Research Paper Commerce

Financial Analysis Of Delhi International Airport (p) Limited

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ABSTRACT

Financial analysis is the systematic numerical calculation of the relationship of one financial fact with the other to measure the profitability, operational efficiency, solvency and the growth potential of the business. Analysis of financial statements serves the interest of shareholders, debenture-holders, potential investors, creditors, bankers, journalists, legislators, politicians, researchers, stock exchanges, taxation authorities and economists. The use of financial analysis is made to measure the profitability, efficiency and financial soundness of the business, to make comparative studies and effective future plans. Analyses of financial statements can be made with the previous year's performance of the same firm and also with the performance of other firms. Intra firm analysis provides an opportunity to self appraisal, whereas inter-firm analysis presents the operational efficiency of the firm as compared to other firms. Comparison helps in detecting weaknesses of the organization and to apply corrective measures. The analysis provides sufficient information regarding the profitability, performance and financial soundness of the business on the basis of these information's, one can make effective forecasting, budgeting and planning. Financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their suitability for investment. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to be invested in. When looking at a specific company, the financial analyst will often focus on the income statement, balance sheet, and cash flow statement. In addition, one key area of financial analysis involves extrapolating the company's past performance into an estimate of the company's future performance.

Key word : Dial, GMR, Financial analysis, Liquidity, Profitability, Solvency

Introduction

Financial analysis is a scientific evaluation of the profitability and financial strength of any business concern. In fact, financial appraisal and financial statement analysis have the same meaning and are generally used as synonymous. Financial analysis is a method used to evaluate the viability of a proposed project by assessing the value of net cash flows that result from its implementation. A financial analysis essentially views investment decisions from the perspective of the organization undertaking the investment. It therefore measures only the direct effects on the cash flow of the organization of an investment decision. The techniques of financial statement analysis are used for the purpose of financial appraisal. Obviously financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis.

Financial statement analysis is a preliminary step towards the final evaluation of the results drawn by the analyst or management accountant. Management makes analysis or evaluation of such results thereafter. It is obvious that financial appraisal begins where financial analysis ends and financial analysis starts where the summarization of financial data in the form of profit and loss account and balance sheet ends. Evidently financial appraisal is the end of a continuous accounting cycle, which starts with the classification, recording, summarizing presentation and analysis of data and ends with the interpretation of results obtained from critical analysis thereof. The techniques of appraisal is frequently applied to the study of accounting data with a view to determining continuity or discontinuity of the operating policies, investments value of the business, credit rating and testing the efficiency of operations.

Review of Literature

- Myez (1984) says financial statement analysis is largely a study of relationship among the various financial factors in a business, as disclosed by a single set of statements, and a study of the trends of these factors, as shown in a series of statements
- Kennedy and Muller (1989) says that the analysis and interpretation of the financial statements are an attempt to determine the significance and meaning of financial statement data so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and profitability and sound dividend policy.
- Johnstone explains(2007) “This payback method of investment appraisal has severe limitations, due to the simplistic nature of the assumptions, but it can be used to give an indicative outcome for a project involving fairly steady net income flows over a relatively short time period. It does not however give any indication of the return on the investment,”
- Barrie Chanter, Peter Swallow(2007)317 page There are a number of financial analysis techniques, ranging from the simple to the sophisticated, that can be of use as an aid to decision-making in many areas of cost volume profit analysis.
- Dennis Lock (2007)520 page There are two common approaches to financial analysis. One is the simple payback method and the other uses one of a range of techniques based on discounting the forecast cash flows.
- Tony Morden(2007)627 page Finance is a key resource of any financial analysis techniques within the wider processes of strategic decision-making and strategic choice
- Mario W.Cardulla (1996)282page The financial analysis techniques that are useful to a manager are some of the major financial appraisal techniques and not the total set of these techniques.

Methodology

For the study, statistical data have been collected from various reports published periodically by the DIAL. Some secondary data have also been obtained from journals; reports of the national survey and various publication of the directorate of economics and statistics. Data about the organization, working pattern, technical input supply are collected through personal discussion and interviews with the officials of the DIAL. The study stands limited to the year from 2007 to 2010.The techniques of cost and financial statement analysis such as ratio analysis, trend analysis, comparative and common size statement, cash and fund flow statement and value added statement had been applied for the purpose of financial analysis in the present study. The statistical techniques like averages, coefficient of correlation, graphic and diagrammatic presentation of data have also been applied. For proper analysis and evaluation of operational performance and financial strength, the individual items of profit and loss accounts and balance sheet have also been regrouped.

