



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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## LIQUIDITY, PROFITABILITY ANALYSIS OF INDIAN AIRWAYS SECTOR - AN EMPIRICAL STUDY

SUVARUN GOSWAMI

ASST. PROFESSOR

RISHI BANKIM CHANDRA EVENING COLLEGE

NAIHATI, 24 PARGANAS (NORTH) – 743 165

ANIRUDDHA SARKAR

JUNIOR RESEARCH FELLOW

DEPARTMENT OF COMMERCE

THE UNIVERSITY OF BURDWAN

BURDWAN – 713 104

## ABSTRACT

This paper makes an attempt to provide an insight into the conceptual side of trade-off between liquidity and profitability and to assess the liquidity & profitability position of different Airways Companies viz. Air India, Indian Airlines, Kingfisher & Jet Airways, during the period of 6 years (i.e. from 2000-2001 to 2005-2006). It also makes an endeavor to measure the correlation between liquidity and profitability. The study is based on secondary data collected from published annual reports of different selected companies mentioned earlier. The available data have been analyzed by using some important managerial and statistical tool namely correlation and statistical test viz. students' t-test, has been applied to test the significance of the results of the empirical study. The article has been divided into two parts namely Conceptual Perspectives and Case Study. Ultimately the article concludes with some valid recommendations which deserve the attention of the management of all the concerned companies under study and government.

## KEYWORDS

Liquidity, Profitability, CR, QR, ITR, DTR &amp; ROCE.

## INTRODUCTION

A business enterprise specifically a company is a conscious, deliberate and purposeful creation for satisfying the domain of aspiration of the society at large. It is an independent and a separate legal entity. The survival stability and growth of such entity within the society largely depend on the successful liquidity and profitability management through the collective efforts of all the stakeholders—shareholders, providers of loan capital, employees and the government, consumers, general people at large etc. All these stakeholders are the parties to whom the result of operations of business is communicated. Public Sector Enterprises (PSEs) in India have been incurring losses due to their inefficient utilization of productive capacity. This has led to a slow and inadequate rate of economic growth in the country. Judicious blending of fixed capital and working capital and their effective utilization ensures better productive capacity, good profitability and sound liquidity of the enterprises which are inevitable on the part of the enterprises to earn sufficient surplus for their growth and to maintain their perpetual succession in the present competitive and changing environment. Public enterprises, so far, have given emphasis on growth and efficiency of fixed capital neglecting effective management of working capital, which is not desirable. Though, performance of PSEs is progressively low, investment in those enterprises in India has been growing up significantly since 1950s. This indicates the positive attitude of the government towards generation of greater employment opportunity for the vast population of the country by establishing more and more PSEs along with higher blockage of fund following the traditional production function approach whereby fixed capital is considered as one of the explanatory variables to establish the relationship between output and profit ignoring the role of working capital.

In the wave of globalization and economic liberalization, growth and survival stability of the enterprises largely depend on the effective management of liquidity and profitability position, which has a direct bearing on the economic well being of the country as a whole. In the present article we have taken Air India, Indian Airlines, Kingfisher and Jet Airways for the case study purpose.

## CONCEPTUAL PERSPECTIVES

**Liquidity-Profitability tangle:** The relationship between liquidity and profitability can be explained with the help of return on capital employed ratio expressing it in the following form:

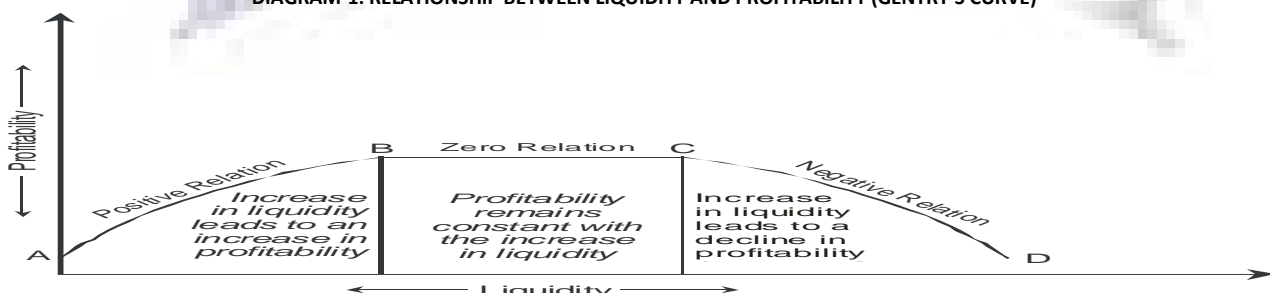
$$P = \frac{EBIT}{(FA + NWC)} \quad \text{where,}$$

P = Profitability, EBIT = Earnings before interest and taxes, and NWC = Net working capital.

This ratio indicates that other things remaining unchanged, continuous reduction in NWC (i.e. liquidity) improves the profitability (P) of a firm with the simple passage of time. This suggests that there always exists a negative relation between liquidity and profitability. But in reality it is seen that unless there is a minimum level of investment in CA, which could provide a promising vehicle for increasing profitability, the required amount of output and sales cannot be maintained. Therefore, upto a certain level liquidity and profitability are complementary to each other. In this connection James E. Gentry hypothesized that upto a certain level, increase in liquidity will lead to a corresponding increase in profitability. Beyond that profitability remains constant with the increase in liquidity within a specified domain. Therefore, any further investment in CA will lead to decline in profitability.

