

Three Dimensional Financial Performance Analysis Of Gujarat State Undertakings

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Abstract: Gujarat has been talked about as one of the active and progressive states of India. From a proactive viewpoint, Government of Gujarat (GOG) has initiated and implemented many development initiatives and governance mechanisms. As GOG represents public interests and Gujarat State Undertakings (GSUs) are under control of GOG, it is expected that GSUs practice good governance to facilitate interests of stakeholders. Further, the study considers that financial performance is one of the better indicators of governance practices. Good financial performance of GSUs augurs good financial health and probability of good governance. Hence it was decided to study financial performance of GSUs. The study is based on secondary data downloaded from websites of GSUs. Also an attempt has made to point out important implications of the study, particularly with respect to governance, disclosures and transparency in reporting practices of GSUs.

Keywords: Financial Performance Analysis, Good Governance, Transparency.

I. INTRODUCTION

Good governance is need of the day. It is possible through enhanced disclosures and greater transparency. Good governance is essential for a state to facilitate interests of stakeholders. If the performance is satisfactory, probably it augurs good governance. Here, an attempt has been made to assess financial performance of GSUs.

II. LITERATURE REVIEW

An attempt was made to search literature on related studies through internet but there exists hardly any study in this area.

III. RESEARCH GAP

There exists research gap with respect to three dimensional financial performance of GSUs.

IV. RATIONALE OF THE STUDY

Governance is required for better performance. Therefore, an attempt has been made to assess governance with respect to three dimensional financial performance of GSUs.

V. OBJECTIVES OF THE STUDY

- ✓ To study financial performance of Gujarat state undertakings using three dimensional intra-firm analysis.
- ✓ To study financial performance through inter-firm analysis.
- ✓ To make assessment of governance, disclosures and transparency considering performance analysis.

VI. RESEARCH METHODOLOGY

A. SAMPLING METHOD

Purposive sampling method was used for the study.

B. SAMPLE

Sample consists of five GSUs.

C. SAMPLE PERIOD

Five years from financial year 2009-10 to 2013-14.

D. TYPE OF DATA

Annual reports are an important source for evaluating the disclosure of companies Karim A. K. (1996). Hence, information from secondary data was gleaned based on annual reports.

E. TOOLS OF DATA ANALYSIS

Data collected and information gleaned was analyzed with the help of classification, tabulation and per cent.

F. SAMPLE

Sample companies consist of the following GSUs.

Sr. No.	Sample Companies
1	Gujarat Mineral Development Corporation Limited (GMDCL)
2	Gujarat State Electricity Corporation Limited (GSECL)
3	Dakshin Gujarat Vij Company Limited (DGVCL)
4	Gujarat Urja Vikas Nigam Limited (GUVNL)
5	Uttar Gujarat Vij Company Limited (UGVCL)

Source: <http://www.gujagro.org/corporation.htm>

VII. THREE DIMENSIONAL INTRA-FIRM OR TIME SERIES ANALYSIS

It means the study of performance of same firm over a period of time.

A. FINANCIAL PERFORMANCE IN RELATION TO SALES

7.1.1 Net Profit Ratio: It measures the relationship between net profit and total revenue. An enterprise should have satisfactory Net Profit Ratio. To decide this, it is compared with its own past ratios or with the ratio of similar enterprises in the same industry.

Formula, Net Profit Ratio = Net Profit after Tax / Total Revenue x 100

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
1	GMDCL	26.25	26.25	28.70	34.38	32.67

Source: Annual reports

Table 1: Net Profit Ratio (%) of Last Five Years

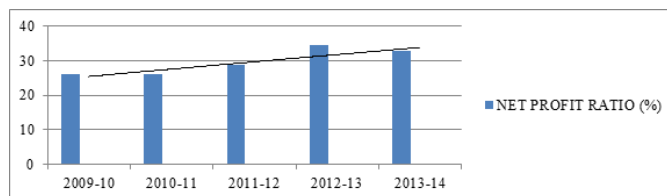


Figure 1

Figure 1 shows that Net Profit Ratio in the year 2010-11 is 26.25% which increases to 28.70% in 2011-12 and it further increase to 34.38% in 2012-13. However, in the year 2013-14 it reduces to 32.67%. So, overall it depicts a fluctuating trend.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
2	GSECL	1.67	1.85	1.20	2.15	2.48

Source: Computed from annual reports.

