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Financial Statement Analysis of Jet Airways Ltd and Spice Jet Ltd

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Abstract – This paper represents all the aspects relating to the ratio analysis of Spice Jet and Jet Airways interpreted according to financial equation. This information for this report was gathered by searching and using secondary data such as financial statement. The important reason behind constructing an analysis is to abstract different information and data from financial statements either income statement or balance sheet, to predict the conclusions from those ratios and to simplify accounting data for investors. The present study is descriptive and analytical in nature.

The 2017-2018 financial statements were collected from the official websites of the selected companies. The collected data can be tabulated and analyzed by using ratio analysis techniques.

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INTRODUCTION

Financial Statement analysis is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firms overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial Analysis is the examination of a business from a variety of perspectives in order to fulfill and understand the greater financial situation and determine how best to strengthen the business from its profitability and stability to its solvency and liquidity. Financial statement analysis is the process of reviewing and analyzing a company's financial statement to make better economic decisions. The term financial analysis is also known as Analysis and Interpretation of Financial Statements. Thus the analysis and interpretation of financial statements is very essential to measure the efficiency profitability, financial soundness, and future prospectus of the business units.

This paper represents all the aspects relating to the ratio analysis of Spice Jet and Jet Airways interpreted according to financial equation. This information for this report was gathered by searching and using secondary data such as financial statement. The important reason behind constructing an analysis is to abstract different information and data from financial statements either income statement or balance sheet, to predict the conclusions from those ratios and to simplify accounting data for investors.

Ratio analysis is widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm can be determined. It is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. Since ratio analysis based on accounting information, its effectiveness is limited by the distortions which arise in financial statements due to such things as historical cost accounting and inflations.

Overall, this report will intend to give knowledge to investors on how to know about the company's performance or to calculate the risk and possible gain or loss of an investment by using ratios.

The civil aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years. India is currently considered the third largest domestic civil aviation market in the world. India has become the third largest domestic aviation market in the world and is expected to overtake UK to become the third largest air passenger market by 2024. According to data released by the Department of Industrial Policy and Promotion (DIPP), FDI inflows in India's air transport sector (including air freight) reached US$ 1,658.23 million between April 2000 and June 2018. The government has 100 per cent FDI under automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline. However, FDI over 49 per cent would require government approval.

India's aviation industry is expected to witness Rs 35,000 crore (US$ 4.99 billion) investment in the next four years. The Indian government is planning to invest US$ 1.83 billion for development of airport infrastructure along with aviation navigation services by 2026. So from this available information we can interpret that, the aviation industry in India is growing day to day. In this situation this study is intended to analyze the financial performance of the selected aviation company's performance. By this way we can make a general idea regarding this industry on the basis of their financial performance.

