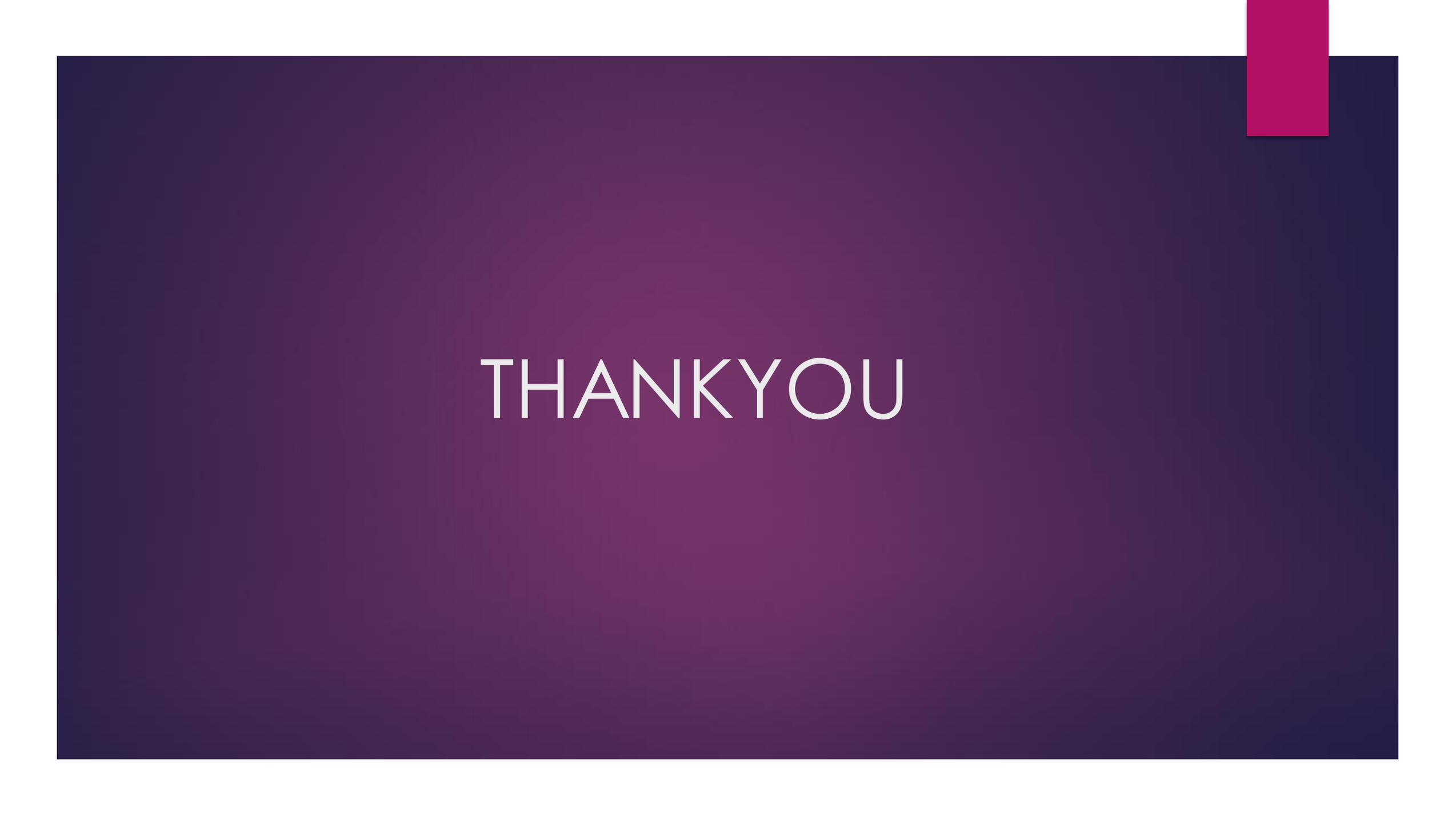
- Wipro supports the rights of its employees to express themselves freely through social networks. However, employees cannot be involved in information about or may affect the perception of Wipro, and its stakeholders .
- Wipro review and monitor the online activities of its employees. If Wipro get to know that such online activity is in violation of Company policies, appropriate investigation and action is taken.

ACTIONS TAKEN BY WIPRO

- The Company investigate all credible reports of misconduct, using both internal and external resources.
- Wipro conducts surveys and audits to assess risks and enhance compliance.
- Trained experts get assigned to conduct the investigation.
- The facts of the case is uncovered through interviews and document reviews.
- Investigators recommend appropriate action, if needed, to management. If action is necessary to correct the situation and prevent a recurrence, the Company take corrective steps including disciplinary action against the erring employee up to and including dismissal.

AWARDS AND RECOGNITIONS

- ▶ Wipro wins “Global Breakthrough Partner of the Year” from Pivotal Software in 2019.
- ▶ Wipro’s Intellectual Property Portfolio Recognized with National IP Award and WIPO Enterprise IP Trophy.
- ▶ Wipro wins Gold for Physical Identity & Access Management and Security Intelligence as a Service at 2018 IT world Awards.
- ▶ Wipro won Innovative Policies and Practices for Persons with Disabilities Award by Zero Project, Vienna.



THANKYOU