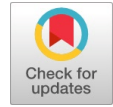


# An Impact of Operating and Non-Operating Expenses on Financial Viability in Jet Airways

M. Shankar, Meena GL, V. Mouneswari



**Abstract** – ‘Crisis’ – the result of insolvency and bankruptcy situation for a firm or nation. The reasons for a crisis of a firm are internal and external environmental facts to which the firm could not understand thoroughly. During the crisis the shareholders blame the firm’s policies, procedures and administrative strategies. The banks show reluctance not only to the firms but also to their linkages also. In the present paper a detailed study has been carried out about the crisis in Jet Airways. For the purpose descriptive study has been chosen to know the root cause which damaged the harmonic functioning of the company. The results have disclosing that pre-emptive actions must be taken by the firms to absorb corporate government policies perfectly. It is the primary responsibility in front of the Governments to involve in internal activities of the corporate firms and the policies should be made by makers in such a way only.

**Key words** – financial crisis, insolvency, bankruptcy, financial ratios

## I. INTRODUCTION

Jet Airways was incorporated in the year 1992 as a private company as per the companies act 1956. Jet Airways has converted in to a public company in the year 2005. Currently Jet Airways provide regular scheduled services to 42 destinations in India and two destinations outside India, operating 1,924 flights weekly. Their aircraft fleet has grown from four aircraft in 1993 to currently 42 aircraft comprising 34 Boeing 737 aircraft and eight ATR 72-500 aircraft.<sup>[1]</sup>

### Current Status of Jet Airways<sup>[2]</sup>

In the year 2018, Jet Airways has announced huge losses. In March 2019, it was noticed that nearby 1/4<sup>th</sup> of total Jet Airways fleet were stopped due to insolvency of lease rents. On 5<sup>th</sup> April 2019, Indian Oil has taken the decision to not to supply oil due to huge unpaid debt. On 10 April 2019, an aircraft was seized at Amsterdam Airport by a European cargo-services provider over non-payment of dues.

On 12<sup>th</sup> April 2019, Jet Airways has announced that it will be going to stop all international flights due to the lack of free available aircrafts

As a result, on 17 June, after getting no acceptable offers from Etihad Airways and Hinduja Group, lenders to Jet Airways decided to refer the company to National Company Law Tribunal (NCLT) for bankruptcy proceedings with a debt pile of \$1.2 billion.

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## Objectives of the study

To study the internal financial mechanism that has directed the financial crisis in Jet Airways.

## Period of the study

2003-04 to 2007-08 & 2013-14 to 2017-18 (15 years)

## II. REVIEW OF LITERATURE

**Zhouying Jin** and **Ying Bai** have stated that there is no exact meaning for financial crisis but the current status of each system fell into the crisis of development paradigm. From their voice, it can be noticed that the financial crisis can be avoided by value transformation from top end to down end continuously and it is a continuous process. The second tool to control the financial crisis is usage of soft technologies rather than hard technologies. The third one is green business strategy. It means that fair deals with long lasting nature.<sup>[3]</sup>

**John Loxley** has stated that the main reason for the global crisis is disagreed monetary and fiscal policies between the countries. The financial crisis can be mainly appeared in the form of lowering the debt transferring between nations, firms and individuals. He has highlighted the role of government, central bank to reduce the interest rates for better crisis management and to bring back the debt proportion flow in the market.<sup>[4]</sup>

**Bernd Braasch** has pointed out about one of the main reasons for a financial crisis. In his observation has given the importance to information gaps between information generator, provider and needed endpoints. Actual situations are always not appearing to those who are needed as with their real status. A systematic framework is needed to avoid crisis to facilitate the information and warning point to alert the nations and firms.<sup>[5]</sup>

**Reinout D.Vriesendorp** and **Martin A Gramatikov** have given some valuable suggestions to avoid financial crisis. They are - first the firm/country needs to reduce cheap and high liquid financial resources. The policies of financing for restructuring should be more relaxed in crisis baring economies.<sup>[6]</sup>

**Benjamin Dennis** and **Simon Kandel** have stated that while corporate restructuring high interest rates are more favourable even to the banks and the firms before crisis. After crisis some important measure are to be applied to overcome from the threat of financial crisis. They are wide spread debt forgiveness policy, enhanced bankruptcy court and enlarged free market rivalry.<sup>[7]</sup>

**Robert W. Rouse** have stated that the two main reasons for financial crisis are failure to adopt right corporate governance policies and lack of information transparency.



