

A STUDY ON FINANCIAL PERFORMANCE ON HYDROPOWER INDUSTRY WITH SPECIFIC REFERENCE TO THREE SAMPLE COMPANIES IN NEPAL

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Abstract

Hydropower is most cost effective and most renewable energy sources. There are many renewable energies in the world but hydropower energy is one of the most important energy and also number 1 energy sources, it shall be more efficient for many more years. There are many types of energy sources hydropower they are: small hydropower, medium hydropower and large hydropower. In small hydropower no need for large storage reservoirs produces hydropower in small area with small equipment. But for large hydropower that required more equipment and more places to store electricity.

Today's global renewable technologies the positions of hydro power plant became more and more vital. It is the cost effective activity in this way electricity shall be provided to remote village area that is far from transmission. Other form of energy also required more demand in present situation. In present situation the human beings need electricity like basic needs.

BRIEF INTRODUCTION Hydropower Outlook in Nepal:

Hydropower industry is a growing sector with huge potential in Nepal. This industry is taken by all sectors of the country as the main catalyst for economic development of Nepal. Hydropower industry not only contributes in economic growth but it can also contribute in the socio-economic development of the country by the means of providing employment, ownership, royalty, infrastructure development etc. in the project affected regions. Government of Nepal has also shown keen interest in the development of this sector and has made it the most priority sector of the country. The government has come up with various schemes such as one-time grant, tax holiday, waiver on custom duty etc. The scarcity of energy in the country has made all of us to realize that to be self-reliant in sustainable, renewable and alternate source of energy is very important for Nepal and hydropower is the answer for this. The government had declared "Energy Scarcity" in the country since decade and promotes the development of hydropower projects with various schemes to compensate the projects under construction and also to attract more investment in this sector.

Beside Nepal Electricity Authority (NEA), there are various other Independent Power Promoters (IPP's) who are developing hydropower in Nepal. The contribution of private sector is immense in the hydropower development of the country. At present there are various hydropower being constructed in the country both from government and private sector. As per the information provided in the website of Department of Electricity Development (DOED), Ministry of Energy it has provided generation license for 190 hydropower projects with total capacity Rs 7,263.737 MW as on 2018-12-07 which are under various phase of construction. It is estimated that with smooth construction, more than 1000 MW of hydropower can be generated in the country within a year. Similarly, the thermal power is also available in the country.

RESAERCH METHODOLOGY

OBJECTIVES:

- To Evaluate the ratio analysis of the select companies in Nepal.
- To study the liquidity ratios, solvency ratio, profitability ratio, activity ratio of select hydropower companies in Nepal.
- Evaluate the comparative statement of two years i.e. 2016-17 and 2017-18.
- To carry on SWOT Analysis and describe.

SCOPE OF STUDY:

- To study financial efficiency of company shall be affected by various factors.
- To improve the efficiency of the organization all resources shall be allocated to find out operational efficiency of the organization.
- The data of past 3 years taken in account to study performance shall be compared of that period.
- And projected data shall be also taken to find out efficiency of project by future.

TOOLS USED FO THE STUDY

Financial tools that shall be used to find hydropower financial analysis they are:-

- Ratio analysis
- Comparative analysis

- SWOT ANALYSIS

LITERATURE REVIEW:

JOHN BYRNE YU-MI MUN (2001) explained that electricity has introduced first in the united states and Europe in the 1880's and greatly in every part of the world and that transforms daily aspects of life. Nowadays it is most useful operation towards modern technologies and for this events, has attained status "met technology". It is the expansion of national and local politics to shape contemporary development. Many aspects are dependent to electricity for e.g. (email, telephone, social networks) and many more.

PARAMESWARAN (1990) In INDIA Kerala is one state who export electricity to other state during deficiency periods. And from two decades by exporting electricity profit shall be generated. In presents scenario all state of India depends entirely on the hydro system i.e. electricity. All the realistic hydropower fall in projected electricity demand.

