A STUDY ON FINANCIAL PERFORMANCE EVALUATION OF TSGENCO

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Abstract:

The paper entitled as "A STUDY ON FINANCIAL PERFORMANCE EVALUATION OF TSGENCO." The objectives of this study are mainly focused on evaluating the performance of the firm which are revealed through the profitability position of the concern.

Financial statements are primarily prepared for decision making purpose. They play a major role in setting up the framework for managerial decisions. But the information available in financial statements alone is not sufficient for decision making. Decisions can be made by analysing and interpreting the financial statements.

This study covers last four years statements which are from 2015-2019. The data collected is secondary data and was collected from the annual reports, department manual brochures i.e. mainly from the balance sheet, profit & loss a/c and from the website.

There are various methods which are used for analysing the financial statements such as comparative statement analysis, trend analysis, common size statement analysis and ratio analysis. With the help of these tools financial performance evaluation is done.

By this analysis, findings and conclusions were drawn to improve the overall performance of the TSGENCO.

I. INTRODUCTION

The term Financial performance analysis is also termed as Analysis and Interpretation of Financial Statements. It refers to the process of determining the financial strengths and weaknesses of the company by establishing a relationship between the component parts of the Balance sheet and Profit and Loss Account. It is used as a measure of the firm's overall financial health for a given period of time. Investors and analysts use the financial performance to compare the similar firms belonging to same industry or to compare with other industries or sectors.

The performance of a firm can be measured by its financial results i.e.; by the size of its profitability and riskiness. These two factors jointly determine the value of the company. The financial decisions which increase the risks will decrease the value of the company. Similarly, the financial decisions which increase the profitability will increase the value of the company. Profitability and Risk are two important components of a concern.

The reports of the financial performance of a company mainly show the company's financial health which in turn helps the shareholders and investors to take right investment decision. Long term and short term forecasting and growth of a firm can be identified with the help of financial performance evaluation.

The information which is presented in the financial reports including the financial statements, notes to accounts helps the financial analyst in order to assess the company's performance and also financial position of the firm.

The primary purpose of the financial reports is to provide information regarding company's financial performance and position including cash flows and profitability. The information which is presented in the reports allows the financial analysts to evaluate a company's performance and financial position.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

- The primary objective of this study is to know the profitability at TSGENCO.
- To have a detailed analysis of the financial statements i.e., Balance sheet and Income statement for past five years of the company in order to identify the changes in various components present in them.
- To examine the impact of changes in the financial statement on the profitability and the financial position of the organisation.
- Understanding the composition of Assets and Liabilities in the Balance sheet with the help of common-size statement analysis.
- To find out the future trends of selected items for the next five years.
- Calculations of Profitability ratios, Liquidity ratios and Operational ratios are done in order to ascertain financial significance.

- Whether the firm is in a position to meet its short term and long term Liabilities can be identified with the help of the tools used in this analysis.

METHOD OF DATA COLLECTION

SOURCES OF DATA

Study has been taken from secondary sources i.e.; published annual reports of the Firm.

SAMPLING METHOD

Convenience method of sampling is used in this research.

FINANCIAL TOOLS USED FOR ANALYSIS

- Comparative statement analysis.
- Trend analysis.
- Common size statements analysis.
- Ratio analysis.

DATA ANALYSIS AND RESULTS

Comparative statement analysis:

This analysis determines the profitability and financial position of a business by comparing two or more time periods. It is also termed as horizontal analysis. It allows the users to easily spot the trends and growth patterns.

