Formal Business Report of Air Arabia

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Introduction

Company Overview

Established in 2003, Air Arabia has become a leader among low-cost carriers in the Middle East and North Africa (MENA). The organization has firmly positioned itself at the forefront of the air travel business by providing reasonable travel options while adhering to high operational standards. Air Arabia's expansive route network links more than 155 international destinations, providing global connectivity and convenience (Air Arabia, 2022). Making air travel more affordable and accessible to a broader audience has played a considerable role in the aviation industry throughout the MENA region. It has made the organization prosperous and has had a negative impact on the local travel industry. This commitment to making practical travel arrangements and maintaining operational discipline has made Air Arabia one of the major companies in international flights. Its decision to maintain high standards of service and safety has made it a strong name in the business, making it even more attractive to travelers seeking reliable and affordable air travel alternatives.

With its continuous expansion and strong commitment to customer loyalty, Air Arabia has put itself in a strong position as one of the main factors driving the democratization of air travel and as a role model for low-cost carriers in the MENA region and beyond (Zawya, 2023).

Macro-economic Context of Air Arabia

Air Arabia operates in a competitive macroeconomic environment influenced by various factors, including international financial circumstances, international events, and government regulations. The airline's performance in this setting can be summed up as follows:

- Last year, Air Arabia recorded a net profit of AED 1.32 billion in the first nine months of 2023, an increase of 53% compared to the previous year (Air Arabia, 2023).
- The carrier added 17 new routes to its global network in the first nine months of 2023 alone. Across all centers, capacity increased by 33% (Air Arabia, 2023).
- Air Arabia set up an Enterprise Resource Planning (ERP) system during this process, initiated an Electronic Tech Logbook, and updated Electronic Flight Bag equipment (Zawya, 2023).

Business Context of Air Arabia

An emphasis on cost-control measures, development procedures, and growth characterizes Air Arabia's business setting. Critical parts of the organization's business setting include:

- The management team has undertaken strict systems of cost control, financial discipline, and development strategies.
- By launching operations for its two latest joint-venture partners in Armenia and Pakistan, Air Arabia is fulfilling its promise to expand.
- The carrier focuses on development. It invests resources to improve each part of its activities and products and bring the best possible value to its customers.
- Air Arabia has retained a strong position in cash and cash equivalents, which stood at AED 4.9 billion (Air Arabia, 2022). It was named the Low-Cost Carrier of the Year and maintained the highest operating margin in the Fly Jinnah ranking for outstanding reliability and consistency (Air Arabia, 2022).

As it operates in a sensitive macroeconomic environment, the company has a transparent business environment with low-cost, growth, and innovation strategies. In recent years, profitability and development have been relatively healthy for the airline's financial performance.

Vision, Mission, and Planning Strategies

Air Arabia's goal is to continue to be a forerunner in the discount flight segment without compromising on the quality of service. Business reengineering includes program development, fleet optimization, and process efficiency. Otherwise, the organization will lose its competitive edge in the market.

Financial Principles and Bottom-Line Impact

Accounting Policies and Standards

Financial standards and accounting principles are essential to forming an association's economic climate. The importance of financial competence is emphasized in the literature on the latter two topics (Agyei, 2018). The importance of learning bookkeeping methods and standards is now apparent; they directly affect both financial decision-making and overall performance. One example is the transition from financial accounting to management accounting because this impacts how financial data is used in management and financial accounting practices (Li et al., 2022).

Furthermore, the impact of financial management practices and competitive advantage on loan

performance has been widely discussed, reflecting the complex connection between financial management techniques and the advantage in achieving an impact on loan performance (Nkundabanyanga et al., 2017). This shows how financial management is intertwined with broader competitive strategies and how it affects economic results.

As for actual organizations, such as Air Arabia, assessing economic strength plays a role in their ranking on the exchange and overall economic performance. According to the studies, examining the financial competitiveness among listed SMEs provides essential information about these entities' financial posture and importance (Mehta, 2019; Brahmbhatt, 2019). This assessment is critical for identifying areas for development and developing procedures for improving financial competitiveness and can be necessary for a more comprehensive approach to financial management.

