



The Financial Performance of Indian Electrical Equipment Industry

KEYWORDS

Finance, Performance, Industry, Electrical Equipment

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ABSTRACT

The electricity sector is being a sunrise sector across the entire developing countries.

This sector sells cables, switchgears, transformers and other large electrical products.

This study is based on the secondary data obtained from the official directory and database of the Centre for Monitoring the Indian Economy (CMIE) namely 'PROWESS' and Capitaline data base. The sample covers manufacturing companies listed in BSE 500 index. In addition journals, books, newspaper and internet information are the supportive data used in this study. Profitability is studied through ratio analysis and using various statistical tools like correlation, mean, standard deviation and co-efficient of variation. This industry plays a vital role in the development of an Indian economy. The efficient performance of this industry will help to improve the profitability position which in turn avoids the hindrance in supply of equipments.

INTRODUCTION

It is widely recognised now that the next boom of capital appreciation in medium term in India will be driven by the power and capital goods sector. India is one of the leading consumption of power in the world. The electrical equipment industry is facing a number of challenges which, if addressed by all the stakeholders, can further accelerate the growth process and contribute significantly to reducing the power demand-supply gap in the country. Some of the major challenges include the upwards volatility in raw material, especially metal, prices, lack of standardisation of product specifications for T&D equipment across different utilities, and a lack of appropriate planning leading to bunching of orders by utilities resulting in sub-optimal utilisation of available domestic manufacturing capacity.

OBJECTIVE OF THE STUDY

The main objective of the study is to analyse the solvency and profitability of Indian Electrical Equipment Industry.

SCOPE OF THE STUDY

The scope of the financial performance of Electrical equipment industry is evaluated through profitability. The analysis is based on accounting data.

METHODOLOGY

Secondary data used in this study is fully based on the financial statement of the Electrical industry.

STATISTICAL TOOLS

The tools used for the study are

- Ratios
- Mean
- Standard deviation
- Co-efficient of variation
- Correlation analysis

LIMITATIONS OF THE STUDY

- Statistical tools used in this study have its own limitations
- Profitability is alone studied
- Limited number of industries is used in this study.

REVIEW OF LITERATURE

Sudershan Kuntluru and Mohd, Akbar Alikhan (2009)¹ undertook a study entitled "Financing Pattern of Foreign and Domestic-owned Pharmaceutical companies in India" The

researchers have observed a significant difference between the financing patterns of domestic and foreign-owned companies in Pharmaceutical Industry.

Jayasubramanian P (2010)² has made an attempt on "A study on the financial performance of selected Pharmaceutical companies in India" and he suggested that the financial performances of the companies under study were satisfactory. The companies having large capital and making higher sales are yielding more profit than the other companies. He further suggested that the company has to perform and it has to invest more capital and also do more sales.

Maheswari S (2010)³ in her study about financial performance of Paper Industry in India suggested that industry has to go for plantation programs for self-sufficiency in raw materials and it should practice odd-watching of neighbouring countries progress regarding pricing strategies and quality of paper supplied by them. She further identified and suggested that majority of plants are not fully utilized, to do so good replenishment technique should be practiced. Effective planning and control techniques will push down the operating costs.

Rajendran and Nagarajan (2010)⁴ in their research work entitled "A study on Solvency Position of LIC of India" have intended to evaluate the solvency position of LIC. The researchers have observed that correlation analysis revealed a positive correlation between the equity share capital and total current liability in firm during the study period. The analysis reveals that LIC proportionally distributed its profit to equity share capital as well as to liabilities, which vary due to the needs of the company. The analysis has found that there is more variation in current liabilities due to heavy competition.

Vadivel C (2010)⁵ has made a study on the financial and operating performance of selected Indian industries in the liberalized economic environment which had provided many valuable facts to the Industrial world. The researcher had made trend analysis, profitability analysis, and productivity analysis and pointed out that the industries can concentrate more on cost control and Economic production.

Financial performance of Electrical Equipment Industry-Selected Companies from BSE 500 A solvency and Profitability ratio is an aid to analyse the financial performance of an Electrical Equipment Industry.

