



A Profitability Analysis of MGVCL and PGVCL Companies of Gujarat State

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.

Key Words: Ratio, Electricity, Power Distribution Company.

Initiation:

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 PGVCL power distribution companies of Gujarat region as far as their Profitability 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. (MGVCL) Vadodara
2. Paschim Gujarat Vij Company Ltd. (PGVCL) Rajkot

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

Analysis:

• Gross Profit Ratio

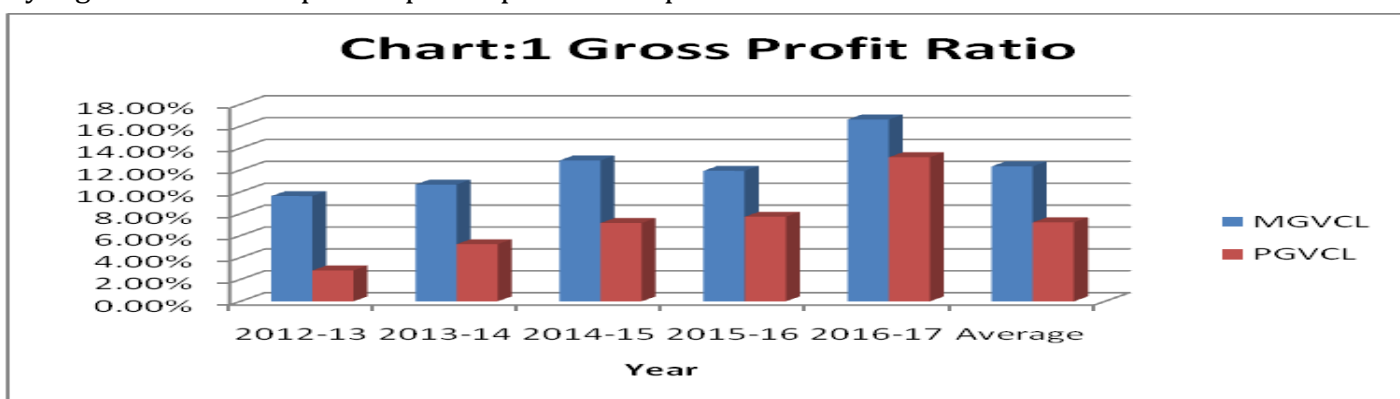
A Gross Profit ratio is the indicator of the performance of the organization. If cost of production of firm is relatively low it indicates a high ratio of gross profit of the firm which is a feature of good management and low gross profit ratio shows the organization health is not good. It requires more concentration on the organization condition.

Table-1 shows the Gross Profit of the selected two companies from 2012-13 to 2016-17.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Average
MGVCL	9.62%	10.67%	12.88%	11.93%	16.62%	12.34%
PGVCL	2.82%	5.22%	7.16%	7.73%	13.17%	7.22%

Source: Computed from published Annual report of the units

Above table-1 shows that the Gross Profit ratio of the MGVCL Company is more than the PGVCL. Moreover it reflects that the GP ratio of the MGVCL and PGVCL Companies are consistently increasing. The gross profit ratio of MGVCL and PGVCL companies are increased because sales revenue increased by higher rate as compare to power purchase expenses.



• Net Profit Ratio:

