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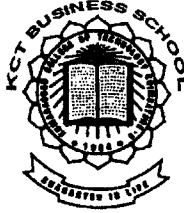
FINANCIAL PERFORMANCE ANALYSIS OF BHEL

SUMMER PROJECT REPORT
Submitted to the
Faculty of Management Sciences, Anna University
In partial fulfillment of the requirement
For the award of the degree of
MASTER OF BUSINESS ADMINISTRATION

By

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October 2006
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BONAFIDE CERTIFICATE

Certified that this project titled “FINANCIAL PERFORMANCE ANALYSIS OF BHEL” is a bonafide work of Ms.A.SHANTHI (Reg no: 71205631049), who carried out this research under my supervision. Certified further , that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

.....
Mr. A. SENTHIL KUMAR
Project Guide

.....
Prof. S. Ganesan
Director

Evaluated and viva voce held on17/11/06.....

.....
Examiner I

.....
Examiner II

DECLARATION

I, hereby declare that this project report entitled as “**Financial performance analysis of the BHEL**”, has undertaken for academic purpose submitted to Anna University in partial fulfillment of requirement for the award of degree of MASTER OF BUSINESS ADMINISTRATION. The project is the record of the original work done by me under the guidance of lecturer A. Senthil Kumar during the academic year 2006-2007.

I, also declare hereby that the information given in this report is correct to best of my knowledge and belief.

Place: Coimbatore.

Date: ..17/11/06.....

A. Shanthi
.....

A.shanthi



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This is to certify that the project work entitled
"Financial Performance Analysis"

Is a record of bonafide work carried out in Finance
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ABSTRACT

In the Modern Money Oriented Economy, Finance is one of the basic foundations of all kinds of Economic activities. The Finance Function of the Enterprise deals with rising of funds and their effective utilization, keeping in view the overall objective of the Company. This requires great caution and wisdom on the part of Management. The Management of Company makes use of various financial techniques, devices etc for administrating financial affairs of the company in the most effective and efficient way.

The financial performance of BHEL was analyzed for the past 6 years to find the financial health of the organization. The “ratio analysis” was the tool used to calculate the financial performance. The various ratios like profitability ratio, leverage ratio, coverage ratio, Liquidity ratio, and Turn-over ratios were calculated.

The profitability ratio shows that the net profit of the organization has increased compared to the previous year and the return to the share holders has also increased. Turn-over ratio shows the organization had efficiently used the investments, fixed assets and the working capital etc. Liquidity ratio shows that the short term liquidity position of the organization is also good, even if the value of the current asset becomes half the firm will be able to meet its obligations. The coverage ratios shows that the, firm is using its credit to its worth of the organization ad also to the welfare of the share holders.

In general, the financial position of the organization has increased in all aspects for the past years. It shows the good sign to its shareholders to invest more in the organization, and can be forecasted that it will grow higher in the future.

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CHAPTER 1

INTRODUCTION

- ***BACKGROUND TO STUDY***
- ***OBJECTIVE OF STUDY***
- ***SCOPE & PERIOD OF STUDY***
- ***METHODOLOGY***
- ***LIMITATIONS OF THE STUDY***

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY:

The Financial Performance of a company deals with the evaluation of the company's Financial Health at a particular point of time during its life period and also it involves the determination of the efficiency of the management in utilizing and managing the funds provided for the business. The Financial Performance of the company is to be evaluated from time to time and detect any faults in the financial policy and take the remedial action at the appropriate time.

The success of the Company to a great extent depends upon its Financial Performance. A careful and well planned Financial Management is needed for raising resources and utilizing them effectively

The parties which are interested in the Financial Performance of a Business Enterprise are Investors, Creditors, Government, Management, Employees etc.

The financial performance of a company influence its Production, Marketing and other functions and consequently effect the company size, growth, risk and profitability. Thus the function of Finance Manager is to assess the Financial Performance of the company through the working out of the Return on Capital, Debt-Equity ratio, Cost of Capital from each source etc, and comparison of the Capital Structure with that of similar companies.

Thus, the financial performance evaluation involves the determination of company's ability in mobilizing the funds required for the business and utilizing the funds in the business.

1.2 PROBLEM OF THE STUDY:

The problem of the study is mainly to analyze of the performance of the company in the past 6 years and to ensure the investors the financial health of the organization.

1.3 OBJECTIVES:

The study is aimed at evaluating the Financial Performance of BHEL in general and with the help of ratio analysis in particular. The objectives of the study are as follows:

- To examine the liquidity position of BHEL.
- To examine the efficiency of BHEL in managing and utilizing the assets by calculating Activity Ratios.
- To measure the operating efficiency with the help of Profitability Ratios.
- To measure the financial risk by calculating Leverage Ratios.
- To get acquainted with financial and operational activities.
- To identify the areas of scope for improvement.
- To get exposed to the current financial situation under which the company with a motive of stake holder's wealth maximization, profit maximization, overall human resource development are contributing towards the growth of the economy in a competitive domestic and global world as a whole.
- To suggest necessary measures for improvements and corrections.
- To provide information to the management.

1.4 SCOPE AND PERIOD OF STUDY

The study is limited to BHARAT HEAVY ELECTRICALS LIMITED (BHEL). It is a study analysis of the past Financial Statements of the 6 years period i.e. from 2000-2001 to 2005-2006.

The study is based on the Quantitative data available.

The study was carried in Bharat Heavy Electricals Limited (BHEL) Corporate Research and Development Division, Vikas Nagar Hyderabad for a period of 90 days from august 2006 to October 2006

1.5 METHODOLOGY

Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The main characteristic of this method is that the researcher has no control over the variables he can report only what has happened or what is happening.

The present study “FINANCIAL PERFORMANCE ANALYSIS” is a study where the researcher has no influence over the variables. Hence the study is descriptive in nature.

The study is based on primary as well as secondary data.

PRIMARY DATA:

- Formal discussion with the managers at various level in the Finance department of BHEL Corporate Research and Development division, Hyderabad

SECONDARY DATA:

- Annual Reports of BHEL
- Internet
- Journals and Newspapers
- Referred Standard Books

1.6 LIMITATIONS OF THE STUDY

The study is subject to the following limitations:

- The study is only pertaining to BHEL.
- The period of study is 6 years and the performance evaluation is also limited to 6 years period.
- The study is purely based on the data in the form Annual Reports and Appraisal Reports.
- The overall performance is taken into consideration without taking into account the minute values or individual values.
- The observation from the study may not be considered as a future Indicators, as the present study is limited to a short period of 6 years.

1.7 CHAPTER SCHEME:

Chapter 1, described.

Chapter 2, describes company profile, the management under which BHEL is running, objectives of the organization, the product profile and market potential, along with the core business of the organization, and where the company is positioning for the future.

Chapter 3, describes economic scenario of BHEL with the industry related. The major contributions made by the company to the country's economy.

Chapter 4, describes the data analysis and interpretation using ratio analysis as tool for the financial performance of BHEL.

Chapter 5, describes the findings and conclusions and the recommendations that can be followed in the future.

CHAPTER 2

ORGANISATION PROFILE

- ***INTRODUCTION***
- ***ORGANISATION STRUCTURE***
- ***VISION, MISSION & VALUES***
- ***EXCELLENCE AWARDS***
- ***PRODUCT PROFILE***
- ***POSITIONING FOR THE FUTURE***

CHAPTER 2

ORGANISATION PROFILE

2.1 INTRODUCTION

BHEL [Bharat Heavy Electricals Limited] is the largest engineering and manufacturing enterprise in India in the energy-related/infrastructure sector, today. BHEL was established more than 40 years ago, ushering in the indigenous Heavy Electrical Equipment industry in India - a dream that has been more than realized with a well-recognized track record of performance. The company has been earning profits continuously since 1971-72 and paying dividends since 1976-77.

BHEL manufactures over **180** products under **30** major product groups and caters to core sectors of the Indian Economy viz., Power Generation & Transmission, Industry, Transportation, Telecommunication, Renewable Energy, etc. The wide network of BHEL'S **14** manufacturing divisions, **four** Power Sector regional centers, over **100** project sites, **eight** service centers and **18** regional offices, enables the Company to promptly serve its customers and provide them with suitable products, systems and services efficiently and at competitive prices. The high level of **quality & reliability** of its products is due to the emphasis on design, engineering and manufacturing to international standards by acquiring and adapting some of the best technologies from leading companies in the world, together with technologies developed in its own R&D centers.

The greatest strength of BHEL is its highly skilled and committed **43,302** employees. Every employee is given an equal opportunity to develop himself and grow in his career. Continuous training and retraining, career planning, a positive work culture and participative style of management – all these have engendered development of a committed and motivated workforce setting new benchmarks in terms of productivity, quality and responsiveness

BHEL has acquired certifications to Quality Management Systems (ISO 9001), Environmental Management Systems (ISO 14001) and Occupational Health & Safety Management Systems (OHSAS 18001) and is also well on its journey towards total quality management.

2.1.1 ABOUT COPORPORATE R & D

BHEL Corporate R & D unit at vikasnagar in Hyderabad, which is celebrating its silver jubilee, is the pivotal centre for all the research activities. In its progressive march aimed at realizing the objectives advocated by the principles of BHEL Vision. Corporate R & D is spearheading the R & D efforts by utilizing the advanced laboratory facilities and the manpower of labour of about a 1000 highly qualified and experienced engineers, scientists and supporting staff.

OBJECTIVES

- Improvement in quality and performance of BHEL products
- Generating of know-how through advanced basis and applied research investigations.
- Development of new products and processes.
- Exploring renewable energy sources.
- Development of life assessment and modernization techniques for power and industrial equipment.
- Cost-effective indigenization.
- Research in frontier areas of relevance to BHEL.

