

COMPARATIVE ANALYSIS OF AIRTEL PAYMENTS BANK AND ADITYA BIRLA NUVO LIMITED

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Abstract

In the year 2015 Reserve Bank of India officially gave permission for a revolutionary technology payments banks to enter the Indian economy. Only 8 out of the 11 banks could function at that point in time, Airtel payments bank and Aditya Birla payments bank being amongst initially introduced banks. These payment banks have very slim profitability margins and thus as compared to other industries have majority losses in the initial years of incorporation. This is one of the major reasons for payments' bank having major teething issues. This article focuses on two of these banks' financial performance in the recent 2-3 years and performs a ratio analysis to understand the operating as well as financial performance of the two payments' banks. Both the banks are subsidiaries of publicly listed company which talks about the strong financial support these banks hold, this makes the comparison study of these two banks just and fair.

Keywords: *RBI, Economy, Banks, Airtel, Aditya Birla*

I. Introduction

Payments bank are like any other bank, but it functions on a very minute scale and these banks do not hold any credit risk. In the year 2013 there was a committee set up by the RBI namely 'comprehensive financial services for small business and small income household' objective being to achieve financial inclusion and increased access to financial services. The main aim of a payment bank is to Payment banks are a special contingent of banks which came into existence in the year 2015 when RBI permitted 11 banks to go ahead with the E- banking services. Airtel payments bank was launched in the month of January 2017 by its mother company Bharti airtel. Airtel offers many services with the highlighted ones being online debit cards, paid insurance services for various products linked with airtel, travel booking options and transferring money through UPI interface. Aditya Birla Idea Payments Bank Limited (ABPB) is a subsidiary with a 51:49 value stake held by Grasim Industries Limited and Idea Cellular Limited. ABPB offers banking,

insurance, loans and enterprise solutions. These payment banks are allowed to receive a deposit which is which is currently limited to 1 Lakh per customer which may be increased further. On the other hand, these banks do not have the privilege to of giving away loans or credit cards. This research article involves the financial performance analyses of two payments banks namely Airtel Payments Bank and Aditya Birla Nuvo Ltd both which are owned by publicly listed companies as full owned subsidiaries such as Bharti Airtel and Grasim Industries owned by Aditya Birla Group of Industries. 4 ratios including Net profit ratio, Earnings per share, return on equity and return on assets have been used to perform the financial analysis in this paper.

II. Review of literature

a) Role of Payment Banks in India: Opportunities and Challenges

(Iyer, Bhansali, Bhatt, Deshpande, & Chhatwani, 2018) This research paper provides us details about the Payment banks in India. Main focus is to analyse the opportunities and challenges that have been faced by the banks until now. It also studies the impact of these payment banks (which require less formalities as compared to corporate banks) pertaining to lower income earning households and other various small businesses. By providing convenience banking payment banks create an impact on the commercial banks, this article has covered this area as well. Also touches upon the growth and future prospects about the payment banks in concern to the changing rapid changing perception of people among various segments. The article concludes by saying that these payment banks are growing rapidly covering a major chunk of population and increasing customer base every single day.

b) Payment bank: A disruptive innovation

(Thenuan, Raval, & Damle, 2016) This article states that an economy like India drove to uniqueness by its population requires a disruptive change for it to grow. Payment banks are those disruptive innovation which shall be able to impact the difference in our country. It also talks in detail about the series of events that have taken place for these payment banks to come into existence. Concluding remarks of the article talks about the financial inclusion already taking place and the way our economy gets digitalized.

c) Unified Payment Interface (UPI): A Catalyst Tool Supporting Digitalization – Utility, Prospects & Issue

(Thomas, 2017) This article talks about the Unified payment Interface as one of the most brilliant, modern and easily accessible technologies. UPI was introduced by the National Payment Corporation of India (NCPI). UPI acts a supplement to the Payment banks and digital E-wallets functioning systems. The article also focuses on the challenges faced while transacting these transactions and other legalities. With the kind

of population and registrations we have had on Aadhar is 1 Billion plus which implies massive overtaking over maximum customers.