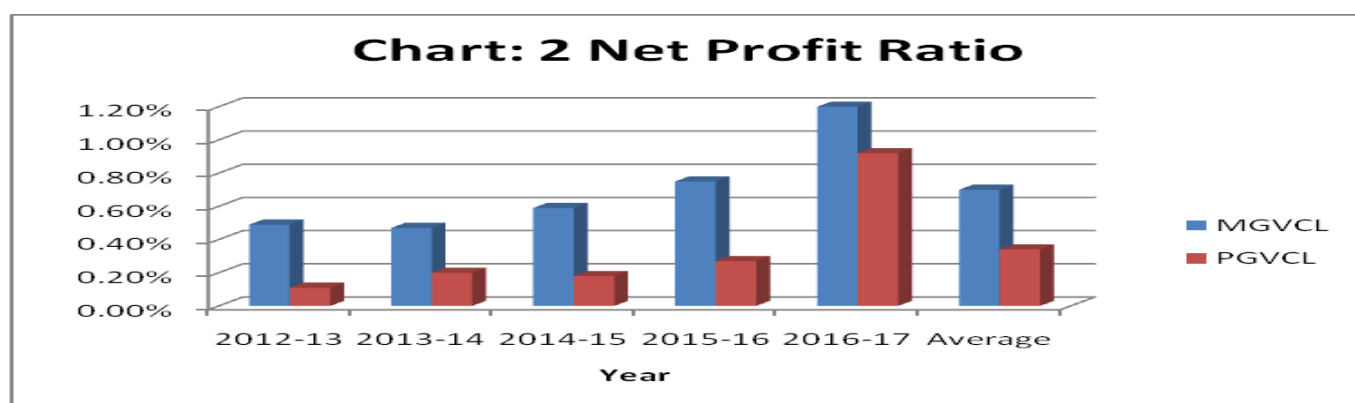
The Net Profit ratio indicates the management's ability to administer the business with reasonable achievement not only to recover from revenues of the period, the cost of goods or services, the expenses of operating the business (including depreciation) and the cost of the borrowed funds but also to provide a fair compensation to the owners who providing their capital at risk. The ratio of the net profit (after interest and taxes) to sales essentially shows the cost price impact of the operations.

Table-2 shows the Net Profit of the selected two companies from 2012-13 to 2016-17.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Average
MGVCL	0.49%	0.47%	0.59%	0.75%	1.20%	0.70%
PGVCL	0.11%	0.20%	0.18%	0.27%	0.92%	0.34%

Source: Computed from published Annual report of the units

Above table-2 indicates that the net profit ratio for all successive years for the MGVCL Company is quite higher than the Net Profit Ratio of the PGVCL Company. It means MGVCL Company has adequate return to the owners to withstand adverse economic conditions. However; a firm with a low profit margin can earn a high rate of return on investments if it has a higher inventory turnover.



- **Return on Total Assets Ratio:**

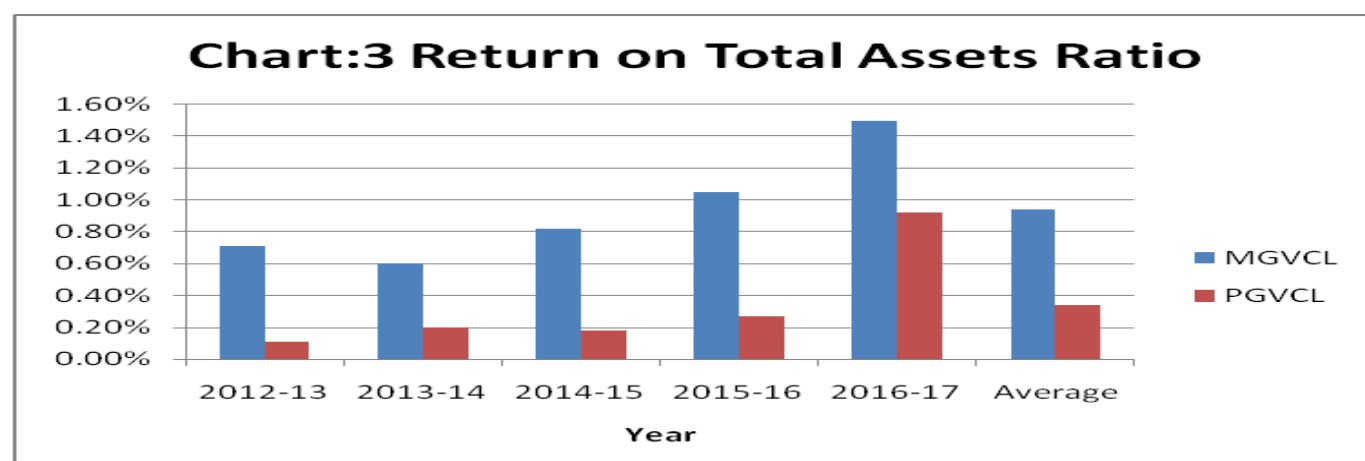
The return on total assets (ROTA) is a ratio which indicates the total profit before interest and taxes (EBIT) against its total assets of firm. This ratio measure how firm effectively utilizes its assets to generate its earnings before interest and taxes.

