

Financial Performance Analysis of Public Enterprises (PEs) in Nepal.

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Received: March 12, 2023

Accepted: May 15, 2023

Published: December 24, 2023

Abstract

The main objective of this study was to analyze the financial performance of Public Enterprises in Nepal. PEs in Nepal was incorporated for socio economic development of the country. There has been found 44 PEs in Nepal currently some of them incurred loss. On the basis of these, it is argued that financial performance of PEs in Nepal is weak. These study was carried out on the helps of trend analysis, profitability ratio and turnover ratio. Twelve years financial data were taken from publications of Ministry of Finance, Nepal Government and research articles, etc. All the secondary data were analyzed on quantitative approach with descriptive methods. The analysis showed revenue increased slowly on the basis of base year 2010/011 in 12 years. Similarly profit have found fluctuate over the study period between-0.524 to 7.323 times of base year profit 2010/011. The net profit margin ratio and return on shareholders net wort has not found satisfactory level. Total assets and net fixed assets turnover ratio have shown poor performance in assets utilization of PEs Nepal. The turnover ratio massaged that, there is a chances of enhancing financial performance of PEs Nepal by proper utilization of assets for inducing profitability position of PEs. The management of PEs should enhanced the financial performance of organization by the helps of budget as a means of controlling devices on activities of the PEs.

Key words: *financial performance, trend analysis, profitability ratio, turnover ratio*

Introduction

Financial statement is prepared to show the financial records and financial position of an organization. The purpose of preparing the financial statement is to provide true and fair accounting information for decision making. For that purpose statement of profit and loss, statement of financial position, cash flow statement, change in

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shareholders equity, etc. are prepared year to year. The operating efficiency of an organization shown by statement of profit and loss. The statement of financial position disclosed the combination of shareholders and outsiders' claim in the business organization. Cash flow statement is applicable to show the cash resources collection and utilization within a period. The general purpose of financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of the other entities (NAS-1). Financial statement provides information to compare between different items within the organization of same period or different periods of same organization or other organization.

The basic desire for the financial and economic analysis of the company is the knowledge and evaluation of its financial health (Bartosova & Kral, 2016). Financial health is taken as major an indicator of organizational performance. Every business organization are established for earning profit to maximize the investor's wealth or maximize the return on investment. Every company has a goal to achieve maximum benefits for its company (Hutabarat (2020). It is concerned with maximization of shareholders or owners wealth (Panwala, 2009). The function of financial performance analysis is enumerated as, it provide a comprehensive view of the financial situation of the company (Bartosova, Karl, 2016, Oriskoova & Paksiova, 2018). The financial performance analysis basically concerned with analysis of income statement and statement of financial position. "Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements (Bhunia, Mukhuti & Ray,2011, P.269). Financial performance of an organization should analyze by use of different tools of comparison of financial information within and between the organizations. The financial statement analysis provides value able information, which helps to understand about their performance position current and past year. It also provides information about their position at competitive market. Financial profitability, with regard to the financial performance evaluation, show "ability to earn profits proves a measure of its market strength, its ability to keep down costs (KC, 2003, P.213)".

Nepal has established different Public Enterprises (PEs) with different establishment objectives. However they have been operating their activities at market. Some of them have monopolistic market and others struggle at competitive market with private and multinational companies. There has been found 44 Public Enterprises in six sector, some of them are nearly closed. In financial year, 2021/022 out of 44 Public Enterprises 25 have been earned profits, 17 incurred loss and 2 in zero transaction (Annual performance review of Public Enterprises, 2023, P.6). They have been prepared annual budget and implemented for control prospective.

