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A STUDY ON FINANCIAL APPRAISAL OF SELECTED AVIATION COMPANIES IN INDIA

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ABSTRACT

In the fast changing economic scenario world over, the management of any company has to play a dynamic role in managing its finances. To make rational decisions in tune with the objectives of the firm, the management must analyze the funds needs, the financial status and profitability and the business risk of the company. The airline industry exists in an intensely competitive market. In recent years, there has been an industry-wide shakedown, which will have far-reaching effects on the industry's trend towards expanding domestic and international services. An important key area to keep a close eye on is costs. The airline industry is extremely sensitive to costs such as fuel, labor and borrowing costs. Because many costs are fixed, the profitability of individual companies is determined by efficient operations and on favorable fuel and labor costs. The study includes total four companies; Indigo, Air India, Spice Jet and Jet Airways as a sample of the study. Sample is to be selected on the basis of market share. The study aims to measure the financial position, trend, strength, weakness and growth of Indian aviation Industry and identify the drawbacks, which are the indicators of the low performance of the industry. And study the determinants of profitability position of company and make comparison between the selected aviation companies In India. Objective of the study is to evaluate financial performance of selected aviation companies of India between Inter sector firm comparisons. For the comparison One Way ANOVA technique is used with help of SPSS software and try to find significance difference is available or not. Profitability Ratio is includes Operating profit ratio, Net profit ratio, fuel expense ratio, finance expense ratio etc. In this study accounting and statistical; both type of techniques are used. In this way study will help in making suitable suggestions for the improvement of further successful survival of aviation Companies in the competitive world. Therefore, statement of problem under the study is selected as "A study on financial appraisal of selected aviation companies in India".

KEYWORDS: *Economic Scenario, Borrowing Costs, Profitability, Net Profit Ratio, Operating Profit Ratio.*

Introduction

India is one of the fastest growing aviation markets in the world. A total of 127 airports In the country, which includes 13 international airports, 7 custom airports, 80 domestic airports and 28 civil enclaves are managed by The Airport Authority of India (AAI). There are about 450 airports and 1091 registered aircrafts in India today.

Aviation has been around a century but has been around for than 2000 years. Leonardo da vinci, made many models aircrafts but they did not fly because he introduced lighter than air flight.

The first plane was brightening by the Wright flyer. There were two brothers Wilbur and Orville. They made Wright flyer plane. Wright brothers made first aircraft to be launch. First successful heavier than air aircraft was made and it was known as Wright flyer

The first flight was on December 17th 1903 after the Wright brothers there was an aviation boom. The entire aviation sector really picked up. After this particular time modern day aircrafts giants are airbus as well as Boeing came into existence. And this are used across the country and across international air live. They only used airbus and Boeing since that time airline industry technically advanced and come into existence of jet which is used for a major form of transport in the whole world.

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Parts of Aviation Industry

Aviation industry in India is divided into two parts: - Commercial Aviation and Military Aviation. Each of them is further divided into two subheads i.e. Services and MRO (Maintenance Repair and Overhaul) depending upon the segments they cater and requirements in terms of men, money and material used.

Military Aviation

Under military as name suggest it is used for the military purpose and nation's air forces and other branch of military and it is not used for commercial purposes.

Civil/Commercial Aviation

Civil aviation is also divided into two parts i.e. service and MRO. Services are also divided into three segment i.e. Domestic services and international services, Air cargo services. These are to be used commercially. It provides facility of General/schedule air transport flights and non schedule air transport flights. Looking at air services

Domestic Services

Domestic airline serves those flights which operates within the same country there in. they have to take off as well as land within the particular country. e.g. take in and land in India. It means that flight must start and end within the boarder of the same country.

International Services

International airline serves those flights which start in one country and end in another. They have to take off and land in different country. e.g. take off from India and land in London.

