

## ANALYSIS OF FINANCIAL PERFORMANCE OF KERALA MINERALS AND METALS LIMITED- A PUBLIC SECTOR UNDERTAKING IN KERALA

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### Abstract

Financial performance refers to the overall performance of financial items included in the financial statements such as the balance sheet and profit and loss account of the company. It assesses the company's financial performance in areas such as liquidity, solvency, profitability, and efficiency. Public enterprises are those enterprises which under the administration of the government. The Kerala Minerals and Metals Limited (KMML) is a public sector undertaking controlled by the Kerala government that operates in the manufacturing sector. The study is conducted for a period of 5 years from 2017-18 to 2021-22. The research design adopted in the study is descriptive and analytical. The study employed secondary data gathered from KMML's financial accounts which are provided by the Centre for Management Development (CMD), articles, and newspapers. The liquidity, solvency, efficiency, and profitability positions were satisfactory after using the ratio analysis. The study concludes that overall financial performance was satisfactory.

**Keywords:-** Financial performance, Public Sector Undertaking, KMML, Liquidity, Solvency, Profitability, Efficiency.

The practice of assessing a company's success using various financial indicators is known as financial performance. The various financial indicators, including liquidity, solvency, profitability and efficiency, are used to evaluate the

company's performance. The capacity of the business to quickly turn its current assets into cash is known as liquidity and, it may be evaluated using liquidity ratios.

Solvency is the capacity of the company to repay its loans and debts. Profitability is the ability of a business to

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generate income or profit. Efficiency ratios also known as activity ratios are used by analysts to measure the performance of the resources to generate the earnings of the organisation. Ratio analysis is one of the best tools for identifying various financial indicators such as liquidity, solvency, profitability and efficiency of the business which is the relationship between two financial items in the balance sheet as well as the profit and loss account. Public Enterprises (PEs) are those enterprises owned and operated by the government. Public Sector Undertakings are those enterprises under the control of the government. The decision related to these enterprises is made by government officials or civil servants. Kerala Minerals and Metals Limited (KMML) is the one of public enterprises that come under the administration of the Kerala Government. Kerala Minerals and Metals Limited is a manufacturing company that produces different metals and minerals from soil like Ilmenite, Titanium Sponge, and Zircon. It was incorporated in 1972 and comes under the industries and commerce department. The study was used to evaluate the financial performance of KMML in terms of different financial indicators with the help of ratios.

### Review of Literature

According to He et al. (2021) explained that the overall financial performance of public sector undertakings and private companies was low after analysing the financial indicators with the help of the ratio analysis. The study contradicts the traditional view point that the financial performance of public enterprises is low compared to that of private enterprises.

A similar study conducted by another researcher found that the overall financial position of ONGC was satisfactory after evaluating the liquidity, profitability, and activity position of the company with the help of the ratio analysis but still, the company needed to improve its financial performance to meet the objectives of company and growth and development (S & Vanaja, 2020).

One of the studies related to PSU mentioned that most of the public companies had never attained a good return on equity (profitability) which implied that most PSUs did not generate a good return. The study showed that the return on equity of selected Indian public sector undertakings was not significantly contributed by financial leverage, which revealed that the funds were not utilized properly by most companies (Mitra & Pol, 2019).

According to Sur & Chakraborty (2015), the researchers showed only earnings per share of the company shows a significant upward trend and other dimensions did not have a specific trend. The study found the presence of uniformity among liquidity, solvency, profitability and efficiency of the working capital management and fixed assets management.

According to Rao, K. (2016), the overall financial performance of the selected public sector steel manufacturing companies declined during the study. The liquidity, solvency, profitability and efficiency of the companies were not satisfactory so the government needed to provide more support to enhance different financial indicators.

Ahmad, I. (2016) the researcher found that the overall financial performance of Hindustan Petroleum Corporation Limited was not satisfactory identified with the help of the ratio analysis. The company needed to be concerned about the different financial indicators of the company. The study also found that there is no influence of liquidity, solvency and efficiency on the profitability of the company.

