

An Analysis of Financial Performance of Uttarakhand Power Corporation Limited, Uttarakhand

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ABSTRACT The Uttarakhand Power Corporation Limited (UPCL) is mainly involved in the generation of power and is the sole administrator for the power generation in the state. It was formed on 12-02-2001 as a sister concern to Uttarakhand Electricity Board (UEB) in order to eradicate the power famine of the state. The history of Uttarakhand Power Corporation Limited (UPCL) can be traced back to erstwhile U.P. State Electricity Board (UPSEB). The erstwhile U.P. State Electricity Board was trifurcated pursuant to enactment of U.P. Electricity Reforms Act, 1999. U.P. State Electricity Reforms Transfer Scheme, 2000 was promulgated for execution of the trifurcation of erstwhile UPSEB into U.P. Power Corporation Limited (UPPCL), U.P. Jal Vidyut Nigam Limited (UPJVNL) and U.P. Rajya Vidyut Utpadan Nigam Limited. The State of U.P. was bifurcated by enforcement of U.P. Reorganization Act, 2000 (In short Reorganization Act) as a result thereof the State of Uttarakhand came into existence. UPCL was incorporated under the Companies Act, 1956. UPCL was initially entrusted with the work of transmission and distribution of electricity in the State of Uttarakhand. As per the mandate of Electricity Act, 2003, the transmission business was transferred to a newly formed State owned company named as “Power Transmission Corporation of Uttarakhand Limited” from 01-06-2004. Since then UPCL is a sole distribution licensee for distribution of electricity in the state. In 6th Annual Integrated Rating of Discom’s released by Ministry of Power, Government of UPCL was ranked at 4th place with top category of A+ among 41 Discom’s of the country and Uttarakhand was ranked 2nd among all states. The present study is conducted to analyze the financial performance of Uttarakhand Power Corporation Limited with the help of various ratios. From the present study it is found that company financial performance is seeing to be sound, because the company trying to increase its production and also net profit.

Keywords: Financial Statements. UPCL, Ratios etc.

I. INTRODUCTION

Financial statements are the mirror which reflects the financial position, strength and weakness of the company. Financial statements of the company helps to know how a business is doing and how it’s useful internally for a company- stock holders and to its board of directors, its managers and some employees including labour unions, externally they are important to perspective investors, to government agencies responsible for taxing and regulating, to lenders such as banks and credit rating agencies & investment analysts & stock brokers.

Financial statement analysis involves careful selection of data from financial statements for the primary purpose of forecasting the financial health of the company. This is accomplished by examining trends in key financial data, comparing financial data across companies, and analyzing key financial ratios. *John N. Myres* defines that “Financial statement analysis is largely a study of relationships among the various financial factors in a business, as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statements.” Sound financial management is as important in business as production and marketing. A business firm requires finance to commence its operations, to continue operations and for expansion or growth. Finance is, therefore, an important operative function of business. A large business firm has to raise funds from several sources and has to utilise those funds in alternative investment opportunities. In order to ensure the most judicious utilisation of funds and to provide a reasonable rate of return on the investment, sound financial policies and programmes are required. Unwise financing can drive a business into bankruptcy just as easily as a poor product, inept marketing or high production costs.

On the other hand, adequate and economical financing can provide the firm a differential advantage in the market place. The success of a business enterprise is largely determined by the way its capital funds are raised, utilised and disbursed. In the modern money-using economy, the importance of finance has increased further due to increasing scale of operations and capital intensive techniques of production and distribution. In fact, finance is the bright thread running through all business activity. It influences and limits the activities of marketing, production, purchasing and personnel management. The success of a business is measured largely in financial terms. The efficient organisation and administration of the finance function is thus vital to the successful functioning of every business enterprise.

Financial management may be defined as planning, organising, directing and controlling the financial activities of an organisation. According to Guthman and Dougal, financial management means, “the activity concerned with the planning, raising, controlling and administering of funds used in the business.” It is concerned with the procurement and utilisation of funds in the proper manner. Financial activities deal with not only the procurement and utilisation of funds but also with the assessing of needs for funds, raising required finance, capital budgeting, distribution of surplus, financial controls, etc.

Ezra Solomon has described the nature of financial management as follows: “Financial management is properly viewed as an integral part of overall management rather than as a staff specially concerned with funds raising operations”.

In this broader view, the central issue of financial policy is the wise use of funds and the central process involved is a rational matching of the advantage of potential uses against the cost of alternative potential sources so as to achieve the broad financial goals which an enterprise sets for itself. Financial statements are the main source of financial information for most decision makers. That is why financial accounting and reporting places such a high emphasis on the accuracy, reliability, and relevance of the information on these financial statements.

