

## **An Analysis of Go First Airlines: A Case Study on Voluntary Insolvency Resolution in the Aviation Industry**

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### **Introduction**

The aviation sector plays a vital role in the worldwide economy, enabling the exchange of goods, promoting tourism, and fostering international connections. Nevertheless, in recent years, this industry has faced a multitude of obstacles that have placed significant strain on airlines. The combination of economic recessions, unpredictable fuel costs, and the severe consequences of the COVID-19 epidemic has resulted in a climate characterised by instability and a lack of predictability. Consequently, numerous airlines, both well-established companies and new entrants, have been facing financial difficulties and striving to stay in operation.

In the midst of a difficult situation, this case study examines the deliberate process of resolving insolvency that Go First Airlines, a major low-cost carrier in India, undertook. The airline's choice to engage in this procedure despite financial difficulties and operational obstacles provides important understanding into the workings of the aviation sector and the potential routes for recovery and reorganisation. The study seeks to elucidate the issues airlines encounter and the strategies they might employ to overcome these hurdles by analysing the factors contributing to Go First's insolvency settlement.

Go First Airlines, established in 2005, quickly became a prominent participant in India's growing aviation industry. The airline established a specialised market for itself by providing cost-effective air transport to a rapidly expanding middle-class demographic. Notwithstanding this achievement, the corporation saw increasing financial burdens as the industry environment changed. The company's resources were severely strained due to the combination of economic challenges and the worldwide pandemic. As a result, Go First made the decision to voluntarily initiate insolvency resolution procedures in order to deal with its financial difficulties and find a way to become financially stable in the long run.

This case study aims to conduct a thorough examination of the circumstances that contributed to the financial difficulties faced by Go First Airlines, the process of resolving its insolvency, and the potential consequences for the aviation sector as a whole. This analysis will examine the relationship between financial management, operational difficulties, and industry trends that have caused the airline's difficulties. In addition, the case study will analyse the influence of regulatory frameworks and government policies on the industry's structure and the potential for its revival. In essence, the primary objective of this research is to provide airlines with vital insights to help them navigate the intricate and swiftly evolving realm of aviation.

**Keywords:** Go First Airlines, Aviation Sector, Revival, Pandemic, COVID-19, GoAir

### **Background of Go First Airlines:**

According to Zed News (2023), the Wadia Group, a well-known Indian conglomerate with various economic interests, established Go First Airlines in 2005 under the name GoAir. The airline attempted to meet the rising demand for inexpensive air travel among India's increasing middle-class population by positioning itself as a low-cost carrier. By 2023, Go First had established itself as a dominant player in India's aviation industry, with a fleet of Airbus A320s and connections to a plethora of local and international destinations (Moneycontrol, 2023).

Go First has always operated on a lean business strategy, prioritising efficient operations to keep costs down and profits high. The airline was able to successfully compete with other low-cost carriers and become a dominant force in the sector by implementing this strategy. Go First still had to overcome a number of obstacles that were threatening its financial viability, even though it had accomplished a lot.

The unexpected effects of the COVID-19 outbreak on the airline sector were a major contributor to their financial woes. Worldwide airlines had a serious financial crisis and huge revenue loss as a consequence of the pandemic's impact on air travel demand (Hindustan Times, 2023). Similar to other airlines, Go First had a hard time dealing with grounded flights, harsh travel restrictions, and a significant decline in passenger traffic.

Other financial pressures added to the difficulties Go First had as a result of the pandemic. Fuel price hikes and airport fee increases were two examples of these factors that ate into the airline's profit margins and cash reserves. A combination of factors, including mounting debt and fierce competition in India's aviation industry, exacerbated the airline's financial problems.

Go First's financial situation worsened and the chances of a quick recovery were low, putting the company in a dangerous position. Management at the airline had the enormous challenge of dealing with the growing financial problems and finding practical ways to keep the firm afloat and even thrive in the future.

### **Decision to Pursue Voluntary Insolvency:**

According to a report by The Economic Times in May 2023, Go First's management took the significant step of initiating voluntary insolvency resolution proceedings under the Insolvency and Bankruptcy Code (IBC) of India. Upon careful examination, it became evident that the airline's financial situation had reached an unsustainable point. Urgent action was necessary to prevent the prospects of recovery from becoming even more dismal. According to PTI News, the management recognised the importance of following an organised resolution process, as outlined by the IBC. They believe that this approach would provide the airline with the best chance to restructure its liabilities, tackle the financial difficulties, and potentially revive the business. Voluntary insolvency resolution proceedings provide a legal framework to help financially troubled companies reach a mutually beneficial agreement with their creditors. The goal is to safeguard the value of their assets and protect the interests of stakeholders (India Today, 2023). Choosing this path, Go First's management sought to showcase their dedication to ethical corporate practices, openness, and responsibility.