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The corporate policies should be framed in the light of adoptability probability and the regulatory agencies must involve in corporate firm's administrative mechanism.<sup>[8]</sup>

**Stephen R. Goldberg** and **Daniel C. Giedeman**, in their research have tried to focus on the players and procedures which causes financial crisis of a nation/firm. The main players are borrowers who borrow their investment fund in a huge volume without quality norms, the mortgage loan providers who prefer to allow the loan by mortgaging assets without the scope of risk diversification.<sup>[9]</sup>

### III. ANALYSIS & INTERPRETATION

From the Table 2, it is clear that the total income has been increased from 2003-04 to 2007-08 upto 266.73%, whereas the expenditure before interest, tax and depreciation has been increased from 2003-04 to 2007-08 up to 350.11%.

The total expenditure after depreciation, interest and tax are increased from 2003-04 to 2007-08 to 289.80%. In the year 2007-08, due to the high amount of depreciation of fixed assets, loss of Rs.253.06 Crores occurred. Even in the year 2005-06 the net profit was considerable at Rs.452.04 Crores due to the reason of less amount of interest payments while comparing to the next year, i.e. 2006-07.

**Table1: Statement of Expenditures of Jet Airways for the period of 2003-04 to 2007-08**

Expenditure	2003-04	2004-05	2005-06	2006-07	2007-08
Raw Materials	50.07	71.96	63.12	0.00	0.00
Power & Fuel Cost	741.78	1051.73	1678.93	2427.64	3293.03
Employee Cost	282.24	374.74	567.81	938.55	1205.18
Other Manufacturing Expenses	553.39	570.57	777.67	1239.56	1836.89
Selling and Admin Expenses	611.80	749.05	1084.22	1274.31	1539.78
Miscellaneous Expenses	61.71	58.57	90.34	140.60	181.12
Total Expenses	2300.99	2876.62	4262.09	6020.66	8056.00
Operating Profit	1146.43	1461.39	1431.64	1037.12	755.10
PBDIT	1241.17	1502.95	1798.38	1352.73	1392.34
Interest	525.47	461.31	691.24	909.70	1056.03
PBDT	715.70	1041.64	1107.14	443.03	336.31
Depreciation	515.15	457.00	406.41	414.10	777.80
Profit Before Tax	200.55	584.64	700.73	28.93	-441.49
Extra-ordinary items	0.54	18.82	41.01	24.49	28.90
PBT (Post Extra-ord Items)	201.09	603.46	741.74	53.42	-412.59
Tax	15.03	190.14	270.22	23.42	-160.73
Net Profit	163.11	391.99	452.04	27.94	-253.06

Source : Dion Global Solutions Limited

**Table 2: Statement of Returns of Jet Airways for the period of 2003-04 to 2007-08**

(All the figures are in Crores)

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04
Income					
Sales Turnover	8,811.10	7,057.78	5,693.73	4,338.01	3,447.42
Net Sales	8,811.10	7,057.78	5,693.73	4,338.01	3,447.42
Other Income	637.24	315.61	366.74	41.56	94.74
Total Income	9,448.34	7,373.39	6,060.47	4,379.57	3,542.16

Source: Deon Global Solutions Limited

From the both Tables 1&2, it is clear that operating profits were increased from 2003-04 to 2004-05 in a considerable manner, whereas, operating profit has been decreasing from 2004-05 to 2007-08 continuously due to escalation of fuel charges from Rs.741.78 Crores in 2003-04 to Rs.3293.03 Crores in the year 2007-08, almost 443.94% of expansion.

Due to the reason of escalation of employment management cost (remunerations) from Rs.282.24 Crores in 2003-04 to Rs.1205.18 Crores, the net profit has been decreased from Rs.163.11 Crores in 2003-04 to Rs.-253.06 Crores in the year 2007-08.

The other component which has influenced on overall expenditure was interest payments. Due to the cause of expansion in the interest payment in the year 2005-06 from Rs.691.24 Crores to Rs.909.70 Crores in the year 2006-07, the net profit has been fallen from Rs.452.04 Crores to Rs.27.94 Crores.