Review of Literature

The present state of knowledge is either from the perspective of the financial management of UPCL or from the perspective of the commercialization yet there are nonexistent studies with regard to the Uttarakhand Power Corporation Limited. However some periodical reports with regards to generation, transmission & distribution and profitability of UPCL are available.

M.C. Shukla and T.S. Grewal in (1960) stated in his book Advanced Accounting in chapter of Accounts of Electricity Company that electricity is a public utility industry because it supplies electricity at low rates of vital interest to industry and the general public. The special legislation governing electricity consists of the Indian Electricity Act of 1910 and the Electricity (Supply) Act of 1948. The financial provisions relating to electricity supply are contained in the 6th schedule to the 1948 Act.

DR Ashok Sehgal and Deepak Sehgal (2001) stated, “The state electricity boards also maintain their accounts in the prescribed format to be submitted to Comptroller and Auditor General of India for audit. The audited accounts are submitted to Central electricity authority as well as State Government within 6 months of the close of the year”.

Elizabeth Duncan and Elliott (2004) in his research article on financial performance he has pointed that he had stated that the paper in the title of efficiency, Customer service and financing performance among Australian financial institutions showed that All financial performance measures as interest margin, return on assets, and capital adequacy are Positively correlated with customer service quality scores.

John J.Wild, K.R.Subramanyam & Robert F.Halsey (2006) in research article on financial performance pointed that the Financial Statement analysis is the application of analytical tools and techniques to general-purpose financial statements and related data to derive estimates and inferences useful in business Analysis. Financial statement analysis reduces reliance on hunches, guesses, and intuition for Business decisions. It decreases the uncertainty of business analysis.

I.M.Pandey (2007) in his research article on financial performance has pointed out that the financial statements contain information about the financial consequences and sources and uses of financial resources, one should be able to say whether the financial condition of a firm is good or bad; whether it is improving or deteriorating. One can relate the financial variables given in financial statements in a meaningful way which will suggest the actions which one may have to initiate to improve the firm's financial condition.

Rachchh Minaxi A (2011), in research article on financial performance has pointed & suggested that the financial statement analysis involves analyzing the financial statements to extract information that can facilitate decision making. It is the process of evaluating the relationship between component parts of the financial statements to obtain a better understanding of an entity's position and performance.

Priyaaks (March 2012), in research article on financial performance has pointed out that Financial statement analysis is the process of examining relationships among financial statement elements and making comparisons with relevant information. It is a tool in decision-making processes related

Sita Mishra (2013), Vol.8, No.1, pp.25-40 in research article on a comprehensive study and analysis of power sector value chain in India in order to sustain its plus 8% growth rate until 2030 requires its power supply to be

ramped up by more than four times of the current levels (Grant Thornton report, 2012). While it is a challenge to improve power generation as the sector continues to suffer transmission and distribution (T&D) losses as high as 25-30%.

From the above literature review, it is evident that, the financial performance depicts the efficiency of organization. Along with that financial management is very useful for decision making in the company by Board of Directors and management. It also helps to know the prosperity of the company with the profitability.

Due to special feature (Statutory and constitutional) feature of UPCL is facing specific problem in connection with distribution, marketing, Organizational and financial management. In this context we may observe that no previous study has been done regarding Financial Management of UPCL or any other electricity distribution company of India. Herewith the proposed study will concentrate itself on financial management aspect of UPCL.

NEED FOR THE STUDY

The research gap & relevant question which strike the mind during the literature review that, to know the financial performance of UPCL which is owned by the Govt. of Uttarakhand and is engaged in the generation of electrical power which is essential at present for industrialization as well as households. Hence there arises a need to address the aforesaid questions.

OBJECTIVES OF THE STUDY

1. To understand the company financial statements.
2. To know the financial performance, profitability & liquidity position of UPCL.
3. To compare and analyze the financial statements.
4. To study the earning capacity of UPCL.
5. To offer suggestions based on findings of the study.

SCOPE OF THE STUDY

The present study is confined to UPCL, Uttarakhand & analysis is based on the information provided by the UPCL finance department, data will be analyzed for the period of 10 years i.e., 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 the performance is compared within those periods.

DATA COLLECTION

Primary data is collected through a detailed personal interview with finance managers and account executives and with the help of other department of the company. Secondary data is collected two sources: Internal

sources: Documents, reports, profiles, books of accounts, profit & loss a/c, balance sheet. External sources: Magazines, newspapers and company websites.