	Rs in crores				% change		
PARTICULARS	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2015-16 to 2016-17**	**2016-17 to 2017-18**	**2017-18 to 2018-19**
Non-Current Assets	17,464.25	18,809.07	22,199.46	26,907.38	7.70	18.02	21.20
Current Assets	7,058.42	6,466.12	6,064.52	7,244.45	(8.39)	(6.21)	19.45
Total Equity	4,979.49	5,108.77	5,278.11	5,387.61	2.59	3.31	2.48
Non-Current Liabilities	14,177.40	16,114.01	17,916.74	22,139.13	13.65	11.18	23.56
Current liabilities	5,365.78	4,052.41	5,069.12	6,625.09	(24.47)	25.08	20.83

Interpretation:

- There is an increase in working capital by 42.06% from FY 2015-16 to 2016-17 this indicates that there is an improvement in financial position of the firm. Whereas from FY 2016-17 to 2018-19 there is a decrease in working capital.
- There is high liquidity position from 2017-18 to 2018-19 as there is an increase in liquid assets. Whereas from FY 2015-16 to 2017-18 the liquidity position is low.

Trend Analysis:

In this analysis the trend or changes in various aspects of an economic unit over different years are examined. Time series analysis or inter-period analysis are few other names of trend analysis. The primary objective of this analysis is to trace out the movement of various factors. Here the movement of an element or factor over a no. of years is compared with the base year. The beginning year is usually considered as the base year.

	Rupees in corers				Trend (%)			
PARTICULARS	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Non-Current Assets	17,464.25	18,809.07	22,199.46	26,907.38	100	108.00	127.11	154.07
Current Assets	7,058.42	6,466.12	6,064.52	7,244.45	100	91.60	86.00	102.63
Non – Current Liabilities	14,177.40	16,114.01	17,916.74	22,139.13	100	113.65	126.37	156.15
Current Liabilities	5,365.78	4,052.41	5,069.12	6,625.09	100	75.52	94.47	123.46

Interpretation:

- From the above analysis it is clear that there is an increase in non-current assets when compared to the base year 2015-16 which is majorly due to additions to fixed assets. As the company has made capital expenditure towards new generating stations i.e. KTPS-Stage VII, BTPS & YTPS.
- Current Assets decreased slightly initially but started increasing and it recorded maximum in the FY 2018-19 i.e; 102.63 this indicates that the company has ability to pay off its debts.
- Non – Current Liabilities of the company are also in the increasing trend especiallu property, plant & equipment and capital work- in-progress. Majority of the capital expenditure is financed by long term borrowings from PFC & REC.
- Current Liabilities decreased in 2016-17 to 75.52 and later it started increasing gradually.

Ratio Analysis:

With the systematic use of ratios, we can easily interpret the financial statement so that the strengths and weaknesses of a business firm and also historical performance along with the financial condition can be estimated or determined.

The following ratios will help us to determine the profitability, solvency and financial soundness of the company.

- **Current Ratio** = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- **Asset turnover ratio** = $\frac{\text{Net Sales}}{\text{Avg Total Assets}}$
- **Working Capital Ratio** = $\frac{\text{Net Sales}}{\text{Working Capital}}$
- **Debt-Equity Ratio** = $\frac{\text{Total Liabilities}}{\text{Shareholders equity}}$
- **Gross profit ratio** = $\frac{\text{Gross Profit}}{\text{Net Sales}} * 100$
- **Net Profit Ratio** = $\frac{\text{Net Profit}}{\text{Net Sales}} * 100$
- **Return on equity** = $\frac{\text{Profit After Tax}}{\text{Net Worth}}$

Ratios	2015	2016	2017	2018	2019
Current Ratio	1.02	1.31	1.59	1.19	1.09
Asset turnover ratio	0.55	0.57	0.64	0.62	0.63
Working Capital Ratio	41.03	4.15	3.35	8.81	17.58
Gross profit ratio	43.25	52.00	48.50	46.34	48.04
Net Profit Ratio	1.32	4.78	0.94	4.16	2.35
Return on equity	0.016	0.067	0.014	0.069	0.047

Interpretation:

