



## Financial Appraisal of Grid Corporation of Odisha Limited (Gridco) : An Analytical Study

Bhagyadhar Nayak, Lect-in-Commerce

Bhagyadhar Nayak, Lect-in-Commerce, B.S. College, Nuahat, Jajpur

**Abstract-** Energy is the driving force of state economic growth, either in the form of finite resources such as coal, oil and gas or in renewable forms such as hydroelectric, wind, solar and biomass, or it's converted form, electricity . The energy sector not only profoundly influences the diversified economic activities but also bears direct bearings on the quality of the state's air, water, land, forest resources and climate changes. The power sub sector along with gas and water supply sub sector contribute about 2.5 percent of the odisha's GSDP in real terms at 2011- 12 base. Financial appraisal is a scientific evaluation of the profitability and financial strength of a business concern.

**Key words:** Financial statement analysis, profit margin, assets, Gridco.

**Introduction :** Financial appraisal is a scientific evaluation of the profitability and financial strength of the business concern. Many a times, the terms financial performance appraisal and financial statement analysis are used as same. The techniques of financial statement analysis are used for the purpose of financial appraisal.

A firm has to prepare financial statements and provide the needed information to the user which contains the summarized information of the firm's financial affairs organized in a systematic manner. It is the responsibility of the concerned accounting department to prepare these statements commonly known as profit and loss account and balance sheet. Financial statements provide a summary of account of a business enterprise in the form of income statement and balance sheet.

The overall performance of Gridco Ltd. Can be analysed by its financial statement analysis. The state Govt. in works department in their notification no 5824- E.I.T.V.-15/61 dated the 23<sup>rd</sup>

Jan 1961 constituted the electricity Board in the state known as Odisha state Electricity Board (OSEB), as statutory authority constituted under section of the electricity (supply) act 1948 with effect from 01.03.1961. According to Odisha Electricity Reforms Act 1995, Gridco has been vested with the transmission and bulk supply business. Hence it has created different entitles:

(i) Generation company (ii) transmission Company (iii) Distribution Company. With the enactment of OER Act 1995 the erstwhile OSEB was dissolved and three new corporations were created on 1.04.1996. Such corporation are as follows (i) Grid Corporation of Odisha Ltd (GRIDCO) (ii) Odisha Power Transmission corporation Ltd (OPTCL) (iii) Odisha Hydro Power Corporation Ltd (OHPC). Gridco Ltd. Purchases power from various sources and sales it to four Odisha distribution companies. Odisha Power transmission corporation Ltd. Is the sole licensee for interstate power transmission and wheeling of electricity. It also controls the state load despatch



centre activities for grid operation in the state. Odisha Hydro Power Corporation Ltd is the control for operation and maintenance.

### 1. Review of literature :

Sarvann, P. (2009), In the research "A study on working capital management in non banking finance companies", for this he employed many statistical tools on differentiates to examine the effective management of working capital. He observed that the sample firms had place more importance upon the liquidity aspect compared to that of the profitability.

Solano, P.M. (2009), In "Effects of working capital management on SME profitability" states that if a company desires to take a greater risk for bigger profits and losses, it reduces the size of its working capital in relation to its sales if it was interested in improving its liquidity, it increases the level of its working capital. However this policy was likely to result in a reduction of the sales volume, therefore of profitability. Hence, a company should strike a balance between liquidity and profitability. Wilson, A.U. mary, O.I. okelue U.D. (2012), studied the, "effects of working capital management on profitability" A case study of five beer brewery firms in the world that the study revealed the debt ratio is computed by dividing the total debt or total liabilities of a firm by its total assets. It indicates the percentage of a company's assets that are provided via debt.

Eramus, P.D. (2010), Studied the "Working Capital management and profitability of Indian Oil Industry " this study revealed statistically

significant negative relationship between a firm's profitability and its net trade cycle, debt ratio and liquidity ratio, the result of this study it would appear that management could attempt to improve firm profitability by decreasing the overall investment in net working capital. Rao, J.M. (1993), studied the financial appraisal of Indian Automobile tyre industry. The study was intended to probe into the financial condition a financial strength and weakness of the Indian tyre industry. The main findings are that fixed assets utilization in many of the tyre undertakings was not as productive as expected and inventory was managed fairly well. Chundawat, D.S. Bhanawat, S.S. (2006), studied the "working capital management practices in IDBI assisted tube and tyre companies", the study found that during the study period the working capital management of IDBI assisted companies was more effective than the industry as a whole.

