An Analysis of Financial Management of Electricity Company in Kota, Rajasthan

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Abstract:

***On** 19th July 2000, Government of Rajasthan issued a gazette notification by which Rajasthan State Electricity Board (RSEB) was unbundled into new entities based on functional specialization. RSEB was unbundled into five new entities out of which Rajasthan Rajya Vidyut Prasaran Nigam Ltd., (RVPN) is constituted as transmission company. Rajasthan Rajya Vidyut Prasaran Nigam Ltd **(RVPN) was discharging wheeling of power and electricity transmission only.** The Transmission Company operates all the 765 kV, 400kV, 220 kV and 132 kV electricity lines and system in the State.*

*Rajasthan Rajya Vidyut Prasaran Nigam Ltd **(RVPN) deliver power from the location of generation to inter-phase point of Discoms so as to enable them to supply where it is needed either in the homes or in businesses they serve. The main important objective of the RVPN is to provide reliable electric transmission service to the customers. Being infrastructure of RVPN it serves as the link in transporting electricity to millions of electricity users as a public utility. RVPN is a Government Company and its Authorized Share Capital is Rs. 7000 crore and paid up capital is Rs.4441.04 as on 31.13.2019. RVPN is a State Power Transmission Utility, wholly owned by the Government of Rajasthan which undertakes activities relating to transmission of power and management of load dispatch in the state of Rajasthan. This study analysis the capital structure and financial performance of Rajasthan Rajya Vidyut Prasaran Nigam Ltd (RVPN) of the last three years 2016-17 to 2018-19. The required data were collected from the secondary source i.e. audited final accounts of RRVPNLTD. This research paper was an effort to identify its financial strength and weakness with the help of various financial analysis tools and techniques.***

Key Words:- ***Financial analysis, public utility, wheeling power, transmission etc.***

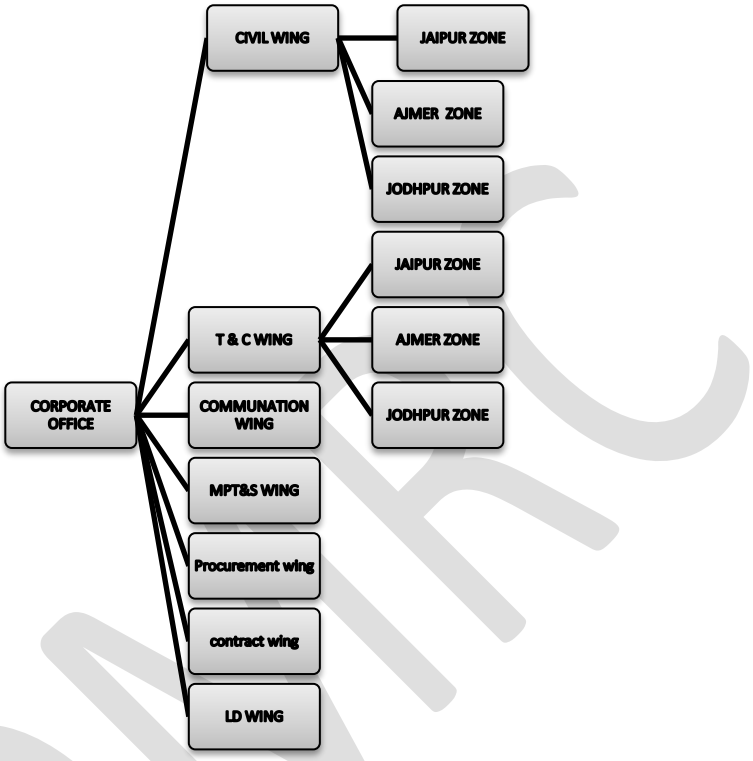
INTRODUCTION

RVPN is a dynamic organization, focusing on strategic strengths, seizing opportunities for generating and building upon past success, enhancing earnings to maximize the shareholders' value. RVPN is directed to provide good quality electricity to consumers at right time and in proper quantities with an aim to increase qualitative electricity productivity.

RVPN's mission is to provide reliable, high quality electric transmission services to the customers. The well-developed infrastructure created to serve as a link in transmission of electricity to millions of electricity users.

ORGANOGRAM AS ON 30.11.2018

The aforesaid chart displays the organogram of RRVPNL as on dated 30.11.2018. There are one corporate office and seven wings divided in accordance with their nature of work and duties. Total office locations are 747 as on 30.11.2018.



