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RESEARCH ARTICLE

DELHI METRO: DOES SOUND RATIOS REFLECT FINANCIAL STABILITY

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ABSTRACT

A public sector undertaking may be defined as a business undertaking, which is owned managed and controlled by the State, on behalf of public at large. These undertakings have come to enjoy a unique position in the Indian economy in the post-independence era. They have been responsible for forming a strong industrial base and providing the basic infrastructure for development in the country. From an investment in 5 enterprises of Rs. 29 crores in 1950-51.Public Enterprises Survey 2017-18, 58th in the series, gives a consolidated picture of the Performance of Central Public Sector Enterprises (CPSEs) which are spread over length and breadth of the country. As on 31st March 2018, there were 339 CPSEs with a total investment of Rs. 13, 73, 412 crore. Over the years, Delhi Metro has become a role model for many things. To urban dwellers, it promises “modern” and “high-tech” public transport system. To governments, it is an easy means to earn “development credits” along with “public welfare”. To private sector, it has clearly a lot to offer since a lot of money is at stake. This also gets rewarding media coverage because of strong public relations (PR) management and it is also honored by various national and international agencies for its “achievements”

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INTRODUCTION

The Delhi Metro Rail Corporation is a PPP based partnership venture. Over a period of time it has emerged a successful public transportation model for New Delhi. In the 25th year of operations, DMRC is exploring new areas of NCR and is in the process of formulation of new business models. Over these years, the citizens of Delhi have readily adopted this means of public transport as is evident from the increase in footfalls at various metro stations such as Rajiv Chowk and Kashmiri Gate Hauz Kash . This phenomenon increase has resulted in the generation of revenue but the moot questions still remain. Does the sound ratios reflect the financial stability of the Delhi metro? This paper is designed to provide answers to this research question.

Literature Review: The Delhi Metro rail system was proposed by RITES who conducted a study to address the traffic issues faced by various stakeholders living in Delhi and NCR region. As per the estimate the entire expense for the construction of DMRC network was assessed to the tune of Rs. 15000 crores as per 1996 level.

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The DMRC plan was to be built in phases with parts of the network system being underground and some part of the network system being on elevated corridor. However, considering the amount of finances invested in this massive network construction, there exists a gap in terms of financial stability as reflected by several research studies (Sreedharan E. (2001), Vydhianathan, S. (2003), Bose, R.K. (1998)

Research Objective: The objective of this study is to investigate the financial stability of DMRC in terms of financial ratios.

RESEARCH METHODOLOGY

The data used in this study included the secondary data from various sources comprising of government agencies, internet, various research papers and the case studies. For the purpose of analysis descriptive analysis was used.

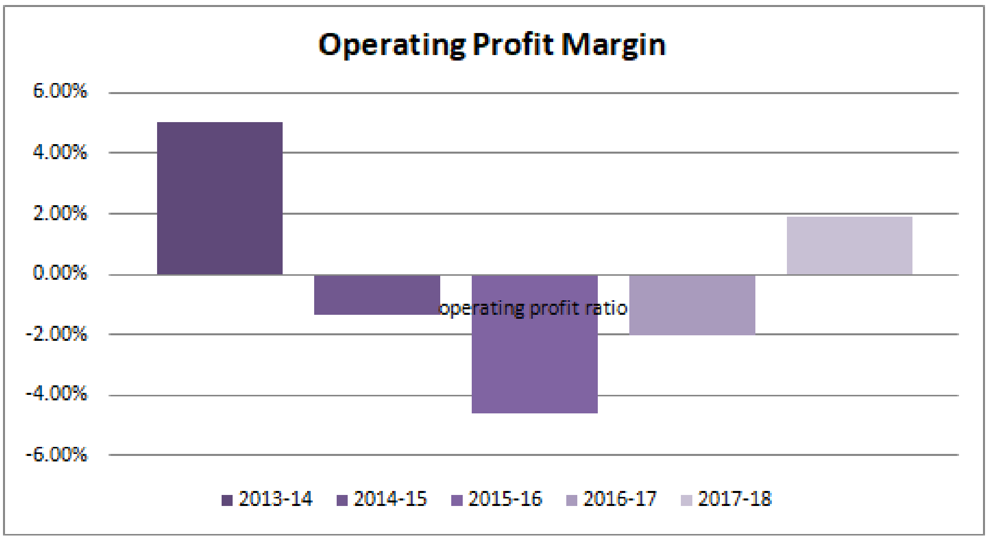
FINDINGS AND DISCUSSION

The various descriptive findings are given below along with their interpretations