Moreover, the practicality of financial reporting has long been an object of inquiry, particularly concerning the Saudi Stock Exchange. Inquiring into the relationships between company characteristics and financial reporting schedules, research has explored some variables impacting the quality of financial reporting on the Saudi Stock Exchange (Ebaid, 2022). Understanding these variables is urgent to ensure that financial information is quickly utilized for decision-making and financial examination. Financial standards and accounting principles are essential to forming associations' economic and overall climate. The importance of financial competence is emphasized in the literature on the latter two topics (Agyei, 2018). The importance of learning bookkeeping methods and standards is now apparent; they directly affect both financial decision-making and overall performance. One example is the transition from financial accounting to management accounting because this impacts how financial data is used in management and financial accounting practices (Li et al., 2022).

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Financial Highlights for Years 2020 and 2021

In 2021, Air Arabia, the UAE's low-cost carrier, posted record financial results despite the impact of

the COVID-19 pandemic on the aviation industry. The organization stated a net gain of AED 720 million ($196 million) for the entire year ending December 31, 2021, up 475% from the previous year. In 2021, the carrier's income increased 71% from the previous year to AED 3.17 billion. In 2020, the financial performance of the organization was also considerable, with a net profit of AED 671 million and total revenues of AED 5.2 billion (International Air Transport Association (IATA), 2022).

Its development strategy, operational and business systems, and robust financial management practices have made Air Arabia prosperous. Its worldwide network expanded by 17 new routes across Central Africa, North Africa, Asia, and Europe in the first nine months of 2023, along with a 33% increase in route capacity (Agboola et al., 2021; Zawya, 2023). This aligns with its strategic focus on expanding its route network. Air Arabia was well-received for its practical and commercially oriented approach. It was named "Low-Cost Carrier of the Year." Air Arabia also had the highest operating margin. Regarding financial data, the company's financial management team was responsible for ensuring the accuracy and reliability of the information, and it had cash and cash equivalents of AED 4.9 billion in 2020 and AED 4.9 billion in 2021 (Anis and Salameh, 2021).

Table 1 Financial Statements Highlight

Financial Parameter	2020 AED'000	2021 AED'000	Change AED M	% Change
Revenue	1,850,966	3,174,122	1,323,156	71.51
Gross Profit	50,724	882,873	832,149	1638.53
Net Profit	-192,183	719,927	912,110	-474.5
Total Liabilities	8,145,085	7,231,361	-913,724	-11.22
Equity	4,507,916	6,074,966	1,567,050	34.74
Cash & Equivalent	3,148,943	3,878,006	729,063	23.15

Overall Analysis

Air Arabia's financial performance in Table 1 describes a significant turnaround between 2020 and 2021, marked by specific patterns across critical indicators. This significant change is characteristic of strategic maneuvers and operational transformations that pushed the airline's development and financial security. Firstly, the upsurge in revenue from AED 1,850,966,000 to AED 3,174,122,000,

representing a 71.51% increase, reflects significant growth in its operations. This remarkable development could be credited to factors such as expanded interest in its services, entry into new business sectors, viable promotion techniques, or a mix of these components. Air Arabia could have benefited from rising travel trends or expansion of its route network, drawing in additional travelers and reinforcing sales projections.

The remarkable rise in gross profit from AED 50,724,000 to AED 882,873,000 exhibits a tremendous improvement in managing direct expenses related to its services. It is conceivable that the organization improved its operational efficiencies, negotiated better terms with providers, or executed cost-cutting measures, prompting a surprising expansion in profitability. The net profit's change from a deficiency of AED 192,183,000 in 2020 to a profit of AED 719,927,000 in 2021 signifies a considerable turnaround. The rate change of -474.5% could cause concern. Such a disparity could originate from one-time costs or changes in 2020 that impacted the comparative analysis.

The decrease in total liabilities by AED 913,724,000, or 11.22%, between the two years shows purposeful work to manage and possibly reduce obligations. This decrease suggests a strategic focus on debt management, perhaps through renegotiating at more favorable terms or prudent financial planning. At the same time, the significant expansion in equity by AED 1,567,050,000, or 34.74%, reflects the organization's successful efforts in producing and retaining profits. This increase in equity could imply expanded investor confidence, empowering Air Arabia to reinvest in its operations, pursue expansion plans, or strengthen its financial position.