Air Cargo Services

It is an air transportation of cargo and mail. It may be on scheduled or Non-scheduled basis. These operations are to destinations within India. For operation outside India, the operator has to take specific permission of Directorate General of Civil Aviation Demonstrating his capacity for conducting such an operation.

Air Routes in India

- **Schedule Flights**

It is those flights which have a certain time of departure and arrival. Which shows on the board at the airport and this are specifically commercial air crafts. It may be connection flight or direct or nonstop flights. In schedule flights risk is to be taken by the operating airline's commercial risk not on tour operator's commercial risk. Schedule flights are drawn up schedule according to schedule airlines to cover schedule month or years so that operator can operate flights. These type of airline are committed with schedule as they drawn routes and timing whether filled or not. Passenger can book tickets up to 1 year advanced as per their convenience seat and time. Schedule flights are mostly preferred by business flyers that travel more and more in daily routine life. Passenger can booked their ticket directly from airline company's websites and paying online for it. Schedule flights offers to the passenger the flight's time, date, seats, charges under various maximum possible conditions.

Different kinds of flights journey are offered by airline companies

- **Direct Flights**

Direct flights are those flights which are departing from origin to destination with one or more intermediate stop. However the passenger does not need to come out from the aircraft some aircraft goes to the forward destination. It will take at least one stop but in some cases more than one stop.

- **Connection Flights**

Connection flights are those flights which depart from origin but not directly land at destination point. Passenger have to change airplane at the particular stops and so that they needs to come out from airplane and again checked in to another aircraft at stop over city. These types of flights are cheaper than nonstop or direct flights. But it is not always preferable when trawlers have some emergence or important to reach premium on time. But it is most beneficial option in term of pricing. Connection flights may be delay because of any issue regarding whether or air traffic control. So that in long distance travelling, they preferred to choose nonstop flights.

- **Nonstop Flight**

In nonstop flights there is no single stop between one destination to another place. Means no stop between two airports. But these type of nonstop flights are too much costly but it have a biggest benefit of time saving for travelling business man because of fastest way to reach destination point.

- **Non Schedule Flight**

Non schedule flights are also called charted flights. Non schedule is those flight which have no any certain time or schedule of departure and arrival as like schedule flight.

The Ministry of Civil Aviation of the Government of India is the apex body in the regulatory/ (organizational) structure of Civil Aviation in India. The ministry of Civil Aviation is responsible for the formulation of national policies and programs for development and regulation of Civil Aviation and for devising and implementing schemes for orderly growth and expansion of civil air transport. Its functions also extend to overseeing the provisions of airport facilities, air traffic services and carriage of passengers, goods, and services. Within its administrative preview lie three distinct functional entities namely regulatory cum development, operational, ' and infrastructural.

Challenges Faced by Airline Industry

- The pilots and technicians, who are properly trained, are not readily available because they are essential for the quick expansion of the airline services.
- Though several centers for the training of pilots and technicians have already been opened they are patently inadequate to meet the requirements of even the existing volume of air traffic.
- Another difficulty is with regard to aviation petrol. India, having very small supply of indigenous petroleum, has to depend on foreign sources for fuel, especially for airline purposes. Whenever there is any bottleneck in the regular supply of aviation spirit, even the regular schedule services, have to be cut off temporarily.
- Besides these hurdles, the general poverty of the masses is a factor to be taken into account in establishing the possibilities of the expansion of airline in India.
- In India, however, the number of people who can afford air travel is very small, and they cannot by themselves keep the air-line companies going.

Literature Review

Dr. S.K. khartik titto Varghese, (2011) they found the profitability more or less depends upon the better utilization of resources and to manpower. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor"s return points of view.

Bhabatosh Banerjee (1982) analysed in the study on “Corporate Liquidity and Profitability in India” and identified the relationship of liquidity with profitability by analyzing the trend of liquidity position of medium and large public limited companies in India covering the period from 1971 to 1978. This study reveals that in industrial groups belonging to publishing, ferrous, non-ferrous metal products and shipping, a rise in liquidity has led to a rise in profitability and vice versa. However, in other industry groups like tobacco, silk and rayon textiles, a rise in liquidity has been found to have a decline in profitability.

