



FINANCIAL PERFORMANCE ANALYSIS – A CASE STUDY OF TAMIL NADU NEWS PRINT AND PAPERS LTD

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Abstract

Indian paper industry is an integral part of nation's economy. It contributes over 3,000 crores to the national exchequer and employment to more than 1.5 million people in the country. Financial performance analysis is a process of analyzing the performance of a company's financial and operational efficiency. The present research is a case study on Tamil Nadu Newsprint and Papers Limited which is a well known leader in the technology of paper manufacturing from bagasse – the sugarcane residue. In this study the researcher has attempted to analyze the financial performance of TNPL in terms of its liquidity, profitability and efficiency. Audited annual reports of the company for a period of five years from 2010-11 to 2014-15 have been used for the study which is collected from company's website and other relevant publications of TNPL.

Keywords: Financial performance appraisal, TNPL, liquidity, profitability and efficiency.

Introduction

India holds 15th rank among the paper manufacturing countries in the world. The total installed capacity is approximately 12.75 million tonnes. The per capita consumption of paper in India is approximately 11 Kgs. which is far below the world's average of 56 Kgs. and even below Asia's average of 40 Kgs. The paper industry in India is much fragmented. There are around 750 paper mills in India out of which



only 50 mills have a capacity of more than 50000 tpa. India's contribution in world paper production is about 2.6%. India is the fastest growing market for paper in the world with a growth rate of about 6% per year.

Indian paper industry is an integral part of nation's economy. The industry contributes a lot in the nation's growth and development. It is due to the position that it holds in the economy, that the industry continuously strives to upgrade its technology despite of various challenges like problem of procuring raw material, problem of being highly capital intensive industry, threat of foreign players to enter the domestic market with cheaper imports etc.

The Indian paper industry has a turnover of more than 30,000 crores and contributes over 3,000 crores to the national exchequer. The industry provides employment to more than 1.5 million people in the country, especially in the rural areas.

The present research is a case study on Tamil Nadu Newsprint and Papers Limited which is a well known leader in the technology of paper manufacturing from bagasse – the sugarcane residue. The company started with a capacity of 90,000 MT per annum. In the year 1995, the capacity was doubled i.e. 1,80,000 tonnes per annum by installing one more paper machine.

The present study has been undertaken to analyze the financial performance of TNPL. Financial Performance is the blue print of the financial affairs of a concern and reveals how a business has prospered under the leadership of its management. Performance of an organization can be judged in the light of its objectives and the main objective of an organization is to earn profit and to enlarge profit by making the most efficient use of the resources available to it. The financial performance of an organization can be analyzed by studying



selected trends and ratios, an analysis of the financial statements, a study of the cash flow statements etc.

Profile of Tamil Nadu Newsprint and Papers Ltd.

Tamil Nadu Newsprint and Papers Ltd. was promoted by the government of Tamil Nadu in the year 1979 to produce newsprint and printing and writing paper using bagasse as the primary raw material. The factory is located at Pugalur in Karur District. The plant was commissioned in 1984 with an initial capacity of 90,000 tons per annum. TNPL focuses on sustainable growth, innovation, being customer centric, financial reengineering, efficient cost management, management of human resources etc. TNPL also gives a high priority to environment improvement. It undertakes studies on a continuous basis to reduce the water consumption and also to improve the quality of effluent.

During the financial year 2014-15, the sales of the company reached Rs. 2,000 crores which is for the consecutive second year in the history of the company. The company's exports have also increased drastically from 65875 Mts. to 72815 Mts. Profit before tax in the year 2014-15 was Rs. 230.13 crores.

Review of Literature

Financial statements reflect the final results of the operations of an organization for the financial year but these are unable to provide information to the users in a form which they can understand. Analysis of financial performance by using the financial statements can throw light on such aspects which is useful to various stakeholders like shareholders, creditors, employees, debenture holders, government etc. A lot of literature is available on analysis of financial statements of various organizations.



Anurag B. Singh and Priyanka Tandon(2012) examined the financial performance of public and private sector banks in their research. The sample used for the study was SBI and ICICI bank. They calculated certain ratios for a period of 5 years from 2007-08 to 2011-12 and found that SBI bank is performing well and is more financially sound than ICICI bank. From the context of deposits and expenditure, ICICI bank is better than SBI.

G. Subramanian and K. Venkatachalam(2014) in their study examined the financial performance of Seshasayee paper mills for a period of 7years. They have measured the firm's profitability and liquidity and have drawn useful inferences. The study found the position of the firm to be satisfactory but there is a need for improvement. It has suggested that the funds which are blocked in inventory and receivables should be put to alternative uses.

Lalit Kumar Joshi and Sudipta Ghosh(2012) in their study, " Working Capital Management of Cipla Ltd.: An Empirical Study" have examined the working capital performance of Cipla Ltd. for a period of five years from 2004-05 to 2008-09. The study found a positive trend growth in most of the selected performance indicators. It also found a significant negative relationship between liquidity and profitability of Cipla Ltd.

S. Bama and Shenbagam Kannappan (2015) examined the financial analysis of Servalakshami Paper Limited by using various ratios and found that the overall efficiency of the company is satisfactory. The researcher has suggested that the company should reschedule its expenditure to boost its profit.

Vivek Singla,in his study discussed the financial performance of the selected units by analyzing the profitability and working capital . It was found that Tata Steel Ltd. was performing better than SAIL . He also found that net profit and inventory tursnover ratios of TATA were better than SAIL.



