Research Paper Management

A Study on Financial Performance of A Public Sector Under Taking with Special Reference to Neyveli Lignite Corporation Ltd. – Neyveli, Tamilnadu

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ABSTRACT

Finance is the life blood of every organization. Finance act as a fulcrum to activate the operating and financial efficiency of every company. The efficiency can be judged with analysis made on financial statement. Financial performance analysis is made on a known Public sector under taking Neyveli Lignite Corporation Ltd to assess the operating and financial efficiency of the corporation. Ratios of solvency, profitability and activity have been used to assess the performance. In this present study it is proved that the corporation is sound in its efficiency.

Keywords : Share holders fund, Debt, solvency, Return etc.

1.1 Introduction:

Financial performance analysis is method of determining the operating and financial efficiency of a firm from available accounting and financial statements. The present study made to assess the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way and ensuring enough returns to the shareholders. Through a careful analysis of its financial performance, the organization can identify opportunities to improve the performance of the department, unit or in organizational level. In this context researcher has undertaken an analysis of financial performance of a public sector under taking and its involvement in national development.

1.2 Objectives of the study

The main objective of the study is to assess the overall financial performance of selected public sector under taking. More specifically,

- to assess the profitability position
- to evaluate the short-term and long-term solvency,
- to know the efficiency of financial operations and
- to analyze the contribution of the corporation under study to its share holders.

1.3 Methodology

The present study covers only one public sector under taking namely Neyveli Lignite Corporation Limited.(NLC. Ltd), Neyveli and it have been selected on a convenient basis. The study has been under taken for a period of 5 years from 2008-2009 to 2012- 2013. To analyse the financial performance of interms of profitability, solvency, operational and financial activity, various accounting ratios has been used. To justify the analysis Altman Z- Sore is applied.

1.4 Limitations of the study

The following are the limitations of the study. The study covers only 5 years period i.e. 2009 to 2013 for justifying disinvestment made on NLC Ltd. The Secondary data used in the study has been taken from the published annual reports only. As per the requirement and necessary, some data have been grouped and sub grouped.

1.5 Analysis and Interpretation

With help of various accounting ratios any firms liquidity, solvency, efficiency and profitability can be assessed effectively. The analysis was made as follows:

1.5.1. Profitability Analysis

Table-1.5.1. Analysis on profitability

	2009	2010	2011	2012	2013	mean	Growth rate	Annual growth rate(%)
Operating Margin (OPM) (%)	22.82	32.03	37.74	35.69	35.94	32.84	0.57	11.50
Return on Capital Employed (ROCE) (%)	8.83	11.17	11.17	10.32	10.28	10.35	0.16	3.28
Return on Net worth (RONW) (%)	8.72	12.20	11.67	11.77	11.29	11.13	0.29	5.89

Sources: Annual reports of NLC Ltd. From 2008-2009 to 2012- 2013.

Table 1.5.1. analyses the profitability position of the company .It uses Operating margin ratio which reflects profit earned by the company, Return on capital employed which indicates what the company have earned for its share holders and Return on Net worth which notes the profit earning capacity .From the analysis it is very clear the corporation under study is performing better.

1.5.2. Solvency Analysis:

Table-1.5.2. Analysis of solvency

	2009	2010	2011	2012	2013	mean	Growth rate	Annual growth rate(%)
Current Ratio	2.65	2.56	3.04	3.17	3.78	3.04	0.43	8.53
Quick Ratio	2.46	2.39	2.85	2.97	3.46	2.83	0.41	8.13
Debt Equity	0.428	0.395	0.372	0.351	0.324	0.37	-0.24	-4.86
Proprietary Ratio	0.56	0.57	0.61	0.63	0.66	0.61	0.18	3.57

Sources: Annual reports of NLC Ltd. From 2008-2009 to 2012- 2013.

Table 1.5.2. analyses the short term and long term solvency

position The ratios like current ratio and quick ratio indicate the liquidity or short term solvency position of the company they are well above the standards. The debt equity and proprietary ratio reflects the long term solvency position of the company there is steady decline in debt equity ratio the reason behind is increase in share holders fund by way of increasing retained earnings and low increase in debt fund.

1.5.3. Activity Analysis:
Table-1.5.3. Analysis of Activity

	2009	2010	2011	2012	2013	mean	Growth rate	Annual growth rate(%)
Stock turnover ratio	6.81	7.93	7.03	9.75	9.40	8.18	0.38	7.61
Debtor turnover ratio	6.71	3.44	1.83	1.66	1.50	3.03	-0.78	-15.53
Working capital Turnover ratio	0.76	0.87	0.70	0.91	0.99	0.85	0.30	6.05

Sources: Annual reports of NLC Ltd. From 2008-2009 to 2012- 2013.

Table 1.5.3. Analyses the operating efficiency. It is analyzed using stock turnover ratio; Debtor turnover ratio and working capital turnover ratio. Except Debtor turnover ratio (DTOR) the ratio proves satisfactory the DTOR shows a decreasing trend because most of the customers are government sector because of delay in payment the ratio tends to decrease.

1.5.4. Capital Structure Analysis:
Table-1.5.4. Capital Structure Analysis

	2009	2010	2011	2012	2013	Mean	Growth Rate	Annual Growth Rate (%)
Capital Gearing Ratio	0.428	0.395	0.372	0.351	0.324	0.37	-0.24	-4.86

Sources: Annual reports of NLC Ltd. From 2008-2009 to 2012- 2013.

Table. 1.5.4. analyses the financial leverage of the company for the analysis capital gearing ratio is used. Form the analysis it is revealed the company is low levered. Own fund is more compared to borrowed fund. The Centre had on 2nd August 2013 sold 3.56 per cent stake of Rs.5.97 crores shares in the Tamil Nadu -based company through an Institutional Placement Programme (IPP) at a price band of Rs. 58-60 a share, which garnered Rs. 360 crores to the exchequer.