Pandey (1985) has conducted a study on financial leverage in India and found that there was no definite structural relationship between the degree of financial leverage on the one hand and profitability and growth on the other hand though profitability and growth have improved over time and so had the degree of leverage.

Kumar (1985) in the study on “Corporate Growth and Profitability in large Indian companies” has examined the relationship between profitability and growth in 83 large companies in Indian corporate sector during 1969-79. The study revealed a significant interindustry difference in the growth of firms under study. The study showed that the growth of only a few firms in Indian corporate sector has been influenced by profitability.

Raju and Ramachandra Nair (1999) made a study on ‘factoring its impact on liquidity and profitability’. The study concluded that profitability of small and medium sized industrial and trading units can be achieved by facilitating judicious credit control, efficient sales ledger administration and expediting debt collection.

Parvathi (2003) in the research work entitled, "A Study on Profitability of Pharmaceutical industry in India" has revealed that, the profitability of pharmaceutical firms depends on their age, size and ownership. The study identified 5 profitability ratios namely EDBIT/TA, GC/NS, EBIT/CE, PAT/TPSHE and PAT/NS as the key discriminators influencing profitability. The study concluded that the overall profitability of the pharmaceutical companies have shown better performance during robust growth period than in the postrobust period.

M.Radha (2003) compared the capital structure and profitability of Indian Airlines and Air India. The study found that return on capital employed, liquidity and turnover were positively associated with debt equity ratio. The study suggested that both the corporations should try to use less interest bearing loans.

Research Methodology

Research design is framework for investigating the study project. It gives information about nature of research study, sampling design, data collection tools, data analytical tools and techniques and measurement. It was needed to facilitate the smooth sailing of the various research operations and so that research could completed within constraints of minimum expenditure, time and money.

Problem Statement

In the fast changing economic scenario world over, the management of any company has to play a dynamic role in managing its finances. To make rational decisions in tune with the objectives of the firm, the management must analyze the funds needs, the financial status and profitability and the business risk of the company. The study aims to measure the financial position. In this way study will help in making suitable suggestions for the improvement of further successful survival of aviation Companies in the competitive world. Therefore, statement of problem under the study is selected as "A study on financial appraisal of selected aviation companies in India"

Objectives of Study

- To understand the basic nature and composition of aviation Industry.
- To find out the challenges faced by entrepreneurs in Aviation Industry.
- To study profitability of selected aviation companies of India.
- To evaluate financial performance of selected aviation companies of India (Inter sector)

Nature of Research Study

This study employed quantitative research approach. A quantitative approach is relevant because it employs statistics, which is a comparative methodological discipline that uses mathematical ideas for descriptive data analysis, point inference, and hypothesis testing

Geographical Scope

In this review researcher choose 4 aviation Companies which are working and giving Airline Services in India. In this way, entire India is geological criteria for this exploration examine.

Sampling Design

Area of Study

Population represents aviation companies in India.

Target Population

Sample of the study comprises aviation companies like; Air India, indigo, spice jet, jet airways.

Sample Size

The study with respect to sample size of 4 selected Airline companies in India. Such as Indigo, Air India, Spice jet and Jet airways.

Data Collection

- **Secondary Collection**

All data which required for the research will be collected from the annual reports of selected companies under study. The study is mainly based on secondary data. Additional information required will be collected by from various websites and also from various Journals, and other publications. This research is based on only secondary data.

- **Time Period of Data Collection**

The following research work is carried out on selected units of aviation Industry of India for the period of 10 years from 2011 to 2020. The duration of the period is good enough to cover the short term and long term fluctuations and is enough to provide insights into the performance of the different selected companies.