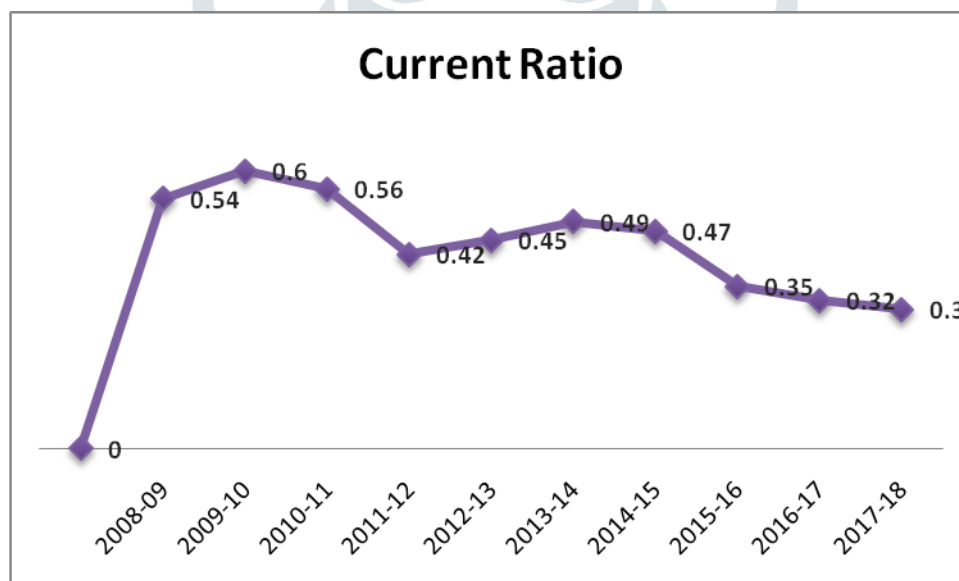
PLAN OF DATA ANALYSIS

The data gathered from various sources were primarily studied and necessary data was sorted sequentially keeping in mind the procedure of analysis. The analysis is made by using the statistical tools like current ratio, Debt equity ratio, cash profit ratio, net profit ratio with reference to financial position of UPCL.

Data Analysis:

Table No.1
Table Showing Current Ratio of UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio	0.54	0.60	0.56	0.42	0.45	0.49	0.47	0.35	0.32	0.30



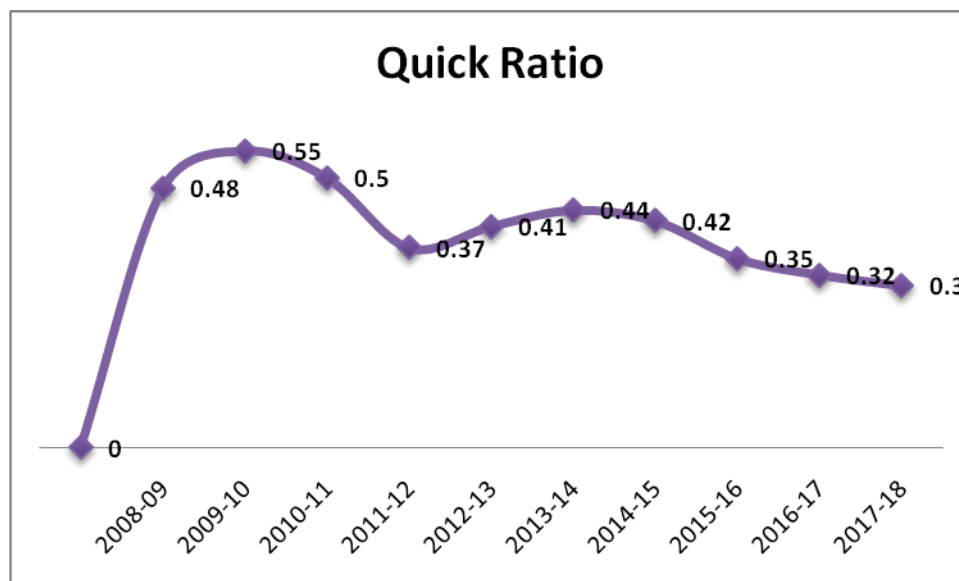
Source: Annual Reports of UPCL

Interpretation: The above table depicts the current ratio of the UPCL. The Current Ratio for the years under study stood as 0.54, 0.60, 0.56, 0.42, 0.45, 0.49, 0.47, 0.35, 0.32 and 0.30 for the year 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, and 2016-17 and 2017-18 it has been decreasing respectively. The current ratio mainly indicates that how much times the short term liabilities are backed by the current assets, in case of UPCL as can be seen from above graph in the past five years UPCL is not able to maintain the said ratio to even as low as 0.5 which is way low than the industry standard of 1. It is the ratio of current assets and current liabilities. A higher current ratio is always more favorable than a lower current ratio because it shows the company can more easily discharge the current liabilities. A current ratio of less than 1 indicates a high working capital leveraging and high risky position since it indicates that the company may resort to selling its Assets to meet out its debts.

