FINANCIAL PERFORMANCE OF ADITYA BIRLA SUN LIFE INSURANCE COMPANY LIMITED

Dr. Moorthy D, Senior Lecturer, Department of Business Studies- Accounting & Finance IBS University, Port Moresby, Papua New Guinea.
Mrs. Christina Jeyadevi J, Assistant Professor, Department of Commerce Accounting & Finance, PSG College of Arts and Science, Coimbatore, Tamil Nadu, India.

Abstract

Life Insurance companies are bountiful in numbers in India with variety of products available in each insurance company. The liberalization policy of India after the year 1991 paved a way for the many multinational companies to find a place of business in India. Out of many companies, private insurance companies also found place in spite of government owned insurance. Since there are many private insurance companies that have found a place, Aditya Birla Sun Life Insurance Company is one of the best of the life insurance companies. So an attempt has been made to study the successful Aditya Birla Sun Life Insurance Company to know the financial position of the company. For this, the researchers have taken this insurance company which has been collaborated with Sun life Insurance company and the financial position has been studied for the five years. Simple ratio analysis has been made to find the financial position to make the investors to know about the product in a simple manner in the company.

Key Words: Aditya Birla Sun Life Insurance, Financial Performance, Ratio Analysis and solvency ratio.

Introduction

Insurance is an instrument that helps an individual to sustain in an adverse situation by indemnifying an individual for his financial loss. Insurance is another kind of savings and investment, where everyone wants to achieve financial freedom at certain point of time. Savings alone is not enough for achieving the financial freedom, but from unforeseen hazards and dangers. Insuring the life has become very important as the assurance covers the unexpected risk that is associated with the life. People think that they do not want insurance, because they could save money to meet medical expenses if something happens. When accident occurs, all savings for medical bills, insurance comes as a safety measure to cover the financial losses that they would have suffered if the insured is not alive.

The concept of insurance is that it is a contract, say policy, in which the insured is compensated with money for the damages he has suffered from any unforeseen situation that might arise in future. In other words, an individual or entity spends a small periodic amount against a possibility of unexpected huge loss. Not all are going to meet the unexpected situation; so the insurer could pay the insured money out of premiums they received from many.

In our study, we have taken the Aditya Birla Sun Life Insurance Company Limited (ABSLI), a subsidiary company of Aditya Birla Capital Limited (ABCL). About the company, it is one of the leading Life Insurance companies in India that runs under private sector. ABSLI was established on 04th August 2000 and started its operations on 17th January 2001. It is a Joint Venture of 51:49 between Aditya Birla Group and Sun Life Finance Inc., a pronounced international financial services organization in Canada. ABSLI is one of the leading life insurance companies, called Birla Sun Life Insurance Company Limited before the joint venture. The company has numerous products that cover up the future of the family, children education, wealth protection, health and wellness, retirement benefits, monthly investment plans, regular income with regular savings of the family. Birla Sun Life Insurance aims to fulfill the needs of the customers and to protect their family also. It concentrates on the protection of the family from financial loss, as Insurance cannot prevent the risk, but compensate the financial losses arising out of such risk. ABSLI concentrates in the entire aspects of the risk associated with life.

Life Insurance

Life insurance, otherwise called life assurance, in British English, is a type of insurance that transfers the risk of the insured to the insurer if any risk occurs in the future. In life insurance, the insured takes a policy and pays premium for the policy at a regular intervals say monthly, quarterly, half yearly, even annually. The risk implied by the insurer is the risk of death of the insured who have taken the insurance. The insurer is ought to pay the money for the insured family, on his death or could give the money to the insured on the maturity of the policy. So, in short, it could be taken as, insured pays the policy amount in the middle, if death occurs or at the maturity period.

Role of Insurance Companies in Economic Development of India

India is a developing country which has multiple avenues for the growth and development. With the insurance companies, the country's savings and investment has showed a tremendous growth as to the GDP. Insurance company mobilized saving and investment into productive activities by long term savings that supported the economic development of the nation. The money invested in insurance is utilized for the capital formation for the purchase of plant, machinery, tools, building, transport and communication. The increase in insurance companies in India, paves the way for the employment opportunity for the people in India. The rural places are also met by the insurance companies, increased the standard of living. The growth of trade and commerce in economy has increased the GDP as the savings of people are transferred to production and service activities, venture capital projects, international trade etc.,

Aditya Birla Sun Life Insurance Company Limited (ABSLI) is a joint venture between the Aditya Birla Group and Sun Life Financial Inc., a leading international financial services organization. The local knowledge of the Aditya Birla Group combined with the expertise of Sun Life Financial Inc., offers a formidable value proposition to customers. Sun Life Financial and its partners today have operations in key markets worldwide, including India, Canada, the United States, the United Kingdom, Hong Kong, Philippines, Japan, Indonesia, China and Bermuda. It was the first player in the industry to sell its policies through the Bank assurance route and through the internet. It was also the first private Sector player to introduce a pure term plan in the Indian market. This was supported by sales practices, which brought a degree of transparency that was entirely new to the market.