BOARD OF DIRECTORS

CHAIRMAN & MANAGING DIRECTOR

Ashok K Puri
Chairman & Managing Director

NOMINEE OF GOVERNMENT OF INDIA

Naresh Chaturvedi
Additional Secretary & Financial Advisor
Ministry of Heavy Industries &
Public Enterprises,

Dr. Surajit Mitra
Joint Secretary
Ministry of Heavy Industries & Public Enterprises

INDEPENDENT & NON-EXECUTIVE DIRECTORS

Vineet Nayyar
Director

Manish gupta
Director

Sanjay M Dadlika
Director

Shekhar Datta
Director

Ashok K Aggarwal
Director

Madhukar
Director

WHOLE-TIME FUNCTIONAL DIRECTORS

Rai SK Jain
Director (HR)

C P Singh
Director (ER&D)

AK Mathur
Director (IS&P)

K Ravi Kumar
Director (Power)

CS Verma
Director (Finance)

COMPANY SECRETARY

NK Sinha

2.2 QUALITY POLICY STATEMENTS

VISION

BHEL'S vision is to become a world-class engineering enterprise, committed to enhancing stakeholder value.

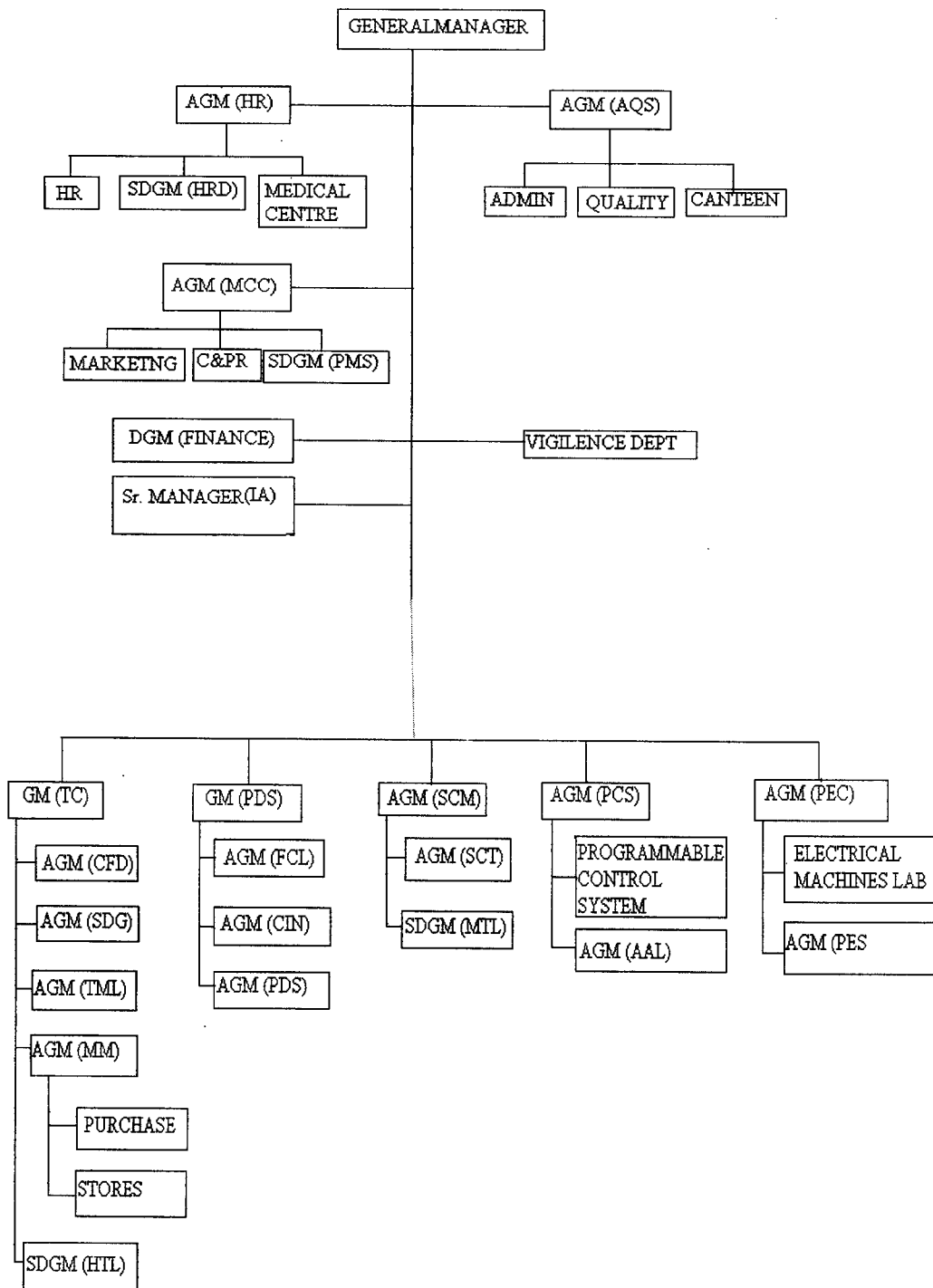
The company is striving to give shape to its aspirations and fulfill the expectations of the country to become a global player.

MISSION

To be an Indian Multinational Engineering Enterprise providing Total Business Solutions through Quality Products, Systems & Services in fields of Energy, Industry, Transportation, Infrastructure & other Potential areas.

VALUES

- Zeal to Excel and Zest for Change
- Integrity and Fairness in all matters
- Respect for Dignity and Potential of individuals
- Strict Adherence to Commitments
- Ensure Speed of Response
- Foster Learning, Creativity and Team-work
- Loyalty and Pride in the Company



2.3 ORGANISATION STRUCTURE

2.4 BHEL EXCEL AWARDS FOR 2005-06



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- **VISHWAKARMA RASHTRIYA PURASKAR:**

28 vishwakarma rashtriya puraskars were declared by ministry of labour. 7 BHEL employees have won 3 awards during the year 2005-06.

- **NATIONAL SAFETY AWARDS:**

5 National safety awards in the winner category have been won by BHEL.

- **INDIAN NATIONAL SUGGESTION SCHEMES ASSOCIATION AWARDS (INSSAN):**

These awards are given by INSSAN for excellence in suggestion scheme. 12 awards have been won by BHEL.

- **FICCI AWARDS**

BHEL has received FICCI award for environmental conservation and pollution Control from prime minister of India.

- **ICWAI AWARD**

BHEL received ICWAI national award for excellence in cost management-2005.

- **NATIONAL AWARD**

Bhopal unit of BHEL being conferred national award for best disabled employee for the year 2005 by honorable president of India.

2.5 PRODUCT PROFILE

- Thermal Power Plants
- Nuclear Power Plants
- Gas-Based Power Plants
- Hydro Power Plants
- DG Power Plants
- Industrial Sets
- Boilers
- Boiler Auxiliaries
- Piping Systems
- Heat Exchangers and Pressure Vessels
- Pumps
- Power Station Control Equipment
- Switch Gears
- Bus Ducts
- Transformers
- Insulators
- Industrial and Special Ceramics
- Capacitors
- Energy Meters
- Electrical Machines
- Compressors
- Control Gears
- Silicon Rectifiers
- Thyristor GTO/IGBT Equipment
- Power Devices
- Transportation Equipment
- Oil Field Equipment

CORE BUSINESS

BHEL'S operations are organized around three business sectors, namely:

1) **POWER**

2) **INDUSTRY** - including Transmission, Transportation,
Telecommunication & Renewable energy

3) **OVERSEAS BUSINESS**

This enables BHEL to have a strong customer orientation, to be sensitive to its needs and respond quickly to the changes in the market.

BHEL has

Installed equipment for over 90,000 MW of power generation for Utilities, Captive and Industrial users.

Supplied over 2,25,000 MVA transformer capacity and other equipment operating in Transmission & Distribution network up to 400 kV (AC & DC).

Supplied over 25,000 Motors with Drive Control System to Power projects, Petrochemicals, Refineries, Steel, Aluminum, Fertilizer, Cement plants, etc.

Supplied Traction electrics and AC/DC locos to power over 12,000 kms Railway network.

Supplied over one million Valves to Power Plants and other Industries

2.6 POSITIONING FOR THE FUTURE:

- In order to cope up with the country's ambitious target of Power Generation Capacity in addition of 1, 50,000 MW in next 7 years.
- BHEL is gearing up to enhance its Equipment Manufacturing Capacity from present 6000 MW to 10000 MW annually by March 2007.
- BHEL has already tied up to acquire Technology to produce next generation boilers with super critical parameters.
- As apart of the implementation of the 'Strategic plan 2007'. BHEL has already taken various strategic initiatives keeping in view its core strengths to face the emerging challenges. The strategic focus area include: Repositioning the organization, Globalization/Export strategies, Engineering and Technology initiatives, continuing initiatives for maintaining Competitive Edge, IT initiatives and HRM and Financial Management initiatives.
- Enhancement of Competitive Edge: BHEL has embarked on a major exercise of 'positioning BHEL for Accelerated Growth' to address all aspects of its operations to enhance its strategic positioning. These include initiatives on competitiveness like design-to-cost, purchasing and supply management, lean manufacturing, focus on project deliveries and cycle time reduction, enhancing system design capability, etc.
- With the service sector emerging as the growth engine of the economy, a focused approach has been adapted to tap opportunities like EPC,O&M and After market services is being consolidated and separate group has been formed to focus on this sector.

BHEL is thus fully equipped and committed to bring the state-of-art products, systems and services for producing quality power at affordable rates and meet the country's challenging task of achieving 'Power for All by 2012'.

CHAPTER 3

MACRO-MICRO ECONOMIC ANALYSIS

- ***GLOBAL COMPACT***
- ***GLOBAL REACH***
- ***FUNCTIONAL AREAS***
- ***INDUSTRY ANALYSIS***

CHAPTER 3

MACRO-MICRO ECONOMIC ANALYSIS

3.1 GLOBAL COMPACT

BHEL has joined the “Global Compact” of United Nations and has committed itself to support it and the set of core values enshrined in its ten principles. The “Global Compact” is a partnership between the United Nations, the business community, international labor and NGOs. It provides a forum for them to work together and improve corporate practices through co-operation rather than confrontation.

