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Financial Performance of Bharat Heavy Electricals Limited

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ABSTRACT

The study was conducted on Bharat Heavy Electricals Limited (BHEL) which was one of the largest and Indian Government owned engineering and manufacturing enterprise. The study was conducted to identify whether there exists a difference in the company's last five years of operation and its performance. To analyze the company's overall financial performance ratio analysis is used to draw conclusion about the financial performance of the company in terms of profitability, liquidity and credit performance.

INTRODUCTION:

Finance is one of the most important aspects of a business. With huge funds, daily cash flows and continuous transaction, managing and monitoring all of the above turn necessary. Managing finance is influential when it comes to making decisions. Financial performance is the process of evaluating the common parts of financial statements to obtain a better understanding of firm position and performance. Financial performance enables the investors and creditors evaluate past and current performance and financial position, and to predict future performance.

STATEMENT OF THE PROBLEM:

Government and its agencies need financial information to regulate the activities of businesses, industries and to determine tax policy. They propose steps to formulate policies and regulations. Workers' interests are protected only by the union. Employee interests can be protected if the company's financial position is too strong. Therefore, they are interested in knowing the financial position of the company.

OBJECTIVES OF THE STUDY:

- To study the financial performance analysis of Bharat Heavy Electrical Ltd with available data.
- To know the profitability, efficiency of Bharat Heavy Electrical Ltd with the ratio analysis.

SOURCE OF DATA:

Secondary data means data collected by someone else earlier. Surveys, observations, experiments, questionnaire, personal interview, etc., The sources for secondary data are government publications, websites, books, journal articles, internal records.

PERIOD OF STUDY:

The research study was conducted to evaluate the financial performance of Bharath Heavy Electricals Limited for a period of 5 years from 2017-2022.

SCOPE OF THE STUDY:

The study aims at analyzing the profitability and overall performance of the company by using ratio analysis. Ratio analysis is an excellent tool to find out what went wrong or what the company is doing right; therefore, the company can take actions.

TOOLS FOR ANALYSIS:

- Ratio analysis
- Comparative balance sheet

LIMITATION OF THE STUDY:

- As most of the data collected are from secondary sources the accuracy is limited.

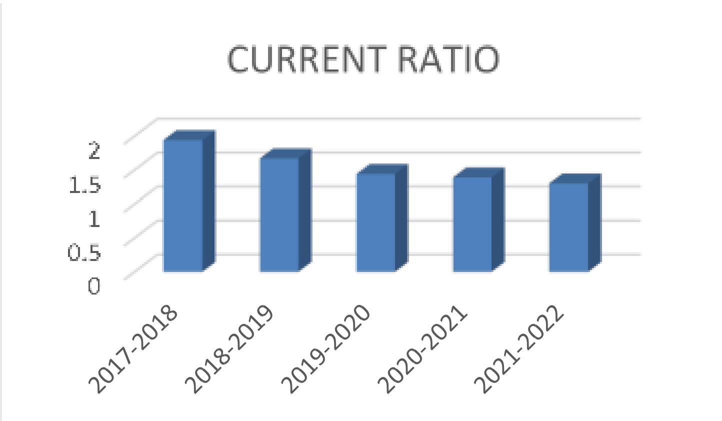
- The study was only based to Bharat Heavy Electrical Ltd so the results could not be generated on macro level.
- The analysis tool used in the study was financial statement analysis. Financial statement analysis and ratio analysis was only tool used and no other tool was used.

(OBJECTIVE 1) TO EXAMAINE LIQUIDITY POSITION OF THE COMPANY CURRENT RATIO :

Year	**Currents assets**	**Current liability**	**Current ratio**
2017	43188.39	22250.23	1.94:1
2018	38372.09	23030.27	1.67:1
2019	32703.53	22579.05	1.44:1
2020	28334.02	20321.65	1.39:1
2021	27861.98	21371.15	1.30:1

INTERPRETATION OF CURRENT RATIO:

From the above data, we can understand that the current ratio is steadily decreasing from the year 2017 to 2022.A ratio of 2:1 that is current assets double the current liabilities is considered satisfactory. In the year 2017-2018 the current ratio is 1.94. From the analysis it is derived that the current ratio decreased to 1.30 in the year 20212022. It shows that the company has less than 2:1 ratio which indicates that the liquidity position of the company is not good.