- **Data Analytical Tools and Techniques**

For analysis of data some accountings tools and some statistical techniques will be used. Researcher will be used data for accordingly inquire about e.g. the Annual Reports, Websites and different Publications.

Limitation of the Study

- The study is based on secondary data and its findings depend upon on the accuracy of such data.
- The period of the study is confined to a period of 10 years and hence the changes during the period before and after the study period have not been taken into account.
- The present study is based on data taken from the annual reports of the company and all the conclusions and suggestions are given from the statistical analysis of the several ratios calculated.

Data Analysis

Mean ratio of selected aviation companies of India						
Company	**Net profit Ratio**	**Operating Profit Ratio**	**Fin. Exp. Ratio**	**ROA**	**ROCE**	**ROE**
Indigo	7.092000	7.117000	1.6840	9.045000	20.099000	82.799000
Air India	-32.956000	-6.409000	20.8650	-12.960000	-15.027000	-33.239000
Spice Jet	-3.230000	-4.342000	1.9620	-5.793000	-79.687000	-180.904000
Jet Airways	-102.071111	-64.397778	14.5956	-17.673333	-4.317778	-43.106667

Findings of the Study

Sr. No	**Name of Hypothesis**	**Fc**	**Ft**	**Fc>Ft Or Fc<Ft**	**H_0**	**H_1**
1	Net Profit Margin Ratio	1.217	1.96	Fc < Ft	**Accepted**	**Rejected**
2	Operating profit margin ratio	1.206	1.96	Fc < Ft	**Accepted**	**Rejected**
3	Financial exp. Ratio	4.762	1.96	Fc>Ft	**Rejected**	**Accepted**
4	ROA	5.881	1.96	Fc>Ft	**Rejected**	**Accepted**
5	ROCE	0.689	1.96	Fc < Ft	**Accepted**	**Rejected**
6	ROE	7.116	1.96	Fc>Ft	**Rejected**	**Accepted**

Conclusion

Net profit, operating profit and ROCE are accepted null hypothesis it means that the is no significant difference between Net profit, operating profit and ROCE ratio of selected aviation companies. Financial expense, ROE and ROA are rejected null hypothesis it means that the is no significant difference between Financial expense, ROE and ROA ratios of selected aviation companies. Indigo perform very well in comparison to others selected companies. Spice Jet, Air India and Jet Airways making continuous huge losses according to Net profit ratio. air India, spice jet; jet airways are making major operational losses. And they are suffering from very difficulties. Indigo company earns operational profit. Not much more high profit but in comparison to other companies; it perform very well according to Operating profit ratio. company has no capacity to recover their operating cost and making huge loss. Except indigo company all other three companies face difficulty for recover their operating cost only. It indicates worst condition of business operation. That's why they need to take action for improvement in financial condition of business. Return on total assets ratio of company has no capacity to recover their operating and non operating cost and making huge loss. Except indigo company all other three companies face difficulty for recover their operating cost and non operating cost also. It indicates worst condition of business operation. That's why they need to take action for improvement in financial condition of business. Negative shareholders fund shows very worst condition of business. After continuous loss incurring; company's equity is to be going to negative. All company has incurred huge losses from long period of time except indigo company. Highest loss incurred by spice jet company in comparison to others. From the study it can be conclude that Indigo is performing well in comparison to Spice Jet, Air India and Jet Airways company. Spice Jet, Air India and Jet Airways company are suffering from very worst condition during the study periods.

Suggestion

It can be suggested from the study that company should have to improve their performance very well. Aviation industry is service industry and that's why mostly expenditures are fixed cost related like; fuel expenditure, employee expenditure, finance cost etc. so that they should try to increasing their sales revenue and try to reducing per passenger cost. And in these way they can recover their high operating cost and non operating costs. Aviation companies should try to reducing their expenditure and try to increasing capital by equity shareholdings not by debts. Aviation companies should try to maximization of utilization of aircrafts and try to reducing per passenger cost.

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