Objectives of study

This study has fulfils the following objectives:

- To analyze the profitability position and return on capital employed position of Delhi International airport Ltd.
- To analyze the short liquidity and long term liquidity position of the Delhi International Airport Ltd.
- To examine the proper utilization of fixed assets and inventory of DIAL
- To give the suggestions on the basis of finding of the study.

Scope the study

The scope of the present study relates to financial analysis of Delhi International airport Ltd. There are number of financial techniques which can analyze financial position of the business. Out of these techniques we have applied major and scientific i.e. Ratio analysis technique. In this study we have analyze profitability, liquidity and working capital position of Delhi International airport Ltd. This study is useful for all other similar company those who are engaged in such type of activities because on the basis of this study the other companies will also analyze their financial statement position.

Limitations

- This research paper is a micro nature research based on a selected sample Indian company.
- This research paper is based on three financial statement of the company from 2007-2008 to 2009-2010.
- For the financial analysis , the ratio analysis technique have been used and for this various data are grouped and sub grouped.

Financial analysis of dial

The financial analysis of Delhi international airport ltd haves been analyzed by ratio analysis techniques. In these techniques, we have used various ratios for judging the overall efficiency and profitability position of the company. In this regard we have to calculate the following ratio:

- Operating Profit Ratio
- Net Profit Ratio
- Return On Equity (Roe)
- Current Ratio
- Quick Ratio
- Debtor Turnover Ratio
- Inventory Turnover Ratio
- Working Capital Turnover Ratio
- Fixed Asset Turnover Ratio
- Debt Equity Ratio
- Proprietary Fund Ratio
- Solvency Ratio

Operating Profit Ratio

This ratio indicates an average operating cost incurred on a sales of goods worth Rs.100. Lower the ratio, greater is the operating profit to cover the non operating expenses, to pay dividend and to create reserves and vice versa.

Formula:

*Operating ratio = [(operating expenses + cost of goods sold) * 100] / sales*

Where,

Cost of goods sold = sales gross profit

Operating expenses = office expenses + administrative expenses + selling expenses + distribution expenses

Table 1 : (Rs. In Crs.)

Source: Annual report of DIAL from 2007 to 2010

Interpretations:

Financial year	Operating expenses (Rs)	Cost of goods sold (Rs)	Sales	Operating Ratio
2009-10	3201.59	556.88	5123.42	62.48
2008-09	2951.59	456.97	4476.19	65.93
2007-08	1696.28	403.13	2697.90	62.87

Operating ratio is the measurement of efficiency and profitability of the business. The ratio indicates the extend of sales that is absorbed by the cost of goods sold and operating expenses Operating ratio was almost equal during 2009-10 & 2007-08. Which shows its ability to control the operating cost, while in the year 2008-09 it increases due to increase in operating expenses which is less profitable and inefficient for DIAL.

Net Profit Ratio

This ratio shows the percentage of net profit earned on the sales. Net profit ratio indicates the overall efficiency of the business. Higher the net profit ratio, better the business.

Formula:

*Net profit ratio = (Net Profit *100) / Sales*

Table 2 : (Rs. In Crs.)

Financial year	Net profit(Rs)	Net sales(Rs)	Net profit ratio
2007-08	524.21	2697.91	19.43%
2008-09	778.36	4476.19	17.38%
2009-10	914.12	5123.42	17.84%

Source: Annual report of DIAL from 2007 to 2010

Interpretation

This ratio indicates the firm's capacity to face adverse economic conditions such as price, price competition, low demand, etc. Obviously, higher the ratio, the better the profitability.Net profit ratio increases in the year 2007-08 which shows the increase in the profitability, while in the year 2008-09it decreases due to increase in raw material cost which is less profitable and inefficient, again in the year 2009-10 it increases due to decrease in turnover.

Return On Equity

This ratio indicates the firm's ability of generating profit per rupee of shareholders funds. Higher the ratio, the more efficient the management and utilization of shareholders funds.

