AN ANALYSIS OF MANAGERIAL AND FINANCIAL PERFORMANCE OF NTPC IN INDIA

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ABSTRACT

The current paper is briefly description about the working scenario managerial performance and financial outcomes of NTPC in India. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. 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. The outcome of the study show that the debt equity ratio computed for NTPC during the five year period of study was maintained at a satisfactory level and reveals sound position of the corporation.

Keywords: *NTPC, Power generation, CERC*

INTRODUCTION

The strategy of going global offers various challenges in the field of finance, the most widely emphasized goal of the firm is to maximize the value of the firm to its owners which is the driving force to make the organization successful. If there is a central issue regarding managerial performance, it surely must be the efficacy of managerial action, that is, the extent to which managerial action does or doesn't produce the required results. Managers are responsible for achieving and maintaining results. In other words, they are expected to control certain variables. These targeted variables might take the form of financial result such as meeting a budget, reducing the costs associated with an operation or increasing revenue. They might also take the form of an operational result such as maintaining or increasing a specified level of production, service or quality. In any case, there are variables for which the manager is responsible and that the manager attempts to control.

This is possible only when, it has sufficient financial resources to meet the long term and short term requirements. Business can be carried on successfully with proper arrangement of funds. Funds are invariably required carry on the various activities of business which should be pursued on fulfilling the firm's long-term and short-term commitments. To meet long term commitment, firm needs permanent capital and for its short-term commitment, working capital needed. Regardless of whether the business big or small, government or non-government, business without finance a wingless bird. Thus Finance is significant facet of every business. Analysis of financial statements helps the banker to know the financial position of the business which enables the banker to take better decisions.

Among the various tools for evaluating the financial statements, ratio analysis is the most widely used tool, as it helps us to measure the financial and operational performance of any business. Ratio analysis will facilitate meaningful and purpose oriented decision making, depending on the evaluator's requirements.

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 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. Being the largest and successful power utility concern in a vast developing country, NTPC has been playing a major role in the country.

The energy situation in India and the power sector scenario in particular, must improve radically and urgently in order to accelerate the economic growth engine and to lend competitive edge to the economy. The Indian economy has a long way to go before it significantly enhances its share in world trade and improves its ranking on the indices of global competitiveness.

NTPC deals 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 past few years. NTPC was incorporated on 17th November, 1975 by the Government of India as a Government Company under the provision of the Companies Act, 1956. As a "Navaratana" Public Sector Enterprise, NTPC has always been delivering peak performance, be it generation or power production. The Company's corporate plan sets an ambitious target of becoming 40,000 MW power colossus by 2012. A private sector in an economy is made up of all businesses and firms owned by ordinary members of general public. It also consists of all the private households in which people live, whereas, public sector in an economy is owned and controlled by a government. It consists of government businesses and firms, and goods and services provided by the government, such as the National Health Service, state education, jobs, roads, public parks and law and order.

NTPC has a total capacity as on 31.03.2002 was 19935 MW and up to 31 March, 2002 the generation was 133190 BUS. NTPC accounts for India's 19% operating capacity, generating over 26% of the country's power requirements giving out best of 133190 BUS in 2001-02. NTPC, not only emphasizes on power generation but also the quality of power it supplies to its customers and also the efficiency of its power plants. This is evident from consistent high operating performance of NTPC power: plants as compared to National Operating Performance Measurement in terms of the ratio between actual output and installed capacity or Plant Load Factor (PLF), NTPC stands much above the national average. In the year 2001-02 PLF of NTPC stood at 81.8% as compared to national average of 69%

In compliance to the Accounting Standard (AS)11 notified in Companies (Accounting Standards) Rules, 2006 issued by Ministry of Company Affairs, GOI, exchange differences in respect of loans (other than regarded as borrowing cost/deposits/liabilities relating to fixed assets/capital work-in-progress acquired from a country outside India, arising out of transactions entered after 1" April, 2004, which were hitherto adjusted in the carrying cost of related assets have been recognized as income/expense in Profit & Loss Account. Consequently, profit for the year and fixed assets are lower by Rs. 2 million.

As per CERC Tariff Regulations, 2004 exchange rate variation on interest payments and loan repayments corresponding to the normative loans considered for tariff of stations/units is payable/ recoverable to/from the beneficiaries on repayment of the loans and interest thereon. Duringthe year, based on an opinion issued by the Expert Advisory Committee of the Institute of Chartered Accountants of India, foreign exchange variation on restatement of foreign currency loans as at the Balance Sheet date which is payable/recoverable to/from customers later on settlement is accounted for by creating a deferred liability/asset in the accounts instead of adjusting the same in profit & loss account. Accordingly, adjustments arising as a result of retrospective implementation of the opinion w.e.f. 1 April 2004 being the date from which such variations are to be passed on/recovered from customers by virtue of CERC Tariff Regulations, 2004 up to 31st March 2007 is accounted as 'Prior Period Income/Expenditure (net)' amounting to Rs.2, 918 million by debit to prior period sales (Schedule 25)

Out of the above, an amount of Rs.114 million has been adjusted during the year on becoming due to customers on repayment of loans. Such exchange differences for the year 207-08 amounting to Rs. 250 million have been accounted for during the year by debit to Deferred Foreign Currency Fluctuation Liability and corresponding credit to 'Sales Exchange Fluctuation Receivable from Customers (Schedule 18). Due to the above, profit for the year is lower and 'Deferred Foreign Currency Fluctuation Liability is higher by Rs.2, 554 million.