Shin, H.H. and Soenen, L. (1998), analysed the "Efficiency of working capital management and corporate profitability" management they found that a corporation's working capital is the result of the time lag between the expenditure for the purchase of raw materials and the collection from the sale of finished goods. Raheman, A and Nasar M. (1997), have made a study of the "Working capital management and profitability close study of Pakistani firms in this study they found that the Net-trade Cycle (NTC)" is basically equal to the cash conversion cycle (CCC) whereby all three component are expressed as a percentage of sales. The reason by using net trade cycle because it can be an easy device to estimate for additional financial needs with regard to



working capital expressed as a function of the projected sales growth. Agarwal, G.K. (2014) conducted in his study that "Financial performance of ONGC videsh Ltd." The study says that the interest coverage ratio of ONGCVL the better capacity of the firm in making the payment of interest as well as greater the safety during the study period. It indicates the fixed assets have not provided sufficient securities to long – term fund and they can be said to be unsecured by the fixed assets of the ONGCVL during the tenure.

Panicker, Dr. Sunita, (2013), Conducted in her study "Captial Structure Determinants for sustained performance in the energy sector of India" using the linear regression, the leverage behaviour of the companies are analysed over the study period In the study the determinants of capital structure i.e., capital intercity, tangibility and profitability is taken as dependent variables and debt-equity ratio as independent variable.

Pawan, kumar, (2013), In his study title "Financial Analysis of Indian Oil Corporation Limited" sated that the financial analysis is the art and science of examining and drawing inferences from the financial statements. It refers to the process of determining financial strengths and weaknesses of the firm by studying the relationship between the items of balance sheet, profit & loss account and the other operative date. He examined various financial aspects like profitability, liquidity and solvency, activity and investment. He concluded that the profitability position of the company cannot be said satisfactory.

Thanuja, P. (2013), in "A study on financial Analysis with reference to NDMPMACU Limited, Nellore" highlighted that one key area of financial analysis involves extrapolating the company's past performance into an estimate of the company's future performance. It is the process of evaluating business projects, budgets and other finance-related entities to analyze whether an entity is stable, solvent, liquid or profitable enough to be invested.

## 2. Research Objective –

The objectives of this paper are

- (i) To study the financial structure of Gridco Ltd. and its impact of financial performance.
- (ii) To analyse the financial statements with a view to examine its financial strength and weakness.

## 3. Research Methodology –

As the name of the research suggests, the purpose of the study is to know about- the financial analysis of GRIDCO and its achievements. The aim of the study is to examine the financial position of the GRIDCO and its achievement within last 10 years for this purpose the study is designed in such a way so as to do facilitate comparison and analysis the study applied the following financial, statistical and economic or other techniques to analyze and examine the data to dark relevant conclusions.

## 4. Hypothesis of the Study -

The following thought provoking hypotheses with balance coverage of the research study have been framed to materialize the objectives of the research study :



- There is no significant difference between Net operating profit Ratios of GRIDCO Ltd. Over the time.
- There is no significant difference between Return on Capital Employed Ratios of GRIDCO Ltd. Over the time.
- There is no significant difference between Return on Investment Ratios of GRIDCO Ltd. Over the time.
- There is no significant difference between Earning per share (E.P.S) of GRIDCO Ltd. Over the time.

#### 5. Research Gap-

Survey of the existing literature indicates that enough research has not been carried on to examine the financial appraisal of GRIDCO Ltd during post reforms period. Nor has any previous research examined the liquidity position, Solvency position, profitability analysis, operating efficiency and prediction of financial health and viability of GRIDCO Ltd. In Odisha. The present study is an attempt in this direction and therefore, aims to enrich the literature of financial appraisal relation to GRIDCO Ltd. Further, the study is intended to employ different sophisticated statistical techniques, before qualifying any aspects, of financial analysis for wider acceptability and appreciation. The present study is a humble attempt in this regard.

