FINANCIAL PERFORMANCE MANAGEMENT PRACTICES IN CORPORATE ENTERPRISES (A CASE STUDY OF BHARAT HEAVYELECTRICALS LIMITED, HARIDWAR)

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ABSTRACT

The current study is concise up to Bharat Heavy electrical Limited (BHEL), Haridwar as one of the most renounce and heavy loaded power generation centre in India Thus our effort has been to make an objective study of the growth and financial evaluation of BHEL, which is a public sector undertaking in Power sector. Much depends on the skill and competence of the management and whether it is carrying on the operations efficiently on the basis of modern management concepts and practices or not. The government policy also influences the growth and performance of such concerns and our endeavour has been to examine and evaluate the Government policy in this connection. The result of the study shown that • In spite of the global economic recession and financial turmoil, BHEL has continued generating tremendous profits. Profitability ratios indicate the firm has high operating efficiency backed by a strong management. BHEL is a capital goods manufacturing industry. In general, the industrial average capital goods manufacturing industry for liquidity ratios is quite low. But BHEL has a sound liquid position as suggested by various liquidity ratios of BHEL.

Keywords: BHEL, power generation, electricity, PSE.

INTRODUCTION

The basic difference between private and public ownership is the difference in objectives, like welfare maximization by the public sector and profit maximization by the private sector. Therefore, the ownership of a firm has significant effects on the behaviour and performance of an enterprise. Strategies are formulated in the light of objectives, and therefore play an important role in their accomplishment.

Globalization has brought about sweeping changes with mixed results across the globe. The richest 20% of the world's population use 55% of the final and primary energy while the poorest use only 5%. This disparity poses the global energy challenge of providing adequate access to commercial energy for over 2 billion of people living in the developing countries and having limited access to commercial energy. This calls for massive energy and power development efforts in consonance with the principles of environmental sustainability which is a key concern for the present century.

Bharat Heavy Electricals Limited (BHEL) was set up in November 1964, with three plants at Haridwar, Hyderabad, and Trichy. It is one of the Navaratna PSEs. It is a multiproduct, multi division, Public

Sector Company. It is generally believed that in the state owned enterprises neither incentives nor sanctions are closely related to performance. Most employees have job security and get advancement within a well-defined promotional hierarchy. Further objectives of PSEs are likely to induce certain socialobligations, which may be poorly defined and hard to quantify. The resulting looseness of the objectives makes monitoring of the PSEs much difficult, B.H.E.L is a market leader in power and industrial products that it manufactures. Its major competitors are MNCs like Siemens and ABB. It has a sound institutional system of analyzing environment. BHEL has a good system of undertaking monetization of its major products and thus reducing costs. Prices of BHEL's products are not fixed like that of consumer goods.

Bharat Heavy Electricals (BHEL) is the largest engineering and manufacturing enterprise in India in the energy-related and infrastructure sector, which includes Power, Railways, Telecom, Transmission and Distribution, Oil and Gas and many more and these sectors have been supplied with endless number of equipment's manufactured by BHEL. BHEL was established more than 50 years ago, ushering in the indigenous Heavy Electrical Equipment industry in India - a dream that has been more than realized with a well-recognized track record of performance. The company has been earning profits continuously since 1971-72 and paying dividends since 1976-77.

BHEL manufactures over 180 products under 30 major product groups and caters to core sectors of the Indian Economy viz., Power Generation & Transmission, Industry, Transportation, Telecommunication, Renewable Energy, etc. The wide network of BHEL's 14 manufacturing divisions, four Power Sector regional centres, over 100 project sites, eight service centres and 18 regional offices, enables the Company to promptly serve its customers and provide them with suitable products, systems and services efficiently and at competitive prices.

An important aspect in the management of public sector enterprises is the relevance of the strategic financial management practices in dealing with conflicting objectives. Objectives of public sector enterprises are conflicting because major shareholder is the Government. In the case of public ownership, the management of the firm can be regarded as an agent acting for the Government to which it is responsible. We would deal with the history of power generation, trends in installed capacity of electricity, electricity generated by different states, various hydroelectric projects in India and their generation capacity during five years i.e. 2005-06 to 2009-10.