Table 2: Net Profit Ratio (%) of Last Five Years

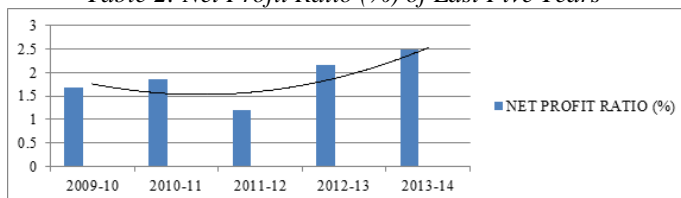


Figure 2

Figure 2 shows an increasing trend in Net Profit Ratio in the year 2010-11, decreasing trend in year 2011-12. However, from 2012-13 it shows again an increasing trend. So, overall, it depicts a fluctuating trend.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
3	DGVCL	0.48	1.17	1.21	0.37	0.68

Source: Computed from annual reports.

Table 3: Net Profit Ratio (%) of Last Five Years

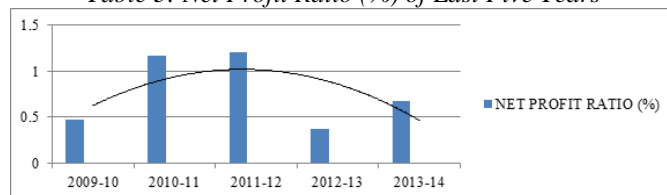


Figure 3

Figure 3 shows an increasing trend initially i.e., from 2010-11 to 2011-12 and fluctuating trend in the years 2012-13 and 2013-14.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
4	GUVNL	0.11	0.37	0.27	0.05	0.04

Source: Computed from annual reports.

Table 4: Net Profit Ratio (%) of Last Five Years

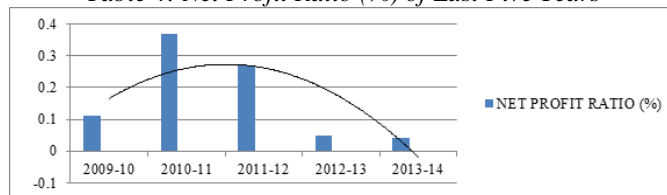


Figure 4

Figure 4 shows an increasing trend in the year 2010-11 and decreasing trend thereafter.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
5	UGVCL	0.12	0.23	0.19	0.18	0.18

Source: Computed from annual reports.

Table 5: Net Profit Ratio (%) of Last Five Years

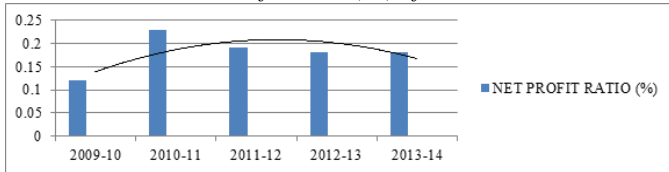


Figure 5

Figure 5 shows an increasing trend in the year 2010-11 and decreasing trend thereafter.

B. FINANCIAL PERFORMANCE IN RELATION TO INVESTMENT

7.2.1 Return on Shareholders' Investment Or Net Worth: Here profits are visualized from viewpoint of owners i.e., shareholders. The objective of this ratio is to find out how efficiently the funds supplied by all the shareholders have been utilised. It indicates the firms' ability to generate profit per rupee of shareholders fund. Higher the ratio, more efficient is the management and utilisation of shareholders funds. Therefore, return on Shareholders' Investment = $\frac{\text{Net Profit after Tax}}{\text{Shareholders Funds}^*}$ (*Shareholders Funds = Equity + Preference Capital + Reserves and Surplus - Accumulated Losses if any)

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
1	GMDCL	20.17	22.60	23.80	23.70	15.34

Source: Annual reports.

Table 6: Return on Shareholders' Funds (%) of Last Five Years

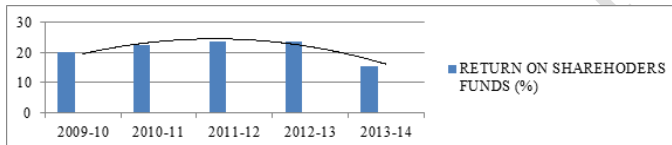


Figure 6

Figure 6 shows an increase in net worth of shareholders from the year 2010-11 to 2011-12 and decrease thereafter.

Table 7: Return on Shareholders' Funds (%) of Last Five Years						
Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
2	GSECL	4.39	4.09	4.68	4.33	3.22

Source: Computed from annual reports.

Source: Computed from annual reports.

Table 7: Return on Shareholders' Funds (%) of Last Five Years

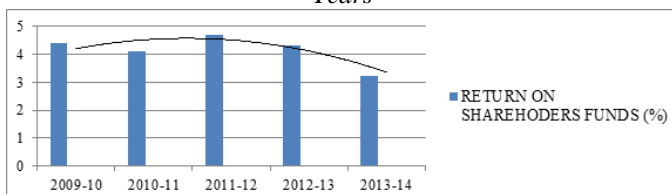


Figure 7

Figure 7 shows a fluctuating trend in return on shareholders' funds over the five years of study.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
3	DGVCL	7.54	10.36	11.19	3.58	6.75

Source: Computed from annual reports.