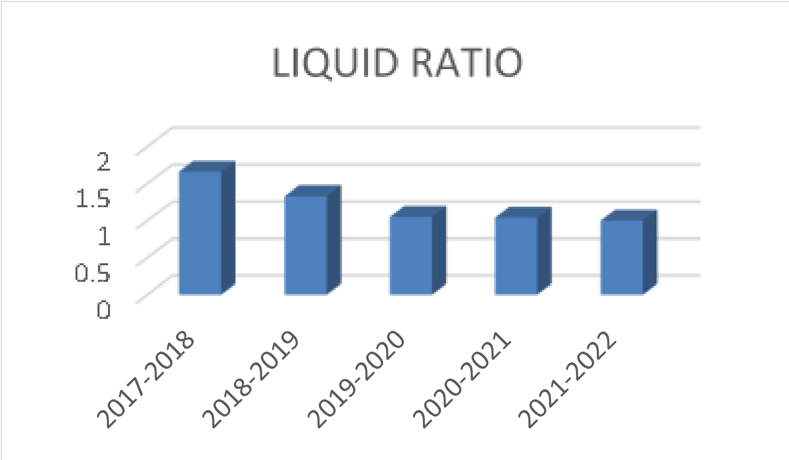


LIQUID RATIO:

Year	**Liquid assets**	**Current liabilities**	**Liquid ratio**
2017	36929.63	22250.23	1.66:1
2018	30574.8	23030.27	1.33:1
2019	23798.07	22579.05	1.05:1
2020	21142.79	20321.65	1.04:1
2021	21301.77	21371.15	1.00:1

INTERPRETATION OF LIQUID RATIO:

From the above table it reveals that liquid ratio shows a decreasing trend during the year 20172022[1.76-1.00] which shows a unfavorable position of the company. As per the rule of liquid ratio, quick assets should be equal to current liabilities that are ratio of 1:1 may be considered satisfactory. The liquid ratio is more than the normal in all the study year’s, hence the firm’s is controlling its stock position because there is linear relationship between the current ratio and liquid ratio.



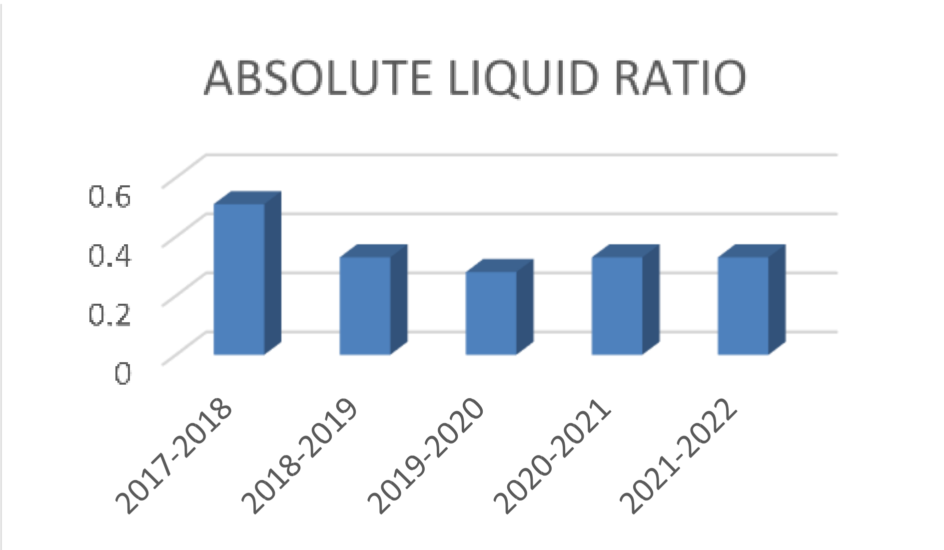
ABSOLUTE LIQUIDITY RATIO:

Year	**Cash and Bank balances +Current Investments**	**Current Liabilities**	**Absolute Liquid ratio**
2017	11291.18	22250.23	0.51
2018	7503.34	23030.27	0.33
2019	6418.56	22579.05	0.28
2020	6701.43	20321.65	0.33
2021	7153.69	21371.15	0.33

INTERPRETATION OF ABSOLUTE

LIQUIDITY RATIO:

From the above table, it is understood that the absolute liquid ratio was 0.51 in the year 20172018. It is derived from the analysis that the absolute liquid ratio has been decreasing from the year 2018-2019. From the year 2019-2020 onwards, absolute liquid ratio started decreasing slightly. A ratio of 0.5:1 or 1:2 may be considered satisfactory. From the above table it is clear that the absolute liquid ratio is satisfactory for the first two years of study and it is unfavorable for the remaining 3 years of study.



