REVIEW OF RESEARCH

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A LIQUIDITY ANALYSIS OF MGVCL AND UGVCL COMPANIES OF GUJARAT STATE

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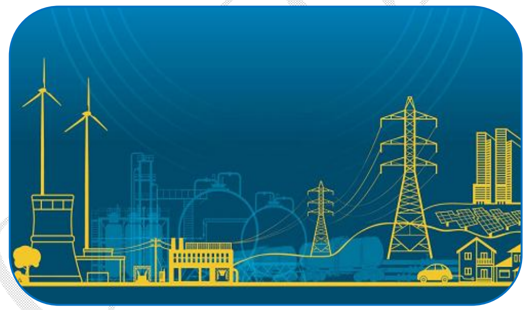
ABSTRACT :

Electricity plays a vital role in our day-to-day life. Our buildings, organizations, industries, hospitals, agricultures and in fact our whole economy get power from it. Power sector play very important role for enhancing economic growth and promoting equitable regional development. In Gujarat state, there is a considerable development of power sector after reformation of Gujarat Electric Board. The GEB was restructured into seven companies one each for generation and transmission, four distribution companies (Discoms) and a holding company known as Gujarat Urja Vikas Nigam Limited (GUVNL). There are four power distribution companies of Gujarat state like Paschim Gujarat Vij Company Ltd., Uttar Gujarat Vij Company Ltd., Madhya Gujarat Vij Company Ltd. and Dakshin Gujarat Vij Company Ltd. A financial statement furnish information pertaining to strength of particular Companies so here I, as a researcher, has made sincere efforts to measure the profitability of power distribution companies by applying different methods of analysis like comparative statement, common size statement, trend percentage, ratio analysis etc.



KEYWORDS : *Ratio, Electricity, Power Distribution Company, Liquidity.*

INTRODUCTION

In the year 1960 the Gujarat Electricity Board (GEB) was established under Section 5 of the Electricity (Supply) Act 1948 along with the formation of Gujarat State. There was reformulation of GEB in 2003. The Gujarat Electricity Industry (Reorganization and Regulation) Act in 2003 was declared for reorganization of the electricity industry in Gujarat and for establishing an Electricity Regulatory Commission in the state for regulation of the electricity sector. The GEB was restructured into seven companies one each for generation and transmission, four distribution companies (Discoms) and a holding company known as Gujarat Urja Vikas Nigam Limited (GUVNL). GUVNL has been structured as holding company of such generation, transmission and distribution companies. After reformations, GUVNL works as the planning and coordinating agency in the power sector. It is now the single bulk buyer in the state as well as the bulk supplier to distribution companies. It also carries out the function of power trading in the state.

All companies became fully operational from April 2005 and began conducting their activities independently. In the cities Ahmedabad and Surat power distribution has historically been with a private sector entity viz. Torrent Power through its fully owned subsidiaries Ahmedabad Electricity Company and Surat Electricity Company.

POWER SECTOR EVOLUTION IN INDIA:

There was significant development of power sector in India after independence. India became independent in 1947. At that time it had a capacity of generating a power of 1,362 MW. Electricity generation main sources were hydro power and coal based thermal power. The private sector companies carried generation and distribution of electrical power. Calcutta Electric was pivotal institute amongst them. A few urban areas got electricity power but rural areas and villages did not get electricity power. After 1947, purview of State and Central government agencies all new power generation, transmission and distribution in the rural center and the urban center (which was not served by private utilities) was established. In all states of India State Electricity Boards (SEBs) were established. In late sixties, nuclear power was established but development was at slower speed. In the early sixties introduced the concept of administration power systems on a regional basis crossing the political boundaries of states. The power supply industry has constantly focused on filling the gap between supply and demand of power.

OBJECTIVES OF THE STUDY:

The objective of the research work is to do comparative study of financial statement of MGVCL and UGVCL power distribution companies of Gujarat region as far as their Liquidity is concerned.

RESEARCH METHODOLOGY:

To undertake the study researchers have collected secondary data from the annual report during the period from 2012-13 to 2016-17 of selected power distribution companies of Gujarat region. Moreover other required information were collected through referring Financial literatures, published articles, related websites, magazines, journals etc.

For this study work i have selected two companies as sample of study.

1. Madhya Gujarat Vij Company Ltd. (PGVCL) Baroda
2. Uttar Gujarat Vij Company Ltd. (UGVCL) Mehsana

According to the objectives researcher has applied the necessary statistical tools like, average mean, percentage, ratio and graphic presentation of data, t- test.

