



“A STUDY ON EVALUATION OF FINANCIAL PERFORMANCE ANALYSES OF NORTH- WESTERN ROAD TRANSPORT CORPORATION” (NWKRTC)

Research scholar

Pujar Savita

Department of commerce

R.C.U. Belagavi

Guided by

Dr. R.M.Patil

Department of commerce

Associate Professor and Research Guide

R.C.U. Belagavi

Abstract:

The paper entitled as “a study on evaluation of financial performance analysis of North – Western Road Transport Corporation”. The objectives of the study are mainly focused on analyzing the performance of finance which is revealed through profit/loss position of the concern for the study period. All the components which are influencing the financial strength could be analyzed. The study covers only last ten years statement which if 2008-09 to 2017-2018. The data collected from the study were secondary data was collected from annual report, department manuals brochures mainly from balance sheet and mainly from website. From the analysis, findings and recommendations were drawn to improve the performance of Equities North – Western Road Transport Corporation.

Introduction:

Finance is rightly termed as the science of money, as it is the life blood of business. Finance is vital for the even running of the business. The process of recognizing the financial strengths and weaknesses of the firm by properly-establishing relationship between the items of the Balance Sheet and the Profit and Loss account. There are various methods or techniques are used in examining financial schedule of change in working capital flow, cost volume Profit Analysis and Ratio Analysis. Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes. External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value. Internal constituents use it as a monitoring tool for managing the finances.

Meaning:

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. The process of analyzing financial statements involves the rearranging, comparing and measuring the significance of financial and operating data. Such a step helps to reveal the relative significance and effect of items of the data in relation to the time period and/or between two organizations.

Definitions:

According to Myers, “financial statement analysis is largely a study of relationship among the various financial factors in business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements”

Objectives of Financial Analysis:

Financial statement analysis is very much helpful in assessing the financial position and profitability of a concern. The main objectives of analyzing the financial statements are:

1. The analysis would enable the present and the future earning capacity and the profitability of the concern.
2. The operational efficiency of the concern as a whole as well as department wise can be assessed. Hence the management can easily locate the areas of efficiency and inefficiency.
3. Analysis of past results in respects of earning and financial position of the enterprise is of great help in forecasting the future results. Hence it helps in preparing budgets.
4. The solvency of the firm, both short-term and long-term, can be determined with the help of financial statement analysis which is beneficial to trade creditors and debenture holders.
5. It facilitates the assessments of financial stability of the concern.
6. The long-term liquidity position of funds can be assessed by the analysis of financial statements.

Data Collection:

Secondary Data - Annual Administration Report of 2008-09 to 2017-18.

Analysis of Financial Performance:

To have an understanding of the workings of STUs in North-Western Karnataka Road Transport Corporation and their financial performance, Table-1 was prepared by using the Balance Sheets during ten years. If the profit and loss of STUs were analyzed, it would reflect the overall financial position of the NWKRTC. Following table shows the financial position of STUs. Shows the financial performance of the North-Western Karnataka Road Transport Corporation for a period of seven years. Cost includes personnel cost, materials cost, Taxes, Interest, depreciation and other miscellaneous costs. Revenue includes traffic revenue and other revenues.