Table 8: Return on Shareholders' Funds (%) of Last Five Years

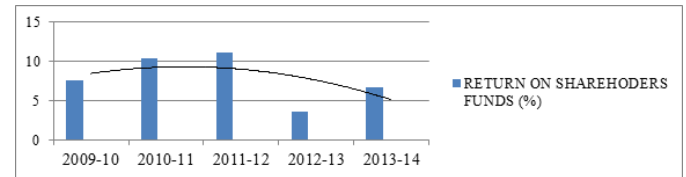


Figure 8

Figure 8 shows an increasing trend from the year 2010-11 and 2011-12 and fluctuating trend thereafter.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
4	GUVNL	0.65	2.06	1.55	0.26	0.19

Source: Computed from annual reports.

Table 9: Return on Shareholders' Funds (%) of Last Five Years

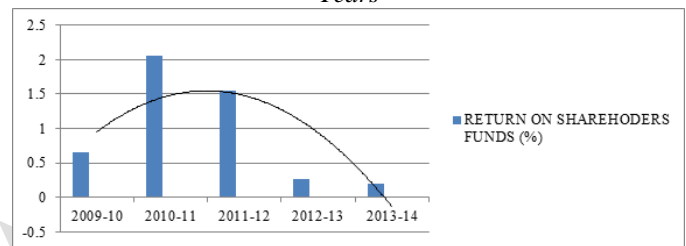


Figure 9

Figure 9 shows an increasing trend with respect to shareholders net worth in the year 2010-11 and decreasing trend thereafter.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
5	UGVCL	0.99	2.06	2.06	2.20	1.69

Source: Computed from annual reports.

Table 10: Return on Shareholders' Funds (%) of Last Five Years

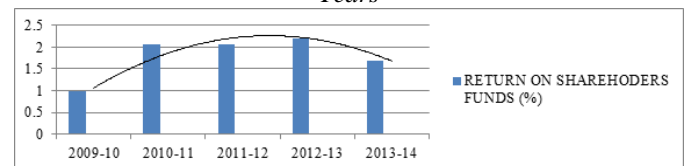


Figure 10

Figure 10 shows fluctuating trend with respect to net worth of shareholders in the 5 years of the study.

C. FINANCIAL PERFORMANCE IN RELATION TO EQUITY SHAREHOLDERS FUNDS

a. EARNINGS PER SHARE (EPS)

EPS is the widely used measure to analyse the performance of the companies. It is a financial ratio that gives the information regarding earnings available to each equity shareholder. It helps in making comparison and provides important information to the present and prospective investors. It is equally useful in making intra-firm comparisons over a period of time.

So, Basic EPS = Net Profit / Loss for the Period
Attributable to Equity Shareholders / WANES Outstanding
during the Period

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
1	GMDCL	8.80	11.79	15.31	18.89	13.81

Source: Annual reports.

Table 11: Basic Earnings Per Share (Rs.) of Last Five Years

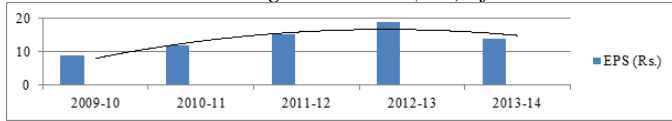


Figure 11

Figure 11 shows increasing trend in EPS from the year 2010-11 to 2012-13 and decreasing trend in the last year. Overall, it depicts a fluctuating trend.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
2	GSECL	1.36	0.98	1.18	1.17	0.97

Source: Computed from annual reports.

Table 12: Basic Earnings Per Share (Rs.) of Last Five Years

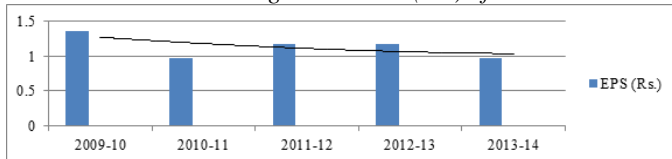


Figure 12

Figure 12 shows a fluctuating trend in EPS during 5 years of the study.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
3	DGVCL	0.83	2.34	2.85	0.95	1.93

Source: Computed from annual reports.