Thus, the shape of the curve showing the relationship between liquidity and profitability seem to be an inverted teacup. This is shown in the following diagram:

DIAGRAM-1: RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY (GENTRY'S CURVE)



### STRATEGIES IN WORKING CAPITAL MANAGEMENT

At the time of adopting working capital strategy of a firm the Financial Manager should give emphasis on the following two important dimensions of working capital management:

i) Relative Asset Liquidity (or level of CA)

It is measured by Current Assets to Total Assets ratio. The greater the ratio the less risky as well as less profitable will be the firm and vice-versa; and

ii) Relative Financing Liquidity [or level of short term financing (STF)]

It is measured by the short term financing to total financing ratio. The lower this ratio the less risky as well as less profitable will be the firm and vice-versa.

In connection with the tradeoff between liquidity and profitability a company may adopt three types of working capital strategies viz.: (a) conservative strategy, (b) aggressive strategy and (c) moderate strategy.

The firm following conservative working capital strategy combines a high level of current assets in relation to sales with a low level of short term financing. Excess amount of current assets enable the firm to absorb sudden fluctuations in sales, production plans and procurement time without disturbing the continuity in production. The higher the level of current assets reduces the risk of insolvency. But at the same time lower risk translates into lower profitability.

The firm following aggressive working capital strategies, on the other hand, would combine low level of current assets with a high level of short term financing. This firm will have high profitability and greater risk of insolvency.

The moderate firm would like to combine moderate level of current assets in relation to sales with moderate level of short term financing to maintain a fine balance between the risk of insolvency and profitability.

Thus, the considerations of assets and financial mixes are very much crucial to the working capital management of a firm.

### OBJECTIVES OF THE STUDY

The main objective of the present article is to provide an insight into the conceptual side of trade off between liquidity and profitability and to assess the efficiency of the management in maintaining good liquidity, profitability in different Air ways Sectors on the basis of available data collected from published Annual Reports of the companies over the period of 6 years (i.e. from 2000-2001 to 2005-2006). The specific objectives of this study are as follows:

- I. To measure, test and evaluate the liquidity position of the selected companies namely Air India, Indian Airlines, Kingfisher and Jet Airways under study.
- II. To determine the profitability position of the selected companies under study.
- III. To find out the correlation between liquidity and profitability of these companies.
- IV. To point-out the tradeoff between liquidity & profitability.
- V. To establish the linear relationship between liquidity and profitability.

### DATA BASE AND METHODOLOGY

The study is based on secondary data collected from the audited Profit & Loss A/c and Balance Sheet associated with schedules, annexure available in the published annual reports of Air India, Indian Airlines, Kingfisher and Jet Airways. The company and the industry have been selected for illustrative purposes only. There were no bias neither in selection of industry nor in selection of companies. For the purpose of the study public enterprise survey reports, government publications etc. have been used for intensive consultations. Journals, Conference proceedings and other relevant documents have also been consulted to supplement the data. The study covers a period of 6 years (i.e. from 2000-2001 to 2005-2006). The available data have been analyzed by using various financial ratios as a managerial tool as well as a simple statistical tool like, simple Correlation coefficient. Statistical tests viz., t-test has been applied for the purpose of testing the results obtained on the basis of empirical study.

### LITERATURE REVIEW

Several studies have been conducted in India regarding the relationship between profitability and working capital management. A brief explanation regarding such studies is shown in the following paragraphs:

**Chakraborty (1976)** examined the relationship between profitability and working capital turnover in Indian Sugar, cement and fertilizer industries and reported a positive association. **Prasad (2000)** conducted a study on the working capital management in paper industry. He revealed that the executives properly recognized the role of efficient use of working capital in liquidity and profitability. But he could not achieve it in practice due to the sub-optimum utilization of working capital. **Mukherjee (1988)** made a study on working capital management in twenty central public sector undertakings and revealed that out of 20, positive association was found between liquidity and profitability in 11 cases and negative association in 9 cases. However, the study ultimately concluded an adverse relationship between liquidity and profitability as a whole.

An identical study on this issue was also conducted by **Mallick and Sur (1998)**. They made an attempt to analyze the impact of working capital management on profitability in Indian Tea industry with the help of some statistical tools and techniques. The study revealed that, out of the nine ratios relating to working capital management five ratios registered positive association and the remaining four ratios showed negative correlation with the profitability indicator. **Rao & Rao (1999)** undertook a similar type of study where ten ratios relating to working capital management were selected. Out of these indicators, positive association was noticed only in three. **Mallick and Sur (1999)** in another study on the working capital management of a leading FMCG company witnessed a very high degree of positive association between liquidity and profitability. **Chundawat & Bhanawat (2000)** analyzed the working capital management practices in IDBI, with the help of some relevant ratios and they observed that the working capital management of IDBI associated companies was more effective than the industry as a whole. **Sur & Rakshit (2005)** conducted a study regarding the linkage between asset management and profitability in 25 selected companies in Indian industries. The study registered both positive and negative association between receivable turnover and profitability. However, the combined provision weak evidence of an inverse association between the profitability and inventory turnover. More specifically, "The result of the analysis of multiple determinations makes it clear that 47.75% of the total variation in the corporate profitability was accounted for by the joint variation in the efficiency of receivable management, inventory management and long term operating asset management"