LITERATURE REVIEW

Chakravarty and Reddyhad wrote an article on the financial performance of the industries for period from 1967 to 1971 by making comparison in 1973. They used ratio analysis as the major tool for financial performance and had studied 22 ratios of profitability, proprietary, liquidity and turnover groups. A. A. Khan conducted a study entitled "Working Capital Analysis ". The study was mainly devoted to the measurement of profitability with reference to five Tire companies in 1982. The study covered under the following indicators: (1) Ratio Analysis (2) Common Size Statement Analysis. Researcher also measured and analyzed capital structure of the companies. The efficiency of such companies was very poor and it was at satisfactory level in only one or two companies. The profitability of such companies was unsatisfactory while in other companies it was satisfactory. Praveen Kumar Jain conducted a study entitled "Management of Working Capital" with special reference to seven paper companies in 1989. The study was mainly devoted to working capital and liquidity analysis with the help of following indicators: (1) Trend Analysis (2) Ratio Analysis. Researcher analyzed that the working capital trend was not significant. The seven years average percentage of inventory to total current assets was very high in the three companies while it was very low in one company and satisfactory in remaining companies Dr. Pramod Kumar published a book in 1991,"Analysis of Financial Statements of Indian Industries". The study covered the 17 private, 5 state owned and 1 central public sector companies. He studied analysis of activities, assessment of profitability, return on capital investment, Analysis of financial structure, Analysis of Fixed assets and working capital. In this research he revealed various problems of cement industries and suggested remedies for the problems. He also suggested for the improvement of profitability and techniques of cost control. Dr. D. K. Mittal published a book in 1994, touching on the various aspects of the cement industries like growth of the industries, regional up gradation and modernization, energy efficiency, price and technological controls and financial performance. The study covers more than 45 cement companies. The study pertains to the period from 1984-85 to 1991-92. On the profit performance front, the study revealed that the industries profit had fallen despite sales growth, through at a slower pace. Dr. S. J. Parmar published a book in 2001. The book is a study of modern financial measurement techniques useful for management in planning and controlling corporate activities. With increasing participation by the general public and financial institutions as present and corporate bodies have to be on their guard and manage their efficient financial efficiency in the area of globalization. This book covers topic of concept and measurement of profitability, cost and sales trends, profit margin, assets turnover and analysis of return on investment common size of value added statements. Dr. V. K. Sapovadia did his research work in year 2004. Under his research work he studied financial performance of various co-operative sectors. For his purpose he also calculated some ratios. Title of his study is "a comparative study on financial performance appraisal of Indian Co-operative sector and USA based co-operative sector. Dutta S. K has written an article on "Indian tea industry an appraisal" which was published in management accountant in the year of March 1992. He analyzed the profitability, liquidity and financial efficiency by using various ratios. Ahindra Chakrabati published an articles "Performance of public sector enterprises a Case study on fertilizers" in the Indian Journal of Public Enterprise in the year 1988-89. He made analysis of consumption and production of fertilizer by public sector. He also made analysis of profit and loss statement. He gave suggestion to improve the overall performance of public enterprise. Kaura and Subramanian published an article on the financial performance of 10 units relating to the period from 1972 to 1979 which mainly observed liquidity, profitability, financial structure and overall performance. For this study they used conventional ratio analysis and merit rating approach. They found that the financial strength of the units have declined over the years. Miss Nandini Jaimini published an article "Evaluation of cash management performance of the selected Textile Mills in Rajasthan" in Indian Journal of Public Enterprise in 1988-89. She did analysis of selected textiles units by using various liquidity ratios and concluded that the inadequate cash balance to meet their currently maturing obligations. She suggested various measures to overcome this deficit of working capital. Dr. Deepak M. Sharma has done his research work on Indian Banking Sectors. He was calculated the profitability and productivity of various banks. The title of his thesis is "Critical Evolution of Indian Banking sector" with reference to Private sector banks and Public sector banks. For purpose of finding the profitability the researcher use the analysis of common size financial statements. Dr. R. V. Keshwara has done his Ph.D. on "A study of financial performance of Aluminium industry in India". In this study profile of the aluminium industries in India, Analysis of Profitability, Capital Structure, Working Capital and Operation efficiency of the aluminium industry in India. Dr.Nirmal Nathwani has done Ph.D thesis on "the Study of financial performance of Banking sector of India. In banking transactions, a customer wants all the services under one roof and expects to save time and simplified transactions. So the customer will prefer his or her bank, if the particular bank satisfies his/her needs. Satisfaction leads to the preference. In this study an attempt has been made to find out the level of preference and satisfaction of the customers of nationalized and private sector banks. Dr.Virambhai S. Zalahas done Ph.D thesis on “a study of Productivity and Financial efficiency of Textile Industry of India”. The Indian textiles account for 38 percent of the country’s total exports and are therefore a very important industry. The textiles machinery industry sector has an integral role to play in the growth of India’s export. Industry analysts note that textile prices are increasingly competitive worldwide as more and more developing countries enter the global textile trade.

RESEARCH METHODOLOGY

The present study is descriptive and analytical in nature. Two companies (Jet Airways Ltd and Spice Jet Ltd) were selected from Indian Aviation Industry by using convenient sampling technique. The 2017-2018 financial statements were collected from the official websites of the selected companies.The collected data can be tabulated and analysed by using ratio anlaysis techniques.

