



# A Study on financial appraisal of IndiGo Company of India

SALONI SUNILKUMAR DOSHI

## 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 (Van Horne 2000). 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 aims to measure the financial position. Accounting is the language of business. It is the vehicle for communicating financial Information about a company in the forms of financial statements to many different groups of People. The financial statements of the business firm serve as the primary financial reporting Mechanism of the firm, both internally and externally. It is the method by which management Communicates financial information to decision makers such owners, creditors, investors, Customers, suppliers, government agencies, economists, and others. Each of these groups may have different uses for the information. This research brings out the various comparisons between three years which have taken under study, different financial parameters through which the airline company do growth, challenges, pricing activities to attract the travelers. It also shows the financial prospects of companies with the help of the annual reports published by them. As per companies' financial statement financial position of the company is slight stronger than 2019 year but its financial condition is very poor in 2019 year. Company was made losses in this year. Company performs very well in 2018 year in comparison to theirs. Despite being a market leader in the Indian air carrier industry, IndiGo reported a loss before tax of nearly 2.75 billion rupees at the end of the fiscal year 2020. The company had significant losses especially in the last quarter of the financial year 2020, due to national lockdown on account of COVID-19 pandemic. This was an exception compared to the performance in previous years, where profits continually and significantly grew from 13 billion rupees in the fiscal year 2016 to over 31.2 billion rupees in the financial year 2018.*

---

**Keywords:** *financial status, IndiGo, top leading Companies*

---

## 1. Introduction

Indian Aviation Industry has been one of the fastest growing aviation industries in the world with private airlines accounting for more than 75% of the sector of the domestic aviation market. With CAGR of 18% and 454 airports and airstrips in the place in the country, of which 16 are designed as international airport, it has been states that the aviation sector will witness revival by 2011. Today Hyderabad Airport has been ranked amongst the world's top five in the annual airport service quality at Seoul, Singapore, Hong-kong and Beijing. This airport managed by a GMR group, Malaysia Airport Holding Berhad And Both the State Government of Andhra Pradesh and the Airport Authority of India.

IndiGo is India's largest passenger airline with a market share of 55.5% as of October, 2020. We primarily operate in India's domestic air travel market as a low-cost carrier with focus on our three

pillars – offering low fares, being on-time and delivering a courteous and hassle-free experience. IndiGo has become synonymous with being on-time.

Since our inception in August 2006, we have grown from a carrier with one plane to a fleet of 280 aircraft today. A uniform fleet for each type of operation, high operational reliability and an award winning service make us one of the most reliable airlines in the world. IndiGo has a total destination count of 87 with 63 domestic destinations and 24 International.

The Indian aviation sector can be broadly divided into the following main categories: -

- Scheduled air transport service includes domestic and international airline.
- Non-scheduled air transport service consists of charter operators and air taxi operators.
- Air cargo service, which Includes air transportation of cargo and mail.

## 2. Top Leading Companies in India

- Interglobe aviation (IndiGo)
- Spice jet
- Jet airways
- Air India
- Air Asia India
- Vistara
- GoAir

The aviation industry in India is one of the fastest growing industries and has claimed the third spot among the largest domestic markets in the world. Although the industry is struggling during COVID 19, however no depression lasts forever. Indian airline companies face the major difficulties of crises. However some companies of aviation industry going to rapid growth. Here the objective of research is to study on financial appraisal of indigo company of India.

IndiGo is the leader in the Indian aviation industry with the current market cap of Rs 49,923.47 Cr. This company trades on Indian stock exchanges with the latest share price of Rs 1,364.95 per share. Indigo is India's largest airline by passengers carried and fleet size and boasts a 60.4% domestic market share as of July 2020. The airline was founded by Rahul Bhatia of Interglobe Enterprises and Rakesh Gangwal in 2006 after it took delivery of its first aircraft in July 2006.

The company operates in Indian domestic markets as a low-cost carrier. The company has grown its fleet to 276 aircrafts today and has been one of the few airlines that have been profitable for 10 years.