REVIEW OF LITERATURE

Joshi and Little (1994) have attempted to estimate the real rates of return to investment in the public and private sectors. Bhaya (1990) based his findings on the time series data from 1981-82 to 1985-86 published annually for the public and private sector by the survey of industries. Heused three indicators of efficiency (managerial efficiency - things that can be controlled by managers). They are money, workforce and material. On the basis of the evidence available over the period 1981-82 and 1985-86, Bhaya concluded that barring the burden of the fixed capital over which the public sector management has no control and despite higher wages and administered prices over which the management has no control, efficiency in public sector is in no way inferior to the private sector.

Jha and Sahni (1992) use Annual Survey of Industries data for the years 1960-61 to 1982-83 for our industries: cement, cotton textiles, electricity, and iron and steel in another study. The latter two industries, they claim are primarily in the public sector while the first two are owned predominantly by private interests. The authors have no evidence of allocative inefficiencies in general and each of them is relatively as efficient as one another. **Sharma and Sinha (1995**) have used Cobb- Douglas production function to study productive efficiency (or Economic efficiency), which combines both technical and allocative efficiencies for the cement industry in India. **Majumdar (1995)** evaluated relative performance difference between the government owned, joint sector and private sectors of Indian industry.

Kaur (1998) compared TFPI of 15 public and 15 private enterprises from diverse sectors, viz., aluminium, steel, fertilizers, engineering, drugs and chemicals and consumer goods. According to Baker (2000), an effective system of corporate governance requires an effective financial reporting system.

Naib (2002) compared efficiency of 26 enterprises (13 public and 13 private) for a 12 year period from 1988-89 to 1999- 2000. The results indicated that both public and private firms experienced modest positiveaverage annual growth rate during this period. Thus this study also revealed that at the enterprise level there is little empirical justification for general presumption in favour of either type of ownership and a case by case examination may be more revealing.

Thus for the present study case study method has been taken. The present study is a case of Bharat Heavy Electricals Limited (BHEL), which is a multiproduct, multi division, Public Sector Company operating in highly competitive environment.

RATIONALE OF THE STUDY

The financial performance of a few concerns has been taken up by some workers but the same has not been carried out for BHEL, which occupy major positions in the Indian Power Sector. Over 65 percent of power generated in India comes from BHEL-supplied equipment. Overall it has installed power equipment for over 90,000 MW.

OBJECTIVE OF THE STUDY

The objectives of the proposed study are as follows:

I. To study the present financial position and growth rate of BHEL
II. To study the Long term financial performance of BHEL
III. To study the Working Capital Management and Managerialperformance of BHEL.
IV. To analyze the working finance and evaluate the overall profitability of BHEL with special reference to BHEL, Haridwar
V. To provide suggestions for improving the financial position

The performance of any business concern is dependent upon the skill, competence, acumen, farsightedness, rational decision making etc. We also propose to study whether the management of such concerns is following modern concepts and practices of management or not, also as to whether they are laying sufficient emphasis on research and development or not.

RESEARCH METHODOLOGY

The methodology of research is based upon case study method. It is the method of study in depth rather than breadth. In this approach performance of the enterprise will be studied by analyzing various financial parameters. For the purpose of the present study secondary data of various financial parameters will be collected from both internal as well as external sources. Such as, Annual Reports, newspapers, magazines, internet etc.

Data Analysis:

The Financial performance of Bharat Heavy Electricals Limited will be evaluated with the help of various ratios such as current ratio, quick ratio, equity capital fund ratio etc, calculated with the help of information and data collected from different sources like the Annual Reports, Economic Times etc. The other important focus of our study will be on the performanceevaluation of selected unit of BHEL. For this purpose, we have selected BHEL, Haridwar. The satisfactory performance of BHEL is quite important if they have to contribute substantially for the planned development of the country. Therefore, we propose to study and analyze its performance.