Literature Review

The performance of any organization is analyzed according to their objectives. “Multidimensional objectives are thus unavoidable when assessing public sector performance (Perelman & Pestiuam, 2019, P.5)”. The PEs have been established to accelerate socio-economic development of the country. “They were envisaged as an instrument for production and for execution of socio-economic policies in the country (Bajracharya & Sharma, 1996, P.28)”. The Public Enterprises have two fold responsibility at a time; driver of economic activities and monitor of social benefits in country. They have to generate profit with social responsibility for economic advancement of the country. The Public Enterprises have played important role in social economic development, infrastructural development, production and distribution of goods and services, benchmarking of quality and price of goods and services at market, etc. Some Public Enterprises were found financial burden of Nepal Government. Out of 44 Public Enterprises 17 such enterprises have incurred loss and rest 2 found success to run their transactions (Annual performance review of, PEs, 2023, P.5). The statement showed that the stipulated objectives of Public Enterprises Nepal have partially obtained. The performance of Public Enterprises in Nepal have not attained their establishment objectives. Financial performance and non-financial performance can be used as a basis for assessing the company’s performance (Jacobus, Gamiliel & Datu, 2023, P. 45). In this paper tries to analyzed financial performance of Public Enterprises, Nepal. Financial performance is the outcomes of the company’s operating activities and is presented in the form of financial figures (Septiana, 2019). It provides value able information to decision maker about past performance and predict prospective future outcomes. Analysis of a company’s financial statements is the calculation of ratios to assess the company’s financial situation in the past, present, and possibly in the future (Sujarweni, 2021). There has been found different methods of financial performance analysis. Trend analysis, horizontal analysis, vertical analysis and ratio analysis should applied for financial statement analysis (Koirala, et. al. 2023, Pavithra, 2017). Ratio analysis is mostly used tools of financial performance. Simply it is comparison of two numerical items of same organization or different organizations.

Ratio is used to analysis the financial performance of an organization. Ratio analysis is used to evaluate a company’s past performance, current state, and prospects for the future (Hasanaj & Kuqi, 2019). It measure the relationships between two variables. “It is found by dividing one number by the other (Anthony & Reece, 2005)”. The given information of variables help to decision makers comes to the conclusion according to their interest of management, investors, loan providers etc. Financial

ratios give useful insights and help managers make better decisions if appropriately interpreted (Nahar et al., 2021 & Shahriar 2021)

Huang, & Aydin, (2023) analyzed the financial risk of Public Enterprises of Nepal. They have reported the impact on government's balance sheet, over debt taken (servicing guarantees on PEs' borrowing) and government invested equity to cover accumulative losses, loan repayment default, reduced net worth due to poor performance of PEs, etc. (P.26). They also analyzed the financial risk of Nepal Airline Corporation, Nepal Oil Corporation (NOC) and Nepal Electricity Authority. The Nepal Electricity Authority has earned profit others incurred losses. The NOC has alone incurred 1 percent of GDP losses in FY2021/22. The causes of losses incurring reported as are upward fuel purchasing costs were not fully passed through to domestic fuel sales prices (P. 20). It is worth noting that, even before the pandemic, the returns on assets (ROAs) of PEs had been trending down though their total profits were increasing, (P.18).

Podhorska and Siekelova (2020). Analyzed financial statement data of 2015-2018 IT sector six Enterprises in Slovak Republic. The different financial ratio were used for analysis of financial performance. The have concluded that total assets turnover ratio worst value in study period of Žilina company 3. The same company have negative return on sales and return on equity that is followed by Námestovo and Žilina company2 and Company,5.

KC, (2003) had analyzed performance of PEs in Nepal by use of different financial and nonfinancial indicators. The study showed that, the performance of financial and manufacturing sectors better than other sectors PEs. They have low level of profitability and unable to generate funds according to requirement of capital investment. The research showed increasing trend of capital with low return on capital, often they generate negative return on capital. The conclusion have been drawn as they have not been successes to achieve satisfactory financial and work efficiency. The causes of poor performance are noted as financial indiscipline and conflicting objectives of establishment of PEs.

Poudel (2017) analyze the 8 years (2008/09 to 2014/015) financial data of trading sectors PEs in Nepal. Similarly financial performance was analyzed by the helps of net profit on sales revenue and expenses to sales ratio. The study concluded that profit margin ratio of study period has not found at satisfactory level. The net profit margin of 7 years Nepal Oil Corporation has incurred 5 year loss.