The airline's operations were immediately impacted by the announcement of the insolvency proceedings. Go First has suspended all flights scheduled for May 3rd and 4th, resulting in significant disruptions for numerous passengers who had made bookings for these dates (Times of India, 2023). The suspension of operations has caused significant concerns among customers, employees, and industry stakeholders about the airline's future and its ability to meet its obligations.

The decision to pursue voluntary insolvency was a calculated and strategic move by Go First's management. It indicated their determination to address the airline's financial difficulties directly and pursue a methodical, legally sound strategy to resolve the crisis. The success of this process hinges on the insolvency resolution plan's effectiveness, creditor and stakeholder cooperation, and the airline's ability to adapt to changing market conditions and emerge stronger and more resilient.

### **Background of the Study:**

Go First Airlines, formerly known as GoAir, was established in 2005 by the Wadia Group. Over the years, the airline has garnered a significant market share in the Indian aviation sector, operating a fleet of Airbus A320 aircraft and serving numerous domestic and international destinations. However, despite its growth and success, Go First has faced mounting financial difficulties, which have been exacerbated by the unprecedented challenges posed by the COVID-19 pandemic. With dwindling cash reserves and increasing operational costs, the airline found itself in a precarious position.

In early May 2023, Go First made headlines as it filed for voluntary insolvency resolution proceedings under the Insolvency and Bankruptcy Code (IBC) of India. The decision to pursue insolvency came after the airline's management realized that their current financial situation was unsustainable and that an organized resolution process would provide the best opportunity to restructure and revive the business. As a result of these proceedings, Go First temporarily suspended all flights on May 3rd and 4th, leaving thousands of passengers stranded and sparking concerns about the future of the airline.

This case study aims to provide a comprehensive overview of the factors that led to Go First Airlines' financial distress, the insolvency resolution process, and its implications for the aviation industry at large. By examining the company's financial situation, management decisions, and the broader context of the aviation sector, the study will explore the challenges and opportunities facing airlines in an increasingly competitive and volatile market.

### **Factors Contributing to Financial Distress:**

Various factors, both internal and external, played a role in the financial difficulties faced by Go First Airlines, which ultimately led to the decision to file for voluntary insolvency. These factors can be broadly classified as macroeconomic conditions, industry-specific challenges, and company-specific issues.

#### **Macroeconomic Conditions:**

The global economic downturn and regional economic challenges played a significant role in Go First Airlines' financial crisis. The uncertain economic environment negatively impacted consumer spending on discretionary items such as air travel, leading to reduced demand for flights and decreased revenue for the airline (Hindustan Times, 2023).

#### **Fuel Prices:**

Rising fuel prices presented a considerable challenge for Go First Airlines, as fuel expenses constitute a significant portion of an airline's operational costs (Financial Express, 2023). The increased fuel prices eroded the airline's profit margins and further strained its financial position.

#### **COVID-19 Pandemic:**

The COVID-19 pandemic had a profound and unprecedented impact on the aviation industry, with severe restrictions on international and domestic travel, grounded flights, and plummeting passenger traffic (Moneycontrol, 2023). Go First Airlines was not immune to the effects of the pandemic, as the reduced demand for air travel led to massive revenue losses and a liquidity crunch (Hindustan Times, 2023).

#### **Competitive landscape:**

The Indian aviation market has become increasingly competitive, with the entry of new players and the expansion of existing low-cost carriers (Zee News, 2023). The heightened competition has led to price wars and eroded profit margins, making it difficult for airlines like Go First to maintain profitability and financial stability.

### **Accumulated Debt and Financial Mismanagement:**

Go First Airlines had accumulated substantial debt over the years, partly due to investments in fleet expansion and infrastructure (The Economic Times, 2023). The airline's financial management struggled to balance these investments with the mounting operational costs, leading to a precarious financial situation.

### **Decision to Pursue Voluntary Insolvency:**

Go First's management made the significant choice to initiate voluntary insolvency resolution procedures under the Insolvency and Bankruptcy Code (IBC) of India in early May 2023 (The Economic Times, 2023). The decision was motivated by the recognition that the airline's financial condition had become unsustainable, and without prompt intervention, the chances of recovery would grow progressively grim. The management recognised that implementing a structured resolution procedure, as specified by the IBC, would provide the most favourable chance for the airline to reorganise its debts, tackle the fundamental financial difficulties, and perhaps restart the firm (PTI News, 2023).

Voluntary insolvency resolution proceedings are a legal framework created to aid financially troubled enterprises in reaching a mutually acceptable resolution with their creditors, while safeguarding the value of their assets and protecting the interests of stakeholders (India Today, 2023). By choosing this course of action, Go First's leadership sought to showcase its dedication to ethical corporate governance, openness, and responsibility.

