A study on financial performance analysis of the select Paper Company with special reference to Tamil Nadu Newsprint and papers limited

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***Abstract* – The present study aims to identify the financial strengths and weaknesses of the Tamil Nadu Newsprint and Papers Limited (TNPL) by properly establishing relationships between the items of the balance sheet and profit and loss account. The study has been undertaken for the period of ten years from 2004-05 to 2013-14 and the necessary data have been obtained from CMIE database. The liquidity position was strong in case of TNPL thereby reflecting the ability of the company to pay short-term obligations on due dates and they relied more on external funds in terms of long-term borrowings thereby providing a lower degree of protection to the creditors. Financial stability of TNPL has showed a downward trend and consequently the financial stability of TNPL has been decreasing at an intense rate. The study exclusively depends on the public sector published financial data and it does not compare with private sector paper mills.**

This is a major limitation of the research. The study is of crucial importance to measure the firm's liquidity, solvency, profitability, stability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. The study will help investors to identify the nature of paper industry and will also help to take decision regarding investment.

Keywords— TNPL, CMIE, Newsprint, Papers

I. Introduction

Finance always being disregarded in financial decision making since it involves investment and financing in short-term period. Further, also act as a restrain in financial performance, since it does not contribute to return on equity. A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value.

Dilemma in financial management is to achieve desired tradeoff between liquidity, solvency and profitability. Management of working capital in terms of liquidity and profitability management is an essential for sound financial recital as it has a direct impact on profitability of the company. The crucial part in managing working capital is required maintaining its liquidity in day-to-day operation to ensure its smooth running and meets its obligation. Ultimate goal of profitability can be achieved by efficient use of resources. It is concerned with maximization of shareholders or owners wealth. It can be attained through financial performance analysis. Financial performance means firm's overall financial health over a given period of time.

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value.

The Indian Paper Industry is a booming industry and is expected to grow in the years to come. The usage of paper cannot be ignored and this awareness is bound to bring about changes in the paper industry for the better. Paper Industry in India is moving up with a strong demand push and is in expansion mode to meet the projected demand of 20 Million tons by 2020. In order to keep the Indian Paper industry rolling, the foremost thing which must be kept in mind is the availability of the raw materials. Every possible effort is to be made to take India at par with the other paper industries of the world. Application of paper is varied and one cannot think of a life without paper. The raw materials need to be of good quality. There should be enough modernized techniques to carry out production. Reducing costs should be accompanied by low cost of production. Policies should be implemented to bring about optimum production. Government has completely de-licensed the paper industry with effect from17th July, 1997. The Paper industry is a priority sector for foreign collaboration and foreign equity participation upto 100% receives automatic approval by Reserve Bank of India. There are, at present, about 515 units engaged in the manufacture of paper and paperboards and newsprint in India.

Obviously TNPL is a public sector company and it has been the backbone of the Indian economy, as it has acted as a strategic partner in the nation's economic growth and development. Public sector enterprises possess strong prospects for growth because they harness new business opportunities, and at the same time expanding the scope of their current business. The ability of TNPL to analyze its financial position is essential for improving its competitive position in the marketplace. Through a careful analysis of its financial performance, the organization can identify opportunities to improve performance of the department, unit or organizational level. In this context researcher has undertaken an analysis of financial performance of TNPL to understand how management of finance plays a crucial role in the growth.

II. LITERATURE REVIEW

Campbell (2008) constructed a multivariate prediction model that estimates the probability of bankruptcy reorganization for closely held firms. Six variables were used in developing the hypotheses and five were significant in distinguishing closely held firms that reorganize from those that liquidate. The five factors were firm size, asset profitability, the number of secured creditors, the presence of free assets, and the number of under-secured secured creditors. The prediction model correctly classified 78.5% of the sampled firms. This model is used as a decision aid when forming an expert opinion regarding a debtor's likelihood of rehabilitation. No study has incorporated the financial performance analysis of the central public sector enterprises in Indian drug & pharmaceutical Industry. Nor has any previous research examined the solvency position, liquidity position, profitability analysis, operating efficiency and the prediction of financial health and viability of public sector drug & pharmaceutical enterprises in India.

Satyanarayana Chary and Sampath Kumar (2011) discussed in their article that working capital is one of the vital decisions of financial management function. Profitability and working capital relationship is frequently emphasized for deciding on the level of investment in working capital. All manufacturing firms need to understand the association between these two variables to arrive at optimal financial decisions. Though theories exist on the topic, empirical methods are inadequately focused in arriving at conclusions. Use of statistical methods in understanding the relationship is systematic and scientific, which may provide better insight for decision making.

This research is an endeavor to understand the relationship between working capital and profitability in a detailed manner. Camelia Burja (2011) deals in his research that the information about company performance, especially about its profitability, is useful in substantiating managerial decisions regarding potential changes in the economic resources that the company will be able to control in the future. The objective aims achieving superior economic results that will increase the company's competitiveness and will satisfy the shareholders' interests. The research presents some company performance analysis models, which highlight the influencing factors. The models are based on regression analysis, and the obtained results emphasize the strong connection between the profitability of the analyzed company expresses through Return on assets and the management of available resources.

According to Dumbravă, (2010), the indicators involved in the regression analysis of economic performance are numerous. Models developed to study the impact caused by the allocation and use of capital within the firm tie performance to the contribution of various resources to the increase of efficiency, expressed in terms of profitability.

