

# Financial ratio analysis of british airways

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## **Introduction**

British Airways is the largest international airline in the world. It is based at the busiest international airport in the world named Heathrow Airport withholding 42% of land slots. It has a global flight network through partners such as American Airways in the US and Qantas in Australia. It serves about 150 destinations in some 75 countries. British Airways is, through its subsidiary British Airways World Cargo the worlds twelfth largest cargo airline. British Airways world cargo has global freight opportunities through the British Airways flight routes. Due to the recession, British Airways faced losses in the year 2008-09. So the company decided to get merged with Iberia. As a result, it reported a half-yearly profit of 158m, first in the last two years. In 2010 it revealed the double whammy of the volcanic ash cloud from Iceland and cabin crew strikes. British Airways reported a pre-tax loss of 164m, larger than 148m loss it made in the same period last year. But they performed better at the end of the current year and gained profits.

## **ND**

British Airways' earliest predecessor was an Aircraft Travel Pvt. Ltd. It was found in 1916. On August 25, 1919, the company inaugurated the world's first scheduled international airways service. In November 1936 British Overseas Airways Corporation was found. The long term service was started by British European Airways in 1946. After the integration of British Overseas Airways Corporation and British European Airways, British Airways was found in March 1974. The company was officially incorporated in the year 1984. The companies operational headquarter is situated at Heathrow airbase. The

company serves more than 150 top destinations of the world and carries about 32 million passengers on average annually.

British Airways faced many ups and downs during its journey. The company faced losses due to the strike of its crew members. The strike continued for 22 days and led the company to the estimated loss of £150m. After earning good profits in the previous years, it faced a huge collapse during mid of 2008 and it continued for around two years. In 2010 the company announced merging with Iberia. And finally, on April 8, 2010, the combination was established. After this combination, now at the end of this year, it is estimated that the company will have profits. A combination of British Airways and Iberia will lead the company to great profits. Performance is improving day by day. The performance of the last six months is far better than the previous time period.

## Financial Analysis

### Current Ratio:

£m

Years	2009- 2010	2008- 2009	2007- 2008
Current Assets	2674	2346	3148
Current Liabilities	3740	4142	3244

Proportion	0. 71	0. 57	0. 97
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**Interpretation:**

This Ratio is to calculate which assets we can turn in to cash. In current liabilities we count long term borrowings, Bills payable, etc. The ratio in the year 2008 was 0. 97 which came down in the year 2009 to 0. 57 and in 2010 it was felt down to 0. 71. This shows the current assets are recovered in 2010 after fell down in 2009.

**Quick Ratio:**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Liquid Assets	2576	2219	3036
Current Liabilities	3740	4142	3244
Proportion	0. 69	0. 54	0. 94

**Interpretation:**

This ratio is to calculate the liquid assets of the company. In the year 2008, the ratio was 0. 94 which reduced to 0. 54 in the year 2009 but once again in

the year 2010 it came back to 0. 69. The reason behind that current liabilities affects the ratio indirectly.

### Stock Turnover:

£m

Years	2009- 2010	2008- 2009	2007- 2008
Sale	7994	8992	8758
Stock	98	127	112
Proporti on	82 days	71 days	79 days

### Interpretation:

The average number of Days Company holds the stock called stock days. In the year 2008, the stock turnover was 79 days it slightly came down in the year 2009 to 71 days but in the year 2010 it again went up to 82 days. The company should circulate their stock and generate cash in small days for better growth.

### Debtors Collection Period:

£m

Years	2009-	2008-	2007-

	2010	2009	2008
Debtors*	18213	19345	21389
365	5	0	0
Sales	7994	8992	8758
Proportion	23days	22days	25days

**Interpretation:**

The sale of investment in fixed assets is good but the company should check their debtors. This ratio helps to calculate that average in what time the company receives money from debtors. British Airways debtor's collection period in 2008 was 25days which came down in the year 2009 to 22days and in 2010 to 23days respectively. It is a good sign for a company is able to collect money in a short period.