The indicates that for discharging its current liabilities, UPCL will either have to restore to liquidating its long term assets or borrow additional working capital loans. This also indicators that on one side UPCL has failed to recover its current and past dues from the consumers efficiently and on the flip side the current liabilities have been used to finance the long term assets of UPCL.

Table No.2
Table Showing Quick Ratio of the UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio	0.48	0.55	0.50	0.37	0.41	0.44	0.42	0.35	0.32	0.30



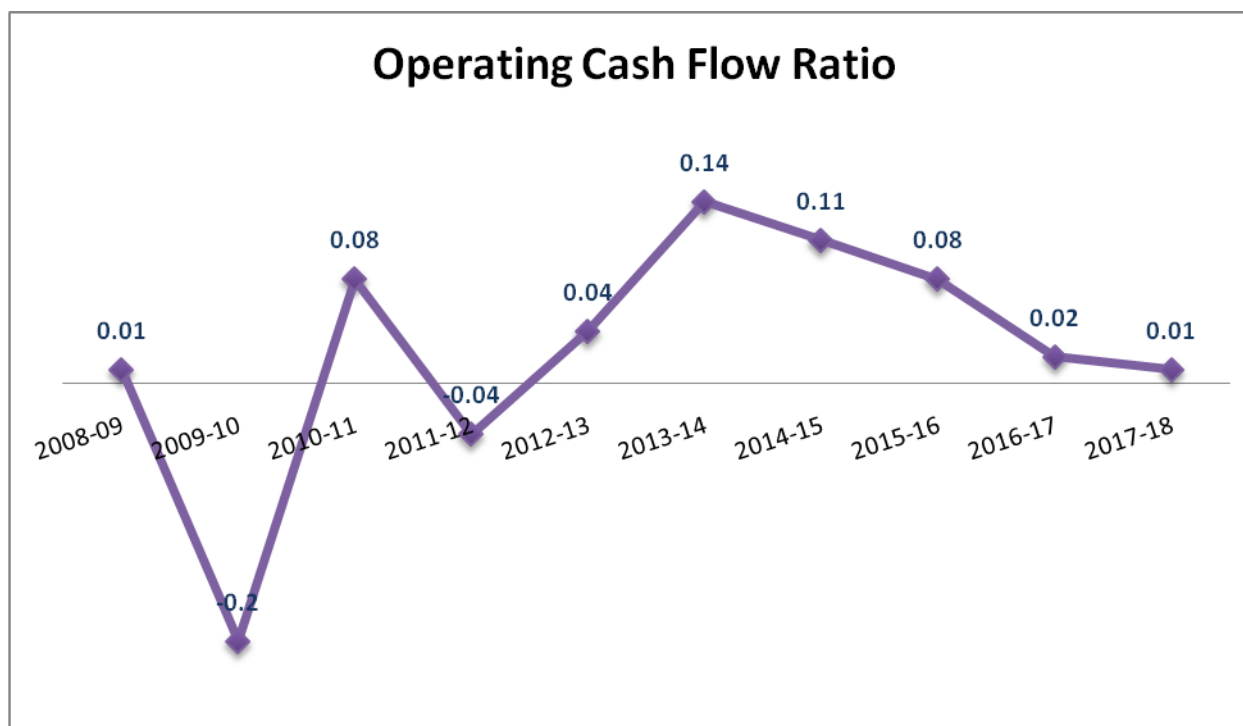
Source: Annual Reports of UPCL

Interpretation

As can be seen from the above graph, UPCL's Quick Ratio for the years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18 was 0.48, 0.55, 0.50, 0.37, 0.41, 0.44, 0.42, 0.35, 0.32, and 0.30 respectively. The ratio increased from 0.48 in 2008-09 to 0.55 in 2009-10, then slightly decreased to 0.50 in 2010-11 and 0.37 in 2011-12. It then increased to 0.41 in 2012-13 and 0.44 in 2013-14, followed by a slight decrease to 0.42 in 2014-15, 0.35 in 2015-16, 0.32 in 2016-17, and 0.30 in 2017-18. If the actual quick ratio is equal to or greater than the standard ratio of 1:1, it can be said that the firm is liquid and can pay its quick liabilities reasonably without any difficulty. On the other hand, if the quick ratio is less than the standard ratio, the firm is not liquid. From the above analysis, it is clear that the capacity of the company is reasonably good. It can meet its debt and short-term liquidity needs.

