

A STUDY ON FINANCIAL POSITION OF NEPAL ELECTRICITY AUTHORITY

A THESIS

1 Submitted By:
BISHNU GAIRE
Campus Roll No: 483/059
T.U. Reg. No.45384-95
Exam Roll No: 1060/061
Nepal Commerce Campus

1.1 Submitted To:
Office of the Dean
Faculty of Management
Tribhuvan University

In Partial fulfillment of the requirements for the degree of
Masters of Business Studies (M.B.S.)

New Baneshwor, Kathmandu
July, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:
BISHNU GAIRE

Entitled:
A STUDY ON FINANCIAL POSITION
OF
NEPAL ELECTRICITY AUTHORITY

has been prepared as approved by this Department in the prescribed format of the faculty of management. This thesis is forwarded for examination.

.....
(Prof. Dr. Bihari Binod Pokharel)
Thesis Supervisor
&
Head of Research Department

.....
(Umesh Kumar Koirala)
Thesis Supervisor

.....
(Mr. Diwakar Pokhrel)
Campus Chief

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

BISHNU GAIRE

Entitled

A STUDY ON FINANCIAL POSITION

OF

NEPAL ELECTRICITY AUTHORITY

and found the thesis to be original work of the student written according to the prescribed format. We recommended this thesis to be accepted as partial fulfillment of the requirements for the degree of **Master of Business Studies (M.B.S.)**

Viva-Voce Committee

Head, Research Department:.....

Member (Thesis Supervisor):.....

Member (Thesis Supervisor):.....

Member (External Expert):

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled **A study on Financial Position Of Nepal Electricity Authority**, to the Research Department of Nepal Commerce Campus, Min Bhawan, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Masters of Business Studies (MBS), under the supervision of Associate Professor Dr. Bihari Binod Pokhrel and Umesh Kumar Koirala, Nepal Commerce Campus Tribhuvan University

.....
Bishnu Gaire
Researcher
Nepal Commerce Campus
Roll No. 483/059-061
MBS symbol No: 1060/061
TU Registration No: 45384-95

ACKNOWLEDGEMENTS

This thesis is the result of a journey of almost two decades of my study life and many have helped along the way. I am grateful to all of them, but none should be held responsible for the shortcomings of this thesis or the ideas therein, which are mining alone. Although I have enjoyed every bit of the fight, my family has had to live with the tensions and frustrations such a journey entails. During the roughly two decades of this journey, I have benefited enormously from discussions with my family but I have nothing that returns something.

I am deeply indebted to my supervisor **Umesh Kumar Koirala**, Tribhuvan University. With whom, it would not have been possible for me to get this dissertation completed. This success is made by this through and encouraging guidance, valuable suggestions, and constant help by spending his valuable time for dissertation.

My deepest gratitude goes to Professor **Dr. Bihari Binod Pokharel**, Thesis supervisor and Head of the Research Department, Nepal Commerce campus, T.U. who always helped me in my dissertation work by providing precious guidelines and suggestions.

I owe very much to my teachers Asst.Professor, Mr. P.R.Joshi, Mr.Kiran Pant, Mr.Narayan Koirala, Mr.Chuda Mani Pandey, Mr. Ram Krishna Dhakal, and Eng.Mr.Pritam Lal Pradhan for their valuable suggestion in Statistics, Finance, Grammatical and technical part of this thesis.

Many helpful hands are involved to support me for preparing this thesis. I would like to express my deep gratitude towards the experts of NEA, Managing director Mr. Uttar kumar shrestha, DMD Mr. Tikaram B.C., Director Finance department, Mr. Arjun Kumar Karki, former managing Director of NEA, Engineer Mr. Rajabhai Silpakar of utkhpl,account officer Mr. Tom Lal Subedi,Mr Krishnahari Dahal and other staffs of Nepal electricity Authority.

I am very much appreciated to my brother Ram Chandra Bhushal for topic selection up to complete this thesis. As well as my sisters Shanta, Rita and sushila, who's helped me in each and every step during my study life.

Besides this, I am grateful to all those individuals and friends, Pramod Parajuli, Suresh Shapkota, Suraj Neaupane, Bashudev Pokhrel, Pharsu Khanal, SalikRam, Ram Prasad Gaire, Govinda Aryal and all my students, whose contribution factors to develop this thesis.

I never forget the name of Mr Ramesh kumar Sherestha of Global Books and Stationary for his technical support. With out his constant help, this work would not have been achieved.

Lastly, I would like to thank all the individuals and institutions whose works and publications I have used as reference for this study.

Bishnu Gaire
Kathmandu, Nepal
July, 2009

TABLE OF CONTENT

Viva Voce Sheet

Recommendation

Declaration

Acknowledgements

Table of Content

List of Tables

List of Figures

CHAPTER-ONE: INTRODUCTION	1-48
1.1 Background of the Study	1
1.2 Development of Hydro Electricity in Nepal	2
1.3 Management of Hydro Electricity in Nepal	4
1.3.1 Private Sector in Hydroelectricity Development	4
1.3.2 Nepal Electricity Authority in Hydroelectricity Development	8
1.3.2.1 Introduction	8
1.3.2.2 Objectives	9
1.3.2.3 Responsibilities	10
1.3.2.4 Present Performance of NEA	11
1.4 Statement of the Problems	11
1.5 Objectives of the Study	12
1.6 Need and Importance of the Study	13
1.7 Limitations of the Study	14
1.8 Organization of the Study	14
CHAPTER-TWO: REVIEW OF LITERATURE	
2.1 Introduction	16
2.1.1 Conceptual Review	16
2.1.1.1 Concept of Financial Position	17
2.1.1.2 Financial Statements	17
2.1.1.3 Analysis of Financial Position	19
2.1.1.4. Tools of financial statement Analysis	20
2.2 Review of Related Studies	23
2.2.1 Review of Related Articles	23
2.2.2 Review of Related Thesis	25
CHAPTER – THREE: RESEARCH METHODOLOGY	28-49
3.1 Introduction	28
3.2 Research Design	28
3.3 Nature and Sources of Data	29
3.4 Data collection Procedure	29
3.5 Methods of Analysis	30
3.6 Analytical Tools Used	31