Profitability at microeconomic level has been studied depending also on indicators such as current ratio, liquid ratio, receivables turnover ratio and working capital to total asset (Singh and Pandey, 2008). Other studies consider performance assessment expressed by earnings before interests and taxes (EBIT) and the associated risk resulted from the influence of using a certain financing structure (Akintoye, 2008) or expressing it though economic value added (EVA), return on equity (ROE), operating profit margin (OPM), earnings per share etc. (Rayan, 2008)

III. METHODOLOGY

The present study covers TNPL. The sample of the company has been selected on a convenient basis and the necessary data have been obtained from CMIE database. The study has been undertaken for the period of ten years from 2004-05 to 2013-14. In order to analyze financial performance in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios have been used. Various statistical measures have been used i.e., mean, standard deviation, co-efficient of variation, linear multiple regression analysis and test of hypothesis t-test.

IV. RESULTS AND DISCUSSION

Financial analysts often assess the firm's liquidity, solvency, efficiency, profitability, operating efficiency and financial stability in both short-term and long-term. Ratio analysis provides relative measures of the company's performance and can indicate clues to the underlying financial position. For measuring financial position and financial efficiency, appropriate level of financial performance indicators are required with whom comparison can be made..

TABLE NO. 1
RATIO ANALYSIS

Year	L	DER	ICR	ITO	ROI	DNWR
2004-05	0.32	17.24	7.24	4.87	16.90	1.08
2005-06	0.38	6.62	9.33	5.44	23.50	0.88
2006-07	0.29	6.72	10.46	4.78	18.74	0.81
2007-08	0.23	8.85	10.98	5.34	22.08	0.96
2008-09	0.33	9.08	5.90	4.69	21.20	0.95
2009-10	0.39	12.91	6.88	4.89	15.37	0.85
2010-11	0.31	13.18	8.20	4.94	15.16	1.00
2011-12	0.33	19.72	3.08	4.34	15.89	1.41
2012-13	0.23	21.67	3.49	5.55	22.09	1.45
2013-14	0.26	25.94	4.08	6.14	25.81	1.57
Mean	**0.31**	**14.19**	**6.96**	**5.10**	**19.67**	**1.10**
SD	**0**	**6.70**	**2.**	**0**	**3.77**	**0**
CV (%)	**1**	**47.**	**40**	**1**	**19.17**	**2**

Generally liquid ratio (LR), debt equity ratio (DER), interest coverage ratio (ICR), inventory turnover ratio (ITR), return on investment ratio (ROI) and debt to net worth ratio

(DNWR) are highly useful in determining financial position, financial performance and the financial stability or otherwise of such management

It could be found from the analysis that liquid ratio is having fluctuating trend during the study period and not satisfies the thump rule. Further, dept equity ratio, interest coverage ratio, inventory turnover ratio and return on investment ratio also shows a fluctuating trend during the study period. On the other hand, debt to net worth ratio shows increasing trend during the study period except 2004-05. The co-efficient of variation indicates inventory turnover ratio accounts low fluctuation during the study period and debt equity ratio shows the highest fluctuations during the study period.

Financial performance through Multiple Regression Analysis :

An attempt has been made to examine composite impact of financial performance indicators on profitability through the multiple regression analysis. Accordingly, multiple regression techniques have been applied to study the joint influence of the selected ratios indicating company's financial position and performance on the profitability and the regression coefficients have been tested with the help of 't' test. In this study, LR, DER, ICR, ITR and DNWR have been taken as the explanatory variables and ROI has been used as the dependent variable.

The regression model used in this analysis is

ROI = a + b1LR + b2DER + b3ICR + b4ITR + b5 DNWR

Where a, b1, b2, b3, b4, b5 are the regression coefficients.

TABLE NO. 2

FACTORS' CONTRIBUTING WITH RETURN ON INVESTMENT

N	V	Coefficient	SE	't'	P
	(Constant)	-	15.06		
1	Liquid Ratio	-4.06	17.49	-0.23	0.828 NS
2	Debt Equity Ratio	-0.82	0.27	-2.99	0.041
3	Interest Coverage	-0.56	0.61	-0.93	0.406 NS
4	Inventory	6.66	1.57	4.23	0.013
5	Debt to Net Worth	12.61	8.97	1.41	0.232 NS
	R Value	**0.945**			
	R^2 Value	**0.894**			
	F Value	**6.725**			

Note : ** - Significant at 1% level, * - Significant at 5% level; NS – Not Significant

The resulted equation is formulated as follows :

Return on Investment

= -11.33

- 4.06 (Liquid Ratio)

- 0.82 (Debt Equity Ratio)

- 0.56 (Interest Coverage Ratio)

+ 6.66 (Inventory Turnover Ratio)

+ 12.61 (Debt to Net Worth Ratio)

Multiple regression analysis of TNPL has been tabulated in Table 2. Table 2 proves the potency of relationship between the dependent variable, ROI and all the independent variables taken together and the impact of these independent variables on the profitability. It was observed that return on investment is predicted from the 4.06 unit decrease of liquid ratio, 0.82 unit decrease of debt equity ratio, 0.56 unit decrease of interest coverage ratio, 6.66 unit increase of inventory turnover ratio and 12.61 unit increase of debt to net worth ratio.

V. FINDINGS AND RECOMMENDATION

From the study of the financial performance of the TNPL, it can be concluded that the liquidity position was so poor thereby reflecting the ability of the company to pay short-term

obligations on due dates. Long-term solvency is lower which shows that TNPL relied more on

external funds in terms of long-term borrowings thereby providing a lower degree of protection

to the creditors. Financial stability ratios in the vein of debt to net worth ratio have showed an

upward trend and consequently the financial stability has been increasing at an intense rate. The

TNPL will witness an increase in the market share. Hence, TNPL is poised not only to take new

challenge but to sustain the growth momentum of the past decade.

VI. REFERENCES

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