BRIEF PROFILE OF THE ORGANIZATION

The project mainly deals with the Nepal hydropower. There are many hydropowers in Nepal but data of three companies shall be founded out.

1. Task Hydropower Company (P.) Ltd
2. Upper Lahore Kholo Hydropower Company (P.) Ltd
3. Gaunghar Ujyalo Sana Hydropower Company (P.) Ltd.

Operating profit of hydropower companies

Year	Task hydropower	Upper Lahore	Gaunghar ujyalo
2015	14326	28169	22699
2016	16326	33700	23584
2017	1360	39547	24495
2018	16294	45534	25435

RATIOS**LIQUIDITY RATIO**

a) CURRENT RATIO= CURRENT ASSESTS / CURRENT LIABILITIES

The current ratio of Task Hydropower Company (P.) Ltd of 2017 is:

$$= 39543000/6233000$$

$$=6.344$$

TABLE :3.1

Represents the Current ratio from the year (2014-2018)

Year	2014	2015	2016	2017	2018
Task hydropower	2.48	3.298	6.333	6.344	-
Upper Lohore kholo pltd	7.886	8.524	9.161	5.835	5.653
Gaunghar Ujyalo Sana pltd	-	25.67	25.746	25.833	-

Source: Complied by researcher

INTERPRETATION

Current ratio represents the ability to pay short term obligations. The higher the current ratio, and higher the margin of safety. From the above table3.1 we can figure out that current ratio is increasing in every FY. This shows the favorable condition for the company's creditors as it create more safety to the creditors.

SALES TO EQUITY RATIO:

Sales to equity ratio= Total sales / Total equity

The sales by equity ratio of Task Hydropower Company (P.) Ltd of 2017 is:

$$=29577000/76857000$$

$$= 0.3848$$

TABLE :3.2

Represents the Sales to equity ratio from the year (2014-2018)

Year	2014	2015	2016	2017	2018
Task hydropower	0.38	0.36	0.19	0.43	-
Upper Lohore kholo pltd	0.645	0.661	0.661	0.661	0.661
Gaunghar Ujyalo Sana pltd	0.658	0.679	0.700	0.721	0.742

Source: Complied by researcher

INTERPRETATION:

A company measure the relationship between an increase in sales and that provide amount of equity provided by shareholders. As per table no 3.2 in two company's equity shares are not increases in continuous nature but in gaunghar ujyalo sana pvt ltd this show that increase in sales as per amount of equity also increases.

Debt to Equity ratio:

Debt to Equity = Total debt / Total equity

The Debt to Equity ratio of Task Hydropower Company (P.) Ltd of 2017 is:

$$=56,444,000/76,857,000$$

$$= 0.73$$

TABLE :3.3

Represents the Debt to Equity from the year (2014-2018)

Year	2014	2015	2016	2017	2018
Task hydropower	0.73	0.61	1.29	1.04	-
Upper Lohore kholo pltd	1.115	0.878	0.615	0.324	0.277

Gaunghar Ujyalo	2.33	2.228	2.117	1.99	1.80
Sana pltd					

Source: Complied by researcher

INTERPRETATION: As per table 3.3 lower debt to equity means less risk and higher debt to equity means higher risk. As figure given above Task hydropower in 2014 relies very less D/E ratio and in 2016 higher D/E ratio external lenders thus it is at higher interest risk. And compare of another two companies gaunghar ujyalo sana pvt ltd is higher interest rate risk.