OBJECTIVES

The objective of the study to analyze the capital structure and financial result of RRVPNL by using various ratio analysis methods.

LITERATURE REVIEW

Literature review is an essential part of a thesis/article because it represents the whole range of research in the past on the topic selected by the researcher on the basis of which research design of study is formulated. Literature review gives better insight and helps to bridge gap for the research to be undertaken. Efforts have been made to present a common scheme of various facts and issues relating to this empirical studies carried out in past some important conclusions and research gap have been drawn from the review of some research papers, articles, thesis and text books available in the assessable library and internet sources.

1. Afrifa and Tingbani (2018)

   Study on- The relationship between working capital management and S.M.E.s' performance by taking into consideration the effect of cash flow.

   Objectives of the study was- By regression analysis for the period from 2004 to 2013 the study demonstrate the importance of cash flow on S.M.E.s' working capital management and performance.

   Conclusion or recommendation- the study depicts that working capital management has a significantly negative impact on S.M.E.s' performance. In case of cash flow unavailability (availability) managers should strive to decrease

(increase) the investment in working capital in order to improve performance.

2. Valaskova, Kliestik, and Kovacova (2018)

Study on- examine the financial risks of Slovak companies

Objectives of the study was- They focused on the significant economic risk factors using multiple regression.

Conclusion or recommendation- the study suggested that current debt ratio, financial debt ratio, cash ratio and net return on capital factors were significant enough to manage financial risks and to affect the profitability as well as prosperity of the company.

3. Zimon (2018)

Study on- Impact of purchasing groups on the financial situation of enterprises.

Objectives of the study was- to examine the choice of an appropriate group purchasing organization had a large impact on financial situation of companies.

Conclusion or recommendation As per study it was noticed that a positive effect on liquidity, profitability and management efficiency found while appropriate branch or multi-branch purchasing groups had been created.

4. Kontuš (2018)

Study on- to analyze the relation between liquidity level (net working capital) and profitability of S.M.E.s and large companies in the Republic of Croatia in 2014.

Objectives of the study was- to examine the effect of maintenance of proper balance between liquidity and profitability was very important to the overall financial health of a business.

Conclusion or recommendation- the study concluded that how any company can improve profitability by decreasing the amount of liquid assets?

5. K Kumutha Devi & C V Uma Maheswari (2015),
Study on- A Study on Financial Performance of Cipla ltd& Aurobindo Pharma ltd A Comparative Analysis

Objectives of the study was- to measure the financial performance of the Pharmaceutical Industry Cipla ltd, Aurobindo Pharma ltd have been incorporated in the study, and their data for the period 2009-2010 to 2013-2014 has been analyzed.

Conclusion or recommendation- the result indicated that the Cipla ltd displays high profitability than Aurobindo Pharma ltd. The higher level of consistency was observed in Cipla ltd. These evaluations were measured by using ratios of short term solvency ratio, long term solvency ratio, profitability ratio.

6. Dr. Ashish k Desai (2015),
Study on- A Comparative study of Financial Performance of Selected Listed Steel Companies in the Stock Exchanges in India by Functional Ratio

Objectives of the study was- secondary data have been collected from the annual report of these companies for the period of five years starting from 2009-10 to 2013-14 and has been analyzed by applying One-way ANOVA.

Conclusion or recommendation- From the analysis, study concluded that there is a statistically significant difference in financial performance of these companies. It has been

found from that Tata Steel Company remains at the top position.

RESEARCH METHODOLOGY

To assess the financial performance and strength of capital structure of RVPNL, data for the year 2016-17 to 2018-19 was analyzed from secondary published data of the company. By using ratio analysis method for last three years company's financial performance and capital strength has been evaluated and interpreted.

DATA ANALYSIS

Collected information is classified and grouped under the various suitable heads. The data collected i.e. input data was analysed by using ratio analysis method to arrive at meaningful information and objective conclusion.

