K G AIRLINES LTD. A STRATEGIC BUSINESS CASE

Introduction: Aviation Industry at a Glance

Aviation as a catalyst for economic growth, tourism & trade

Millions of direct and indirect employment opportunities

Disruption due to COVID-19 (2020–2021) crippled the global industry

Gradual recovery post-2022

Quote & Leadership Vision

"When everything seems to be going against you, remember that the airplane takes off against the wind, not with it."

— Quote at KG Airlines HQ, Gurugram

Reinforces resilience and vision

Krishna Gupta, MD, KG Airlines

A leader navigating through headwinds

Aviation Industry at a Glance

- Domestic air travel surging post-pandemic
- Passenger traffic rebounded in 2022
- Relaxation of restrictions revived consumer confidence
- Rise in travel appetite due to economic optimism

Economic Drivers Fueling Aviation Growth

- India: one of the fastest-growing economies (7% GDP growth projected)
- Boost in private consumption, services, and manufacturing
- Expanding working-class population and urbanization
- Disposable income → Increased air travel demand

Tier 2 & Tier 3 Cities: The New Growth Hubs

- Rising population and economic activity
- Regional connectivity a key growth lever
- Strong potential for low-cost carriers
- Govt. push for inclusive infrastructure

Government Infrastructure Push

- Vision: Modernize and expand airport infrastructure
- 100 new airports by 2028
- Supportive policies for regional connectivity (UDAN scheme)
- Projected requirement of 4,000 aircraft in 20 years

KG Airlines in This Evolving Landscape

- Strategically repositioned as a Low-Cost Carrier
- Focused on digital transformation, fleet rationalization, and regional routes
- Leveraging growth from emerging cities and expanding travel demand
- Poised to ride the aviation wave of 2025 and beyond

Promoter Group and Shareholding

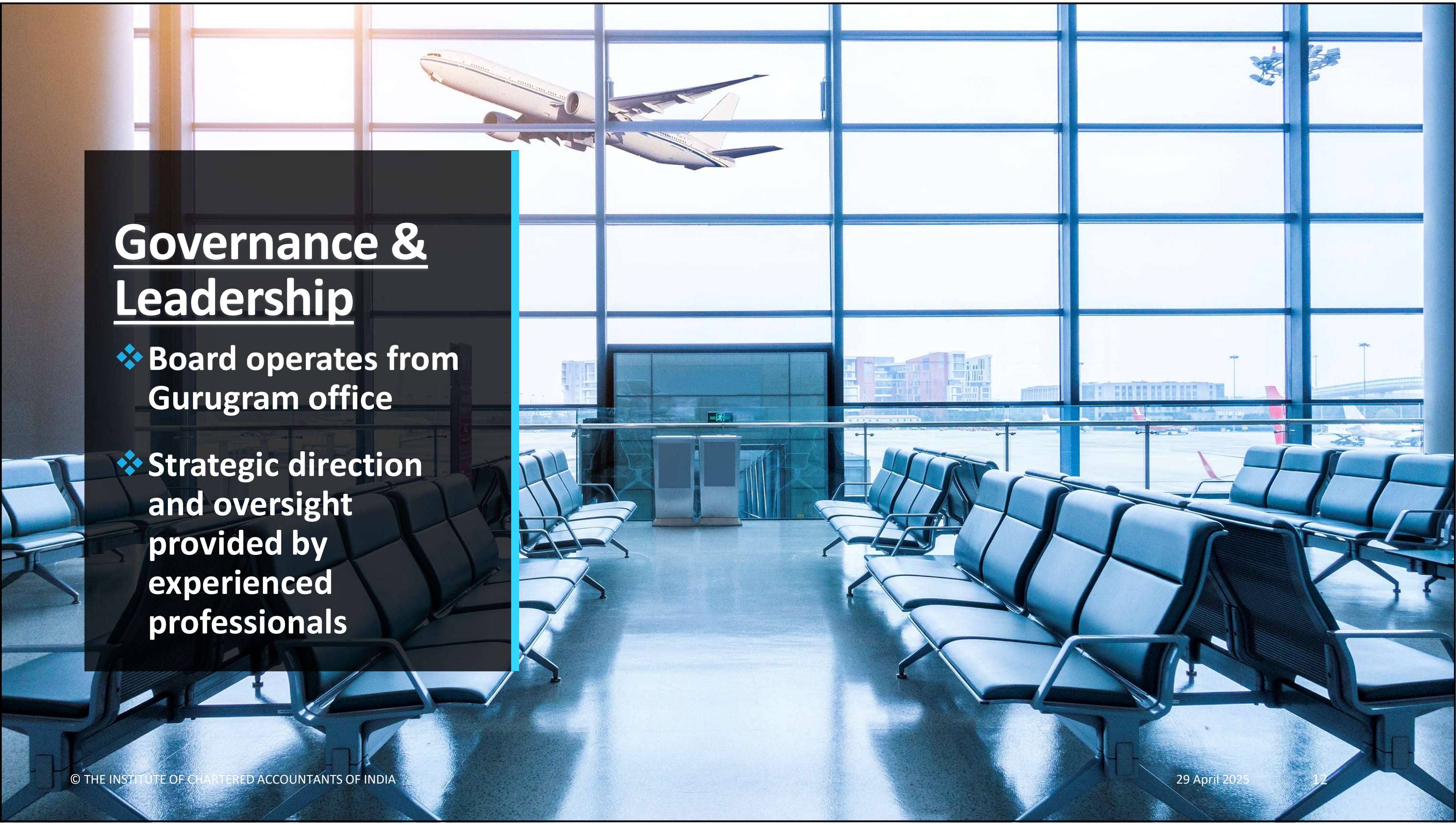
- Founded in 1996 | NSE: KGA | Low-Cost Carrier Strategy
- Founders: Krishna Gupta (KG Partners) and D Gupta (DG Assets, Singapore)
- Ownership:
  - KG Partners: 59%
  - DG Assets: 41%

