

ANALYSIS OF LIQUID RESOURCES OF ELECTRICITY DISCOM OF RAJASTHAN

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ABSTRACT

Every enterprise irrespective of its size and nature of business operations maintains cash balances to meet diverse business obligations in the ordinary course of business. Usually, a firm holds appropriate levels of cash balances with the motives like transaction motive, precautionary motive and speculative motive. The management of cash is an important tool of accounting of a firm to meet the present and future cash needs, and to make use of the idle cash to generate additional revenue for the wellbeing of the firm. The primary idea behind managing appropriate levels of cash balance is to decide how much cash to be held to produce much. Therefore, it is necessary to decide on the size of investment in cash to meet the obligations of the business operation without any difficulty and stoppage of operations.

KEYWORDS: Business Operations, Speculative Motive, Liquidity Position.

Introduction

There are two important resources of liquidity:

- Cash and Bank Balance
- Receivables

Both aspect are discussed in this study paper as follows:

Analysis of Cash

The cash and bank balances are one of the very important components of current asset of the power distribution companies. To maintain a sound liquidity position as well as to meet the regular cash obligation of the distribution of power in the state of Rajasthan the three electricity distribution companies maintaining the cash and bank balances at appropriate level based on the previous experience of the companies. In the present research study the volume of cash and bank balances of three distribution companies of Rajasthan state is examined with a view to analyze the fluctuations and consistency in management of cash and bank balances over the study period by applying various financial ratios.

Table 1: Size of Cash and Cash Equivalents of Electricity Distribution Companies of Rajasthan
(Rs. in Crore)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	63.58	84.80	202.78	117.05
2011-12	273.01	151.40	419.42	281.28
2012-13	739.94	1066.17	852.74	886.28
2013-14	145.71	106.27	107.94	119.97
2014-15	212.64	73.02	180.21	155.29
2015-16	253.20	158.69	193.86	201.92
2016-17	323.59	143.84	211.43	226.28
2017-18	721.11	410.40	216.29	449.27
Mean	341.60	274.32	298.08	304.67

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

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Ratio of Cash to Current Assets

The ratio of cash to current assets indicates the proportion of cash balances to current assets maintained by the power distribution companies of the state of Rajasthan during the study period. It assumes great importance, as the level of cash balance decides the liquidity and profitability of the units under study. The lower the cash to current assets ratio, the greater may be the profitability and weak liquidity position of the companies, and vice-versa. The low cash balance in relation to current assets in any concern implies its inability to meet the day-to-day needs of cash. On the contrary, if the proportion of cash to current assets is very high, it implies idle cash resulting in lower profitability but sound liquidity. It is difficult to fix any standard or norm to be followed, but it can be arrived based on the firm's past experience over a period. The proportion of cash to current assets power distribution companies in the State of Rajasthan is represented in the table 2.

Table 2: Ratio of Cash to Current Assets of Electricity Distribution Companies of Rajasthan
(Rs. in Crore)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	3.26	1.55	8.98	4.60
2011-12	10.93	5.37	17.86	11.39
2012-13	23.77	28.58	24.24	25.53
2013-14	5.12	3.51	4.81	4.48
2014-15	5.67	2.00	5.36	4.343
2015-16	6.04	4.39	4.67	5.03
2016-17	6.21	3.71	4.36	4.76
2017-18	10.75	8.49	3.85	7.70
Mean	8.97	7.2	9.27	8.48

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

Ratio of Cash to Total Assets

The cash to total assets ratio of power distribution companies interprets the proportion of cash balances to current assets maintained during the ordinary course of business of the units under review. The level of cash balances of a firm indicates the profitability and liquidity position of the distribution companies in the state of Rajasthan. The cash to total assets ratio is an important tool to the management to make managerial decisions effectively by maintaining appropriate levels of cash. When a firm holds a high percentage of cash balances to total assets shows the importance given to the components of current assets by the management to carry out its day-to-day business operations.

Table 3: Ratio of Cash to Total Assets of Electricity Distribution Companies of Rajasthan
(Rs. in Crore)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	0.75	0.8	1.38	0.98
2011-12	2.82	1.9	5.93	3.55
2012-13	6.58	11.5	9.69	9.26
2013-14	1.19	1.1	1.29	1.19
2014-15	1.52	0.7	1.80	1.34
2015-16	1.67	1.5	1.65	1.61
2016-17	1.89	1.3	1.62	1.61
2017-18	3.72	3.2	1.51	2.81
Mean	2.52	2.75	3.11	2.79

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

Cash to Current Liabilities

The proportion of cash to current liabilities shows a firm's liquidity efficiency. In the present study the ratio of cash to current liabilities of power distribution companies of the state of Rajasthan presented in the Table 4 to measure the liquidity condition and the efficiency as well as the consistency in managing the cash and current assets during the study period of 8 years.