Jacobus, Gambaliel and Datu (2023) analyzed the financial performance of infrastructural SOEs in Indonesian by the helps of 8 financial ratios. They are taken secondary data of six PEs, from 2019 to 2021. They concluded that financial performance three SOEs have heathy performance and rest have no heathy performance.

Hegazy, A. and Navarro, A. (2022). Analyzed the performance of 900 PEs performance on the helps of 326 samples of Moldova by the helps of different financial ratio. The return on equity has found different between central level and sub-national level. The national levels PEs earned 1.3 percent. But sub national PEs have negative return on equity 10 percent. They also pointed assets turnover is strong driver of profitability. Net profit margin ratio “rivals how much each dollar in revenue collected transfer into profit (18)”.

Uddin, E-Alam, Kader, Imran and Beg (2022) analyzed financial performance of Power Company on the helps of seven ratio. Secondary data from 2018 to 2020 were analyzed and concluded that return on equity is not satisfactory. Other ratios, current ratio, liquid ratio, debt equity ratio, gross profit ratio, net profit ratio, and EPS ratio are goods.

Statement of the Problems

Profit is measuring rod of operating efficiency of business organization. In financial year 2078/79 Public Enterprises in Nepal have increased their revenue by 36.22 percent, uneventfully loose in profit by 94.15 percent than previous financial year (Annual performance review of Public Enterprises, 2023, P.6). The general theory, agree that increase in sales will be increase in profit. “Financial profitability is thus a simple and straight forward indicator which indicates the extent of success of an enterprise (KC,2003, P.213)”. Financial performance is major indicator to predict the future roadmap of business organization. Which is measuring the managerial efficiency of resources allocation and utilization. The proper utilization of assets help boost up revenue control over the control cost and generate more profit in business organization. The net profit margin, net profit to net worth ratio has found in financial year 2078/079, 0.268 and 0.202 respectively. In these circumstances following research questions has been derived.

What is the trend of revenue and profit of Public Enterprises in Nepal?

What is the operating, and activity condition of Public Enterprises Nepal?

Objectives of the Study

The main objective of this study is to show the financial performance of Public

Enterprises in Nepal. The specific objectives of this study are;
 To showed the trend of revenue and profit of Public Enterprises in Nepal
 To analyze the profitability and activity performance of Public Enterprises in Nepal
 by the helps of selected ratio.

Research Methodology

This research is designed under quantitative approach under descriptive method. The numerical data were used as main instruments of the research. The results were described in language. The findings of the study are presented in language results calculated from reliable data (Jaya, 2021). The data of revenue, net profit, total assets, shareholders' net worth and net fixed assets were taken from secondary sources, published by Ministry of Finance, Government of Nepal, research articles, etc. This study carried out on the helps of 12 years financial statement from 2010/2011 to 2021/022 of total Public Enterprises in Nepal. It is based on financial statement analysis of PEs in Nepal.

Trend analysis: Trend analysis is a statistical tool. It applied to explore the past tend of sales, expenses and net profits. In this study the trend of revenue, expenses and profit are calculated of the base year 2010/011.

Revenue Trend =

Expenses Trend =

Net Profit Trend =

This study is based on profitability and activity ratio, namely, net profit margin, return on shareholders' net worth, assets turnover ratio and net fixed assets turnover ratio. The higher percentages of net profit margin on sales and higher rate of return on shareholders' funds refers better performance of PEs. The high number of turnover of total assets and net fixed assets refer better performance of PEs. Formula applied are;

Return on shareholder net worth: The ratio provides the return on shareholders' investment in an organization. The motives of organizational management is to maximize the return on shareholder investment. The higher rate of return refers higher financial performance of the organization. ROE is a critical ratio, it includes the net profit margin of companies, it measures the company's performance than return on assets (Panigrahi, 2021). A higher return on equity indicates that the amount of net profit generated from each rupee of funds impacted in equity will be higher (Hery, 2021). The interest of shareholder is higher rate of return on their investment.

Return on shareholders' net worth

Profit is major factor of business operation. It has linked with revenue and cost of the business organization. The higher ratio of net profit on sales refers managerial efficiency to control over cost in the organization.