The basis for analysis and decision-making is financial information. Financial information is needed to predict, compare and evaluate the firms earning ability in all respects. The financial information is reported through the financial statement, and other accounting reports. It contains a wealth of information that if properly analysed and interpreted can provide valuable insights of purpose, which range from a simple analysis of short-term liquidity position of the firm to comprehensive assessment of the strengths and weakness of the firm in various areas. In other words, financial statements are mirrors, which reflect the financial position and managerial strengths and weaknesses of the concern. The present study would reveal some of the important facts that would direct towards the further growth and development of Public Sector Units like NTPC.

REVIEW OF LITERATURE

Some research work has been conducted, over the period to evaluate the financial position of various companies with the help of various ratios. A brief outline of these studies is as follows:

Klammer (1972) reported that not less than 37% of the respondents from large manufacturing firms did not use complicated capital budgeting techniques. The financial and non-financial information in the annual reports of 40 public sector units indicated that there are wide differences in the quality of disclosures made by sample companies ***(Singh and Bhargva 1978). Kim*** *and* ***Farragher (1981)*** surveyed the 1979 Fortune 1000 and found that of the 200 respondents more than 90% used various primary and secondary methods for reporting the financial statements of the company Similarly.

Bierman (1993) surveyed the largest 100 of the Fortune 500 firms and concluded that more than 86% of the firms used three or more methods while 14% firms used only two or fewer methods of financial management. ***Dixit (1992)*** gave an idea which avoids down side risk keeping in mind upward potential.

Pindyck (1991) emphasized that investment expenditure cannot be reversed easily but it can be prolonged. Investment can be delayed because of the dual nature of insurgency and non-reversal of it, there is an opportunity cost of investing now.

Benston (1985) contended the managerial hypothesis that a manager over invests to get return on rent due to lack of proportion of information culminating in larger return to managers, therefore incurring losses to shareholders. He studied 29 large composite firms (1970-75), to evaluate the loss and gain to manager and shareholders and found that the plight of both is nearly same.

Saced (1990) studied 45 Indian companies to evaluate the relationship of quality of financial management and company characteristics. He reported that the companies having large shareholding base and a higher rate of return have better quality of management. ***Noe (1999)*** reported that the managers do not make insider transactions to profit from news about their own firms just before it becomes publicly available. Managers appear to use various strategies for exploiting private information when making insider transactions.

Healy and Palepu (2001) stated that financial reporting are potentially important means for management to communicate firm performance to outside investors. A framework for analysing manager's reporting in a capital market setting indicate that the globalization of capital markets has been accompanied by calls for globalization of financial reporting.

Bagchi S.K. (2004) analysed about practical implication of accounting ratios in risk evaluation and concluded that accounting ratios still dominant factors in the matter of credit risk evaluation.

The above review indicates that a number of studies have been carried out for managerial and financial performance of various Indian companies, but no such studies are available for NTPC. Hence the present study has been proposed.

OBJECTIVES OF THE STUDY

I. To acquire information for business intelligence needs.

II. To understand company's strengths and weaknesses and areas of development or decline and to examine competitive or technological threats.

III. To study Financial, Strategic, Managerial and Operational factors.

IV. To assess the opportunities open to the company and its growth potential.

V. To evaluate the financial performance and to analyse various detailed financial ratios.

VI. To assess the managerial performance of NTPC.

HYPOTHESIS OF THE STUDY

Keeping the above objectives in mind, the following hypothesis have been formulated and tested during the study period.

1. There is no significant difference between the eight years average of current ratio to the standard.
2. Correlation between working capital and total assets of this company is not significant.
3. Correlation between sales and total assets of this company is not significant.

RESEARCH METHODOLOGY

The proposed study will be an attempt to analyse the Managerial and Financial performance of National Thermal Power Corporation would be evaluated with the help of information and data collected from various secondary sources (both external and internal) like the Annual Reports, newspaper, magazines, internet etc. Published annual reports will serve as the main source of data collection for the intended study.

Data Analysis

The financial performance will be analysed through ratio analysis and other parameters to be calculated under various performances such as capital structure, ROI, return on capital employed inventory analysis, EPS and DPS calculations and conclusions to be drawn.

We would judge the managerial performance of NTPC on the basis of selected criteria for it. We would take same criteria, which are adopted in the Memorandum of Understanding (MOU) which is agreed upon between the Governments, on the one hand and the management of NTPC, on the other hand.

On the basis of several ratios we will perform the analysis for NTPC. We would also apply other recognized tools and techniques of analysing financial and managerial performance of NTPC. The study would be undertaken for a period of five years i.e. 2005-06 to 2009-10.

