An Analysis of Financial Statements of Karnataka Power Corporation Limited, Bangalore

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ABSTRACT

The Karnataka Power Corporation Limited (KPCL) is mainly involved in the generation of power and is the sole administrator for the power generation in the state. It was formed on 20th July 1970 as a sister concern to Karnataka Electricity Board (KEB) in order to eradicate the power famine of the state. The present study is conducted to analyze the financial performance of Karnataka Power Corporation Limited with the help of various ratios. From the present study it is found that company financial performance is seeing to be sound, because the company trying to increase its production and also net profit. 

Keywords: Financial Statements. KPCL, Ratios etc.

I. INTRODUCTION

Financial statements are the mirror which reflects the financial position, strength and weakness of the company. Financial statements of the company helps to know how a business is doing and how it’s useful internally for a company- stock holders and to its board of directors, its managers and some employees including labour unions, externally they are important to perspective investors, to government agencies responsible for taxing and regulating, to lenders such as banks and credit rating agencies & investment analysts & stock brokers.

Financial statement analysis involves careful selection of data from financial statements for the primary purpose of forecasting the financial health of the company. This is accomplished by examining trends in key financial data, comparing financial data across companies, and analyzing key financial ratios.

John N. Myres defines that “Financial statement analysis is largely a study of relationships among the various financial factors in a business, as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statements.”

II. REVIEW OF LITERATURE

Doron Nissim & Stephen H Penman (1999) in his research article on financial performance he has pointed that this paper outlines a financial statement analysis for use in equity valuation. Standard profitability analysis is incorporated, and extended, and is complemented with an analysis of growth. The perspective is one of forecasting payoffs to equities. So financial statement analysis is presented first as a matter of Performa analysis of the future, with forecasted ratios viewed as building blocks of forecasts of payoffs.

Kennedy and Muller (1999) in his research article on financial performance he has pointed that the analysis and Inferences/interpretation of financial Statements are an attempt to determine the significance and meaning of financial statements data So that the forecast may be made of the prospects for future earnings, ability to pay interest and Debt maturates (both current and long term) and profitability and sound dividend policy.

Elizabeth Duncan and Elliott (2004) in his research article on financial performance he has pointed that he had stated that the paper in the title of efficiency, Customer service and financing performance among Australian financial institutions showed that All financial performance measures as interest margin, return on assets, and capital adequacy are Positively correlated with customer service quality scores.

Jonas Elmerraji (2005) in his research article on financial performance he has pointed that he tries to say that ratios can be an invaluable tool for making an Investment decision. Even so, many new investors would rather leave their decisions to fate than try to deal with the intimidation of financial ratios. The truth is that ratios aren't that intimidating, Even if you don't have a degree in business or finance. Using ratios to make informed decisions about an investment makes a lot of sense, once you know how use them.

performance he has pointed that he have said that the financial Statement analysis is the application of analytical tools and techniques to general-purpose financial statements and related data to derive estimates and inferences useful in business Analysis. Financial statement analysis reduces reliance on hunches, guesses, and intuition for Business decisions. It decreases the uncertainty of business analysis.

I.M.Pandey (2007) in his research article on financial performance he has pointed that the financial statements contain information about the financial consequences and sources and uses of financial resources, one should be able to say whether the financial condition of a firm is good or bad; whether it is improving or deteriorating. One can relate the financial variables given in financial statements in a meaningful way which will suggest the actions which one may have to initiate to improve the firm’s financial condition.

Susan Ward (2008) in his research article on financial performance he has pointed that emphasis that financial analysis using ratios between key values help Investors cope with the massive amount of numbers in company financial statements. For Example, they can compute the percentage of net profit a company is generating on the funds it has deployed. All other things remaining the same, a company that earns a higher percentage of Profit compared to other companies is a better investment option.

Rachchh Minaxi A (2011), in his research article on financial performance he has pointed & suggested that the financial statement analysis involves analyzing the financial statements to extract information that can facilitate decision making. It is the process of evaluating the relationship between component parts of the financial statements to obtain a better understanding of an entity’s position and performance.

Priyaaks (Mar 2012), in his research article on financial performance he has pointed that Financial statement analysis is the process of examining relationships among financial statement elements and making comparisons with relevant information. It is a tool in decision-making processes related to stocks, bonds, and other financial instruments.

From the above literature review, it is evident that the performance depicts the efficiency of organization. Along with that financial statements are very useful for decision making in the company by Board of Directors and management. It also helps to know the prosperity of the company with the profitability.

### III. NEED FOR THE STUDY

The research gap & relevant question which strike the mind during the literature review that, to know the financial performance of KPCL which is owned by the Govt. of Karnataka and is engaged in the generation of electrical power which is essential at present for industrialization as well as households. Hence there arises a need to address the aforesaid questions.

