IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

CORPORATE FINANCIAL DISTRESS IN AVIATION INDUSTRY- A STUDY ON JET AIRWAYS

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ABSTRACT :

The study revolves around understanding the financial distress experienced by Jet Airways.This study aims to investigate the factors that contributed to their financial difficulties, the consequences for stakeholders, and potential avenues for recovery. By examining these specific cases, the study seeks to provide insights into the challenges faced by airlines in a competitive industry and identify the key factors that lead to financial distress. Such insights are crucial for developing effective risk management strategies and offering valuable lessons to stakeholders, policymakers, and industry participants in order to mitigate future financial crises. The study's findings will contribute to the body of knowledge on airline financial distress and aid in the development of strategies for the survival and sustainability of airlines in the face of similar challenges.

Keywords : Financial Distress, Airlines, jet airways, financial ratios, financial distress models

INTRODUCTION:

Financial distress is a critical situation that arises when a company's financial health deteriorates to the point where it is unable to meet its financial obligations. It is a challenging and complex state that can have significant implications for the viability and sustainability of businessses across various industries. Financial distress can result from a variety of factors, including economic downturns, poor financial management, excessive debt, intense competition, or disruptive industry trends.

When a company experiences financial distress, it faces a range of difficulties, such as a lack of liquidity, declining revenues, increasing costs, and mounting debt burdens. These challenges often lead to a downward spiral that can negatively impact the company's operations, relationships with stakeholders, and overall market value. In severe cases, financial distress may result in bankruptcy or insolvency, leading to the potential dissolution of the company.

SCOPE OF RESEARCH

This study focuses specifically on Jet Airways. It examines factors such as mismanagement, market conditions, operational inefficiencies, and government policies. The research uses a variety of financial analysis methods, such as ratio analysis and financial model, to gain a comprehensive understanding of the challenges faced by the airline.

OBJECTIVES OF STUDY

- To identify the key factors contributing to their financial distress in the Indian aviation industry
- To analyse the financial distress experienced by Jet Airways
- To examine financial distress through various financial models

Research Methodology

The study has included two leading airlines of India viz Jet Airways .The research is based on the available secondary data which is the audited financial statements provided in the annual reports of these companies are the main source of financial data.

The possibilities of financial distress in conducted through ratio analysis and various Bankruptcy models the data considered for this research is from 2014 to 2018 for Jet Airway .The six different ratios which are used are debt-to-equity ratio, Cash Flow-to-Debt Ratio, current ratio, Gross profit margin, Total Debt to capitalization ratio, Net Debt to Run Rate EBITDA Ratio and four different models which are used are Altman Z-score Model, Springate S-score Model, Grover G-Score Model, Fuzzy Logic Model .

Literature Review:

1.Shashikanta Baisag and Dr Pramod Kumar Patjoshi: Corporate Financial Distress Prediction (2020),This article provides an overview of the research conducted in the field of corporate financial distress prediction. The paper emphasizes the importance of predicting financial distress to mitigate the negative impact on stakeholders and offers early warning signs for managers to take corrective measures.

2.Bansal.R and Singu H.B : Financial distress prediction of Indian companies- future perspectives(2017),This article discusses related to financial distress prediction models. It highlights the shift from using only accounting variables to considering market and macroeconomic variables for better accuracy in predicting financial distress.This study emphasizes the need to develop comprehensive models that combine financial ratios, market variables, and macroeconomic variables to predict financial distress in the Indian context. Such predictions would help companies, lenders, investors, and stakeholders to take appropriate actions to avoid financial distress and mitigate associated costs.

3.S K Guptha: Valuation of Distressed Companies (2019)This article reflects on the methodologies of valuing distressed companies and outlines the challenges while outlining the meaning of distress. Distress has been classified into potential and realized distress. It outlines the visible factors exhibited by a distressed company – stagnant or declining revenue, shrinking margin, high leverage, ballooning interest costs, working capital blockage, high customer and employee attrition, shrinking or negative margins, asset divestitures and lack of confidence in the management.

4.Supitriyani, Astuti, KhairulAzwar (2022)-Implementation of Springate, Altman, Grover and Zmijewski Models in Measuring Financial Distress .The study examines the financial distress of transportation companies listed on the Indonesia Stock Exchange. It highlights the importance of good company performance and strategic planning to stay afloat. Financial distress refers to a company's inability to meet financial obligations and may lead to potential bankruptcy.

About Jet Airways:

Jet Airways was an Indian international airline that operated from 1993 to 2019. It was founded by NareshGoyal, a businessman and aviation enthusiast, along with his wife, Anita Goyal. Jet Airways started its operations on May 5, 1993, with a modest initial capital of INR 10 crore (approximately $2.7 million at that time).