DISCUSSION OF RESULTS

1) Liquidity Ratio

a) Current Ratio

Table 1

Particulars	Jet Airways	Spice Jet
Current Assets	7,05,345	9,223.46
Current Liabilities	14,18,925	30,968.91
Ratio	0.49	0.29

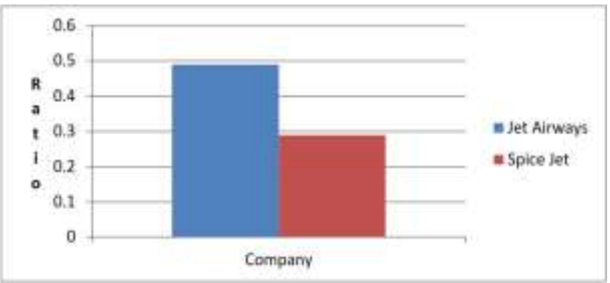

Fig : 1

The apt current ratio for a company is 2.Here the current ratio of both the companies are below 2.But Jet Airways have the highest current ratio here i.e. 0.49.So Jet Airways has the highest liquidity than Spice Jet.

b) Quick Ratio

Table 2

Particulars	Jet Airways	Spice Jet
Quick Assets	6,57,235	7,979.78
Current Liabilities	14,18,925	30,968.91
Ratio	0.46	0.25

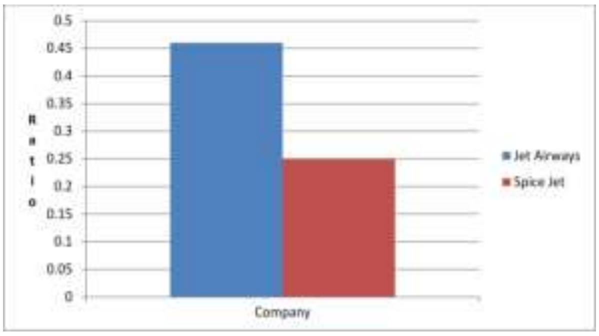

Fig: 2

The apt quick ratio for a company is 1.Here both the companies have quick ratio below. But Jet Airways have the highest quick ratio here i.e. 0.46.So,Jet Airways have more cash liquidity than Spice Jet.

c) Net Working Capital Ratio

Table 3

Particulars	Jet Airways	Spice Jet
Current Assets	7,05,345	9,223.5
Current Liabilities	14,18,925	27,394.5
Ratio	(7,13,580)	(18,171)

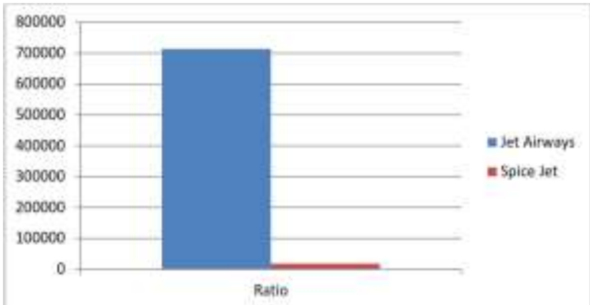

Fig: 3

The working capital ratios for both the companies are negative. This shows that both the companies cannot pay of its current liabilities out of its current assets. But, Spice Jet have the least negative figure.

2) Long Term Solvency Ratio

a) Equity Ratio

Table 4

Particulars	Jet Airways	Spice Jet
Shareholder's Equity	(10,74,310)	(10,319.07)
Capital Employed	1,68,802	10,250.73
Ratio	Not applicable	Not applicable

Capital Employed = Total Assets – Current liabilities

The shareholder's equity for both the companies are negative amount. So, ratio computation is not applicable.

b) Debt Ratio

Table 5

Particulars	Jet Airways	Spice Jet
Total Debt	5,29,512	13,026.92
Net Assets	(7,13,580)	10,250.73
Ratio	Not Applicable	1.27

The net assets for Jet Airways are a negative figure. So debt ratio for Jet Airways cannot be computed. The debt ratio of Spice Jet is more than 1.This shows that debt of Spice Jet cannot be paid off by net assets.

c) Debt to Equity Ratio

Table 6

Particulars	Jet Airways	Spice Jet
Total Debt	5,29,512	13,026.92
Total Equity	(10,74,310)	(10,310.07)
Ratio	Not Applicable	Not Applicable

The total equity for both the companies are negative figures. So, ratio computation is not applicable.

d) Interest Coverage

Table 7

Particulars	Jet Airways	Spice Jet
EBIT	(1,61,048)	6,057.99
Interest	921.90	84,286
Ratio	Not Applicable	6.57

EBIT for Jet Airways is negative. So, computation of ratio is not applicable. This means that Jet Airways have no source to pay its interests. The ratio for Spice Jet is 6.57.This means that the company has enough sources to pay its interests.

