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# A COMPARATIVE ANALYSIS OF RESTRUCTURED OR REVIVED SLPES IN KERALA

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**ABSTRACT**

*This paper looks at the vulnerability of the restructured public sector enterprises in Kerala. It is a comparative analysis of the selected State Level Public Enterprises subsequent to the implementation of the revival and restructuring package. The analysis mainly involves the comparison of the performance prior to and post revival with the help of various analytical tools like comparative statement analysis and common size statement analysis. Three public sector enterprises located in the state of Kerala were selected and their financial soundness is assessed. The conclusions drawn could provide effective guidelines to the management of selected public sector enterprises in Kerala and their stakeholders.*

**KEYWORDS:** *Finance, Financial Distress, Financial Analysis, comparative statement analysis, common size statement analysis, Public Sector Enterprises*

## INTRODUCTION

Finance is one of the basic foundations of all kinds of economic activities. It is the master key which provides access to all the sources being employed in manufacturing and merchandising activities. It has rightly been said that business needs money to make more money. However, it is also true that money begets more money, only when it is properly managed. Hence, efficient management of every business enterprise is closely linked with efficient management of its finance.

Financial analysis is a powerful mechanism which helps in ascertaining the strength and weakness in the operations and finances of any enterprise. Generally a company will be able to improve its financial image thereby enhancing its chances when applying for a bank loan for various activities. Also it will be able to identify and correct performance problems before they have a major impact on the business.

The Public Sector Enterprises have played a significant role in the economic and social development of our country since independence. In pursuit of these objectives, massive investment has been made over the past five decades to build a strong Public Sector. Besides acting as a wheel of economic development, Public Enterprises are entrusted with the task of contributing to ensure social justice, poverty eradication, employment generation, achieving balanced regional development and accelerating the growth of agriculture and industry.

### Financial Distress:-

Financial distress may be defined as a situation where a firm is not able to meet its maturing obligations on time. A high degree of financial leverage increases the risk of financial distress and it may ultimately lead to liquidation. Such a situation affects both the equity and debt holders adversely.

## REVIEW OF LITERATURE

Many of the research works have been conducted over the period to evaluate the financial performance of the company with the help of various financial ratios or by applying the Multiple Discriminant Analysis to predict the corporate failure. L. C. Guptha

(1999) attempted a refinement of Beaver's method with objective of predicting the business failure. Whereas M. A. Mulla (2002) made a study in Textiles Mill with help of Z Score model for evaluating the financial health with five weighted financial ratios and followed by Selvam M and Others (2004) had revealed about Cement industry's financial health with special reference India Cements limited. S K Bagchi (2004) analysed about practical implication of accounting ratios in risk evaluation and concluded that accounting ratios are still dominant factors in the matter of credit evaluation. K. Chitanya (2005) used Z model to measure the financial distress of IDBI and concluded that IDBI is likely to become insolvent in the years to come. From the above reviews, the researcher identified the research gap, which could bedealt in this study.

## STATEMENT OF THE PROBLEM

From the performance data of State Level Public Enterprises (SLPEs) over a period, it can be observed that, only a few of the State Level Public Enterprises were making profits and the rest were causing huge losses to the State. Sector wise breakup of the State Level Public Enterprises indicates that most of the units in industries like textile, engineering, public utilities, electronics and traditional industries incur large losses.

The Government of Kerala has spent large amounts of money year after year on rehabilitating or restructuring state public sector enterprises. Such programmes have been implemented at the cost of new enterprises or welfare spending. It is in public interest to evaluate the outcomes of such large spending from the state's exchequer, often justified on saving hundreds of jobs.

It is required to look into the objectives of such state spending and how much of it has helped in reviving the enterprises involved. If it has not served the purpose, why the effort and money went waste? Whether such revival or restructuring programmes need any monitoring in the future?

The study will attempt to find answers to a few important questions like: whether such state spending could have been saved? Does the revival or restructuring meet the objectives set for such revival or restructuring?

## OBJECTIVES OF STUDY

The main focus of the present study is to evaluate the financial performance of selected public sector enterprises in Kerala which had undergone some kind of restructuring. The study centers on the following objectives.

1. To identify and measure the financial status of the selected public sector enterprises
2. To compare the financial performance before and after implementation of revival and restructuring package.
3. To suggest appropriate measures for improving the performance of the selected public sector enterprises and restore them to sound health.

