**SM725**

Financial Management

Project

**Topic:**

Financial Performance evaluation with key ratios of Bharti Airtel

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**TO:**

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# **Industry profile:**

Bharti Airtel Limited, also known as Airtel, is an Indian global telecommunications services company based in New Delhi, Delhi NCT, India. It operates in 18 countries across South Asia and Africa, and also in the Channel Islands. Airtel provides GSM, 3G, 4G LTE, 4G+ mobile services, fixed line broadband and voice services depending upon the country of operation. Airtel had also rolled out its VoLTE technology across all Indian telecom circles. It is the second largest mobile network operator in India and the second largest mobile network operator in the world with over 423.28 million subscribers.

# **Scope of the study:**

Ratio analysis is a powerful tool of financial analysis. It is a process of identifying the financial strengths and weaknesses of the firm by establishing the relationship between the different items of balance sheet and profit and loss account for meaningful understanding of the financial position and performance of the firm.

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# **Objective of the study:**

Annual financial reports released by Bharti Airtel and data from websites are used in the study. The analysis of fifteen different important key ratios obtained from the data for five years from 2013 to 2018 is the target of the study.

The following will be undertaken:

* Collecting data from balance sheets from year 2013 to 2018
* Calculating important key ratios from the collected data
* Interpreting the key ratios and their trend
* Analyze the company’s performance in the five years (2013-2018)
* Suggesting areas where the company can improve in coming years

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# **Data analysis and interpretation of all important key ratios:**

## ***Liquidity Ratios:***

**Current Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.3940797465 | 0.4218793099 | 0.3501092067 | 0.3227436146 | 0.4281575002 |

**Quick Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.3915764457 | 0.4197687706 | 0.3472637754 | 0.3219683309 | 0.4272717629 |

**Net Working Capital Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| -0.1879016603 | -0.1873412135 | -0.1839639942 | -0.1831564484 | -0.1785482254 |

Liquidity refers to the ability of a firm to meet its obligations in the short run, usually one year. Liquidity ratios are generally based on the relationship between current assets

(the sources for meeting short-term obligations) and current liabilities. The important liquidity ratios are: current ratio, acid-test ratio, and cash ratio.

**Current Ratio** is a very popular ratio and the current ratio is defined as the ratio of current assets to current liabilities:

Current assets / Current liabilities.

The current ratio measures the ability of the firm to meet its current liabilities—current assets get converted into cash during the operating cycle of the firm and provide the funds needed to pay current liabilities. Apparently, the higher the current ratio, the greater will be the short-term solvency.

**Quick ratio** is defined as the ratio of quick assets to current liabilities, that is , quick assets / current liabilities. Quick assets are defined as current assets excluding inventories.The acid-test ratio is a fairly stringent measure of liquidity. It is based on those current assets which are highly liquid—inventories are excluded from the numerator of this

ratio because inventories are deemed to be the least liquid component of current assets.

**Net Working Capital Ratio** is defined as the ratio of working capital to the total assets, that is , working capital / total assets. Working capital is the difference between current assets and current liabilities.

We can see that the current ratio and quick ratio are almost equal. This implies that the inventory levels are very less when compared to the current assets, and cash and other liquid assets are high. We can observe that the Working capital ratio is negative, which the company needs to analyze and make it positive.

***Activity Ratios***:

**Inventory Turnover Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 304.8249704 | 292.3013401 | 291.4666667 | 371.4547958 | 615.6206605 |

**Average Inventory** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 1265.5 | 1380.5 | 1515 | 1089.5 | 590.5 |

**Debtors Turnover Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.9782827727 | 1.037095294 | 1.059673327 | 0.9504085739 | 1.107575872 |

***Assets Turnover Ratio*** -

**Current Assets Turnover Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 3.83039619 | 3.438732697 | 4.851238796 | 4.699399459 | 2.498220842 |

**Total Assets Turnover Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.4681046549 | 0.470112135 | 0.4807824761 | 0.4101749429 | 0.3339746414 |

**Capital Turnover Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.7208092597 | 0.691110492 | 0.6949575331 | 0.5822352572 | 0.4998282898 |

**Working Capital Turnover Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| -2.491221495 | -2.509389825 | -2.613459651 | -2.239478579 | -1.87050104 |

Activity or Turnover ratios measure how efficiently the assets are employed by a firm. These ratios are a relationship between level of activity ie. sales or cost of goods sold and levels of various assets.

