CHAPTER — I

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The importance of financial appraisal of any business undertaking hardly needs any emphasis. In a developing economy, like India, which is striving for rapid socio-economic transformation through the effective utilisation of available resources, the financial appraisal of business undertakings gets added significance. A well meaning financial appraisal not only helps in pin-pointing the deviations from goal achievements but also guides in ensuring the effective and efficient utilisation of available resources. It helps in diagnosing the economic health of an enterprise from the point of view of both internal and external parties, who in one way or the other have their stake in the enterprise.
Concept of Financial Appraisal

Financial appraisal is an evaluation of the financial performance as also of the financial position of a concern. It is a scientific evaluation of the profitability and financial strength of any business concern. In fact, financial appraisal and financial statement analysis have the same meaning and are generally used as interchangeably. The profitability and financial health of a concern can be evaluated through the application of the techniques of financial statement analysis.

Financial statement analysis is a preliminary step towards the final evaluation of the results drawn by the analyst. Appraisal or evaluation of such results is made thereafter by the management.

As per Hampton:-

"A financial statement is an organised collection of data organised according to and consistent with accounting procedures." Therefore, all the statements and accounting reports which accountants prepare at the end of a period for business enterprise may be taken as financial statements."

"The main purpose of financial statements is to help manager, and investors take decision that will affect the company's future. The study of financial statements for this purpose is known as financial statement analysis."

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"A complete financial analysis and interpretation of financial statements involve the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results."

"Much can be learnt about business performance and financial position through an appraisal of financial statements. The appraisal or analysis of financial statements spotlights the significant facts and relationships concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness, that would have otherwise been buried in a maze of details."

It is obvious that financial appraisal begins where financial analysis ends, and financial analysis starts where the summarisation of financial account and balance-sheet ends. Financial appraisal is the end of a continuous accounting cycle which starts with the classification, recording, summarising, presentation and analysis of data and ends with the interpretation of results obtained from critical analysis thereof. Appraisal or evaluation is the main concern of the management because decision making and policy formulation are the main tasks of the management.

From an appraisal of financial statements, earning capacity of the company, financial resources of the company and
Various sections of society who are interested in financial information through appraisal of government financial statements include, inter-alia, the management, the trade associations, stock exchange and banks, investors (including shareholders, debentureholders and creditors) employees, trade unions and the general public including researchers. In the words of Ernest W. Walker, there are three groups who are vitally concerned with a firm's financial condition, i.e. creditors, investors and management.

A firm's creditors may consist of short term and long term creditors, the former are concerned with a firm's ability to meet its obligations with due, while the later are interested in the condition of a firm's earning over a long-term period of time. A firm's investors, the second group that maintains an interest in the financial condition of a firm, are composed of its shareholders as also the potential shareholders like the firm's creditors. This group is interested in debt paying ability of the business, because if maturities are not satisfied when due the firm will face bankruptcy. Finally, a firm's management has the responsibility of planning and controlling the affairs of the business. This is possible only on the basis of well meaning financial appraisal. Questions raised by these groups can
generally be answered by the use of techniques that make comparisons and develop relationships of the data provided by the financial statements. Analysis of this information will form the basis for final appraisal made by the users.

Financial appraisal is generally directed towards reviewing the liquidity, stability and profitability.

Rationale of the Study

Till now public attention in this country has been focussed much on the performance of the centrally sponsored public undertaking and that the dismal performances of innumerable units promoted and managed by the various state-governments is going almost unnoticed.

Several studies, seminars, symposia and meetings have been conducted on the rationale, growth and working of Central Government public enterprises. Distinguished economists and experts on public enterprises in our country have also paid their attention only to the problems of central public undertakings.

While there is a growing literature on the central public enterprises, the research literature and even the statistical information about the state level undertakings is scanty. A survey of public Enterprises in India, published in
1969, devoted only one out of a total 29 papers and only 10 pages out of 300 to the state level public undertakings (SLPE). The author of the paper Raj. K. Nigam referring to the scant attention paid to the state government undertaking made the following comments. "In contrast with the central government undertakings for which rich data are available in official reports published every year, information on state government undertaking is neither adequate nor easily accessible. The situation has remained substantially unchanged till today."5

Even, the high powered government committee appointed by the Planning Commission encountered the problems of inadequate data on many important matters of SLPEs, even though it had direct access to the state government. The committee found that it had direct access to the state government. The committee found that in several states, government undertakings even financial accounts were not uptodate.