#### 6. About Gridco

Grid Corporation of Odisha Ltd. (GRIDCO) is one of the largest power generation corporation of Odisha. It was formed in 01.04.1996 and was responsible for both transmission and distribution of electricity till 25<sup>th</sup> Nov. 1999. The registered office of the corporation and its corporate

headquarters is situated at Janpath, Bhubaneswar, the capital of the State, Odisha. Its projects and field unit are spread all over Odisha. The day to day affairs to the company are managed by the chairman-cum-managing director assisted by whole-time directors under the overall supervision of the Board of Directors. They are in turn assisted by a team of dedicated and experienced professional in various field. The government of Odisha transferred the distribution asset and properties along with personnel of GRIDCO Ltd. to the four distribution companies with effect from 26.11.1998 the four distribution zones, which are converted to companies are namely

Northern Zone- NESCO Ltd (North Eastern Electricity Supply Company of Odisha Ltd.) Area of operation: Balasore, Bhadrak, Jajpur, Keonjhar, Mayurbhanj. Western Zone: WESCO Ltd. (Western Electricity Supply Company of Odisha Ltd.) Area of Operation: Baragarh, Balangir, Deogarh, Jharsuguda, Kalahandi, Nuapada, Sambalpur, Sonapur, Sundargarh. Southern Zone: SOUTHCO Ltd. (Southern Electricity Supply Company of Odisha Ltd) Central Zone: CESCO Ltd (Central Electricity supply company of Odisha Ltd.) Area of operation: Angul, Cuttack, Dhenkanal, jagatsinghpur, Kendrapada, Khurda, Nayagarh, Puri.

#### 7. Balance Sheet of Gridco -

The comparative balance sheet is helpful to provide a quick reference about the company's position and financial performance.



Table-1: Comparative Balance Sheet of GRIDCO Ltd. From 2011-12 to 2014-15 (₹ In Lakh)

Assets	2011-12	2012-13	2013-14	2014-15
Current Assets				
Current Investment	22,121.56	18,200.31	15,500.31	12,891.30
Trade receivable	73,383.86	105,224.25	94,636.68	96,934.85
Cash & Cash equivalent	27,019.29	52,211.08	48,687.70	39,744.79
Short - Term Loan & advances	6,394.60	8,126.13	10,395.70	24,878.40
Other current Assets	4,254.47	2,356.04	2,556.24	2494.02
Total Current Assets	133,173.79	186,117.82	1,71,776.80	1,76,943.37
Non - Current Assets				
Fixed Assets				
Tangible Assets	103.16	87.52	123.75	202.92
Intangible Assets	113,970.00	81,395.00	48,524.00	20,053.00
Non- Current Investment	11,022.06	11,022.06	11,022.06	11,022.06
Long - term loans & Advances	186,763.71	183,231.41	2,08,734.07	1,94,875.90
Other non- Current Assets	145,399.35	196,372.25	1,48,698.08	1,80,119.71
Total fixed Assets	457,258.28	472,108.24	3,15,101.97	-4,06,273.59
Total Assets	590,432.07	658,226.06	58,6878.77	5,83,216.96
Liabilities & Capital				
Current Liabilities				
Short - term borrowing	40,614.39	66,015.44	54,963.39	49,689.68
Trade payables	124,614.98	127,765.78	2,19,618.90	1,58,243.89
Other Current Liabilities	206,931.99	178,758.80	1,98,697.44	2,21,142.16
Short - term provision	0.25	1,017.77		2,082.50
Total Current liabilities	372,161.61	373,557.79	4,73,279.72	4,31,158.22
Non - Current Liabilities				
Long -Term borrowings	282,068.00	259,128.14	2,25,546.99	2,98,744.96
Other Long -Term liabilities	70,149.20	141,935.09	1,50,881.14	1,28,178.07
Total Non -Current Liabilities	352,217.20	401,063.23	3,76,428.13	4,36,923.03
Total Liabilities	724,378.81	774,461.02	8,49,707.85	8,68,081.25
Share holder's fund				
Share Capital	43,298.14	57,671.14	57,671.14	57,671.14
Reserve & Surplus	177,244.88	174,066.10	3,20,500.22	332,535.44
Total	133,946.74	116,394.96	3,78,171.36	3,90,206.58
Total Liabilities & Capital	590,432.07	658,226.06	1,227,879.21	1258287.83

Source : GRIDCO Annual Reports, 2011-12 to 2014-15

Financial statement analysis is the process of understanding the risk and profitability of a firm through analysis of reported financial information by using different accounting tools and techniques. It

## 8. Financial Statement analysis of Gridco :



generally consists of reformulating the reported financial statements, analysis and adjustments of measurement errors, financial ratio analysis on the basis of reformulated and adjusted financial statements.