The **inventory turnover ratio** indicates the efficiency of the firms producing and selling its products, a higher inventory turnover ratio indicates better sales and that the company can effectively sell the inventory it buys. The ratios found in our study indicate that the company has been effective in sales of its inventory in the five years.

**Debtors turnover ratio** indicates the relationship between sales and average debtors, higher turnover ratio indicates better performance. The ratios found in our study show that the performance of the company has been consistent with a relatively better performance in the years 14-15, 15-16 and 17-18

**Current asset turnover ratio** shows how well the current assets are being used in the business, based on the ratios we have found we see that there is an improvement from the year 13-15 to 16-17 followed by a sharp decline in 17-18.

Total asset turnover ratio expresses the relationship between the amount invested in the assets and the result in terms of sales, the higher the ratio means the better the utilization. Based on the ratios calculated we see that there is a decreasing trend which implies that the utilization is becoming increasingly unsatisfactory.

The **capital turnover ratio** indicates the efficiency of the organization with which the capital employed is being utilized, based on the ratios calculated it is observed that there is a decreasing trend.

The **working capital ratio** measures how well a company is utilizing its working capital to support a given level of sales, based on the ratios calculated we see that the working capital is negative which means that the company does not have sufficient short term funds for fulfilling the sales done in that year, this causes a shortage of funds and is an alarming sign.

The suggestions that can be made are that the firm should look toward improving its asset employment and improve its working capital.

***Leverage Ratios*:**

**Debt-Equity Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.9756089935 | 0.98084836 | 2.025789993 | 1.284441413 | 1.407920396 |

**Debt to Total Capital Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.5246048819 | 0.4920507508 | 0.6938132391 | 0.5822712397 | 0.5847038791 |

Leverage ratios help in assessing the risk arising from the use of debt capital.

**Debt-equity Ratio** ratio shows the relative contributions of creditors and owners. It is defined as:

Total liabilities (Debt) / Shareholders’ funds (Equity). The numerator of this ratio consists of all liabilities, non-current and current, and the denominator consists of share capital and reserves and surplus.In general, the lower the debt-equity ratio, the higher the degree of protection enjoyed by the creditors.

**Debt to Total Capital Ratio**  is the ratio of Total debt to the total capital employed, that is Total Debt / Capital Employed.

Lower the debt to total capital ratio, the better the performance of the company and the lower the risk involved.

We can see that the debt to equity ratio is higher than 1. The management needs to make efforts to bring it close to 1 as it is considered as an optimum and safe ratio level. The debt to total capital ratio is in a healthy ratio range.

***Profitability Ratios:***

**Gross Profit Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.5501183144 | 0.5615768899 | 0.5625284211 | 0.5760896549 | 0.5656194026 |

**Net Profit Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 32.2575604 | 33.99913515 | 36.36267267 | 37.00683892 | 35.941994 |

**Operating Ratio** -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| 0.2275427104 | 0.2215855384 | 0.1989016944 | 0.2060212657 | 0.2061994625 |

Profitability ratios are metrics that assess a company's ability to generate income relative to its revenue, operating costs, balance sheet assets, or shareholders' equity. Profitability ratios show how efficiently a company generates profit and value for shareholders.

**The Gross profit** ratio shows the percentage of sales revenue a company keeps after it covers all direct costs associated with running the business.It is almost constant throughout 2013-2018 and it is high that means the company has more cash to pay for indirect and other costs such as interest and one-time expenses.

**Net profit ratio** is a way to measure the financial performance or profitability of a business in relation to the costs associated with the production and distribution of products along with other expenses. Accountants, finance professionals and investors use net profitability ratios to determine the financial value of a company.Throughout 2013-2017 net profit ratio is increasing from their base year while in 2018 it decreased slightly ,but still net profit ratio is quite high.

**Operating ratio** is a company's operating expenses as a percentage of revenue.A low operating ratio means a high net profit ratio (i.e. more operating profit) and vice versa.Here operating ratio is low throughout which is good. But while comparing with base year in FY 2016-17 and 2017-18 operating Ratio increased.

In terms of profitability ratios the company is in a good position. But in some FY while comparing with its base year ratios lags.It should be improved.