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A Study on Financial Performance of Restructured or Revived SLPEs in Kerala

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Abstract
This paper is an attempt to see whether there has been any significant change in the financial performance of the selected State Level Public Enterprises subsequent to theimplementation of the revival and restructuring package. The analysis mainly involves the comparison of the performance prior to and post revival with the help of Ratio analysis like Current ratio, quick ratio, working capital ratio, Net Profit Ratio, Operating Ratio, Return on Equity, Return on investment , Debt-Equity Ratio, etc. Three public sector enterprises located in the state of Kerala were selected and their financial soundness is assessed with the help of Ratio analysis. The conclusions drawn could provide effective guidelines to the management of selected public sector enterprises in Kerala and their stakeholders.
Keywords: Finance, Financial Distress, Financial Analysis, Ratio Analysis, Public Sector Enterprises

Introduction

Finance is one of the basic foundations of all kinds of economic activities. It is the master key which provides access to all the sources being employed in manufacturing and merchandising activities. It has rightly been said that business needs money to make more money. However, it is also true that money begets more money, only when it is properly managed. Hence, efficient management of every business enterprise is closely linked with efficient management of its finance.

Financial analysis is a powerful mechanism which helps in ascertaining the strength and weakness in the operations and finances of anyenterprise. Generally a company will be able to improve its financial image thereby enhancing its chances when applying for a bank loan for various activities. Also it will be able to identify and correct performance problems before they have a major impact on the business.

Financial ratios indicate the financial position of the company. A company is deemed to be financially sounded if it is in a position to carry on its business smoothly and meets its obligations, both short-term as well as long-term, without strain. It is a principle of finance that the short-term requirements of funds should be met out of short-term funds and long-term requirements should be met out of long-term funds.

The financial ratio analysis is also one of the important methods of analysing financial status of a business. The financial ratio can be used to measure a firm’s liquidity, solvency, profitability and efficiency in utilising its assets. The financial ratios calculated intend to show the broad trends and help towards the financial decision making.

The Public Sector Enterprises have played a significant role in the economic and social development of our country since independence. In pursuit of these objectives, massive investment has been made over the past five decades to build a strong Public Sector. Besides acting as a wheel of economic development, Public Enterprises are entrusted with the task of contributing to ensure social justice, poverty eradication, employment generation, achieving balanced regional development and accelerating the growth of agriculture and industry.

Financial Distress

Financial distress may be defined as a situation where a firm is not able to meet its maturing obligations on time. A high degree of financial leverage increases the risk of financial distress and it may ultimately lead to liquidation. Such a situation affects both the equity and debt holders adversely.

Review of literature

Many of the research works have been conducted over the period to evaluate the financial performance of the company with the help of various financial ratios or by applying the Multiple Discriminant Analysis to predict the corporate failure. L. C. Guptha (1999) attempted a refinement of Beaver’s method with objective of predicting the business failure. Whereas M. A. Mulla (2002) made a studyin Textiles Mill with help of Z Score model for evaluating the financial health with five weightedfinancial ratios and followed by Selvam M and Others (2004) had revealed about Cement industry’s financial health with special reference IndiaCements limited. S K Bagchi (2004) analysed about practical implication of accounting ratios in risk evaluation and concluded that accounting ratios are still dominant factors in the matter of credit evaluation. K. Chitanya (2005) used Z model to measure the financial distress of IDBI and concluded that IDBI is likely to become insolvent in the years to come. From the above reviews, the researcher identified the research gap, which could bedealt in this study.

Statement of the Problem

From the performance data of State Level Public Enterprises (SLPEs) over a period, it can be observed that, only a few of the State Level Public Enterprises were making profits and the rest were causing huge losses to the State. Sector wise breakup of the State Level Public Enterprises indicates that most of the units in industries like textile, engineering, public utilities, electronics and traditional industries incur large losses.

The Government of Kerala has spent large amounts of money year after year on rehabilitating or restructuring state public sector enterprises. Such programmes have been implemented at the cost of new enterprises or welfare spending. It is in public interest to evaluate the outcomes of such large spending from the state's exchequer, often justified on saving hundreds of jobs.

It is required to look into the objectives of such state spending and how much of it has helped in reviving the enterprises involved. If it has not served the purpose, why the effort and money went waste? Whether such revival or restructuring programmes need any monitoring in the future?