d) Genesis of Payment Banks: It's Stimulus on the financial inclusion in India

(Damle, Thenuan, & Raval, 2016) India is facing a challenge to achieve its financial inclusion with a population of 1.25 billion people about 64% of the population does not use any formal financial services of which a large amounts to the rural it also talks about the nachiketmor committee which was found and formed in 2013 which primarily facilitates setup of payments bank whose objective was to provide small savings accounts as well as remittance services for low income households and other small businesses this paper also reviews the parameter for financial inclusion and the business model of the existing system of payments bank and the issues faced by the traditional banking system.

e) A comparative study on financial performance of private and public sector banks with special reference to affecting factors and their impact on performance indicators:

(Chandulal, 2016) This is a vast research thesis which is divided into 2 parts Evaluation of performance of private and public sector banks and Evaluation of factors responsible for better or poor financial performance of private or public sector banks. The thesis also talks about the banking scenario in the country which currently employs about 11,75,149 people and has a total of 1,09,811 branches and 171 branches abroad and it manages a deposit aggregate of INR 67504.54 Billion (USD1.1 Trillion) & a bank credit of INR 52,604.59 Billion (USD 880 Billion) and the net profit of the Indian banks were 1027.51 Billion (USD 17 Billion) against a turnover of 9148.59 Billion(USD 150 Billion) for the . Fiscal year 2012-13. The thesis concludes that 10 parameters showed significant financial difference at all three levels of data analysis among these private sector banks proves superiority over public sector banks in 4 parameters while public sector banks prove superiority over the private sector banks in 6 parameters. They have used only quantitative aspect is considered for financial performance there may be some qualitative aspect such as employee efficiency in terms of following norms at the time of providing various services which may improve financial performance of banks which may be taken into consideration. They also say that this research of public and private banks have been taken into consideration for evaluation and identification of factors for difference in financial performance and that it could be extended to by taking foreign banks into consideration.

III. Research Design

Research Gap-

There have been articles on the growth performance of the payment banks industry and on financial inclusion of these banks but there exist a gap as there has been no comparative study on the performance of Airtel payments bank and Aditya Birla Nuvo Limited.

Scope of the research:

Will be performing ratio analysis between two payment banks of Airtel Payment Bank and Aditya Birla Nuvo Ltd. Ratio analysis helps us understand

Ratios various capabilities of a company to how well has it performed in terms of its own Liquidity, Solvency, Activity and Profitability.

The ratios used use in this paper are as follows-

1)Net Profit margin-This ratio talks about the net profitability of a company. This ratio is calculated with the help of net income over revenue of a company. The ratio being high is a good sign as it shows a company's efficiency to control costs and expenses. The ratio being too low is a point of concern as that implies poor management and poor cost controlling powers.

2)Earnings per share-This ratio gives us the information regarding money earned by a company on every individual share issued. It is calculated as Net Income less preferred dividends over outstanding number of shares.

The result being high is a good sign as it shows a company's earnings high and vice-versa.

3)Return on equity- This ratio talks about the money earned on the equity capital.Of a company. This ratio is calculated with the help Net Income over average total equity. Majorly used to value company's valuation. The ratio being high is a good sign as represents higher returns.

4)Return on assets- Talks about the profitability of a company on its asset base. Calculated as Net Income over total assets. The return on assets figure gives speculators a thought of how successful the organization is in changing over the cash it puts into total investments. The higher the return on assets number, the better, on the grounds that the organization is procuring more cash to invest again.

Research objectives:

- To compare the financials of two payment banks using ratio analyses to find the the bank with better performance.
- To compare the financial ratios of both Aditya Birla & Airtel and to provide the performance of either of them.
- To compare their profitability that is ROA&ROE.

Statement of the problem-

Growing population of India demands smoother and faster banking services which is being fulfilled by the payments bank. Newer technology motivated us to perform a ratio analysis of Airtel payments bank and Aditya Birla payments bank.