Key Milestones in KG Airlines' Journey

- **1996**: Company founded
- **Aug. 1999**: Order placed for 50 Airbus A320-200 aircraft10
- **Aug. 2000**: First aircraft received
- **2000**: Mid-2000: Maiden flight: New Delhi → Mumbai
- **2022**: Fleet size reaches 270 aircraft
- **Dec. 2023**: Additional 40 aircraft acquired

Present-Day Operational Scale

- **Fleet Size: 310 aircraft (as of end-2023)**
- **Network: 49 cities across 25 states**
- **Passenger Volume: 90 million served**
- **Exchange Listing: NSE under ticker symbol “KGA”**
- **Headquarters: Gurugram, Haryana**



Governance & Leadership

- Board operates from Gurugram office
- Strategic direction and oversight provided by experienced professionals

Evaluating Strategic Business Models

During recent Board meetings, two strategic models were evaluated:

- **Full-Service Airline**
  - Premium offerings
  - Product differentiation strategy
- **Low-Cost Airline**
  - Competitive pricing
  - Cost advantage strategy

Decision: KG Airlines to adopt **Low-Cost Carrier (LCC)** model focusing on **domestic civil aviation sector**.

KG Airlines: Strategic Identity

Mission

Provide connectivity with speed and reliability, making travel hassle-free and affordable for our guests

Vision

To be a leader in aviation by offering unmatched connectivity in and with India

Purpose

Be our Guest, we connect you to your world

Building Customer Loyalty – The LCC Promise

KG Airlines focuses on 3 key value drivers:

1. **Affordable Rates** – Competitive pricing strategy

2. **On-Time Performance** – Operational discipline

3. **Hassle-Free & Courteous Service** – Hospitality with speed

100 new domestic airports under development

KG Airlines plans:

- Lease additional aircrafts
- Expand route network
- Ensure seamless connectivity