The present study which deals with the financial Appraisal of state level Public Enterprises in Haryana is a modest attempt to fill up the gaps in literature on this otherwise neglected field from research point of view. So far, no such study has been made in these enterprises. This forms the rationale of the study.
Survey of the Literature

Besides the institutional studies, there were some studies made by the individual researchers. Many of these studies related to the few dominant enterprises in the respective states viz. State Electricity Board, Road Transport Corporations, Industrial Development and Financial Corporations, Some of the studies includes the following G.D. Sharma broadly surveyed the working of the state enterprises in Rajasthan covering the internal organisation personnel policy forms of management capital structure inventory control price and profit policy. A.B. Chauhan made an attempt to study the organisation and working of public enterprises in Gujarat. Another pioneering effort was made by Khan and Arora through their edited volume, "Public Enterprises in India - A study of the state Government Undertaking". The work contains 11 papers dealing with public enterprises in 8 states. The volume highlights certain important aspects of administration of SLPES specially those relating to their organisational structure their accountability and performance. The study made by Gangadharan Pallai on the 'Public Sector in Karala' also deserve special mention.

Since 1970s particularly, some attention has been paid to this area and several doctoral dissertations were submitted to various universities in the country. Some studies covered the general state of affairs of the SLPES in the states of Rajasthan, Madhya Pradesh, Andhra Pradesh, Uttar Pradesh and Gujarat. Some
Dessertations are in the nature of case studies and covered electricity, transport and the fertiliser industries in Gujarat, West Bengal, Uttar Pradesh and Haryana. There are yet other works which made inter-state comparisons of transport and state financial institutions. Industry wise electricity, transport and manufacturing enterprises have attracted the attention of the scholars.

Many of these studies are of general nature and the concentration on the functional areas including the financial management is limited. The pertinent studies in the field of financial management on SLPES include: Financial Management of Andhra Pradesh Public Enterprises by A. Sharkariah. Financial Management of Jammu & Kashmir enterprises by Khurshid Ali, Management of Working capital with reference to selected state enterprises in Andhra Pradesh by K. Viyyanna Rao, Finance of Andhra Pradesh State Road Transport Corporation by V. Viswanadham, Finances of Andhra Pradesh State Electricity Board by V. Nayaraje Nadiu, Financial Management of Public Enterprises in Bihar by S. N. Sahay.

Besides, the above, an analytical study conducted by Professor J. Satyanarayan deserves to be noted. As the Chairman of the One-man committee appointed by the Andhra Pradesh State Government, he undertook painstaking study into the working of
the Andhra Pradesh State Road Transport Corporation and offered various practical suggestions for the revival of the corporation.\(^{17}\)

Apart from the books and studies, there are also few research articles on the growth and working of SLEPS in India. The contribution made by B.L. Maheswari,\(^{18}\) S. Shiva Ramu,\(^{19}\) R.K. Mishra,\(^{20}\) G. Timmaiah,\(^{21}\) G. Prasad,\(^{22}\) K. Vijayanna Rao,\(^{23}\) Kumanan Pola,\(^{24}\) P.D. Mukherjee,\(^{25}\) G. Ventaka Swamy,\(^{26}\) P.P. Nair,\(^{27}\) K. Rama Krishna Sarma,\(^{28}\) Ram Prakash,\(^{29}\) N.C. Pillai,\(^{30}\) P.R. Roy,\(^{31}\) K.Z. Ravi,\(^{32}\) H.N. Agarwal,\(^{33}\) Sujit Sakidar,\(^{34}\) P. Venkataramana,\(^{35}\) G. Sabba Rao,\(^{36}\) M.B. Shukla,\(^{37}\) S.N. Sahay,\(^{38}\) D. Dutta,\(^{39}\) J. Khanna,\(^{40}\) P.K. Bhargava,\(^{41}\) B. Chatterjee,\(^{42}\) K.G. Rama Krishna,\(^{43}\) S. Satyanayana Rao,\(^{44}\) R.S. Tiwari,\(^{45}\) may be of interest in this area of study.

Keeping in view the limited research work available in the field of financial analysis particularly on SLPES in Haryana, the present study was undertaken. The study makes financial appraisal of selected enterprises operating indifferent fields with an attempt to fill up the gap existing in the enterprise.

Objectives of the Study:

The present study has been undertaken in respect of State Level Public Enterprises in Haryana in order to:
1. examine the growth and working of the enterprises in Haryana
2. evaluate the capital structure of the selected units.
3. appraise the fixed assets investments in the enterprises.
4. analyse working capital investments in the enterprises.
5. evaluate profitability of the enterprises and
6. make observations on financial health of the enterprises and put forward the suggestions to improve the same.

Scope of the Study:

There are 23 state level public enterprises in Haryana. Since the present study relates to financial appraisal of state level public enterprises during the period 1981 to 1992. Only those corporations which have completed their financial accounts for this period could be selected for study. Thus, out of 23 corporations, 10 were selected for the present study. This way, the present study on financial appraisal of state level public enterprises in Haryana covers only 10 corporations during the period 1981 to 1992.

