Available online at www.elixirpublishers.com (Elixir International Journal)

Finance Management

Elixir Fin. Mgmt. 85 (2015) 34681-34684

ISSN: 2229-712X

A study on growth on the basis of financial performance and services provided of selected domestic airline companies in India

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ARTICLE INFO

Article history:
Received: 30 June 2012;
Received in revised form:
22 August 2015;
Accepted: 29 August 2015;

Keywords
Finance,
Domestic,
Airline.

ABSTRACT

The Indian aviation industry is one of the fastest growing aviation industries in the world. After LPG policy, the government's open sky policy has led to many overseas players entering the market and the industry has been growing both in terms of players and number of aircrafts. Today, private airlines account for around 75 per cent share of the domestic aviation market.

Introduction

Till 1991, the only public airlines in India has enjoyed monopoly in its operations and businesses and therefore could dictate its own terms to its passengers who had no other choice but to accept whatever had been available irrespective of quality of service, pricing, hospitality and comfort. After liberalization many airlines have been entered in the market. It is predicted that international passengers will grow upto 50 million by 2015.

Airlines are safer, greener, and leaner after a decade of change. But profitability is still pathetic. Airlines are emerging leaner and more competitive from a decade of crises and shocks. Yet challenges—from natural disasters and political instability to rising oil prices and increasing taxation—continue to test the industry's resilience. Pricing and service quality are the key variables that decide the brand equity of each player in the airline industry. This research paper examines the service quality delivered by three major airlines in India on the backdrop of stiff competition in the airline service sector. Indian Airlines are facing the huge problems of crises. However few of newly emerged airlines are showing huge rapid Growth. So there is huge up and downs in this Industry.

Objectives

1. To Study the financial performance of selected domestic Airlines in India.
2. To Study the analysis of Growth and trend of selected domestic Airline Companies in India.
3. To compare the service quality of the airlines under study

Research Methodology

As we all know that Research Methodology is the process to carry out the research.

Research Design:

It is the Descriptive type of research Design

Data Source:

Research is based on the Secondary data collected from authentic and corporate websites, Magazines, and Journals etc.

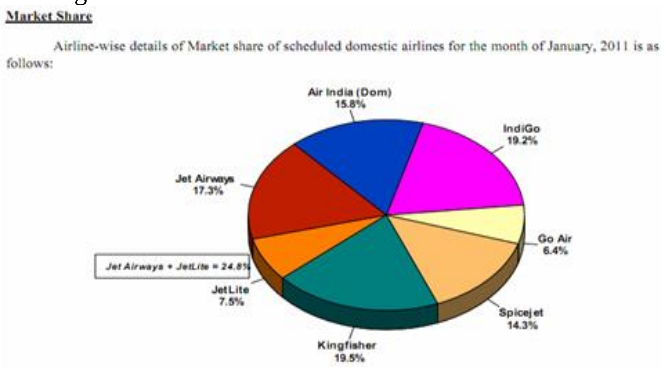
Analysis of Data: Ratio Analysis is the technique used to evaluate the financial Performance of the selected airline companies.

Sample Design:

Universe: The universe of the study is The Indian Airline Companies.

Sampling Unit: Sample Unit is the Domestic Airline Companies of India

Sampling Size: Sampling Size consist of three Companies that have huge Market Share



Market Share 2011	
Kingfisher	19.50%
Spicejet	14.30%
Go Air	6.40%
Indigo	19.20%
Jet airways	17.30%
Jet Lite	7.50%
Air India(Dom)	15.80%

Methodology

As per our convenience financial records of last 5 years (2007-2011) of the selected companies have been analysed. Then the average of each ratio is calculated and is considered as benchmark. Then it is compared with the Actual ratio of 2011.Then the variation is been calculated accordingly. Use of

Ratio Analysis

It is very important to have a financial analysis for to frame various policies in the organization. Various ratios are used by managers and investors to analyze and forecast the profitability and efficiency of a company. Listed in this section are the ratios