I Analysis of Capital structure of RRVPNLTD:-

ANALYSIS OF CAPITAL STRUCTURE OF RRVPNLTD

(Rs. in lakhs)

S.NO.	PARTICULARS		YEAR		
			2016-17	2017-18	2018-19
a	Shareholders' Funds	Paid up capital	398104	427073	444104
b		Reserve and Surplus (including subvention)	4171.23	203.46	203.46
c	Non-current Liabilities	Term loan	1021572.12	1074151.52	1120768.92
		other long term liabilities	106900.59	107882.81	131821.57
		long term provision	22186.05	26239.47	28891.54
		TOTAL	1150658.76	1208273.80	1281482.03
d	TOTAL Resources (a+b+c)		1552933.99	1635550.03	1725789.26
e	Non-Current Assets	Fixed asset (net)	1655623.58	1709475.37	1764976.53
		long term loan and advances	21588.70	17400.22	13850.99
		Total	1677212.28	1726875.59	1778827.52
f	Current Assets	Trade Receivables	139856.28	209382.70	283847.47
		Cash & Bank balance	18481.12	4917.60	4069.70

ANALYSIS OF CAPITAL STRUCTURE OF RRVPNLTD

(Rs. in lakhs)

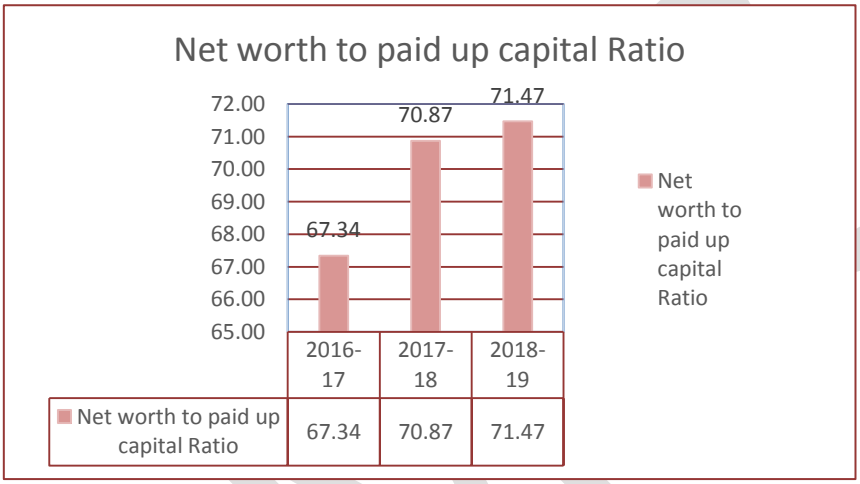
S.NO.	PARTICULARS		YEAR		
			2016-17	2017-18	2018-19
		Short term loan & Advances	5784.27	5879.36	5701.63
		other Current Assets	83497.60	98944.08	111606.43
		TOTAL	247619.27	319123.74	405225.23
g	Current Liabilities	Trade Payables	290586.87	291722.72	332047.74
		Other current liabilities	7185.81	8105.95	9750.98
		Short Term Provisions	199758.27	215226.40	238392.54
		Short term borrowing	8541.57	20000.00	5000.00
		TOTAL	506072.52	535055.07	585191.26
h	Net Current Assets		-258453.25	-215931.33	-179966.03
i	Intangible Assets	Accumulated losses	134174.96	124605.76	126927.76
j	Total Utilisations (e+h+i)		1552933.99	1635550.02	1725789.25
k	Capital Invested (a+b+c-i(i))		1418759.03	1510944.27	1598861.50
l	Capital Employed (e+f)		1924831.55	2045999.33	2184052.75
m	Net worth (a+b-i)		268100.27	302670.47	317379.47
n	Net worth to paid up capital Ratio		67.34	70.87	71.47

[SOURCE:- Published annual report & Public enterprises profile 2019-20, Bureau of Public Enterprises, Jaipur (Raj.)]

Interpretation of net worth to paid up capital ratio and its graphical presentation: -

Net worth to paid up capital ratio

YEAR	Net worth to paid up capital Ratio
2016-17	**67.34**
2017-18	**70.87**
2018-19	**71.47**



II Analysis of Financial results of RRVPNLTD:-

COMPARATIVE FINANCIAL RESULTS OF RVPNLTD

(Rs. In lakhs)

S.NO.	PARTICULARS		YEAR		
			2016-17	2017-18	2018-19
a	REVENUE	Sale of Products/services	245171	283959	281514
		Other Misc. Receipts	6389.58	8344.20	15647.31
		Total	251560.51	292303.62	297161.59
b	Change in stok		0.00	0.00	0.00
c	consumption of raw material & stores		0.00	0.00	0.00
d	Other Operating Costs (depreciation excluded)		15378.96	18388.15	20877.67

COMPARATIVE FINANCIAL RESULTS OF RVPNLTD

(Rs. In lakhs)