Formula:

*Return on equity = (Net profit after interest and tax / Share holders fund) * 100*

Table 3: (Rs. In Crs.)

Financial Year	Net profit after int. & tax(Rs)	Shares holders fund (Rs)	Ratio
2009-10	914.12	6667.06	13.71
2008-09	778.236	6471.13	12.03
2007-08	524.21	6117.20	8.57

Source: Annual report of DIAL from 2007 to2010

Interpretations:

Ratio is more meaningful to the equity shareholders who are interested in knowing profit earned by the company and those profits which are made available to pay dividend to them. Higher the ratio better it is here return on equity is increasing year by year which is a very good sign for the company.

Current Ratio

Current ratio is an index of the firm's financial stability ,i.e., an index of technical solvency and an index of the strength of working capital , which means excess of current assets over current liabilities. A high current ratio is an assurance that a firm will have adequate funds to pay current liabilities and current payments.

Formula:

Current ratio = current assets / current liabilities

Table 4 : (Rs. In Crs.)

Financial Year	Current assets (Rs)	Current liabilities (Rs)	Current ratio
2009-10	2825.12	1582.14	1.78:1
2008-09	3277.06	1409.91	2.32:1
2007-08	1368.93	1322.75	1.03:1

Source: Annual report of DIAL from 2007 to2010

Interpretations:

A relatively high current ratio is an indication that the firm is liquid and has a ability to pay its current obligations in time as and when they become due. As a convention the minimum of 'two to one ratio' referred to as banker's rule of thumb but here the ratio's of the year 2007-08 and 2009-10 is less than the year 2008-09 which indicates that liquidity position of the firm is not good. This shows that the dial doesn't have sufficient funds to pay off their liabilities and the business is trading beyond their capabilities.

Quick Ratio

Liquid ratio is a more rigorous test of liquidity than current ratio. A comparison of current ratio with liquid ratio would indicate the degree of inventory held up. A high liquid ratio compare to current ratio may indicate under stocking while a low ratio may indicate over stocking.

Formula:

Quick ratio = current asset - inventories and prepaid expenses / current liabilities

Table 5 : (Rs. In Crs.)

Financial Year	Current asset inventories (Rs)	Current liabilities (Rs)	Ratio
2009-10	4024.83	1582.14	2.54
2008-09	4411.45	1409.91	3.13
2007-08	1929.87	1322.75	1.46

Source: Annual report of DIAL from 2007 to 2010

Interpretations:

As a conventional the minimum of one to one ratio is referred to as bankers rule of thumb but here the ratio's of last three years is more than one which does not mean that a bad liquidity position as inventories are not absolutely non-liquid. Here it shows that dial having high quick ratio have a good liquidity position.

Debtors Turnover Ratio

It indicates both the quality of debtors and the credit collection efforts of the enterprise. In general, a high ratio indicates the shorter collection period which implies prompt payments by debtor and a low ratio indicates a longer collection period which implies delayed payments by debtors.

Formula:

Debtors turnover ratio = Total sales / Debtors

Table 6 : (Rs. In Crs.)

Financial Year	Sales (Rs)	Debtors (Rs)	Ratio
2009-10	5123.42	864.93	5.92
2008-09	4476.19	660.91	6.77
2007-08	2697.91	430.57	6.26

Source: Annual report of DIAL from 2007 to2010

Interpretation:

This ratio indicates the speed at which the amount is collected from debtors. The higher the ratio, the better it is, since it indicates that amount from debtors being Collected more quickly. In the year 2008-09 it has increased which is good and it shows that the company is able to collect its amount from debtors more quickly while in the year 2009-10 it has reduced due to increased in sales and Debtors which indicates inefficient credit Sales policy of the DIAL

Inventory Turnover Ratio

It indicates the speed with which the inventory is converted into sales. In general, a high ratio indicates efficient performance since an improvement in the ratio shows that either the same volume of sales has been maintained with a lower investment in stocks, or the volume of sales has increased without any increase in the amount of stocks.

Formula:

Inventory turnover ratio =cost of goods sold (sales) / inventory

Table 7 : (Rs. In Crs.)