(OBJECTIVE 2) TO ANALYSE THE SOLVENCY POSITION OF THE COMPANY

PROPRIETARY RATIO

Year	Shareholders fund	Total assets	Proprietary ratio
2017	32601.08	63789.15	0.51:1
2018	31431.80	64431.05	0.48:1
2019	29181.21	60235.66	0.48:1
2020	26484.05	55701.23	0.47:1
2021	26971.16	56708.32	0.47:1

INTERPRETATION OFPROPRIETARY

RATIO:

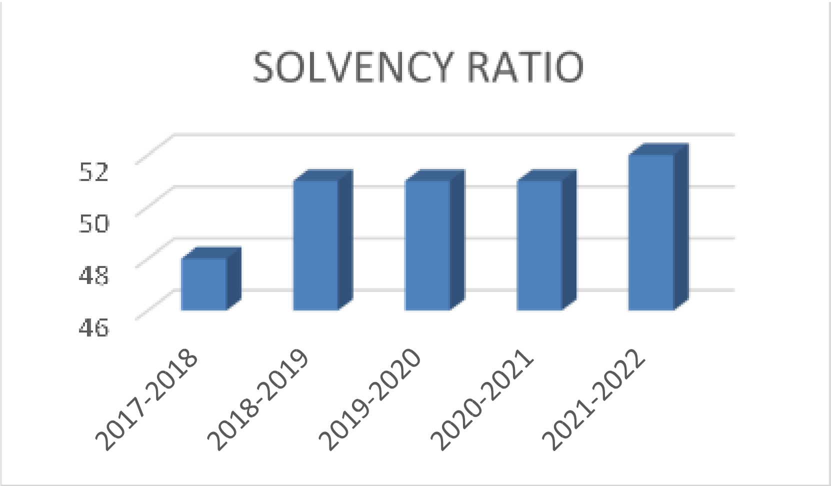
From the table, it is observed that the equity ratio from the year the 2017-2022 has been decreasing steadily. In the year 2017-18, proprietary ratio is 0.48. On the other hand, in the year 2022 the proprietary ratio is 0.47. The long-term solvency position of the company is not better, because the proprietary ratio is decreasing. This ratio indicates the extent to which the assets of the company can be lost without affecting the interest of the creditors.

SOLVENCY RATIO:

Year	Total Liabilities to outsider's	Total Assets	Solvency Ratio
2017	31054.45	63789.15	48%
2018	32999.25	64431.05	51%
2019	31188.07	60235.66	51%
2020	28935.76	55701.23	51%
2021	29737.16	56708.32	52%

INTERPRETATION OF SOLVENCY RATIO:

It is understood from the table that the solvency ratio tends to rise from the year 2017-18 and remains constant for the last three years. Solvency ratio is 48% in the year 2017-18 and it is 51% from the year 2018 to 2021 and in the year 20212022 there is 1 percent increase, In all the five years of study, the ratio of total liabilities to total assets is lower, hence we can conclude that the long- term position of the company is more satisfactory or stable.



FINDINGS:

- The current ratio of the company is decreasing every year that is 1.94, 1.67, 1.44,1.39 and 1.30 which indicates a continuous decrease in both the current assets and current liabilities. An overall liquidity position of the company is not satisfactory to meet the short- term obligations.
- The quick ratio also showed a decreasing trend in all the years of the study that is 1.66, 1.33, 1.05, 1.04, 1.00. The liquid ratio is more than the normal (1:1) in all the study year's, hence the firm's is controlling its stock position because there is linear relationship between the current ratio and liquid ratio.
- The absolute liquid ratio of BHEL has undergone many fluctuations. It started with a ratio of 0.51 in the year 2017-2018 and it fallen to 0.33 in the year 2021-2012.
- The proprietary ratio of BHEL is steadily in decreasing trend that is, 0.51, 0.48, 0.48, 0.47 and 0.47. This indicates that the long - term solvency position of the company is not good, and the company has relied much on external sources.
- The solvency ratio of the company tends to rise from the year 2017-18 and remained constant for last three years of study. In all the five years of study, the ratio of total liabilities to total assets are lower, hence we can conclude that the long- term position of the company is more satisfactory or stable.

SUGGESTIONS:

- Company should make efforts to utilize its fixed assets in an optimum manner.
- The company should adopt effective operation research techniques to reduce cost of production.
- The company should maintain enough reserves to expand the business.
- The current assets are of the company are maintained properly so that the company can make investments of its proprietor's funds to generate short term return.
- The company must try for maintenances of proper current assets to possess the short time solvency.

CONCLUSION:

The study conclude that the strengths and weaknesses of a firm helps the clients to decide maximum benefit to earned. According to this study company performance has been showing fluctuating and low profit during the period of study. This study mainly focuses the need for the company based on different ratio analysis from the financial statements of the company.