The above literature gives an idea about the financial performance of public sector undertakings with the help of different financial indicators.

### **Statement of the Problem**

Public sector undertakings, both at the national and state levels, play a significant role in our economy and the growth and development of the country. The state public sector undertakings are those enterprises that are under the control of the state government and KMML is the one of state public sector undertakings in Kerala. The study evaluates every important financial aspect of the KMML, which includes liquidity, solvency, profitability and operating efficiency. The study attempts to determine several financial statuses of the KMML, such as, liquidity, solvency, profitability and efficiency and makes recommendations to enhance the company's financial situation.

### **Objectives of the Study**

1. To evaluate the financial performance of KMML.
2. To determine the liquidity, solvency, efficiency and profitability of the company.

### **Research Methodology**

The secondary data were utilized in the study. The study is carried out from 2017-18 to 2021-22 during five years. The data is extracted from the balance sheet and profit and loss account published on the Centre for Management Development (CMD), articles and newspapers. The study evaluates the liquidity, solvency, efficiency and profitability positions of KMML with the help of different ratios. To evaluate the performance of financial items, ratio analysis is used.

### **Significance of the Study**

Public companies play a vital role in the economy of our country. KMML is one of the PSUs owned by the state government. To improve the economy of our state, public enterprises that are owned by the state government must guarantee the firm's performance. Public sector organisations prioritise providing goods and services to people at reasonable rates beyond profit-making. However, the two main goals that public corporations strive to achieve are profit maximisation and wealth maximisation. The study helps to understand the liquidity, solvency, turnover and profitability positions of the KMML. The profitability of the organisation is enhanced then it will positively affect the economy as well as the stakeholders of the organisation. The study showed the ability of the organisation to pay off the short-term and long-term obligation and also know the ability of the firm to generate the profit of the organisation.

### **Scope of the Study**

The study aims to analysis the KMML's financial performance using

various ratios for a period of five years from 2017-18 to 2021-22. The study analysis the liquidity, solvency, profitability and turnover positions with the help of ratio analysis. The study gives an idea about the overall financial performance of KMML and also analysis the performance of the profitability of the organisation.

Data Analysis

The standard ratio of the current ratio is 2:1. The company can quickly pay off its current liabilities because of KMML's good current ratio, which has an average value of 2.695. The company's average quick ratio is 1.546 shows the company can pay off short-term obligations with the current assets except the inventories and prepaid expenses. After analyzing both liquidity ratios, the company's short-term liabilities can pay off with the current assets. Since the standard deviations of both ratios are low, the ratio remains stable throughout the study. The current ratio and quick ratio are the liquidity ratios used in the study. The liquidity position of the company is satisfactory after analysing both ratios.

Although the KMML's leverage ratios are low, the organisation benefits from it.

The average debt-equity ratio, proprietary ratio and solvency ratio are 0.1702, 0.7312 and 0.2654 but the ratios have a minor deviation. Hence it indicates that the solvency position of the company is satisfactory. The company's debt-equity ratio indicates that it is utilising more of its owned funds than borrowed funds. The company has poor leverage ratios which indicate that the company does not like to take advantage of using borrowed funds. The proprietary ratio of KMML indicates that the total assets of the company are greater than the shareholder's funds and the solvency ratio is excellent since the total assets of KMML exceed the external obligations.

The operating margin of KMML varies over the course of the study. The operating margin and net profit ratio are extremely low during the pandemic period compared to other years. Operating profit has a close relation to the net profit earned by the company. After analysing the return on net worth, return on assets, return on capital employed and sales to capital employed, the profitability of the company is satisfactory. The earnings per share (EPS) for 2021-22 demonstrated a good value.