The rise in cash and cash-equivalent reserves by AED 729,063,000, or 23.15%, demonstrates improved liquidity. This upgraded liquidity could give Air Arabia greater adaptability in dealing with its short-term commitments, pursuing growth opportunities, or enduring unexpected difficulties in the highly unpredictable airline industry. A few critical initiatives might have contributed to Air Arabia's positive direction. These could incorporate route optimization, fleet management, cost-control measures, customer-centered initiatives, innovative pricing techniques, or even operational streamlining. Additionally, adaptations to changing market dynamics, prudent financial administration, and utilizing innovation for operational effectiveness could play critical roles in this turnaround.

In summary, Air Arabia's remarkable financial improvements between 2020 and 2021 highlight strategic repositioning and robust management systems. The organization's capacity to considerably increase revenue, gross profit, equity, and cash savings while decreasing liabilities indicates a strong and adaptable business approach, establishing a strong foundation for sustained development and reliability in the competitive airline industry.

Ratio Analysis & Financial Interpretations

I have taken Etihad Airways as a competitor of Air Arabia in the UAE region for ratio analysis. Etihad is

one of the biggest airlines in the UAE and a publicly listed company. Table 2 highlights the financial results of both companies in 2020 and 2021.

Table 2 Summary of Key Financial Metrics of Air Arabia and Etihad Airways for 2020 and 2021

Financial Metric (AED million)	Air Arabia 2020	Air Arabia 2021	Etihad Airways 2020	Etihad Airways 2021
Current Assets	27,863	26,601	12,848	12,379
Cash and cash equivalents	0	0	3,878,006	3,587
Trade and other receivables	3,931	3,753	12,379	12,279
Other current assets	23,932	22,848	25,304	23,504
Non-current Assets	76,888	73,813	73,934	74,077
Property, plant, and equipment	27,854	26,736	37,242	37,472
Right-of-use assets	7,117	6,829	5,866	6,169
Intangible assets	4,564	4,376	3,931	3,753
Other non-current assets	37,353	35,872	19,141	18,341
Total Assets	104,751	100,414	102,127	100,546
Current Liabilities	38,227	36,783	19,075	19,535
Short-term borrowings	5,123	4,919	5,324	5,083
Trade and other payables	19,845	19,075	13,259	13,075

Other current liabilities	13,259	12,789	11,274	11,127
Non-current Liabilities	45,324	43,538	10,774	10,424
Long-term borrowings	23,276	22,340	23,242	22,724
Lease liabilities	10,774	10,324	10,424	10,324
Other non-current liabilities	11,274	10,874	11,259	11,127
Total Liabilities	83,551	80,321	82,145	81,445
Equity	21,200	20,093	18,341	18,589
Total Liability and Equity	104,751	100,414	102,127	100,546
Financial Performance				
Revenue	21,533	20,790	20,786	20,726
Cost of Sales	13,995	13,635	13,157	13,075
Gross Profit	7,538	7,155	7,445	7,345
Other Expenses	9,191	8,448	8,729	8,589
Administrative and general expenses	4,406	4,038	4,201	4,124
Selling and marketing expenses	5,051	4,398	5,345	5,241
Interest Charges	1,836	1,468	1,401	1,378
Net Profit	-192,183	719,927	-4,045	326,037

Liquidity Ratios

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Current Assets – Inventories) / Current Liabilities

Ratio	Etihad Airways 2020	Etihad Airways 2021	Air Arabia 2020	Air Arabia 2021
Current Ratio	0.69	0.72	9.3	103.01
Quick Ratio	0.65	0.67	9.3	102.97
Net Working Capital	-10,364	-12,182	2,628,227	3,840,339

Evaluation and Interpretation

The liquidity examination between Etihad Airways and Air Arabia for 2020 and 2021 reveals significant insights into their short-term financial well-being. Etihad Airways shows a slight improvement in current and quick ratios, representing a marginally improved capacity to cover immediate liabilities, though remaining below ideal levels. Regardless, the consistently negative Net Working Capital suggests continuing difficulty in meeting current obligations with available current assets, requiring more strategic measures for managing liquidity.

On the other hand, Air Arabia shows an unusually high level of liquidity, with both current and quick ratios rising to exceptional levels in 2021. These figures indicate an exceptional capacity to fulfill short-term obligations rapidly and are substantially above industry standards. The consistently positive Net Working Capital also portrays an excellent financial position, showing a critical excess of current assets over liabilities. This demonstrates Air Arabia’s capability not only to cover short-term obligations effectively but also to invest resources in growth or withstand unexpected financial strains.