### CASE STUDY

#### COMPANY PROFILE (AIR INDIA)

Air-India is India's finest flying Ambassador. The urge to excel and the enthusiasm which characterized Air-India's first flight way back on October 15, 1932 is quintessential even today—thanks to eighteen thousand Air Indians who have kept alive the tradition of flying high! Air India, as the national carrier, has traditionally played a pivotal role in promoting tourism to India. Air India is India's national flag carrier. Although air transport was born in India on February 18, 1911 when Henri Piquet, flying a Humber bi-plane, carried mail from Allahabad to Naini Junction, some six miles away, the scheduled services in India, in the real sense, began on October 15, 1932. It was on this day that J.R.D. Tata, the father of Civil Aviation in India and founder of Air India, took off from Drigh Road Airport, Karachi, in a tiny, light single-engined de Havilland Puss Moth on his flight to Mumbai (then known as Bombay) via Ahmedabad. Mr.V.V.S.Laxman, the famous Indian cricketer and Deputy General Manager (Commercial) of Air India has been conferred the prestigious Padma Shri Award. Mr.Laxman who is posted at Hyderabad will be the sixth Air Indian recipient of this prestigious award. The earlier Padma Shri awardees from Air India are Mr.M.S.Dhoni and Mr.Harbhajan Singh – cricketers and the hockey veterans Mr.Mukesh Kumar, Dilip Tirkey and Mr.Dhanraj Pillai.

#### COMPANY PROFILE (INDIAN AIRLINES)

Indian Airlines has been setting the standards for civil aviation in India since its inception 1953. It was India's first state-owned domestic airlines. It has now been merged with Air India for corporate purposes, though for now continues to issue its own tickets. Till 1990 Indian Airlines enjoyed a monopoly in the Indian

airspace. The economic liberalization process initiated by the Govt. of India ended Indian Airlines' dominance of India's domestic air transport industry. It faced tough competition from private airlines like Jet Airways, Air Sahara, East-West Airlines and others. It has many firsts to its credit, including induction of the wide-bodied A300 aircraft on the domestic network, the fly-by-wire a320 domestic shuttle service and walk-in Flights. Its unique orange and white logo emblazoned on the tails of all its aircrafts is perhaps the most widely recognized Indian brand symbol and over the years has become synonymous with service, efficiency and reliability. India's chiefly domestic state-owned carried Indian Airlines Ltd. flies passengers and cargo to 59 domestic and 16 international destinations. It fleet numbered 52 aircraft in 2000. Indian Airlines has traditionally based its network around the four main hubs of Delhi, Mumbai, Kolkata and Chennai. The airline carries about 6 million passengers a year and has a substantial freight operation.

**COMPANY PROFILE: (KINGFISHER)**

At Kingfisher, a flight is not a journey between two airports but an experience of a lifetime. Be it Business or Leisure, Kingfisher offer a range of aircraft that includes the Euro copter EC155, Business Jets and Airbus Corporate Jets. For a group charter, choose from a fleet which includes Airbus 321, Airbus 320, Airbus 319, ATR 72-500 and ATR 42-500 aircraft depending on your requirements.

As Kingfisher takes off into the international skies, you can expect a world-class experience. Every Kingfisher aircraft meets the global standards that I have set in terms of safety and performance. Our brand-new fleet incorporates the latest technology and each aircraft is fitted with a personalized in-flight entertainment system and top quality programming content from around the world for your viewing and listening pleasure, and to create an environment that you will truly cherish.

Aboard our flights, you will be delighted by the various sensory experiences on offer – from tantalizing aromas of world cuisine to the magic touch of your personal therapeutic massage seat - we really have thought about every little thing that will exhilarate you.

**COMPANY PROFILE (JET AIRWAYS)**

Jet Airways (India) Limited (JAIL) was incorporated in 1st April of the year 1992 as a private company with limited liability and it commenced operations as an Air Taxi Operator in 5th May of the year 1993 with a fleet of four leased Boeing 737 aircraft and also having ISO 9001 certification for its in-flight services. The Company became the first airline in India to operate the Boeing 737-400 Aircraft in April of the year 1994 and it operates one of the youngest aircraft fleets in the world today. The Company was granted the scheduled airline status in 14th January of the year 1995. Jet Airways became a deemed public company in 1st July of the year 1996.