Statement of the problem

India's life insurance sector is the biggest sector in the world as it is having huge population with so much of development possibilities. About 360 million policies are expected to increase between 12- 15% over the next five years. It is expected that the Indian insurance market would increase four times in size in the next ten years from the current size US$ 280 billion. During this period of ten years, it might cross US$ 350 billion. Studies have revealed that the increase in incomes and standard of living of the people, there is an increase in insurance premiums that in turn increases the GDP of our country. ABSLI ranked higher than other financial services life insurance organization in India. The study is about analyzing the financial performance of ABSLI using ratio analysis as a tool to evaluate its five year's performance.

Objectives of the study

- ✓ To analyze the liquidity position of the Aditya Birla Sun Life Insurance Company Limited.
- ✓ To evaluate the profitability of the Aditya Birla Sun Life Insurance Company Limited.
- ✓ To find out the solvency position of the Aditya Birla Sun Life Insurance Company Limited.

Scope of the study

Birla sun life is one of the fastest growing private insurance companies in India. It has the power that determines the market share of the various private companies in India at present. The scope of the study involves the financial analysis of Aditya Birla Sun Life Insurance Company based on its annual reports with the help of ratio analysis for 5 years from 2015-'16 to 2019- '20.

Research methodology

This present article topic entitled "**Financial Performance of Aditya Birla Sun Life Insurance Company"** is considered as an analytical research. Analytical research is defined as a research in which, researcher has to use facts or information already available which is given by the company and to analyze these to make a critical evaluation of facts, figures, data or material for this present study.

Period of study

The study has been conducted for five year period from 2015-16 to 2019-20.

Techniques used in the study

Ratio analysis

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominantly used by proponents of fundamental analysis. Following ratios are used in this study.

- Profitability ratios
- Liquidity ratios
- Solvency ratios

Data collection

The study focuses on financial performance of Aditya Birla sun life insurance company ltd. The major source of data for this article was collected through annual reports, profit and loss accounts of Aditya Birla sun life insurance Company limited for five year period from 2015-16 to 2019-20 and some more information collected through internet and text sources.

Limitations of the study

The following are the limitations of the study

1. The secondary data used in this study was collected from the published annual reports of Aditya Birla sun life insurance Company limited.
2. Only few ratios are used for study.
3. The period of study is only 5 years from 2015-16 to 2019-20.

Tools and Analysis

The researcher has taken six ratios to analysis the company's financial statement. It will help the investors to understand the company's financial position to invest their money in the insurance schemes of the company and to compare with their competitors.

Current Ratio

Liquidity ratio is the current ratio, which is calculated by dividing current assets by current liabilities. The current ratio is a more dependable indicator of liquidity than working capital. The current ratio is only one measure of liquidity. It does not take into account the *composition* of the current assets. The current ratio measures the ability of a company to cover its short-term liabilities with its current assets. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

$$\textbf{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

Table 1 : Current Ratio

Year	Current Assets	Current Liabilities	Current Ratio
2015 – 2016	23.57	16.61	1.42
2016 – 2017	84.78	530.58	0.16
2017 – 2018	8,033.47	43.85	183.20
2018 – 2019	8,845.80	30.66	288.52
2019 – 2020	9,572.35	28.42	336.82

Source : Computed data

The current assets of the company is vary from year to year, due to some reasons the current assets was very less in the year 2015 – 2016 and 2016 – 2017. After 2017 current assets increased and current liabilities vary year to year. The current ratio was 1.42:1 in the year 2015 – 2016, 0.16:1 in the year 2016 – 2017. The current ratio of the company was increased drastically increased to 183.20:1 in the year 2017 – 2018, 288.52:1 in the year 2018 – 2019 and it was very high in the year 336.82:1 in the year 2019 – 2020. The current ratio was high in the year 2019 – 2020 and was very less in the year 2016 – 2017.