Table No.3
Table Showing Operating Cash Flow Ratio of the UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio	0.01	-0.20	0.08	-0.04	0.04	0.14	0.11	0.08	0.02	0.01



Source: Annual Reports of UPCL

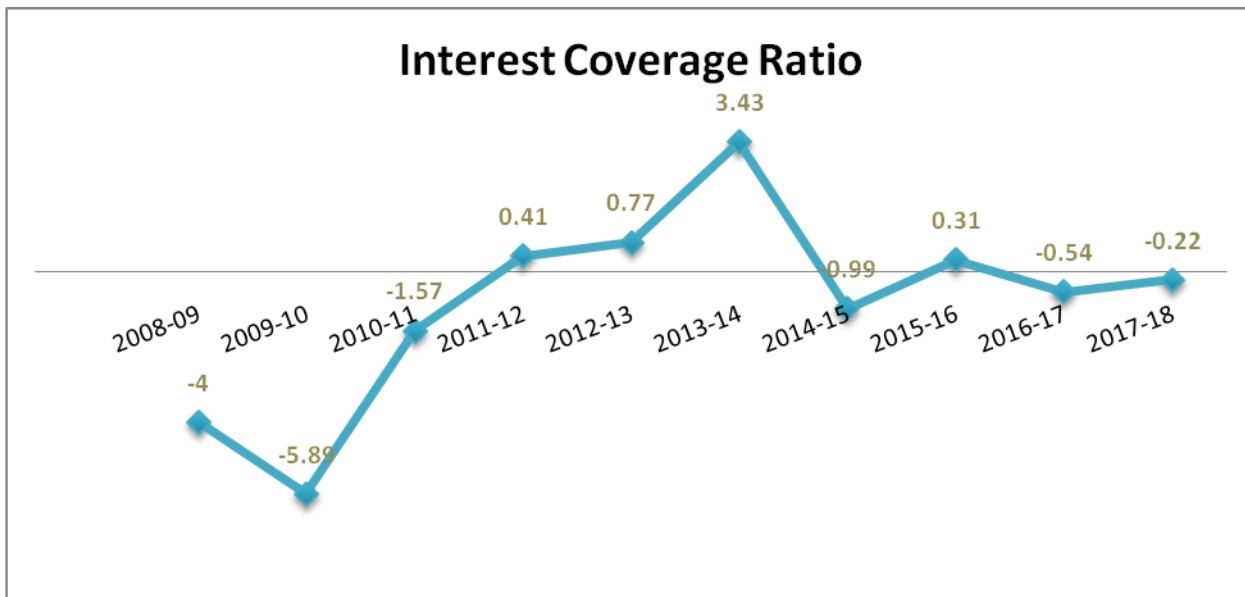
Interpretation:- As can be seen from above graph UPCL's Operating Cash Flow Ratio. The Operating Cash Flow Ratio for years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 was 0.01, -0.2, 0.08, -0.04, 0.04, 0.14, 0.11, 0.08, 0.02 and 0.01. As can be seen from the above graph, cash flow from operating activities is hardly able to meet its current liabilities. UPCL is struggling to cover its current liabilities, at least in the short term. In FY 2009-10 and 2011-12, cash flow operating ratio is negative due to huge losses on accounts of high distribution losses and poor collection efficiency resulting into negative Cash flow from operating activities. Further in FY 2017-18 this ratio has dipped down to 0.01 from 0.02 in FY 2016-17. In all the years the ratio is less than 1 which indicates that the company has generated less cash in the period than it needed to pay off its short term liabilities. This may signal a need for more capital.