**Application of financial statement analysis-** Generally, the financial statement of Gridco is responsible for analyzing the various application of the company. The applications are as follows:

- a. Financial statement analysis is useful for assessment of the corporate excellence.
- b. It judges the credit – worthiness of the company.
- c. It forecasts about the bankruptcy position of the company.
- d. It is helpful in valuing the equity shares.
- e. Market risk of the company is also estimated by the financial statement analysis.

### 9. Tools of financial statement Analysis-

There are various types of tools used for the analysis of the financial statement. The most popularly used tool for the financial statement analysis is the ratio analysis. From the arithmetical point of view, ratio is a relationship between two given figures, financial ratio analysis is the study or ratios between various items or groups of items of a given financial statement. We can also say that ratio analysis is a systematic use of

ratio to interpret the performance and status of the company. There are different types of financial ratio used to make analysis of organizations performance. Some of them are described below:

**Liquidity Ratio:** Liquidity ratio reflects the shorter solvency position of the company. In other words this ratio reflects the short-term financial strength or solvency of the company. To measure the liquidity of a firm, the following ratios can be calculated and the following are the formulas:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Liquid Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\text{Cash Ratio} = \frac{\text{Cash and Bank Balance} + \text{Current Investment}}{\text{Current Liabilities}}$$

### Leverage Ratio :

Leverage ratio analysis is also known as capital structure ratio. This ratio measures about long term solvency of the organization. Various leverage ratio can be calculated by the following formulas:

$$\begin{aligned} \text{Debt - Equity Ratio} &= \frac{\text{Debt}}{\text{Equity}} \\ \text{Debt - Asset Ratio} &= \frac{\text{Debt}}{\text{Assets}} \end{aligned}$$





$$\begin{aligned} \text{Debt - Assets} &= \frac{\text{Debt}}{\text{Equity} + \text{Debt}} \\ \text{Interest - coverage Ratio} &= \frac{\text{EBIT}}{\text{Interest}} \end{aligned}$$

#### Turnover Ratio-

Turnover ratio or activity ratio is also one of the important financial ratio analysis. It generally measures how efficiently the company manage the assets. Various turnover ratio can be calculated by the following formulas:

- Inventory turnover Ratio  
=  $\frac{\text{Cost of goods sold}}{\text{Ave. Inventory}}$
- Debtor turnover ratio  
=  $\frac{\text{Net credit sales}}{\text{Ave. Accounts Receivables}}$
- Fixed asset turnover ratio  
=  $\frac{\text{Net Sales}}{\text{Ave. Net fixed Assets}}$
- Total Assets Turnover Ratio  
=  $\frac{\text{Net Sales}}{\text{Ave. total Assets}}$

**Profitability Ratios-** The operation efficiency of a firm and its ability to ensure adequate returns of its shareholders depends ultimately on the profit earned by it. So the profitability of a firm can be measured by its profitability ratio. This ratio can be determined on the basis of either sales or investments. This ratio is of various types:

- Gross profit margin Ratio
- Net profit margin ratio
- Return to total Asset ratio
- Earning power ratio

Different types of profitability ratio can be calculated by the following formulas:

- Gross Profit margin Ratio  
=  $\frac{\text{Gross profit}}{\text{Net Sales}}$
- Net profit margin ratio  
=  $\frac{\text{Net Profit}}{\text{Net Sales}}$
- Return or total Asset (ROA)  
=  $\frac{\text{Net Profit (after tax)}}{\text{Ave. Total Assets}}$
- Earning power ratio  
=  $\frac{\text{Profit before Interest and taxes}}{\text{Ave total Assets}}$

To evaluate the performance of Gridco, ratio analysis is also very much necessary. Taking it into consideration, here various types of ratio analysis for Gridco has been calculated, which throw light on the financial position and the performance of the company in various years. Table-2 gives a detailed idea regarding the various financial ratio analysis of GRIDCO Ltd. Here the time period is taken from 2011-12 to 2014-15. In table 2 four types of financial ratios i.e., liquidity ratio, leverage ratio, turnover ratio, profitability ratio is taken into consideration.