Table-3 shows the Return on Total Assets ratio of the selected two companies from 2012-13 to 2016-17.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Average
MGVCL	0.71%	0.60%	0.82%	1.05%	1.50%	0.94%
PGVCL	0.11%	0.20%	0.18%	0.27%	0.92%	0.34%

Source: Computed from published Annual report of the units

From the above table-3, we can say that the Return on Total Assets Ratio of MGVCL Company is higher than the PGVCL Company. RTAR of MGVCL and PGVCL Companies are constantly increasing but RTAR of MGVCL is increasing by higher rate.



- **Return on Capital Employed ratio:**

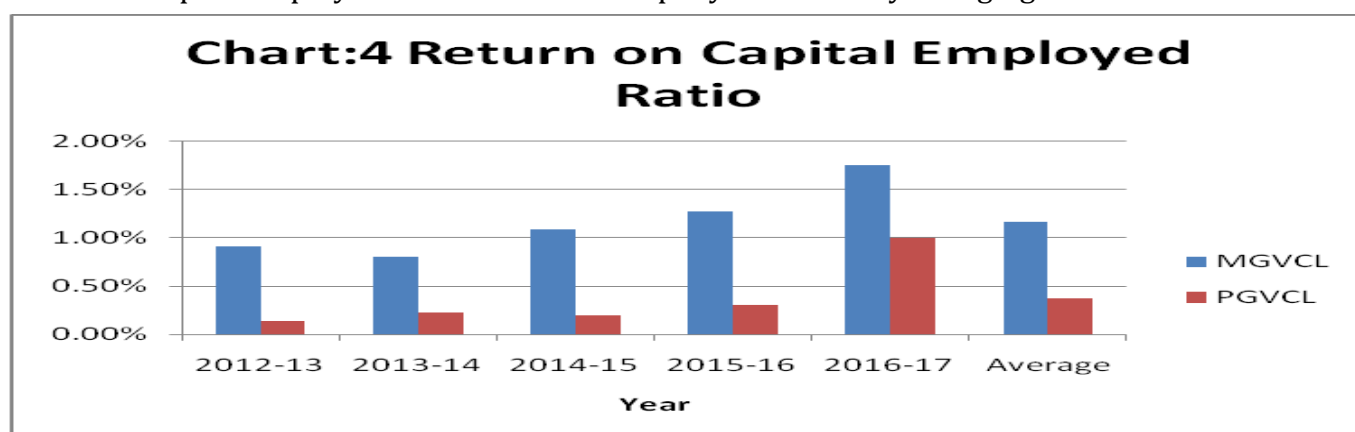
Below table it shows the return on capital employed ratio of the three selected Power Distribution Companies through year 2012-13 to 2016-17.

Table-4 shows the Return on Capital employed ratio of the selected two companies from 2012-13 to 2016-17.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Average
MGVCL	0.91%	0.80%	1.08%	1.27%	1.75%	1.16%
PGVCL	0.14%	0.22%	0.20%	0.30%	1.00%	0.37%

Source: Computed from published Annual report of the units

Here, average return on capital employed ratio of MGVCL Company is higher than the PGVCL Company. There is constantly increase in return on capital employed ratio of MGVCL Company while the ratio on capital employed ratio of PGVCL Company is constantly changing.