3) Activity Ratio

a) Total Assets Turnover Ratio

Table 8

Particulars	Jet Airways	Spice Jet
Sales	22,27,109	77,234.1
Total Assets	12,50,123	41,219.64
Ratio	1.78	1.87

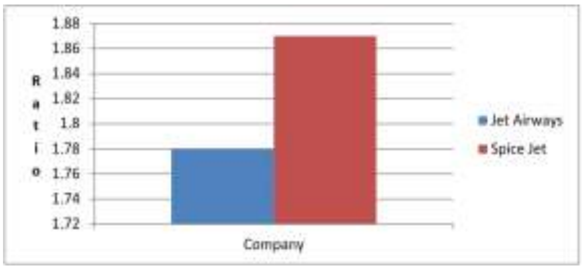

Fig : 8

The ratio for Jet Airways is 1.78 and for Spice Jet is 1.87. This means that Spice Jet has created more sales out of its total assets.

b) Fixed Assets Turnover Ratio

Table 9

Particulars	Jet Airways	Spice Jet
Sales	22,27,109	77,234.1
Fixed Assets	5,44,778	31,996.18
Ratio	4.08	2.41

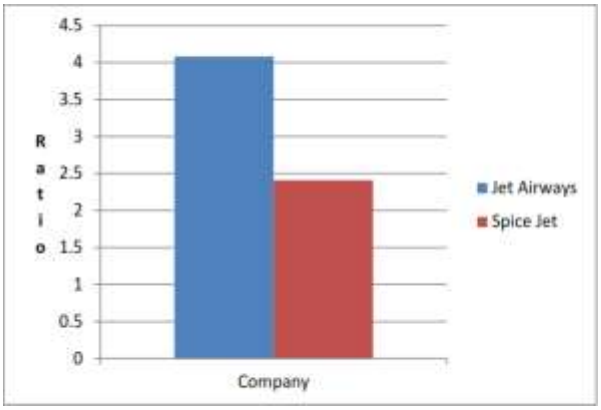

Fig: 9

The ratio for Jet Airways is 4.08 and for Spice Jet is 2.41. This means that Jet Airways creates more sales out of its fixed assets.

c) Current Assets Turnover Ratio

Table 10

Particulars	Jet Airways	Spice Jet
Sales	22,27,109	77,234.1
Current Assets	7,05,345	9,223.46
Ratio	3.15	8.37

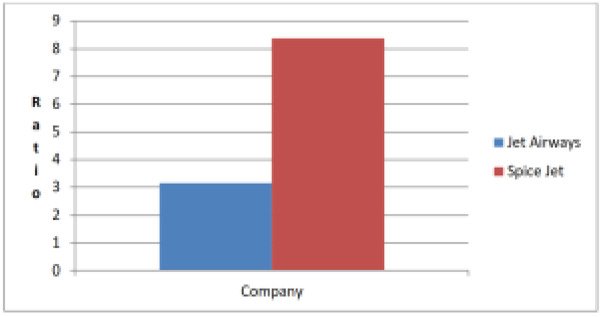

Fig: 10

The ratio for Jet Airways is 3.15 and for Spice Jet is 8.37. This shows that Spice Jet utilizes its current assets to generate sales.

d) Working Capital Turnover Ratio

Table 11

Particulars	Jet Airways	Spice Jet
Sales	22,27,109	77,234.1
Working Capital	(7,13,580)	(21,745.45)
Ratio	Not Applicable	Not Applicable

The working capital ratio for both the companies is a negative figure. So, computation of this ratio is not applicable.