BHEL’S contributions towards Corporate Social Responsibility till date include adoption of villages, free medical camps/charitable dispensaries, schools for the underprivileged and handicapped children, ban on child labor, disaster/natural calamity aid, Employment for handicapped, Widow resettlement, Employment for Ex-serviceman, irrigation using treated sewage, pollution checking camps, plantation of millions of trees, energy saving and conservation of natural resources through environmental management.

BHEL shares the growing concern on issues related to Environment and Occupational Health & Safety (OHS), and is committed to protecting Environment in and around its own establishment, and to providing safe and healthy environment to all its employees. For fulfilling these obligations, a Health, Safety & Environmental Policy has been formulated and implemented through Management Systems.

In recognition of this, BHEL has been awarded the ISO 14001 Environmental Management Systems Certification and OHSAS 18001 Occupational Health & Safety Management Systems Certification from M/s Det Norske Veritas (DNV). Under UNDP program for specialized services in the area of Environment, BHEL has set up a Pollution Control Research Institute (PCRI). BHEL also has a Model Centre for Occupational Health Services at Trichy, which is a pioneer in this field in India.

Today it offers a wide range of occupational health care as well as expertise in work Environment monitoring, Toxicology, Ergonomics and in organization of OHS to multitude of industries for different sectors in India. Few ILO sponsored candidates from African countries have undergone training at this Model center

BHEL is a member of CoRE (Corporate Roundtable on Development of Strategies for Environment) launched by The Energy Research Institute (TERI). CoRE is envisaged as a means to facilitate a proactive and catalytic role for industry in addressing the environmental problems plaguing India

3.2 GLOBAL REACH

BHEL is one of the largest exporters of engineering products and services from India. Over the years, BHEL has established its reference in over **60** countries –from the United States in the West to New Zealand in the Far East. These encompass thermal, hydro and gas-based power plants, substation projects, rehabilitation projects, besides a wide variety of products, like Transformers, compressors, valves and oil field equipment, Electrostatic precipitators, photo voltaic equipments, insulators, switchgears heat exchangers, castings and forgings. In the current fiscal, BHEL has booked physical export orders worth nearly Rupees 1200 Crores.

3.3 FUNCTIONAL AREAS

HUMAN RESOURCES:

The key function of the HR department in the company is to maintain the labour laws and the welfare of the employers and employees inside the organization like transport facilities, canteen etc...

FINANCE:

The finance department will look after the cost that being allocated by the head office to particular project and will send the account details to the corporate office. The department will allocate the fund by itself if the project worth is less than the 5lakhs.

ELECTRICAL:

Development of special electrical machines, generation of engineering information through computerized analysis and testing/simulation are pursued in the area of electrical machines. It has various other areas like electromagnetics high voltage engineering, transmission, switch gear development etc...

COMMERCIALIZATION:

Center of technology transfer (COTT) known as commercialization center was formed as a profit centre in 1983 for commercialize the R&D products and services. The centre markets the products and services of corporate R&D before the technology is transferred to the manufacturing plants or external agencies.

3.4 INDUSTRY ANALYSIS:

World power sector:

The global power industry is looking at market growth mainly in the region of Asia Pacific. In addition, investments for new power plant equipment are likely in countries of the Middle East and Gulf Cooperation Council (GCC). Many energy traders and IPP developers are revisiting their investments leading to a fall in new orders for power plant equipment in the global market. As such, the total world –wide demand for power plant equipment has been much below the manufacturing capacity, leading to aggressive marketing by major plant equipment manufactures. The recent steep in oil and gas prices are drawing attention of countries towards alternatives of clean coal & non conventional energy sources. As per a recent market research reports, world power transmission & distribution equipment demand is expected to rise by 4.5% per year in the medium term.

India's power sector:

In India subsequent to the enhancement of the electricity act 2003, national electricity policy has been formulated which aims at providing access to electricity to all households in next five years, fully meeting demand power by 2012, etc. ministry of power is also working on national tariff policy and has recently come out with a draft scheme. Distribution power sector has also received a major fillip. Short/long term objectives have been identified for district level distribution circles and are being monitored.

Compared to previous plan periods, there has been a marked improvement in the progress of power capacity addition in the X plan. Further a capacity addition of over 60,000 MW has been projected during XI plan.

Industry sector:

Manufacturing sector is looking at investments to scale up the production capacities as heavy industries like oil, cement, steel and aluminum have increased their capacity utilization and are now looking at future demand. Along with mega infrastructure projects under way, the revival of private investment is expected to give a further boost to the multipliers in the economy.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

- ***PROFITABILITY RATIOS***
- ***COVERAGE RATIOS***
- ***TURNOVER RATIOS***
- ***LIQUIDITY RATIOS***

4.1

Profitability

Ratios

OPERATING PROFIT RATIO:

The operating expenses ratio is an important ratio that explains the changes in the profit margin

$$\text{OPERATING PROFIT RATIO} = \frac{\text{EARNINGS BEFORE INTEREST AND TAXES (EBIT)}}{\text{SALES}} \times 100$$

4.1.1 Table showing operating profit Ratio:

(Rs.in crores)

FINANCIAL YEAR	EBIT	SALES	OPERATING PROFIT RATIO (%)
2000-2001	337.85	6347.76	5.32
2001-2002	759.81	7286.62	10.42
2002-2003	857.21	7482.22	11.46
2003-2004	1074.83	8662.47	12.41
2004-2005	1663.04	10336.39	16.09
2005-2006	2623.09	14525.49	18.06

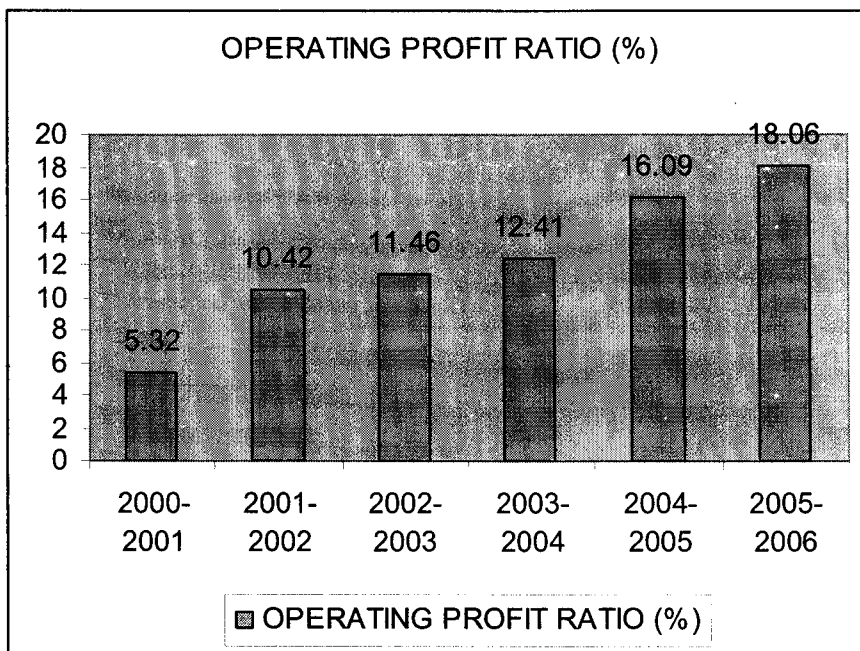
INTERPRETATION:

- 1) There has been continuous increase in operating profit ratio of BHEL from 5.32 % in 2000-01 to 18.06 % in 2005-06.
- 2) The increase in the operating profit ratio may be due to :
 - a) Decrease in operating expenses or
 - b) Decrease in gross profit ratio.
- 3) It implies that there is virtually some gain to the company from increased sales.

INFERENCE:

The profit margin of the company has increased because of increase in the sales over the subsequent years, hence the over all operating profit ratio has the upward trend.

4.1.1 Chart showing operating profit Ratio



NET PROFIT RATIO:

Net profit margin is obtained when operating expenses, interest and taxes are subtracted from the gross profit.

$$= \frac{\text{PROFIT AFTER TAXES (PAT)}}{\text{SALES}} \times 100$$

4.1.2 Table showing Net Profit Ratio:

(Rs in crores)

FINANCIAL YEAR	PAT	SALES	NET PROFIT RATIO (%)
2000-2001	312.61	6347.76	4.92
2001-2002	467.95	7286.62	6.42
2002-2003	444.51	7482.22	5.9
2003-2004	658.15	8662.47	7.59
2004-2005	953.41	10336.39	9.22
2005-2006	1679.16	14525.49	11.56

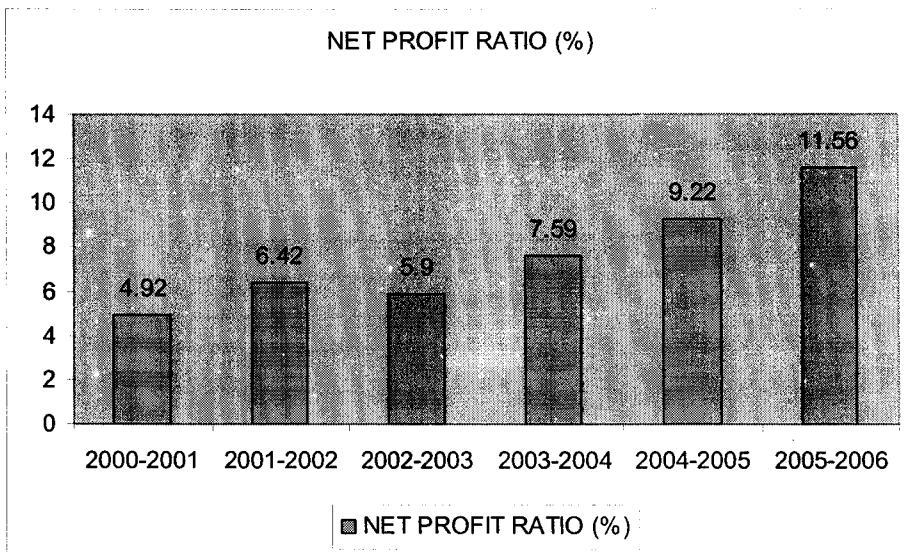
INTERPRETATION:

- 1) Net Profit Margin establishes a relationship between net profit and sales and indicates management's efficiency in manufacturing, administering and selling the products.
- 2) This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit.
- 3) The higher ratio enables the firm's capacity to withstand adverse economic conditions.
- 4) The net profit margin of BHEL has increased substantially of 11.56 % in 2005-06 when compared to 4.92 % in 2000-01 which indicates that management is efficient in reducing office, administration, selling and distribution expenses.