### IV. OBJECTIVES OF THE STUDY

1. To understand the company financial statements.
2. To know the financial performance, profitability & liquidity position of KPCL.
3. To compare and analyze the financial statements.
4. To study the earning capacity of KPCL.
5. To offer suggestions based on findings of the study.

### V. SCOPE OF THE STUDY

The present study is confined to KPCL, Bangalore & analysis is based on the information provided by the KPCL finance department, data will be analyzed for the period of 5 years i.e., 2007-08 to 2011-12, and the performance is compared within those periods.

### VI. DATA COLLECTION

Primary data is collected through a detailed personal interview with finance managers and account executives and with the help of other department of the company. Secondary data is collected two sources: Internal sources: Documents, reports, profiles, books of accounts, profit & loss a/c, balance sheet. External sources: Magazines, newspapers and company websites.

### VII. PLAN OF DATA ANALYSIS

The data gathered from various sources were primarily studied and necessary data was sorted sequentially keeping in mind the procedure of analysis. The analysis is made by using the statistical tools like current ratio, Debt equity ratio, cash profit ratio, net profit ratio with reference to financial position of KPCL.

#### Data Analysis:

**Table No.1**

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<thead>
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</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>555,07,765</td>
<td>546,72,197</td>
<td>650,65,078</td>
<td>774,35,632</td>
<td>984,15,281</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>81,92,202</td>
<td>100,73,311</td>
<td>85,92,003</td>
<td>77,80,889</td>
<td>72,17,535</td>
</tr>
<tr>
<td>Ratio</td>
<td>4.33</td>
<td>5.27</td>
<td>7.60</td>
<td>9.94</td>
<td>13.44</td>
</tr>
</tbody>
</table>

*Source: Annual Report of KPCL*
Interpretation:
The above table depicts the current ratio of the KPCL. The Current Ratio for the years under study stood as 4.33%, 5.27%, 7.60%, 9.24% and 13.44% for the year 2007-2008, 2008-2009, 2009-2010, and 2010-2011 and 2011-2012 it has been increasing respectively. A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time, as and when it is due. Greater is safety of fund of short term creditors. On the other hand a low current ratio indicates that the liquidity position of the firm is not good. Even very higher ratios will also adverse effect on the profitability of the company. From the analysis of the above date it is clear that the current ratio is higher than the standard. Hence the company is said to be liquid and can pay off the current obligations in time.

Table No. 2
Table Showing Quick Ratio of the KPCL

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<tbody>
<tr>
<td>Quick Assets</td>
<td>332,12,554</td>
<td>498,11,595</td>
<td>619,99,888</td>
<td>734,53,643</td>
<td>917,36,488</td>
</tr>
<tr>
<td>Quick Liabilities</td>
<td>81,92,262</td>
<td>101,73,311</td>
<td>85,92,033</td>
<td>77,83,889</td>
<td>73,73,535</td>
</tr>
<tr>
<td>Ratio</td>
<td>4.05</td>
<td>4.80</td>
<td>7.21</td>
<td>9.44</td>
<td>12.5</td>
</tr>
</tbody>
</table>

Source: Annual Report of KPCL

Interpretation
The above table depicts the quick ratio of the KPCL. The quick Ratio for years 2007-2008 was 4.05%, which further increased to 4.80% in the year 2008-2009, further increased by 7.21% in 2009-2010, slightly there was an increase of 9.44% in the year 2010-2011 and 12.5% in the year 2011-2012. If the actual quick ratio is equal to or greater than the standard ratio 1:1, it can be said that the firm is liquid and pay the quick liabilities reasonably without any difficulty. On the other hand if the quick ratio is less than the standard ratio the firm is not liquid. From the above analysis it is clear that the capacity of the company is reasonably good. It can meet it’s the debt and short term liquidity was good.

Table No. 3
Table Showing Solvency ratio of the KPCL

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</thead>
<tbody>
<tr>
<td>Total Liabilities</td>
<td>8192262</td>
<td>9922679</td>
<td>8592033</td>
<td>7783889</td>
<td>7317555</td>
</tr>
<tr>
<td>Total Assets</td>
<td>9112688</td>
<td>11084288</td>
<td>134265007</td>
<td>151395448</td>
<td>176479594</td>
</tr>
<tr>
<td>Ratio</td>
<td>0.09</td>
<td>0.09</td>
<td>0.06</td>
<td>0.05</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Source: Annual Report of KPCL

Interpretation
The above table shows the ratio between the total assets and total liabilities is recorded with the percentage of 0.09, 0.09, 0.06, 0.05 and 0.04 for the year 2007-2008, 2008-2009, 2009-2010, 2010-2011 and 2011-2012 respectively. From the analysis of the above data it is clear that the value of the assets is higher than the value of the liabilities. Therefore higher the ratio greater is the amount of creditors that is being used to generate profits for the owners of the firm i.e. overall solvency and liquidity position of the company is satisfactory and has the capacity to meet the liabilities.