## METHODOLOGY

The study is designed as a descriptive one based on secondary data. It primarily covers state enterprises engaged in the manufacturing and marketing activities. There are 104 state enterprises in Kerala of which nine are statutory corporations. Of the remaining, 63 are working under Industries Department out of which 17 are closed down for long periods. The study identified the list of state public sector enterprises which were restructured in the past ten years to evaluate the effectiveness of such interventions. For the purpose of the study, three companies were selected about which data were available.

The secondary data required for the study were collected from the rehabilitated or restructured state public sector enterprises in Kerala and from the Industries Department of the state and also from various journals, magazines and related websites et

## COMPARATIVE BALANCE SHEET (TREND PERCENTAGE ANALYSIS) OF THE SELECTED COMPANIES

A balance sheet is a financial statement showing that a business enterprise owns and owes on a given date. Comparing the past data over a period of time with a base year is called trend analysis. Under this technique, information for a number of years is taken up and one year is taken as the base year. Each item of the base year is taken as 100 and on that basis the percentages for other years are calculated. The object of calculating the trend percentages is to show the direction of the change (upward and downward). The comparative balance sheet (trend percentage analyses) of the companies are given below.

**Table 1 Comparative Balance Sheets (Trend Percentage Analysis) of First Enterprise**

2000-2001= base year

| Particulars | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Share capital | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| R& S | 100 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Secured loans | 113 | 124 | 122 | 114 | 105 | 83 | 0 | 0 | 0 |
| Unsecured loans | 105 | 113 | 122 | 140 | 142 | 153 | 188 | 188 | 16 |
| C L & P | 127 | 86 | 55 | 57 | 69 | 85 | 66 | 73 | 60 |
| **Total** | 111 | 106 | 103 | 111 | 114 | 121 | 124 | 125 | 34 |
| **Assets** | | | | | | | | | |
| FA | 95 | 90 | 85 | 87 | 87 | 91 | 183 | 170 | 156 |
| Investments | 100 | 100 | 100 | 100 | 100 | 31 | 31 | 31 | 31 |
| CA & L&A | 108 | 82 | 63 | 73 | 82 | 60 | 95 | 98 | 65 |
| Misc. expenditure | 58 | 17 | 17 | 600 | 451 | 303 | 157 | 47 | 41 |
| P& L A/c (Loss) | 113 | 120 | 125 | 127 | 128 | 153 | 135 | 138 | 13 |
| **Total** | 111 | 106 | 103 | 111 | 114 | 121 | 124 | 125 | 34 |

*Source: Annual Reports of First Enterprise*

**Table 2 Comparative Balance Sheets (Trend Percentage Analysis) of Second Enterprise**

1990-91= base year

| Particulars | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Share capital | 113 | 113 | 113 | 113 | 135 | 135 | 135 | 135 | 260 |
| R& S | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 120 |
| Secured loans | 113 | 122 | 132 | 102 | 55 | 18 | 8 | 20 | 24 |
| Unsecured loans | 100 | 100 | 100 | 421 | 399 | 495 | 495 | 495 | 228 |
| C L & P | 101 | 104 | 130 | 134 | 127 | 129 | 121 | 118 | 106 |
| Total | 110 | 115 | 126 | 133 | 106 | 92 | 85 | 92 | 93 |
| **Assets** | | | | | | | | | |
| FA | 99 | 94 | 93 | 88 | 84 | 82 | 81 | 76 | 74 |
| Current assets | 108 | 102 | 99 | 128 | 150 | 164 | 164 | 210 | 212 |
| Misc. expenditure | 84 | 69 | 53 | 37 | 25 | 12 | 0 | 0 | 5 |
| P& L A/c (Loss) | 125 | 153 | 191 | 192 | 94 | 39 | 18 | 3 | 6 |
| **Total** | **110** | **115** | **126** | **133** | **106** | **92** | **85** | **92** | **93** |