Operating Profit Margin

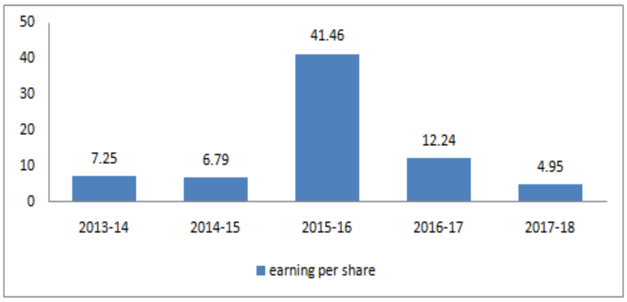
The operating margin is used to depict the conversion of revenue into profits. After the variable costs of production and other components such as wages and raw materials have been

S.No.	Author	Year	Objective	Research Methodology	Findings
1	Florenz C. Tugas	2012	To analyze the financial statement of three firms for three year period (2009-2011)	The researcher calculated liquidity ratios, activity ratios, leverage ratios, profitability ratios, and market value ratios to perform the financial ratio analysis	The researcher ranked three firms for each of the ratios calculated
2	Henry W. Collier, Timothy Grai, Steve Haslitt and Carl B. McGowan	2004	To construct a financial and industry analysis for Motorola corporation	Segment analysis, Industry analysis and Financial Ratio Analysis	It demonstrates that that financial ratio analysis is complicated for companies that it does not so easily fall into a single industry.
3	Doron Nissim, Stephen H. Penman	2001	To study the practical implication of Ratio Analysis and Equity Valuation for the period 1969-1999	Calculation of various ratios	It forecasted the time series behavior of many ratios and their typical “long-run, steady-state” levels were documented.
4	Prof. Vijay S Patel, Prof Chandresh B Mehta	2012	This paper attempts to study the profitability ratio of Krishak Bharati Co-operative Ltd. For2000-2009	Calculation of various profitability ratios	Its study reveals that the income of the company is based on the subsidy provided by the government, therefore the Company should try to minimize the operating expenses so as to maintain profit and it should not back too much on the subsidy.
5	Omar Durrah, Abdul Aziz Abdul Rahman, Syed Ahsan Jamil, Nour Aldeen Ghafeer	2016	To examine the relationship between liquidity ratios and indicators of financial performance (profitability ratios) in the food industrial companies listed in Amman Bursa during the period (2012-2014)	Calculation of various ratios	The study pointed the existence of a positive relationship between (quick ratios, defensive interval ratio) and operating cash flow margin. There is a positive relationship between liquidity ratios (current ratio, quick ratio, cash ratio) and return on assets
6	Marques, JoãoPedro daCosta Andrade	2012	To study the Return on Equity of Portuguese and Brazilian companies, through the Du Pont method	DuPont Method	Brazilian companies which pay higher interests. Also Portuguese companies take more advantage from the financing decisions and Brazilian on the investing decisions.
7	Rohit Bansal	2014	To measure the financial and accounting performance of Indian leading IT companies for the period of 2009 to 2013.	Calculation of various ratios	A graphical representation is done to compare financial ratios such as profitability, liquidity, solvency, assets turnover and market based ratios.
8	Haile Melkamu Biru	2014	To analyze the financial performance of Dashen bank of Ethiopia	Trend ratio analysis	Dashen bank of Ethiopia results reflected that it was becoming a prominent and financially strong bank and had been attractive to investors to invest in, but still, it reflected the need for improvement in loan default and efficiency to generate revenue from earning assets.

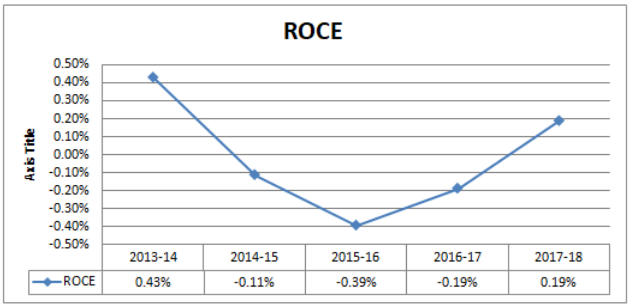


taken into account before the payment of interest or tax. It is derived by dividing a company's operating profit by its net sales. A company's operating margin is also known as return on sales and a good operating margin indicates the management of risks by showing the proportion of revenues that are available to cover non-operating costs such as payment of interest. Also, high operating margins are a prime indicator of business risk. From the above graph , it is evident that the profit margin for DMRC is quite low. It clearly shows that the company isn't able to convert its revenue into profits. For continuous three years the margin is showed as negative, which implies that the firm's cost of goods produced exceeds the total revenue of the organization. After three years the organization took a speed to boost up the revenue and operating profits.