Initial investment: Several hundred crore INR

Future Outlook – Growth & Investment

Navigating Headwinds in Airline Operations

KG Airlines faces critical operational challenges:

- Supply chain disruptions
- Rising costs across multiple fronts
- Competitive constraints on pricing
- Shrinking margins and cash reserves

Aircraft & Spare Part Availability

01
Global aircraft supply disrupted post-pandemic

02
Shortage of aircraft engines and critical components

03
Expansion delayed due to delivery constraints

04
Many planes grounded due to unavailability of spares

05
Leasing terms extended for continuity

Impact:
Operational bottlenecks, reduced deployment capacity, delayed route expansion

Escalating Operating Costs

01

Jet Fuel Prices: Volatile, upward trend

02

Lease Rentals: Increased due to demand-supply mismatch

03

Crew Salaries: High demand for pilots and crew

04

Maintenance & Depreciation: Upward trajectory

Observation:
KG Airlines monitors fuel but has not hedged fuel risks using financial instruments

Tight Margins in a Price-Sensitive Market

Competitive market limits ticket fare hikes

Code-sharing agreements used for route optimization

High fixed and variable costs compress margins

Cost increases cannot always be passed on to customers

Gradual depletion of cash reserves observed

Focus shifts to cost efficiency, operational optimization, and fleet strategy

Need to explore:

Hedging strategies	Long-term leasing negotiations	Alternate revenue streams (ancillary services)

Impact on Cash Reserves and Strategic Priorities

PARTICULARS	FY 2023	FY 2022
Available Seat Kilometers (ASK) (in million)	1,14,000	70,400
Revenue Passenger Kilometers (in million)	94,000	52,000
Passenger Load Factor (%)	82.45%	73.86%
Cost per Available Seat Kilometer (CASK)	4.85	4.65
Revenue per Available Seat Kilometer (RASK)	4.80	3.70
Passenger traffic	90 million	75 million
Average % of scheduled flights cancelled *	1.00%	0.45%
On Time Performance (OTP)** in %	88%	80%
Number of unresolved customer complaints	10	4

Operational Highlights of KG Airlines

Flight Cancellations: Technical & Staffing Challenges

- Primary causes of increased flight cancellations:
  - Mechanical faults & software glitches
  - Unavailability of spare parts
  - Pilot & cabin crew shortages

Staff attrition has increased from **10% (2022)** to **15% (current year)**

Rising Attrition & Employee Concerns

- Exit interviews reveal:
  - Low pay scales relative to competitors
  - Long working hours and operational fatigue
- Impact:
  - Staff shortages affecting flight schedules
  - Increased training and hiring costs
  - Lower morale and reduced service quality

Cancellations: Operational & Financial Burden

Every flight cancellation may involve::

Alternate flight arrangements

Full refunds to passengers

Compensation in select cases

On-Time Performance (OTP) Issues:

Delays over 2 hours attract penalties:

- ₹5,000 to ₹20,000 per passenger (domestic)

Monitoring OTP Across Metro Airports

- Performance tracked at **Mumbai, Delhi, Hyderabad, and Bangalore**
- Critical metric for regulatory compliance and customer satisfaction
- **Strategic Need:**
  - Improve OTP through:
    - Better crew scheduling
    - Preventive aircraft maintenance
    - Digitally optimized operations

Turnaround Time: The Heart of Operational Efficiency

- Time between **landing and next take-off**
- **Includes:**
  - Passenger loading/unloading
  - Cleaning
  - Maintenance inspection
  - Refueling

Current Average: ~1 hour per aircraft

Why it Matters:

Faster turnaround = Better **asset utilization** = Higher **revenue generation**

Operational Efficiency vs. Safety Protocols

- Pressure for quick turnaround must **not compromise safety**
- Safety lapses attract strict action from **DGCA**
- **Safety = Non-negotiable priority**

Current Challenge:
•Safety inspections delayed due to **shortage of technical staff**