*Source: Annual Reports of Second Enterprise.*

**Table 3 Comparative Balance Sheets (Trend Percentage Analysis) of Third Enterprise.**

2000-01= base year

| Particulars | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Share capital | 100 | 100 | 100 | 100 | 100 | 124 | 269 | 311 |
| R& S | 101 | 101 | 101 | 260 | 260 | 368 | 368 | 368 |
| Secured loans | 154 | 173 | 182 | 202 | 230 | 231 | 199 | 190 |
| Unsecured loans | 108 | 123 | 134 | 207 | 312 | 330 | 21 | 41 |
| Current L& P | 110 | 112 | 149 | 142 | 132 | 134 | 139 | 137 |
| **Total** | 112 | 118 | 130 | 147 | 167 | 183 | 189 | 208 |
| **Assets** | | | | | | | | |
| FA | 103 | 94 | 84 | 75 | 69 | 68 | 97 | 121 |
| Investments | 110 | 110 | 110 | 110 | 110 | 110 | 110 | 110 |
| Current assets | 124 | 109 | 116 | 98 | 143 | 188 | 158 | 164 |
| Misc. exp | 162 | 130 | 109 | 76 | 63 | 86 | 53 | 23 |
| P& L A/c (Loss) | 107 | 142 | 174 | 239 | 258 | 264 | 285 | 312 |
| **Total** | 112 | 118 | 130 | 147 | 167 | 183 | 189 | 208 |

*Source: Annual reports of Third Enterprise.*

The Table 1 reveals that, the amount of reserves and surplus has decreased but at the same time secured loans has been totally written off by 2007-08. The Government has given unsecured loans to the tune of Rs.54.86 crore in 2008 and hence, unsecured loans have increased when compared to the base year. After the implementation of revival package the fixed assets has increased and the loss has decreased.

The Table 2 reveals that, after the revival package, the share capital has increased, secured loan has decreased and unsecured loans have increased. The company has been able to write off the huge miscellaneous expenditure and loss. Also, it can be observed that the current assets have increased after the implementation of revival package.

From Table 3, it can be inferred that the revival package has led to an increase in share capital and reserves and surplus of the company and decrease in secured loans and unsecured loans. The current assets have decreased and miscellaneous expenditure is written off partially but the loss of the company has increased threefold when compared to the base year.

## COMMON SIZE STATEMENT ANALYSIS

Common size financial statements are those in which figures reported are converted to some common base. Vertical analysis is required for an interpretation of underlying causes of changes over a period of time. For this, items in the financial statements are presented as percentages or ratios to total of the items and a common base for comparison is provided.

### Table 4 Common Size Statement of First Enterprise

(Figures in %)

| Particulars | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| **Share capital** | 10.13 | 10.56 | 10.92 | 10.07 | 9.83 | 9.25 | 9.08 | 8.96 | 32.98 |
| **R& S** | 0.15 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| **Secured loans** | 13.14 | 15.10 | 15.27 | 13.20 | 11.83 | 8.86 | - | - | - |
| **Unsecured loans** | 48.45 | 54.34 | 60.68 | 64.05 | 63.40 | 64.62 | 77.69 | 76.64 | 23.56 |
| **C L & P** | 28.14 | 20.00 | 13.12 | 12.67 | 14.93 | 17.27 | 13.23 | 14.39 | 43.45 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Assets** | | | | | | | | | |
| **Fixed assets** | 2.39 | 2.37 | 2.33 | 2.19 | 2.13 | 2.09 | 4.13 | 3.79 | 12.83 |
| **investments** | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.00 | 0.00 | 0.00 | 0.02 |
| **C A & L&A** | 32.02 | 25.41 | 20.18 | 21.66 | 23.65 | 16.12 | 25.26 | 25.77 | 62.87 |
| **Misc. expenditure** | 0.37 | 0.11 | 0.12 | 3.80 | 2.79 | 1.76 | 0.90 | 0.26 | 0.86 |
| **P& L A/c (Loss)** | 65.20 | 72.08 | 77.35 | 72.33 | 71.41 | 80.03 | 69.70 | 70.16 | 23.42 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Source: Annual Reports of First Enterprise*

### Table 5 Common Size Statement of Second Enterprise

(Figures in %)

| Particulars | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| **Share capital** | 17.08 | 16.30 | 14.93 | 14.10 | 21.24 | 24.44 | 26.65 | 24.61 | 46.92 |
| **R& S** | 0.38 | 0.36 | 0.33 | 0.31 | 0.39 | 0.45 | 0.49 | 0.46 | 0.54 |
| **Secured loans** | 61.04 | 62.50 | 62.33 | 45.51 | 30.61 | 11.92 | 5.47 | 13.18 | 15.54 |
| **Unsecured loan** | 6.98 | 6.66 | 6.10 | 24.25 | 28.86 | 41.23 | 44.94 | 41.51 | 18.98 |
| **C L & P** | 14.52 | 14.17 | 16.31 | 15.82 | 18.89 | 21.95 | 22.45 | 20.24 | 18.01 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Assets** | | | | | | | | | |
| **Fixed assets** | 33.12 | 30.08 | 27.13 | 24.38 | 28.99 | 32.84 | 35.03 | 30.67 | 29.27 |
| **Current assets** | 29.44 | 26.49 | 23.43 | 28.65 | 42.25 | 53.20 | 58.04 | 68.40 | 68.86 |
| **Misc. exp.** | 0.69 | 0.53 | 0.38 | 0.25 | 0.21 | 0.12 | - | - | 0.05 |
| **P& L A/c (Loss)** | 36.75 | 42.90 | 49.06 | 46.71 | 28.54 | 13.84 | 6.94 | 0.93 | 2.12 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Source: Annual Reports of Second Enterprise*