Financial Year	Sales (Rs)	Inventory (Rs)	Ratio
2009-10	5123.42	115.92	44.19
2008-09	4476.19	131.88	33.95
2007-08	2697.91	38.03	70.94

Source: Annual report of DIAL from 2007 to2010

Interpretations:

This ratio indicates whether stock has been efficiently used or not. It shows the speed with which the stock is rotated into sales during the year. Here in the year 2007-08 inventory turnover ratios is highest which is good and indicates that stock is selling quickly. While in the year 2008-09 and 2009-10 ratios is comparatively less which shows that stock does not sell quickly and remains lying in the go down for a quite long time. This results in increased storage costs, blocking of funds and losses on account of goods becoming obsolete or unsalable.

Working Capital Turnover Ratio

It indicates the firm's ability to generate sales per rupee of working capital. In general, higher the ratio, the more efficient the management and utilization of working capital and vice versa. To judge whether the ratio is satisfactory or not, it should be compared with its own past ratios or with the ratio of similar enterprises in the same industry or with the industry average.

Formula:

Working capital turnover ratio = sales / working capital

Where

Working capital = current assets current liabilities

Table 8 : (Rs. In Crs.)

Financial Year	Sales (Rs)	Working capital (Rs)	Ratio
2009-10	5123.42	266.51	38.09
2008-09	4476.19	1867.15	20.39
2007-08	2697.91	46.18	58.42

Source: Annual report of DIAL from 2007 to2010

Interpretations:

This ratio reveals how efficiently working capital has been utilized in making sales. In other words, it shows the number of times working capital has been rotated in producing sales. In DIAL working capital turnover ratio decreases in the year 2008-09 due to decrease in the sundry creditors while in the year 2009-10 it increases due to increase in sundry debtors and inventories which is more profitable and efficient for DAIL.

Fixed Assets Turnover Ratio

It indicates the firm's ability to generate sales per rupees of investment in fixed assets. In general, higher the ratio, the more efficient the management and utilization of fixed assets and vice versa. To judge whether the ratio is satisfactory or not, it should be compared with its own past ratios or with the ratio of similar enterprises in the same industry or with the industry average.

Formula:

Fixed assets ratio = Net sales / Net Fixed Assets

Table 9 : *(Rs. In Crs.)*

Financial year	Net sales (Rs)	Net fixed assets (Rs)	Fixed assets ratio
2007-08	5123.42	12548.06	0.41
2008-09	4476.19	9651.63	2.16
2009-10	2697.91	5269.91	0.51

Source: Annual report of DIAL from 2007 to2010

Interpretations:

Normally this ratio should be ranging between 3:2 and 4:3.As case of dial which is not a manufacturing company, this ratio can be high, which indicates the short term position of the concern to be very poor because all current assets should have been purchased from the funds belongings to outsiders, Only in the year 2008-09 it is high and appropriate, and in the year 2007-08 the fixed assets are more and sales are comparatively less, and comparatively in the year 2009-10 it is vice-versa.

Debt Equity Ratio

It indicates the margin of safety to long term creditors. A low debt equity ratio implies the use of more equity than debt which means a larger safety margin for creditors since owner's equity is treated as margin of safety by creditors and vice versa .

Formula:

Debt Equity ratio = External equity / Internal equity.

Where

External equity = Long Term Loan + Short Term Loan + Current Liabilities

Internal equity = Share Capital + Reserves.

Table 10 : (Rs. In Crs.)

Financial Year	Debt (Rs)	Equity (Rs)	Ratio
2009-10	20837.35	6667.06	3.13
2008-09	12210.16	6471.13	1.89
2007-08	7976.93	6117.20	1.13

Source: Annual report of DIAL from 2007 to 2010

Interpretations:

The debt-equity ratio is calculated to measure the extent to which debt financing has been used in business. As a general rule, there should be an appropriates mix of owners funds and outsiders funds in financing the firm's assets .Here debt equity ratio is constantly increase in year by year from 2007-2010 due to increase in the share capital, reserves and long term loans. Earlier, an ideal ratio of debt equity ratio is 2:1 but in India, government approves ideal standard 1:1 for all corporate organization

Proprietary Ratio

This ratio indicates the extent to which the assets of the enterprise have been financed out of Proprietors funds. A high proprietary ratio indicates the larger safety margin for creditors and the enterprise is not taking the benefit of trading on equity. A low proprietary ratio indicates the greater risk to creditors and the enterprise is taking the benefit of trading on equity.