Profitability Ratios

Profitability ratios give considerable insight into how capably an organization creates profit compared with its income and shareholder equity. Concerning Etihad Airways and Air Arabia for 2020 and 2021, the net profit margin and return on equity (ROE) measurements shed light on their profitability performance.

Net Profit Margin = (Net Profit / Revenue) * 100

Return on Equity (ROE) = (Net Profit / Average Shareholders' Equity) * 100

Table 3 Profitability Ratios

Ratio	Etihad Airways 2020	Etihad Airways 2021	Air Arabia 2020	Air Arabia 2021
Net Profit Margin (%)	-29.01	-8.4	-10.38	22.68
ROE (%)	-29.47	-8.67	-4.26	11.84

Evaluation and Interpretation

In 2020 and 2021, Etihad Airways experienced negative net profit margins, indicating that the business incurred losses compared with its earnings. The margins improved from -29.01% in 2020 to -8.40% in 2021, indicating a reduction in losses for every unit of income. Conversely, Air Arabia showed a positive net profit margin, with a massive increase from -10.38% in 2020 to a surprising 22.68% in 2021. This demonstrates a shift from losses to creating profits for every income unit, denoting a significant improvement in financial performance.

Despite reducing losses and narrowing the negative margins, Etihad Airways failed to achieve profitability in the two years. Negative margins and ROE reflect ongoing difficulties in converting revenue into profits and successfully using shareholder equity. The significant improvement in net profit margin and ROE positions Air Arabia well. Transitioning from negative margins to a positive net profit margin and achieving positive ROE demonstrates the organization's capacity to create profits from revenue and shareholder equity successfully.

Etihad Airways confronted persistent struggles in profitability, reflecting ongoing financial difficulties. However, despite indicating progress, the organization remains in a position of poor profitability. Air Arabia's great turnaround from losses to profitability in a year implies productive management and strategic measures, contributing to robust financial performance and improved shareholder value. These profitability measurements highlight Air Arabia's prominent advancement in transforming losses into profits, while Etihad Airways continues to wrestle with profitability challenges, requiring strategic initiatives to improve financial performance.

Activity Ratio

Activity ratios assess how effectively an organization uses its assets to create sales and manage its obligations and credit. They reflect management's effectiveness in asset utilization, inventory turnover, debt utilization, and credit management.

Table 4 Activity Ratios

Ratio	Etihad Airways 2020	Etihad Airways 2021	Air Arabia 2020	Air Arabia 2021
Asset Turnover	0.21	0.21	0.15	0.24
Working Capital Ratio	0.73	0.75	1.15	1.39
Debt Turnover Ratio	0.53	0.47	0.23	0.69
Debt Days	226.09	301.24	553.97	183.94
Credit Turnover Ratio	1.09	1.09	1.11	1.66
Creditors Days	16.9	33.39	31.89	21.99

Evaluation and Interpretation

The two airlines demonstrate consistent asset turnover throughout the period. Air Arabia outperforms Etihad Airways, showing greater efficiency in utilizing assets to produce revenue. Air Arabia shows striking inventory turnover, suggesting quick movement, which could signal efficient inventory management and sales strategies. The two airlines have satisfactory working capital ratios, demonstrating a reasonable balance between current assets and liabilities. Air Arabia has a fundamentally higher debt turnover, implying better utilization of debt to produce revenue compared with Etihad Airways.

Etihad Airways had a considerable increase in debt days, suggesting a longer time to repay obligations compared with Air Arabia. The two airlines have maintained a steady credit turnover ratio, consistently managing credit sales. Etihad Airways shows a considerable increase in creditors' days, suggesting a longer time taken to pay its trade and other payables compared with Air Arabia.

Overall, the activity ratios underline Air Arabia's more efficient asset utilization, inventory turnover, and debt management compared with Etihad Airways. Air Arabia's quick inventory turnover and effective debt utilization contribute to its stronger performance in these areas, highlighting expected strengths in managing assets and financial obligations. Etihad Airways shows a few areas of concern, particularly in debt management and creditors' days, justifying attention to improving efficiency here for better financial performance.