S.NO.	PARTICULARS		YEAR		
			2016-17	2017-18	2018-19
e	Depreciation		73452.78	80756.03	85915.54
f	Employee Benefit Cost		37846.70	72114.30	83751.61
g	Financial charges	on term loan	79736.88	94545.71	97137.86
		on others	8104.44	9880.13	7019.26
		Total	87841.32	104425.84	104157.12
h	Administration Overheads		35587.28	6542.68	13478.63
j	Total costs/expenses (b to i)		250107.04	282227.00	308180.57
k	Profit before tax and prior period adjustment (a-j)		1453.47	10076.62	-11018.98
m	Net Profit before tax (k-l)		1453.47	10076.62	-11018.98
n	Provision for tax		200.00	2462.48	-2.51
o	Net profit (Profit after tax) (m-n)		1253.47	7614.14	-11016.47
q	Profit Retained/otherwise Appropriated (o-p)		1253.47	7614.14	-11016.47
r	Cash Profit/Loss (o+e)		74706.25	88370.17	74899.07
s	Value of production/services (a(i)-(b))		245170.93	283959.42	281514.28
t	Operating costs (c+d+e)		88831.74	99144.18	106793.21
u	Operating costs to value of production/Services (%)		36.23	34.91	37.94
v	Employee costs to value of production / services (%)		15.44	25.40	29.75

COMPARATIVE FINANCIAL RESULTS OF RVPNLTD

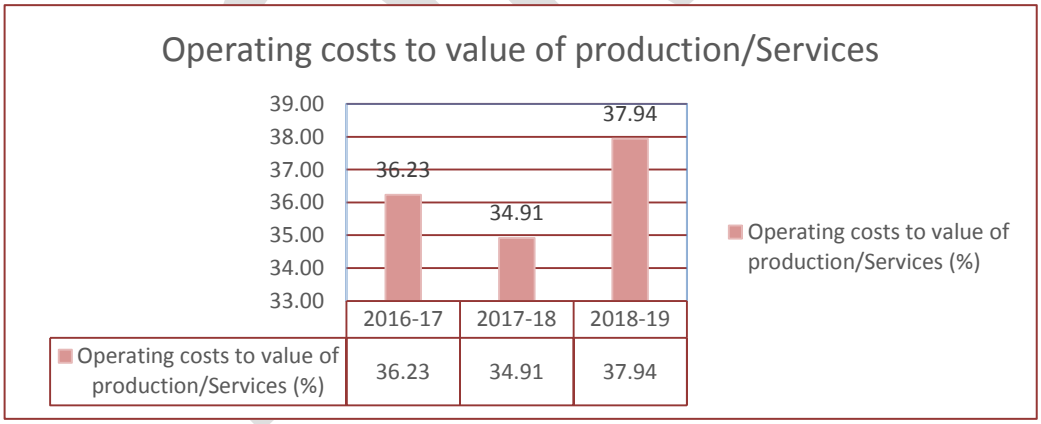
(Rs. In lakhs)

S.NO.	PARTICULARS	YEAR		
		2016-17	2017-18	2018-19
w	Administration Overheads to value of Production/Services (%)	14.52	2.30	4.79
x	Turn-over to Capital Employed (%)	12.74	13.88	12.89
y	Profit after Tax to Net worth (%)	0.47	2.52	-3.47
z	Profit after Tax to Paid-up capital (%)	0.31	1.78	-2.48

[SOURCE:- Published annual report & Public enterprises profile 2019-20, Bureau of Public Enterprises, Jaipur (Raj.)]

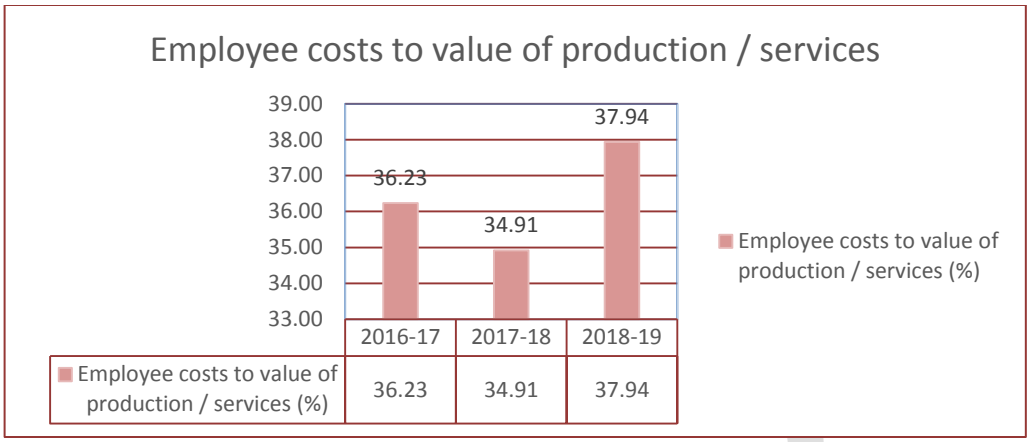
Operating costs to value of production/Services