**Creditors Collection Period:**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Creditors	22739	24309	23652
*365	5	0	0
Cost of	7994	8992	8758

Sales			
Proportion	29day s	28day s	28day s

**Interpretation:**

This ratio is almost the same as the debtor's collection period ratio the only difference is that this ratio is to calculate in what time the company pays to their creditors. In 2008 the ratio was 28 days which remained the same in the year 2009 it slightly up in the year 2010 to 29days. It shows that a company's reputation is very good for payment.

**% of Wages**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Wages*1 00	13460 0	14660 0	14330 0
Sales	7994	8992	8758
Proportion	0. 17%	0. 17%	0. 17%

**Interpretation**

This ratio helps to calculate averagely how much the company spends to sell the goods or provide the service. In the year 2008, this ratio was 0.17% which remains also the same in the next two years. It means the company's good management is able to control the wages.

**Gearing Ratio**

£m

Years	> 2009- 2010	2008- 2009	2007- 2008
Short term lib.& overdraft	50970	50490	51840
s+ Long Term Lib.	0	0	0
*100			
Sharehol der funds	1913	1644	3033
Proportio n	267	307	171



**Interpretation**

In gearing Ratio Company finances it from high-level loans. In the year 2008, this ratio was 171 but in the year 2008 it rapidly up to 307 in the year 2009 but in the year 2010 it again came down to 267. It means the company did well after 2008 to maintain its gearing ratio.

**Fixed Assets Turnover**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Sales	7994	8992	8753
Fixed Assets	7520	7802	7890
Proportio n	1. 06	1. 15	1. 11

**Interpretation**

This ratio shows the increase and decrease in the utilization of the company's fixed assets. In a year this ratio was 1. 11 which slightly increase in the year 2009 to 1. 15 but just come down in the year 2010 to 1. 06. Fixed assets somehow depend on the sale of the company.

**Total Assets Turnover**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Sales	7994	8992	8753
Total Assets	10194	10148	11038
Proportio n	0. 79	0. 89	0. 80

### Interpretation

This ratio helps to measure what is the ratio of the company's total assets turnover. The company's total assets turnover was 0. 80 which was just more in year 0. 89 and in the year it just down in the year to 0. 79.

### Return on Capital Employed

£m

Years	2009- 2010	2008- 2009	2007- 2008
P. B. I. T or (L. I. B. T)*100	(5310 0)	(4010 0)	8830 0
Long Term Liabilities+	6472	6006	7794

Share Capital			
Proportion	-(8. 23)	-(6. 68)	11. 33

**Interpretation:**

R. O. C. E ratio is the perfect way to calculate the profitability of the company. R. O. C. E of British Airways was 11. 33 in the year 2008 which became negative in the next two years 2009 and 2010 to -6. 68 and -8. 23. It clearly reflects that the company's revenue goes up but its profit falls down. It means that the company went to a loss in the last two years.

**Gross Profit %**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Gross Profit*100 %	(2310 0)	(2200 0)	87500
Sales	7994	8992	8753
Proportio n	(0. 03)%	(0. 03)%	0. 10%

**Interpretation**

G. P ratio is the share of the company compare to its sales. Gross profit is the margin on sales before deducting tax. In the year 2008, the company's profit was 0. 10% but in the next two years, the company faces a loss ratio of 0. 03% equally. It means that company definitely not being successful to improve its revenue to make the profit.

**Net Profit %**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Net Profit/(Loss)*100%	(4250 0)	(3580 0)	69600
Sales	7994	8992	8753
Proportion	(2. 45)%	(4. 46)%	10. 09%

**Interpretation**

Net profit is the remained profit after deducting tax. This amount is the net amount of the company. British Airways conclude 10% net profit in the year 2008 but in the next two years 2009 and 2010 it shows the loss of 5% and

10%. It shows the overall strength of the organization. These ratios prove that the company faces losses from the last two years.