INFERENCE:

The net profit ratio in over all has shown the upward trend, but there is a decrease during the year 2002-03 is that company has gone for the expansion, and that showed a decrease in the profit after tax.

4.1.2 Chart showing Net Profit Ratio:



RETURN ON CAPITAL EMPLOYED [R.O.C.E]:

This ratio measures profitability in relation to the total capital employed in the business enterprise.

$$= \frac{\text{EARNINGS/PROFIT BEFORE INTEREST \& TAXES (EBIT)}}{\text{CAPITAL EMPLOYED (CE)}} \times 100$$

HERE:

CAPITAL EMPLOYED= (SOURCES OF FUNDS)-(INVESTMENTS)

4.1.3 Table showing Return on Capital Employed:

(Rs.in crores)

FINANCIAL YEAR	EBIT	CAPITAL EMPLOYED	R.O.C.E (%)
2000-2001	337.85	4845.62	6.97
2001-2002	759.81	5125.46	14.82
2002-2003	857.21	5125.01	16.73
2003-2004	1074.83	5337.45	20.14
2004-2005	1663.04	6045.59	27.51
2005-2006	2623.09	7851.33	33.41

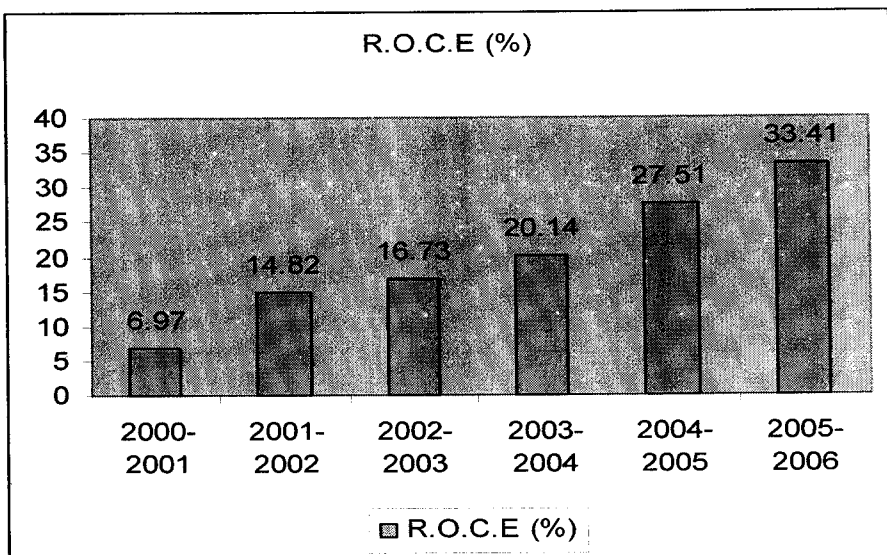
INTERPRETATION:

- 1) The Return on Capital Employed ratio provides a test of profitability related to the sources of long-term funds.
- 2) The long-term funds are efficient in the year 2005-2006 (33.41 %) as compared to the year 2000-2001 (6.97 %).
- 3) The Return on Capital Employed increased year after year, which is a good sign and indication of how the company is efficiently utilizing its long-term funds of owner's & creditors.
- 4) The company's turnover has increased rapidly thereby increasing the Earnings Before Interest & Taxes from 2001 to 2006

INFERENCE:

The capital employed has increased over the year due to effective utilization of loan funds by the organization, there is a trade-off between retained earning and reserves and surplus.

4.1.3 Chart Showing Return on Capital Employed:



RETURN ON EQUITY SHARE HOLDERS FUNDS (or) NET WORTH:

Return on equity is derived by taking net income and dividing it by its shareholders equity.

$$= \frac{\text{PROFIT AFTER TAX (PAT)}}{\text{NET WORTH}} \times 100$$

HERE:

$$\text{NET WORTH} = \text{EQUITY CAPITAL} + \text{FREE RESERVES}$$

4.1.4 Table showing Return on Net worth:

(Rs .in crores)

FINANCIAL YEAR	PAT	NET WORTH	RETURN ON NETWORTH (%)
2000-2001	312.61	3830.36	8.16
2001-2002	467.95	4469.61	10.47
2002-2003	444.51	4803.67	9.25
2003-2004	658.15	5295.94	12.4
2004-2005	953.41	6026.89	15.81
2005-2006	1679.16	7301.38	22.99

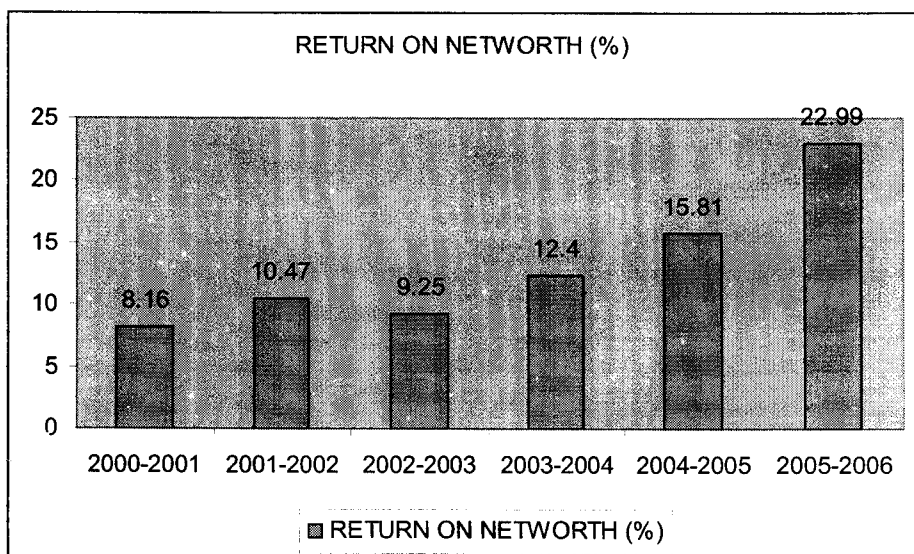
INTERPRETATION:

- 1) The Return on Equity Shareholder's funds has increased from 8.16% in 2000-2001 to 22.99 % in 2005-2006.
- 2) The increased profits of the company resulted in higher profit after taxes as compared to previous years and creating more free reserves and surpluses which in turn resulted in increase in shareholder's funds.

INFERENCE:

The net worth of the company has increased over the years; hence the return to equity shareholder's fund has increased. During the year 2002-03 due to expansion it has decreased and later it is in upward trend.

4.1.4 Chart showing Return on Net worth:



RETURN ON EQUITY CAPITAL [R.O.E]:

The ratio which indicates the returns which the management is realizing from the shareholders equity and shows how efficiently ordinary shareholders funds are being utilized.

$$\text{R.O.E} = \frac{\text{PROFIT AFTER TAX (PAT)}}{\text{EQUITY SHARE CAPITAL}} \times 100$$

4.1.5 Table showing Return on Equity:

(Rs.in crores)

FINANCIAL YEAR	PAT	EQUITY CAPITAL	R.O.E (%)
2000-2001	312.61	244.76	127.72
2001-2002	467.95	244.76	191.19
2002-2003	444.51	244.76	181.61
2003-2004	658.15	244.76	268.89
2004-2005	953.41	244.76	389.52
2005-2006	1679.16	244.76	686.04

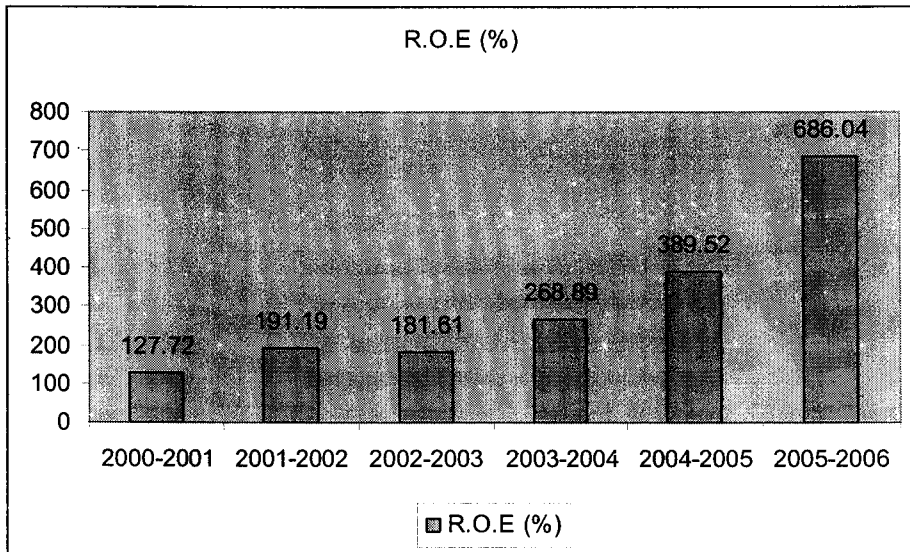
INTERPRETATION:

- 1) The return on equity share capital has increased from 127.72 % in 2001 to 686.04 % in 2006.
- 2) There is an increase of 558.32 % from 2001 to 2006. This indicates that the company's commitment towards Stakeholders wealth maximization.
- 3) The company by increasing sales revenue and minimizing of cost and control of necessary cost areas produced higher Profit after Tax which led to higher returns to equity share capital.
- 4) There was decrease in PAT in 2002-03; one of the reasons could be that the company has invested in acquiring foreign technology and projects.