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used for the comparative financial analysis of the selected domestic airlines In this study following ratios are used to analyse the financial strengths and weakness of the selected Domestic Airline

Companies in India

- Profitability Ratios
- Long term and Short term Liquidity
- Solvency Ratios
- Debt Coverage Ratios
- Debt Coverage Ratios

Profitability Ratios

Profit Margin

Profit margin measures the relationship between profit and sales. As the profit may be gross or net, there are types of profit margin-

Gross Profit Margin= (Gross Profit /Sales)*100

The average Gross Profit Margin was highest by 6.83 in Spice Jet Airways and lowest by -7.24 in Kingfisher Airlines Co. The variation was highest by 252.41 per cent in Spice Jet and lowest in Kingfisher by -164.08 per cent.

b) Net Profit Margin= (Net Profit /Sales)*100

The average Profit margin was highest by -2.04 in Jet Airways and lowest by -22.18 in Kingfisher Airlines Co. The variation was highest by 72 per cent in Kingfisher Airlines and lowest in Jet Airways by -3.43 per cent.

Operating Margin= EBIT/Net Sales

The average operating margin was highest by 13.63 in Jet Airways and lowest by -5.18 in Kingfisher Airlines Co. The variation was highest by 291 per cent in Spice Jet and lowest in Kingfisher by -34.21 per cent.

Return on Capital Employed

ROCE is the type of Return on Investment (ROI) and measures the overall effectiveness of the management in generating profit with its available Resources.

ROCE=(EBIT/Average Ca[ital Employed)*100

The average ROCE was highest by 1270.02 in Spice Jet Airlines and lowest by -5.29 in Kingfisher Airlines Co. The variation was highest by -410.59 per cent in Kingfisher Airlines and lowest in Spice Jet by 109.09 per cent.

Liquidity and Solvency Ratios

It refers to the ability of the firm to meet its current liabilities. The liquidity ratio, therefore, are also called 'Short-term Solvency Ratio'. These ratio are used to assess the short-term financial position of the concern. They indicate the firm's ability to meet its current obligation out of current resources.

In the words of Saloman J. Flink, "Liquidity is the ability of the firms to meet its current obligations as they fall due".

Liquidity ratio includes two ratios:-

a. Current Ratio
b. Quick Ratio

Current Ratio:-

This ratio explains the relationship between current assets and current liabilities of a business.

Current Ratio =Current Assets /Current Liabilities

Significance: -

According to accounting principles, a current ratio of 2:1 is supposed to be an ideal ratio.

The average Current Ratio was highest by 0.88 in Kingfisher Airlines and lowest by 0.61 in Jet Airways Airlines Co. The variation was highest by 138.64 per cent in Kingfisher Airlines and lowest in Spice Jet by 83.08 per cent.

Quick Ratio:-

Quick ratio indicates whether the firm is in a position to pay its current liabilities with in a month or immediately.

Quick Ratio = Liquid Assets/ Current Liabilities

Significance: -

An ideal quick ratio is said to be 1:1. If it is more, it is considered to be better. This ratio is a better test of short-term financial position of the company.

The average Quick Ratio was highest by 0.96 in Kingfisher Airlines and lowest by 0.72 in Spice Jet Airlines Co. The variation was highest by 82.80 per cent in Jet Airways Airlines and lowest in Spice Jet by 63.33per cent.

Debt Coverage Ratios

Interest Cover

This ratios measures the debt service capacity of a firm .

Interest Coverage Ratio=EBIT/Interest

The average Interest Coverage Ratio was highest by 40.54 in Spice Jet Airlines and lowest by 1.18 in Jet Airways Airlines Co. The variation was highest by 287 per cent in Spice Jet Airlines and lowest in Kingfisher Airlines by -29.52 cent.

