

COMPANY WATCH: KINGFISHER AIRLINES LTD

- **Creating a niche for itself by redefining luxury for Indian air travelers**
- **IPO put on hold as market condition not favourable, has received private equity proposals**
- **Expecting break-even by 2007-08**
- **Has placed orders worth more than \$5.5 billion**

Vijay Mallya, ranked 26th Richest Indian with estimated wealth of \$510 million according to Forbes listing, is sometimes referred to as India's own Richard Branson, more often since May 2005 when he started Kingfisher Airlines named after his liquor company United Breweries' best-selling beer. "Owns racehorses, vintage cars, private jets and yachts", is the introduction at Forbes website for the liquor tycoon, who controls and runs the UB Group, India's largest spirits marketer. And perhaps it is his personal taste that makes Kingfisher Airline raising the aspirational benchmarks of Indian air-travelers.

From Extra-Wide Seats and Spacious Legroom, six vegetarian and non-vegetarian options for gourmet meal apart from low-sugar and low-fat meals to in-flight entertainment and personalised valet service—Kingfisher is trying hard to redefining Indian air-traveler's luxury. It is, however, not only the matter of Mallya's personal taste but also a smart business move. While other full service airlines are losing market share to low-cost carriers (LCCs), Kingfisher has earned 8.7% market share of air traffic in just one year. With a thrust on pampering the customers with good service and care, Kingfisher has created a niche for itself within a short span.

Initially Kingfisher had positioned itself between low cost carriers and full service carriers, calling itself a 'true value carrier' with just one class called Kingfisher Class. But it realised very soon that there is a potential for a premium service too, and started the business class Kingfisher First. While valet service only can be considered as a luxury here, the airline is planning to launch helicopter services in Mumbai and Bangalore for its Kingfisher First passengers. Although the 'true value' tag mark continues, Kingfisher is now counted among the full service airlines only.

Market Share of Airlines in India

(in %)	Apr'06	Aug'06
Jet Airways	34.6	31.1
Indian	23.64	22.6
Air Deccan	16.7	18.3
Air Sahara	8.5	8.8
Kingfisher	7.6	8.7
SpiceJet	7.01	6.3
Others	1.95	4.2
	100	100

India's Air Traffic

(In mln)	July'05	June'06	
Domestic	1.76	2.67	51.70%
International	1.55	1.78	14.84%
Total	3.31	4.45	34.44%

	July'04-June'05	July'05-June'06	
Domestic	19.8	27.5	38.89%

Mega Investments

Kingfisher Airlines started with just four flights daily and today, it offers 108 flights daily connecting 17 key Indian destinations. It plans to expand the current operations of 97 daily departures to 175 in the next 9-10 months. To pursue this expansion, Kingfisher has been on an investment drive for some time now. It signed two

separate agreements with American engine manufacturer Pratt & Whitney (PW) totalling \$360 million at the recent Farnborough International Air-show in Farnborough, U.K., near London. The two agreements include purchase and maintenance of 10 PW 4000-100 engines to power Kingfisher's fleet of Airbus A330 planes and for maintenance of engines of its new fleet of ATR 72-500 turboprop aircraft. Kingfisher also awarded a \$24 million contract to Thales U.K., the British unit of Thales SA, a leading electronic systems and industrial electronics company in defence, aerospace, airlines security and safety, for two A320 and one ATR full flight simulators during the air show.

Earlier, in 2005, the airline had placed orders for 65 new aircrafts at Paris and Dubai air shows. In June 2005, Kingfisher Airlines had placed orders for 15 planes from Airbus at the Paris Air Show in a deal valued at more than \$3 billion. The order included five of the new double-decker A380 model, five A350-800 and five A330-200. At the Dubai Air Show in November 2005, Kingfisher announced buying 50 planes including 30 Airbus A320s for \$1.9 billion and 20 ATR 72-500 aircrafts for \$350 million.

Initial Public Offering (IPO) plans put on hold till it breaks even

Vijay Mallya has recently said that he would like to bring the IPO of Kingfisher Airlines only once it achieves break-even, which is expected in 2007-08. Earlier he had indicated that Kingfisher would raise \$200 million through an IPO in 2006. It was expected that the company would be floating the IPO in mid-2006 only in order to fund the large-scale expansions and mega-orders. Mallya, however, claimed to the media recently that Kingfisher is fully funded and doesn't depend on the proposed IPO for its expansions. The company, at present a 100% UB group subsidiary, has a paid up equity capital of more than \$86 million (Rs. 400 crore).

In reality, it seems that the company has deferred the IPO plan considering the recent volatility in the Indian stock market after May 2006. Not only was the entire market sentiment down for a couple of months, but the IPO of low-cost airline Deccan Aviation Limited also failed to enthuse the investors. Incidentally, the Deccan Aviation IPO came to the market just after the worldwide crash in the stock markets including India in May 2006. Rising fuel costs and intense competition have eroded shareholders' value even in the existing listed airline stocks, and Kingfisher couldn't have expected to fetch a good value for its IPO in these market conditions. Market analysts believe that with the IPO plan on hold for some time, the company might look at other options also, including private equity. Earlier, it was reported in media that Kingfisher might raise around \$100 million before it goes for an IPO. Caylor was reportedly hired as its financial adviser for such a deal. Mallya recently said that his company's shares are not yet on sale, but acknowledged that he has received offers from several private equity players.

Financials

Kingfisher has incurred a loss of about \$41 million (Rs. 190 crore) on sales of about \$151 million (Rs. 700 crore), in its first full year of operation. The company expects to break-even during 2007-08.