Absolute Liquid Ratio

Liquidity ratios measure the short-term ability of the entity to pay its maturing obligations and to meet unexpected needs for cash. Profitability ratios are helpful in evaluating and making decisions about an entity. However these ratios do not provide users of financial information with a complete picture of the entity to support their resource allocation decisions, so including liquidity and solvency ratios would be helpful. The entity's financial health is determined by evaluating the relationship between its various assets and liabilities. However, any analysis of liquidity is incomplete without looking at cash flows.

The relationship between the *absolute liquid assets* and current liabilities is established by this *ratio*. The Absolute Liquid Assets take into account cash in hand, cash at bank, and marketable securities or temporary investments. Though receivables are more liquid as comparable to inventory but still there may be doubts considering their time and amount of realization. Therefore, absolute liquidity ratio relates cash, bank and marketable securities to the current liabilities. The formula for calculating absolute liquid ratio is,

$$\textbf{Absolute Liquid Ratio} = \frac{\textit{Absolute Liquid Assets}}{\textit{Current Liabilities}}$$

Table 2 : Absolute Liquid Ratio

Year	Absolute Liquid Assets	Current Liabilities	Absolute Liquid Ratio
2015 – 2016	23.57	16.61	1.42
2016 – 2017	54.79	530.58	0.10
2017 – 2018	84.15	43.85	1.92
2018 – 2019	125.36	30.66	4.09
2019 – 2020	29.38	28.42	1.04

Source : Computed data

The absolute liquid ratio of the company is varying in the last five years. The absolute liquid ratio was 1.42:1 in the year 2015 – 2016, 0.10:1 in the year 2016 – 2017, 1.92:1 in the year 2017 – 2018. 4.09:1 in the year 2018 – 2019 and it was decreased to 1.04:1 in the year 2019 – 2020. The ratio was high in the year 2018 – 2019 and was very low in the year 2016 – 2017.

Solvency Ratios

Debt To Equity Ratio

The Debt/Equity (D/E) Ratio is calculated by dividing a company's total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company's financial statements. The ratio is used to evaluate a company's financial leverage. The D/E ratio is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. The formula for calculating debt to equity ratio is,

$$\textbf{Debt to equity} = \frac{\textit{Total Liabilities}}{\textit{Total Shareholders' Equity}}$$

Table 3 : Debt to Equity Ratio

Year	Total Liabilities	Total Shareholder's Equity	Debt Equity Ratio
2015 – 2016	16.61	796.01	0.02
2016 – 2017	544.52	1,232.24	0.44

2017 – 2018	872.45	2,201.40	0.40
2018 – 2019	1,604.31	2,201.40	0.73
2019 – 2020	169.69	2,413.76	0.07

Source : Computed data

The total liabilities of the company was very less in the year 2015 – 2016, later it was increased to 1604.31 crores in the year 2018 – 2019. Total shareholder's equity has gradually increased year by year from 2015 – 2016 to 2019 – 2020. The debt equity ratio of the company was 0.02 in the year 2015 – 2016. It was increased in the year 2016 – 2017, 2017 – 2018 and 2018 – 2019. Again it was reduced to 0.07 in the year 2019 – 2020. The ratio was very high in the year 2018 – 2019.

Proprietary Ratio

The proprietary ratio is the proportion of shareholders' equity to total assets, and as such provides a rough estimate of the amount of capitalization currently used to support a business. If the ratio is high, this indicates that a company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary. Conversely, a low ratio indicates that a business may be making use of too much debt or trade payables, rather than equity, to support operations (which may place the company at risk of bankruptcy). The formula for calculating proprietary ratio is,

$$\textbf{Proprietary Ratio} = \frac{\textit{Shareholders Equity}}{\textit{Total Assets}}$$

Table 4 : Shows Proprietary Ratio

Year	Total Shareholder's Fund	Total Asset	Proprietary Ratio
2015 – 2016	3,129.71	3,146.32	0.99
2016 – 2017	4,610.90	5,155.42	0.89
2017 – 2018	7,211.30	8,083.75	0.89
2018 – 2019	7,295.00	8,899.31	0.82
2019 – 2020	9,456.72	9,626.41	0.98

Source : Computed data

The total shareholder's fund has gradually increased from 3,129.71 crores to 9,456.72 crores from the year 2015 – 2016 to 2019 – 2020. Total assets are also increased gradually from 3,146.32 crores to 9,626.41 crores from the year 2015 – 2016 to 2019 – 2020. The proprietary ratio was 0.99 in the year 2015 – 2016. It was 0.89 in the year 2016 – 2017 and 2017 – 2018. It was reduced to 0.82 in the year 2018 – 2019 and it was increased to 0.98 in the year 2019 – 2020.