**Table 6 Common Size Statement of Third Enterprise**

(Figures in %)

| Particulars | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Share capital | 37.20 | 35.28 | 32.12 | 28.33 | 25.04 | 24.83 | 28.33 | 39.22 | 62.36 |
| R& S | 2.22 | 2.11 | 1.92 | 4.35 | 3.85 | 3.82 | 4.96 | 4.79 | 4.36 |
| Secured loans | 22.03 | 23.50 | 22.41 | 21.98 | 22.17 | 22.18 | 20.20 | 16.87 | 14.65 |
| Unsecured loans | 15.61 | 16.93 | 16.71 | 22.77 | 30.41 | 31.15 | 29.31 | 1.84 | 3.21 |
| Current L& P | 22.94 | 22.18 | 26.84 | 22.57 | 18.53 | 18.02 | 17.20 | 17.28 | 15.42 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Assets** | | | | | | | | | |
| Fixed assets | 25.39 | 22.02 | 17.97 | 14.21 | 11.46 | 10.63 | 10.27 | 14.18 | 16.17 |
| Investments | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Current assets | 34.00 | 28.35 | 27.31 | 20.35 | 26.47 | 24.50 | 31.59 | 25.63 | 24.23 |
| Misc. expenditure | 2.67 | 2.05 | 1.56 | 0.96 | 0.71 | 1.44 | 0.88 | 0.52 | 0.20 |
| P& L A/c (Loss) | 37.91 | 47.57 | 53.15 | 64.47 | 61.35 | 63.42 | 57.25 | 59.66 | 59.38 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Source: Annual reports of Third Enterprise.*

From Table 4, it can be observed that 43.45% of the total liabilities were current liabilities & provisions which were more than the amount of capital in 2009-10. Even after the implementation of the revival package, the liability is still very high. After the year 2007-08, there is good improvement in current assets of the company and loss has decreased.

From Table 5, it can be observed that, the share capital of the company has increased and there is a fluctuating trend in secured loans and unsecured loans of the company. The percentage of current assets to total assets has increased from 29.44% in 1991-92 to 68.86% in 1999-00. The percentage of loss of the company to total assets has decreased from 36.75% in 1991-92 to 2.12% in 1999-2000.

The Table 6 shows that there is a marked decrease in percentage of secured loans, unsecured loans and current liabilities after the implementation of revival package in 2007-08. The percentage of fixed assets to total assets has decreased from 25.39% in 2000-01 to 10.27% in 2006-07. Then it has increased to 16.17% in 2008-09. This shows that, there is a small improvement in percentage of fixed assets to total assets ratio, but the percentage of loss to total assets has been increasing over the years prior to the implementation of revival package. The company has not been able to reduce the loss in a significant manner.

## SUGGESTIONS

To increase the effectiveness of the revival package a few suggestions are made on the bases of forgoing study.

- ✧ The state has to review its policy on revival or restructuring of public enterprises.
- ✧ A detailed study is required to set the state's policy on revival or restructuring.
- ✧ The analysis of financial performance shows improvement in financial health of the companies under the study except Third Enterprise. How much of that is due to fresh capital infusion, how much due to debt write off etc. have not been analysed due to non-availability of data. Along with finance, appropriate management talent must also be made available to these companies so that the revival is long-standing in nature.

## CONCLUSION

The financial analysis of the selected firms reveals a mixed result after the implementation of the revival and restructuring programme. In First Enterprise, all the above analyse shows that there isimprovement in the performance of the company after the implementation of revival package in 2007-08. In Second Enterprise, it has been able to write off its losses with the help of the revival package. In 2010 it started a new unit of the company. Now the company is earning profits and it is hoped that it can stand on its own in future. In Third Enterprise, It has not been able to control its losses through the implementation of revival and restructuring package.

In short most of the units have improved their performance after implementation of the revival package. The financial analysis of the selected public sector enterprises shows a creeping improvement after the implementation of the revival programme.

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