Cash Management

Cash is required by any business to meet all its needs, Cash is an unproductive asset as it does not produce any goods or services but acts as a medium for acquiring other assets, which in turn are utilized for producing goods or services. Cash is generated from sale of these goods and services.

The cash to sale ratio for NTPC was computed to be 0.32 during 2005-06 which made the maximum rise by 0.09 during the period under investigation reaching a maximum ratio of 4.1 during 2006-07 and remained nearly constant during 2007-08 and 2008-09 recording a ratio of 0.40 and 0.39 respectively. The year 2009-10 was marked by a steep fall of 0.8 in the cash to sale ratio and approached the lowest ratio of 0.31.

OPERATIONAL PERFORMANCE

During the year 2009-10, the power stations of the Company generated 218.84 BU of electricity which was 28.60% of the total power generated in India. The power generated by the company has registered an increase of 5.75% over the previous year's generation of 206.939 BU. NTPC contributed 25.12% of the generation increase in the country during the year. The coal based stations of the company operated at a Plant Load Factor (PLF) of 90.81% (National PLF 77.48%) and Availability Factor of 91.76% during the year. The corporation has an installed coal based capacity of 24,885 MW comprising 81 units with average fleet age of 18.8 years. During this year, 12 coal based stations out of 15 achieved more than 90% PLF including six stations registering PLF above 95%. This included Talcher Thermal Power Station having an average age of 37 years, achieving 90.87% PLF. National Capital Thermal Power Station, Dadri (Stage-1) achieved highest ever annual PLF of 100.59%. The total generation contributed by coal stations is 191.259 BU. The gas stations having a capacity of 3955 MW achieved best ever annual generation of 27.581 BU at a PLF of 78.38% as against 67.01% last year registering a growth of 16.96%. The average availability for gas based stations for the year was 93.14% as compared. to 86.65% during previous year. The Operation Monitoring Centre has been given a new look and have various features of monitoring Real-time unit outages Fuel Monitoring Mechanism and efficiency and environmental parameters monitoring etc.

FINANCIAL PERFORMANCE

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. 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.

The debt equity ratio computed for NTPC during the five year period of study was maintained at a satisfactory level and reveals sound position of the corporation.

The analysis of fixed charges coverage ratio is of great importance because it assists in estimating the need for borrowed funds for a huge concern like NTPC. The fixed charges coverage ratio for NTPC registered a nearly increasing trend, with an exception during 2008-09, when the ratio was marked by descend of 1.01 compared to the preceding year. The ratio computed during 2005-06 was 4.75 which made a rise to 5.79 and 6.70 during 2006-07 and 2007-08 of respectively, but thereafter it tumbled to 5.69 in the preceding year and ultimately ascending to the maximum ratio of 7.02 during 2009-10. The reason Re decline in the fixed charges coverage ratio during 2008-09 was that the PBIT recorded a fall accompanied by increase in the value of fixed charges as compared to the preceding year.

The increasing pattern of the fixed charges coverage ratio for NTPC signifies that the position has been moving towards more favourable ones during the period undertaken for study.

The long term borrowing to fixed assets ratio also followed an increasing trend like the long term debt and the fixed assets during the period 2005-06 to 2009-10. The ratio computed for 2005-06 was 0.44 Which made a rise to 0.48, 0.51 and 0.55 during 2006-07, 2007-08 and 2008-09 respectively andapproached a maximum ratio of 0.57 during 2009-10.

It can be summarized that the long term borrowings for NTPC recorded a rise by 86% accompanied by 45% ascend in the fixed assets but the long term borrowings to fixed assets ratio increased by 29% only.

The short term financial strength of any firm involves its liquidity which denotes a company's ability to meet its obligations as they come. It is depicted by the relationship existing between its current assets and current liabilities.

SUGGESTIONS

1. The current three tier management structure should be retained since this is best suited to maximise overall long term value.

2. There should be four Regional Directors and six Directors at CC (Finance, HR, Commercial, Hydro, Technical/Engineering, and Planning and Business development.

3. The debt equity ratio for NTPC was maintained at a good level, but for attaining further height, the amount of debt should be lowered.

4. The fixed charges coverage ratio of NTPC marked an ascending trend making the company march towards favourable situations, which must be maintained in future too.

5. A high current ratio signifies sound liquidity position of NTPC which may be attributed to a ready market of its services.

6. The inventory turnover ratio of NTPC revealed a rising trend during the period 2005-06 to 2009-10, which is surely a sign of satisfactory position. 8. The net profit ratio followed a descending mode which must be prevented by decreasing the overhead charges of the concern.

7. The decreasing tendency of the depreciation ratio suggests that the wastage due to mismanagement and improper handling of machines has been minimized.

8. The declining trend in the interest to PBIT ratio of NTPC symbolizes satisfactory improvement during the period under study, which should be maintained in future.

9. This is an indication of favourable position but this is subsided by the tumbling net profit ratio. Therefore it is suggested that the concern should undergo proper management and administration of overhead expenses to let its satisfactory position prevail.

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