INFERENCE:

The over all commitment of the company towards the stake holders was good. Though there is decrease during the year 2002-03, it has shown the rapid growth over the subsequent years due to technology advancement.

4.1.5 Chart showing Return on Equity:



EARNINGS PER SHARE [EPS]:

EPS calculations made over years indicate whether or not the firm's earnings power on pre-share basis has changed over that period. It is a valuable and widely used ratio.

$$\text{EPS} = \frac{\text{EARNINGS AVAILABLE TO EQUITY SHAREHOLDERS (PAT)}}{\text{NUMBER OF EQUITY SHARES}}$$

4.1.6 Table showing Earnings per Share:

(Rs.in crores)

FINANCIAL YEAR	PAT	NO. OF EQUITY SHARES	EARNINGS PER SHARE
2000-2001	312.61	24.48	12.77
2001-2002	467.95	24.48	19.12
2002-2003	444.51	24.48	18.16
2003-2004	658.15	24.48	26.88
2004-2005	953.41	24.48	38.95
2005-2006	1679.16	24.48	68.59

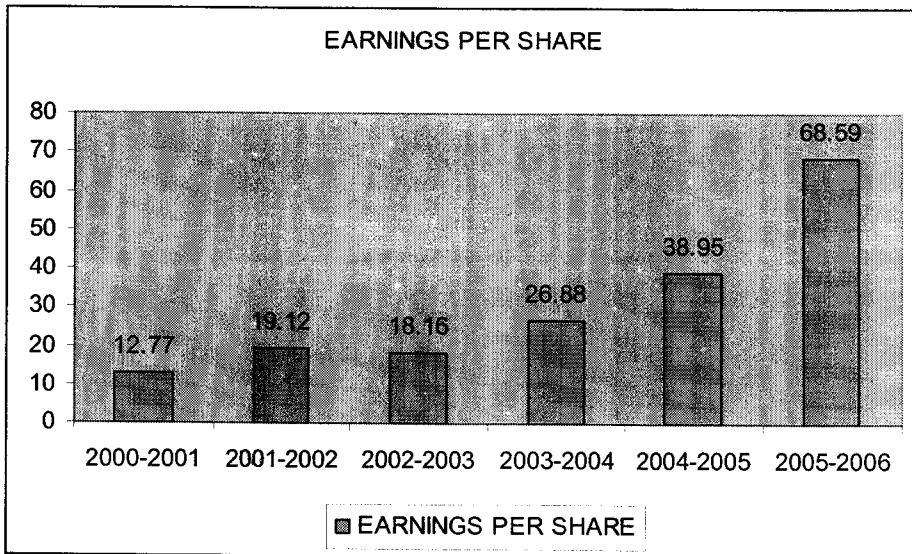
INTERPRETATION:

- 1) The Earnings per equity share has increased from Rs.12.77 in 2000-01 to Rs.68.59 in 2005-06.
- 2) The company due to earning of higher profits maintained paying of high Dividends also reserving the surpluses available to equity shareholders.
- 3) The Earnings per share simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is retained in the business.

INFERENCE:

The earnings per share have increased gradually, this shows that the shareholders can invest without any doubt that they will get high return or not. The company has paid the higher dividend.

4.1.6 Chart showing Earnings per Share:



DIVIDEND PER SHARE [DPS]:

The net profits after taxes belong to shareholders. But, the income which they really receive is the amount of earnings distributed as cash dividends.

$$\text{DPS} = \frac{\text{DIVIDEND PAID TO EQUITY SHAREHOLDERS}}{\text{NUMBER OF EQUITY SHARES}}$$

4.1.7 Table showing Dividend per Share:

(Rs.in crores)

FINANCIAL YEAR	DIVIDEND PAID	NO. OF EQUITY SHARE	DPS
2000-2001	73.43	24.48	3
2001-2002	97.90	24.48	4
2002-2003	97.90	24.48	4
2003-2004	146.86	24.48	6
2004-2005	195.08	24.48	8
2005-2006	354.90	24.48	14.5

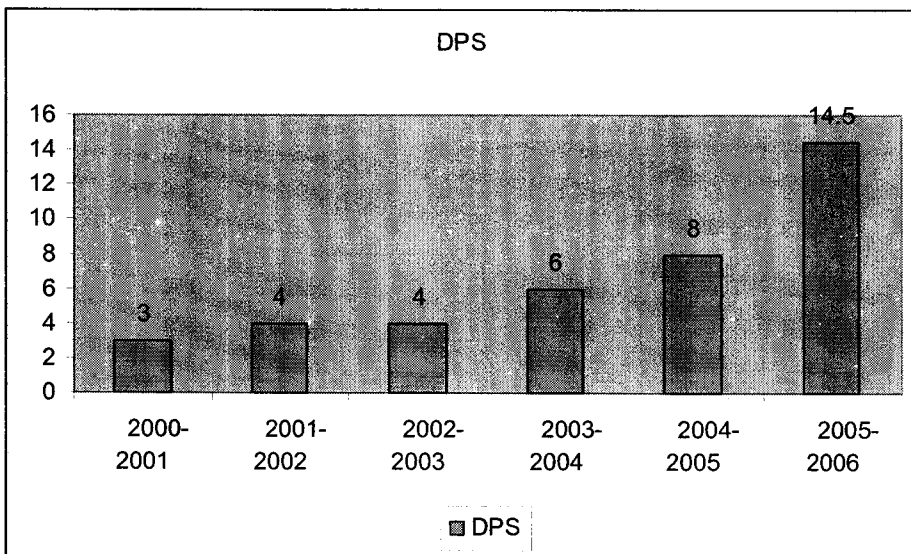
INTERPRETATION:

- 1) The company is rich in paying dividends to the shareholders.
- 2) The company's dividend has increased from 73.43 Cr in 2000-01 to 354.49.80 Cr in 2005-06.
- 3) The company in 2005-06 paid Rs. 14.5 per share as dividend out of Rs. 68.59 per share earned.
- 4) The difference per share is retained in the business.

INFERENCE:

The company has paid high dividend to the share holders having a less amount in their retained earnings and invested that also in an effective way to earn higher profit.

4.1.7 Chart showing Dividend per Share:



PRICE- EARNINGS RATIO [P/E Ratio]:

The otherwise called “earnings multiple” generates measure how much the public willing to pay for the company prospects for earnings.

$$= \frac{\text{MARKET PRICE PER SHARE (MPS)}}{\text{EARNINGS PRICE PER SHARE (EPS)}}$$

4.1.8 Table showing Price Earning Ratio:

(In Rupees)

FINANCIAL YEAR	MPS	EPS	P/E RATIO
2000-2001	150.45	12.77	11.78
2001-2002	200.00	19.12	10.46
2002-2003	226.25	18.16	12.46
2003-2004	641.40	26.88	23.86
2004-2005	883	38.95	32.85
2005-2006	2280	68.59	33.24

INTERPRETATION:

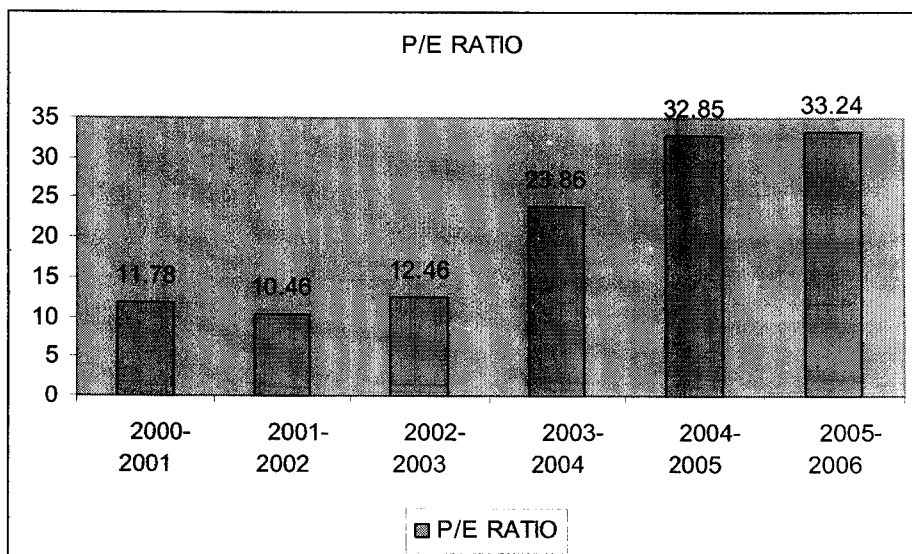
- 1) The Price-Earnings ratio has increased from 11.78 times in 2000-01 to 33.24 Times in 2005-06.
- 2) The share price increased tremendously inspite of considering the fact of Privatizations and more foreign institutional investments and rise in Multi-national companies.
- 3) The P/E ratio is the best indicator of the ongoing performance of a company.
- 4) A drop in earnings could mean that a dividend is in trouble.

5) Shares of companies with good profit record tend to have high P/E ratio and usually a low yield. Investors make use of this P/E ratio to assess the “Expressiveness” of a given share. In general, high P/E ratio indicates that the Stock market price has been pushed up in anticipation of an expected rapid Improvement in earnings.

INFERENCE:

The earnings multiple has increased over the year and this shows the public is willing to pay for the company’s prospectus.