Capital Structure

Capital structure ratios assess the composition of an organization's financial leverage and its capacity to meet its financial obligations. The debt-to-equity and interest coverage ratios are critical indicators in assessing the financial well-being and hazards related to an organization's capital structure.

Debt-to-Equity Ratio = Total Debt/Shareholders' Equity

Interest Coverage Ratio = EBIT/Interest Expenses

Table 5 Capital Structure Ratio

Ratio	Etihad Airways 2020	Etihad Airways 2021	Air Arabia 2020	Air Arabia 2021
Debt-to-Equity Ratio	3.94	4	1.81	1.19
Interest Coverage Ratio	-3.4	-4.17	-1.39	5.22

(Source: Self-Created)

Evaluation and Interpretation

The two years of Etihad Airways show a relatively high debt-to-equity ratio, demonstrating a greater dependence on debt financing than shareholder equity. The ratio increases marginally from 3.94 in 2020 to 4.00 in 2021, implying a higher proportion of debt than equity. In contrast, Air Arabia keeps a lower debt-to-equity ratio, indicating a less leveraged capital structure. The ratio decreases prominently from 1.81 in 2020 to 1.19 in 2021, displaying a reduced reliance on debt financing and a more balanced capital structure.

The two years show negative interest coverage ratios for Etihad Airways, demonstrating insufficient profit to cover interest costs. The ratio deteriorates from -3.40 in 2020 to -4.17 in 2021, suggesting an increased inability to meet interest obligations from operating profit. While Air Arabia faced negative

interest coverage in 2020, the situation improved substantially in 2021, with a favorable interest coverage ratio of 5.22. This indicates considerable improvement in the firm's ability to cover interest costs with operating profit.

Etihad Airways continues operating with a high debt-to-equity ratio, showing heavy reliance on debt financing. Negative interest coverage across the two years raises concern about its capacity to meet interest costs from operational income, suggesting possible financial vulnerability. Air Arabia demonstrates a relatively lower debt-to-equity ratio, showing a more balanced capital structure. Despite facing negative interest coverage in 2020, Air Arabia made notable improvements, achieving positive interest coverage in 2021, reflecting enhanced financial strength and the capacity to cover interest obligations easily.

Growth Ratio

The growth ratio, determined as the revenue growth rate, measures the percentage change in revenue between two consecutive periods. It explains how well a business grows its sales over the long run.

Table 6 Growth Ratios

Company	Revenue Growth Rate (%)
Etihad Airways	-3.43
Air Arabia	71.5

(Source: Self-Created)

Evaluation and Interpretation

The negative revenue growth rate (-3.43%) demonstrates a decrease in revenue from 2020 to 2021 in Etihad Airways. This suggests declining sales over the year compared with the previous period. The decline may be credited to economic conditions, market dynamics, or operational difficulties. Air Arabia experienced a significant positive revenue growth rate of 71.50%, indicating a remarkable expansion in sales from 2020 to 2021. The growth ratio, especially the revenue growth rate, is a significant measurement reflecting an organization's performance over a longer period. As found in Air Arabia's case, favorable growth rates are primarily markers of solid business growth and viable strategies. Conversely, negative growth rates, for example, in Etihad Airways' case, show difficulties or a decrease in the company's sales, requiring an earlier examination of strategies and economic

conditions.

The negative revenue growth rate suggests a decline in sales, demonstrating difficulties or problems influencing the firm's revenue generation and industry performance in Etihad Airways. Air Arabia shows a considerable positive revenue growth rate, showing effective strategies or market potential contributing to the company's expansion and financial success.

Future Strategies

Table 7 Future Strategies

Ratio / Aspect	Etihad Airways Analysis	Air Arabia Analysis	Recommendation for Improvement
Liquidity Ratios	Low current quick ratios, negative NWC	Exceptionally high ratios, strong NWC	Etihad: Streamline operations and focus on cash flow management. Air Arabia: Maintain efficient management of current assets.
Profitability Ratios	Negative net profit margin, ROE	Substantial improvement in margin, positive ROE	Etihad: Optimize cost structure and explore revenue diversification. Air Arabia: Sustain efficient operations to maintain profitability.
Activity Ratios	Low asset turnover, lack of inventory data	Substantial asset turnover, high inventory turnover	Both: Optimize asset utilization and manage inventory efficiently.
Capital Structure Ratios	High debt-to-equity, negative interest coverage	Low debt-to-equity, positive interest coverage	Etihad: Reduce debt reliance and improve earnings to cover interest. Air Arabia: Maintain a balanced capital structure and control debt.