Formula:

Proprietary Ratio = equity / total assets

Table 11: (Rs. In Crs.)

Financial Year	Equity (Rs)	Total assets (Rs)	Ratio
2009-10	6667.06	25756.05	.26
2008-09	6471.13	19719.62	.33
2007-08	6117.20	10318.41	.59

Source: Annual report of DIAL from 2007

Interpretations:

A higher the proprietary ratio is generally treated an indicator of sound financial position from long term point of view, because it means that a large proportion of total assets is provided by equity and hence the firm is less dependent on external sources of finance. Here the proprietary ratio decreases year after year which is a danger signal for long term lenders as it indicates a lower margin of safety available to them. This clearly shows that their long term loans are less secured and they face the risk of losing their money easily.

Solvency Ratio

Solvency ratio are calculated to assess the ability of the firm to meet its long term and short term liabilities as and when they become due. These ratio reveal as to how much amount an a business has been invested in total assets so that business can easily will meet out their long term and short term liabilities.

Formula:

*Total asset to debt ratio = debt / total assets * 100*

Table 12 : (Rs. In Crs.)

Financial Year	Debt (Rs)	Total assets (Rs)	Ratio
2009-10	20837.35	25756.05	80.9%
2008-09	12210.16	19719.62	61.92%
2007-08	7976.93	10318.41	77.36%

Source: Annual report of DIAL from 2007 to 2010

Interpretations:

This ratio expresses the relationship between long term, short term loans and total assets of a business enterprise. It measures the proportion of total assets financed through long term loans. As well as short term loans. In dial the percentage of debt to total assets ratio keeps on increasing year by year, which indicates a very risky position from long term point of view. As it means that DIAL is depended too much on outside loans for its existence. But as it is an infrastructure company it has to be depended on outside liabilities.

Findings

- The net profit ratio has come down due to increase in raw material cost in the year 2009-10
- Current assets ratio only for the year 2008-09 was appropriate and for other year it was diminishing which shows that the short liquidity position of dial is not satisfactory.
- Level of raw material inventory has decreased in the year 2008-09 by 48% and after that it has shown an increase in the year 2009-10 by 77%, which results that inventory has been properly utilize by the company. Present position of inventory should be maintained.
- Fixed assets turnover ratio has been downward from 2.16% to .41% due to drastic increase in fixed assets, which was because of the construction of new terminal t3. But fixed assets are not properly utilized by the company.
- Debt equity ratio have increased year by year which is not that good, and in the year 2008-09 it was of adverse condition because it has increased financial cost of the business which shows that long term financial position of the business it also not satisfactory.
- Proprietary ratio has been decreasing year by year which is the sign of huge amount of financial risk and it has increases losses.

Conclusions

- Profit margin of the company is good due to control on operating expenses of DIAL.
- Short term liquidity condition of the firm is quite good but long term liquidity position of the business is not satisfactory and the overall liquidity position may be satisfactory in present situation of the company.
- Inventory turnover ratio has shown high volatility in the upcoming year which shows that stock does not sell quickly and remains lying in the go down for a quite long time. This results in increased storage costs, blocking of funds and losses on account of goods becoming obsolete or unsalable but present position of inventory is quite satisfactory, hence there is a need of strengthen of present position.
- Working capital position of DIAL is being satisfactory during the study period. Although working capital turnover ratio has huge fluctuations during the period of study. This ratio requires some improvement by reducing of current working capital.

Recommendations

- The company should try to improve its existing operating profit and slightly control its operating expenses. So that operating profit may be increased.
- The company should try to strengthen its existing short term liquidity and also try to improve its long term liquidity position by reducing of long term debt.
- For proper inventory management company can use the "just in time (jit) inventory control system" which involves the purchase of materials in such a way that the delivery of purchased material is assured just before their use or demand. Company should also try to maintain the present position of inventory turnover for the better results of business.
- Funding of fixed assets should be done by share capital in spite along with long term loans capital.
- As we have seen that the proprietary ratio of the company was poor, which shows that they are depended on the long term liability, instead they should recommend to issue equity share in public for improvement long term solvency.

ABSTRACT

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