Management Efficiency Ratios

1) Debtors Turnover Ratio

This ratio indicates the relationship between credit Sales and average detors during the year.

Formula:-

Debtors Turnover Ratio = Net credit Sales / Average Debtors + Average B/R

The average Debtors Turnover Ratio was highest by 209.64 in Spice Jet Airlines and lowest by 12.41 in Jet Airways Airlines Co. The variation was highest by 115.95 per cent in Jet Airways Airlines and lowest in Kingfisher Airlines by 41.49 per cent.

Total Assets Turnover Ratio

This ratio reveals how efficiently the assets are being utilized.

Assets Turnover Ratio = Cost of Goods Sold/ Net Assets

Significance:-

This ratio is particular importance in manufacturing concerns where the investment in fixed asset is quite high. Compared with the previous year, if there is increase in this ratio, it will indicate that there is better utilization of assets. If there is a fall in this ratio, it will show that fixed assets have not been used as efficiently, as they had been used in the previous year.

The average Investment Turnover Ratio was highest by 4448.7 in Jet Airways Airlines and lowest by 2.57 in Spice Jet Airlines Co. The variation was highest by 115.2 per cent in Kingfisher Airlines and lowest in Kingfisher Airlines by 6.88 per cent.

The average Total Asset Turnover Ratio was highest by 8.29 in Spice Jet Airlines and lowest by 0.77 in Jet Airways Airlines Co. The variation was highest by 118.18 per cent in Jet Airways Airline and lowest in Spice Jet Airlines by 85.64per cent.

Annual Compound Growth Rate

In this study an attempt has been made to measure of Growth of the selected Domestic Airline Companies in India during the study period for 5 years between2006-07 to 2010-2011.CGR has been calculated for the following

Sales Turnover
Operating Profit
Net Profit
Total Assets
Total Current Assets
Net Current Assets
Total Debt

The following formula were used to compute the Annual Change Rate

Table-1 Ratio Analysis of Selected Domestic Airline Companies in India

		Spice Jet	Jet Airways	Kingfisher
Profitability Ratios				
Operating Profit Margin (%)	Average	6.03	13.63	-5.18
	Actual 2011	17.55	19.58	15.14
	Variation(%)	291	143.65	-34.21
Gross Profit Margin (%)	Average	6.83	5.87	-7.24
	Actual 2011	17.24	12.45	11.88
	Variation(%)	252.41	47.15	-164.08
Net Profit Margin (%)	Average	-6.59	-2.04	-22.18
	Actual 2011	3.432	0.07	-15.99
	Variation(%)	-52.08	-3.43	72.09
Return On Capital Employed(%)	Average	127.02	5.89	-5.29
	Actual 2011	138.56	12.33	21.72
	Variation(%)	109.09	209.34	-410.59
Return on Long Term Funds(%)	Average	293.08	7.05	-9.8
	Actual 2011	162.9	14.31	23.71
	Variation(%)	55.58	203	-241.94
Liquidity And Solvency Ratios				
Current Ratio	Average	0.65	0.61	0.88
	Actual 2011	0.54	0.54	1.22
	Variation(%)	83.08	88.52	138.64
Quick Ratio	Average	0.72	0.93	0.96
	Actual 2011	0.456	0.77	0.62
	Variation(%)	63.33	82.80	64.58

Table-2 Ratio Analysis of Selected Domestic Airline Companies in India

Debt Coverage Ratios				
		Spice Jet	Jet Airways	Kingfisher
Interest Cover	Average	40.54	1.18	-2.71
	Actual 2011	116.72	1.72	0.8
	Variation(%)	287.91	145.76	-29.52
Management Efficiency Ratios				
Debtors Turnover Ratio	Average	209.64	12.41	39.38
	Actual 2011	159.34	14.39	16.34
	Variation(%)	76.00	115.95	41.49
Investments Turnover Ratio	Average	2057	4448.7	3623
	Actual 2011	141.5	2778.81	4185.44
	Variation(%)	6.88	62.46	115.52
Total Assets Turnover Ratio	Average	8.29	0.77	1.4
	Actual 2011	7.10	0.91	1.54
	Variation(%)	85.64	118.18	110
Expenses as Composition of Total Sales	Average	8.74	36.36	10.73
	Actual 2011	2.41	44.56	13.35
	Variation(%)	27.57	122.55	124.41
Earnings Per Share	Average	-3.46	-25.14	-37.58
	Actual 2011	2.5	1.17	-20.64
	Variation(%)	-72.25	-4.65	54.92

