"Investment Practices of Karnataka Power Corporation Limited Accountability based on demand"

ANANTANAGA H P
Assistant Professor of Commerce,
Govt First Grade College,
Harapanahalli – 583 131,
Davangere District, Karnataka.

Abstract:

Analyze the performance of Karnataka's power sector. Analyze the financial management practices of Karnataka Power Corporation Limited (KPCL) Identify the problems associated with the financing and investment management practices of Karnataka Power Corporation Limited. Examine the efficiency of asset-liability management practices and ascertain its financial impact on Karnataka Power Corporation Limited. Suggest ways and means of improving KPCL's financing and investment practices to enhance the overall efficiency and profitability of the organization and make comparative analysis with peer corporate.

The study proposes to test the following hypotheses: Professional leadership will render KPCL's financial management practices effective Political interference affects KPCL's financial management practices Inefficiency of the regulator, namely KERC, affects KPCL's financial management practices The study is descriptive in nature and has used the 'fact-finding' survey method. Primary data has been collected by administering Interview Schedules to the respondents. Industrial consumers of power in and around Bangalore city and KPCL personnel drawn from all functional areas of KPCL constitute the sampling universe. Interview Schedules were administered to 100 industrial consumers and 100 personnel of KPCL. Probability sampling in the form of simple random sampling was applied because every industrial consumer and every

staffer of KPCL stood an equal and independent chance of being selected. "Nothing moves without power and power does not move without finance[1]".

Power or energy, is a core sector item. Power *empowers* developing countries. If one traces the growth achieved by the advanced economies, one will realise that power enabled them to fast forward their economic growth. Even in South Asia or for that matter South-East Asia, we find countries like South Korea overtaking the much larger economies like China and India on various parameters owing to their well-developed power sector, amongst other things. For example, Karnataka produces around 9,600 megawatt (MW) of power but South Korea that has half of Karnataka's population produces a whopping 64,000 MW!

Statement of the Problem

It is no secret that India is an agrarian economy notwithstanding the fact that the contribution of agriculture, the economy's primary sector, to the GDP of the country has fallen to 14.5 percent, according to latest estimates. Paradoxically, the sector still keeps 58 percent of the country's population employed.

Scope of the Study

The study covers only the central public sector undertakings

Objectives of the Study

The objectives of the study are to:

1. Analyze the performance of Karnataka's power sector.

[1]Source: http://www.scribd.com/doc/50530593/kpcl

2. Analyze the financial management practices of Karnataka Power Corporation Limited (KPCL)
3. Identify the problems associated with the financing and investment management practices of Karnataka Power Corporation Limited.
4. Examine the efficiency of asset-liability management practices and ascertain its financial impact on Karnataka Power Corporation Limited.

Suggest ways and means of improving KPCL's financing and investment practices to enhance the overall efficiency and profitability of the organization and make comparative analysis with peer corporates.

Hypotheses to be Tested

The study proposes to test the following hypotheses:

1. Professional leadership will render KPCL's financial management practices effective
2. Political interference affects KPCL's financial management practices
3. Inefficiency of the regulator, namely KERC, affects KPCL's financial management practices

Methodology of Research

The study is descriptive in nature and has used the 'fact-finding' survey method. Primary data has been collected by administering Interview Schedules to the respondents.

Sampling Plan

Industrial consumers of power in and around Bangalore city and KPCL personnel drawn from all functional areas of KPCL constitute the sampling universe.

Interview Schedules were administered to 100 industrial consumers and 100 personnel of KPCL.

Sources of Data and Data Collection

Data required for the research has been collected from both primary and secondary sources. Primary data has been collected from the respondents, viz., industrial consumers and KPCL personnel.

Interview schedules specially designed for the purpose were used to collect the said data.

In addition, the Researcher has interacted extensively with the other stakeholders associated with the power sector, notably trade bodies like CII, FICCI and FKCCI to elicit their views and comments on the topic under study.

Secondary data has been collected from reputed journals, magazines, newspapers, annual reports and house journals of KPCL, KPTCL, ESCOMS and house journals of industry bodies like FICCI and CII.

- ✓ The rather high levels of quick ratio indicate poor financial management. Only in the year 2009, it was normal by Indian standards.

- ✓ The fluctuation in the gross profit margin – from a minimum of 9.44 percent to a maximum of 16.65 percent suggests the inconsistency surrounding the gross profit margin in the case of KPCL.
- ✓ The net profit margin, in percentage terms, was 9.64, 9.98, 9.39, 6.16, 6.69 and 9.92 respectively for the fiscal years 2005-2010. The margin is characterised by inconsistency.