Jet Airways was reconverted into a private company as at 19th January 2001. The Company bagged the prestigious Air Transport World Award 2001 for Market Development and the TTG Travel Award 2002 for Best Domestic Airline. In the year 2004, the company made tie up with the South African Airways. During the year 2005, Jet Airways Limited has filed its draft Red Herring Prospectus with the Securities and Exchange Board of India (SEBI) to enter the capital market with its initial public offering for used to fund its international expansion plans. Jet Airways became a public company in 28th December of the year 2004. The Company launched its first inter-continental flight by linking Mumbai with London Heathrow by a non-stop day flight in the month of May during the year 2005. In 2006, the company signed a special code sharing (SPA) agreement with American Airlines, the world's largest carrier, for India and US flights. The Company introduced a second Mumbai-London (Heathrow)-Mumbai frequency effective from 10th July of the year 2006 and commenced its operations on the Amritsar-London (Heathrow)-Amritsar sector in 4th August of the year 2006. The Memorandum of Understanding (MOU) was made with Lufthansa Technique AG, Germany in the year 2007 for A330/B777 Component Works, Personnel Assignment Services and Maintenance Management Services. Also in the same year 2007, Jet Airways inked 8mn aircraft lease agreement and introduced its first flight from Chennai to Toronto, via its hub in Brussels. In September 2007, Brussels Airlines declared as Jet Airways new frequent flyer programme partner, Under this programme, members of Jet Privilege and Privilege Programmed of the Belgian airline will be able to cash in the air miles on each other's network.

Jet Airways and Etihad Airways, the national carrier of the United Arab Emirates, had inked a code share agreement in June of the year 2008 and reciprocal frequent flier partnership on the New Delhi-Mumbai-Abu Dhabi sectors. In same June 2008, launched its daily Mumbai-Shanghai-San Francisco flight, becoming the first Indian private carrier to operate to China. The Company enhanced its network connectivity from Pune with the launch of its new direct services to Hyderabad, Nagpur & Ahmadabad effective from July 15th 2008. During the same month, Jet Airways got permission for fly to Dubai from Delhi and Mumbai.

**DATA ANALYSIS**

**TABLE-1: ANALYSIS OF LIQUIDITY AND PROFITABILITY OF INDIAN AIRLINES AND AIR INDIA FOR THE PERIOD FROM 2000-01 TO 2005-06**

| Year/Company | CR              |           | QR              |           | ITR             |           | DTR             |           | ROCE            |           |
|--------------|-----------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|
|              | Indian Airlines | Air India | Indian Airlines | Air India | Indian Airlines | Air India | Indian Airlines | Air India | Indian Airlines | Air India |
| 2000-01      | 0.56            | 0.53      | 0.35            | 0.64      | 6.99            | 7.4       | 5.89            | 6.92      | 0               | 5.22      |
| 2001-02      | 0.52            | 0.5       | 0.374           | 0.634     | 6.8             | 6.82      | 5.64            | 6.47      | 0               | 5.41      |
| 2002-03      | 0.49            | 0.48      | 0.371           | 0.585     | 7.73            | 10.26     | 5.79            | 6.47      | 0               | 6.51      |
| 2003-04      | 0.47            | 0.49      | 0.343           | 0.548     | 8.72            | 17.38     | 6.4             | 6.55      | 11.5            | 2.74      |
| 2004-05      | 0.49            | 0.63      | 0.386           | 0.546     | 9.9             | 14.53     | 6.82            | 7.69      | 8.8             | 5.97      |
| 2005-06      | 0.59            | 0.9       | 0.546           | 1.01      | 10.4            | 12.97     | 6.19            | 7.08      | 7.34            | 3.03      |
| r            | -0.26           | -0.45     | 0.22            | -0.49     | 0.78            | -0.55     | 0.85            | 0.09      | -               | -         |
| t Test       | 1.002           | 0.999     | 0.45            | 1.13      | 2.55            | 1.33      | 3.27            | 0.18      | -               | -         |

Note: (i) the tabulated values of  $t$  with (n-2) d. f. i.e., 4 d. f both at 5% and 1% levels of significance for both tailed tests are 2.776 and 4.604 respectively. (ii) Since the calculated values of  $t$  for the DTR is greater than the table value of  $t$  for the company Indian Airlines at 5% level. So, the correlation coefficient between ROCE and DTR for Indian Airlines is statistically significant at 5% level. Except this, in all other cases, the calculated values of  $t$  are less than the tabulated values of  $t$  with 4 d. f. So, the correlation coefficients are statistically insignificant both at 5% and 1% levels of significance.

(iii) Formula used for calculating  $|t| = \frac{r \times \sqrt{(n-2)}}{\sqrt{1-r^2}}$  With (n-2) d.f.

Source: Compiled and computed from Published annual reports of the selected companies under study.