Table No. 4
Table Showing Net Profit Ratio of the KPCL

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</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>20,59,970</td>
<td>27,66,088</td>
<td>43,62,472</td>
<td>52,48,030</td>
<td>17,98,948</td>
</tr>
<tr>
<td>Net sales</td>
<td>334,48,883</td>
<td>414,78,976</td>
<td>439,72,451</td>
<td>425,38,952</td>
<td>324,24,252</td>
</tr>
<tr>
<td>Ratio</td>
<td>6.16</td>
<td>6.66</td>
<td>9.92</td>
<td>12.33</td>
<td>3.43</td>
</tr>
</tbody>
</table>

Source: Annual Report of KPCL

Interpretation
The Net Profit ratio calculation is 6.16% for the year 2007-2008, 6.66% for the year 2008-2009, 9.92% for the year 2009-2010 and 12.33% for the year 2010-2011 and 3.43% for the year 2011-2012. A high net profit ratio indicates that the profitability of the concern has been good. On the other hand, a low net profit ratio indicates that the profitability of the enterprise is poor. The net profit ratio in 2010-11 i.e., 12.33% is the best among the other five year as it shows the efficiency of affairs maintained in the business. From 2007-08 there was a drastic change in the net profit ratio as it increases every year from 6.16% in 2007-08 to 12.33% in 2010-11. Therefore the present situation of the company is good enough to make sufficient profits, but in 2011-2012 it as decreased to 3.43% from 12.33% therefore they have to concentrate to make sufficient profits.

Table No. 5
Table Showing Return on Capital Employed of the KPCL

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<tbody>
<tr>
<td>Net profit</td>
<td>20,59,970</td>
<td>27,72,948</td>
<td>43,62,472</td>
<td>52,48,030</td>
<td>10,89,515</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>31139600</td>
<td>3878632</td>
<td>47610194</td>
<td>58040330</td>
<td>59547430</td>
</tr>
<tr>
<td>Ratio</td>
<td>6.61</td>
<td>7.15</td>
<td>9.12</td>
<td>9.04</td>
<td>1.83</td>
</tr>
</tbody>
</table>

Source: Annual Report of KPCL

Interpretation
The above table shows the returns on capital employed ratio, when compare to the base year 2007-2008
it is 6.61% and for the year 2008-09 and 2009-10 ROCE is increased to 7.15% & 9.12%, and then there was slight decreased during 2010-11 at 9.04% and again drastically decrease during 2011-12 at 1.83%. When compared to the base year 2007-2008 to current year 2011-2012 it is increased/ decreased at 6.61% to 1.83%. This shows the company’s financial position in the five years that is capital employed is fluctuating year by year. Company should to take appropriate measures to make it stable and increasing trend.

### Table No. 6

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<tbody>
<tr>
<td>Net Profit</td>
<td>20599700</td>
<td>2766098</td>
<td>4562472</td>
<td>5248000</td>
<td>1798948</td>
</tr>
<tr>
<td>Net Worth</td>
<td>31139600</td>
<td>38716312</td>
<td>47810394</td>
<td>5802696</td>
<td>59547450</td>
</tr>
<tr>
<td>Ratio</td>
<td>6.62</td>
<td>7.16</td>
<td>9.12</td>
<td>9.02</td>
<td>3.02</td>
</tr>
</tbody>
</table>

Source: Annual Report of KPCL

**Interpretation**

The Return on Equity calculated above measured to 6.62% in the year 2007-2008. 7.16% in the year 2008-2009, 9.12% in the year 2009-2010, 9.02% in the year 2010-2011 and 3.02% in the current year 2011-2012 respectively. The main objective of the concern is to maximize the wealth of the shareholder’s. which indicates that the shareholders have a greater return for their investments in the year 2009-2010 the ratio has increased to 9.12% the reason is that the net profit of the company has increased gradually wherein effective investment are not made by the company similarly in the year 2010-2011 the ratio has decreased to 9.02%. During 2011012 the ratio is 3.02% which indicates that company is not utilized shareholder funds effectively to maximize the company profit.

