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LIQUIDITY AND PROFITABILITY ANALYSIS OF INDIAN POWER SECTOR: A STUDY OF TSNPDCL

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ABSTRACT

The present paper examines the liquidity and profitability of India power sector. They play vital role in every organization just as the role of heart in human body. Northern Power Distribution Company of Telangana Ltd (TSNPDCL) was incorporated under the Companies Act, 1956 as a Public Limited Company on 30-03-2000 with headquarters at Warangal to carry out electricity distribution business as part of the unbundling of erstwhile A.P.S.E.B. The Company caters to supply of electricity in districts of Mancherial, Nirmal, Kumram Bheem, Kamareddy, Peddapalli, Jagtial, Rajanna, Warangal Urban, Warangal Rural, Mahabubabad, Prof Jayashankar, Jangaon, Bhadradi, Adilabad, Nizamabad, Karimnagar and Khammam Districts. Therefore, the effort of an organization depends largely in this ability to manage its working capital, which helps to maintain a balanced relation between the liquidity and profitability. This study analysis of liquidity and profitability of TSNPDCL Ltd., relevant data has extracted from the Annual reports between financial years 2013-14 to 2018-19 of the company.

KEYWORDS

TSNPDCL, liquidity, profitability.

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INTRODUCTION

India has always been a power-deficient country. The demand for power is huge in India and supply of power has not been able to meet its demand. Under the Government's "Power for all by 2020" plan it is estimated that there is a capacity addition of more than 1,00,000 MW would be required. This shows that huge capacity additions are required at good efficiency rates, indicating that the opportunities available in this sector are huge.

The role of the Government in the development of Indian power industry has been very crucial. Government's policies aim at protecting consumer interests and making the sector commercially viable. As far as regulation is concerned, Electricity Act, 2003 is a very important Act as it allowed private sector participation in the generation of power, thus creating competition. It also allowed 100% FDI participation in the power generation, Transmission and Distribution (TD), thus inducing investments in the power sector. Globally, every dollar invested in generation has an equal amount invested in transmission and distribution. However, in India traditionally every dollar invested in generation has a corresponding half a dollar invested in transmission and distribution. Due to this, transmission capacity in India lags behind the generation capacity. Huge investments are required in Transmission and Distribution, if India's power sector is to meet the rising power demand.

PROFILE OF TSNPDCL

Northern Power Distribution Company of Telangana Ltd (TSNPDCL) was incorporated under the Companies Act, 1956 as a public Company on 30-03-2000 with head quarter at Warangal to carry out electricity distribution business as a part of the unbinding of erstwhile Andhra Pradesh Electricity Board (APSEB). The company caters to supply of electricity in district of Mancherial, Nirmal, KumramBheem, kamareddy, Peddapelly, Jagtial, Rajanna, Bhadradi, Adilabad, Nizamabad, Karimanager, Khammam, Warangal Rural and Warangal Urban Districts. The Company reaches out to a population of about 155.22 lakhs (as per provisional 2011 census) spread across hamlets, villages and towns spanning an area of 66,860 sqkm. The principal role of company is that of service provider to support economic and lifestyle activity in its licensed area.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To evaluate the liquidity through ratio analysis of TSNPDCL.
2. To study relationship between liquidity and profitability of TSNPDCL.

SCOPE OF THE STUDY

The present study is "Liquidity and Profitability Analysis of Indian Power Sector- A Study of TSNPDCL" focused on liquidity and profitability of Telangana Northern Power Distribution Company Ltd. It is one of the leading large size Power Distribution Corporation in Telangana. The scope concerned under the present study is ten years, during 2004-05 to 2014-15. The study units are situated at different places in Telangana.

RESEARCH METHODOLOGY

The present study is a case method of research for which the required data has been collected from the secondary sources comprising of published annual reports of TSNPDCL from 2013-14 to 2018-19. The collected data have been analysed in two ways, analysis of liquidity and profitability ratios and the relationship between liquidity and profitability. The collected data analysed various statistical methods have been applied such as Mean, Standard Deviation, Co-efficient of variance, Spearman rank Co-relation and T-Test in the study.

LIQUIDITY ANALYSIS IN TSNPDCL

Liquidity refers to the ability of an undertaking to meet its current obligations as and when become due. In fact, liquidity is a pre-requisite for the survival of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm. The liquidity ratios measure the ability of a firm to meet its short term obligations and reflect the short-term financial solvency of a firm. The ratios which indicate the liquidity of a firm are:

i) Current Ratio ii) Acid Test Ratio iii) Absolute Liquid Ratio

Current Ratio: Current ratio expresses the precise relation between current assets and current liabilities. The ratio is also known as working capital ratio. It is calculated by dividing the current assets with current liabilities.

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

It indicates the availability of current assets in rupee for every one rupee of current liabilities. A high ratio means that the firms have more investment in current assets. While a low ratio indicates that the firm in question is unable to retire its current liabilities. In fact, a satisfactory current ratio for any given firm is difficult to judge. For most manufacturing undertakings a ratio of 2:1 is considered a benchmark of adequate liquidity.

