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A Study on Financial Performance Analysis on APSPDCL

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ABSTRACT

The ratio analysis is one of the most powerful tools of financial analysis. It is used as advice to analyze and interpret the financial health of enterprise. With the help of ratios that the financial statements can be analyzed more clearly and decisions made from such analysis. Financial analysis is the process of identifying the financial strengths and weakness of the firm y properly establishing relationship between the items of balance sheet and the profit and loss account. There are various methods or techniques used inanely zing financial statements.

MEANING OF RATIO ANALYSIS

The ratio analysis is one of the most powerful tools of financial analysis. It is used as advice to analyze and interpret the financial health of enterprise. With the help of ratios that the financial statements can be analyzed more clearly and decisions made from such analysis. Financial analysis is the process of identifying the financial strengths and weakness of the firm y properly establishing relationship between the items of balance sheet and the profit and loss account. There are various methods or techniques used in analyzing financial statements. By the use of ratio analysis one can measure the financial conditions of a firm and can point out whether the conditions is strong, good, questionable or poor. Analysis and of financial statement with the help of ratio is termed as Ratio analysis.

IMPORTANCE OF FINANCE

The importance of financial management cannot be denied. In every organization where is involved, sound financial management is indispensable Financial management helps a firm in optimizing the output from a given input of funds. It also helps a firm in monitoring the effective employment of funds, It also helps a firm in monitoring the effective employment of funds in fixed assets as well as in current assets. Financial management helps in profit planning, capital budgeting, controlling inventories, etc. Financial management is important even for non-profit making organizations.

INDUSTRY PROFILE

Power is an important tool for economic growth of the country. Power is vital for every form of human activity- domestic, agriculture and industrial infrastructure such as telecommunication and transport. The demand for electricity in India is enormous and is growing steadily. This growth has been slower than country's economic growth. The big challenge in front of the power industry is to balance the demand and supply of electricity. There exists a link between economic growth and per capita consumption of electricity.

Installed capacity

India's power sector has shown remarkable growth from about 1,400 MW in 1947 to 134716.7MW by June, 2007 inclusive of all the three Sectors (Central, State, Private Sectors)**.**

Thermal Power Plants:

Current installed base of Thermal Power is **86,936 MW** which comes to 64.5% of total installed base.

Hydro Power Plants:

India was one of the pioneering states in establishing hydro-electric power plants. The power plant at Darjeeling and Shims a (Shivanasamudra) was established in 1898 and 1902 respectively and is one of the first in Asia. Current installed base of Hydro Power is **33,486 MW** which comes to 24.8% of total installed base.

Electricity ACT 2003:

Electricity Act 2003 has been enacted. The objective is to introduce competition, protect consumer's interests and provide power for all. The Act provides for National Electricity Policy, Rural Electrification, Open access in transmission phased open access in distribution, mandatory SERC's license free generation and distribution, power trading, mandatory metering and stringent penalties for theft of electricity.

It a comprehensive legislation replacing Electricity Act 1910. Electricity Supply Act 1948 and Electricity Regulatory Commission Act 1998. The aim is to push the sector on to a trajectory of sound commercial growth and to enable the States and the Centre to move in harmony and coordination.

Company profile

AP Power sector reforms envisage creation of Distribution Companies Government undertakings for the first few years and privatization later on. The Andhra Pradesh Gazette No.37 published by the Government of Andhra Pradesh on Friday the 31st of March 2000 declared formally formation of Distribution Companies. In this process, Andhra Pradesh Southern Electricity Distribution Company Limited (APSPDCL) was formed for the following six districts of Andhra Pradesh. The Corporate Office and Headquarters of APSPDCL are at Tirupati City .

Back ground and inception of company:

APSPDCL was formed in April 1st ,2000 to serve Krishna, Guntur, Prakasam, Nellore, Chittoor and Kadapa districts with a vision to ' become an efficient utility supplying reliable and quality power, promoting economic development and being self-reliant commercially

Board of directors:

Sri P. Gopal Reddy was elevated to the post of Chairman & Managing Director of APNPDCL on 23 may, 2002 after a brief stint as Director (operation & HRD) of APNPDCL

Sri A. Venkata Reddy, has taken charge as Director (Finance) of Southern Power Distribution Company of A.P. Ltd., on 20th Aug 2007.

Sri T.H.N.S. Damodora Rao., has taken charge as Director Purchases of APSPDCL., on 5th Jan 2005.

Recognitions awarded to APSPDCL:

- SPDCL's efforts have been noted and appreciated by external agencies too.
- SPDCL's achievement in improving the collection efficiency has been lauded by Honorable Chief Minister of Andhra Pradesh
- SPDCL's High Voltage Distribution System (HVDS) program has been selected as a
- Best practice among the energy utilities by the Central Electricity Authority , New Delhi

RESEARCH METHODOLOGY

NEED FOR THE STUDY

Financial statements are prepared for the purpose of presenting a periodical review of report by the management in business and result achieved during the period under review. It reflects a combination of recorded facts accounting conventions and personal judgments.