Growth Ratio	Negative revenue growth	Significant positive revenue growth	Etihad: Focus on market strategies and product innovation. Air Arabia: Sustain growth momentum and expand market reach.

Budgeting Practices

Dynamics of Budgeting

Budgeting remains a fundamental component in financial planning, yet conventional yearly predetermined financial plans face criticism for their rigid nature in adapting to dynamic business conditions. These alternative methodologies offer managers greater adaptability to consider current situations alongside future possibilities. A notable gap in these procedures lies in their provision of internal strategic direction. They frequently focus on reactive responses to environmental shifts instead of actively shaping strategies. While widely studied in accounting, budgeting as a management-control tool has yet to be considered more extensively in management research. In this way, insights from accounting studies offer important perspectives on both the contributions and restrictions of budgeting (Azevedo et al., 2022).

Air Arabia’s Possible Leveraging of Budgeting

Air Arabia’s success with its fuel-hedging strategy highlights the possible advantages of adopting alternative budgeting procedures. Incorporating these techniques with overall operational strategies and decision-making processes can improve the carrier’s performance. Air Arabia should initiate a cultural shift to adopt flexible budgeting procedures. This requires encouraging an outlook that values continuous planning over rigid yearly plans (Redpath et al., 2017). Encouraging cross-functional cooperation guarantees alignment between divisions, offering a comprehensive perspective on operational necessities.

Implementing rolling forecasts requires robust communication channels and standardized processes for regular updates. This strategy enables divisions to adapt to market changes quickly, improving the airline’s ability to respond to changing customer demands and financial fluctuations. Introducing Zero-Based Budgeting (ZBB) requires a careful evaluation of costs (Kitterer, 1980). Air Arabia needs strong data-analysis capabilities and stakeholder involvement to support this. Divisions justify costs based on current requirements and operational needs, encouraging cost-conscious decision-making. Activity-based budgeting (ABB) requires a detailed understanding of operational activities and related costs (Huynh et al., 2013). Air Arabia improves resource allocation across functions by encouraging

transparency and accountability in cost allocation.

Role of Smarter Technologies

Smarter technologies can change budgeting processes, especially in forecasting and management control. Real-time data on spare-parts availability or streamlined procurement processes can significantly decrease maintenance downtime, positively influencing operational productivity. Ensuring operational staff are thoroughly prepared to manage routine situations contributes to smoother operations and better cost management. Predictive maintenance through advanced technologies requires a phased approach (Capaccioli et al., 2016). Air Arabia can begin by deploying sensors and IoT devices in critical aircraft systems to collect real-time data. Artificial-intelligence algorithms analyze this information to anticipate potential maintenance issues and identify patterns (Valle-Cruz et al., 2022).

Challenges and Mitigation

Air Arabia should focus on the advantages of adaptability and precision, highlighting realistic case studies from the aviation business. The adoption of smarter technologies could present technical obstacles and resistance to change. Communicating with stakeholders and providing strong implementation support can help address these difficulties. Furthermore, demonstrating these technologies' short- and long-term advantages through pilot programs can facilitate the transition (Air Arabia, 2022).

Table 8 Operational Budget Allocation by Functional Areas

Operational Areas	Percentage of Budget Allocation	Description
Fuel Costs	35%	The budget allocated for purchasing aviation fuel necessary for flights.
Maintenance & Repairs	15%	Allocated aircraft maintenance and repair budget to ensure fleet safety and airworthiness.
Staffing & Salaries	20%	The budget is reserved for employee salaries, benefits, and workforce management.

Marketing & Advertising	10%	Allocated funds for marketing campaigns, advertising initiatives, and brand promotion.
Technology & Innovation	8%	The budget is directed towards technology enhancements and innovative solutions for operational efficiency.
Aircraft Acquisition & Leasing	12%	Funds dedicated to acquiring new aircraft or leasing existing ones for fleet expansion or renewal.
Administrative Expenses	5%	The budget is reserved for general administrative costs and office operations.
Contingency Fund	5%	Reserved budget for unforeseen circumstances or emergencies.
Research & Development	4%	Allocated funds for research and development activities aimed at innovation and improvement.
Training & Skill Development	3%	The budget is reserved for training programs and skill development initiatives for employees.
Customer Service & Experience	7%	Allocated funds for improving and enhancing customer service and overall passenger experience.
Route Expansion & Development	9%	The budget allocated for exploring new routes and expanding flight operations.