Table 1  
Liquidity and Solvency of KMML

Particulars	Current ratio	Quick ratio	Debt-equity ratio	Solvency ratio	Proprietary ratio
2017-18	1.807	1.059	0.245	0.3	0.696
2018-19	1.989	1.202	0.223	0.277	0.72
2019-20	2.81	1.64	0.136	0.284	0.715
2020-21	3.87	2.46	0.115	0.232	0.76
2021-22	3	1.37	0.132	0.234	0.765
Mean	2.695	1.546	0.1702	0.2654	0.7312
S.D	0.744	0.496	0.053	0.0275	0.0268

Source: A Review of Public Enterprises in Kerala

Table 2  
Profitability of KMML

Particulars	Net profit margin (%)	Operating margin (%)	Return on Net Worth (%)	Return on Assets (%)	Return on Capital employed (%)	Sales/ Capital employed	EPS
2017-18	25.06	25.52	15.6	10.88	26.85	107.1	379.1
2018-19	19.84	19	13.4	9.69	21.13	106.5	340.9
2019-20	4	6.12	3.69	2.69	5.46	89.26	95.24
2020-21	10.58	14.94	9.66	7.44	13.27	88.74	275.7
2021-22	20.75	29.34	20.75	15.88	28.34	96.77	733.6
Mean	16.046	18.984	12.62	9.316	19.01	97.67	364.9
S.D.	7.651	8.146	5.72	5.73	8.597	7.977	208.5

Source: A Review of Public Enterprises in Kerala

Table 3  
Efficiency (Turnover/ Activity ratios)

Particulars	Total assets turnover ratio	Working Capital turnover ratio
2017-18	0.746	3.12
2018-19	0.769	2.82
2019-20	0.638	1.88
2020-21	0.681	1.646
2021-22	0.74	2.77
Mean	0.714	2.48
S.D.	0.048	0.576

Source: A Review of Public Enterprises in Kerala

After analysing the turnover ratios, efficiency is satisfactory but it shows minor deviations from the average value. The total assets turnover ratio and working capital turnover ratio are used in the study to evaluate the efficiency of the company.

Findings

- The liquidity position of the selected company is satisfactory, even though the ratios need to improve in the future.
- The company uses more owned funds than borrowed funds after analysing

long-term solvency ratios. The solvency position of KMML is good.

- KMML is one of the public sector undertakings that earn profit which is fluctuating but the profitability of KMML shows a satisfactory position.
- The efficiency of the company is good, even though the company needs to be concerned about turnover ratios.
- During the pandemic period, the selected financial indicators were not

performing well due to the presence of a lockdown system.

- The overall financial performance of the KMML is satisfactory after analysing liquidity, solvency, profitability and efficiency positions with the help of ratio analysis.

### Suggestions

- The company needed to maintain a stable liquidity position throughout the life of the company.
- The company needs to enhance its profitability so that credit goes to the organisation and the ultimate benefits go to the stakeholders and state.
- The company needed to use more debt for the functioning of the company than its own funds, so the company should enjoy the benefits obtained from the debt capital.
- The company needed to have a good working capital management system to reduce the investment in current assets as the working capital ratio is greater than the standard value.
- Corporate margin should be increased since this would contribute to a higher ROI and EPS.
- The company needed to take the required actions to overcome the financial difficulties faced by the organisation after the pandemic period.

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### Conclusion

Public enterprises are those enterprises that are owned and operated by the government. State Public Sector Undertakings (SPSUs) are those enterprises that are controlled by the state government. Kerala Minerals and Metals Limited is one of the profit-making public enterprises present in Kerala and were incorporated in 1972. The study used current ratio, quick ratio, debt-equity ratio, solvency ratio, proprietary ratio, net profit ratio, operating margin, return on assets, return on capital employed, return on net worth, sales to capital employed, earnings per share, working capital turnover ratio and total assets turnover ratio to understand the financial performance of KMML. The liquidity position and solvency position of KMML are satisfactory as well as profitability and efficiency positions of the company are good. Hence, the study concluded that the overall financial performance of KMML is satisfactory, but the government should provide grants and subsidies to enhance the activities of the organisation. The KMML used owned funds for conducting business activities rather than borrowed funds. The liquidity position is satisfactory after analysis of the current ratio and quick ratio. The pandemic is one of the factors that negatively influenced the profitability of the organisation but the organisation retrieved from the crisis after the lockdown.

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