The study will attempt to find answers to a few important questions like: whether such state spending could have been saved? Does the revival or restructuring meet the objectives set for such revival or restructuring?

Objectives of study

The main focus of the present study is to evaluate the financial performance of selected public sector enterprises in Kerala which had undergone some kind of restructuring. The study centers on the following objectives.

1. To assess the short term and long solvency of the selected public sector enterprises.
2. To compare the financial performance before and after implementation of revival and restructuring package.
3. To suggest appropriate measures for improving the performance of the selected public sector enterprises and restore them to sound health.

Hypothesis

The hypotheses are as follows:

1. **H_0 1:** There is no improvement in liquidity, profitability and long-term solvency position of First Enterprise after the implementation of revival package.
   H_1 1: There is improvement in liquidity, profitability and long-term solvency position of First Enterprise after the implementation of revival package.
2. **H_0 2:** There is no improvement in liquidity, profitability and long-term solvency position of Second Enterprise after the implementation of revival package.
   H_1 2: There is improvement in liquidity, profitability and long-term solvency position of Second Enterprise after the implementation of revival package.
3. **H_0 3:** There is no improvement in liquidity, profitability and long-term solvency position of Third Enterprise after the implementation of revival package.
   H_1 3: There is improvement in liquidity, profitability and long-term solvency position of Third Enterprise after the implementation of revival package.

Methodology

The study is designed as a descriptive one based on secondary data. It primarily covers state enterprises engaged in the manufacturing and marketing activities. There are 104 state enterprises in Kerala of which nine are statutory corporations. Of the remaining, 63 are working under Industries Department out of which 17 are closed down for long periods. The study identified the list of state public sector enterprises which were restructured in the past ten years to evaluate the effectiveness of such interventions. For the purpose of the study, three companies were selected about which data were available.

The secondary data required for the study were collected from the rehabilitated or restructured state public sector enterprises in Kerala and from the Industries Department of the state and also from various journals, magazines and related websites etc.To understand the veracity of data, Ratio Analysis such as liquidity, profitability and long-term solvency ratio and Rank Test were used.

Ratio Analysis of Financial Performance

The financial ratio can be used to measure a firm's liquidity, solvency, profitability and efficiency in utilising its assets. The financial ratios calculated intend to show the broad trends and help towards the financial decision making. Current ratio, quick ratio and working capital ratio are used to analyse the short-term financial position of the company. The profitability ratios are also calculated to measure the operating efficiency of the company. It includes the net profit ratio, operating ratio, return on equity and return on investment. The long-term financial stability of the firm may be considered as dependent up on its ability to meet all its liabilities, including those not current payable. It includes Debt-equity ratio, funded debt to total capitalization, Proprietary or equity ratio.

Ratio Analysis and Findings of First Enterprise

The following table presents current ratio, quick ratio, working capital ratio, Net Profit Ratio, Operating Ratio, Return on Equity, Return on investment , Debt-Equity Ratio, Funded Debt to Total Capitalisation, Proprietary or Equity Ratiosof First Enterprise from 2000-01 to 2009-10.

Table 1

Ratio Analysis of First Enterprise

(Rs. Lakh)

Year	CR	QR	NWCR	NPR	OR	ROE	ROI	DER	FD to TCR	PR
2000-01	1.33	1.03	0.75	-0.18	1.24	-	-0.21	5.62	0.85	0.11
2001-02	1.14	0.84	0.62	-0.54	1.53	-	-0.47	5.99	0.86	0.10
2002-03	1.27	1.05	0.69	-0.16	1.17	-	-0.13	6.57	0.87	0.11
2003-04	1.54	1.19	0.75	-0.25	1.73	-	-0.13	6.95	0.87	0.11
2004-05	1.71	1.20	0.80	-0.14	2.61	-	0.001	7.66	0.88	0.10
2005-06	1.05	0.69	0.35	-0.13	3.11	-	0.19	7.64	0.88	0.09
2006-07	0.93	0.49	-1.24	-0.15	1.91	-	0.83	7.94	0.89	0.09
2007-08	1.91	1.47	0.74	0.33	1.18	-0.15	0.21	8.55	0.90	0.09
2008-09	1.79	0.56	0.75	-0.03	1.40	-	-0.13	8.55	0.90	0.10
2009-10	1.45	0.40	0.60	1.58	1.19	26.93	3.27	0.71	0.42	0.33

Source: Annual Reports of First Enterprise.