The declaration of insolvency had an immediate impact on the airline's operations. Go First has temporarily halted all flights scheduled for May 3rd and 4th, resulting in significant inconveniences for numerous passengers who had made reservations for these dates (Times of India, 2023). The suspension of operations has caused significant apprehension among customers, staff, and industry stakeholders regarding the airline's prospects and its capacity to meet its commitments.

Go First's management made a courageous and calculated decision to opt for voluntary insolvency. The statement indicated their determination to directly address the airline's financial difficulties and pursue a methodical, legally acceptable strategy to resolve the situation. Nevertheless, the outcome of this procedure hinges on the efficiency of the bankruptcy resolution plan, the collaboration of creditors and stakeholders, and the airline's capacity to adjust to changing market conditions and reemerge as a more robust and resilient organisation.

### **Insolvency Resolution Process:**

The insolvency resolution process undertaken by Go First Airlines aimed to address the airline's financial distress and to develop a structured plan for the potential revival of the company. The process, guided by the Insolvency and Bankruptcy Code (IBC) of India, involved several crucial steps and the active participation of creditors and stakeholders.

#### **1. Filing for voluntary insolvency resolution proceedings:**

Go First Airlines initiated the process by filing for voluntary insolvency resolution proceedings under the IBC (The Economic Times, 2023). This decision indicated the management's commitment to addressing the financial crisis through a legally compliant and transparent process.

#### **2. Appointment of an insolvency resolution professional (IRP):**

As part of the proceedings, an insolvency resolution professional (IRP) was appointed to oversee the process and manage the affairs of the airline during the resolution period (India Today, 2023). The IRP's primary responsibilities included facilitating negotiations between the company and its creditors, creating a resolution plan, and ensuring compliance with legal requirements.

#### **3. Suspension of flights:**

As a result of the insolvency proceedings, Go First Airlines temporarily suspended all flights on May 3rd and 4th, affecting thousands of passengers (Times of India, 2023). This decision aimed to allow the airline to focus on the resolution process and minimize further financial losses during this period.

#### **4. Engagement with creditors and stakeholders:**

Throughout the insolvency resolution process, Go First Airlines actively engaged with its creditors and stakeholders, seeking their cooperation and support in restructuring the company's debt and developing a feasible resolution plan (PTI News, 2023). The successful implementation of the plan would depend on the willingness of creditors and stakeholders to negotiate and accept potential compromises, such as haircuts on their claims or deferred payments.

#### **5. Development and approval of the resolution plan:**

The IRP, in collaboration with the airline's management, creditors, and stakeholders, worked on creating a comprehensive resolution plan that addressed the company's financial challenges and laid out a roadmap for recovery (The Hindu Business Line, 2023). This plan would require the approval of the National Company Law Tribunal (NCLT) and most of the creditors before it could be implemented.

#### **6. Impact on operations:**

The insolvency resolution process had a significant impact on Go First Airlines' operations, including the temporary suspension of flights, uncertainty among employees and customers, and potential restructuring of the business model (Financial Express, 2023). The outcome of the process would determine the airline's ability to resume operations, fulfil its obligations to customers and employees, and regain its footing in the competitive aviation market.

### **Insolvency Resolution Process:**

#### **Regulatory Environment and Government Policies:**

The regulatory environment and government policies play a significant role in shaping the insolvency resolution process and outcomes for companies like Go First Airlines. The Insolvency and Bankruptcy Code (IBC) serves as the primary legal framework for insolvency resolution in India, while other government policies can influence the aviation industry and the prospects for ailing companies.

#### **Insolvency and Bankruptcy Code (IBC):**

The Insolvency and Bankruptcy Code (IBC), implemented in 2016, establishes a comprehensive legal structure for the handling of insolvency cases in India (The Economic Times, 2023). The main goals of the IBC are to merge and simplify the process of resolving insolvency, guarantee timely resolution, optimise the value of the debtor's assets, and encourage entrepreneurship (Moneycontrol, 2023). Go First Airlines initiated voluntary insolvency resolution proceedings in accordance with the Insolvency and Bankruptcy Code (IBC). This required the appointment of an insolvency resolution professional (IRP) and adherence to specific stages of the process, such as engaging with creditors, formulating a resolution plan, and obtaining approval from the National Company Law Tribunal (NCLT) (India Today, 2023).

#### **Government policies affecting the aviation industry:**

In addition to the IBC, various government policies and regulations impact the aviation industry and can shape the outcomes of insolvency resolution proceedings for airlines like Go First. Some of these policies include:

- a. Airline route allocations and airport infrastructure: Government policies related to route allocations, airport infrastructure, and traffic rights can influence the competitive landscape and operational costs for airlines (Zee News, 2023).
- b. Taxation and subsidies: The tax structure, including taxes on aviation turbine fuel (ATF) and airport charges, can significantly impact the financial position of airlines (Financial Express, 2023). Additionally, government subsidies, such as the Regional Connectivity Scheme (RCS), can provide support to airlines operating on specific regional routes (Livemint, 2023).

c. Foreign investment regulations: Government regulations related to foreign direct investment (FDI) can determine the availability of capital for airlines and their ability to attract international investors during insolvency resolution proceedings (The Hindu Business Line, 2023).