### Marginal Ratio

£m

Years	2009- 2010	2008- 2009	2007- 2008
Net Profit/(Losses)	(425)	(375)	680
Sales	7994	8992	8753
Proportion	(0.06)	(0.05)	0.08

### Interpretation

The marginal ratio is to calculate the margin of the company on net profit. This ratio is a very flexible ratio. The marginal ratio of the company in the year 2008 was 0.08 but in the next two years, it goes into negative (0.05) and (0.06). Because the company faces losses in these two years so it affects the marginal ratio of the company.

### Solving Ratio

£m

Years	2009- 2010	2008- 2009	2007- 2008
Shareholder funds *100	19130 0	16460 0	30330 0
Total Assets	10194	10148	11038
Proportion	18. 77	16. 22	27. 48

### Interpretation

This ratio clearly shows that the solvency ratio percentage is down from the last 2008 year continuously. In the year 2008, the ratio was 27. 48 which was good but after that, in 2009 it came down to only 16. 22 but it starts recovering from last year. It is now a good sign for the company.

### Assets Cover

£m

Years	2009- 2010	2008- 2009	2007- 2008
Total Assets	10194	10148	11038

Long Term Debt	3446	3074	2751
Proportio n	2.96	3.30	4.01

**Interpretation:**

Assets cover ratio of the company is coming down from the last three years. In 2008 it was 4.01 but in the year 2009, is reduced to 3.30 in the year 2010 it again fell down to 2.96. This is really not a good sign for the company. The index is enlightening that the company's assets are sharing a high proportion of debts which indicates that shareholders are losing faith in the company's performance.

**Operating Ratio**

£m

Years	2009- 2010	2008- 2009	2007- 2008
Operating Expenses	8225	9212	7880
Net Sales	7994	8992	8758
Proportion	1.03	1.02	0.90

### **Interpretation**

This ratio shows the overall efficiency of the organization. It is an important ratio for any company. In 2008 the company ratio was 0.90 which climb up to 1.02 and 1.03 in the years 2009 and 2010. It is a good sign for the company. It means the company will take up its profit in the future.

### **Impact of Events**

British Airways faced the biggest loss of its history £401 million in the year 2008-09. The reason behind that was 15 days cabin crew strike and ash cloud due to the volcano explosion in Iceland. But April 2010 bring some relief for British Airways when they successfully merge with Iberia the Spanish airways company. After this merger company comes back on track company report £158 million profit in the first six months after the merger. There was an unexpected rise of 8.4% in revenue. After two years of continuous loss company, first time come up with a profit. British Airways expecting good results and a definite increase in their profit.

### **Recommendation**

British Airways is a very well known company. It is true that the company faces losses continuously for the last two years, but the company handles the situation very effectively. The company merged with Spanish airways company Iberia. After this merged company comes back on track the company had made £158m in the first six months. So it is advisable that still company is trustable. After all these still British Airways has a bright future.



## Conclusion

After analyzing ratios it concludes that British Airways pass through lots of ups and downs. The company faces losses from the last two years continuously. Still, the company is able to run its business effectively. In the year 2008 company revenue was 8753 which slightly up in 2009 to 8992 but in 2010 it again fell to 7992. There is no doubt that the company's revenue comes up in 2009 but if we see the company's gross profits and net profits ratios, the company is in the loss for the last two years continuously. In the year 2009 the company G. P ratio was (2. 45) and in 2010 was (2. 89). The same in net profit/(loss) ratio in 2009 was (4. 46) and in the year 2010 was (6. 64). In R. OC. E ratio also shows the negative return after 2008. In 2009 ratio was (6. 68) in 2010 it was come up to (8. 23). But after merging with Iberia in April 2010 British Airways starts to deal with profits which is a good sign for the company. So it concludes after two years losses still the company's future seems bright.

## References:

1. Dyson, John R. - Accounting for non-accounting students 8th edition. FT Prentice Hall.