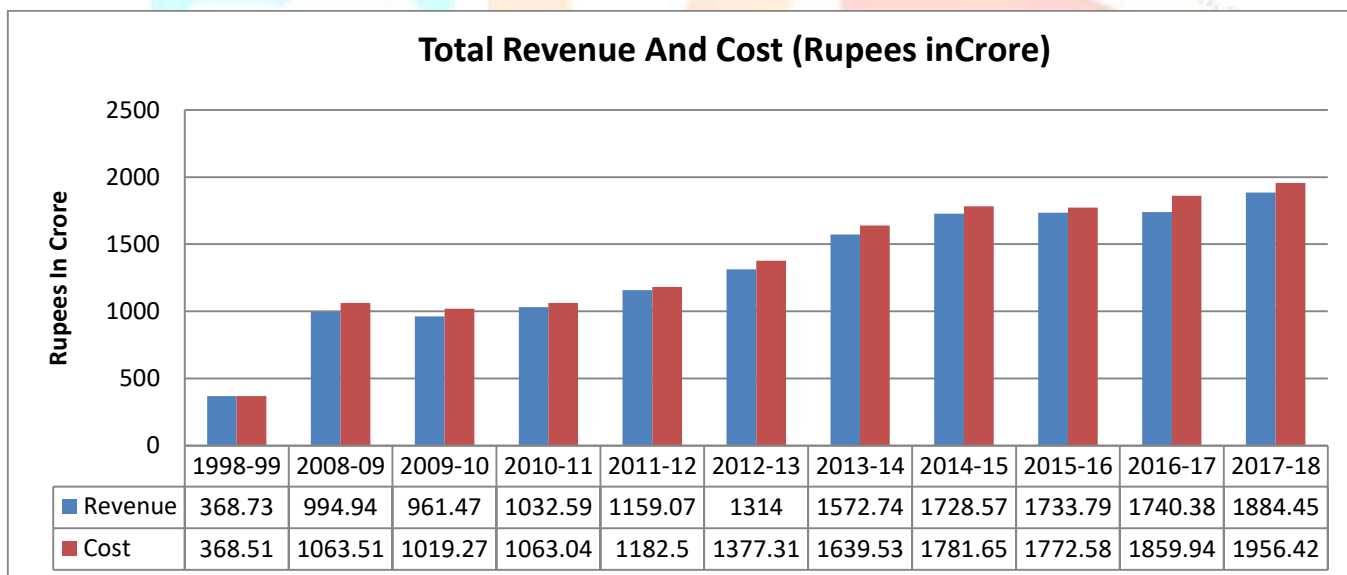
Table-1
Profit/Loss of North-Western Karnataka Road Transport Corporation

(Rs. In Lakhs)

Si.no	Year	Revenue	Cost	Profit/Loss	Cumulative
1	2008-09	99493.81	106350.59	-6856.78	-6856.78
2	2009-10	96146.56	101927.28	-5780.72	-12637.50
3	2010-11	103259.46	106303.86	-3044.40	-15681.90
4	2011-12	115906.84	118250.40	-2343.56	-18025.46
5	2012-13	131399.67	137731.01	-6331.34	-24356.80
6	2013-14	157274.31	163952.68	-6678.37	-31035.17
7	2014-15	172856.73	178164.72	-5307.99	-36343.16
8	2015-16	173379.48	177257.93	-3878.45	-40221.61
9	2016-17	174037.58	185993.53	-11955.95	-52177.56
10	2017-18	188444.90	195642.43	-7197.53	-59375.09

Source: Performance Statistics of NWKRTC.

Figure in Table-1
Profit/loss of North-Western Karnataka Road Transport Corporation



Ratio Analysis:

Ratio analysis plays an important role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools is ratio or index. Ratios express the numerical relationship between two or more things. The analysis also reveals whether the company's financial position has been improving or deteriorating over time.

Against the theoretical framework in the preceding section, the following measures have been applied for analyzing the financial performance of the NWKRTC.