Table No.4

Table Showing Interest Coverage Ratio of UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio	- 4.0	- 5.89	- 1.57	0.41	0.77	3.43	- 0.99	0.31	- 0.54	- 0.22

Source: Annual Reports of UPCL



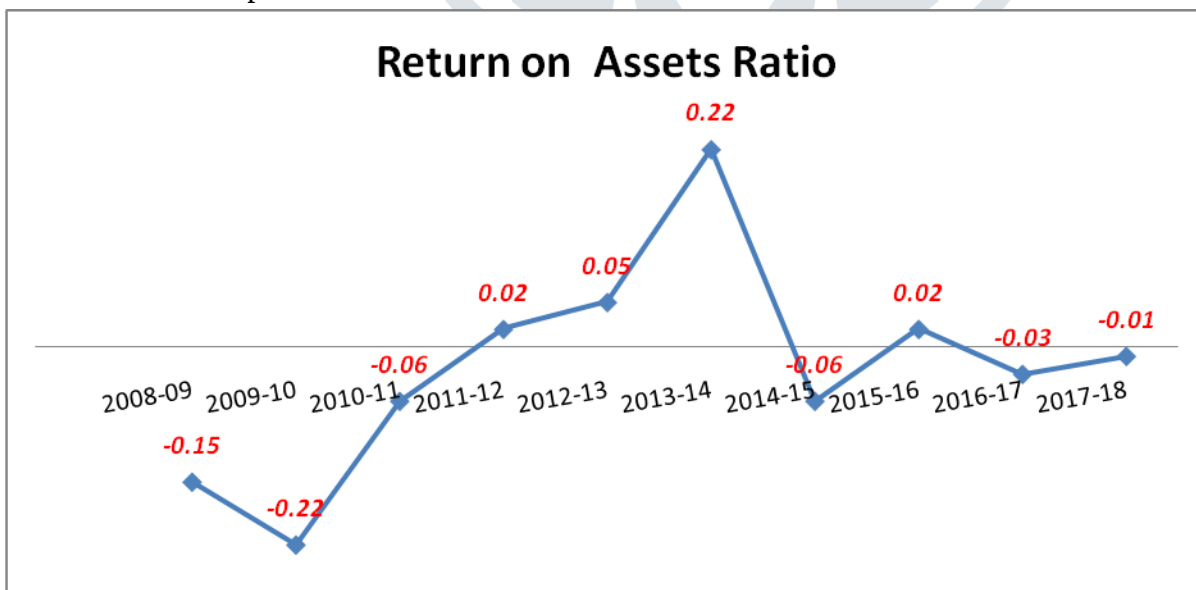
Interpretation:-

As can be seen from above graph UPCL's Interest Coverage Ratio. The Interest Coverage Ratio for years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 was - 4.0, -5.89, - 1.57, 0.41, 0.77, 3.43, - 0.99, 0.31, - 0.54 and - 0.22. UPCL suffering losses in most of the financial years and was hardly able to meet its interest liability. The standard ratio is 1.5 times and it can be seen from the above graph, that only in FY 2013-14 UPCL earned sufficient profit to maintain the interest coverage ratio of 3.43 i.e above the standard ratio.

Table No.5
Table Showing Return on Assets Ratio of the UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio	- 0.15	- 0.22	- 0.06	0.02	0.05	0.22	- 0.06	0.02	- 0.03	- 0.01

Source: Annual Reports of UPCL



Interpretation:-

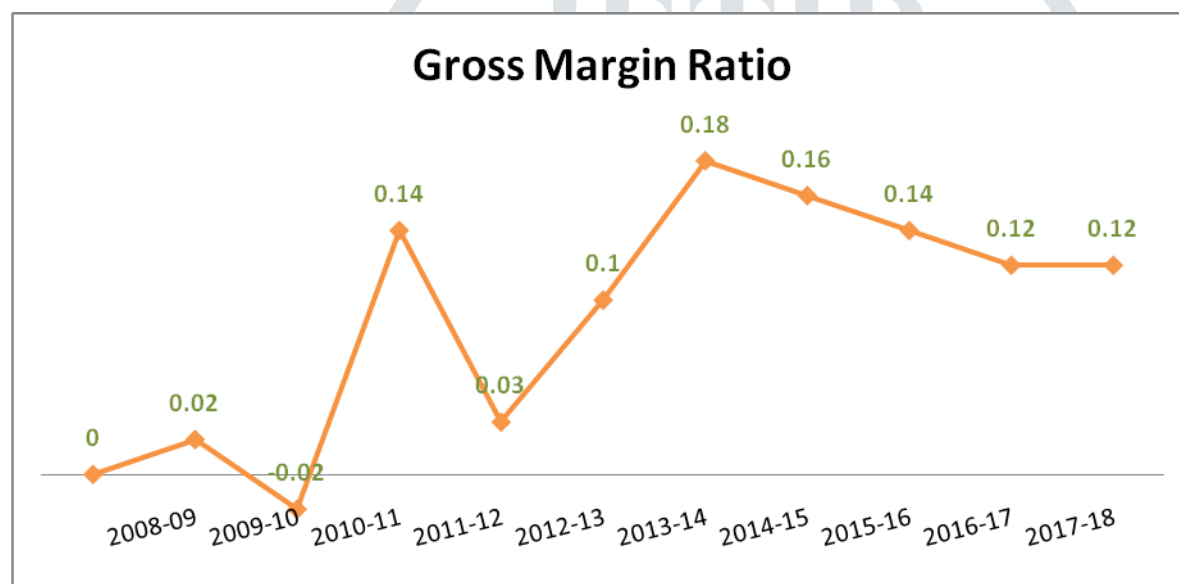
As can be seen them from above graph UPCL s Return on Assets Ratio. The Return on Assets Ratio for years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 was - 0.15, - 0.22, - 0.06, 0.02, 0.05, 0.22, - 0.06, 0.02, - 0.03 and - 0.10