4) Profitability Ratios

A) Related to Sales

a) Net Profit Ratio

Table 12

Particulars	Jet Airways	Spice Jet
Net Profit	(76,762)	5666.51
Sales	22,27,109	77,234.1
Ratio	Not Applicable	7.33%

Jet Airways have losses for the year while Spice Jet has 7.33% profit for the year. So, Spice Jet creates more return out of its sales.

b) Operating Profit Ratio

Table 13

Particulars	Jet Airways	Spice Jet
EBIT	(1,61,048)	6,588.41
Sales	22,27,109	77,234.1
Ratio	Not Applicable	8.53%

EBIT for Jet Airways is negative while Spice Jet creates 8.53% EBIT. So, Spice Jet creates more return out of its sales.

c) Operating Expenses Ratio

Table 14

Particulars	Jet Airways	Spice Jet
Adm. Exp. & Sell & Dist. Exp.	5,82,167	10,842.27
Sales	22,27,109	77,234.1
Ratio	26.14%	14.03%

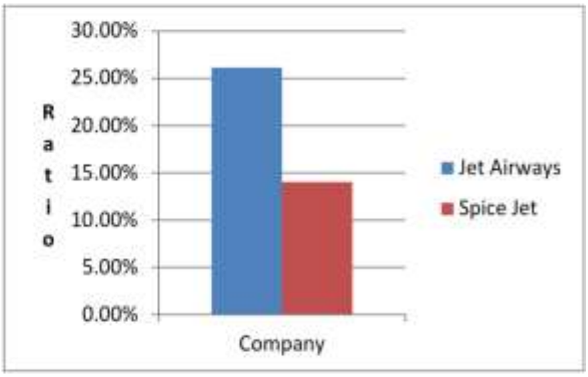

Fig: 14

The ratio for Jet Airways is 26.14% and for Spice Jet is 14.03%. This shows that Jet Airways has more proportion of operating expenses to its sales.

d) Financial Expenses Ratio

Table 15

Particulars	Jet Airways	Spice Jet
Finance Exp	84,286	921.90
Sales	22,27,109	77,234.1
Ratio	3.78%	1.19%

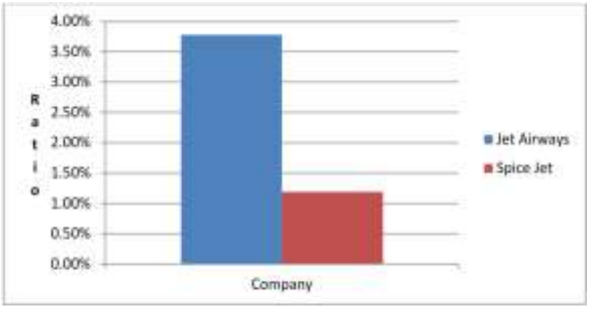

Fig: 15

The ratio for Jet Airways is 3.78% and for Spice Jet is1.19%. This shows that the proportion of financial expenses to the sales of Jet Airways is higher than that for Spice Jet.

B) Related to Overall Return on Assets

a) Return on Assets

Table 16

Particulars	Jet Airways	Spice Jet
Net Profit	(76,762)	5,666.51
Avg Total Assets	12,57,475	35,574.33
Ratio	Not Applicable	0.15

Jet Airways has incurred losses while Spice Jet has made a return of 0.15 from its total average assets. This shows that Jet Airways have been inefficient in utilizing assets.

b) Return on Equity

Table 17

Particulars	Jet Airways	Spice Jet
NP – Pref. Div	(76,762)	5,666.51
Shareholder's Fund	(10,74,310)	(10,319.07)
Ratio	Not Applicable	Not Applicable

The ratio cannot be computed since both the companies have negative amounts for shareholder's funds. But Spice Jet has net profits.

C) Analysis from Owner's point of view

a) Earnings per Share

Table 18

Particulars	Jet Airways	Spice Jet
NP for Shareholders	(76,762)	5668.85
Shares Outstanding	1,136	599.45
Ratio	(67.57)	9.45

Jet Airways has net losses so its EPS is negative while Spice Jet has profits. So, Spice Jet provides Earnings for the shareholder's for the shares held with them.