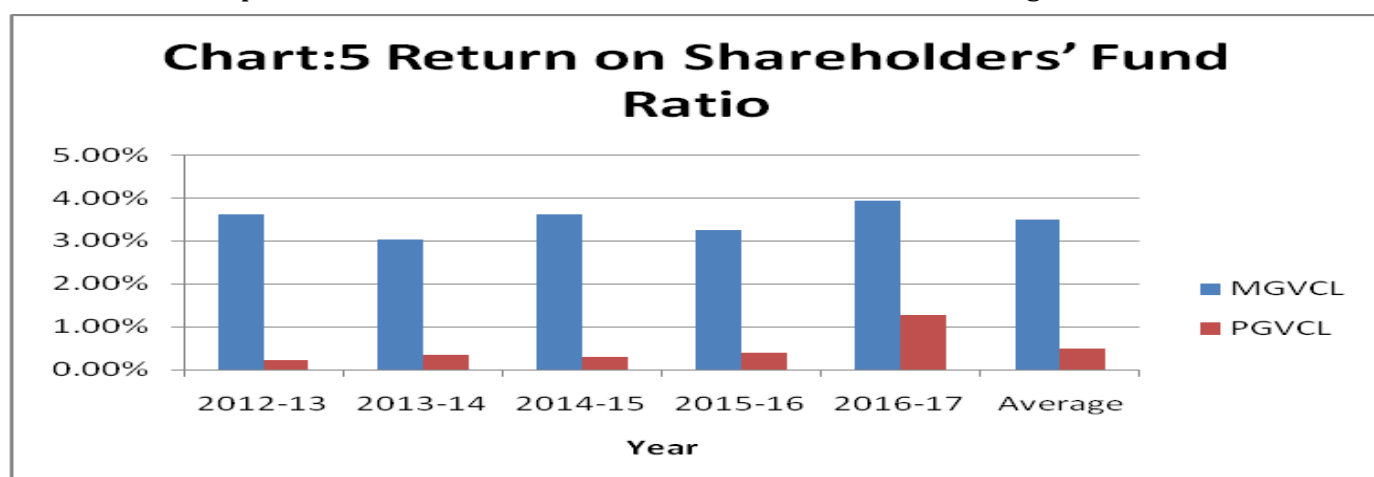
- **Return on Shareholders' Fund Ratio:** Return on shareholders' fund indicates earnings available to equity shareholders fund after paying preference dividend.

Table-5 shows the Return on Shareholders' Fund of the selected two companies from 2012-13 to 2016-17.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Average
MGVCL	3.60%	3.02%	3.62%	3.24%	3.93%	3.48%
PGVCL	0.21%	0.34%	0.29%	0.40%	1.26%	0.50%

Source: Computed from published Annual report of the units

If we look at the above table 5, it depicts that continuously the MGVCL Company has good return to its shareholders throughout the one decade than compared to the PGVCL Company. The MGVCL Company PAT is increased by higher rate due to increased in sales by higher rate as compare to increase in total expenses. So, return on shareholders' fund is increased at higher rate.