As can be seen from the above graph, It is a ratio of EBIT during a given period and average Fixed Assets. The ratio considered to be an indicator of how effectively a company is using its assets to generate earning before contractual/statutory obligation is paid. This ratio allows to see the relationship between organization resource and its income, and it can provide a point of comparison to determine if an organization is using its assets more or less effectively than it had done previously. UPCL earnings through its operations is not in parity with the investment made in building up its fixed assets over a period of time.

Table No.6
Table Showing Gross Margin Ratio of the UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio	0.02	- 0.02	0.14	0.03	0.10	0.18	0.16	0.14	0.12	0.12

Source: Annual Reports of UPCL



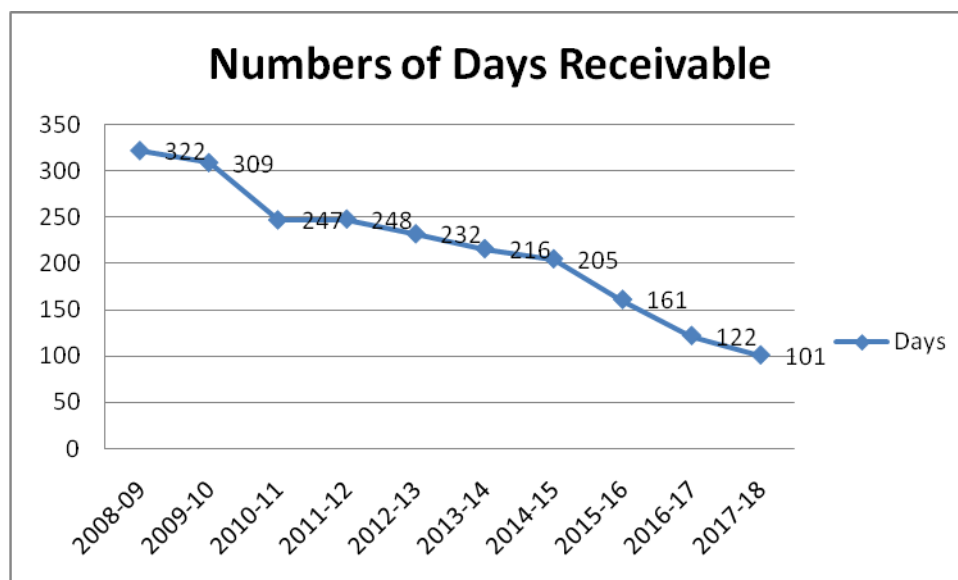
Interpretation

As can be seen them from above graph UPCL s Gross Margin Ratio. The Gross Margin Ratio for years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 was 0.02, - 0.02, 0.14, 0.03, 0.10, 0.18, 0.16, 0.14, 0.12 and 0.12. UPCL is having a positive gross margin ratio except for FY 2009-10. The indicates that the company is able to sell power at a rate higher than the procurement cost of the same, however the overall ratio is not on the much higher side, with a maximum going up to 0.51 in FY 2002-03, in the 2016-17 and 2017-18 are constant earning.