MAJOR FINDINGS

Profitability Ratio

- The Net Profit Ratio of Spice Jet Ltd. shows that the company has been able to create a profit from its business operations while Jet Airways Ltd. incurred loss.
- The operating profit ratio shows that Spice Jet Ltd. has made 8.53% operating profit out of its sales while Jet Airways Ltd has not been able to make any earnings out of its sales.
- Operating expenses ratio for Jet Airways Ltd. is higher than that for the Spice Jet Ltd This shows that the proportion of operating expenses to sales is higher for Jet Airways Ltd.
- The proportion of financial expenses to sales for Jet Airways Ltd. is higher than that of Spice Jet Ltd.

Solvency Ratio

- The debt ratio for Spice Jet Ltd shows that its total debts can be paid off from its net assets while the net assets for Jet Airways Ltd is negative and so total debt cannot be secured by its net assets.
- Since the shareholders equity for both the companies are negative figures, the debt to equity ratio cannot be computed. This shows that the total debts for both the companies cannot be secured by its shareholders fund.
- The interest coverage ratio shows that Spice Jet Ltd can pay off its interest liabilities out of its EBIT while Jet Airways cannot since EBIT for the company is negative.

Liquidity Ratio

- The current ratio for both the companies is below 1. This shows that both the companies cannot pay off its current liabilities out of its current assets. But Spice Jet Ltd has more liquidity as compared to Jet Airways Ltd.
- The quick ratio and cash ratio also shows that both the companies are not able to pay of its current liabilities out of its liquid assets. But Spice Jet Ltd has more liquidity as compared to Jet Airways Ltd.

Activity Ratio

- The assets turnover ratio shows that both the companies have been able to make sales out of its total assets. But Spice Jet Ltd has been able to make more sales out its assets.

- The fixed turnover ratio and current assets ratio shows that both the companies have been able to make sales out of its fixed and current assets. But Jet Airways Ltd has

utilized its fixed assets more to create sales as compared to Spice Jet Ltd and Spice Jet Ltd has utilized its current assets more to create sales as compared Jet Airways Ltd.

SUGGESTIONS:

Profitability Ratio

- The operating expenses ratio for Jet Airways Ltd is high as compared to Spice Jet Ltd and the company has incurred losses. It has to control its expenses to reduce its losses and to make profits.

- The financial expenses ratio is also high for Jet Airways Ltd as compared to Spice Jet Ltd. Jet Airways Ltd has to control its financial expense to reduce losses and to make profits.

- Earnings for shareholders of Jet Airways Ltd is negative as it has incurred losses. The company must make profits to satisfy its owners.

Solvency Ratio

- The debts of Jet Airways Ltd are not secured by its net assets nor by its equity funds. The company has to take necessary steps to secure theirs debts.

- The debts of Spice Jet Ltd are not secured by its equity funds since equity funds are negative. So, the company management has to take necessary steps to secure its debts.

Liquidity Ratio

- The liquidity positions of both the companies are poor. Both the companies have to take necessary steps to increase its current assets or decrease its current liabilities.

- Both the companies have to find a source to make liquid funds.

Activity Ratio

- The utilization of assets to create sales is low for Jet Airways Ltd as compared to Spice Jet. The management of Jet Airways Ltd has to take steps to efficiently utilize its assets to create sales.

CONCLUSION

The liquidity positions of both Jet Airways Ltd and Spice Jet Ltd are poor. Though both the companies have positive returns as sales from its asset Spice Jet Ltd makes more sales from its assets as compared to Jet Airways Ltd. Jet Airways has made losses for the year while Spice Jet Ltd has made profits and has provided earnings to its shareholder's while Jet Airways Ltd has not. The debts of Spice Jet Ltd is secured by its net assets but not by equity funds. The debt of Jet Airways Ltd is not secured. The shareholder's funds for both the companies are negative since it has accumulated losses. So, as a whole the financial position of both the companies is deteriorating. The condition of Jet Airways Ltd is more severe than that of Spice Jet Ltd.

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