Profitability Ratios

Return On Revenue

Return on revenue (ROR) is a measure of company profitability that is calculated by dividing net income by revenue. A business can increase ROR by increasing profit with a change in sales mix or by cutting expenses. ROR also has an impact on a firm's earnings per share (EPS), and analysts use ROR to make investment decisions. The formula for calculating return on revenue is,

$$\textbf{Return on Revenue} = \frac{\textit{Net Operating Income}}{\textit{Revenue}}$$

Table 5 : Showing Return on Revenue Year

Year	Net Operating Income	Revenue	Return on Revenue
2015 – 2016	7.28	7.35	0.99
2016 – 2017	34.99	35.02	0.99
2017 – 2018	164.03	164.63	0.99
2018 – 2019	177.78	178.49	0.99
2019 – 2020	199.82	201.28	0.99

Source : Computed data

This ratio is comparison of net operating income and total revenue of the company. Net operating income was less in the year 2015 – 2016 i.e. 7.28 crores. It increased to 34.99 crores in the year 2016 – 2017. It further increased to 164.03 crores in the year 2017 – 2018, 177.78 crores in 2018 – 2019 and again increased to 199.82 crores in 2019 – 2020. The revenue of the company was also less in the year 2015 – 2016 i.e. 7.35 crores. It was increased year by year like net operating income. The return on revenue of the company is 0.99 from 2015 – 2016 to 2019 – 2020.

Return On Assets

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. Net income is derived from the income statement of the company and it is the profit after taxes. The assets are read from the balance sheet and include cash and cash-equivalent items such as receivables, inventories, land, capital equipment as depreciated, and the value of intellectual property such as patents. The formula for calculating return on assets is,

$$\textbf{Return on Assets} = \frac{\textit{Net Operating Income}}{\textit{Total Assets}}$$

Table 6 : Showing Return on Assets

Year	Net Operating Income	Total Assets	Return on Assets
2015 – 2016	7.28	3,146.32	0.01
2016 – 2017	34.99	5,155.42	0.01
2017 – 2018	164.03	8,083.75	0.02
2018 – 2019	177.78	8,899.31	0.02
2019 – 2020	199.82	9,626.41	0.02

Source : Computed data

The return on assets ratio is calculated through the ratio which has taken the net operating income and total assets. The net operating income is explained in the previous ratio. The total assets were 3,146.32 crores in the year 2015 – 2016. It was 5,155.42 crores in the year 2016 – 2017, it was increased to 8,083.75 crores in the year 2017 – 2018 and increased to 8,899.31 crores in the year 2018 – 2019 and further increased to 9,626.41 crores in the year 2019 – 2020. The return on assets ratio is 0.01 in the year 2015 – 2016 and 2016 – 2017. The assets have increased to 0.02 in the year 2017 – 2018 as compared to 2019 – 2020.

Result and Discussion

Service sectors are different from the manufacturing sector, so the ratios may not like manufacturing sectors.

1. Current ratio of the company was near to standard in the year 2015 – 2016. In the year 2017 onwards it was drastically increased up to 336.82. This shows that the company has more current assets than the current liabilities.
2. The absolute liquid ratio was more close to standard in the year 2015 – 2016, 2017 – 2018 and 2019 – 2020. It shows that the insurance company has effective absolute liquid assets except in the year 2016 – 2017. It was very high in the year 2018 – 2019 i.e. 4.09.
3. Total share holder's equity of the company was less in the year 2015 – 2016, later it increased to 2,413.76 crores in the year 2019 – 2020. The debt equity ratio also gradually increased. This shows the company's development and sound financial position.
4. Proprietary ratio calculated with the details of total shareholder's fund and total assets, both total shareholder's fund and total assets are increased from the year 2015 – 2016 to 2019 – 2020. The proprietary ratio of the company is between 0.82 and 0.99. This shows the sound increase in the shareholder's fund and total assets.

Conclusion

The study conducted by the researchers to present the financial performance of Aditya Birla Sun Life Insurance Company Limited. This is one of the leading insurance companies in India. The ratios which the researchers have taken in this study show the output and the researcher has given interpretation for it in an understandable manner. Current assets, current liabilities, debt, owner's equity fund and net operating income vary from year to year. The ratios show the financial performance of the insurance company and there are more customers those who are taking policies. Financial performance should be sound; it will help while go for claim.

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