Bridging the Technical Manpower Gap

- Overburdened technical crew = **Delays & Risks**
- Plan to hire **100 new engineers** across India
- Engineers to be trained via **in-house training facility**

Expected Impact:

- Reduced turnaround delays
- Improved safety compliance
- Higher operational readiness

Passenger Growth & Route Efficiency

- Passengers increased from **75M (2022)** to **90M (2023)**
- KG Airlines has strong **route dominance** on select sectors
- Future competition expected with **industry expansion**
- **Strategic Focus Areas:**
  - Maintain **operational efficiency**
  - Ensure **route profitability**
  - **Strengthen customer loyalty** in dominant routes

Ind AS Compliance & Management Responsibility

- Financials prepared in compliance with Indian Accounting Standards (Ind AS)
- Transparency emphasized via clear disclosures in Management Responsibility Statement
- Alignment with audit and regulatory expectations

Strategic Pillars for Cost Leadership

Fleet Management

Single aircraft type → cost-efficient operations

Aircrafts leased, not owned

Economy-only seating

Strategic Pillars for Cost Leadership

Digital Transformation

Promote **online booking & check-in**

Lower human interface → **cost savings**

Reduces **agent commissions**

Ancillary Services

Paid in-flight F&B and entertainment

Partner with **premium brands** to maximize yield

Fare Structure in Airline Operations

Ticket Price: ₹10,000

Discount: 5% → ₹9,500

GST @5%: ₹475

Aviation Security Fee: ₹500 (passed to Govt.)

User Development Fee: ₹250 (passed to AAI/Private Airport Operator)

Airline Compensation: ₹5 per passenger

Balancing Loyalty & Revenue

Challenges Identified:

- Reward redemption = loss of regular revenue on popular routes
- High volume of **unredeemed points**

Strategic Solution:

- Partner with **airport retail stores** for redemption
- Improves **churn rate** and **passenger satisfaction**
- Retains **full fare seat revenue** on popular flights

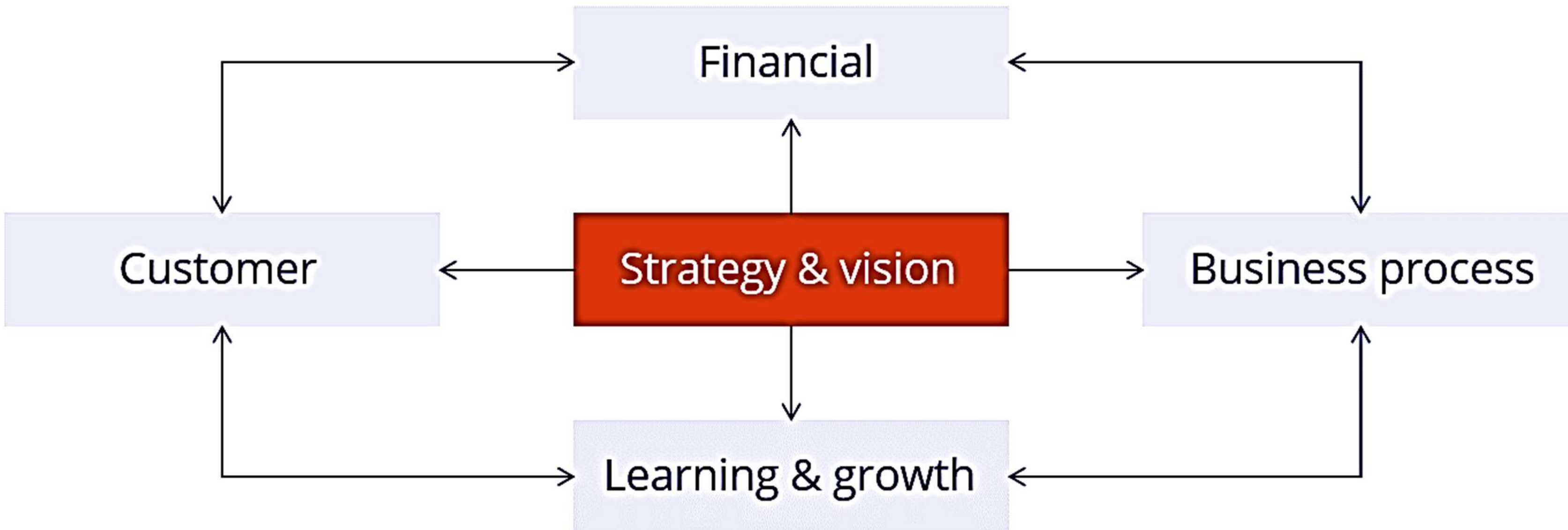
Reducing Attrition through Engagement & Growth