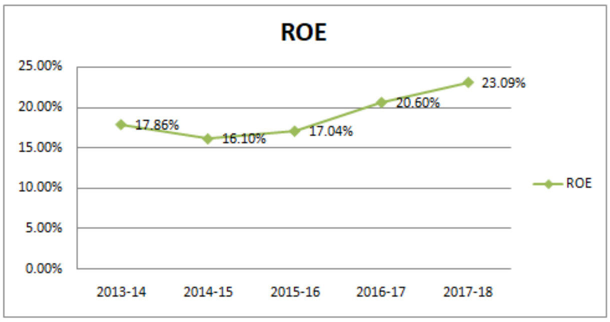
Earnings Per Share: Earnings per share (EPS) is used to depict company's profitability. Is it derived from the outstanding shares of its common stock arnings per share (EPS) is the portion of the company's distributable profit which is allocated to each outstanding equity share (common share). Earnings per share is a very good indicator of the profitability of any organization, and it is one of the most widely used measures of profitability. The higher a company's EPS, the more profitable it is considered. Growth in EPS is an important measure of management performance because it shows how much money the company is making for it's shareholders. DMRC is an organization with 50% holding of government of India and 50% holding of State government. Firms shows a higher earnings per share in FY 15-16. EPS ratio shows that the company is in profit. After 2015-16 the company's EPS slows down to great extent. There are many factors leading to the slowdown in EPS.



Return on Capital Employed: Return on capital employed (ROCE) is a financial ratio that measures a company's profitability and the efficiency with which its capital is used. In other words, the ratio measures how well a company is generating profits from its capital. The ROCE ratio is considered an important profitability ratio It is a ratio that measures the profitability along with the efficiency with which the capital is employed. It can be calculated by dividing EBIT (Earnings before interest and taxes) with the total capital employed. This provides a better indication of financial performance for companies with significant debt. For a company, the ROCE trend over the years is also an important indicator of performance. In general, investors tend to favor companies with stable and rising ROCE numbers over companies where ROCE is volatile and bounces around from one year to the next. DMRC shows a bouncing rate of ROCE as the ratio is certainly negative for continuously three years. This profitability ratio is an important ratio, here in this case the five years trend shows that the firm didn't earned well in the three years and in the last year which is 2017-2018 the company showed a significant growth

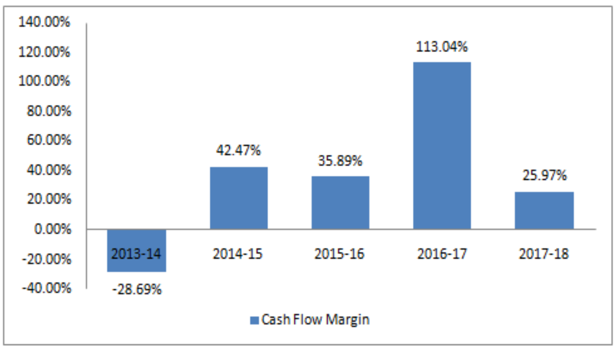


Return on Equity: Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets.ROE is considered a measure of how effectively management is using a company's assets to create profits.

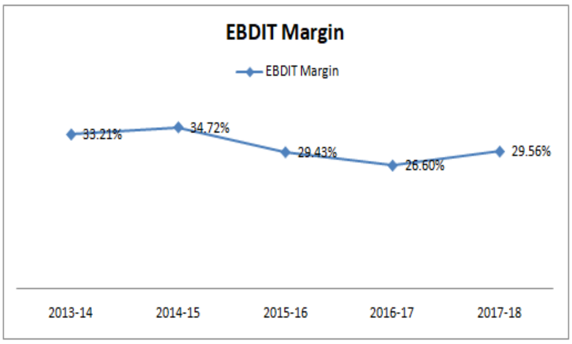


DMRC has a steady and consistently growing return on equity. It shows that the organization is using assets to its best capacity to generate revenue.

Cash Flow Margin: Operating cash flow margin is cash from operating activities as a percentage of sales in a given period. It measures cash flow from operating as a percentage of sales. Operating cash flow margin measures how efficiently a company converts sales into cash. It is a good indicator of earnings quality, because it only includes transactions that involve the actual transfer of money. The graph above shows the cash flow margin for DMRC for the last 5 years. The data shows that organization is able to convert its sales into cash. For the year 2016-2017 the first has highest ratio. After which the ratio drops down to more than 50%.



EBDIT Margin: EBITD margin is a measure of a company's operating profit as a percentage of its revenue. The company with positive and good margin is considered as a company that is able to pay off its operating expenses and is able to keep profits.



Conclusion

From the above discussions of descriptive statistics parameters it is evident that the sound ratios fail to reflect the financial stability. This is due to the fact that one needs to be clear as to what determines the financial stability. In other words, while conducting research, first one must be clear as to the meaning of the word stability and once this is taken into consideration then the question can be answered in correct perspective.

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