Sources of data:

The data used for this article is all secondary data that has been procured from the official websites of the payment banks of Airtel and Aditya Nuvo.

IV. Data Analysis and Interpretation**AIRTEL PAYMENTS BANK****1) Net profit ratio**

(PAT/Net

Sales)*100

PARTICULARS	FY16-17	FY17-18
Profit after tax	-5017990	-77444268
Net Sales	950090	7751376
NPR=	N/A	N/A

2) Earnings per share

Net income/Weighted average shares outstanding

Net Income	950090	1602632
Weighted average shares outstanding	9943820	1050251
EPS=	10%	153%

3) Return on equity

Net income/Shareholders funds

Net Income	950090	1602632
Average Shareholders' funds	7443820	9997035.5
ROE=	13%	16%

AVG. SHAREHOLDERS FUNDS	FY15-16	FY16-17	FY17-18
	4943820	9943820	10050251
Average SHF 2017	7443820		
Average SHF 2018	9997035.5		

4)Return on asset

Net Income/Average total assets

Net Income	950090	1602632
Average total assets	51246586	48903359.5
ROA=	2%	3%

PARTICULARS	FY15-16	FY16-17	FY17-18
Average total assets	8810682	93682490	4124229
Average total assets 2017	51246586		
Average total assets 2018	48903359.5		

ADITYA BIRLA NUVO LTD

1) NET PROFIT RATIO

= NET PROFIT /NET SALES *100

YEAR	AMOUNT
2017-18	-14.76
2016-17	3.79
2015-16	6.44

Net Profit/Net Income = Gross Profit – (Total Operating Expenses + Interest + Taxes + Amortization + Depreciation)

PARTICULARS	2017-18	2016-17	2015-16
GROSS PROFIT =	9,522	2571	6274
Net profit / net income	-8,463.94	1,560.00	2359

Net sales =	57,338	41,195	36,637
Total expenses=	13,710.32	9,601.94	7,400.90

2)EPS =

PROFIT AFTER TAX / WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES

PARTICULARS	2016-17	2017-18
PROFIT AFTER TAX	4,245.61	3,690.19
=		
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING =	46,68,00,754	60,57,01,097
EPS=		0.00%

3) RETURN ON EQUITY =

NET INCOME / AVERAGE SHAREHOLDERS FUNDS

PARTICULARS	2016-17	2017-18	2015-16
NET INCOME =	1560	4,418	3262
AVERAGE SHAREHOLDERS FUNDS =	93	131	93
	16.77419355	33.72519084	35.07526882

4) RETURN ON ASSET =

NET INCOME / AVERAGE TOTAL ASSETS	1.63%	4.61%	3.41%
NET INCOME =	1560	4,418	3262
AVERAGE TOTAL ASSETS =	95773		

Averages total assets = Accumulation of total assets of X period / X period

2015-16	59622
2016-17	19851
2017-18	2,07,846

5) LOAN TO ASSET RATIO =

LOANS AND ADVANCES	39,068
DEPOSITS	Net interest margin

6) RETURN ON ASSET =

Ni for 2015-16	2,678		0.01288454
Ni for 2016-17	4,119		0.019817557
Ni for 2017-18	2,511		0.01208106
Total assets =	2,07,846		

ANALYSIS OF ADITYA BIRLA GRASIM & AIRTEL PAYMENTS BANK FOR YEAR 2017-18**1) NET PROFIT RATIO**

The net profit ratio is the profit after tax by to the net sales . Of airtel for the year 2017-18 has a negative of (4832.3176)which In comparison with the Aditya Birla is (14.76) a high net profit ratio represents that airtel manages its business and affairs efficiently which implies that airtel is indeed having a well-functioning business than that of AdityaBirla however if an industry comparison of the companies are done it would tell us the more accurate analysis.