ANALYSIS:

- **Introduction:**

Liquidity of business is one the key factors determining its propensity to succeed or fail. Both excess and shortage of liquidity affect the interest of the enterprise. By excess liquidity in a business enterprise, it is meant that it is carrying higher current assets than are warranted by the requirements of production. Hence, it indicates the blocking up of funds in current assets without any return. Besides, the enterprise has to incur costs to carry them overtime. Further the value of such assets would depreciate in times of inflation, if they are left ideally. Owing to the cornering of capital the enterprise may have to resort to additional borrowing even at a fancy price.

On the other hand the impact of inadequate liquidity is more severe. The losses due to insufficient liquidity would be many. Production may have to be curtailed or stopped for want of necessary funds. As the enterprise will not be in a position to pay off the debts, the credit worthiness of the enterprise is badly affected. In general the smaller the amount of default, the higher would be the damage done to the image of the unit. In addition the enterprise will not be able to secure funds from outside sources and the existing creditors may even force the enterprise into bankrupt. Further inefficient funds will not allow the concern to launch any profitable project or earn attractive rates of return on the existing investment.

Between the excess and inadequate liquidity, the later is considered to be more detrimental, since the lack of liquidity may endanger the very existence of the business enterprise. Besides, both the excess and inadequate liquidity adversely affect the profitability. If the enterprise is earning very low rate of return or incurring losses, there would be no funds generated by the operation of the enterprise which are essential to retire the debts. In fact there is a tangle between liquidity and profitability, which eventually determines the optimum level of investment in current assets. Of the liquidity and profitability the former assures further importance since profit could be earned with ease in subsequent periods, one the image of the unit is maintained. But, if the enterprise losses its face in the market wants or liquidity, it requires Herculean efforts to restore its position. Instances are not lacking of great industrial giants, with comfortable books profits coming to grief for want of liquidity.

- **Current Ratio:**

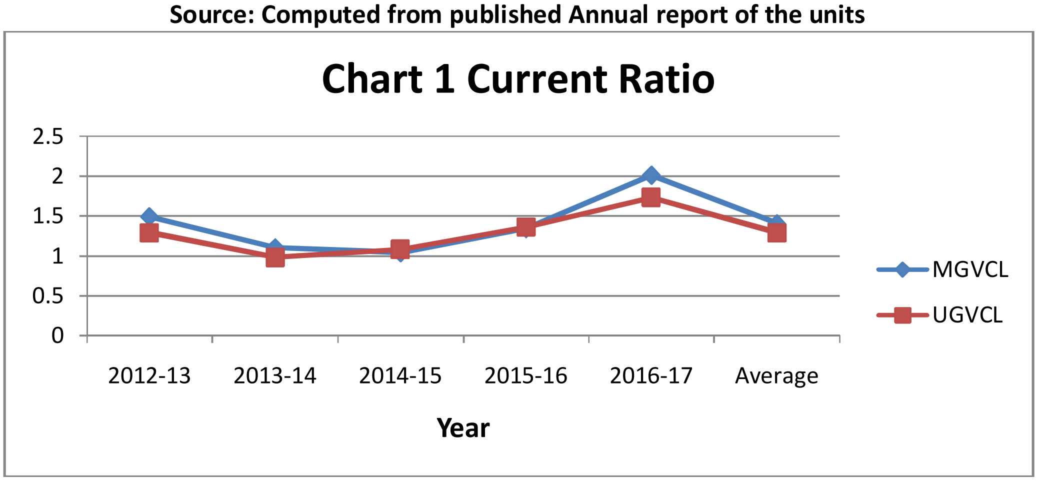
This most widely used ratio shows the proportion of current assets to current liabilities. It is also known as 'Working Capital Ratio' as it is a measure of working capital available at a particular time. The ratio is obtained by dividing current assets by the current liabilities. It is measure of short-term financial strength of the business and shows whether the business will be able to meet its current liabilities, as and when they mature. Liability which will mature within a period of 12 months is a current liability. They include creditors, bills payable, bank overdraft, outstanding expenses, provision for taxation etc. Similarly, current assets are in the form of cash or can be readily converted into cash within a short time. They include cash, bank balance, stock, debtors, bills receivables, prepaid expenses, accrued income, readily marketable securities etc.