Net profit margin

Total asset turnover is a ratio that measures how well a firm uses all of its assets to produce a given sales volume (Arum et al., 2022). The net fixed assets and total assets turnover ratio provides information of resources utilization capacity of management of the organization.

Total assets turnover ratio=

Net fixed assets turnover ratio A

Data presentation and discussion

Table: Trend and Ratio Analysis of financial statement.

Year	TR	TP	NPMR (%)	ROSF (%)	TATR (Times)	NFATR (Times)
2010/011	1	1	4.397	6.611	0.44	1.284
2011/012	1.223	-0.524	-1.882	-0.359	0.453	1.543
2012/013	1.470	1.708	5.106	11.652	0.492	1.883
2013/014	1.698	0.753	1.951	4.746	0.476	2.036
2014/015	1.819	5.153	12.459	19.979	0.378	1.131
2015/016	1.573	5.236	14.638	16.078	0.311	1.061
2016/017	2.121	6.205	12.863	14.307	0.298	1.782
2017/018	2.574	6.508	11.114	8.526	0.282	1.076
2018/019	3.103	7.323	10.375	7.856	0.289	1.097
2019/020	2.823	7.234	11.266	6.861	0.224	0.701
2020/021	2.866	3.948	6.057	3.488	0.201	0.651
2021/022	3.789	0.231	0.268	0.202	0.242	0.719

Source: Researchers' calculation

The Table, showed the trend of total revenue (TR), total expenses (TE) and total profit (TP) of 12 years of Public Enterprises in Nepal. All these variables trend were drawn on the base year 2010/011. The trend of revenue and expenses has found slightly increased year to year. The incremental trend of revenue and expenses has

found mixed, out of 11 year the incremental trend of expenses was higher in 3 year only. The trend of profit has found mixed in year 2011/012 there was negative incremental trend by -0.524 but it reached to 7.323 in financial year 2018/019. The trend analysis showed there is high fluctuation in profit earning capacity then revenue and expenses of Public Enterprises in Nepal. But the trend of final year of study aware to management higher incremental trend of expenses and decreasing trend of profit.

The profitability performance of the Public Enterprises was analyzed by use of net profit margin ratio (NPMR) and return on shareholders fund (ROSF). The performance of business activity of Public Enterprises in Nepal was analyzed on the helps of total assets turnover ratio (TATR) and Net fixed assets turnover ratio (NFATR). Net profit margin ratio found more fluctuate in study period. It was varied -1.882 to 14.638. But return of net shareholders' found varies between -0.359 to 19.979 percent. The turnover ratio of total fixed assets and net fixed assets was not finding at satisfactory level.

Discussion and Interpretation

Public Enterprises has been established with multiple objectives in Nepal. They have social and economic responsibility toward the nation. They have two fold responsibility at a time, save from monopolistic market of private sector to public and enhance economic activities in the country. The Government of Nepal has invested huge amount in such organization as share capital and loan. They are shown their social responsibility providing continuous providing goods and services at national crises as Earth quack, etc. However their financial performance has not found as Government's expectation. The supporter of privatization have blamed that, they have weak financial performance and becoming as burden of public funds. The financial performance of an organization is measured by their operating performance and activities run in the organization.

In this study revenue and profit are taken major variables for performance analysis of Nepalese Public Enterprises. The revenue trend of PEs have found slightly increased every year on the basis of base year revenue of 2010/011. But the incremental trend of 2019/020 and 2020/021 has found lower than previous year. The causes may be impact of COVID, 19. The sales revenue trend of PEs has not found satisfactory level because hiking rate of price inflection at market. Annual price inflation rate of financial year 2021/022 in percentage at wholesale price of primary goods 3.92, fuel 19.49 and energy 11.67 and average 9.51 (NR report, p, 5). Profit is measuring

