RESEARCH ARTICLE
Vol.5.Issue.2.2018
April-June

www.ijbmas.in

ISSN:2349-4638

INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)

A Peer Reviewed International Research Journal

PORTFOLIO – REVISION STRATEGIES

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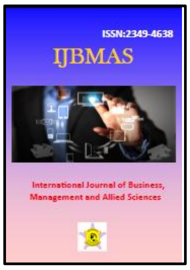

ABSTRACT

Financial analysis is the evaluation of a business in order to determine its profitability, liabilities, strengths and future earnings potential. A wide variety of techniques may be utilized to assess an organization's financial viability including the most common methodologies of horizontal analysis, vertical analysis and ratio analysis. Most analytical methods involve the company's financial statements, internal or external audits and investigations. Financial analysis is a critical aspect of all commercial activity as it provides actionable insights into the organization's health and future potential. Not only does this information provide investors and lenders with critical data that may affect the price of stocks or interest rates, these reports also allow company mangers to gauge their performance with regard to expectations or industry growth. From a management point of view, financial analyses are critical to the success of the company because they highlight weaknesses and strengths that directly affect competitiveness.

Key Words: Financial Analysis, Bharati Airtel, Liquidity, Leverage, Profitability.

INTRODUCTION

Financial analysis is an aspect of the overall business finance function that involves examining historical data to gain information about the current and future financial health of a company. Financial analysis can be applied in a wide variety of situations to give business managers the information they need to make critical decisions. The ability to understand financial data is essential for any business manager. Finance is the language of business. Business goals and objectives are set in financial terms and their outcomes are measured in financial terms. Among the skills required to understand and manage a business is fluency in the language of finance the ability to read and understand financial data as well as present information in the form of financial reports.

The finance function in business involves evaluating economic trends, setting financial policy and creating long-range plans for business activities. It also involves applying a system of internal controls for the handling of cash, the recognition of sales, the disbursement of expenses, the valuation of inventory and the approval of capital expenditures. In addition, the finance function reports on these internal control systems through the preparation of financial statements such as income statements, balance sheets and cash flow statements.

Finally, finance involves analyzing the data contained in financial statements in order to provide valuable information for management decisions. In this way, financial analysis is only one part of the overall function of finance, but it is a very important one. A company's accounts and statements contain a great deal of information. Discovering the full meaning contained in the statements is at the heart of financial analysis. Understanding how accounts relate to one another is part of financial analysis. Another part of financial analysis involves using the numerical data contained in company statements to uncover patterns of activity that may not be apparent on the surface.

According to Water B. Meighs & Robert F. Meigs "Financial Statement analysis is the method of analyzing and interpreting information, the financial statements contain. In doing so, our goal is to determine whether a company is gaining or loosing ground in the unending struggle for profitability and solvency."

In the words of James C Van Horne, "Financial analysis provides for analyzing financial conditions and performance of a company."

According to Weston and Brigham, "Financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence the future course of events."

In the opinion of G. Dorms "Financial statement analysis refers to the art of analyzing and interpreting financial statements of different enterprises."

In the words of I.M. Pandey "Financial statement analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account."

In conclusion, financial analysis can be an important tool for small business owners and managers to measure their progress toward reaching company goals as well as toward competing with larger companies within an industry. When performed regularly over time, financial analysis can also help small businesses recognize and adapt to trends affecting their operations. It is also important for small business owners to understand and use financial analysis because it provides one of the main measures of a company's success from the perspective of bankers, investors and outside analysts.

OBJECTIVES OF THE STUDY

1. To analyze the overall financial performance of Bharti Airtel Limited.
2. To study the liquidity, Leverage and profitability ratios of the company.
3. To provide useful conclusions to improve the financial performance of the company.

RESEARCH METHODOLOGY

In order to attain the objectives of study, secondary data has been used. The data needed for this study has been extracted from annual reports of Bharti Airtel Limited over a period of five years starting from the year 2012-13 to 2016-17. The collected data has been organized within the form of tables so important inferences may well be drawn.

In the present study the liquidity, leverage and profitability position has been taken into consideration by calculating different key liquidity, leverage and profitability ratios in order to judge their financial performance of the company. The statistical tool like average and ratio analysis has been applied for the study.

Ratio analysis is the one of the powerful tools of financial analysis. A ratio can be used as a yard stick for evaluating the financial position and performance of a company because the absolute accounting data cannot provide meaningful understand and interpretation. Ratio analysis helps the analysts to make quantitative judgment with regard to company financial position and performance.

COMPANY PROFILE

Bharti Airtel is Asia's leading integrated telecom services provider with operations in India and Sri Lanka. Bharti Airtel, incorporated on July 7, 1995 is the flagship company of Bharti Enterprises. Bharti Airtel has been at the forefront of the telecom revolution and has transformed the sector with its world class services built on leading edge technologies. Airtel is a name that connects India with millions of people all over the world with millions of people in India. Today, this telecom giant is amongst the most trusted telecommunication brands in the world. The company's modest journey from a regional operator limited to the city of Delhi to second largest mobile operator in the Asia Pacific region is nothing short of inspiring.