4.1.8 Chart showing Price Earning Ratio:



DIVIDEND PAY-OUT RATIO [D/P RATIO]:

The dividend payout ratio reveals as what portion of earnings per share has been used for paying dividend and what has been retained for ploughing back.

$$\text{DIVIDEND PER SHARE (DPS)} \\ = \frac{\text{EARNINGS PER SHARE (EPS)}}{\text{EARNINGS PER SHARE (EPS)}} \times 100$$

4.1.9 Table showing Dividend Pay-out Ratio:

(In Rupees)

FINANCIAL YEAR	DPS	EPS	D/P RATIO
2000-2001	3	12.77	23.9
2001-2002	4	19.12	20.9
2002-2003	4	18.16	22.02
2003-2004	6	26.88	22.32
2004-2005	8	38.95	20.5
2005-2006	14.5	68.6	21.13

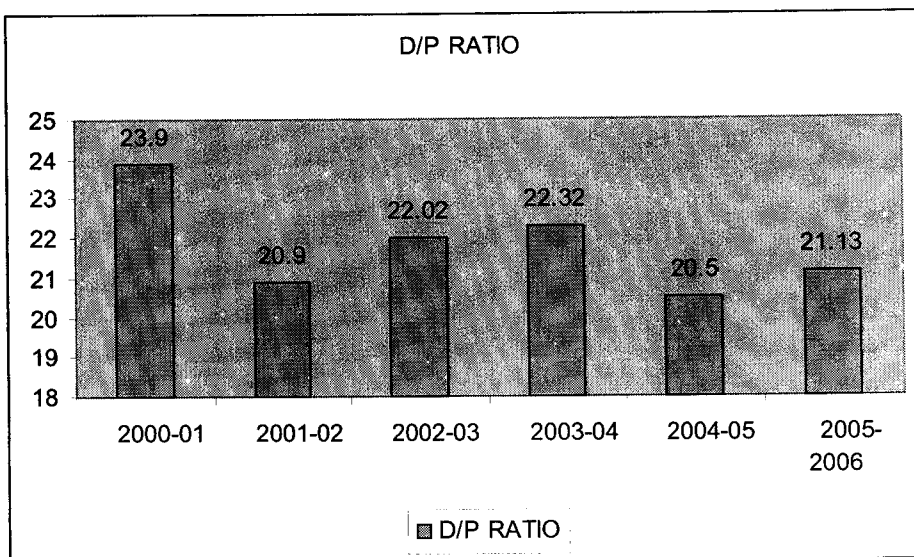
INTERPRETATION:

- 1) The Pay-Out ratio has considerably decreased from 23.49 % in 2000-01 to 21.13% in 2005-06.
- 2) The decrease means that large portion i.e. (100%-21.13%) 78.87 % is retained in the business which may effect on the value of the shares.

INFERENCE:

The company is more interested in giving capital appreciation to the share holders and so it has invested in the business for further improvement.

4.1.9 Chart showing Dividend Pay-out Ratio



4.2

Coverage

Ratios

INTEREST COVERAGE RATIO:

The lender to the business is interested in finding out whether the business would earn sufficient profit to pay periodically the interest coverage. Interest coverage ratio tells about that.

$$\text{INTEREST COVERAGE RATIO} = \frac{\text{EARNINGS BEFORE INTEREST AND TAXES (EBIT)}}{\text{INTEREST CHARGES}}$$

4.2.1 Table showing Interest Coverage Ratio:

(Rs. in crores)

FINANCIAL YEAR	EBIT	INTEREST CHARGES	INTEREST COVERAGE RATIO
2000-2001	337.85	43.76	7.72
2001-2002	759.81	96.98	7.84
2002-2003	857.21	96.98	8.84
2003-2004	1074.83	60.08	17.89
2004-2005	1663.04	81.41	20.43
2005-2006	2623.09	58.74	44.66

INTERPRETATION:

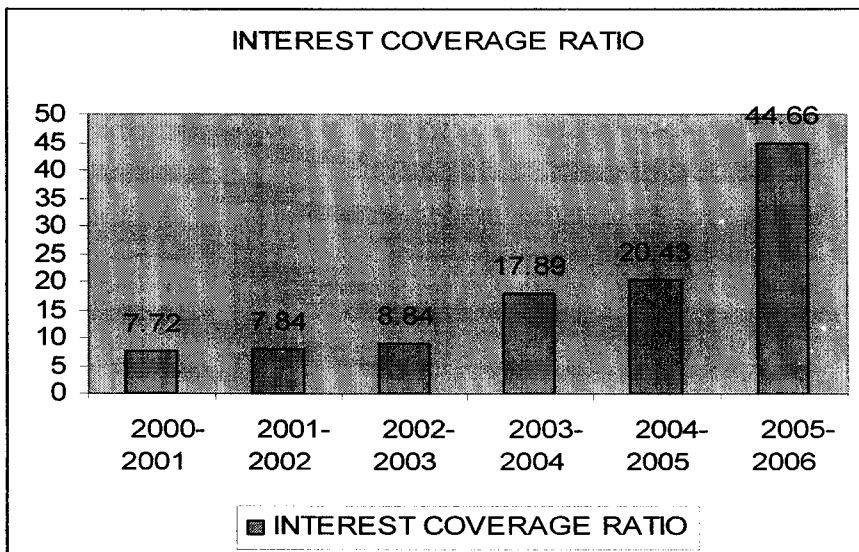
- 1) This ratio indicates the extent to which the earnings may fall without causing any embarrassment to the firm regarding the payment of the interest charges.
- 2) A higher ratio is desirable; but too high a ratio indicates that the firm is very conservative in using debt, and that it is not using credit to best advantage of shareholders.

- 3) The company has increased its interest coverage ratio of 7.72 times in 2000-01 to 44.66 times in 2005-06.

INFERENCE:

Except for the financial year 2001-02, the other years showed much improvement in interest coverage ratio when compared to their subsequent years. The reason may be the % increase in EBIT for the present year to the previous year was more compared to % increase in interest charges.

4.2.1 Chart showing Interest coverage Ratio:



4.3

Turnover

Ratio

FIXED ASSETS TURNOVER RATIO:

The ratio shows how well the fixed assets are being utilized, if compared with a previous period, it indicates whether the investments in fixed assets are judicious or not.

$$= \frac{\text{NET SALES}}{\text{NET FIXED ASSETS}}$$

4.3.1 Table showing Fixed Asset Turnover Ratio:

(Rs.in crores)

FINANCIAL YEAR	NET SALES	FIXED ASSETS	FIXED ASSET TURN-OVER RATIO
2000-2001	6347.76	114.26	4.84
2001-2002	6605.74	117.66	5.52
2002-2003	6930.30	117.05	5.61
2003-2004	8019.03	109.41	7.33
2004-2005	9527.14	104.42	9.12
2005-2006	13374.03	982.28	13.6

INTERPRETATION:

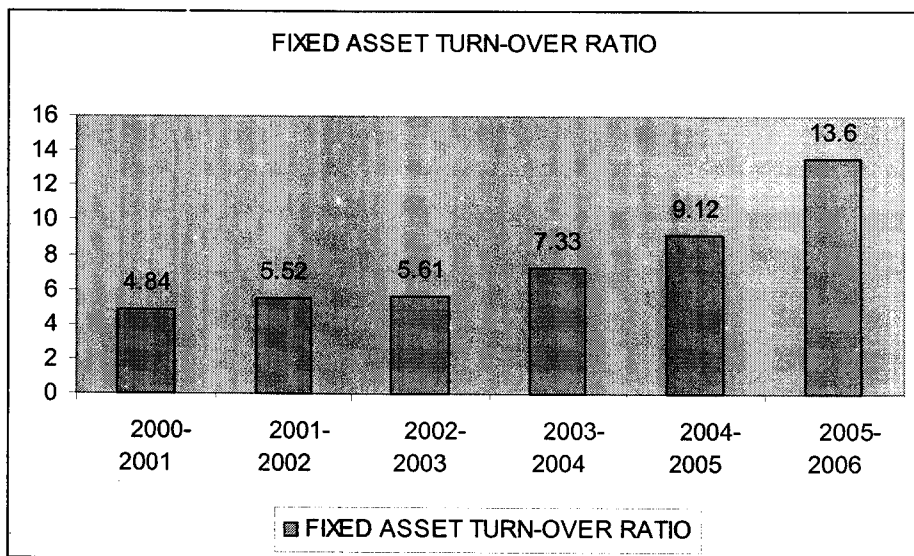
- 1) This ratio measures the efficiency with which the firm is utilizing its investment in Fixed Assets, such as land and buildings, plant and machinery and furniture etc.
- 2) A firm's ability to produce a large volume of sales for a given amount of Net Assets is the most important aspect of its operating performance.
- 3) The company has increased its Fixed Assets Turnover Ratio from 4.84 times in 2000-01 to 13.6 times in 2005-06.
- 4) The Net assets turnover of 13.6 times implies that BHEL is producing Rs. 13.6 of Sales for one rupee of capital employed in Net Fixed Assets.

5) Though the Fixed Assets decreased, Fixed Assets Ratio increased due to an Increase in Sales. The Fixed Assets Turnover Ratio of BHEL is satisfactory. The Fixed Assets are efficiently managed by BHEL

INFERENCE:

The sales have increased the fixed asset ratio, in spite of decrease in value of fixed asset. This shows company is utilizing the fixed asset efficiently.