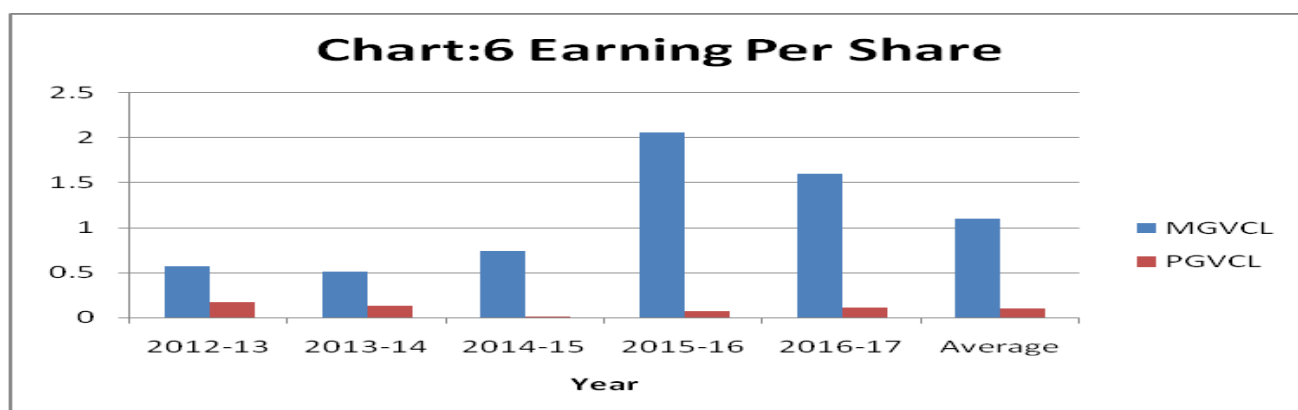
- **Earnings per Share:** Earnings per share or EPS is a significant financial measure, which shows the profitability of a company. It is calculated by dividing the company's net profit available to equity shareholders after paying preference dividend with its total number of outstanding equity shares. It is a tool that market participants use regularly to estimate the profitability of a company before buying its shares.

- Table-6 shows the Earning Per Share of the selected two companies from 2012-13 to 2016-17.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Average
MGVCL	0.57	0.51	0.74	2.06	1.6	1.10
PGVCL	0.17	0.13	0.01	0.07	0.11	0.10

Source: Computed from published Annual report of the units

From the above table-6, we can say that the Earning Per Share of MGVCL Company is higher than the PGVCL Company. Earnings Per Share of MGVCL and PGVCL Companies are constantly changing.



t- test

Null Hypothesis (H₀): There is no any significant difference in Gross Profit Ratio (GPR), Net Profit Ratio (NPR), Return on Total Assets Ratio (RTAR), Return On Capital Employed Ratio (RCER), Return On Shareholders' Fund Ratio (RSFR) and Earnings Per share ratios of MGVCL and PGVCL Companies.

Alternative Hypothesis (H₁): There is significant difference in Gross Profit Ratio (GPR), Net Profit Ratio (NPR), Return on Total Assets Ratio (RTAR), Return On Capital Employed Ratio (RCER), Return On Shareholders' Fund Ratio (RSFR) and Earnings Per share ratios of MGVCL and PGVCL Companies.

RATIO	GPR	NPR	RTAR	RCER	RSFR	EPS
Sig. (Two Tailed)	.0404	.1064	.0248	.0090	.0001	.0126

In the above table-7, the two tailed significant test value for Gross Profit Ratio, Return on Total Assets Ratio, Return on Capital Employed Ratio, Return on Shareholder's Fund Ratio and Earning Per Share MGVCL and PGVCL is 0.0404, 0.0248, 0.0090, 0.0001 and 0.0126. Hence, we may say that GPR, RTAR, RCER, RSFR and EPS are significantly different between the MGVCL and PGVCL companies. While the Net Profit Ratio is not significantly different between the MGVCL and PGVCL companies.

5.2 Suggestions:

- I. The Gross profit of PGVCL is lowest. PGVCL has to increase in gross profit by increasing in revenue and by decreasing in purchase of power expenses.
- II. The net profit ratio of PGVCL is lower than MGVCL Company. So, PGVCL has to increase its Net Profit Ratio by decreasing its overhead expenses.
- III. The return on total assets of PGVCL is lower than MGVCL Company, so for increasing it PGVCL has to increase in revenues and increase in utilization of fixed assets.

- IV. The return on capital employed of PGVCL is lower than MGVCL Company., so for increasing it increase in revenues and decrease in capital employed.
- V. The return on shareholders' fund of PGVCL is lower than MGVCL Company, so for increasing it increase in revenues.

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