- 1. Debt Equity Ratio:** It is an important tool used for measuring the level of financial risk. The debt in the NWKRTC refers to loan from commercial banks and union bank etc. Whereas, the equity in the NWKRTC contains the equity and capital contributions made by the state Government. This indicates that the ratio kept itself at a lower level and a relatively lower level of financial risk of the corporation.
- 2. Financial Leverage Ratio :**The leverage ratio category is important because companies rely on a mixture of equity and debt to finance their operations, and knowing the amount of debt held by a company is useful in evaluating whether it can pay its debts off as they come due. The higher the degree of financial leverage as per the latter measure, the greater the financial risk on account of heavy borrowings, reveals that the degree of financial leverage (DFL) has shown declining trend during the study period.
- 3. Financial Risk Coverage Ratio :** The financial risk coverage ratio or the interest coverage ratio is the ratio of earnings before interest and taxes (EBIT) to the interest burden on account of debt. This is also a measure of financial break even point. This shows that the corporation's EBIT itself is negative and hence no meaningful inference can be draw.
- 4. Investment Turnover Ratio :** ROI, besides the net-revenue (i.e. excess of revenue over operating expenditures) is also affected by the investment turnover, because, a rapid investment turnover even if coupled with low net revenue is likely to result in high ROI. Similarly, a low investment turnover even if coupled with high net revenue is likely to result in low ROI. Therefore, how far the corporation under study has been able to utilize its investment is examined with the help of investment turnover. It is computed by dividing the revenue turnover which includes both traffic and other revenue by the total investment. The investment turnover ratio kept itself constant throughout the period under study.
- 5. Fixed Assets Turnover Ratio :** The fixed asset turnover ratio is, in general, used by analysts to measure operating performance. This efficiency ratio compares net sales to fixed assets and measures a company's ability to generate net sales from its fixed-asset investments. It throws light on the efficiency of the corporation in utilizing the fixed assets. A high fixed assets turnover ratio indicates better utilization of the fixed assets and a positive impact on ROI and vice versa. The fixed assets in NWKRTC includes land, buildings, passenger buses, departmental vehicles, plant and machinery, furniture and other equipments. The ratio is almost constant during the period under study. This shows that the investment in fixed assets is neither increased nor decreased.
- 6. Current Assets Turnover Ratio :** A high current assets turnover ratio is the symptom of better current assets management, efficient utilization of current assets, more generation of operating income and positive impact on investment turnover, and in turn, on ROI. But, a low current assets turnover ratio is the indicator of heavy investment in current assets, lesser generation of operating income and adverse impact on investment turnover and in turn, on ROI. depicts that the current assets turnover ratio NWKRTC has shown an increasing trend for the study period .
- 7. Inventory Turnover Ratio :** Inventory in the NWKRTC refers to the value of the stock of spares and materials held on the last day of accounting period. It is computed by dividing the operating cost by the cost of average inventory for a particular period. A high inventory turnover ratio coupled with desired or optimum level of inventory result in greater profitability and improvement in ROI and vice versa. It is reflected by the increasing trend in the inventory turnover ratio. Thus, inventory management has affected the ROI in a positive way.

- 8. Current Ratio :** Current ratio also called as current assets ratio, is a measure of the current assets policy. A high current ratio is the indicator of better short term solvency of the corporation and vice versa. explicit cost of borrowing for financing the current assets will be zero though there would always be implicit cost (i.e. opportunity cost) of retained earnings used for financing the current assets. But a high current ratio is not good, if the percentage in current assets is on account of using long term funds for financing the current assets. Because, such type of current ratio results in heavy financial risk and negative impact on ROI.
- 9. Receivables Turnover Ratio :** Receivables in the NWKRTC refers to the income earned but not received, dues from outside parties on account of sale of fuel and service rendered, short remittances by conductors, etc. a low debtors turn over ratio indicates, that huge amount is blocked in the form of receivables and thereby denotes a drain on total investment turnover and adverse impact on ROI. Reveals that the receivables turnover ratio has shown a decreasing trend during the period understood. It indicates inefficiency of the corporation in collecting the dues.
- 10. Percentage of Inventory to Current Assets :** The inventory in the NWKRTC refers to stock of fuel, lubricants, tyres and tubes, auto spare parts, batteries, other consumables and reconditioning whereas, the current assets refers to the corporations total current assets i.e. stores inventory, sundry debtors, advances and deposits cash and others. A higher percentage indicates that large sums are blocked in the stock of inventory and the profitability of the corporation will be adversely affected if it remains unconsumed for longer duration. Depicts that the percentage stock of inventory to current assets has shown almost a constant trend with minor fluctuations during the period understudy. The percentage of inventory to current assets is kept low, this speaks that less amount of capital is held up in the inventory.

