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**MEASUREMENT OF FINANCIAL PERFORMANCE: A CASE STUDY OF SAUDI ELECTRICITY COMPANY**

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**ABSTRACT**

*Saudi Electricity Company (SECO) is leading vertically integrated electric utility in Saudi Arabia. It is amalgamation of 10 local electricity firms of Saudi Arabia. In Saudi Arabia SECO is only a company which is engage in the generation, transmission and distribution of electricity across the Kingdom, managing 37,000 megawatts of power across some 45 plants. The present study is based on 2008 to 2011 financial information for measuring financial performance of Saudi Electricity Company. It was found that the company's overall financial position is good. Particularly the 2011 position is well due to raise in the profit level from the previous year position. It is better for the organization to diversify the funds to different sectors in the present market scenario.*

**KEYWORDS**

Financial Performance, Ratios.

**INTRODUCTION**

Financial performance refers to the act of performing financial activity. It refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Saudi Electricity Company (SECO) is leading vertically integrated electric utility in Saudi Arabia. The Saudi Electricity Company was founded after issuance of Council of Ministers decision No. 169 and date 1419 H, which ordered the consolidation of all Saudi electricity in the region, small companies and operational projects that were administered by the Public Electricity Corporation in one joint venture which is called the Saudi Electricity Company. The company is engaged in power generation, transmission and distribution in the Kingdom of Saudi Arabia. The company operates 70 gas, steam, and diesel generation plants with a total available capacity of 39,242 MW. SECO generates around 90% of the Saudi Arabia's total power generation capacity and serves to around 5.2 million governmental, industrial, agricultural, commercial, and residential consumers in Saudi Arabia. Its high-voltage transmission network comprises 39,793 circuit kilometers of underground and overhead cables.

**OBJECTIVE OF STUDY**

1. To find the Liquidity position of Saudi Electricity Company.
2. To study turnovers of the company
3. To find the profitability of the company.
4. To make comparison of past years financial results.
5. To suggest remedial measures for improving financial performance.

**RESEARCH METHODOLOGY**

The present study is based on secondary information which is collected from the annual reports and accounts, executive reports, and manager's report of the Saudi Electricity Company. Data is also gathered from the Books, Journals, websites and libraries.

To assure the objectives set under this study and to develop the understanding about the different aspects related to the topic, relevant literature and other studies are extensively analyzed.

**SCOPE OF STUDY**

To examine the financial performance of SECO, data is collected for the period of four years from 2008 to 2011.

**FINANCIAL ANALYSIS OF SAUDI ELECTRICITY COMPANY**

The financial analysis of Saudi Electricity Company (SECO) is done with the help of the various ratios such as Current ratio, quick ratio, absolute liquidity ratio, proprietary ratio, working capital turnover ratio, capital turnover ratio, current assets to fixed assets ratio, net profit ratio, operating profit ratio and reserve and surplus to capital employed ratio.

**LIQUIDITY RATIO**

These ratios portray the capacity of the business unit to meet its short term obligation from its short-term resources (e.g.) current ratio, quick ratio. Liquidity of the SECO is judged with the help of the following ratios.

**(a) CURRENT RATIO**

Current ratio may be defined as the relation ship between current assets and current liabilities it is the most common ratio for measuring liquidity. It is calculated by dividing current assets and current liabilities. The SECO current ratios are as follows:

CURRENT RATIO(Amount in SAR)			
Year	Current Asset	Current Liabilities	Ratio
2008	25,010,507	40,102,750	0.62
2009	22,048,340	49,618,932	0.44
2010	26,532,905	27,467,578	0.96
2011	29,742,942	38,974,387	0.76

**Interpretation:** As per standard, the current ratio with 2:1 (or) more is considered as satisfactory position of the firm. The current ratio of SECO is almost less than the norm. Here it shows current ratio is below 1 (current liabilities exceed current assets), then the company may have problems of paying its obligation due to the shortage of current asset and the increasing of current liabilities in the four years.

**(b) QUICK (Liquid) RATIO**

The term 'liquidity' refers to the ability of a firm to pay its short-term obligation as and when they become due. The term quick assets or liquid assets refers current assets which can be converted into cash immediately it comprises all current assets except stock and prepaid expenses it is determined by dividing quick assets by quick liabilities. The Saudi Electricity Company using Quick Ratio, the result is given below:

QUICK RATIO(Amount in SAR)			
Year	Quick Asset	Current Liabilities	Ratio
2008	19,203,834	40,102,750	0.47
2009	16,424,998	49,618,932	0.33
2010	20,828,019	27,467,578	0.75
2011	24,180,092	38,974,387	0.62

**Interpretation:** Quick Ratio is an indicator of company's short-term liquidity. It measures the ability to use its quick assets (cash and cash equivalents, marketable securities and accounts receivable) to pay its current liabilities. Quick ratio specifies whether the assets can be quickly converted into cash are sufficient to cover current liabilities. Ideally, quick ratio should be 1:1. Quick assets are those assets which can be converted into cash within a short period of time. So, here the sundry debtors which are with the long period does not include in the quick assets. Here it shows the quick ratio lower than 1:1 may indicate that the company relies too much on inventory or other assets to pay its short-term liabilities.