In the year 2007-08, the reason for negative profits was high amount of depreciation of fixed assets, which was escalated from Rs.414.10 Crores in 2006-07 to Rs.777.80 Crores in the year 2007-08, which was considered as quite abnormal decrease in the value of assets.

(All the figures are in Crores)

Due to the above consequences faced by the weak operating and financial leverages, Jet Airways has undergone into deep risk of “un-controllability” over its financial aspects,

which has direct impact on its profitability and sustainability. In the next table consequences of earlier pitfalls are presented in the form of ratios.

**Table 3: Financial Ratios of Jet Airways from 2013-14 to 2017-18 (in time)**

Particulars/ Year	2018	2017	2016	2015	2014	Mean	STDV	CV
<b>Profitability Ratios</b>								
Operating Profit Margin(%)	0.10	7.03	10.46	-0.59	-8.58	1.68	7.39	439.02
Profit Before Interest And Tax Margin (%)	-2.49	3.66	5.56	-4.33	-13.32	-2.18	7.46	-341.75
Gross Profit Margin(%)	-2.56	3.92	5.75	-4.48	-13.64	-2.20	7.70	-349.46
Return On Capital Employed(%)	-3.86	313.41	33.25	-2.92	-32.25	61.53	142.71	231.96
Return on Assets	-637.51	-570.07	-265.32	-360.07	-196.11	-405.82	191.36	-47.15
<b>Liquidity And Solvency Ratios</b>								
Current Ratio	0.55	0.47	0.53	0.49	0.44	0.50	0.04	8.97
Quick Ratio	0.53	0.45	0.63	0.63	0.52	0.55	0.08	14.06
Debt Equity Ratio	--	--	--	--	--	--	--	--
<b>Debt Coverage Ratios</b>								
Interest Coverage Ratio	0.09	2.74	2.26	-0.19	-1.95	0.59	1.92	325.16
Total Debt to Owners Fund	--	--	--	--	--	--	--	--
<b>Management Efficiency Ratios</b>								
Asset Turnover Ratio	-38.73	6.19	3.42	3.13	2.33	-4.73	19.06	-402.81
Number of Days In Working Capital	-175.97	-142.82	-66.39	-70.55	-103.73	-111.89	47.19	-42.18

Source: moneycontrol.com

From the above Table 3, it is clear that Return on Assets (ROA) has continuously followed the down trend from 2013-14 to 2017-18 due to negative profits. Even Return on Capital Employed (ROCE) also found poorer in the years 2013-14, 2014-15 and 2017-18 respectively. It has been found that operating profit has not fallen in negative brackets but not enough to compensate the inflation and need.

From the liquidity’s point of view, Jet Airways has not been maintained good enough ratios throughout the period from 2013-14 to 2017-18 due to the reason of negative working capital from 2013-14 to 2017-18. The reason behind the negative working capital was the huge amount of current borrowings over current assets.

The solvency was also very poor due to the reason of complete exhausting of net worth in capital structure from 2013-14 to 2017-18.

Due to the reason of negative earnings before interest & tax (EBIT), in the years 2013-14 and 2014-15, the interest coverage ratio was found in negative manner, then it was turned into positive manner up to the end of the study period. The management efficiency ratios are very poor at the last years of observation.

The one thing that looks good in Jet Airways context is expenses to total sales ratio. It was maintained at steady rate and range between 48%-61% in between the years 2013-14 to 2017-18.

**IV. FINDINGS & CONCLUSIONS**

‘Doing things before happened!’ a common proverb in every context. After incorporation, every firm whether it is a corporate or domestic in nature wants to expand its business faster and faster. But the other face of the coin is risk bearing ability of external world’s context is very important than growth of assets and their revenue generation capacity. Jet Airways has taken so many wrong decisions in the context of capital structure designing, working capital management, expenditure management and revenue retained earnings allocating decisions. The present status of the firm not only impact the stakeholders of Jet Airways, but influence on the capital flows in the corporate sector entirely especially in India. Hence measures should be taken by the government to avoid such reluctant situation in corporate sector and to protect the majority interest of its shareholders.

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