The ratios are

- Current ratio (CR)
- Liquid ratio (LR)
- Debt Equity (DE)
- Net profit ratio (NPR)
- Return on assets (ROA)
- Return on equity (ROE)
- Return on Net worth (RON)

Table: 1
Solvency and Profitability ratio of Selected Electrical Equipment Companies

S. No	Company Name	Summary Statistics	CR	LR	DE	NPR %	ROA %	RON %
1	ABB Ltd	Mean	1.47	1.33	0.38	6.61	8.10	18.07
		SD	0.13	0.09	0.55	1.34	2.18	6.64
		CV	11.3	14.7	0.69	4.93	3.72	2.72
2	Amara Raja Batt.	Mean	2.6	2.0	6.0	11.4	12.0	20.2
		SD	0.5	0.4	8.3	8.0	8.0	14.5
		CV	5.6	4.8	0.7	1.5	1.5	1.4
3	BHEL	Mean	2.36	1.42	10.34	4.08	3.39	7.83
		SD	0.83	0.49	7.36	4.0	3.52	7.9
		CV	2.83	2.9	1.4	1.01	0.96	0.99
4	Bajaj Electrical	Mean	1.78	1.34	11.81	2.09	3.64	11.53
		SD	0.17	0.11	5.36	1.97	3.36	16.45
		CV	10.59	11.7	2.2	1.06	1.08	0.88
5	Bharat bijilee	Mean	1.63	1.13	4.63	4.67	7.03	18.4
		SD	0.21	0.17	1.55	5.4	8.18	21.52
		CV	7.59	6.68	2.98	0.86	0.85	0.85
6	Cromptons greaves	Mean	1.68	1.31	7.31	2.91	5.18	11.7
		SD	0.36	0.22	4.55	4.87	6.99	19.84
		CV	4.56	5.87	1.6	0.59	0.74	0.58
S. No	Company Name	Summary Statistics	CR	LR	DE	NPR %	ROA %	RON %
7	EMCO	Mean	2.74	2.06	17.81	4.68	3.96	9.95
		SD	0.48	0.33	7.93	3.00	2.98	5.68
		CV	5.67	6.26	2.24	1.55	1.32	1.74
8	Finolex cables	Mean	6.39	5.14	7.31	9.06	6.72	8.28
		SD	2.72	2.63	2.86	5.95	5.24	5.91
		CV	2.34	1.96	2.55	1.52	1.28	1.39
9	Havells India	Mean	2.59	1.64	7.88	5.41	9.06	22.81
		SD	0.96	0.79	7.94	1.55	4.35	9.01
		CV	2.69	2.06	0.99	3.48	2.08	2.53
10	Overall	Mean	2.58	1.93	8.16	5.65	6.56	14.30
		SD	1.57	1.24	4.87	2.96	2.86	5.58
		CV	1.71	1.55	1.67	1.9	2.29	2.56

Complied and computed from CMIE database

Table 1 reveals the solvency and profitability position of selected Electrical equipment companies and overall position of this sector for the study period from 1997 to 2012. Solvency is explained with current ratio, liquid ratio and debt equity ratio. The profitability is explained with net profit ratio,

return on assets and return on net worth.

Current Ratio

The relationship between current assets and current liabilities is expressed in the current ratio. Current assets is more (2.58) than current liabilities (1). It indicates that electrical Equipment industry is sufficient to meets its short term liabilities. Lesser the co-efficient of variation indicates its more uniformity in solvency position. Finally it studied that Electrical Equipment sector is good in its short term solvency position.

Liquid Ratio

The proportion of liquid assets to current liabilities is expressed in liquid ratio. Liquid asset are 1.93 to current liabilities 1.00. It indicates that liquidity position of Electrical Equipment sector is good throughout the fifteen years of the study period.

Debt-Equity Ratio

The relationship between outsiders fund and internal funds is an aid to determine the long term solvency position. Outsiders fund is more (8.16) than internal funds. It is indicated that long term solvency position is danger in Electrical Equipment sector.

Net Profit Ratio

The percentage of net profit after interest and tax to net sales is expressed in net profit ratio. The overall net profit is less (8.16%) in Electrical Equipment sector. It clearly exhibits that majority of the profit is absorbed by interest to outsiders. Profitability position is not so good in Electrical Equipment sector.

Return on Assets

The relationship between return and total assets is expressed in percentage. It indicates that the Electrical Equipment sector revived the return 6.56% from total assets. It is not so good. It reflects that this sector is not getting at least 25% return from total assets.

Return on Net Worth

The percentage of return to net worth is an important key ratio to the shareholders to determine their profitability position. The Electrical Equipment sector is getting better return from net worth than assets. The return from net worth is 14.30%. This is also not so good. It indicates that this sector will face difficulties in raising share capital.

SUGGESTIONS

- Elctrical Equipment industry should reduce its debt.
- The profitability postion should be improved by increasing sales.
- Proper power generation in India will boost up the instry in high level.

CONCLUSION

Latest world scenerio indcates that a country became a deveopled one, only when it satisfies its people in providing all infrastructure facilities at a cheapest cost. Electricity is the prime infrastructure. Government should take steps in military action in generating powr which will automatically boost up the Electrical Equipment industry.

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