rod of financial performance of an organization. Increasing trend of profit refer positive performance of organization vice versa. The trend analysis of 12 years profit varied-0.524 to 7.234 times on the basis year 2010/011. The result showed fluctuation in profitability of PEs in Nepal. The profit incremental trend of financial year 2021/022 ware to management of PEs about the future of profitability. The IMF report, 2023 supported as the position of Nepal Oil Corporation alone incurred 1 percent of GDP losses in FY 2021/22. The market price of fuel is increased but price of product oil is not adjust as market rate due to public protest by the Government. In FY/201/022 there has been found 17 PEs in loss and other 2 failure to operation their activity (Annual performance report of PEs,2079/080). The trend analysis of revenue and net profit of PEs is not satisfactory level, because their incremental rate is slow and fluctuates. The management of PEs in Nepal could not properly utilized resources, lack of professional knowledge of management in management, etc.

For analysis of financial performance of PEs applied ratio of profitability and activity. The results of net profit margin on sales found-1.882 percent to 14.638 percent of sales. There is more fluctuate in profit earning capacity of PEs in Nepal. The percentage of net profit on sales 2021/022 showed 0.238 percentage. The normal interest is determined 15 percent in general case. But the return on sales was not exceed to market interest rate. The results accepted with KC (2003) but disagreed with results of Uddin et. al. (2022). The return on shareholder's fund also found-0.359 to 19.979 percent. The PEs unable to maximized shareholders benefits. The similar conclusion was pointed out by the study of Uddin (2022) and Podhoraska 2020), Poudel (2017). The turnover ratio of total assets and net fixed assets were not found satisfactory level. The higher turnover of assets means proper utilization of assets. The total assets turnover ratio has not run single period in 12 years. Similarly turnover of net fixed assets has not run two times except in FY 2013/014. The Nepal Government has increased investment on new corporation like Nepal Railway, National Electricity Greed, construction of Airports and etc. They are requiring huge capital investment. But the total revenue was not run single period revers weak performance of management of PEs. Their products are accepted by the consumer. The quality of goods and services provided by Public Enterprises are good. Management prepared their budget and control over the business activities, there are benchmarking practices of different activities. Hetauda cement products were demanded at market, but in FY 2078/79) found run at 31.23 percent only (Annual performance review PEs, (2080).

Conclusion and recommendation

The analysis of sales, profit, profitability ratio and turnover ratio have shown financial performance of PEs in Nepal not satisfactory level financial performance. In the study period 12 years revenue increased slowly, may be uncover the inflation rate of money of base year. There has been practice of budgeting but not properly utilized. The budget must be able to control over the activity of the organization. There has been found enough investment in assets and fixed assets by the Government. But the turnover of such assets has not found as expectation of economic acceleration. Total assets has not turnover on sales single time over the study period. But fixed assets turnover ratio have found 1 or above one in study period. The management of PEs Nepal should not properly utilized fixed assets. Higher fixed assets turnover ratio refers better performance of organization. Investment is made on assets to generate income in future period. Both turnover ratio were show the weak management of assets run or unnecessary assets were installed or used in Public Enterprises. The management of PEs should not employed available resources properly for organizational performance. The management should uplift their revenue by proper utilization of their available total and fixed assets' capacity. The management of PEs should increase capacity uplift through reality based budget preparation and timely control over activities on the helps of budget. The way of performance enhance is optimum utilization of available resources. That generate more revenue and control over the cost. Profit is outcomes of sales less cost. The utilization assets reduces on operational cost and increased in profit. Which has positive impact on net profit margin, return on equity, assets turnover etc. Still market demand of goods and services provided by PEs have found popular than others product. The market demand of Hetauda cement, diary product of Dairy Development Corporation, telephone services of Nepal Telecom, etc. There should be improve in financial performance of PEs by management with determination, dedication, and professionalism.

This research is carried out to show the financial performance of PEs Nepal by the helps of trend analysis of sales, profit. On the same time analyzed financial performance by the helps of selected profitability and turnover ratio. The reliability and validity of this research is excessively depend on data provided by Government Documents. There is need of further analysis on same topic by use of ratio according to sectors or Individual Corporation. It will be provided corner stone to other researchers for study on the same topic. It also provide value able information to policy maker of PEs and the management of the PEs.

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