Findings :

- Annual administration report of NWKRTC related years.
- The financial performances of the NWKRTC, Hubli Division were evaluated. The financial performance revealed a loss of the total cost of the Division escalated from Rs. -6856.78 lakhs to Rs. -59375.09 lakhs during the period of study. The traffic revenue is more imperative in total revenue.
- The debt equity ratio kept itself at a lower level. This indicates that the share of outsiders in the capital employed by the corporation is less and less amount of financial risks of the corporation. The financial leverage ratio has recorded a declining trend during the period under study. The decline in the financial leverage ratio is due to the decline in the EBIT.
- The financial leverage ratio has recorded a declining trend during the period under study. The decline in the financial leverage ratio is due to the decline in the EBIT.
- The investment turnover ratio kept constant throughout the study period. This coupled with poor operational profitability, resulted in unfair return on investment.
- The fixed assets turnover ratio also witnessed a constant trend indicating ineffective utilization of the fixed assets.
- The current assets turnover ratio witnessed a marginal increase over the period under study, indicating marginal positive impact on overall investment.

Suggestions:

- To have a cost based fair structure and to improve the financial viability of the undertakings.
- The study reveals that the heavy operating cost is eating away major portion of the traffic revenue resulting a drain on earnings before interest and taxes. Therefore, for the purpose of improving the earning before interest and taxes, the modern tools and techniques, like; Always Better Control (ABC) Analysis, Vital Essential Desirable (VED) analysis etc; may be applied for the purpose of effective stores management.
- The management of the firm must be made more vigilant to maintain or improve the present situation because if there is any further fall in the current ratio. It may be a serious problems for the firm.
- Productivity of fuel, tyres and tubes, auto spare parts are the key result areas for cost control.
- The Government has to formulate the uniform tax policy for both private and public sector undertakings.
- Proper maintenance of the vehicles will reduce the wastages. KMPL can also be increased by proper training to the drivers. By increasing the performance of tyres and tubes and proper utilization of the spare parts, the stores cost can be controlled.
- Greater autonomy is necessary to the corporation to act on its own.

CONCLUSION:

In India, most of the State Transport undertakings are under losses. North Western Karnataka Road Transport Corporation was one of them. Due to increase in diesel cost spares, salary of staff, anti-corporation government policies and social obligations on corporation, it seems that in future it is very difficult to make profit by the STU's of India. The financial performance of the corporation under study is appraised in terms of the ability of the corporation to strike an effective linkage between the levels of financial risk and the level of EBIT. The financing decision of the corporation is said to be fair, if the financial risk coverage ratio is high. The debt dominant financial mix policy (i.e. high debt equity ratio) is good only when the earnings after interest and taxes enable the corporation to offer a desired rate of return on owners' funds. Thus, analysis of financial statements refers to the treatment of information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned.

Reference:

- Dr. G.B.Baligar “principles of financial management” third Edition (2007)
- Ms.M.Ganga, Mr.P.Kalaiselvan, Ms.R.Suriya “Evaluation of Financial Performance” International Journal of Scientific and Research Publications, Volume 5, Issue 4, April 2015
ISSN 2250-3153
- m. M.Marimuthu, S.Ganapathi “A study on organizational climate in Tamilnadu state Transport corporation in Villupuram division” IMPACT FACTOR VALUE: 0.615 ISSN: 2320-9704- Online ISSN:2347-1662-Print
- .Dr. R.M.Patil(1990) “operating performance of Karnataka state road transport corporation critical study” Ph.d thesis page no.256.
- https://www.researchgate.net/publication/215869189_Financial_Performance_Analysis-A_Case_Study
- https://shodhganga.inflibnet.ac.in/bitstream/10603/705/11/12_chapter3.pdf
- (<https://www.investopedia.com/terms/f/financialperformance.asp>)
- <https://www.investopedia.com/terms/f/financial-statement-analysis.asp>
- file:///C:/Users/abcdef/Videos/finance%20permanance%20anys%20conceptul%20work.pdf