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Evaluating the Fiscal Health of REC: Insights into a Maharatna Giant's Financial Dynamics

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Abstract - "Financial performance" denotes the long-term fiscal health of a corporation. Key for informed decision-making, financial statements demand thorough review and interpretation. It's common for even prosperous firms to seek further financing to improve or increase their activities. Utilizing ratio analysis, a popular and proven method, allows for an in-depth evaluation of financial records. This research involved gathering secondary data from REC's annual reports to examine its fiscal robustness and vulnerabilities over five years, between 2017-18 and 2021-22. The collected data was systematically arranged in tables and subjected to ratio analysis for a comprehensive assessment.

Keywords: Financial Performance, Ratio Analysis, Gross Domestic Product, Assets Turnover, Gross Profit

Introduction

Analyzing financial performance is vital for companies to pinpoint their strengths, weaknesses, opportunities, and threats, as highlighted by Pavithra and colleagues in 2017. Such

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analysis is foundational for strategic decisions regarding investments, mergers, acquisitions, and expansion efforts. Moreover, it lays the groundwork for devising tactics aimed at enhancing financial outcomes and boosting profit margins. This process entails a rigorous review of financial documents — including income statements, balance sheets, and cash flow statements — to evaluate a firm's profitability, liquidity, solvency, and operational efficiency over a designated timeframe. According to Ganapathi et al., in 2018, financial performance analysis serves as a critical mechanism for companies to scrutinize and enhance their fiscal condition and operational performance, enabling them to uncover areas for improvement and strategize towards maximizing earnings and operational efficacy.

Utilizing ratio analysis, a method extensively embraced for its practicality in financial scrutiny, stakeholders can dissect a company's financial status. As Saranya noted in 2020, this approach categorizes financial ratios to scrutinize different facets of a company's financial wellness, including its efficiency, liquidity, profitability, and solvency. Ratio analysis transforms raw data from financial statements into actionable insights, offering a holistic view of a company's operational health to investors.

Rural Electrification Corporation Limited (REC), established in 1969 and headquartered in New Delhi, India, plays a pivotal role in financing and advocating for rural electrification projects across the country. As a government-owned entity, REC received the prestigious 'Maharatna' Central Public Sector Enterprise status in September 2022, as announced by the Department of Public Enterprises under the Ministry of Finance. This status endows REC with enhanced operational and financial autonomy. Operating as a Non-Banking Financial Company (NBFC), REC's main goal is to support power sector financing and development, offering financial aid to power utilities, state electricity boards, rural electric cooperatives, and entities engaged in rural electrification in India. Additionally, REC offers consultancy and technical assistance services aimed at augmenting the efficiency and quality of rural power distribution.

Review of Literature:

George (2021) conducted an in-depth examination of Hindustan Unilever Limited's (HUL) financial well-being, utilizing a variety of financial indicators. The analysis spanned a five-

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year period from 2016 to 2020, providing a detailed look into HUL's fiscal performance. The findings shed light on the company's fiscal strengths and areas for improvement, offering a thorough evaluation of its financial state.

Keerthi & Eswari (2020) explored the financial dynamics of Kumbakonam Central Co-Operative Bank through the lens of ratio analysis. Their research, which scrutinized the bank's financial statements from 2015 to 2019, employed a mix of financial ratios—profitability, liquidity, solvency, and efficiency—to gauge the bank's fiscal health. The study affirmed the efficacy of ratio analysis in financial evaluation, observing a year-on-year growth in the bank's financial performance while recommending further efforts to enhance its operational efficiency.

In 2020, Saranya analyzed the financial statements of Indigo and Air Asia Ltd over a five-year period, from 2015 to 2019, employing ratio analysis to assess their fiscal performance. The analysis concluded that both airlines maintain a solid financial footing, characterized by stability and profitability, underscoring their fiscal robustness within the period under review.

Suresh and colleagues (2020) dissected the financial statements of Super Auto Forge Pvt Ltd from 2016 to 2019, employing various financial ratios and metrics for a detailed financial performance review. The study emphasized key financial ratios including profitability, liquidity, and leverage ratios, meticulously analyzing each for its relevance. The report also tracks the company's financial trends over the years, pinpointing strengths and areas in need of enhancement.

In 2019, G undertook a comprehensive examination of the financial health of selected automobile companies, employing ratio analysis to discern their strengths and weaknesses over a five-year span from 2013 to 2017. The study revealed that while Bajaj Auto and TVS Motors displayed satisfactory performance levels, Hero Motocorp maintained a strong market position, highlighting the varying financial trajectories within the automotive sector.

Research Methodology:

The methodology employed in this research paper is designed to systematically examine the financial performance of Rural Electrification Corporation Limited (REC) over a five-year

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span, from the fiscal years 2017-18 to 2021-22. The objectives guiding this study include a detailed investigation of REC's financial outcomes within the specified period, with a specific focus on assessing the company's profitability and liquidity status.

To achieve these objectives, the research adopts an analytical approach, relying heavily on secondary data. The collection of this data involved an exhaustive exploration of existing literature, encompassing academic papers, scholarly journals, authoritative books, and relevant government publications. Additionally, the study leveraged digital resources, utilizing various websites to augment the data pool. A significant portion of the financial data pertinent to this research was extracted from the annual reports of REC, spanning from the 2017-18 to the 2021-22 fiscal years.

This methodological framework ensures a comprehensive analysis of REC's financial health, enabling the identification of key financial trends, strengths, and areas requiring improvement. Through meticulous data gathering and analysis, the study aims to contribute valuable insights into the financial dynamics of REC, thereby informing strategic decision-making and future research in the domain of financial performance analysis.