Table No.7
Table Showing Average Collection Period of the UPCL

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Days	322	309	247	248	232	216	205	161	122	101

Source: Annual Reports of UPCL



Interpretation

As can be seen from the above graph, UPCL's average collection period. The average collection period for years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 was 322, 309, 247, 248, 232, 216, 205, 161, 122 and 101. UPCL shows a trend of improvement; it has come down from 520 days in FY 2004-05 to 101 days in FY 2017-18, which is well within the national average of receivables in FY 2013 of 117 days. The collection period of 101 days reflects that UPCL takes almost 3 months to collect its due. This is an area of concern and needs immediate and corrective action, which is not a good sign for a utility like UPCL, which is facing cash crunches to meet its obligations of power purchase and other operational expenses. There are other utilities in the country which have a collection period of less than 60 days. Action plan to improve its collection period.

FINDINGS OF THE STUDY

1. UPCL is growing and grooming as a consulting firm in the power generation industry by looking at their achievements and financial report of the company.
2. The UPCL **Current ratio** is higher than ideal norm 2:1. It is decreasing every year i.e. 0.66 in 2007-08 to 0.30 in 2017-2018. It shows financial position of company is not strong.
3. UPCL **quick ratio** is less than the standard ratio; the firm is not liquid. From the above analysis, it is clear that the capacity of the company is reasonably good. It can meet its debt and short-term liquidity was good.
4. UPCL is struggling to cover its current liabilities, at least in the short term. In FY 2009-10 and 2011-12, cash flow operating ratio is negative due to huge losses on accounts of high distribution losses and poor collection efficiency resulting into negative **Cash flow from operating** activities. Further in FY 2017-18, this ratio has dipped down to 0.01 from 0.02 in FY 2016-17. In all the years, the ratio is less than 1, which indicates that the company has generated less cash in the period than it needed to pay off its short-term liabilities. This may signal a need for more capital.
5. UPCL **Interest Coverage Ratio** suffering losses in most of the financial years and was hardly able to meet its interest liability. The standard ratio is 1.5 times and it can be seen from the above graph, that only in FY 2013-14, UPCL earned sufficient profit to maintain the interest coverage ratio of 3.43 i.e. above the standard ratio.

6. UPCL **Return on Assets Ratio earnings** through its operations is not in parity with the investment made in building up its fixed assets over a period of time.
7. UPCL s **Gross Margin Ratio** is having a positive gross margin ratio except for FY 2009-10. The indicates that the company is able to sell power at a rate higher than the procurement cost of the same, however the overall ratio is not on the much higher side, with a maximum going up to 0.51 in FY 2002-03, in the 2016-17 and 2017-18 are constant earning.
8. UPCL **Average collection period** shows trends of improvement, it has come down from 520 days in FY 2004-05 to 101 days in FY 2017-18, which is facing cash crunches to meet its obligations of power purchase and other operational expenses. There are other utilities in the country which have a collection period of less than 60 days. Action plan to improve its collection period.

SUGGESTIONS

1. It is suggested to UPCL to continue the same with respect to the current ratio as it is higher than ideal norm 2:1. It is decreasing every year i.e. 0.66 in 2007-08 to 0.30 in 2017-2018. It shows financial position of company is not strong.
2. UPCL must make sincere attempts to make use of current assets more effectively, which shows under utilization of the current assets it is because of the company current assets are higher than its liabilities.
3. It is suggested to the company to continue the same with respect to Gross margin profit as it indicates the lower cost of production.
4. Company has to pay tax regularly so that it will not burden the particular period in which it has paid the balance amount of tax.
5. UPCL depends largely in borrowing to finance its fixed assets. In future, the company should Use its own earnings to reduce the burden of interest payments.
6. UPCL should also revise their old tariff of Hydel and Thermal to increase their profitability.
7. UPCL should try to minimize the operating expense which enables the company to save, in order to increase the profit which helps for its future expansion.

CONCLUSION It was an established fact that the demand for power is much higher than the supply. In such market conditions any project under taken has to be successful. But in such delicate situation of a catering to the public interest, the political environment rather than the cost plus basis determine the price at which power has to be supplied. In such a situation the producer has only one way to work backwards that was the starting point being the rate at which the power was going to be supplied to the customers due to various influences and constraints. In such a scenario the project executed has no choice but to trend on a path of constant vigilance on the economic front. The study was conducted on the financial performance of UPCL for the period of 10 years. From the study it is determine that company financial performance was seeing to be sound, because the company tries to increase its production and also net profit. From the study it is concluded that though the company earning was increasing every year the company's funds are not properly utilized, Therefore UPCL should try to improve its financial performance in the coming. The main constituent of the capital structure in UPCL is equity capital as the company is wholly owned by the government of Uttarakhand with no private stake. The company should properly focus on decreasing the current liabilities level so as to maintain liquid cash at optimum level.