Financial analysis helps in assessing the financial position and profitability of the concern.

OBJECTIVES OF THE STUDY

- To analyze the liquidity position of the APSPDCL .
- To analyze long term solvency position of the APSPDCL.
- To analyze the profitability position of the APSPDCl .
- To analyze the operational efficiency of the APSPDCL.
- To make suggestions for the better financial performance of the company.

SCOPE OF THE STUDY

This study aims to analyze the financial performance through the Ratio analysis and understand the efficiency and effectiveness of the company.

First the study is confined to financial performance of the APSPDCL. Second the study based on the annual reports of the company for a period of 5 years from 2017-18 to 2021-22, The reason for restricting the study to this period is due to Time constraints.

METHODOLOGY OF THE STUDY

RESEARCH DESIGN

Secondary data

Data collection

Researchers use data analysis to combine relevance with purpose and economy. Research design is the basis for identifying research questions.

- The company's income statement
- The company's Balance sheet
- Data extracted from company records

Data analysis

The data for this project will collect through Secondary data . Data will be collected from the company's financial statements.

Tools Used

- Ratio analysis
- Graphs

LIMITATIONS OF STUDY

- Time is the major limitation for my study i.e. the study conducted on financial reports. Based on 5 years we cannot determine the in depth financial position from 2017-2018 to 2021-22.
- Window dressing (false results may be possible on incorrect account of data).
- The study is based on the past data no prediction for future is possible .

DATA ANALYSIS

LIQUIDITY RATIOS :

CURRENT RATIO

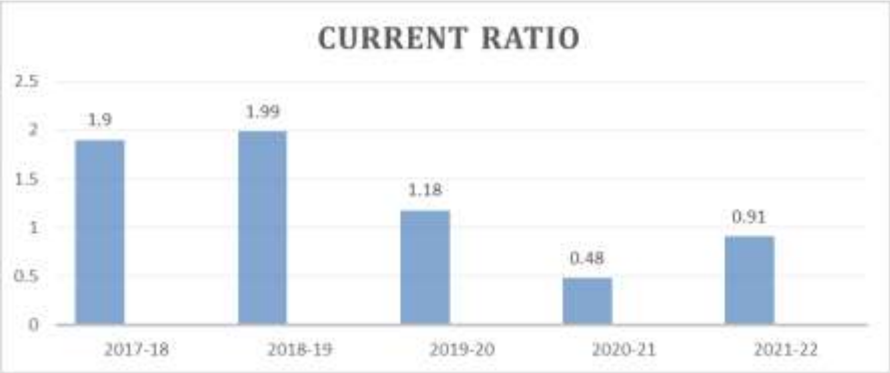
The current establishes the relationship between the current assets and current liabilities. The object of the computing is this ratio is to measure the ability of the firm to meet its short-term financial solvency of a firm.

CURRENT RATIO= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

TABLE

Years	Current assets	Current liabilities	Current ratio
2017-18	41361575368	21706387575	1.90
2018-19	52751397625	26459672035	1.99
2019-20	67119917333	56872964240	1.18
2020-21	35334021604	73308431242	0.48
2021-22	30951139201	33789612360	0.91

GRAPH



INTERPRETATION:

The current ratio from 2017-2018 TO 2021-2022 are 1.90,1.99,1.18,0.48 and 0.91 respectively . The company is not maintained standard ratio in the all the years expect 2018-2019 . It shows decreasing trend

4.2 QUICK RATIO:

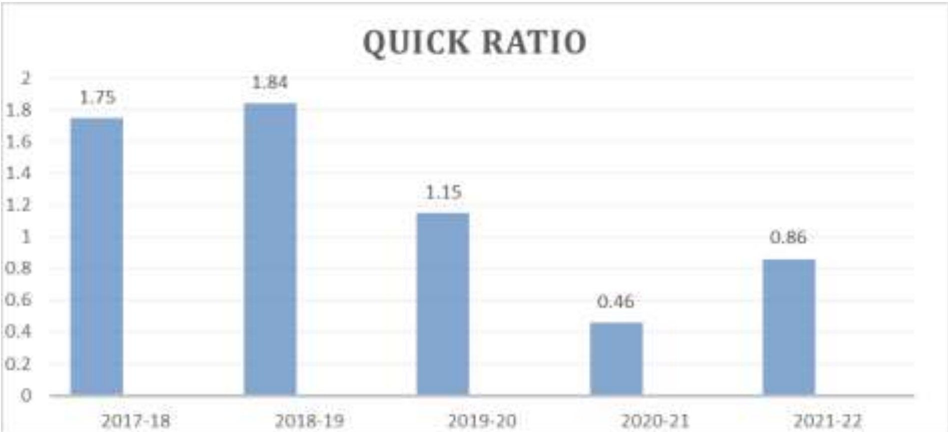
Quick ratio also called acid-test ratio, establishes a relationship between quick, or liquid, assets and current liabilities. An asset is a liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