TABLE 1.1: LIQUIDITY RATIO OF TSNPDCL

Year	Current ratio	Quick ratio	Absolute liquidity ratio
2013-14	0.86	0.64	0.42
2014-15	0.55	0.53	0.28
2015-16	0.51	0.49	0.22
2016-17	0.45	0.43	0.23
2017-18	0.49	0.49	0.26
2018-19	0.53	0.52	0.29
Average	0.56	0.52	0.28

Source: Annual Reports of TSNPDCL

Table 1.1 reveals that in TSNPDCL Ltd the current ratio varied from the lowest 0.45 times in 2016-17 to the highest 0.86 times in 2013-14 with an average 0.56 times which shows this liquidity position of the company was not satisfactory. As per the ideal current ratio, the liquidity position of the selected company is 'not sound'.

Acid Test (or) Quick Ratio: Recognizing that inventory might not be very liquid, this ratio takes the quickly realizable assets and measures them against current liabilities. It is calculated by dividing quick assets by current liabilities. The quick assets include cash like assets and all current assets other than inventory and prepaid expenses.

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

It signifies the ability of a firm to settle all its current liabilities. Conventionally, a quick ratio of 1:1 considered to be a more satisfactory measure of liquidity of an enterprise.

It clears from Table-1.1 the quick ratio fluctuated between 0.43 times in 2016-17 to 0.64 times in 2013-14. An average of the quick ratio 0.52 times, during the period of study. The company is not maintaining the ideal norms of the quick ratio 1:1.

Absolute Liquidity Ratio: Absolute liquidity ratio is the refinement of the concept of eliminating inventory a liquid asset in the acid-test ratio, because of their uncertain value at the liquidation. Although receivables are generally much more liquid in nature than inventories, some doubt may exist concerning their liquidity as well. So by eliminating receivables and inventories from the current assets, another measure of liquidity is derived by relating the sum of cash and marketable securities to the current liabilities.

Table-1.1 reveals that the absolute liquidity ratio varied from the lowest 0.22 in 2015-16 to the highest 0.42 in 2013-14, an average of the ratio was 0.28. This table shows the cash position of the company was not satisfactory, which was lower in current assets as compared with the norm of 0.5:1 during the period of the study. It may be attempted to conclude that the size of working capital held by TSNPDCL was inadequate not excessive. But this is the real situation. In fact, the liquidity of a concern depends on the current assets as much as on the current liabilities. If the concern is able to secure short-term finance in a large measure, then the amount of current liabilities will be shot up by the same extent. That is why the study of liquidity ratio could not give us the correct position as to the adequacy of working capital.

Liquidity Vs. Profitability

The firm would make just enough investment in current assets if it were possible to estimate working capital needs exactly. Under perfect certainty, current assets holdings would be at the minimum level. A larger investment in current assets under certainly would mean a low rate of return on investment for the firm, as excess investment in current assets will not earn enough return. A smaller investment on the other hand, would mean interrupted production and sales, because of frequent stock-outs and inability to pay to creditors in time due to restrictive policy.

As it is not possible to estimate working capital needs accurately, the firm must decide about levels of current assets to be carried. Given a firm's technology and production policy, sales and demand conditions, operating efficiency etc., its current assets holdings will depend upon its working capital policy. It may follow a conservative or an aggressive policy. These policies involve risk-return and risk-return trade-offs. A conservative policy means lower return and risk, while an aggressive policy produces higher return and risk.

TESTING OF HYPOTHESIS

Null Hypothesis (H₀): There is no significant difference between current ratios and profit before interest of TSNPDCL during the study period.

Alternative Hypothesis (H₁): There is a significant difference between current ratios and profit before interest of TSNPDCL during the study period.

TABLE 1.2: RANK CORRELATION BETWEEN CURRENT RATIOS AND PROFIT BEFORE INTEREST AND TAX OF TSNPDCL DURING 2013-14 TO 2018-19

(Using Spearman Rank Correlation)

Year	Current Ratio	R ₁	PBIT	R ₂	d	d ²
2013-14	0.86	1	33.77	6	-5	25
2014-15	0.55	2	1348.20	4	-2	4
2015-16	0.51	4	995.44	5	-1	1
2016-17	0.45	6	1505.31	3	3	9
2017-18	0.49	5	1650.51	2	3	9
2018-19	0.53	3	3059.65	1	2	4
Correlation (r) = -0.45 $\sum d^2 = 52$						

It is evident from the table 1.2 shows negative correlation. There is no significant difference between current ratio and profit before interest and Tax of TSNPDCL., during the period of study.

FINDINGS AND CONCLUSION

Findings of the study revealed that the average current ratio was 0.56 times which shows this liquidity position of the company was not satisfactory. As per the ideal current ratio, the liquidity position of the company is not sound. The profitability of TSNPDCL has not improved significantly i.e., (negative impact) during the period of study. Another significant finding was that there is no direct relationship between liquidity and profitability of the company understudy. The analytical results imply that the implementation of the reform measures in the power sector have brought desired results by way of improvement in the profitability position of the company.

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