The regulatory environment and government policies play a crucial role in shaping the insolvency resolution process and outcomes for companies like Go First Airlines. The IBC serves as the guiding legal framework for the insolvency proceedings, while other government policies can influence the aviation industry's competitiveness, financial viability, and prospects for recovery. Understanding the interplay between these regulatory factors and their implications for the insolvency resolution process is essential for companies, creditors, and stakeholders in navigating the challenges and opportunities of the insolvency resolution process.

#### **Implications for the Aviation Industry:**

The insolvency resolution process initiated by Go First Airlines carries broader implications for the aviation industry, offering lessons for other airlines, prompting regulatory changes, and potentially signalling shifts within the industry landscape. The following discussion examines these implications in greater detail.

#### **Lessons for other airlines:**

Go First Airlines' financial distress highlights the importance of prudent financial management, cost control, and agility in the face of rapidly changing market conditions. Other airlines can learn from Go First's experience by:

- a. Ensuring robust financial planning and monitoring to avoid excessive debt accumulation (The Economic Times, 2023).
- b. Developing cost-effective business models that can withstand market fluctuations and external shocks, such as fuel price volatility and pandemics (Moneycontrol, 2023).
- c. Diversifying revenue streams and exploring ancillary services to reduce dependency on passenger traffic alone (Zee News, 2023).

#### **Regulatory changes:**

The insolvency of a prominent airline like Go First may prompt regulators and policymakers to re-evaluate existing regulations and policies governing the aviation industry. Potential regulatory changes may include:

- a. Reviewing the Insolvency and Bankruptcy Code (IBC) to ensure its effectiveness and suitability for the aviation sector (Financial Express, 2023).
- b. Revising policies related to taxation, airport charges, and route allocations to create a more supportive environment for airlines (Livemint, 2023).
- c. Encouraging consolidation within the industry to create more stable and resilient airlines capable of weathering market challenges (The Hindu Business Line, 2023).

#### **Potential industry shifts:**

Go First Airlines' insolvency resolution may trigger shifts within the aviation industry, as competitors and investors react to the situation. Possible industry shifts include:

- a. Market consolidation, with larger airlines potentially acquiring the assets or routes of struggling carriers (Moneycontrol, 2023).
- b. Increased focus on low-cost carrier (LCC) models, as airlines seek to reduce costs and increase operational efficiency (Zee News, 2023).
- c. Adoption of innovative business models and partnerships, such as code-sharing agreements and joint ventures, to spread risks and leverage synergies (The Economic Times, 2023).

**Conclusion:**

The case study of Go First Airlines' insolvency resolution process provides valuable insights into the challenges and complexities faced by companies in the aviation industry, particularly during periods of economic downturn and crises such as the COVID-19 pandemic. Key findings from the case study include the importance of effective financial management, the role of regulatory frameworks and government policies, and the implications for the broader aviation industry.

1. Financial management: The financial distress experienced by Go First Airlines underscores the importance of prudent financial management and risk mitigation strategies, particularly in the face of external shocks such as rising fuel prices and global pandemics.
2. Regulatory environment and government policies: The Insolvency and Bankruptcy Code (IBC) played a crucial role in guiding the insolvency resolution process for Go First Airlines. Other government policies, such as taxation, subsidies, and foreign investment regulations, also influenced the airline's financial position and prospects for recovery.
3. Implications for the aviation industry: Go First Airlines' case has broader implications for the aviation industry, including lessons for other airlines in terms of financial management, adaptability, and risk mitigation. The case may also prompt regulatory changes and industry shifts, as stakeholders assess the effectiveness of existing policies and explore new strategies to support the long-term viability of the aviation sector.

**Areas for future research and policy recommendations could include:**

1. Assessing the effectiveness of the IBC and other insolvency resolution frameworks and identifying potential improvements to streamline the process and maximize value for stakeholders.
2. Evaluating the impact of government policies on the financial stability and competitiveness of the aviation industry and recommending targeted policy interventions to support industry growth and resilience.
3. Investigating the strategies employed by successful airlines in managing financial risks and adapting to changing market conditions, with the goal of identifying best practices and lessons for other companies in the sector.

In conclusion, the case study of Go First Airlines offers important insights into the challenges faced by companies in the aviation industry and the critical role of effective financial management, regulatory frameworks, and government policies in navigating these challenges. By exploring the case in depth and examining its broader implications, researchers and policymakers can contribute to a better understanding of the factors shaping the aviation industry's future and develop targeted strategies to support its growth and resilience.

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