#### Financial Ratio Analysis of GRIDCO Ltd.

**10. Analysis of Data :** The overall performance of GRIDCO Ltd can be analysed by its financial statement analysis.



Table-2

( in Lakh)

Financial Ratios	2011-12	2012-13	2013-14	2014-15
Liquidity Ratio				
Current Ratio	0.35:1	050:1	0.36:1	0.41:1
Quick Ratio	0.35:1	050:1	0.36:1	0.41:1
Cash Ratio	0.14	0.19	0.14	0.13
Cash flow coverage Ratio	25.04	14.53	20.23	9.20
Leverage Ratio				
Debt- Equity Ratio	81.34	6.95	6.52	7.40
Debt – Assets Ratio	1.22	1.17	1.4	1.47
Interest Coverage Ratio	0.13	1.28	0.40	1.16
Proprietary Ratio	37.35	32.20	64.43	66.90
Turnover Ratio				
Total Assets Turnover Ratio	1.22	1.17	1.04	1.47
Fixed Assets Turnover	0.51	0.35	0.12	0.05
Profitability Ratio				
Net profit ratio	-17.62	0.47	-22.98	1.81
Return on Owners equity	-42.48	1.37	-38.72	3.08
Earnings per share	2164	55	2539	209
Return on Capital Employed	-2.13	16.78	-2.50	11.03

Source : GRIDCO Annual Reports,  
2011-12 to 2014-15

**Analysis of Liquidity Ratio :** The current ratio of Gridco Ltd shows that the company's ability to meet the current obligation is low I,e, below the general norm of current ratio. Similarly, the quick ratio is not over or equal to general norm of quick ratio. The cash ratio of Gridco is very low and not so satisfactory. The cash flow coverage ratio measures the potentiality of the firm in meeting the current obligations on the basis of cash flow originating from the business operations. The cash

flow coverage ratio shows a fluctuating trend. It ranged between 9.20 per cent to 25.04 per cent.

**Analysis of Leverage Ratio :** From the debt – equity ratio analysis it is reflected that Gridco Ltd had a middle safety margin for the creditor for three years. The debt – Asset ratio indicates that the whole study period is equal ratio. The Interest coverage ratio of GRIDCO Ltd. are negative for two years and other two years is 1.28 and 1.16. It indicates that Gridco has been unable to pay interest to the lenders for some years which are a dangerous signal for the company.





**Analysis of Turnover Ratio :** The Turnover ratio of GRIDCO Ltd is also not so impressive. The total Assets Turnover ratio measures the efficient employment all assets, the ratio is very equal. The fixed asset turnover ratio of GRIDCO in the year 2011-12 to 2014-15 was Negative. All total the turnover ratio of GRIDCO reflects about the inefficiency of the company is handling the assets.

**Analysis of Profitability Ratio :** The Net profit ratio of GRIDCO Ltd is very low and negative whole of the study period except, the year 2012-13 and 2014-15. So it indicates that GRIDCO has inadequate returns to the owners and shareholders. Similarly the return on owners equity is negative only for two years and positive, rest of the years. Earning per share is satisfactory for first and third years of the study period and rest of the two years is not satisfactory. Similarly the Return on capital Employed is also negative for two years and other two years is positive. It shows that the return on total Assets is very poor of GRIDCO Ltd. The earning power ratio of GRIDCO also indicates towards the poor performance of the company.

#### **Findings-**

- Liquidity ratio reflects the short term solvency position of the company.
- The current ratio of the company shows that the company's ability to meet the current obligation is low.
- From the debt equity ratio analysis it is reflected that GRIDCO Ltd, had a lower safety margin for the creditors.

- The interest coverage ratios of GRIDCO are also negative in all the years.
- Working capital ratio of GRIDCO Ltd is moving in a declining order which shows that the ability of the company to meet its day-to-day business is decreasing.

**Suggestions :** From the financial analysis of GRIDCO, it is found that the company's performance is not so good. Here some suggestions are highlighted which would be helpful to the company.

- The Management should generate a systematic financial plan.
- There should be no over investment in stock.
- The cash collection from the customers should be improved.
- The company should be equipped with well qualified staff.
- Last but not the least; the company should have to adopt certain tools and techniques, which will help it to recover in a better way without any obligation imposing on customers.

#### **Conclusion :**

Combining all the above results and the analysis it can be concluded that the financial performance as well as the business performance of the Gridco Ltd. is not so satisfactory. So the hypothesis taken in this work proved to be correct Gridco is not doubt one of the leading power generating companies in odisha, but its performance during these periods is not so satisfactory. The findings about the Gridco provide a slight picture about the company's position and performance at the given time period. If the Gridco Ltd. takes some effective measure to overcome its drawback, then one day will come when



Gridco will stand as a most powerful and efficient organization in the Odisha power section, which enriched with the excellence in the management of finance and position.

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