3.6.1 Commoner's method	31
3.6.2 Ratio Analysis	32
3.6.2.1 Liquidity Ratio	33
3.6.2.2 Leverage Ratio	34
3.6.2.3 Turnover / Activity / Efficiency Ratio	36
3.6.2.4 Profitability Ratio	41
3.6.3 Statistical Tools	44
3.6.4 Graphs	48
3.7 Methods of Presentation and Analysis	48

CHAPTER – FOUR: PRESENTATION AND ANALYSIS OF DATA 50-79

4.1 Introduction	50
4.2 Ratio Analysis	50
4.1.1 Liquidity Ratio	50
4.1.1.1 Current Ratio (CR)	52
4.1.1.2 Quick Ratio (QR)	52
4.1.2 Leverage Ratio	53
4.1.2.1 Debt Equity Ratio (D/E Ratio)	54
4.1.2.2 Debt to Total Capitalization Ratio (DTC Ratio)	55
4.1.2.3 Interest Coverage Ratio (IC Ratio)	55
4.1.3 Turnover / Activity / Efficiency Ratio	56
4.1.3.1 Inventory Turnover Ratio (IT Ratio)	57
4.1.3.2 Debtors turnover ratio (DT Ratio)	58
4.1.3.3 Average Collection period (AC Period)	58
4.1.3.4 Fixed Assets Turnover Ratio (FATOR)	59
4.1.3.5 Total Assets Turnover Ratio (TAT Ratio)	60
4.1.3.6 Capital Employed Turnover Ratio (CET Ratio)	61
4.1.4 Profitability Ratio	61
4.1.4.1 Operating Profit Ratio (OP Ratio)	63
4.1.4.2 Net Profit Margin / Ratio (NP Ratio)	63
4.1.4.3 Operating Expenses Ratio (OE Ratio)	64
4.1.4.4 Return on Asset (ROA)	65
4.1.4.5 Return on Shareholders Equity (ROSE)	65
4.2 Statistical tools	66
4.2.1 Calculation of Mean, Standard Deviation (SD), Co-efficient Variance (CV), Probable Error(PE) , Correlation and Regression between Sales and Net Profit After Tax (NPAT) of NEA	66
4.2.2 Regression analysis between Sales and NPAT	67
4.2.3 Calculation of Mean, Standard Deviation (SD), Co-efficient of Variation (CV), Probable Error (PE), Correlation and Regression between Sales and Total Asset of NEA69	

4.2.4 Regression analysis between Sales and Total Asset	70
4.2.5 Calculation of Mean, Standard Deviation (SD), Co-efficient of Variation (CV), Probable Error (PE), Correlation and Regression between Total Debt and Shareholders Equity of NEA	71
4.2.6 Regression analysis between Total Debt and Shareholders Equity	72
4.2.7 Calculation of Mean, Standard Deviation (SD), Co-efficient of Variation (CV), Probable Error (PE), Correlation and Regression between Current Assets and Current Liability of NEA	73
4.2.8 Regression analysis between Current Asset and Current Liability	74
4.3 Analysis of Primary Data	75
4.4 Major Findings of the Study	75
CHAPTER - FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	80-86
5.1 Summary	80
5.2 Conclusion	81
5.3 Recommendations	82
5.4 The Future Course	86

Bibliography

Appendix

LIST OF TABLES

<i>Table no.</i>	<i>Title</i>	<i>Page No.</i>
1.1	Hydropower Projects Developed By IPPs	7
4.1	Liquidity Ratios of Nepal Electricity Authority	51
4.2	Leverage Ratios of Nepal Electricity Authority	53
4.3	Turnover Ratios of Nepal Electricity Authority	56
4.4	Profitability Ratios of Nepal Electricity Authority	62
4.5	Calculation of Statistical Tools	66
4.6	Calculation of Statistical Tools	69
4.7	Calculation of Statistical Tools	71
4.8	Calculation of Statistical Tools	73

LIST OF FIGURES

<i>Figure no.</i>	<i>Title</i>	<i>Page No.</i>
4.1	Liquidity Ratios of Nepal Electricity Authority	52
4.2	Leverage Ratios of Nepal Electricity Authority	54
4.3	Turnover Ratios of Nepal Electricity Authority	57
4.4	Profitability Ratios of Nepal Electricity Authority	62
4.5	Calculation of Statistical Tools	68
4.6	Calculation of Statistical Tools	70
4.7	Calculation of Statistical Tools	72
4.8	Calculation of Statistical Tools	74
5.1	Alternative Financing Strategy	84
5.2	Strategy for Collection of Outstanding Bill	85

ABBREVIATIONS

CA	:	Current Liabilities
CL	:	Current Assets
ed	:	edition
ed.cit	:	edition cited
et.al	:	and others
F/Y	:	Fiscal Year.
GoN	:	Government of Nepal.
I.e.	:	That is
IPP	:	Independent Power Producer.
IPPAN	:	Independent Power Producers Association of Nepal
NEA	:	Nepal Electricity Authority
NPC	:	National Planning Commission
NRs	:	Nepali Rupees
PEs	:	Public Enterprises
QA	:	Quick assets
TFA	:	Total Fixed Assets

5.3