1.5.5. Performance towards its share holders
Table-1.5.5. Performance towards its share holders

	2009	2010	2011	2012	2013	mean	Growth rate	Annual growth rate (%)
EPS	4.89	7.44	7.74	8.41	8.70	7.44	0.78	15.58
DIV	20.00	20.00	23.00	28.00	28.00	23.80	0.40	8.00
BV	56.10	60.95	66.29	71.46	77.06	66.37	0.37	7.47
MP	77.75	154.95	110	87.55	70.4	100.13	-0.09	-1.89

Sources: Annual reports of NLC Ltd. From 2008-2009 to 2012- 2013.

Table. 1.5.5. analyses NLC. Ltd., performance towards its shareholders Earnings Per Share(EPS). Dividend Payout Ratio(DIV) Except the Price level changes in the market the other factors proves fruitful.

1.5.6. Analysis for the test of bankruptcy.
Frame work of the ratio:
There is different number of ratios. The Z score takes into account only minimum number of ratios. It has different formula to judge Public manufacturer, private manufacturer and private general firm. Now we will consider z-score for a Public Sector Manufacturer the frame work of Z score for such companies is

Z = 1.2 Ratio A +1.4 Ratio B + 3.3 Ratio C + 0.6 Ratio D + Ratio E

Where the Z score is applicable in the appraising the companies and also the above formula is applicable for public sector manufacturing companies only. Here are the valid points on evaluation of various ratio which covers the justification are

Ratio A - Working capital / total assets - This measure liquidity.

Ratio B- Retained earnings/ Total Assets - This measure reinvested earnings.

Ratio C-EBIT/Total Assets - This measures the Profitability the profitability of the Company.

Ratio D- Market values of Equity/ Book Value of total liability- This measures the firms leverage.

Ratio E- Sales / Total assets – This measures the sales generating ability of the firm Assets.

Table-1.5.6.

Ratios	2008	2009	2010	2011	2012	2013
Ratio A - Working capital / total assets	0.28	0.28	0.26	0.29	0.28	0.30
Ratio B- Retained earnings/ Total Assets	0.52	0.46	0.48	0.52	0.54	0.58
Ratio C- EBIT / Total Assets	0.10	0.06	0.09	0.09	0.10	0.10
Ratio D- Market Capitalization / Book Value of total liability	1.25	0.78	1.55	1.10	0.88	0.70
Ratio E- Sales / Total assets	0.21	0.20	0.23	0.19	0.26	0.29

Sources: Annual reports of NLC Ltd. From 2008-2009 to 2012- 2013.

Table 1.5.6 reflects various values for the respective ratios as explained above except Ratio D which represents the relationship between Market Capitalization to Book Value of total liability , the other ratios shows an increasing trend.

1.5.7. Prediction of Bankruptcy
Table-1.5.7. the Z-Score

	2008	2009	2010	2011	2012	2013
Z- Score	2.351664	1.838253	2.44512	2.223319	2.226602	2.225015

On applying the various values from the Table1.5.6 in the formula of finding Z-Score we get the values as shown Table. 1.5.7. it prediction is when the Z Score is 3.00 and above it indicates that bankruptcy is not likely, but a score of 1.8 or below is a strong indicator that bankruptcy is likely . In this analysis the corporations under study is away from bankruptcy.

Findings
From the above analyses the corporation under study needs to concentrate on the following:

Can mobilize more from outsiders for expansion as debt equity ratio is decreasing. (Debt/Equity)

As the demand for power is more compared to other years and growth in demand is also increasing the corporation can think of more projects.

The reduction in debtor turnover ratio reflects that the company encourages cash sales.

The Market Price of the Corporation under study shows a Bearish trends though it is in line with the market the company need to give due attention on such trend.

The test for Bankruptcy using Altman Z Score reveals that the company is away from threat of bankruptcy.

Conclusion
It can be conclude from the analysis that the corporation under study is sound in financial performance. The corporation can utilize the outsides fund as well for expansion and modernization. As the corporation is sound in its operating efficiency it can concentrate on diversified activity in generating electricity as lignite has radiations which is harmful to human mankind. On increasing the production of electricity many of the villages will get electricity as because still 99,287 villages in India need to be electrified, which will enlighten their life. No wonder may be we may identify a scholar.

Annexure
(Rs in Lakhs)

Year/ Items	2008	2009	2010	2011	2012	2013
Inventory	44805	53585	50296	49171	50619	68372
Debtors	21883	78144	161162	220239	364703	380027
Cash and bank	474956	545220	482363	442073	332910	286664
Other current asst	15967	18947	16456	17748	17579	16224
loan and advance	30764	59811	58159	47508	38725	61027
Current Asset	588375	755707	768436	785212	814856	822634
Current Liability	183404	285156	300319	258405	276095	235744
Absolute liquid Assets	543570	702122	718140	736041	764237	754262
Working capital	404971	470551	468117	526807	538761	586890
Fixed Asset	374367	862504	914728	947200	964788	978185
Total Asset	1427089	1704993	1797565	1834200	1903597	1951227
Total liability	1427089	1704993	1797565	1834200	1903597	1951227
Long term Debt	279068	405770	407736	416656	423513	420350
Share holders fund	904028	946923	1032467	1117453	1203989	1295133
Market Value of Equities	2093362	1300225	2599611	1845481	1468835	1181108
Retained Earning	736257	779152	864696	949682	1036218	1127362
Sales	298105	335491	412103	349808	486685	559007
EBIT	143275	106187	163527	168455	198389	204765

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