- The ideal current ratio is 2:1. Here the current ratio in all the years was below the ideal ratio. So working capital position and short-term solvency of the company are not satisfactory. But the current ratio of the company has increased after the implementation of the revival package in 2007-08.
- The quick ratio of the company is steadily decreasing from 2004-05 to 2009-10 except in 2007-08. This indicates that the firm does not have the ability to meet its current or liquid liabilities in time. Thus, the firm's short-term liquidity position is not good.
- The net working capital ratio has decreased from the year 2005-06 to 2006-07 and then increased up to 2010. From the 2007-08, there is slight improvement in the net working capital.
- The company has incurred losses for all the six years before the implementation of revival package in 2007-08 and hence, the net profit ratio is negative for all those years. But in 2008 company has earned profit, because it entered in to a joint venture agreement with another enterprise in 2008 as part of the rehabilitation package.
- The cost of operation per rupee of sales has been high and hence, the company has been incurring a loss. The effect of revival package implemented in 2007-08 has a positive effect in the year 2010.
- The operating profit of the company had been negative till 2006-07. In 2007-08 there was a profit of Rs.687.38 lakh due to the effect of revival package. The net worth of the company has been negative throughout the years till 2008-09 as the amount of accumulated losses of the company is more than its share capital and reserves and surplus put together. In 2009-10 there was a big improvement in net worth of the company and profit after tax. Hence, the return on equity ratio jumps to 26.93% in 2009-10.
- The return on investment was negative till 2003-04. The company slowly picked up and in 2009-10, the EBIT of the company increased to Rs.6120.50 lakh. It gave a positive return of 3.27% on average capital employed. This shows a marked improvement in the overall profitability ratio of the company.
- The shareholders fund was very low. That is, it shows that creditors have invested more in the business than the shareholders. The company was being run using creditors money. As a part of the implementation of the revival package in 2007-08, the Government wrote off the unsecured loan. Hence, the debt-equity ratio decreased to 0.71 in 2009-10.
- The funded debt was a major part of the total capitalisation. This shows that, the company is heavily dependent on debt capital. But it declined to 0.42 in 2009-10 which was due to writing off of debt as a part of the revival package of the Government.
- Proprietary or Equity ratio shows a low figure before the implementation of the revival package. It indicates greater risk to the creditors. But in the year 2010 it increased to 0.33. It shows improvement of the company after implementation of the revival package in 2007-08.

In short the implementation of the revival and restructuring package has had great impact on the company. After the implementation of the revival programme, the performance of the company is improving.

Ratio Analysis and Findings of Second Enterprise

The following table presents current ratio, quick ratio, working capital ratio, Net Profit Ratio, Operating Ratio, Return on Equity, Return on investment , Debt-Equity Ratio, Funded Debt to Total Capitalisation, Proprietary or Equity Ratiosof Second Enterprise from 1989-90 to 1999-00.

Table 2
Ratio Analysis of Second Enterprise

(Rs. Lakh)

Year	CR	QR	NWCR	NPR	OR	ROE	ROI	DER	FD to TCR	PR
1989-90	2.19	0.81	0.49	-0.24	1.05	-	0.001	3.88	0.79	0.17
1990-91	1.89	0.65	0.33	-0.23	0.96	-	0.007	3.91	0.79	0.17
1991-92	2.03	0.65	0.42	-0.20	0.95	-	0.07	3.89	0.79	0.17
1992-93	1.87	0.44	0.50	-0.26	0.91	-	0.08	4.15	0.81	0.17
1993-94	1.44	0.33	0.67	-0.31	0.96	-	0.003	4.48	0.82	0.15
1994-95	1.81	0.39	1.07	0.006	0.86	-	0.51	4.84	0.83	0.14
1995-96	2.24	1.29	0.49	0.06	0.84	-	0.29	2.75	0.73	0.22
1996-97	2.42	0.87	0.58	0.12	0.85	0.45	0.22	2.13	0.68	0.24
1997-98	2.58	1.32	0.48	0.12	0.85	0.25	0.16	1.85	0.65	0.27
1998-99	3.38	1.89	0.58	0.08	0.96	0.01	0.11	2.18	0.68	0.25
1999-00	3.81	2.06	0.60	-0.009	0.93	-0.12	0.03	0.73	0.42	0.47