HYPOTHESIS

I. For the purpose of our study, we have developed the following hypothesis which we would try to assess with the help of available facts and data.
II. There is no significant difference between the ten years average of currentratio to the standard.
III. Correlation between working capital and total assets of this company is not significant.
IV. Correlation between sales and total assets of this company is notsignificant.

LIMITATIONS OF THE STUDY

I. The study has not been free from limitations. Some of the notable ones are as follows:
II. All the units of BHEL could not be studied separately.
III. Because of the paucity of funds and time, we made our studyon the basisof data compiled mainly from secondary sources.
IV. We have confined our study for a period of ten years i.e. 2001-02 to 2010-11.
V. The annual reports of BHEL(HEEP), Haridwar were available for a period of 7 years only i.e. 2001-02 to 2007-08.

Thus our effort has been to make an objective study of the growth and financial evaluation of BHEL, which is a public sector undertaking in Power sector. Much depends on the skill and competence of the management and whether it is carrying on the operations efficiently on the basis of modern management concepts and practices or not. The government policy also influences the growth and performance of such concerns and our endeavour has been to examine and evaluate the Government policy in this connection. Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

FINANCIAL STATEMENTS

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position.

Financial Management means planning, organizing, directing andcontrolling the financial activities such as procurement and utilization of fundsof the enterprise. It means applying general management principles to financial resources of the enterprise.

Ratio analysis is a successful method for assessing the solvency of a business concern and reflecting its long term financial soundness. The requirement of long term debt of a company should be evaluated and analyzed properly in order to maintain its equity and long life. The payment of principal money as well as the earnings should be protected. The fixed assets should be operated by the management in such a way that the burden of long term debts be minimized.

FINANCIAL PERFORMANCE

- During the year 2010-11, BHEL witnessed growth in Turnover by 26.89% to Rs. 43337 Crore from Rs. 34154 Crore in the previous year. The Turnover (net of excise duty) increased by 26.49% from Rs. 32861 Crore in 2009-10 to Rs. 41566 Crore in 2010-11. Profit before Tax for the year 2010-11 is placed at Rs. 9006 Crore as against Rs. 6591 Crore during 2009-10, a growth of 36.64% as compared to previous year. Profit after Tax is placed at Rs. 6011 Crore as against Rs. 4311 Crore during 2009-10, a growth of 39.43% over previous year.
- Increase in turnover coupled with savings in material cost over previous year has contributed to the better financial performance during the year.
- Net worth of the company has gone up from Rs. 15917 Crore to Rs. 20154 Crore registering an increase of 26.62%. Net asset value (NAV) per share has increased from Rs. 325.16 in 2009-10 to Rs. 411.71 in 2010-11.
- The Indian power sector has over the years caught attention of the world because of high power capacity additions program planned in the country. This has resulted in a number of international players/suppliers of power equipment’s increasing their focus on the growing Indian market byjoining hands with domestic New 600-800 MW TG Test Bed at BHEL, Haridwar Coal Research Facility at Tiruchirappalli.
- A combination of global competition and open access in the domestic market is putting pressure on the margins as new players are likely to move towards gaining market share by bidding

aggressively. This could escalate the competitive intensity for BHEL in the longterm. The margins could also be impacted by movement in raw material prices, especially steel and copper.

- Coal being the dominant fossil fuel used for power generation in India, domestic power developers/utilities are facing crunch of this natural resource due to shortage of supply as excavation of coal is not matching with demand. In addition, various other constraints like delay in obtaining environmental clearances, land acquisition and local law and order problems are affecting implementation of power projects.
- India has an overall strategic imperative to balance the goals of sustainable energy use, enhanced competitiveness and maintenance of the security of the energy supply. The Indian market is moving steadily towards adaptation of new technologies, like supercritical technology and its assimilation which can lead to initial technical hitches. The domestic power sector has other concerns like limited number and capacity/capability of balance of plant vendors in the country as well as for competent/qualified construction contractors for taking up large size power projects and handling of increased construction load, shortage of skilled manpower with sub-contractors, contractual issues between project authorities/ developers, contractors and their sub-contractors etc.
- In most of the business areas in which BHEL operates, the growth prospects are dependent on policy decisions at the national level as also on the prevailing business trends.
- Efficient management of inventory is a necessity for the smooth functioning of any business concern. It acts as a link between production and distribution process. It is also essential to overcome the fluctuations in the demand and supply of goods and also the fluctuation in the prices of goods. The main aim of maintaining inventory is to ensure smooth operation of an organization. This means no operation of the organization should be delayed forthe want of goods, whether it is raw materials, consumables, finished goods or spares etc.