TABLE

Years	**Quick Asset**	**Current Liabilities**	**Quick Ratio**
2017-18	38168524971	21706387575	1.75
2018-19	48867581979	26459672035	1.84
2019-20	65913165649	56872964240	1.15
2020-21	33965147471	73308431242	0.46
2021-22	29361776573	33789612360	0.86

GRAPH



INTERPRETATION:

Quick ratio as per industrial norms is 1:1. 2017-2018 TO 2021-2022 are 1.75,1.84,1.15,0.48 and 0.86 respectively the company is not maintained standard ratio in the year 2020-2021 and 2021-2022 . it shows fluctuating trend

DEBT RATIO:

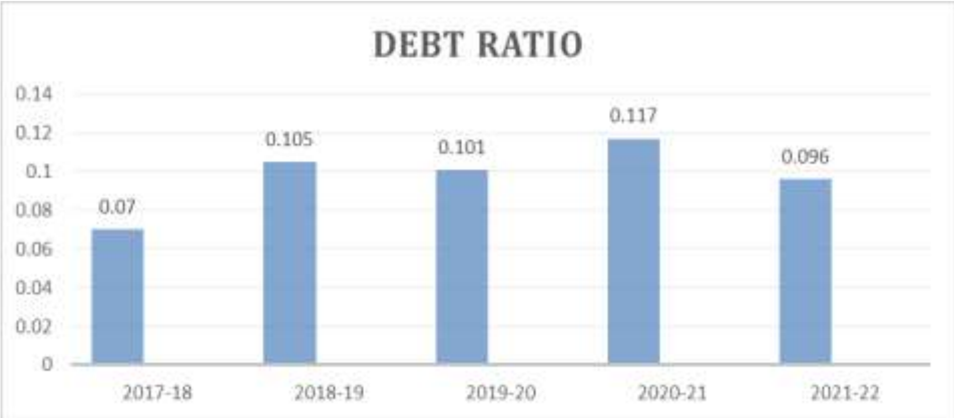
The term debt ratio refers to a financial ratio that measures the extent of a company's leverage. The debt ratio ratio is defined as the ratio of total debt to total assets ,expressed as a decimal or percentage . it can be interpreted as a proportion of a company's assets that are that are financed debt .

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Debt} + \text{Net Worth}}$$

TABLE

Years	Total Debt	Total Net Worth	Debt Ratio
2017-18	596485472	55782292657	0.070
2018-19	35864725	61775379123	0.105
2019-20	65824596	47371219819	0.101
2020-21	526845685	3944237954	0.117
2021-22	284576954	46239061185	0.096

GRAPH



INTERPRETATION:

The debt ratio from 2017-2018 TO 2021-2022 are 0.007,0.105,0.101,0.117 and 0.096 respectively . The company is not maintained standard ratio 1:1 the company solvency position is not good . it shows fluctuating trend

INVENTORY TURN OVER RATIO:

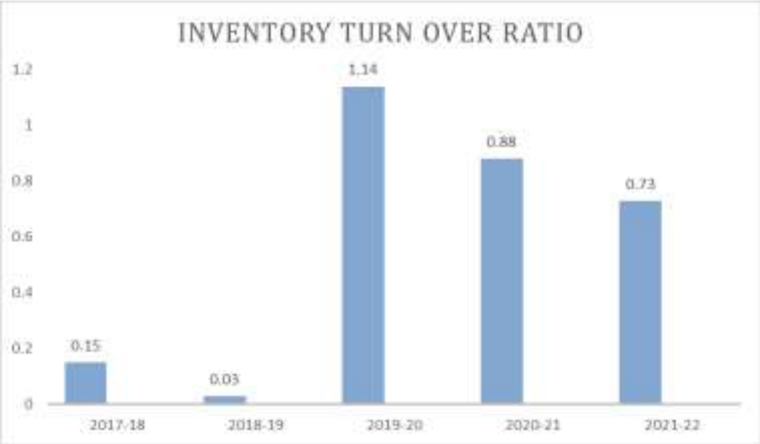
It indicates whether inventory is efficiently used or not the purpose is to see whether only the required minimum funds have been locked up to inventory. This ratio implies number of times stock has been turned over during a period and evaluates efficiency with which a firm is able to manage its inventory.