4.3.1 Chart showing fixed asset ratio:



WORKING CAPITAL RATIO:

The ratio indicates the number of times unit invested in working capital produces sale.

$$= \frac{\text{NET SALES}}{\text{WORKING CAPITAL (WC)}}$$

HERE:

$$\text{WC} = \text{CURRENT ASSETS (CA)} - \text{CURRENT LIABILITIES (CL)}$$

4.3.2 Table showing Working Capital Ratio:

(Rs. In crores)

FINANCIAL YEAR	NET SALES	WORKING CAPITAL	WORKING CAPITAL RATIO
2000-2001	6347.76	2985.11	2.12
2001-2002	6605.74	2986.03	2.21
2002-2003	6930.30	3448.15	2.01
2003-2004	8019.03	4188.59	1.91
2004-2005	9527.14	4992.84	1.91
2005-2006	13374.03	6323.15	2.12

INTERPRETATION:

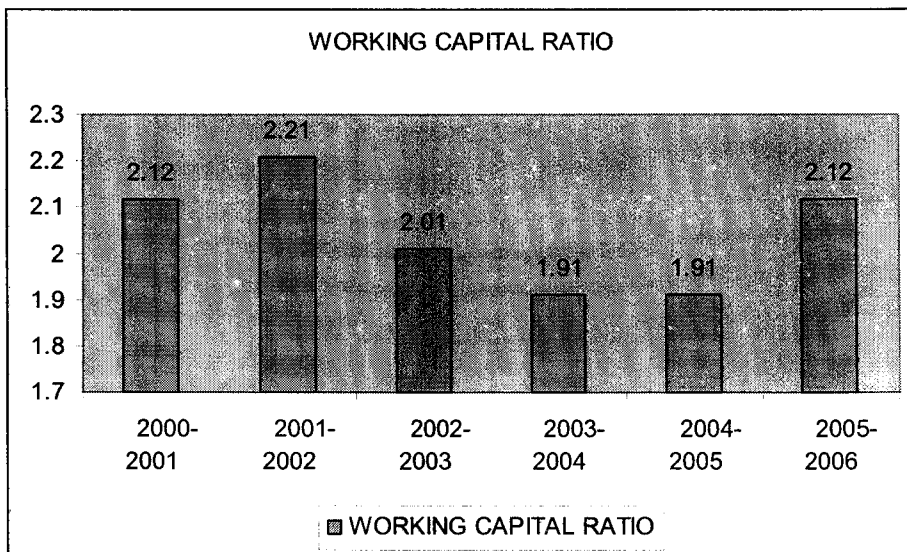
- 1) This ratio shows that no. of times Working Capital is used in the firm is able to generate the sales. This ratio measures the efficiency with which the Working Capital is being used by the company.
- 2) The higher the ratio, the lower is the investment in Working Capital and greater is the efficiency in Working Capital management. On the other hand, a low Working Capital Turnover Ratio indicates that Working Capital is not efficiently utilized.

From 2000-01 to 2005-06, BHEL has maintained more or less a stable Working Capital Turnover Ratio.

INFERENCE:

The efficient usage of working capital shows that the sales have increased which in turn shows the demand of the company's product in the market.

4.3.2 Chart showing working Capital Ratio:



DEBTORS TURNOVER RATIO [DTR]:

The ratio establishes the relationship between credit sales and average debtors of the year.

$$\text{DTR} = \frac{\text{CREDIT SALES}}{\text{AVERAGE ACCOUNTS RECEIVABLES (OR) DEBTORS}}$$

HERE:

$$\text{AVERAGE DEBTORS} = \frac{\text{OPENING DEBTORS} + \text{CLOSING DEBTORS}}{2}$$

4.3.3 Table showing debtor's turnover ratio:

(Rs. In crores)

FINANCIAL YEAR	CREDIT SALES	DEBTORS	DEBTORS TURN-OVER RATIO
2000-2001	5525.74	4105.80	1.35
2001-2002	6490.04	4379.24	1.48
2002-2003	6570.50	4329.93	1.52
2003-2004	7576.60	4342.13	1.74
2004-2005	8852.53	5290.31	1.67
2005-2006	12490.06	6570.10	1.90

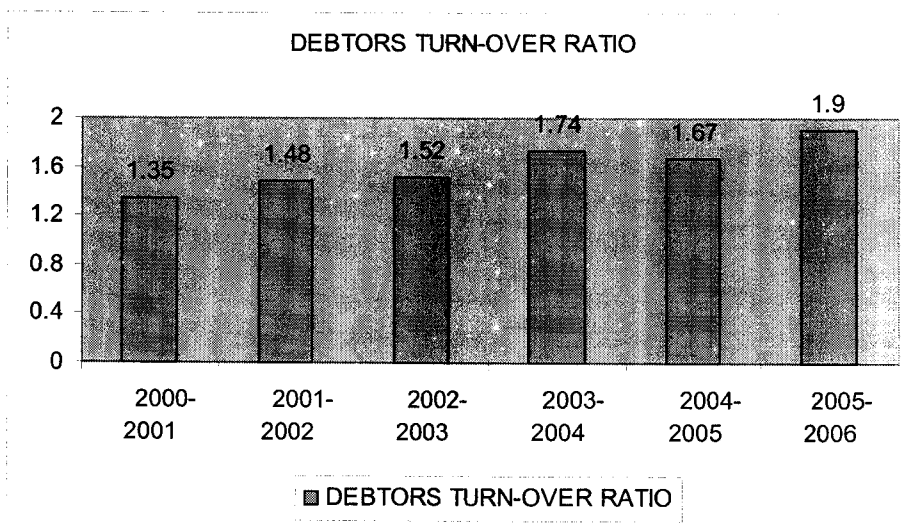
INTERPRETATION:

- 1) The debtors of the company have increased considerably. The debtor's turnover ratio indicates the numbers of debtors in terms of credit sales are raised in the company.
- 2) BHEL has been little inconsistency in the debtors turnover ratio. The DTR has increased from 1.35 times in 2000-2001 to 1.75 in 2003-04, but has decreased and later increased to 1.90 times in 2005-06.

INFERENCE:

The increase in the debtors turnover period shows the quick release of funds which may put to the other use.

4.3.3 Chart showing Debtors Turn over Ratio



DEBT COLLECTION PERIOD:

This ratio indicates the extent to which debts have been collected in time.

$$= \frac{\text{MONTHS (OR) DAYS IN A YEAR}}{\text{DEBTORS TURNOVER RATIO (DTR)}}$$

4.3.4 Table showing debt collection period:

(Rs. in crores)

FINANCIAL YEAR	DAYS IN A YEAR	DTR	DEBT COLLECTION PERIOD
2000-2001	360	1.35	266.6
2001-2002	360	1.48	243.2
2002-2003	360	1.52	236.84
2003-2004	360	1.74	206.9
2004-2005	360	1.67	215.57
2005-2006	360	1.90	189.47

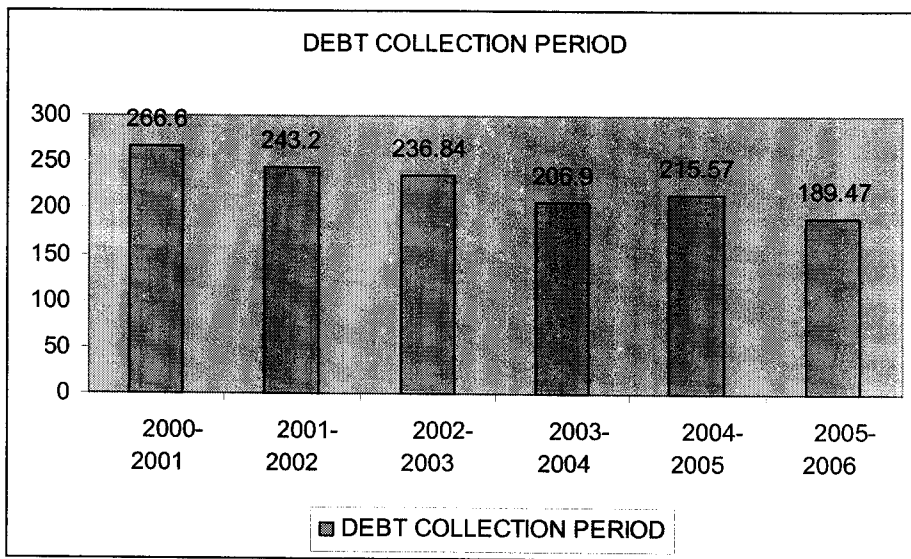
INTERPRETATION:

1. The debt collection period has decreased from 266.6 in 2000-2001 to 189.47 in 2005-2006.
2. The financial year considered to have 360 days. There is an increase in the debt collection period from 2003-2004 to 2004-2005 and increased in 2005-2006.
3. The increase may be due any of the financial shortage of the debtor and it decreased.

INFERENCE:

The slow collection in the debt may due to aging of debt, but the later faster collection shows company has fast paying customers.

4.3.4 Chart showing debt collection period



4.4

Liquidity

Ratio

CURRENT RATIO:

The ratio is used to assess the short-term financial position of the business concern.

$$= \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

4.4.1 Table showing Current ratio:

(Rs in Crores)

FINANCIAL YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO (in Times)
2000-2001	6542.56	3557.45	1.83
2001-2002	7054.89	4068.86	1.73
2002-2003	7397.75	3949.60	1.87
2003-2004	9385.50	5196.91	1.81
2004-2005	12113.28	7120.44	1.70
2005-2006	15130.90	8807.75	1.71

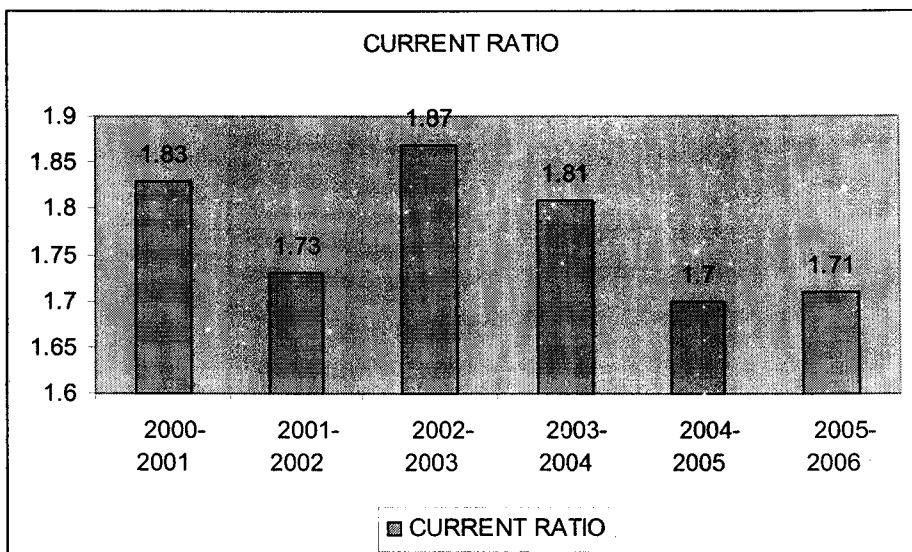
INTERPRETATION:

- 1) This ratio is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a company.
- 2) The current ratio represents a margin of safety to the creditors.
- 3) BHEL has a current ratio of 1.83:1 in 2001. The current ratio is highest in 2002-03 during the period of study because the % increase in current assets in 2002-03 is less when compared to other years.
- 4) As a conventional rule, a current ratio of 2:1 or more is considered satisfactory.