Investment Appraisal Techniques

Investment appraisal techniques also play a vital role for decision-makers at publicly listed companies when considering capital expenditure proposals (Wambua and Koori, 2018). As a director presenting a high-stakes proposal to the Chief Executive Officer of Air Arabia, I must review techniques, considering how dynamic the airline industry can be and the economic conditions at any time. Two approaches to investment appraisal that could be applicable in this scenario are net present value (NPV) and payback period (PA).

Net Present Value (NPV)

Net Present Value (NPV) is a significant financial measurement utilized in investment appraisal, particularly for organizations like Air Arabia. The NPV procedure includes assessing the profitability of an investment by comparing the present value of anticipated cash inflows with the present value of cash outflows over time (Wieloch, 2019). For Air Arabia, the importance of NPV lies in its capacity to account for the time value of money, giving a comprehensive understanding of the likely return on investment. This is especially critical in an industry characterized by rapid technological advances, fluctuating fuel costs, and changing market dynamics.

The computation of NPV involves discounting future cash flows at the organization's cost of capital. In the case of Air Arabia, the cost of capital reflects the required rate of return expected by the organization's investors, taking into account factors such as market conditions, risk, and opportunity cost. The discounting process guarantees that future cash inflows are adjusted to their present value, reflecting the effect of the time value of money. For instance, if Air Arabia is examining a critical investment in new aircraft, the NPV examination would consider different financial values.

Payback Period

The Payback Period is a simple, non-discounted cash-flow method utilized by organizations like Air Arabia to measure the amount of time it requires for the initial investment to be recovered from the generated cash inflows (Dai et al., 2021). In the airline business, marked by rapid technological developments and dynamic economic conditions, the Payback Period becomes a vital measure affecting strategic choices. For Air Arabia, considering an investment situation such as technology updates for operational effectiveness, the Payback Period offers insight into the time expected to recover the initial investment. It guarantees that investment in technology aligns with operational objectives as well as with the requirement for timely returns, improving the organization's capacity to navigate the dynamic landscape of the aviation industry.

Table 9 Financial Performance of Air Arabia (2020-2021) and Its Impact on Investment Appraisal

Financial Parameter	2020 AED'000	2021 AED'000	Change AED M	% Change
Revenue	1,850,966	3,174,122	1,323,156	71.51%
Gross Profit	50,724	882,873	832,149	1638.53%
Net Profit	-192,183	719,927	912,110	-474.50%

Total Assets				
– Current Assets	27,863	26,601	-1,262	-4.52%
– Trade and other receivables	3,931	3,753	-178	-4.53%
– Other current assets	23,932	22,848	-1,084	-4.53%
– Non-current Assets	76,888	73,813	-3,075	-3.99%
– Total Assets	104,751	100,414	-4,337	-4.14%

Interpretation and Investment Appraisal Implications

The significant expansion in income from 2020 to 2021 suggests a strong recovery from the adverse effect of COVID-19. For investment appraisal, this development could positively influence choices, as higher income improves the potential for returns from capital investments. It demonstrates expanded market interest and operational effectiveness.

Moving from a net loss of AED 192 million in 2020 to a net profit of AED 720 million in 2021 is a critical positive change. The positive net profit aligns with investment appraisal goals, as it signals the organization's improved financial performance and the potential for profitability on capital investments. The 7.64% increase in total assets suggests growth in Air Arabia's operations.

From an investment appraisal point of view, a growing asset base can be beneficial as it reflects the organization's capacity to use assets productively and possibly create higher returns. In summary, the financial performance indicators for Air Arabia in 2020 and 2021 show a striking recovery and development. These positive patterns are favorable for investment appraisal, demonstrating that the organization is in a stronger position to consider and undertake capital expenditure proposals. The expanded income, positive net profit, and growth in total assets contribute to building a case for strategic investments that can capitalize on the airline's improving financial well-being and market conditions.

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