## 3. Literature review

**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.

**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.

## 4. Objectives

1. To study the analysis of growth and trend of indigo company of India

2. To compare various financial ratios between different years.
3. To study the determinants of profitability of the selected aviation companies In India

## 5. 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.

## 6. 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.

## 7. Sampling Design

### 7.1 Area of study

Population represents domestic airline company indigo in India.

### 7.2 Target Population

Sample of the study comprises indigo company

## 8. Data collection

### 8.1 Secondary data collection

All data which required for the research will be collected from the annual reports of different 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, Magazines and other publications. This research is based on secondary data.

### 8.2 Time period of data collection

The following research work is carried out on selected units of aviation Industry of India for the period of 3 years from 2017-2018 to 2019-2020. The duration of the period is good enough to cover the short term fluctuations and is enough to provide insights into the performance of the indigo airline company.

### 8.3 Data analytical tools and techniques

For analysis of data some accountings tools and techniques will be used such as various financial Ratio analyses. Ratio analysis comprises various types of ratio like investment valuation ration, profitability ratio, liquidity and solvency ratio, debt coverage ratio, management efficiency ratio, cash flow indicator ratio.

## 9. Data analysis

### 9.1 Ratio analysis

Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability. This type of analysis is particularly useful to analysts outside of a business, since their primary source of information about an organization is its financial statements.

Classification of ratio	Type of ratio	March 2020	March 2019	March 2018
<b>Profitability ratio</b>	Operating profit margin (%)	11.25%	-0.71%	12.84%
	Gross profit margin	0.23%	-3.37%	10.94%
	Return on capital employed (%)	26.02%	3.95%	37.19%
	Return on net worth (%)	-3.98%	2.27%	31.68%
<b>Liquidity ratio</b>	Current ratio	0.44:1	0.81:1	0.86:1
	Quick ratio	0.42:1	0.79:1	0.85:1
	Debt equity ratio	0.06:1	0.32:1	0.32:1
<b>Debt coverage ratio</b>	Interest coverage ratio	0.86	0.71	10.20
<b>Management efficiency ratio</b>	Inventory turnover ratio (Times)	124.97	137.77	125.64
	Debtors turnover ratio (Times)	114.99	96.80	119.58
	Assets turnover ratio (Times)	4.65	3.99	2.97

### 9.2 Profitability ratios

Profitability ratios are a set of measurements used to determine the ability of a business to create earnings. Profitability ratios are derived from a comparison of revenues to difference groupings of expenses within the income statement.

### 9.3 Operating profit margin ratio

The operating profit margin ratio indicates how much profit a company makes after paying for variable costs of production such as wages, raw materials, etc. It is also expressed as a percentage of sales.

#### Formula: operating income / total revenue

The operating profit margin was highest by 12.84 in March 2018 and lowest by – 0.71 which shows loss.

### 9.4 Gross profit margin

Calculates the proportion of earnings generated by the sale of goods or services, before administrative expenses are included. A decline in this percentage could signal pricing pressure on a company's core operations. The gross profit ratio is reliable guide for fixing selling prices and efficiency of trading activities.

#### Formula: Gross profit/ Net sales\*100

The gross profit margin was highest by 10.94% in March 2018 and lowest by – 3.37% which shows loss. And decline in 2020 by 0.23%

### 9.5 Return on capital employed

Return on capital employed established the relationship of profit before interest and tax with capital employed. It judges overall performance of enterprise. It measures how efficiently the recourses are used in the business.

**Formula: profit before interest and tax and dividend/capital employed\*100**

ROCE was highest by 37.19 in March 2018 and lowest by 3.95 in March 2019 and then increasing by 26.02 in March 2020.

**9.6 Return on net worth**

The term Return on Net worth Ratio (RoNW) is the same as the return on equity ratio. The ratio shows how much profit a company generates with the invested money of equity shareholders. Hence, you can also call it a Return on Equity Ratio. This ratio is quite helpful for comparing the profitability or annual return of a company to that of others in the same industry.

**Formula: Net income/ shareholders equity**

RONW was highest by 31.68% in 2018 and lowest by -3.98% which shows loss in 2020.

**9.7 Liquidity ratio**

Liquidity ratios determine a company's ability to cover short-term obligations and cash flows, while solvency ratios are concerned with a longer-term ability to pay ongoing debts.