Table 13: Basic Earnings Per Share (Rs.) of Last Five Years

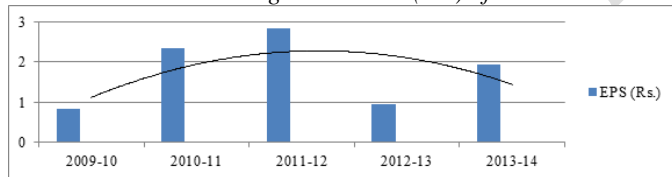


Figure 13

Figure 13 shows increasing trend in EPS from the year 2010-11 to 2011-12 and a fluctuating trend in last two years of the study. Overall, it shows a fluctuating trend.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
4	GUVNL	0.06	0.19	0.17	0.03	0.02

Source: Computed from annual reports.

Table 14: Basic Earnings Per Share (Rs.) of Last Five Years

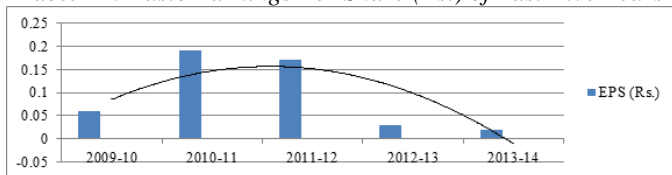


Figure 14

Figure 14 shows a fluctuating trend in EPS during last five years. In the year 2010-11 EPS increases to Rs. 0.19, in the year 2011-12 it reduces to Rs. 0.17 and reduces thereafter.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
5	UGVCL	0.27	0.55	0.52	0.57	0.51

Source: Computed from annual reports.

Table 15: Basic Earnings Per Share (Rs.) of Last Five Years

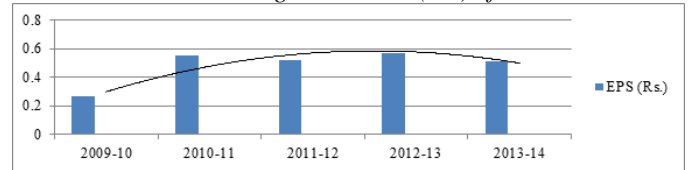


Figure 15

Figure 15 shows a fluctuating trend, though fluctuations are very less. In the year 2010-11 EPS increases to Rs. 0.55 from Rs. 0.27 in the year 2009-10 and thereafter remains approximately constant in the rest of the years.

VIII. INTER-FIRM OR CROSS SECTIONAL ANALYSIS

It involves comparison of a financial data of a firm with other firms or industry averages for the same period. Inter-firm comparison is done for three companies only as they were found comparable.

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
3	DGVCL	0.48	1.17	1.21	0.37	0.68
4	GUVNL	0.11	0.37	0.27	0.05	0.04
5	UGVCL	0.12	0.23	0.19	0.18	0.18

Source: Computed from annual reports.

Table 16: Net Profit Ratio (%) of Last Five Years

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
3	DGVCL	7.54	10.36	11.19	3.58	6.75
4	GUVNL	0.65	2.06	1.55	0.26	0.19
5	UGVCL	0.99	2.06	2.06	2.20	1.69

Source: Computed from annual reports.

Table 17: Return on Shareholders' Funds (%) of Last Five Years

Sr. No.	Company	2009-10	2010-11	2011-12	2012-13	2013-14
3	DGVCL	0.83	2.34	2.85	0.95	1.93
4	GUVNL	0.06	0.19	0.17	0.03	0.02
5	UGVCL	0.27	0.55	0.52	0.57	0.51

Source: Computed from annual reports.

Table 18: Basic Earnings Per Share of Last Five Years (Rs.)

The data (Table 16, 17 and 18) shows that the three dimensional financial performance of DGVCL is better as compared to GUVNL and UGVCL. However, performance is lowest in case of GUVNL considering three-dimensional performance measures i.e., Net Profit Ratio, Return on Shareholders' Funds and EPS.

IX. CONCLUSION

There exists some degree of good governance as all GSUs are making profit. However, the financial performance of GMDCL is very good. In case of GSECL, DGVCL, GUVNL and UGVCL financial performance is not very good to sustain. Therefore, there is need to improve financial performance and governance to manage affairs of GSECL, DGVCL, GUVNL and UGVCL.

X. MANAGERIAL IMPLICATIONS

Managers have to increase profitability, particularly in case of GSECL, DGVCL, GUVNL and UGVCL. Though there are limited resources or given constraints, either revenue can be increased if production is adequate, or otherwise, expenses can be reduced. Further, in general, managers must present comprehensive or detailed annual reports which can provide more disclosures, and their initiatives may lead to good governance and more transparency.

XI. DIRECTIONS FOR FUTURE RESEARCH

Future research can focus on studies related to financial performance of GSUs considering large sample. Moreover industry average can also be considered in the analysis. Market value measures of financial performance will also enhance relevance of such studies.

XII. LIMITATIONS OF THE STUDY

Results of the study should be considered in the view of limitations such as sample size and period of the study.

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