Source: Annual Reports of Second Enterprise

- Here the current ratio before the implementation of revival package is mostly below the ideal ratio (2:1). But current ratio of the company has increased after the implementation of the revival package in 1994-95.
- The company shows decreasing trend in quick ratio before the implementation of revival package. Then, after the implementation of the revival package in 1994-95 there is an increasing trend in quick ratio. So, the company has improved its ability to meet current liabilities after revival in 1994-95.
- The net working capital of the company has increased after the implementation of the revival package. It shows a slight improvement in the net working capital ratio after the implementation of revival package.
- The company had incurred losses for all the five years before the implementation of revival package in 1994-95. The net profit ratio was negative till 1994, but after the implementation of revival package the ratio turned positive. Again in 2000 the ratio is negative. The net profit is very low and hence, a small variation in sales makes it negative.
- The operating ratio showed fluctuating trend but there is no marked decrease in the ratio. Thus the company has not been able to decrease its operating expenses.
- The operating profit of the company had been negative till 1993-94. But, after the implementation of revival package in 1994-95, the profit after tax improved marginally up to 1998-99. The net worth of the company has been negative throughout the years till 1995-96 as the accumulated losses of the company is more than its share capital and reserves and surplus put together. From 1996-97 there was a big improvement in net worth of the company and profit after tax. Hence, return on equity increased to 0.45 in 1996-97.
- The return on investment, after the implementation of revival package in 1994-95, has actually decreased marginally over the years. This shows a marked decrease in the overall profitability Ratio of the company. From this, it can be inferred that, there is no effect on the return on investment of the company after the implementation of revival package.
- The shareholders fund was very low till 1998-99. That is, it shows that creditors have invested more in the business than the shareholders. The company was being run using creditors money. As a part of the implementation of the revival package in 1994-95, the Government has invested Rs. 90.06 lakh in 1995-96 and Rs.500 lakh in 1999-2000 as capital in the company. Hence, the debt-equity ratio decreased to 0.73 in 1999-00.
- The funded debt ratio shows a steadily increasing trend from the year 1990 to 1995. This shows that, the company is heavily dependent on debt capital. But after the implementation of revival package, debt ratio has decreased which was due to writing off of debt as a part of the revival package of the Government.
- Proprietary or Equity ratio shows low ratio before the implementation of the revival package. It

indicates greater risk to the creditors. But from the year 1995-96 it has increased to 0.22. It shows the improvement of the company after implementation of the revival package in 1994-95.

Over all financial performance of the Second Enterprise has improved after the implementation of the revival package. At present, company has started a new unit of the company. Now it is profit making company in the production of varieties of alloy steel, super alloys, aluminium and titanium.

In short financial analyses of the company are showing good signs of improvement. It is tending towards better health.

Ratio Analysis and Findings of Third Enterprise

The following table presents current ratio, quick ratio, working capital ratio, Net Profit Ratio, Operating Ratio, Return on Equity, Return on investment, Debt-Equity Ratio, Funded Debt to Total Capitalisation, Proprietary or Equity Ratiosof Third Enterprise from 1999-00 to 2008-09.

Table 3

Ratio Analysis of Third Enterprise

(Rs. Lakh)

Year	CR	QR	NWCR	NPR	OR	ROE	ROI	DER	FD to TCR	PR
1999-00	1.31	0.62	0.21	-0.03	1.07	-1.28	0.05	0.73	0.42	0.44
2000-01	1.48	0.67	0.30	-0.02	1.04	-	0.09	0.95	0.49	0.39
2001-02	1.28	0.58	0.22	-0.15	1.07	-	-0.21	1.08	0.52	0.37
2002-03	1.02	0.45	0.03	-0.13	1.09	-	-0.24	1.15	0.53	0.34
2003-04	0.90	0.49	-0.18	-0.32	1.19	-	-0.64	1.37	0.58	0.33
2004-05	1.43	0.80	0.46	-0.09	1.07	-	-0.08	1.82	0.64	0.29
2005-06	1.36	0.58	0.38	-0.05	1.14	-	0.001	1.86	0.65	0.28
2006-07	1.84	0.92	0.58	0.02	1.01	-0.04	0.13	1.48	0.59	0.33
2007-08	1.48	0.72	0.37	-0.10	1.06	-1.14	-0.15	0.29	0.23	0.66
2008-09	1.57	1.09	0.35	-0.15	1.15	-0.72	-0.18	0.27	0.21	0.67