Current ratio: Current Assets ÷ Current Liabilities

Table-1 shows the Current Ratio of the selected companies from 2012-13 to 2016-17.

TABLE: 1	Current Ratio					
Name of Company	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Average**
MGVCL	**1.49**	**1.10**	**1.04**	**1.34**	**2.01**	**1.40**
UGVCL	**1.29**	**0.98**	**1.08**	**1.36**	**1.73**	**1.29**

Source: Computed from published Annual report of the units



Above chart – 1 shows that the current ratio of the MGVCL Company is more than the UGVCL Company. Moreover it reflects that the current ratio of the MGVCL is consistently changing while UGVCL Company is constantly increased. The current ratio of MGVCL Company is higher than UGVCL Company because higher proportion of current assets compare to current liabilities. MGVCL current ratio is good because it is nearer to standard current ratio 2 : 1.

- **Liquid Ratio:**

A variant of current ratio is the liquid ratio or quick ratio which is designed to show the amount of cash available to meet immediate payments. It is obtained by dividing the liquid assets by liquid liabilities.

Liquid assets are obtained by deducting stock-in trade from current assets. Stock is not treated as a liquid asset because it cannot be readily converted into cash as and when required, the current ratio of a business does not reflect the true liquid position, if its current assets consist largely of stock-in-trade.

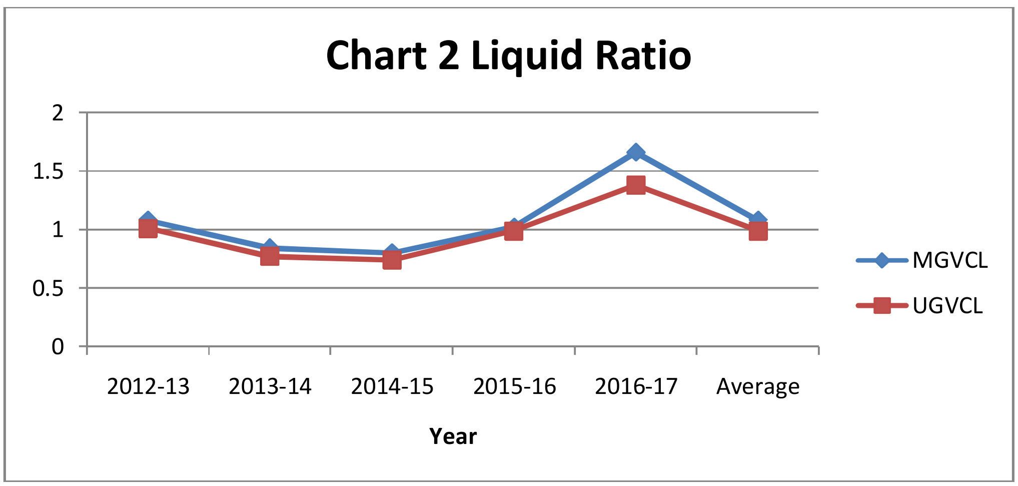
The liquid liabilities are obtained by deducting bank overdraft from current liabilities. Bank overdraft is not included in liquid liabilities because bank overdraft is not likely to be called on demand and is treated as a sort of permanent mode of financing. Hence, it is not treated as a quick liability.

Liquid ratio: Liquid assets / Liquid liabilities

Table-2 shows the Liquid Ratio of the selected companies from 2012-13 to 2016-17.

TABLE: 2	**Liquid Ratio**					
Name of Company	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Average**
MGVCL	1.08	0.84	0.80	1.02	1.66	1.08
UGVCL	1.01	0.77	0.74	0.99	1.38	0.99

Source: Computed from published Annual report of the units



Above chart- 2 indicates that the liquid ratio for all successive years for the MGVCL Company is quite higher than the liquid ratio of the UGVCL Company. It means MGVCL Company has good liquid position as compare to UGVCL Company. Liquid Ratio of MGVCL Company was constantly changing. MGVCL company has good liquid ratio because it is higher than standard ratio 1 : 1. While UGVCL Company has not satisfactory Liquid Ratio in some years because it was less than 1 : 1.