YEAR	Operating costs to value of production/Services (%)
2016-17	**36.23**
2017-18	**34.91**
2018-19	**37.94**



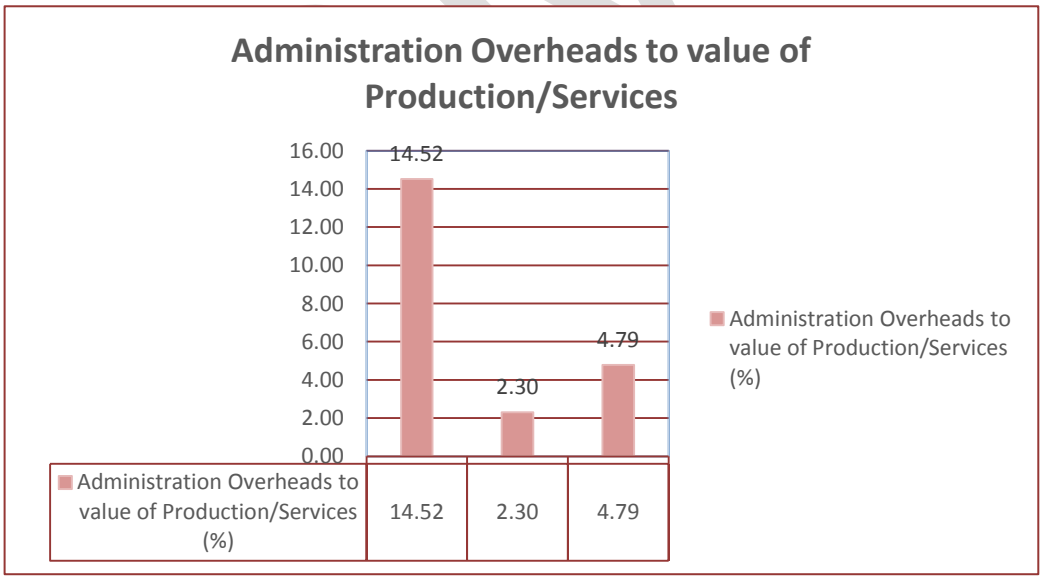
Employee costs to value of production / services

YEAR	Employee costs to value of production / services (%)
2016-17	**15.44**
2017-18	**25.40**
2018-19	**29.75**



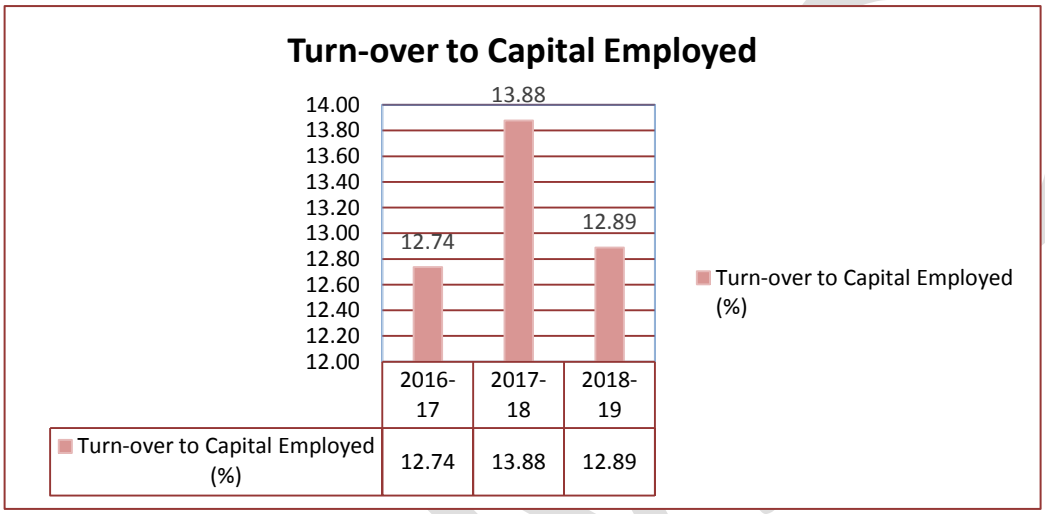
Administration Overheads to value of Production/Services