- ✓ The fixed assets turnover ratio was 0.59, 0.69, 0.61, 0.70 and 0.66 respectively for the fiscal years 2006-10 which fails to impress the analyst.

- ✓ In justification of their attribution of KPCL's poor FM practices to inefficiency of the regulator, namely KERC, all the 30 respondents point out that although in existence for more than ten years, KERC has not been able to force the ESCOMs to install meters at the premises of all consumers. 29 respondents additionally state that although the collection performance of BESCOM and MESCOM is high, that of other ESCOMs is very low and KERC has done nothing about it. 28 respondents additionally state that even after the constitution of KERC, political interference in the power sector has not come down. 27 respondents additionally state that although the law prohibits subsidy, KERC allows cross-subsidisation.

- ✓ Members of KERC should be held accountable after giving them a free hand to operate as per the law. All the power sector companies (KPCL, KPTCL and five ESCOMs) should be restructured. KPCL, KPTCL and ESCOMs should have functioning boards and competent managers. Appointing one IAS officer after another to manage these companies is not a paying strategy. Managing and operating a corporation is different from overseeing a government department. Managers to run these companies should be groomed from within and competent people in these companies should be given extensive training to manage the companies. Till then, managers from private sector should be recruited to operate these companies.

- ✓ State stranglehold on the power sector still obtains. Be it pricing, issue of licences or building grid capacity, government has a finger in every pie. State stranglehold should cease.
- ✓ For governments, Central or State, setting up coal-based power plants are going to become more difficult with the rural masses increasingly opposed to establishment of such plants. The fate of the 4,000 MW Tadadi project which met with stiff public protest is to well known to be recounted here. Hence government policy should tweak the tax regime in such a way as to encourage investment in generation of wind power and generation from other sources of renewable energy and discourage investment in coal-based power generation

- ✓ A recent government directive has allowed industrial consumers to buy electricity directly from generators and traders. This is called 'open access' and the power ministry has notified 'open access' for larger buyers. Accordingly, distribution companies are duty-bound to provide network access to large industries that consume above 1-mw power and regulators cannot fix charges for them. But power distribution utilities of States claim that 'open access' will wipe out their revenue leaving no room for cheap supplies to farmers and retail consumers. According to the said utilities, if premium consumers migrate, their heavy investment in generation assets will go down the drain. But an IIT-Delhi study shows that distribution companies will earn 10 percent more revenue if they prudently exclude a portion of large consumers. In fact, *India Energy Exchange* managing director believes that it can reduce tariff for domestic consumers and improve the health of utilities whose losses are pegged at INR 82,000 crore.
- ✓ Karnataka, which is the headquarters of IT behemoths like Wipro and Infosys, pioneered power generation in 1902 when Asia's first hydroelectric power station was commissioned in the state. The state was the first to embark on alternating current and had the longest transmission line in the world in 1902, from Sivasamudram to KGF, covering a distance of 147 km.

- ✓ But today, the state is facing a severe power shortage with the demand-supply gap widening to 22 percent. The daily energy consumption is around 150 MW with an annual load growth of 8-10 percent. The peak demand is about 7,877 MW but the availability is only 6,100 MW. Two units of the Raichur Thermal Power Station

(RTPS), the major power generating source for the state, may collapse any time as they are not fit to operate[2]. Many of the future government projects are coal-based, which are always opposed by the masses in rural Karnataka. Even in the past, the government could not take up a few thermal projects, including the 4,000 MW project in Tadadi, owing to protests by the public. At this juncture, it is imperative for the state to clear the anxieties of prospective investors over power supply, which is a critical requirement to drive industrial growth.

- ✓ There are various independent power generating companies along with the government-owned Karnataka Power Company Ltd (KPCL) and Visweswaraya Vidyut Nigam Ltd (VVNL). For power transmission there is KPTCL and for distribution and supply of power there are five energy supply companies, namely, Bangalore ESCOM, Mangalore ESCOM, Chamundeswari ESCOM, Hubli ESCOM and Gulbarga ESCOM. Essentially it is the state- owned companies which are responsible for the power sector in Karnataka. Independent power producers (IPPs) play a minor role. In addition, since 1999, there is the Karnataka Regulatory Energy Commission (KERC) which is in charge of monitoring the operations of power sector companies and approving tariff revisions. KERC also has the responsibility of ensuring reliable supply of quality power by in turn ensuring that the operations of ESCOMs are profitable. KERC, when constituted, was expected to emerge as a powerful body with high expectations.

[2] Source: *The Financial Express,* dated Jan 17, 2012.

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Books & Journals

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