Table 4: Ratio of Cash to Current Liabilities of Electricity Distribution Companies of Rajasthan
(in percent)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	0.91	1.22	3.87	2.00
2011-12	3.74	2.82	8.36	4.97
2012-13	7.96	14.40	17.52	13.29
2013-14	1.70	1.58	2.44	1.91
2014-15	1.93	0.81	2.43	1.72
2015-16	1.32	1.83	1.94	1.70
2016-17	2.54	1.59	1.97	2.03
2017-18	4.55	3.53	1.57	3.22
Mean	3.08	3.47	5.01	3.85

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

Cash Turnover Ratio

The cash turnover ratio indicates number of time the cash balances turned into sales in particular period of time or the efficient use of cash for generation of revenue. This ratio is an important tool to measure the efficiency of a firm in achieving higher sales with minimum balances of cash and bank in the ordinary course of business. Higher cash turnover ratio indicates efficient utilization of cash resources in achieving the greater sales volume. The efficient and effective cash management of an organization can achieve higher turnover and it can finance greater volume of sales with relatively fewer cash resources. The higher cash turnover ratios increase the profitability of the power distribution companies of Rajasthan and improve the liquidity position. In the present study of this ratio provides an insight into the efficient and effective utilization of cash balances by the power distribution companies in the different districts of the state.

Table 5: Cash Turnover Ratio of Electricity Distribution Companies of Rajasthan
(in times)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	18.13	43.73	17.69	26.52
2011-12	19.57	29.40	10.10	19.69
2012-13	9.33	5.48	6.96	7.25
2013-14	55.42	58.92	68.78	61.04
2014-15	47.36	101.53	48.96	65.95
2015-16	45.43	52.50	51.50	49.81
2016-17	42.28	66.72	52.68	53.89
2017-18	22.55	27.50	56.89	35.65
Mean	32.51	48.22	39.20	39.98

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

Analysis of Receivables

Receivable/debtors are one of the key components of current assets of an enterprise. In the ordinary course of business, every business enterprise extends credit to customers at varying credit periods and results in accounts receivables. Holding of receivables involves costs and increases the volume of business as well as profitability significantly. The management of accounts receivables is an important task of the administration of an organization. The level of investment in accounts receivable depends upon the volume of sales, credit terms and conditions, riskiness of individual customers to whom the credit is extended and so on. The efficiency of management and the role of receivable in profitability of a firm analyzed by applying different ratios such as receivables to current assets, receivables to current liabilities, receivables to total assets and the receivables turnover ratio. In the present study of working capital management in electricity distribution companies in Rajasthan the receivables management of four distribution companies are examined in terms of size of receivables, proportion of receivables to total assets, proportion of receivables to current assets, receivables to current liabilities and receivables turnover during the study period of 2010-11 to 2017-18. The receivable management of the power distribution companies of Rajasthan is presented in the following tables with detailed analysis.

Size of Receivables

The sizes of account receivables of three electricity distribution companies of the state of Rajasthan are significantly fluctuating during the study period of 8 years and the individual companies' size of receivables presented in the following table 6.

Table 6: Size of Receivables of Electricity Distribution Companies of Rajasthan

(Rs. in Crore)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	1178.54	764.95	952.38	965.29
2011-12	615.68	964.82	1128.64	903.05
2012-13	754.51	329.90	1655.42	913.28
2013-14	1089.25	414.33	761.93	755.17
2014-15	1286.86	601.55	1020.48	969.63
2015-16	1380.02	449.54	946.03	925.20
2016-17	1396.24	446.17	901.21	914.54
2017-18	1506.28	479.21	831.81	939.1
Mean	1150.92	556.31	1024.74	910.66

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

Table 7: Trade Receivables to Current Assets

(in Proportion)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	0.60	0.14	0.42	0.39
2011-12	0.25	0.34	0.48	0.36
2012-13	0.24	0.09	0.47	0.27
2013-14	0.38	0.14	0.34	0.29
2014-15	0.34	0.16	0.30	0.27
2015-16	0.33	0.12	0.23	0.23
2016-17	0.27	0.12	0.19	0.19
2017-18	0.22	0.10	0.15	0.16
Mean	0.33	0.15	0.32	0.27

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

Table 8: Trade Receivables to Total Assets

(in Proportion)

Year	JVVNL	AVVNL	JDVVNL	Average
2010-11	0.14	0.07	0.15	0.12
2011-12	0.06	0.12	0.16	0.11
2012-13	0.07	0.04	0.19	0.1
2013-14	0.09	0.04	0.09	0.07
2014-15	0.09	0.06	0.10	0.08
2015-16	0.09	0.04	0.08	0.07
2016-17	0.08	0.04	0.07	0.06
2017-18	0.08	0.04	0.06	0.06
Mean	0.09	0.06	0.11	0.09

Source: Annual Reports of Power Distribution Companies of Rajasthan during the period 2010-2011 to 2017-2018.

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