Jet Airways quickly expanded in the early 2000s. It added new destinations in India and abroad, and its fleet grew from 4 to 42 aircraft. It also bought new long-haul planes, so it could fly to far-off places like Toronto, San Francisco, London, Johannesburg, and Singapore. In 2010, Jet Airways became the country's largest carrier by passenger volume. It was a major international airline, and it even considered joining the Star Alliance, but that deal never happened

Management conflicts arose within Jet Airways involving founder NareshGoyal. These disputes contributed to the challenges faced by the company, impacting decision-making and strategic direction. The conflicts, coupled with financial struggles, hindered the airline's performance and ability to navigate the competitive industry landscape. In 2018, Jet Airways faced stiff competition from low-cost carriers, leading to a decline in market share and revenues. To alleviate its debt burden, the airline sold its wide body fleet, including 777s and A330s. By 2019, it became evident that without a substantial investment, the airline's collapse was inevitable. Unfortunately, no investment materialized, and on April 17th, 2019, Jet Airways suspended all operations. Subsequently, it entered bankruptcy proceedings.

Jet Airways, during its operational lifetime, received several awards and recognitions for its excellence in various aspects of the airline industry. Some notable awards and recognitions received by Jet Airways include:

- **Skytrax World Airline Awards**
- **Business Traveller Asia-Pacific Awards**
- **Trip Advisor Travellers' Choice Awards**
- **CNBC Awaaz Travel Awards**
- **World Travel Awards**
- **Travel + Leisure India's Best Awards**
- **National Tourism Awards:**
- **TAAI Travel Awards:**
- **CAPA Aviation Awards for Excellence:**

Data Analysis and Interpretation:

Jet Airways					
	2018	**2017**	**2016**	**2015**	**2014**
Debt to Equity Ratio	-1.2564	-3.4969	-3.7899	-3.1636	-5.4671
current Ratio	0.4971	0.4614	0.4208	0.3622	0.2965
Cash flow to Debt Ratio	0.1866	0.0999	0.2216	0.0408	0.0756
Gross Profit Margin Ratio	1.6613	1.5614	1.5091	1.7911	2.0475
Total Debt to Capitalization Ratio	4.8995	1.4005	1.3584	1.4622	1.2239
Net Debt to Run Rate EBITDA Ratio	-11.4362	20.7160	8.4744	-6.0401	-0.1974

Jet Airways				
Year	**Z Score**	**S Score**	**G Score**	**Fuzzy Z value**
2018	-3.2104	-0.0671	-1.0948	3.5003
2017	0.1766	0.2238	-0.4944	2.9756
2016	0.2010	0.2512	-0.4590	3.0023
2015	-1.6258	-0.4808	-1.1059	3.1206
2014	-2.0665	-0.9376	-1.4490	3.0394

For Jet airways we can see that all Z Score ≤ 1.8, S Score ≤ 0.862, G Score ≤ -0.02 and Fuzzy Z ≥ 2.73we can see that four models give a clear indication of financial distress of company during all five years and we can also observe a slight recovery during 2016 and 2017 in all models but again slipped into serious financial distress situation in 2018

Suggestions to Jet Airways

- Airlines are capital intensive industry jet air ways had many wide body aircraft which further increased the cost of the company the company should have reduced wide body aircraft and bought some narrow body air craft
- Buying more wide body aircraft and purchasing Air Sahara from the money collected through IPO was a huge mistake which later on pushed the company to debt hole
- The airways shifted the focus to FSC (Full Service Carrier) from LCC (Low Cost Carrier) which was a big mistake by the company especially when there was an entry of competitors such as Spicejet and Indigo who started offering LCC services
- Jet airways shouldn't have started it international operations as soon it completed the DGCA 5/20 Rule it should have waited for the business to stabilise in domestic and then go overseas as they had spent the entire amount received from IPO on Buying of Air Sahara and wide body aircrafts.
- The customisation of wide body aircraft from standard 400 seats to 308 seats also added a huge rise in the cost per flight which was mistake seeing the financial position of the company.
- Jet airways has huge management problem the founder NareshGoyal wanted company to run by only his words. He used to take all the important decisions ignoring the words of the experts which went terrible for the company. He even refused to step down from the board when the company was at the edge of bankruptcy

and SBI had the desire to save the company. Every company is separate from its owner as the business grows there should be diversification of work which will help the business to sustain and grow.

Conclusion:

In conclusion , Airlines are a capital intensive industry and is very dynamic in nature. The statistics available, which are discussed in the study shows that its contributions towards fields of employment, supply chain and global trade is a very important and adds significant value to the economy. Distress in the aviation can result in a notable effect on the growth of the economy.

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