DIAGRAMMATIC REPRESENTATION OF LIQUIDITY FOR THE SELECTED COMPANIES INDIAN AIRLINES AND AIR INDIA FOR THE PERIOD FROM 2000-01 TO 2005-06

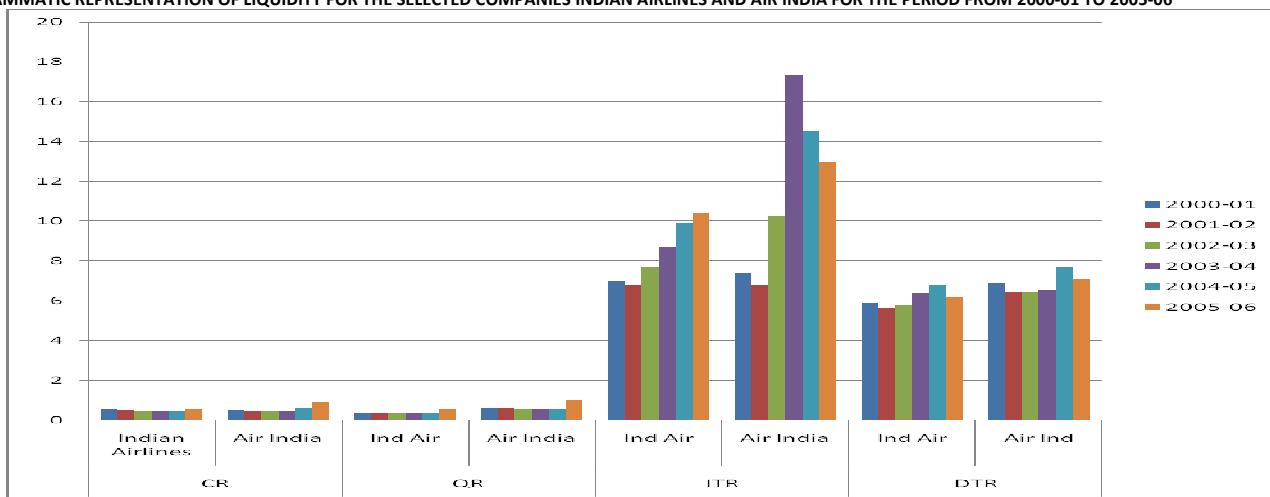


TABLE-2: ANALYSIS OF PROFITABILITY OF INDIAN AIRLINES AND AIR INDIA FOR THE PERIOD FROM 2000-01 TO 2005-06

| Year\Company | G.P Ratio       |           | N.P. Ratio      |           | OP. Pro. Ratio  |           | ROCE            |           |
|--------------|-----------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|
|              | Indian Airlines | Air India | Indian Airlines | Air India | Indian Airlines | Air India | Indian Airlines | Air India |
| 2000-01      | 3.552           | 7.43      | -5.34           | -1.09     | 7.54            | 12.456    | 0               | 5.22      |
| 2001-02      | 1.45            | 9.695     | -1.948          | 0.544     | 4.78            | 13.013    | 0               | 5.41      |
| 2002-03      | 2.96            | 10.83     | -4.89           | 2.383     | 5.56            | 12.25     | 0               | 6.51      |
| 2003-04      | 7.62            | 7.644     | 0.869           | 1.591     | 9.16            | 8.31      | 11.5            | 2.74      |
| 2004-05      | 6.966           | 6.273     | 1.186           | 1.482     | 7.66            | 6.699     | 8.8             | 5.97      |
| 2005-06      | 6.466           | 4.74      | 0.8297          | 0.031     | 6.93            | 5.687     | 7.34            | 3.03      |

Source: Compiled and computed from Published annual reports of the selected companies under study.