### Table No. 7

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</thead>
<tbody>
<tr>
<td>Net Profit after Tax</td>
<td>20599700</td>
<td>277294000</td>
<td>4562472</td>
<td>5248000</td>
<td>1798948</td>
</tr>
<tr>
<td>Number of Equity Shares</td>
<td>669815</td>
<td>7458262</td>
<td>17458262</td>
<td>22819686</td>
<td>22819786</td>
</tr>
<tr>
<td>EPS</td>
<td>311</td>
<td>375</td>
<td>351</td>
<td>350</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Annual Report of KPCL

**Interpretation**

The above table shows Earning per share. During 2007 -08 EPS was Rs. 311 per share. During 2008-09 it is increased to Rs. 373 per share. From 2009-10 onwards the EPS is downward trend to its investors, it was Rs.351 per share during 2009-10, Rs.350 EPS during 2010-11 and only Rs. 50 EPS during 2011-12. When compare to all the five years Rs. 373 EPS that is in 2008-2009 is the highest Equity per Share among all the years. Earnings per share value are not constant year by year. With the effect of this shareholders are not benefited. Company should take appropriate measures to improve the EPS of its shareholders.

### VIII. FINDINGS OF THE STUDY

1. KPCL is growing and grooming as a consulting firm in the power generation industry by looking at their achievements and financial report of the company.
2. The KPCL Current ratio is higher than ideal norm 2:1. It is increasing every year i.e. 4.33% in 2007-08 to 13.44% in 2011-2012. It shows good financial position of company.
3. KPCL quick ratio has continuously shown an upward trend and it is increasing more and more in 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 with percentage of 4.05, 4.80, 7.21, 9.44 and 12.5 respectively and the standard ratio is 1:1. It shows company’s good liquidity position.
4. The Solvency Ratio for the year 2007-08 was 0.09%, in the year 2008-09 the ratio was 0.09%, in the year 2009-10 the ratio is 0.06%, in the year 2010-11 the ratio was 0.05% and in the year 2011-12 the ratio was 0.04%. From the analysis it is clear that, the asset is higher than the value of the liabilities.
5. The actual ROCE of the company was increased since 2007-08 to 2009-10 from percentage of 6.61 to 9.12 which shows the efficiency of the company and it was satisfactory. But during 2011-12 ROCE drastically decreased to 1.83% which shows that the Company ability is ineffective in generating profit.
6. The net profit ratio has been increased year by year from 6.16% to 12.33% since 2007-08 to 2010-11 which is fair for the company but decreased in the year 2011-12 i.e. 3.43% which is an indication for the company to improve its performance...
7. Earnings per share value are not constant year by year. It can be evident with figures i.e. Rs. 311 in 2007-08, Rs.373 in 2008-09, Rs.351 in 2009-10, and Rs.350 in 2010-11 but during 2011-12 it has come down radically to Rs.50. With the effect of this shareholders are not benefited.
8. The main constituent of the capital structure in KPCL is equity capital as the company is wholly owned by the government of Karnataka with no private stake.
9. The company should properly focus on decreasing the current liabilities level so as to maintain liquid cash at optimum level.

### IX. SUGGESTIONS

1. It is suggested to KPCL to continue the same with respect to the current ratio as it is higher than ideal norm 2:1. It is
increasing every year from 4.33% in 2007-08 to 13.44% in 2011-2012. It shows good financial position of company.

2. KPCL must make sincere attempts to make use of current assets more effectively, which shows under utilization of the current assets it is because of the company current assets are higher than its liabilities.

3. The solvency ratio calculated above indicates that the total assets of the concern are higher than the liabilities and hence greater is the amount of creditors being used to generate profits. The overall solvency position of the concern is satisfactory. In order to improve the solvency position the management should focus on minimizing the use of outsider’s funds

4. It is suggested to the company to continue the same with respect to net profit as it indicates the lower cost of production.

5. Company has to pay tax regularly so that it will not burden the particular period in which it has paid the balance amount of tax.

6. KPCL depends largely in borrowing to finance its fixed assets. In future, the company should Use its own earnings to reduce the burden of interest payments.

7. KPCL should also revise their old tariff of Hydel and Thermal to increase their profitability.

8. KPCL should try to minimize the operating expense which enables the company to save, in order to increase the profit which helps for its future expansion.

X. CONCLUSION

It was an established fact that the demand for power is much higher than the supply. In such market conditions any project under taken has to be successful. But in such delicate situation of a catering to the public interest, the political environment rather than the cost plus basis determine the price at which power has to be supplied. In such a situation the producer has only one way to work backwards that was the starting point being the rate at which the power was going to be supplied to the customers due to various influences and constraints. In such a scenario the project executed has no choice but to trend on a path of constant vigilance on the economic front.

The study was conducted on the financial performance of KPCL for the period of 5 years. From the study it is determine that company financial performance was seeing to be sound, because the company tries to increase its production and also net profit. From the study it is concluded that though the company earning was increasing every year the company’s funds are not properly utilized. Therefore KPCL should try to improve its financial performance in the coming years to maximize the shareholders wealth by increasing its operating efficiency.

REFERENCES

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