- **Acid test ratio:**

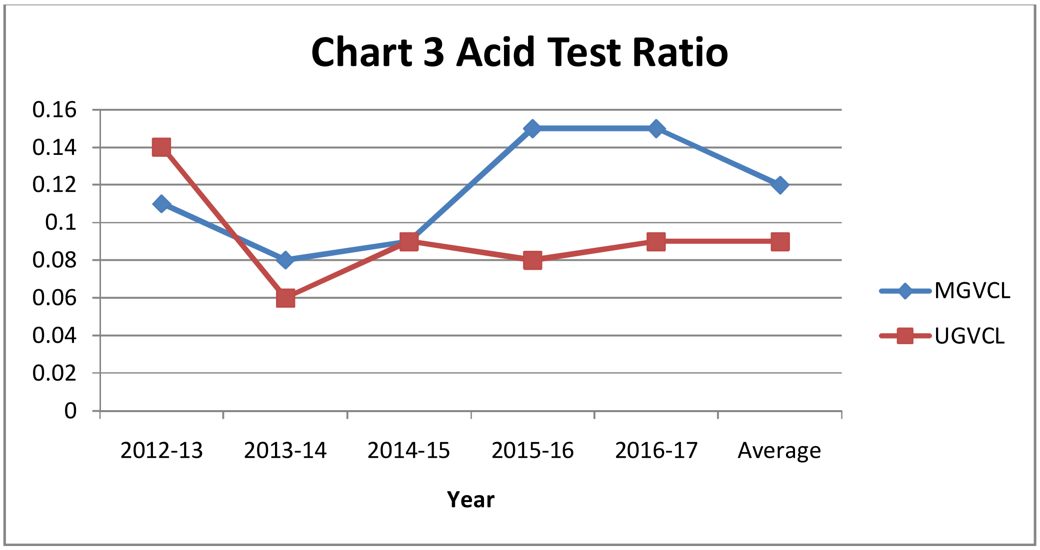
The measure of absolute liquidity may be obtained by comparing only cash and bank balance as well readily marketable securities with liquid liabilities. This is very exacting standard of liquidity value and it is satisfactory if the ratio is 0.5:1. It is computed by dividing the value of quick assets by liquid liabilities. Here, quick assets do not include both stock and debtors, because payments from debtors would not generally be received immediately when liquid liabilities are to be paid. Thus the quick assets comprise only cash balance, bank balance and readily marketable securities only.

Acid-test ratio: Quick assets ÷ Liquid liabilities

Table-3 shows the Acid Test Ratio of the selected companies from 2012-13 to 2016-17.

TABLE: 3			**Acid Test Ratio**			
Name of Company	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Average**
MGVCL	0.11	0.08	0.09	0.15	0.15	0.12
UGVCL	0.14	0.06	0.09	0.08	0.09	0.09

Source: Computed from published Annual report of the units



From the above chart- 3, we can say that the acid – test ratio MGVCL Company is higher than the UGVCL Company. Acid – test ratio of both the companies are constantly changing. MGVCL and UGVCL Companies have lower acid – test ratio because it has lower proportion of cash and cash equivalent assets. So, for increasing it company has to increase the proportion of cash and cash equivalent assets in current assets.

T- test

Null Hypothesis (Ho): There is no any significant difference in Current Ratio (CR), Liquid Ratio (LR) and Acid- Test Ratio (ATR) of MGVCL and UGVCL Companies.

Alternative Hypothesis (H_1): There is significant difference in Current Ratio (CR), Liquid Ratio (LR) and Acid- Test Ratio (ATR) of MGVCL and UGVCL Companies.

Table-4	**T- test**		
RATIO	**CR**	**LR**	**ATR**
Sig. (Two Tailed)	0.0847	0.0421	0.1614

In the above table-4, the two tailed significant test value for Current Ratio. Liquid Ratio and Acid – Test Ratio of MGVCL and UGVCL is 0.0847, 0.0421 and 0.1614. Hence, we may say that Liquid Ratio is significantly different between the MGVCL and UGVCL companies. While the Current Ratio and Acid – Test Ratio is not significantly different between the MGVCL and UGVCL companies.

5.2 SUGGESTIONS:

1. The Current Ratio of UGVCL is lowest. UGVCL has to increase in Current Ratio by increasing in current assets and decreasing in current liabilities.
2. The Liquid Ratio of UGVCL is lower than MGVCL Company. So, UGVCL Company has to increase its Liquid Ratio by decreasing in liquid liabilities.
3. The Acid – Test Ratio of UGVCL is lower than MGVCL Company, so for increasing it UGVCL Company has to increase in cash and cash equivalents assets.

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