Source: Annual Reports of Third Enterprise

- Here the current ratio in all years is below ideal ratio. So working capital position and short-term solvency of the company are not satisfactory. But current ratio of the company shows a fluctuating trend after the implementation of the revival package in 2007-08.
- The company's quick ratio shows an increasing trend after the implementation of revival package. So, the company has improved its ability to meet short-term liabilities after revival in 2007-08.
- The company shows a fluctuating trend in the working capital ratios over the period. That is, there is no change in the net working capital ratio after the implementation of revival package.
- The net profit ratio has been negative throughout the years from 2000-2009 except the year 2007. There has been no effect of revival package on the net profit ratio of the company.
- The operating ratios of the company are consistently higher than the ideal ratio. The company has to endeavour to bring down the operating expenses below sales by effective cost control measures. It shows very poor efficiency of the company.
- The operating profit of the company had been negative till 2005-06. In 2006-07 there was a profit of Rs. 83.04 lakh. The net worth of the company was negative throughout the years till 2006-07 as the accumulated losses of the company were more than its share capital and reserves and surplus put together. In 2007-08 and 2008-09, the share capital of the company increased, which resulted in a positive net worth in both the years. But, the profit after tax for both the years was negative. Hence, the return on equity is negative.
- The return on investment has not improved even after the implementation of the revival package in 2007-08. From this, it can be inferred that, there is no effect on the return on investment of the company after the revival.
- The shareholders fund was very low till 2006-07. That is, it shows that creditors have invested more in the business than the shareholders. The company was being run using creditors' money. As a part of the implementation of the revival package in 2007-08, the Government has written off the unsecured loan and has invested Rs.3482.45 lakh as capital in the company. Hence the debt-equity ratio decreased to 0.29 in 2007-08.
- The funded debt ratio shows a steadily increasing trend up to implementation of revival package in 2007-08. But it declined to 0.23 in 2007-08 which was due to writing off of debt (Rs.2238.66 lakh) as a part of the revival package of the state Government.
- Proprietary or Equity ratio was declining before the implementation of the revival package. It indicates greater risk to the creditors. But in the year 2007-08, it has increased to 0.66. It shows the improvement of the company after the implementation of the revival package.

In short the implementation of revival package during the year 2007-08 has had no effect on the performance of the company.

Results of Hypotheses

In First Enterprise, significance level (-2.66) is greater than the P-value (0.05). So, null hypothesis is rejected. Hence, the test shows that there is significance improvement in liquidity, profitability and long-term solvency position of First Enterprise after the implementation revival package. Therefore it can be concluded that the financial position of the company has improved after the implementation of revival package.

In Second Enterprise, significance level (-2.66) is greater than the P-value (0.05). So, null hypothesis is rejected. Hence, the test shows that there is significance improvement in liquidity, profitability and long-term solvency position of Second Enterprise after the implementation revival package. Therefore it can be concluded that the financial position of the company has improved after the implementation of revival package.

In Third Enterprise, significance level (-.770) is greater than the P-value (0.05). So, null hypothesis is rejected. Hence, the test shows that there is significance improvement in liquidity, profitability and long-term solvency position of Third Enterprise after the implementation revival package. Therefore it can be concluded that the financial position of the company has improved after the implementation of revival package.

Suggestions

To increase the effectiveness of the revival package a few suggestions are made on the bases of forgoing study.

- The state has to review its policy on revival or restructuring of public enterprises.
- A detailed study is required to set the state's policy on revival or restructuring.
- The analysis of financial performance shows improvement in financial health of the companies under the study except Third Enterprise. How much of that is due to fresh capital infusion, how much due to debt write off etc. have not been analysed due to non-availability of data. Along with finance, appropriate management talent must also be made available to these companies so that the revival is long-standing in nature.

Conclusion

The financial analysis of the selected firms reveals a mixed result after the implementation of the revival and restructuring programme. In First Enterprise, all the above analyse shows that there is improvement in the performance of the company after the implementation of revival package in 2007-08.In Second Enterprise, it has been able to write off its losses with the help of the revival package. In 2010 it started a new unit of the company. Now the company is earning profits and it is hoped that it can stand on its own in future.In Third Enterprise, It has not been able to control its losses through the implementation of revival and restructuring package.

In short most of the units have improved their performance after implementation of the revival package. The financial analysis of the selected public sector enterprises shows a creeping improvement after the implementation of the revival programme.

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