**(c) ABSOLUTE LIQUIDITY RATIO**

Absolute liquid assets include cash, bank, and marketable securities. This ratio obtained by dividing cash and bank and marketable securities by current liabilities. The absolute liquidity ratio of SECO is as follows:

ABSOLUTE LIQUID RATIO (Amount in SAR)			
Year	Absolute Liquid Asset	Current Liabilities	Ratio
2008	1,232,097	40,102,750	0.03
2009	3,882,672	49,618,932	0.07
2010	7,227,776	27,467,578	0.2
2011	7,305,124	38,974,387	0.18

**Interpretation:** The current assets which are ready in the form of cash are considered as absolute liquid assets. Here, the cash and bank balance are absolute liquid assets. In the year 2010, the cash and bank balance is increased due to increase in the deposits and the current liabilities are reduced. The absolute liquid position of the company is not good.

**LEVERAGE RATIOS**

Many financial analyses are interested in the relative use of debt and equity in the firm. The term 'solvency' refers to the ability of a concern to meet its long-term obligation. The most important leverage ratio is the debt to equity ratio that gives you an idea about the debt one company is in and the equity it has at its disposal. Leverage ratios also determine the company's cost mix and its effects on the operating income.

**PROPRIETARY RATIO**

Proprietary ratio relates to the proprietors funds to total assets. It reveals the owners contribution to the total value of assets. This ratio shows the long-time solvency of the business it is calculated by dividing proprietor's funds by the total tangible assets. Analyzing the data of Saudi Electricity Company using Proprietary Ratio, the result is given below:

PROPRIETARY RATIO (Amount in SAR)			
Year	Share Holders Funds	Total Asset	Ratio
2008	48,552,621	145,382,363	0.33
2009	49,174,549	166,090,974	0.29
2010	50,269,708	190,871,927	0.26
2011	51,893,078	213,448,554	0.24

**Interpretation:** The result indicated that the ratio is constantly decreasing from year 2008 to 2011.

**ACTIVITY RATIOS**

These ratios evaluate the use of the total resources of the business concern along with the use of the components of total assets. They are intended to measure the effectiveness of the assets management the efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into sales. The activity ratio of Saudi Electricity Company is as follows:

**WORKING CAPITAL TURNOVER RATIO**

The Working Capital Turnover Ratio provides a measure to compare the depletion of working capital to the generation of sales over a specific period of time. The ratio provides investors with a look at how effectively a company is leveraging its working capital to generate sales.

WORKING CAPITAL TURNOVER RATIO(Amount in SAR)			
Year	Cost Of Goods Sold	Working Capital	Ratio
2008	21,865,097	-15,092,243	-1.44
2009	23,396,317	-27,570,592	-0.8
2010	26,489,281	-9,346,73	-28.3
2011	29,169,937	-9,231,445	-3.15

**Interpretation:** The result indicated that the working capital ratio of the company is negative in said period. It shows that company's obligations are more than their current assets which is not in favor of company.

**CAPITAL TURNOVER RATIOS**

Capital turnover is the relationship between Sales or cost of good sold and Capital employed in the business. The ratio of Saudi Electricity Company is as follows:

CAPITAL TURNOVER RATIO(Amount in SAR)			
Year	Cost Of Goods Sold	Capital Employed	Ratio
2008	21,865,097	105,279,613	0.20
2009	23,396,317	116,472,042	0.20
2010	26,489,281	163,404,349	0.16
2011	29,169,937	174,474,167	0.16

**Interpretation:** Measure of how well a company uses its stockholders' equity to generate revenue. The higher the ratio is, the more efficiently a company is using its capital. In 2011 it seems that the company is making the best sales among the four years.



**CURRENT ASSET TO FIXED ASSET RATIO**

It is relationship between Current Assets and Fixed Assets. The relation of Current Assets and Fixed Assets of Saudi Electricity Company is as follows

CURRENT ASSET TO FIXED ASSET RATIO(Amount in SAR)			
Year	Current Asset	Fixed Asset	Ratio
2008	25,010,507	120,371,856	0.20
2009	22,048,340	144,042,634	0.15
2010	26,532,905	164,339,022	0.16
2011	29,742,942	183,705,612	0.16

**Interpretation:** The current assets are increased in 2011 if compared with 2009 with an amount of more than 7million, and the fixed assets are gradually increased. The proportion of current assets to fixed assets is beyond satisfactory level.