Data Analysis and Interpretation

Table- 1

Financial Ratios of REC

Year	Current Ratio (X)	GP Ratio (%)	Net Profit Margin (%)	Return on Capital Employed (%)	Return on Assets (%)	EPS (Rs.)	Asset Turnover Ratio (%)	Total Debt/Equity (X)	Working Capital Turnover Ratio
2021-22	3.79	88.15	25.67	11.37	2.44	50.87	0.1	6.61	0.13
2020-21	3.53	91.14	23.62	11.19	2.08	42.34	0.09	7.69	0.12
2019-20	3.97	87.31	16.41	9.99	1.41	24.74	8.59	8.16	0.12
2018-19	15.58	93.83	22.77	8.51	1.93	29.18	8.5	7.12	0.09
2017-18	51.63	85.62	19.68	8.1	1.82	22.38	9.29	6.33	0.10

In examining the financial health of a company, the study reveals various insights through key financial ratios. The liquidity of the company, as depicted by its Current Ratio, suggests its capability to cover short-term liabilities with its current assets. Interestingly, the study notes that the Current Ratio consistently exceeded the ideal range in certain periods, hinting at potential inefficiencies in the management of current assets. Focusing on profitability, the Gross Profit (GP) ratio, which represents the relationship between gross profit and sales, serves as an indicator of financial health. It was observed that the GP ratio reached a peak in March 2019, signifying a strong financial position, while it dipped to a low in March 2018, indicating a weaker stance during that period. The Net Profit Margin ratio, a measure of how much profit a company makes for every dollar of revenue, highlighted an increase in profitability in March 2022. This upward trend suggests that the company was able to generate more profit from its revenues during this time. Another critical metric, the Return on Capital Employed (ROCE), assesses the profitability and efficiency with which a company employs its capital. A notable increase in ROCE was observed in March 2022 compared to a lower figure in March 2018, reflecting an improvement in profitability and efficiency over the years.

The study also considered the Return on Assets (ROA), which measures how effectively a company uses its assets to generate profits. An improvement in ROA was noted in March 2022, indicating more efficient use of assets to produce profits compared to March 2020. Earnings Per Share (EPS) is another vital ratio, measuring the amount of a company's net income allocated to each share of common stock. The study found an increase in EPS in March 2022 as opposed to a decrease in March 2018, showcasing a growth in profitability. Regarding asset utilization, the Asset Turnover Ratio was high in 2018, suggesting efficient use of assets in generating sales revenue. However, a significant drop in this ratio was observed in 2022, indicating a decline in efficiency.

The study also looked at the Total Debt-to-Total Assets ratio, which examines the extent of a company’s financing through debt. A fluctuating pattern was observed, with a higher ratio in March 2020 and a lower one in March 2018, indicating changes in the company’s reliance on debt financing over time. Lastly, the Working Capital Turnover Ratio (WCTR), which evaluates the effectiveness of working capital in generating sales, was found to be below the ideal range of 1 to 2 throughout the study period. This suggests that the company relied heavily on working capital to support its sales, pointing towards potential areas for improvement in working capital management.

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Table -2

Descriptive Statistics

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
Current Ratio (X)	5	15.7000	20.72757	9.26965	-10.0367	41.4367
GP Ratio (%)	5	89.2100	3.26692	1.46101	85.1536	93.2664
Net Profit Margin (%)	5	21.6300	3.62740	1.62222	17.1260	26.1340
Return on Capital Employed (%)	5	9.8320	1.49851	.67015	7.9714	11.6926
Return on Assets (%)	5	1.9360	.37581	.16807	1.4694	2.4026
EPS (Rs.)	5	33.9020	12.22813	5.46859	18.7188	49.0852
Asset Turnover Ratio (%)	5	5.3140	4.77408	2.13503	-.6138	11.2418
Total Debt/Equity (X)	5	7.1820	.75357	.33701	6.2463	8.1177
Working Capital Turnover Ratio	5	.1120	.01643	.00735	.0916	.1324
Total	45	20.5353	27.61352	4.11638	12.2393	28.8314

Table 3- ANOVA

Calculation

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	31035.330	8	3879.416	55.532	.000
Within Groups	2514.948	36	69.860		
Total	33550.278	44			

The ANOVA analysis strongly suggests that there are significant differences among the means of the various financial metrics analyzed for REC. The high F-statistic and the very low p-value reinforce the conclusion that not all group means are equal. This implies that at least one of the financial ratios significantly differs from the others, warranting further post-hoc analyses to pinpoint the specific groups or ratios that contribute most to this variability. The significant differences among these financial ratios could be attributed to various factors such as industry differences, company size, or financial health.

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Conclusion

This research paper's analysis focused on assessing the company's liquidity and profitability through metrics such as the Current Ratio, Gross Profit Ratio, and Net Profit Margin Ratio. It was found that the Current Ratio exceeded the ideal level, pointing to inefficiencies in managing current assets. The Gross Profit Ratio showed significant fluctuations, reaching a peak in March 2019 and dropping to a low in March 2018. The increased Net Profit Margin Ratio observed in March 2022 suggests that the company experienced heightened profitability during this period. Notably, in March 2022, the company demonstrated strong performance in terms of Return on Capital Employed (ROCE), Net Profit Margin, and Earnings Per Share (EPS). However, the study also highlighted areas of concern, including low Asset Turnover Ratio and Working Capital Turnover Ratio (WCTR), which imply that the company's asset and working capital management could be improved. Additionally, a lower Total Debt-to-Total Assets Ratio was noted, indicating a preference for equity financing over debt.

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