Table-3 Annual Change Rate of the Selected Airline Companies

Particulars	**Sales Turnover**	**Operating Profit**	**Net Profit**	**Total Assets**	**Total Current Assets**	**Net Current Assets**	**Total Debt**
Spice jet	0.7	-0.27	-0.5	-0.07	0.15	0.08	-0.16
Jet airways	0.16	0.71	-0.13	0.19	0.14	-0.12	0.25
Kingfisher	0.52	-0.2	0.29	0.43	0.08	0.37	1.33

Table-4 Change in case of Sales

	Sales growth rate					
	Sales Turnover	**Growth Rate**	**Sales Turnover**	**Growth Rate**	**Sales Turnover**	**Growth Rate**
Mar '07	640.44		1,774.55		7,057.78	
Mar '08	1,294.99	1.0220317	1,441.39	-0.1877434	8,811.10	0.2484237
Mar '09	1,689.45	0.3046047	5,269.17	2.6556171	11,476.98	0.3025593
Mar '10	2,181.08	0.291	5,067.92	-0.0381939	10,469.64	-0.0877705
Mar '11	2,879.51	0.3202221	6,359.64	0.2548817	12,776.83	0.2203696
Geometric Mean Growth Rate(for 5 yrs)		0.45		0.37		0.16
Simple Average Growth Rate(for 5 yrs)		0.48		0.67		0.17

Table-5 Services provide by airline companies

	Spice Jet	Kingfisher	Jet Airways
on time (Yes/No)	Y	Y	Y
delay information (Y/N)	Y	Y	Y
announce delay (Y/N)	Y	Y	Y
good in flight service (Y/N)	N	Y	N
good inflight food (Y/N)	N	Y	Y
baggage loss (Rank)	2	1	3
good ground service (Good/Okay)	Okay	Good	Okay
refreshments on delay (Y/N)	N	Y	N
online booking (Y/N)	Y	Y	Y

$R= [(P_1-P_0)/P_0]/n$

R=Rate of Change

P1=Value of 2011

P_0=Value of 2007

N=Number of years i.e. 5

SWOT – Strategies

	Strength	Weakness
OPPORRTUNITIES	(S-O)	(W-O)
THREATS	(S-T)	(W-T)

Strength- Opportunities Strategies

- They have to focus on increasing tourism to expand their business by taking advantage of their strong brand value and reputation in mind of customer.
- TO penetrate international market they need very much use of their quality and continuous innovation.
- TO reach more and more domestic market they have to make their route rationalization wider.

Weakness- Opportunitie Strategies

- They need to take advantage of expanding tourism industry As still it is not a profit making organization.
- To diversify their competition they need to penetrate into international market and cover.

Strength- Threat Strategies

- To fight competitors use their brand value and reputation.
- Use continuous innovation techniques to generate more promotional strategies.

Weakness- Threat Strategies

- Cut down their prices to lower the impact of economic slowdown.
- Try to minimizing their competition by differentiating more

Conclusion

Finance of the organization should be always appropriate. It is considered to be the blood of Organization. There is unsustainable growth in this Airline Companies. Kingfisher Airlines a huge Brand of UB Group, Shows huge up and down trends. Nearly all the companies have seasonal growth. The present business world is more competitive because world is like a global village. So to be stable, not only financially but Service quality should had to be improved.

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