Coverage Ratio

Debt Service Coverage= Profit Before Interest dep & tax / (Profit Before Interest dep & tax+ Principal payment due in the year)

The Debt Service Coverage ratio of Task Hydropower Company (P.) Ltd of 2017 is =14,326 / (14,326+ 6,400)
=1.19

TABLE :3.4Represents the Debt Service Coverage from the year (2014-2018)

Year	2014	2015	2016	2017	2018
Task hydropower	1.19	1.35	-0.93	1.05	-
Upper Lohore kholo pltd	0.82	0.851	0.883	0.922	0.970
Gaunghar Ujyalo Sana pltd	0.679	0.6955	0.713	0.731	0.791

Source: Complied by researcher

Interpretation:

As per table 3.4 task hydropower higher debt service coverage is in 2014 and lowest in 2016. But for other 2 companies have increasing trend of ratio and current debt obligations have to pay of cash flow available

FINDINGS

Comparative statement analysis

- In the comparative statements analysis for Task Hydropower percentage change in current assets is more than compared of percentage change in current liabilities.
- For upper Lahore khola hydropower comparative statement analysis percentage change in current assets is negative and percentage change in current liabilities is positive and long term debt amount is increasing.
- For Gaunghar ujjalo sana hydropower in comparative statement analysis current liabilities are more than current assets but long term debt decreasing trend.

Ratio

Current ratio means obligations of short term to pay ability. Higher the current ratio means short term obligations shall be higher.

- For Task Hydropower the current ratio was higher in 2017 but compared to other hydropower its very less.
- For Upper Lahora Khola hydropower current ratio is higher in 2016.
- For Gaunghar Ujjalo sana hydropower have increasing trend and higher ratio in 2017.

Sales to equity ratio

- For sales to equity ratio in Task Hydropower decreasing of sales in trends but from 2017 sales increases.
- In Upper lohore khola sales increases in 2014 and onwards sales remains constant means no growth in company.
- In Gaughar Ujjalo sana hydropower sales shall be increases in continuous nature.

Debt to equity ratio

- In Task hydropower debt to equity ratio is very less in 2015, but in 2016 it's dent to equity is higher means that higher rate of interest rates and relies that more on external lenders.
- In Upper lohore khola debt to equity ratio is more in 2014 and less in 2018.

- In Gaughar Ujyalo sana hydropower debt to equity ratio is more in 2014 and less in 2018 means low risk and low interest rate calculated.

Debt service coverage ratio

- For debt service coverage ratio in Task hydropower higher impact in 2014 but in 2016 negative impact occurred.
- For debt service coverage ratio In Upper lohore khola lesser impact in 2014 but in increasing trends debt service coverage is increasing and more in 2018.

CONCLUSIONS

- For Task Hydropower the comparative statements analysis is the percentage change in the current assets is more than current liabilities.
- For Upper Lahora Khola hydropower p ltd. The comparative statements analysis long term debt shall be increasing.
- In Gaughar Ujyalo sana hydropower the equity share capital is not increasing it means that no growth in the company.
- For Task Hydropower current ratio is higher in 2017 but compared to other projects it was less.
- For Task Hydropower debt to equity ratio is more in 2016, it means that higher risk especially at higher interest rates.
- For Upper Lahora Khola hydropower p ltd debt to equity ratio is more in 2014 in compared to next years.

SUGGESTIONS

- For the Task Hydropower P. Ltd Long Term liabilities were increasing. So company should focus on reducing long term liabilities as it increases finance cost to the company
- Task Hydropower P. Ltd should also focus on structure of company as it was badly effected by floods which causes heavy revenue loss to the company
- For the upper Lahore khola P. ltd, company should focus on the retention of profit and also should disturb profit to the employees to motivate then in financial aspects.
- For the upper Lahore khola P. ltd, company is shifting its focus in debt reduction by repayment of loan and borrowing of the company

- For the upper Lahore khola P. ltd, the power generating capacity may decline in dry seasons being a Run-of River project. However the decline will be less than 10% of the contract energy on such kind of small hydro projects.
- For the Gaunghar Ujyalo Sana Hydropower Company Pvt Ltd, The sedimentation risk seems to be on the moderate level but adequate designing and provisions made in gravel trap and desander to mitigate such risk and Power Evacuation Risk is not at the lowest level.
- The revenue and net profit earned by the company should be sufficient enough to serve the interest and principal installments arising out of the credit facilities taken within the stipulated time.



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