- In 2017 the company is maintaining acceptable current ratio. All the years are maintaining ratio >1 which means it is a desirable situation where the company has ability to meet its short-term debt obligations.
- Asset turnover Ratio has shown an increasing trend from 0.55 to 0.63 from 2015 to 201, incline to increase in revenue and property, plant & equipment. Industries with a low profit margin will tend to generate higher ratio, as this is a capital intensive industry will tend to have lower ratio.
- If the Debt-Equity ratio is higher than 2:1 then the lenders will interfere in the management as they have higher stake in the business. As this is a capital intensive industry will have ratio greater than 2.
- There is a trend in ratio from 2015 to 2016 i.e.; from 43.25% to 52.00% it is best ratio when compared to other years. Higher the gross profit ratio better the results are
- By comparing net profit ratio of all the years in 2016 & 2018 the company has performed better. Higher the net profit ratio better is the profitability

- The ROE in the year 2015 is 1.6% which increased to 6.7% in the year 2016 this shows that the company is increasing its ability to generate more profit without the need of much capital. But in 2017 it has decreased to 1.4% this indicates that the shareholders equity had gone up and the ROE has decreased.

FINDINGS

- By analysing comparative balance sheet from the FY 2015-16 to 2018-19 we can observe the following results: Total noncurrent liabilities are increased by 13.5%, whereas current have been increased by 27.84%. The shareholders' funds are increasing at a decreasing at a decreasing rate of 0.11% which is due to issue of bonus shares. The noncurrent liabilities are increased by9.91%. This shows that there is decrease in the current assets when compared with current liabilities. In this situation organization will find difficult to manage the requirement of working capital for meeting its daily expenses
- In 2015,2016,2018,2019 the ratios are 1.02:1, 1.31:1, 1.19:1, 1.09:1 respectively this shows that the company has sufficient funds to pay off its short term liabilities, but from the investor's point of view, the margin of safety is less in all these years. The firm must increase its liquidity position in order to pay its short term obligations. In 2017 the company had 59 percent capacity to pay its short term obligations
- In 2015, the Asset turnover ratio is 0.55 which is less when compared to the year 2016 i.e.; 0.64 this may be due to company might have experienced poor sales or it may not used fixed assets fully in the year 2015. Industries with a low profit margin will tend to generate higher ratio, as this is capital intensive industry will tend to have lower ratio.
- Normally, if the debt equity ratio is higher than 2:1 then the lenders will interfere in the management as they have higher stake in the business. As this is a capital-intensive industry will have ratio greater than 2.
- The gross profit ratio in 2016 efficiently used the raw material, labour and manufacturing assets for generating more profits. But in the rest of the years it is less which means firm was not able to use its resources properly.

CONCLUSION

- The company is showing fluctuations in the profitability position for the past five years. There is a rapid increase in profits from 2015 to 2016 followed by a decrease in the FY2016-17.
- Though there are many fluctuations in the profits, the firm is running with high profit margin.
- This study not only helpful for analysing the financial position but also enables to find out the future prospects and plans that are useful for expansion of the concern.
- The common size and the trend analysis indicate it as an appropriate asset or liability management which ensures that assets are available to pay debts when they come due by converting them into cash.
- The current ratio and the liquid ratio indicate that the company is in a position to meet its current requirements.
- The firm's overall position is at a good position. Particularly in the year 2018, as there is a rise in profits than the previous year.
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SUGGESTIONS

- After analysing the financial statements, it is clear that the firm's status is not good because of the decrease in working capital when compared to the previous year's position i.e., 2017-18.
- The firm is utilising its fixed assets efficiently which helps in growth of the organisation. The company should maintain it perfectly.
- Measures are to be taken to increase the position of current assets in the firm so as to enhance the liquidity position of the firm.
- Steps required are to be taken to minimise the current liabilities of the company in order to have stable financial position.
- Shares have to be issued in order to increase the share capital and to hike the leverage position of firm. It is to be equivalent to loan funds for maintaining proper debt equity ratio.
- Debt to equity percentage has to be reduced for the sake of reducing the financial risk.
- Steps have to take for increasing the net profit so as to increase the overall financial performance.
- For recovering ROE, the company need more common shareholders, shareholders can be raised by offering huge returns.

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