DIAGRAMMATIC REPRESENTATION OF TABLE-2

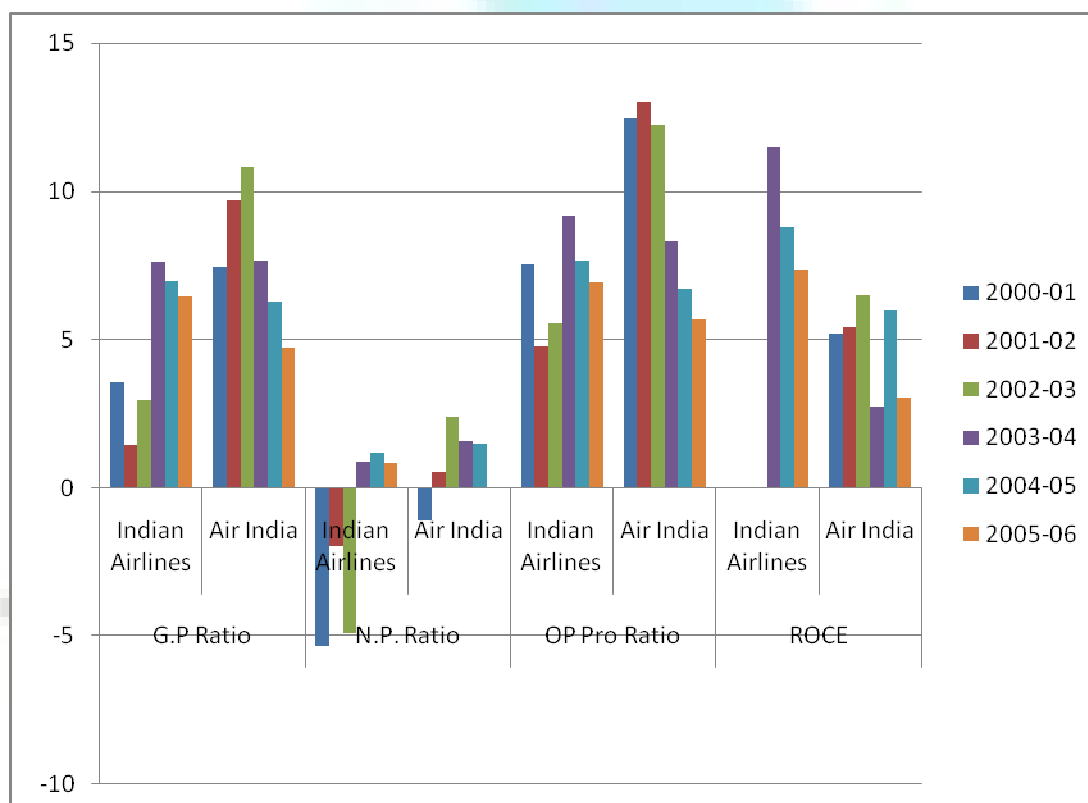


TABLE-3: ANALYSIS OF LIQUIDITY AND PROFITABILITY OF KINGFISHER AIRLINES AND JET AIRWAYS FOR THE PERIOD FROM 2000-01 TO 2005-06

| Year\Company | CR         |             | QR         |             | ITR        |             | DTR        |             | ROCE       |             |
|--------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|
|              | Kingfisher | Jet Airways | Kingfisher | Jet Airways | Kingfisher | Jet Airways | Kingfisher | Jet Airways | Kingfisher | Jet Airways |
| 2000-01      | 1.94       | 1.39        | 0          | 1.38        | 14.02      | 13.54       | 5.18       | 16.87       | 26.58      | 7.08        |
| 2001-02      | 1.9        | 1.32        | 0          | 1.104       | 12.03      | 9.44        | 6.51       | 15.02       | 28.92      | 5.56        |
| 2002-03      | 1.56       | 1.57        | 0          | 1.316       | 7.77       | 8.94        | 7.87       | 13.71       | 16.57      | 0.28        |
| 2003-04      | 1.69       | 1.45        | 0          | 0.964       | 7.95       | 10.02       | 17.53      | 15.07       | 0          | 11.69       |
| 2004-05      | 1.59       | 1.39        | 1.2607     | 1.541       | 12.64      | 12.76       | 48.23      | 17.82       | 0          | 20.07       |
| 2005-06      | 1.27       | 1.64        | 1.141      | 2.612       | 21.12      | 15.36       | 93.58      | 16.53       | 0          | 10.9        |
| r            | 0.75       | -0.19       | -0.67      | 0.220       | -0.17      | 0.49        | -0.69      | 0.80        | -          | -           |
| t Test       | 2.27       | 0.399       | 1.81       | 0.45        | 0.35       | 1.13        | 1.92       | 2.75        | -          | -           |

Note: (i) the tabulated values of  $t$  with  $(n-2)$  d. f. i.e., 4 d. f both at 5% and 1% levels of significance for both tailed tests are 2.776 and 4.604 respectively.  
 (ii) Since the calculated values of  $|t|$  in all cases are less than the tabulated values of  $t$  with 4 d. f. So, the correlation coefficients are statistically insignificant both at 5% and 1% levels of significance.

$$r \times \sqrt{(n-2)}$$

(iii) Formula used for calculating  $|t|$  = ..... With  $(n-2)$  d. f.

$$\frac{r \times \sqrt{(n-2)}}{\sqrt{1-r^2}}$$

Source: Compiled and computed from Published annual reports of the selected companies under study

DIAGRAMMATIC REPRESENTATION OF LIQUIDITY FOR THE SELECTED COMPANIES KINGFISHER AIRLINES AND JET AIRWAYS FOR THE PERIOD FROM 2000-01 TO 2005-06