From the humble beginnings in the Indian telecom industry in 1986, Airtel has its roots in Bharti Telecom Limited. Founded in 1986 by Sunil Bharti Mittal, the company was the first in India to offer push button telephones, when the rest of the country was still using rotary phones. The company then went on to launch various telecom technologies to the Indian market and had innovation at its heart. Going on to acquire license to build a cellular network in Delhi, Bharti Telecom Limited laid the ground work for the mobile operations of the company in the year 1992. It began operations in Delhi in the year 1995 as Bharti Tele-Ventures. The service was extended to various other states by various acquisitions and partnerships.

Sunil Bharti Mittal rebranded all of his mobile telecom ventures under a single brand named Airtel in 2003. The company has grown to be India's largest mobile operator, with consistent hard work and everyday innovation. Airtel operates in India, Sri Lanka, Bangladesh, a few countries in African continent and the Channel Islands. They are one of the largest mobile operator networks in the world in terms of subscribers, and have a commercial presence in over 20 countries.

Today, company offers various products such as 2G, 3G and 4G wireless services, High Speed Internet, Fixed line telephony and DTH services. In a span of 19 years, the company went from offering mobile telephony services in one city in India to expanding its operations in over 20 countries. Being 4th largest mobile operator in the world with a subscriber base of over 250 million, the story of Airtel's success will forever motivate those who dare to dream.

FINANCIAL ANALYSIS OF BHARTI AIRTEL LIMITED

A company's overall financial health can be assessed by examining three major factors: its liquidity, leverage, and profitability. All three of these factors are internal measures that are largely within the control of a company's management. It is important to note, however, that they may also be affected by other conditions such as overall trends in the economy that are beyond management's control.

LIQUIDITY

Liquidity refers to a company's ability to pay its current bills and expenses. In other words, liquidity relates to the availability of cash and other assets to cover accounts payable, short-term debt and other liabilities. All small businesses require a certain degree of liquidity in order to pay their bills on time, though start-up and very young companies are often not very liquid. In mature companies, low levels of liquidity can indicate poor management or a need for additional capital. Of course, any company's liquidity may vary due to seasonal variations, the timing of sales, and the state of the economy.

Companies tend to run into problems with liquidity because cash outflows are not flexible, while income is often uncertain. Creditors expect their money when promised and employees expect regular paychecks. However, the cash coming in to a business does not often follow a set schedule. Sales volumes fluctuate as do collections from customers. Because of this difference between cash generation and cash payments, businesses should maintain a certain ratio of current assets to current liabilities in order to ensure adequate liquidity. To assess a company's liquidity, analysts recommend using the current and quick ratios.

The current ratio can be defined as Current Assets/Current Liabilities. It measures the ability of an entity to pay its short-term obligations. Though the ideal current ratio depends to some extent on the type of business, a general rule of thumb is that it should be at least 2:1. A lower current ratio means that the company may not be able to pay its bills on time, while a higher ratio means that the company has money in cash or safe investments that could be put to better use in the business.

The quick ratio, also known as the "acid test" ratio can be defined as Quick Assets (cash, marketable securities and receivables) / Current Liabilities. This ratio provides a stricter definition of the company's ability to make payments on current obligations. Ideally, this ratio should be 1:1. If it is higher, the company may keep too much cash on hand or have a poor collection program for accounts receivable. If it is lower, it may indicate that the company relies too heavily on inventory to meet its obligations.

The Table-1 presents the data of the Liquidity Ratios in Bharti Airtel from 2012-13 to 2016-17.

Table-1: Liquidity Ratios in Bharti Airtel from 2012-13 to 2016-17 (per cent)

Years	2012-13	2013-14	2014-15	2015-16	2-16-17	X
Current Ratio	0.60	0.65	0.73	0.93	0.73	0.73
Quick Ratio	0.70	0.66	0.75	0.98	0.75	0.77

Source: Annual Reports of the Company

Current Ratio

A close examination of the data pertaining to the current ratio reveals that the ratio is significantly lower in the Bharti Airtel as compared to the industry norm of 2:1. However, it has been increasing trend during the period of study except in the last year i.e., 2016-17. It was 0.60 per cent in 2012-13 which was increased to 0.93 percent in 2015-16. In the year 2016-17 the ratio was decreased to 0.73 per cent. The average ratio was 0.73 per cent. It signals that the company has been suffering from the problem of liquidity.

Quick Ratio

The data of the quick ratio in Bharti Airtel showing a fluctuating trend during the period of study. However, this is also not a favourable position of the company. The ratio was fluctuated between 0.70 percent in 2012-13 to 0.75 per cent in 2016-17. The average value of the quick ratio of the company was 0.77 per cent which is lower than the standard norm of 1:1.

The analysis of both current and quick ratios reveals that the company was not able to maintain sound liquidity position. It is really alarming with a precarious situation of liquidity position. Hence, it is advised that the company maintain the sound liquidity position by reducing the burden of excessive current liabilities or by increasing the investment in the components of current assets depending upon the requirements of the company. Otherwise they will face chronic liquidity problems without clar4ing the current maturing obligations.