CONCLUSION:

- In spite of the global economic recession and financial turmoil, BHEL has continued generating tremendous profits. Profitability ratios indicate the firm has high operating efficiency backed by a strong management.
- BHEL is a capital goods manufacturing industry. In general, the industrial average capital goods manufacturing industry for liquidity ratios is quite low. But BHEL has a sound liquid position as suggested by various liquidity ratios of BHEL.
- The economic slowdown has some affected BHEL. This has been: concluded from activity turnover ratio. The quality of debtors has deteriorated and as a result debtors' turnover ratio has declined. And as a consequence to it, the collection period has increased. The current assets like debtors and inventory, in 2007-08, took a longer time to convert into sales.
- Grass Block and Capital Work in progress increased by Rs. 1470 Crore, and Rs. 212 Crore respectively during the year 2010-11 due to Capital expenditure incurred on ongoing capacity augmentation programme atvarious manufacturing units and the erection and commissioning facilities at the project sites.

- Long term trade investments have increased by Rs. 359 Crore mainly on account of Equity participation in Joint Venture Companies and Subsidiary Company.
- Inventory increased by Rs. 1728 Crore over previous year in tune with the increase in volume of operations but in terms of days of turnover, it has decreased from 99 days in 2009-10 to 93 days in 2010-11.
- The increase in current liabilities is mainly due to increase in advances from customers by Rs. 1200 Crore and sundry creditors & other liabilities by Rs. 2123 Crore. The increase in provision is mainly on account ofincrease in provision for Contractual Obligation in line with revisedpolicy on warranty provisions.
- The increase in depreciation by Rs. 86 Crore is on account of increase in gross block on commissioning of assets.
- The Net profit for the year rose by Rs. 1700 Crore or 39.43%.
- The company has paid an interim dividend of 132.50% (Rs.13.25 per share), Rs. 648.61 Crore, on share capital of Rs. 489.52 Crore during the year 2010-11. The Board has also recommended a Final dividend of 179% (Rs. 17.90 per share) i.e. Rs. 876.24 Crore. The total dividend payment for the year 2010-11 is Rs. 1524.85 Crore (exclusive of dividend tax) as against Rs. 1140.58 Crore in the previous year.

SUGGESTION

- The debt equity ratio for BHEL was maintained at a good level, but forattaining further height, the amount of debt should be lowered.
- The fixed charges coverage ratio of BHEL marked an ascending trend making the company march towards favourable situations, which must be maintained in future too.
- A current ratio of nearly 2 signifies sound liquidity position of BHELwhich may be attributed to a ready market of its services.
- The inventory turnover ratio of BHEL revealed a rising trend during theperiod, which is surely a sign of satisfactory position.
- The net profit ratio followed an ascending mode which must bemaintained by decreasing the overhead charges of the concern.
- The increasing tendency of the depreciation ratio suggests that the wastage due to mismanagement and improper handling of machine has crept in, which should be minimized.
- The declining trend in the interest to PBIT ratio of BHEL symbolizes satisfactory improvement during the period under study, which should be maintained in future.
- This is an indication of favourable position but this is supported by the elevating net profit ratio. Therefore it is suggested that the concern should maintain proper management and administration of overhead expenses to let its satisfactory position prevail.
- Analysis of the liquidity position of BHEL reveals a not very favourable position as the current assets are in the form of inventories and debtors.

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