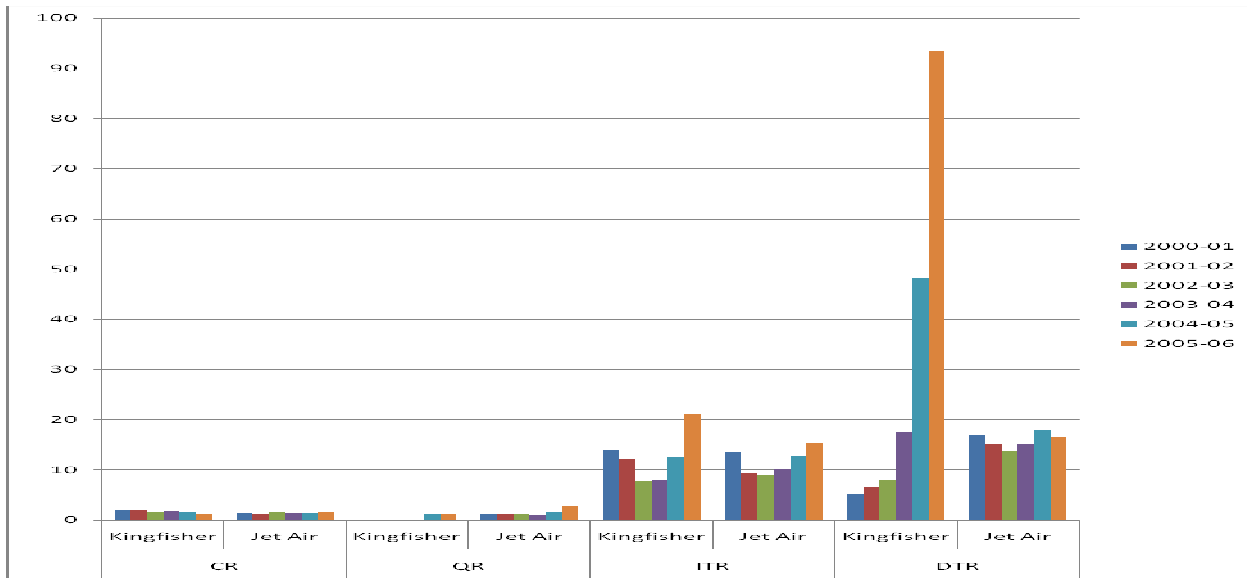


TABLE-4: ANALYSIS OF PROFITABILITY OF KINGFISHER AND JET AIRWAYS FOR THE PERIOD FROM 2000-01 TO 2005-06

| Year\Company | G.P Ratio  |         | N.P. Ratio |         | OP. Pro. Ratio |         | ROCE       |         |
|--------------|------------|---------|------------|---------|----------------|---------|------------|---------|
|              | Kingfisher | Jet Air | Kingfisher | Jet Air | Kingfisher     | Jet Air | Kingfisher | Jet Air |
| 2000-01      | 8.56       | 10.95   | 6.726      | 0.499   | -20.72         | 15.784  | 26.58      | 7.08    |
| 2001-02      | 8.389      | 13.28   | 8.286      | -0.54   | -23.557        | 20.042  | 28.92      | 5.56    |
| 2002-03      | 3.845      | 7.92    | 0.299      | -8.5    | -2.48          | 16.882  | 16.57      | 0.28    |
| 2003-04      | -16.397    | 20.11   | -18.605    | 4.73    | -10.248        | 28.497  | 0          | 11.69   |
| 2004-05      | -5.82      | 23.95   | -7.89      | 9.04    | 10.337         | 29.8    | 0          | 20.07   |
| 2005-06      | -26.16     | 19.91   | -31.62     | 7.98    | 11.049         | 24.18   | 0          | 10.9    |

Source: Compiled and computed from Published annual reports of the selected companies under study.

DIAGRAMMATIC REPRESENTATION OF TABLE-4



**MAJOR FINDINGS IN RESPECT OF AIR INDIA & INDIAN AIRLINES**

1. Table-1 clearly depicts that the quick ratios for Air India during the various years under study are higher as compared to those of Indian Airlines. It implies that the immediate debt paying capacity is better for Air India as compared to Indian Airlines during the period under study.
2. The inventory turnover ratios for Air India, on an average, are also higher as compared to Indian Airlines which indicate that Air India has a better inventory management system as compared to Indian Airlines during the period under study.
3. The Debtors turnover ratios for Air India are also higher as compared to those of Indian Airlines during the entire study period. That means Air India has the better receivables management as compared to Indian Airlines during the entire period of study.
4. Table-1 shows that the correlation coefficients between ROCE and Current Ratio (CR) are (-) 0.26 and (-) 0.44 for Indian Airlines and Air India respectively. There have been a moderately negative association between the profitability ratio and the current ratio of both the companies under study and the correlation coefficients of both the companies are found to be statistically insignificant both at 5% and 1% levels of significance. So, we can conclude that there is insignificant association between ROCE and CR of both the companies under study.
5. The correlation coefficients between ROCE and Quick ratio (QR) of both the companies under study are 0.218 and (-) 0.4907 respectively which are found to be statistically insignificant both at 5% and 1% levels. That means there is a positive relationship between ROCE and QR for the company Indian Airlines during the study period. The generally accepted principle is that lower the investment in quick assets the higher is the profitability of the company. The computed value of quick ratio conforms to the generally accepted principle for the company Air India but does not conform in case of the company Indian Airlines during the study period. On the other hand, there is a moderately negative association between ROCE and QR for the company Air India during the study period but this association is not statistically significant both at 5% and 1% levels of significance.
6. Table-1 highlights that the correlation coefficients between ROCE and ITR are 0.786 and (-) 0.56 respectively for the both the companies under study. That mean there is a highly positive association between ROCE and ITR for the company Indian Airlines and this association is found to be statistically insignificant both at 5% and 1% levels during the study period. But there is a moderately negative association between these two variables for the company Air India and this relationship is also found to be insignificant both at 5% and 1% levels during the study period. The most accepted principle is that, the higher the ITR, the greater is the efficiency of inventory management and the larger is the scope of profitability. The computed value of correlation coefficient between ROCE and ITR for Indian Airlines conforms to this accepted principle. But for Air India this relationship does not conform to this accepted principle.
7. Table-1 highlights that the correlation coefficients between ROCE and DTR are 0.85 and 0.09 respectively for both the companies under study. That means these relationships are positive for both the companies under study. It is found to be statistically significant for the company Indian Airlines at 5% level but is found to be statistically insignificant at 1% level of significance. Also, these relationships are found to be statistically insignificant both at 5% and 1% levels for the company Air India. The study of the relationship between profitability (ROCE) and receivable management (DTR) conforms to the generally accepted rule that, the more the DTR, the lower is the relative investment in receivable and the higher is the profitability. But the relationship between profitability and receivable management is far better for the company Indian Airlines as compared to Air India during the period under study. The receivable management of the company Indian Airlines has a positive influence on the profitability of the company at 5% level of significance.