2) EPS (Earnings Per Share)

EPS is also called as net income per share is also a market ratio which would measure the amount of net income earned per unit of stock outstanding , it also shows how profitable the company is on the basis of shareholders here in the case of Aditya Birla and Airtel Payments bank where Birla has a EPS = 44.2 & and Airtel payments bank has a EPS= 2.72

3) RETURN ON EQUITY

Return on equity is a measure of financial performance of an entity by dividing the net income by shareholders equity because $SE = ASSETS - DEBT$. Return on equity is basically a measure of how effectively the management is using the company's assets to generate profits however roe can be calculated for any company if the company's net income and equity are both positive figures and are represented in terms of percentages now while we compare the return on equity of both Aditya Birla and Airtel Payments Bank. The ROE for the Airtel is 0.16031072 which would be at around 16.031%, 12.76% for Previous year and for Aditya Birla is 33.72519084 % ,35.075% for the year 2015-16, 16.77% for the year 2016-17 .

We can conclude saying that Aditya Birla has a better percentage as their ROE for the all the 3 years have maintained a certain level of percentage as compared to its peer hence, we can say that Aditya Birla has a better above the average management in using company's assets for creating profits

4) RETURN ON ASSETS

Return on assets is a profitability ratio which tells us how much profit a company can generate from its assets, it also shows how well a company is generating their earnings from the usage of economic resources available to it. In our scenario the ROA for Aditya Birla is for the 2 years ended is 4.61%,1.63% and for Airtel Payments Bank it is 3% and 2% respectively hence we can see that for the year 2017-2018 that Aditya has a ROA of 4.61% and 3% for Airtel respectively clearly we see that Aditya has a better ratio and the management is more efficient in managing its balance sheet in generating profits. This means that for every dollar in assets during 2017-18 they have earned 4.61 Rupees in profit and similarly 3 for Airtel and Aditya has clear difference in terms of the comparison they take a 1.61-rupee more.

V. Findings and Suggestions

Through this research it has enabled us to find out that the BASIC EPS of Aditya Birla is 44.2 whereas for Airtel Payments Bank they have a ratio of 2.72 which says that Aditya Birla is more efficient in terms of the earning per share and this also gives us insight into how a company's share could be priced as the EPS is also used in calculation of the P/E ratio where 'E' would represent the earning per share which would tell us about the value of the stock and how much the market is willing to pay for each rupee of earnings. The suggestion would be that Airtel payments bank a subsidiary of Bharti Airtel should try and figure out a way to break the model where only a minimum amount or threshold is Rupees 1,00,000, they must also try to get in a valid way in which a credit based sales as in credit must also be included in this model

- Upon calculation of the profitability ratios it could be found that for the year 2017-18 the ROE (Return on Equity) is performed which is done to measure and compare the financial performance of the companies , for Airtel it is 16.031% and similarly for Aditya Birla it is 33.725% we could interpret from this that Birla has maintained a steady rate and has a better management than Airtel Payments Banks and are better utilizing the assets and are creating profits in comparison.
- ROA (Return on Assets) again a profitability ratio which gives us insight into the how good a company is doing in terms of generating earnings from the economic resources available to it for Airtel Payments Bank and Aditya Birla it is 3% and 4.61% respectively we have analyzed the figures and say that Aditya has a better management and the management has been more efficient in its balance sheet in terms of profits generated. The suggestions would be that the Airtel Payments Bank use more of leverage that is more of debt and use of equity , another

suggestion would be that they improve their asset turnover ratio as it says that more sales a company does in relation to its assets the more profitable and the more return on equity

VI. Conclusion

Airtel and Aditya Birla are both are companies that were the first ones to receive a payments bank licence in India by the RBI ,Airtel was also one of the first live payment Bank in the country.Aditya Birla Nuvo on the other hand is a company based in Mumbai which is owned by parent company Grasim Industries Limited it is a public company listed on the NSE & BSE . We have performed an analysis on the company's Profitability have done a comparative analysis on the EPS as well as the ROE & ROA which has helped us conclude that Aditya Birla being a better performer in terms on the Analysis of the ratio and has a better management efficiency and a better utilization of assets and balance sheet to generate profits.

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