Usually a high inventory turn over ratio indicated efficient management of inventory. A low inefficient management of inventory indicating over investment in inventories, debt business, poor quality of goods, stock accumulation and low profit as compared to total investment.

TABLE

Year	Sales (Rs. In lacks)	Inventory (Rs. In lacks)	Inventory Turn Over Ratio
2017-18	479054865	3193050797	0.15
2018-19	116902452	3883815646	0.03
2019-20	1377289552	1206751684	1.14
2020-21	1209467498	1368874133	0.88
2021-22	1167371368	1589362628	0.73

GRAPH



INTERPRETATION:

The inventory turn over from 2017-2018 TO 2021-2022 are 0.15,0.03,0.14,0.88 and 0.73 respectively . The company is not maintained standard ratio 1:1 expect 2019-2020 . it shows fluctuating trend .

NET PROFIT RATIO:

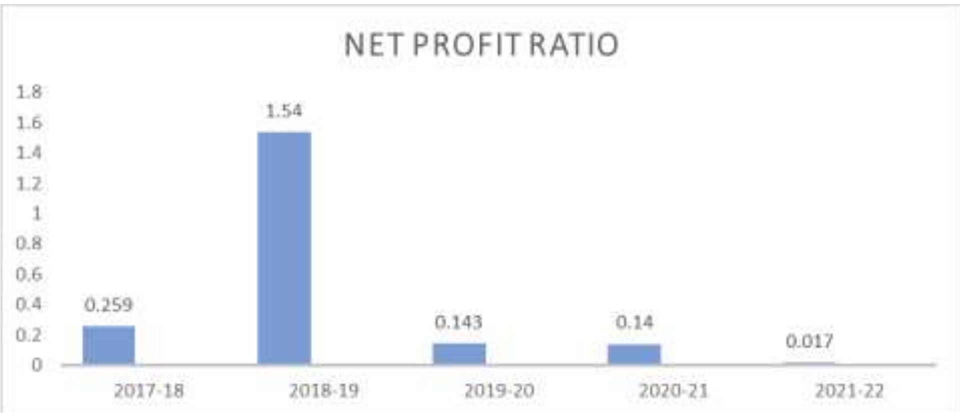
Net profit ratio establishes the relationship between net profit (after tax) and sales indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm. This ratio is the over all measure of firm profitability and is calculated as

$$\text{Net Profit Margin } = \frac{\text{Profit After Tax}}{\text{Sales}}$$

TABLE

Years	**Profit After Tax**	**Sales**	**Net Profit Ratio**
2017-18	124348263	479054865	0.259
2018-19	180573648	116902452	1.514
2019-20	197727265	1377289552	0.143
2020-21	169639542	1209467498	0.140
2021-22	20628868	1167371368	0.017

GRAPH



INTERPRETATION:

Net Profit margin ratio from 2017-2018 TO 2021-2022 are 0.0259,1.54,0.143,0.014 and 0.017 respectively . The company is not maintained standard ratio expect 2018-2019. it shows decreasing trend

FINDINGS

- The current ratio from 2017-2018 TO 2021-2022 are 1.90,1.99,1.18,0.48 and 0.91 respectively . The company is not maintained standard ratio in the all the years expect 2018-2019 . It shows decreasing trend
- The Quick ratio as per industrial norms is 1:1. 2017-2018 TO 2021-2022 are 1.75,1.84,1.15,0.48 and 0.86 respectively the company is not maintained standard ratio in the year 2020-2021 and 2021-2022 . it shows fluctuating trend
- The debt ratio from 2017-2018 TO 2021-2022 are 0.007,0.105,0.101,0.117 and 0.096 respectively . The company is not maintained standard ratio 1:1 the company solvency position is not good . it shows fluctuating trend
- The inventory turn over from 2017-2018 TO 2021-2022 are 0.15,0.03,0.14,0.88 and 0.73 respectively . The company is not maintained standard ratio 1:1 expect 2019-2020 . it shows fluctuating trend .
- Net Profit margin ratio from 2017-2018 TO 2021-2022 are 0.0259,1.54,0.143,0.014 and 0.017 respectively . The company is not maintained standard ratio expect 2018-2019. it shows decreasing trend

SUGGESTIONS

- The company has to improve liquidity position to meet short term obligations efficiently to avoid excess investment in current assets reduce its current liabilities.
- The company has to improve solvency position to meet long term obligations efficiently to avoid excess investment in fixed assets reduce its long term liabilities.
- The company profitability position is not satisfactory so it should improve profitability by increasing its revenues and reduce its operating expenses.

CONCLUSION

It may be concluded that the firms overall financial performance has to be improved. Only Activity position of the company is utilized efficiently and Liquidity, Solvency and Profitability position of the company should manage effectively for future performance.

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