Methodology:

For the purpose of the study both the primary and secondary data have been used. Primary data relating to the selected enterprises has been collected through a questionnaire.
interviews and discussions with concerned officials. The secondary data for the study have been collected from the annual reports of the undertakings and other published records of state and central institutions dealing with public enterprises. Further, while analysing accounting data of annual reports the year closing on any date during a particular year has been shown as closing on the last day of the year.

Tools of analysis:

In the course of analysis in the study, use of various accounting and statistical techniques have been made. Accounting techniques mainly include ratio analysis while among statistical techniques the arithmetic mean (\( \mu \)), co-efficient of variation (C.V.), test of significance (t-test) have been made. The use of all these techniques at different places has been made in the light of nature and suitability of data available and requirements of analysis. All these tools are described in brief in the following paragraphs.

1. Ratio Analysis:

Ratio analysis is regarded as one of the best tools in analysing and comparing the time series accounting data of enterprises. That is why it has been extensively used in the present study. To make the analysis and interpretation more precise and accurate the values of \( \bar{X} \), C.V., and \( t \) have been computed from the ratios.
i) Arithmetic Mean

Arithmetic mean gives a single value to describe the whole data. Simple Arithmetic mean of each series of different ratios has been obtained by adding the values of all observations and dividing it by the number of observations.

Symbolically: \[ \bar{X} = \frac{\sum_{j=i}^{j=n} x_j}{N} \]

Where \( \sum_{j=i}^{j=n} x_j \) is used to denote the sum of all the \( x_j \)s from \( j = i \) to \( j = n \), and \( N \) is the number of observations.

Co-efficient of Variation:

Co-efficient of variation is a relative measure of dispersion. Among different measures of relative variation, one developed by Karl Pearson is the most common in uses. Co-efficient of variation is used in problems where we want to compare the variability of two or more than two series. That series for which the co-efficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which co-efficient of variation is less, said to be less variable or more consistent, more uniform, more stable or more homogeneous. In ratio analysis of financial data less co-efficient of variation in a ratio is taken to mean relatively better control of the management on that ratio, co-efficient of...
variation denoted by C.V. is obtained as follows:

\[ \text{C.V.} = \frac{S}{\bar{X}} \]

where, \( \bar{X} \) is the mean ratio and 's' is the standard deviation defined by

\[ S = \sqrt{\frac{\sum_{j=1}^{N}(x_j - \bar{X})^2}{N}} = \frac{\sum_{j=1}^{N} x_j^2}{N} - \bar{X}^2 \]

Here, \( x_j \) represents the deviation of each of the numbers from the mean \( \bar{X} \) (i ranging from 1 to N).

However, in this study, while computing the coefficient of variation, the standard deviation(s) has been taken for (N-1) number of observation.

't' Test.

Along with the \( \bar{X} \) and C.V. values for each group of ratios, the values of 't' static have been computed in order to determine whether the mean of a sample (particular unit) deviates significantly from population (aggrege) mean.

Here

\[ t' = \frac{\bar{X} - \mu}{s} \sqrt{\frac{N}{N-1}} \]
Where $\bar{x}$ is the mean and $S$ the standard deviation of the sample with size $N$ and $\mu$ the population mean.

If the calculated value of $t$ exceeds the tabulated value at 0.05, it indicates that the difference between $\bar{x}$ and $\mu$ is significant at 5 percent level, if it exceeds to 0.01, value the difference is said to be significant at 1 percent level. If $t$ is less than 0.05, the difference between $\bar{x}$ and $\mu$ is not significant hence the sample distribution closely resembles the population distribution with mean $\mu$.

Plan of the Study:

The study has been divided into seven chapters including the present one.

The first chapter - Introduction defines objectives scope, methodology and plan of the study.

The second chapter on highlights the significance of the Corporations, growth and development, financial performances, and organisation structure of the enterprises.

The third chapter deals with this Analysis of Capital Structure, discusses its meaning and concept, optimum capital structure, factors effecting capital structure, factors effecting capital structure, composition of
capital structure and ratio analysis of capital structure.

The fourth chapter deals with Fixed Assets Analysis, discusses the meaning, nature, analysis of fixed assets, structure and growth of fixed assets, impact of gross block on sales and operating profit, efficiency in the use of fixed assets, and analysis of adequacy of depreciation provision.

The fifth chapter consists of Analysis of Working Capital, examines size, liquidity, composition, circulation, and growth of working capital in selected corporations.

The sixth chapter on Profitability Analysis includes meaning and analysis of profitability, and measurement of profitability.

Last chapter deals with Findings and Suggestions and concludes the study.
References

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