**RESERVES AND SURPLUS TO CAPITAL RATIO**

Analyzing the data of Saudi Electricity Company using Reserves & Surplus To capital Ratio, the result is given below

RESERVES AND SURPLUS TO CAPITAL RATIO(Amount in SAR)			
Year	Reserve And Surplus	Capital Employed	Ratio
2008	6,886,683	105,279,613	0.06
2009	7,508,611	116,472,042	0.06
2010	8,603,770	163,404,349	0.05
2011	10,227,140	174,474,167	0.05

**Interpretation:** The ratio is used to reveal the policy pursued by the company a very high ratio indicates a conservative dividend policy and vice-versa. Higher the ratio better will be the position. The reserve and surplus ratio of the company was .06 percent in the year 2008 which reduced to .05 percent in the year 2011. It shows that the reserve and surplus of the company is less.

**PROFITABILITY RATIOS**

The profitability ratios of a business concern can be measured by the profitability ratios. These ratios highlight the end result of business activities by which alone the over all efficiency of a business unit can be judged. The profitability of the SECO may be judged with the help of the following ratios.

**NET PROFIT RATIO**

Net profit ratio establishes a relationship between net profit and sales. It is determined by dividing the net income after tax to the net sales for the period and measures the profit per rupee of sales. The Net Profit Ratio of Saudi Electricity Company is as follows:

NET PROFIT RATIO (Amount in SAR)			
Year	Net Profit	Net Sales	Ratio
2008	1,104,447	20,651,799	5.34
2009	1,169,614	22,040,360	5.30
2010	2,279,088	25,872,780	8.80
2011	2,213,159	28,280,494	7.82

**Interpretation:** The net profit ratio is the overall measure of the firm's ability to turn each riyal of income from services in net profit. If the net margin is inadequate the firm will fail to achieve return on shareholder's funds. The net profit ratio was 5.34 percent in 2008 which increased to 7.82 percent in 2011. This ratio was 8.8 percent in the year 2010. There is a decrease of .98 percent in the year 2011. It is a satisfactory ratio.

**OPERATING PROFIT RATIO**

Operating ratio is the relationship of Operating Profit and Net Sales. The ratio of Saudi Electricity Company is calculating as follows:

OPERATING PROFIT RATIO(Amount in SAR)			
Year	Operating Profit	Net Sales	Ratio
2008	764,046	20,651,799	3.7
2009	812,123	22,040,360	3.7
2010	1,850,400	25,872,780	7.15
2011	1,806,410	28,280,494	6.38

**Interpretation:** The operating profit ratio is used to measure the relationship between profits after zakat and sales of a firm. Depending on the concept, it will decide. The operating profit ratio is increased compared with the last year. The earnings are increased due to the increase in the income from services.

**FINDINGS OF THE STUDY**

- The current ratio has shown in a fluctuating trend as 0.62, 0.44, 0.96, and 0.76 which indicates that the current ratio is below the standard of 2:1.
- The quick ratio is also in a fluctuating trend throughout the period 2008 – 2011 resulting as 0.47, 0.33, 0.75, and 0.62. The company's present liquidity position is not satisfactory because it is less than one.
- The absolute liquid ratio has been increased during the first two years from 0.03 to 0.07, then in the final two years declined. It indicates that the cash is very less in comparison to the current liabilities.
- The proprietary ratio has shown fluctuating trend. The proprietary ratio is decreased compared with the last year. So, the long term solvency of the firm is decreased. The ratio is in between .24 to .33
- The working capital is at negative position in all the year.
- The capital turnover ratio is persisting for the year 2008 – 2009 then it declines and still persists.
- The current assets to fixed assets ratio is decrease gradually from 2008 – 2009 as 0.20, 0.15, and still persist at 0.16 for the final two years. It shows that the fixed assets are increased than current assets.
- The net profit ratio is in fluctuation manner. It decreased in the year of 2011 compared with the previous year from 8.80 to 7.82.
- The operating profit ratio is in fluctuating manner as 3.7, 3.7, 7.15 and 6.38 from 2008 – 2011 respectively.
- The Reserves and Surplus to Capital ratio was 0.06 during the first two years but decreased to 0.05 in the next two years of the study period.

**CONCLUSION**

The company's overall financial position is good. Particularly the 2011 position is well due to raise in the profit level from the previous year position. It is better for the organization to diversify the funds to different sectors in the present market scenario. There is a need of improving the liquidity position of the company.

- The company profits are huge in 2011; it is better to declare the dividend to shareholders.
- The company is utilizing the fixed assets, which help to the growth of the organization. The company should maintain that perfectly.

- Company should try to increase the current ratio.
- Quick ratio should also be improved by the company.
- Working capital of the company is negative; there is a need to improve the working capital of the company in investing the money for short term purposes.

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