INFERENCE:

Therefore it may be interpreted to be insufficiently liquid. This rule is based on the logic that worse situation, even if the value of the current assets becomes half, the firm will be able to meet its obligations.

4.4.1 Chart showing Current ratio:



QUICK RATIO:

Liquid ratio is worked out to test the short-term liquidity of the firm in its correct form.

$$\text{LIQUID ASSETS} \\ = \frac{\text{-----}}{\text{CURRENT LIABILITIES}}$$

HERE:

$$\text{LIQUID ASSETS} = \text{CURRENT ASSETS} - \text{STOCK}$$

4.4.2 Table showing Quick ratio:

(Rs. In crores)

FINANCIAL YEAR	LIQUID ASSETS	CURRENT LIABILITIES	QUICK RATIO
2000-2001	4507.82	3557.45	1.27
2001-2002	5060.66	4068.86	1.24
2002-2003	5396.69	3949.60	1.37
2003-2004	7281.62	5196.91	1.40
2004-2005	9197.18	7120.44	1.29
2005-2006	11386.53	8807.75	1.29

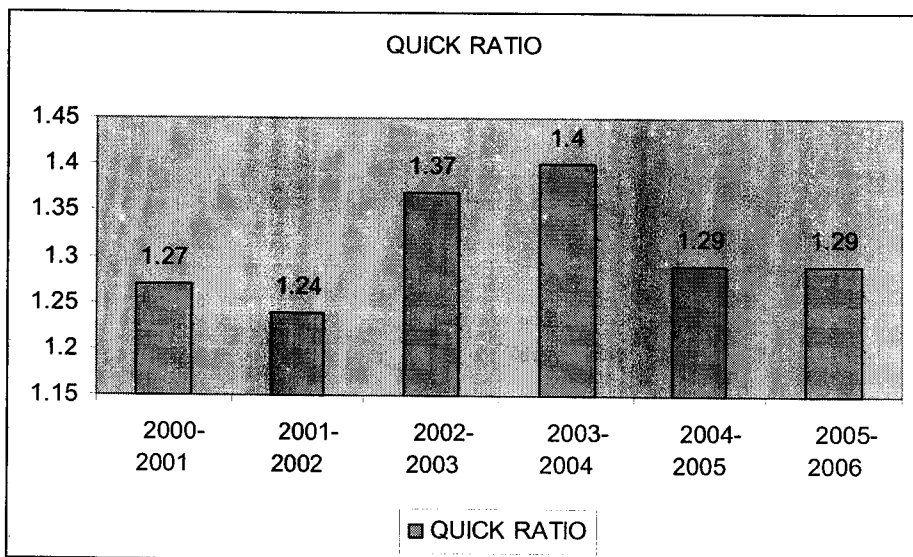
INTERPRETATION:

- 1) BHEL has a quick ratio of 1.29:1 for the year 2005-06 which is above the general standard of 1:1 is considered to represent a satisfactory current financial condition.
- 2) A Quick ratio of 1:1 or more does not necessarily imply sound liquid position. It should be remembered that all book debt may not be liquid and cash may be immediately needed to pay operating expenses.
- 3) Thus, a company with high value of quick ratio can suffer from the shortage of funds if it has slow-paying, doubtful and long duration outstanding book debts (receivables).

INFERENCE:

The changes or a fluctuation in the liquid ratio is due to over trading. The company has reduced its stocks.

4.4.2 Chart showing Quick Ratio:



DEBT-EQUITY RATIO:

This is worked out to ascertain the soundness of the long-term financial policies of the firm.

$$\frac{\text{TOTAL LONG-TERM DEBT (OR) SECURED LOANS}}{\text{SHAREHOLDERS FUNDS (OR) NET WORTH}}$$

4.4.3 Table showing Debt-equity Ratio:

(Rs. In crores)

FINANCIAL YEAR	SECURED LOANS	SHARE HOLDERS FUND	DEBT-EQUITY RATIO
2000-2001	500.00	3830.36	0.131
2001-2002	500.27	4469.61	0.112
2002-2003	500.00	4803.67	0.104
2003-2004	500.00	5295.94	0.094
2004-2005	500.00	6026.89	0.083
2005-2006	500.00	7301.38	0.068

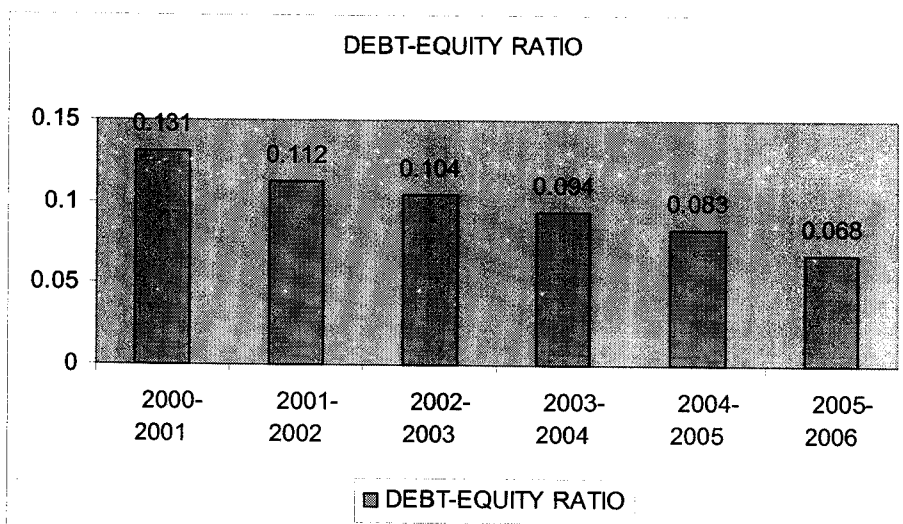
INTERPRETATION:

- 1) D/E Ratio is calculated to measure the extent to which debt financing has been used in a business.
- 2) BHEL tried to keep outside debt to least than the owner's equity.
- 3) The D/E Ratio in 2000-01 is 0.131 times and it reduced to 0.068 times in the year 2005-06.
- 4) The low ratio shows that claims of creditors are lesser than those of owners.
- 5) A high level of debt brings inflexibility in the firm's operations due to increasing interference and pressures from creditors.
- 6) During the periods of low profits, the debt servicing will prove to be less burdensome for a company with low Debt-Equity Ratio.

INFERENCE:

The decrease shows that the company has increased the share-holders fund rather than long-term debts, having the belief that it can give more return for the share holders and minimize the risk of interest to the long term debts.

4.4.3 Chart showing Debt-Equity Ratio:



CHAPTER 5

CONCLUSION:

- ***FINDINGS OF THE STUDY***
- ***SUGGESTIONS AND CONCLUSIONS***

FINDINGS

1. The Debt Capital in the company is very low (0.131 to 0.068). This means that there is not even one rupee worth debt for every rupee of equity. There is a scope for a company to borrow further capital in the form of debt.
2. The Total Assets of the company are utilized efficiently.
3. The Earnings per Share have almost doubled during the period of study.
4. The Cost Control System and the Quality control System is efficiently maintained.
5. The company has been paying rich dividends to the shareholders of Equity.
6. Operating profits of the company has increased to 3.4 times.
7. Price-Earnings of the company are much better compared to other Public Sector Undertakings.
8. The Net profit margin of BHEL has increased substantially which is an indication that management is efficient in reducing office, administration, and distribution expenses.
9. There has been increase in Return on Equity shareholder's funds which is an indication that company is enjoying Abnormal Profits.
10. Quick Ratio is 1.29:1. This is more than the standard 1:1. This shows that the company can meet its short-term commitments with the funds available.
11. Interest Coverage Ratio increased from 7.72 to 44.66. In this case, it is good that the Net Profits are 44.66 times higher than Fixed Interest Charges.
12. The overall liquidity position of the BHEL is found to be satisfactory.

Conclusion

CONCLUSIONS AND SUGGESTIONS

- ✓ The overall performance of the company has been improved to a great extent in all aspects.
- ✓ While making computation between Return on Equity Shareholder's Funds and Return on Equity Share Capital, it is observed that the shareholder's funds are much more than Equity Capital which is a cushion to the Debt holders.
- ✓ Dividend Pay-out (D/P) Ratio of more than 20 % indicates that the firm's dividend policy of keeping 80 % of profits as reserves is an indication of its growth and it can be considered as growth firm Return (r) greater than Cost of Capital (k) i.e. $[r > k]$.
- ✓ The difference between Net Profit Ratio (NPR) and Operating Ratio (OR) was about 1 % in the year 2001 and 6.5 % at present indicates that the non-operating expenses have been increased at a greater extent which have to be scrutinized.
- ✓ Debt-Equity (D/E) Ratio is very low. It is suggested that the company can utilize more Debt to get the advantage of financial leverage to enhance its Earnings Profit Ratio.
- ✓ The Working Capital Turnover Ratio is about 2 % is to be verified as it is much more less than the Fixed Assets Turnover Ratio which indicates that the company is following stringent Working Capital policy i.e. Fixed Assets are more and Current Assets are less.
- ✓ The decline in Average Collection Period shows that quality of the Debtors has been improved.
- ✓ The Current Ratio is less than the standard of 2:1 ratio and the Quick Ratio is more than the standard of 1:1 ratio. It shows that Quick Assets are more and Non-Current Assets are less.

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