Attrition Rate: ↑ from 10% to 15%
Root Causes:

- Low pay vs. market
- Long working hours
- Limited career growth

Strategic Actions:

- Tie-ups with **aviation institutes**
- Performance-based incentives & recognition
- Enhanced facilities: **staff mess, transit, recreation, off-site events**



Integrated View via Balanced Scorecard

Integrated View via Balanced Scorecard

Four Perspectives:

- Financial – Revenue yield, cost management, profitability
- Customer – On-time performance, satisfaction, loyalty
- Internal Process – Turnaround time, safety, digitalization
- Learning & Growth – Staff training, morale, innovation

Future Outlook for KG Airlines

1. Address **operational bottlenecks**
2. Sustain **cost leadership** with quality
3. Enhance **customer engagement & loyalty**
4. Expand digital footprint
5. Improve **employee engagement** and build a future-ready workforce

KG Airlines is poised to navigate challenges and build a scalable, customer-centric, low-cost model.

Board of Directors

Jai Kumar, Chairman and Non-Executive Independent Director

A business leader, technocrat and academic, having worked in Australia, Europe, and Asia through a career spanning over 30 years.

Ana Maria, Non-Executive Independent Director

With more than 25 years of extensive experience, Ana holds the position of Managing Partner at a renowned law firm. Her broad and varied representation of public and private corporations, alongside other entities, before various National Courts, Tribunals, and Legal Institutions has earned her acclaim on both national and international fronts.

Board of Directors

K. Srinath, Non-Executive Independent Director

Srinath, who founded a technology company during his early twenties, has a track record of developing numerous successful businesses. In 2021, he sold his business interests and was later invited to serve as a non-executive board member for KG in 2022.

Krishna Gupta, Promoter and Managing Director

Krishna is also the Group Managing Director of KG Partners. He holds a degree in electrical engineering from the MIT.

M. Sridharan, Non-Executive Director

Sridharan, currently serving as a Governance Consultant, brings extensive experience collaborating with government, regulatory bodies, investment institutions, and banks.

Harsh Mittal, Non-Executive Director

Harsh, is a fellow member of the Institute of Chartered Accountants of India and is a graduate in Economics from Delhi University.

Board of Directors

Markus J., Non-Executive Director

Markus, an aviation industry veteran, with an illustrious career spanning over 36 years.

Ravi Kishan (Retd.)

Ravi trained as a commercial pilot. He flew long-haul flights with a major airline for much of his career, before being promoted to chief pilot. He retired from flying in 2022. He was then invited to join KG's Board.

Board of Directors

Board of Directors

K.B. Chakraborty, Independent Director*

K.B. had a successful career as a marketing executive, serving as Marketing Director of a major quoted engineering company until he retired in 2015. K.B. is fellow of CSEP. He is also an Independent Director on the Boards of several companies.

* K.B. was appointed as a casual vacancy director on 3rd September 2023. His appointment was subsequently approved by the members in the immediate next general meeting.

Extracts from Management's Responsibility for Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these individual financial statements that give a true and fair view of the financial position, financial performance, ----- in accordance with the Ind AS and other accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the company and for preventing and detecting frauds and other irregularities---- relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.