LEVERAGE

Leverage refers to the proportion of a company's capital that has been contributed by investors as compared to creditors. In other words, leverage is the extent to which a company has depended upon borrowing to finance its operations. A company that has a high proportion of debt in relation to its equity would be considered highly leveraged. Leverage is an important aspect of financial analysis because it is reviewed closely by both bankers and investors. A high leverage ratio may increase a company's exposure to risk and business downturns, but along with this higher risk also comes the potential for higher returns.

To measure a company's leverage, the debt/equity ratio is the appropriate tool. Defined as Debt/Owners' Equity, this ratio indicates the relative mix of the company's investor-supplied capital. A company is generally considered safer if it has a low debt to equity ratio that is, a higher proportion of owner-supplied capital though a very low ratio can indicate excessive caution. In general, debt should be between 50 and 80 percent of equity.

The Table-2 gives the data of the Debt-Equity Ratio in Bharti Airtel from 2012-13 to 2016-17.

Table-2: Debt-Equity Ratio in Bharti Airtel from 2012-13 to 2016-17 (per cent)

Years	2012-13	2013-14	2014-15	2015-16	2-16-17	X
Ratio	0.50	0.49	0.25	0.11	0.18	0.31
Source: Annual Reports of the Company						

Debt-Equity Ratio

Based on the data provided in the Table-2 the debt-equity ratio in Bharti Airtel was decreased from 0.50 per cent in 2012-13 to 0.11 per cent in 2015-16. However, in 2016-17 the ratio was increased to 0.18 per cent. The average ratio was 0.31 percent during the period of study. Hence, we can find that the debt was significantly lower during the last three years period of study and it cannot be compared with any standard. We find that very lower proportion of debt employment in the company. The company was also not capital intensive but it has been employing strikingly lower amount of debt than the equity.

PROFITABILITY

Profitability refers to management's performance in using the resources of a business. Many measures of profitability involve calculating the financial return that the company earns on the money that has been invested. If profitability measures demonstrate that this is not occurring particularly once a small business has moved beyond the start-up phase then the entrepreneur should consider selling the business and reinvesting his or her money elsewhere. However, it is important to note that many factors can influence profitability measures, including changes in price, volume as well the purchase of assets or the borrowing of money.

Finally, to measure a company's level of profitability, analysts recommend using the return on equity ratio which can be defined as Net Income/Owners' Equity. This ratio indicates how well the company is utilizing its equity investment. Return on equity is considered to be one of the best indicators of profitability. It is also a good figure to compare against competitors or an industry average. Experts suggest that companies usually need at least 10-14 percent Return on Equity in order to fund future growth. If this ratio is too low, it can indicate poor management performance. On the other hand, a high return on equity can mean that management is doing a good job, or that the firm is undercapitalized.

The Table-3 presents the data of the Return on Equity in Bharti Airtel from 2012-13 to 2016-17.

Table-3: Return on the Equity in Bharti Airtel from 2012-13 to 2016-17 (per cent)

Years	2012-13	2013-14	2014-15	2015-16	2-16-17	X
Ratio	-9.80	8.93	16.86	9.89	9.41	7.06

Source: Annual Reports of the Company

Return on Equity: The data of the Table-3 reveals that the return on equity in Bharti Airtel was negative during first year (2012-13) of the study. It was highest in 2014-15 at 16.86 per cent and lowest at 8.93 per cent in2013-14. The average rate of return was 7.06 per cent. The rates were not satisfactory in the company if we compare it with any standard. This explains that a rupee invested in the company could generate seven rupees of return per year. This will be a very low return on the equity.

CONCLUSION

Financial analysis enables the analysts to bring out relative financial position of the company covered in the study. From a management point of view, financial analyses are critical to the success of the company because they highlight weaknesses and strengths that directly affect competitiveness.

Bharti Airtel, incorporated on July 7, 1995 is the flagship company of Bharti Enterprises. Bharti Airtel is Asia's leading integrated telecom services provider with operations in India and Sri Lanka. It has been at the forefront of the telecom revolution and has transformed the sector with its world class services built on leading edge technologies.

The liquidity position of the company was quite alarming, since it is facing chronic liquidity problems. Its proportion of current assets in relation to the current liabilities was very low. The company is not maintaining sound liquidity position and it will face precarious situation of liquidity position. Therefore, it is suggested that the company improve the liquidity position either by reducing excessive burden of current liabilities or increasing the level of current assets depending up on the requirements.

The leverage position of the company reveals that the company is not heavily depending on high capital gearing techniques by using low debt funds in its capital structure to maximize the return on the equity. The debt was on an average 31 per cent of total capital structure. Hence, the return on the equity was lower at 7.06 per cent. At the same time the company is facing the chronic liquidity problems.

The return on equity in the company was negative during first year of the study. It was highest in 2014-15 at 16.86 per cent and lowest at 8.93 per cent in 2013-14. The average rate of return was 7.06 per cent. The rates were not satisfactory in the company if we compare it with any standard. This explains that a rupee invested in the company could generate seven rupees of return per year. This will be a very low return on the equity.

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