**9.8 Current ratio**

It compares current assets to current liabilities, to see if a business has enough cash to pay its immediate liabilities.

**Formula: current assets / current liabilities**

According to accounting principles, a current ratio of 2:1 is supposed to be an ideal ratio. The current ratio was highest by 0.86 in March 2018 and lowest by 0.44

**9.9 Quick ratio**

The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets and therefore excludes inventories from its current assets. It is also known as the "acid-test ratio". The ideal quick ratio is 1:1

**Formula: current assets- inventory- pre paid expenditure / current liabilities**

The quick ratio was highest by 0.85 in March 2018 and lowest by 0.42

**9.10 Debt equity ratio**

It is computed to determine the long-term financial position of the firm. It is calculated as

**Formula: long term debt/ Equity shareholders' fund**

According to accounting principles, a debt equity ratio of 2:1 is supposed to be an ideal ratio. The debt equity ratio was highest by 0.32 in March 2018 and 2019 and lowest by 0.06 in 2020

**9.11 Debt coverage ratio****Interest coverage ratio**

The ratio expresses the relationship between the net profit before interest and tax and interest payable on long term debts.

**Formula: Net profit before interest and tax/ fixed interest charges**

This ratio is computed with the objective to ascertain the amount of profit available to cover the interest charges. This ratio is highest by 10.20% in 2018 and lower by 0.86 in 2020

**9.12 Management efficiency ratio****Inventory turnover ratio**

It express relationship between the cost of goods sold during the year and the average amount of inventory carried during that period. The ratio is computed to know whether the required amount is invested in the securely or not.

It is calculated as under.

**Formula: cost of goods sold/ inventory**

Stock turnover ratio is highest by 134.77 times in 2019 and lowest by 124.97 times in 2020

**9.13 Debtor's turnover ratio**

Debtor's turnover ratio establishes the relationship between net credit sales and average debtors of the year. The ratio is ascertained as follow.

**Formula: Net credit sales/ Average debtor**

Debtor's turnover ratio is highest by 119.58 times in 2018 and lowest by 96.80 times in 2019

**9.14 Assets turnover ratio**

This ration shows how efficiently the assets are utilized. The efficient use of assets will generate greater sales per rupee invested in all the assets of concern.

**Formula: cost of goods sold/ Net assets.**

Assets turnover ratio is highest by 4.65 times in 2020 and lowest by 2.97 times in 2018

**10. Conclusion**

This research brings out the various comparisons between three years which have taken under study, different financial parameters through which the airline company do growth, challenges, pricing activities to attract the travelers. It also shows the financial prospects of companies with the help of the annual reports published by them. As per companies financial statement financial position of the company is slight stronger than 2019 year but its financial condition is very poor in 2019 year. Company was made losses in this year. Company performs very well in 2018 year in comparison to theirs. Despite being a market leader in the Indian air carrier industry, IndiGo reported a loss before tax of nearly 2.75 billion rupees at the end of the fiscal year 2020. The company had significant losses especially in the last quarter of the financial year 2020, due to national lockdown on account of COVID-19 pandemic. This was an exception compared to the performance in previous years, where profits continually and significantly grew from 13 billion rupees in the fiscal year 2016 to over 31.2 billion rupees in the financial year 2018.

**References**

1. [https://en.wikipedia.org/wiki/List\\_of\\_airlines\\_of\\_India](https://en.wikipedia.org/wiki/List_of_airlines_of_India)
2. <https://tradebrains.in/indian-airline-industry-companies/>
3. <https://tradebrains.in/indian-airline-industry-companies/>
4. <https://www.financialaccountancy.org/financial-ratios/liquid-ratio/>
5. <https://www.goindigo.in/information/investor-relations.html>
6. Radha, M (2003), "Capital structure and profitability analysis" -A Comparative study of Indian Airlines and Air India. Unpublished M.Phil Dissertation, Bharathiar University, Coimbatore.
7. Raju.G and Ramachandra Nair, M.K. (1999), "Factoring its impact on liquidity and
8. Unpublished Thesis. Bharathiar University.
9. [www.Moneycontrol.com](http://www.Moneycontrol.com)