**MAJOR FINDINGS IN RESPECT OF KINGFISHER & JET AIRWAYS**

- 1) Table-3 clearly depicts that the quick ratios, on an average, are higher for the company Jet Airways as compared to those of Kingfisher Airlines during the period under study. That means the immediate debt paying capacity is far better for Jet Airways as compared to other during the period under study.
- 2) Table-3 shows that the correlation coefficients between ROCE and CR are 0.75 and -0.19 for Kingfisher and Jet Airways respectively. There is a highly positive association between these two variables for Kingfisher. But there is a low negative association between profitability and liquidity (expressed in terms of Current ratio) for Jet Airways. But these relationships are found to be statistically insignificant both at 5% and 1% levels for both the companies under study. That means there is insignificant association between ROCE and CR for both the companies during the period under study.
- 3) The correlation coefficients between ROCE and QR of both the companies are -0.67 and 0.22 respectively, which is found to be statistically insignificant both at 5% and 1% levels of significance. It reveals that there is moderately negative association between ROCE and QR for Kingfisher during the period under study, but this relationship is not statistically significant both at 5% and 1% levels of significance and which conforms to the accepted principle. There is a low positive association between ROCE and QR for the company Jet Airways during the period under study, but this relationship is not statistically significant both at 5% and 1% levels of significance. Also this relationship does not conform to the accepted principle.
- 4) It is observed from table-3, that the correlation coefficients between ROCE and ITR are (-) 0.17 and 0.49 respectively for both the companies under study. It implies that there is a low negative association between ROCE and ITR for Kingfisher but this relationship is not statistically significant both at 5% and 1% levels during the study period. The most accepted principle is that, the higher the ITR, the greater is the efficiency of inventory management and the larger is the scope of profitability. So, the computed value of correlation coefficient between ROCE and ITR for Kingfisher does not conform to this accepted principle. But for Jet Airways there is a moderately positive association between ROCE and ITR but this relationship is not statistically significant both at 5% and 1% levels during the study period. The computed value of correlation coefficient between ROCE and ITR conforms to this accepted principle.
- 5) Table-3 highlights that the correlation coefficients between ROCE and DTR are -0.697 and 0.807 respectively for both the companies under study. It implies that there is a moderately high negative association between ROCE and DTR for Kingfisher during the study period but this relationship is not statistically significant both at 5% and 1% levels. The study of association between the profitability (measured in terms of ROCE) and Debtors management (measured in terms of DTR) for Kingfisher does not conform to the generally accepted principle that, the greater the DTR, the lower is the relative investment in receivables and the higher is the profitability. There is a positive association between ROCE and DTR for Jet Airways during the study period but this relationship is not found to be statistically significant both at 5% and 1% levels. The study of the association between profitability (ROCE) and Debtors Management (DTR) for Jet Airways conforms to this generally accepted principle.

**CONCLUDING REMARKS AND RECOMMENDATIONS**

- 1) The correlation coefficients between ROCE and CR for all the selected companies are negative except Kingfisher Airlines. The general view is that there is a negative association between liquidity and profitability. That means the higher the current ratio, the better is the short term debt paying capacity, the lower is the overall profitability and vice-versa. But this general view is not fulfilled for the company Kingfisher Airlines during the period under study. So, it should have to be maintaining a lower current ratio in future which may lead to improve its overall profitability in the years to come.
- 2) The generally accepted principle is that the higher is the quick ratio, the higher the relative investment in quick assets, the lower is the profitability of the company. The association between QR and ROCE does not conform to the accepted principle for both the companies Indian Airlines and Jet Airways. So, both the companies should be cautious in maintaining a lower amount of investment in quick assets that will ultimately lead to enhance the overall profitability in future.
- 3) The general view is that the higher is the value of ITR, the better is the inventory management and the higher is the profitability of the company and vice-versa. The association between profitability and ITR does not conform to the accepted principle for both the companies Kingfisher and Air India. So, both the companies should try to develop a very good inventory management system to improve their overall profitability position so as to compete with the others in the industry.
- 4) The company Indian Airlines has a good debtor's management system and it has a significant contribution on the overall profitability during the period under study. But the company Air India has a very low degree of positive association between ROCE and DTR. So, the company Air India should have to be

maintaining a very good receivable management system to maintain a healthy profitability position in future. The relationship between efficiency of debtors' management system and overall profitability position is found to be negative for Kingfisher Airlines. That means the receivable management has a negative influence on the overall profitability of it, which is not a very good sign about the receivable management system of it. So, to enhance the overall profitability position the management should have to be cautious in maintaining a sound receivable management system in order to compete with the others in the industry in the present competitive environment. On the other hand, receivable management of the company Jet Airways has a significant influence on the overall profitability during the period under study.

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Thanking you profoundly

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