YEAR	Administration Overheads to value of Production/Services (%)
2016-17	**14.52**
2017-18	**2.30**
2018-19	**4.79**



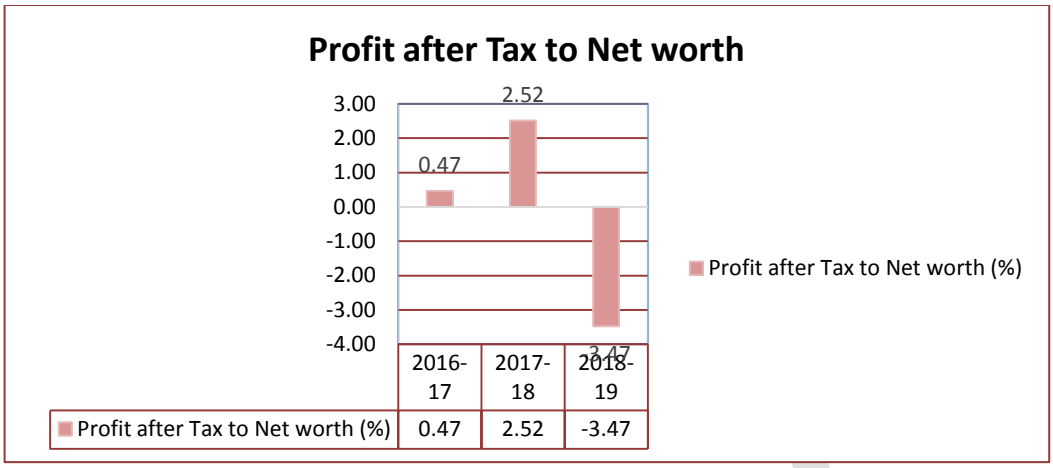
Turn-over to Capital Employed

YEAR	Turn-over to Capital Employed (%)
2016-17	**12.74**
2017-18	**13.88**
2018-19	**12.89**



Profit after Tax to Net worth

YEAR	Profit after Tax to Net worth (%)
2016-17	**0.47**
2017-18	**2.52**
2018-19	**-3.47**



FINDINGS

- Paid up capital of RRVPNLTD was increasing year to year from 2016-17 to onwards. But reserve and surplus have major decline from 2016-17 to 2017-18 and then there was an stability found in the year reserve and surplus.
- There is an increase in non-current liabilities in the year 2018-19 over 2016-17. This is due to increasing trend of Term Loan, long term provision and other long term provision.
- Liquidity position of the company have an impact by a decrease in net current assets due to increase in short term provision and trade payable in comparison to current assets. It shows there is a negative working capital of RVPNL
- There is an increase in total utilization of fund about 5.52%.
- Capital invested by the RRVPNLTD is increased by 5.82% in the year 2018-19 over 2017-18. Although net worth of the company is increased by 4.86% in the year 2018-19 over 2017-18.
- Capital employed by the RRVPNLTD is increased by 6.75% in the year 2018-19 over 2017-18.
- Net worth to paid up capital ratio shown an increasing trend from the year 2016-17 to 2018-19 by 67.34 to 71.87 which shows return that shareholders can receive in the company.
- There is an increase in operating cost and employee cost from 2016-17 to 2018-19 but major reduction in administrative cost was noticed during this period. This indicate the efficient administration of management of RRVPNLTD.
- It is clear from the analysis of financial results indicates that total profit after tax was reduced due to increase in total cost. Being a electricity company its aim is to supply electricity to consumer without taking abnormal gain as due to consumer benefit oriented organisation its profit was converted into loss due to major increase in operating cost, finance cost and employee benefit cost although administrative cost was being reduced by 106% in the year 2018-19 over 2017-18.
- Profit after tax was being reduced due to high increase in cost in comparison to revenue earned.

SUGGESTIONS

By cutting in operating cost, obtaining subvention and grants may decrease company's losses.

Although management of the company was very efficient which may be noticed by company's policies of maximum utilizing its funds in a planned manner. Company has in all material respects, an adequate internal financial control system over financial reporting and such internal financial controls over financial reporting were operating effectively as at march 31, 2019, based on the internal controls over financial reporting criteria established by the company considering the essential components of internal controls. Company was trying to cut its cost by using PPP mode and implementing restructuring plan these activities of management is very practical example to recover any company which is unable to overcome its losses.

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