Sriniwas K T in his study, "A Study On Working Capital Management Through Ratio Analysis With Reference to Karnataka Power Corporation Limited" analyzed various ratios to depict the working capital management of the unit. It was found that though the company's earnings were increasing still the funds were not properly utilized. The financial position of the company was found to be improved because of its increasing production and net profit.

Statement of the Problem

Every organization aims at maximizing its profit. This can be achieved by efficient use of resources and minimizing the cost. Financial performance analysis studies the position of liquidity, efficiency and profitability of an organization. Liquidity measures how well an organization converts its resources into liquid form and meets its current obligations. Efficiency is the ability of utilizing the resources in an optimum manner. Profitability is the basic yardstick to measure a firm's financial performance. Thus the study has been undertaken with the title "Financial Performance Analysis – A Case Study of Tamil Nadu News Print And Papers Ltd."

Objectives of the study

The present study is an attempt to analyze the overall financial performance of Tamil Nadu Newsprint and Papers Ltd. for a period of five years i.e. from 2010-11 to 2014-15. The objectives of the study may be listed as under:

1. To analyze the liquidity position of TNPL.
2. To analyze the profitability position of TNPL.
3. To analyze the efficiency of TNPL.



Research Methodology

The present research paper is a case study of large scale newspaper unit i.e. Tamil Nadu Newsprint and Papers Ltd. The sample for the study is TNPL and purposive sampling technique has been used for it. The period of the study is five years from 2010-11 to 2014-15 which is sufficient to have an idea about the recent position of financial performance of TNPL. Secondary data has been used for the study which is collected from the audited annual reports of the company and related information has been collected from company's website. The tools used for the study are descriptive statistics like mean, standard deviation, range etc. and ratio analysis has also been used to analyze the financial performance of TNPL.

Data Analysis and Interpretation

Ratio analysis is a financial tool to measure the financial performance of any organization. It studies the relationship between various items of financial statements. In the present study various liquidity, profitability and efficiency ratios have been analyzed to overview the financial performance of TNPL.

Liquidity ratios

Table 1: Liquidity ratios of TNPL

Year	CR	LR
2010-11	0.64	0.44
2011-12	0.67	0.43
2012-13	0.59	0.4
2013-14	0.6	0.41
2014-15	0.74	0.48

Source: Calculated from the data extracted from annual reports of TNPL.

CR = Current ratio, LR = Liquidity ratio

Figure 1: Liquidity ratios of TNPL

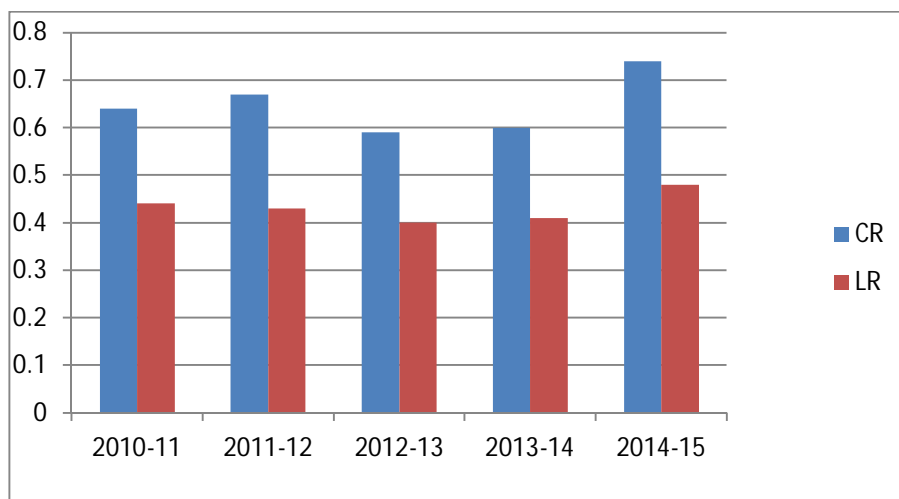


Table 2: Descriptive Statistics of Liquidity ratios

Statistics	N	Range	Min.	Max.	Average	Standard Deviation	Variance	Skewness
CR	5	0.15	0.59	0.74	0.648	0.054185	0.002936	0.905409
LR	5	0.08	0.4	0.48	0.432	0.027857	0.000776	0.933451

The current ratio of an organization shows the current assets available to meet its current obligations. A current ratio of 2:1 is considered as ideal. It can be observed from table no.1 that the current ratio of the company is 0.64 in 2010-11 which increased to 0.74 in 2014-15 and has shown fluctuations during this period. The liquidity ratio of an organization shows the availability of liquid assets to meet its current obligations. A liquid ratio of 1:1 is considered as ideal. The liquid ratio of TNPL has not shown much fluctuation. It is 0.44 in 2010-11 which has increased to 0.48 in 2014-15. From table no.2 it is observed that the



current ratio has shown a standard deviation of 0.054 and skewness of 0.9. The liquidity ratio has been 0.43 on an average. It has shown only standard deviation of 0.02. It can be observed from chart no.1 that current ratio has shown more fluctuations as compared to liquidity ratio.

Profitability ratios

Table 3: Profitability ratios of TNPL

Year	NPR	RON	ROCE
2010-11	12.32	16.26	7.2
2011-12	7.15	11.22	5.03
2012-13	4.91	8.83	4.42
2013-14	7.05	14.06	7.35
2014-15	7.8	13.87	5.49

Source: Calculated from the data extracted from annual reports of TNPL.

NPR = Net Profit ratio, RON = Return on Net Worth and ROCE = Return on Capital Employed

Figure 2: Profitability ratios of TNPL

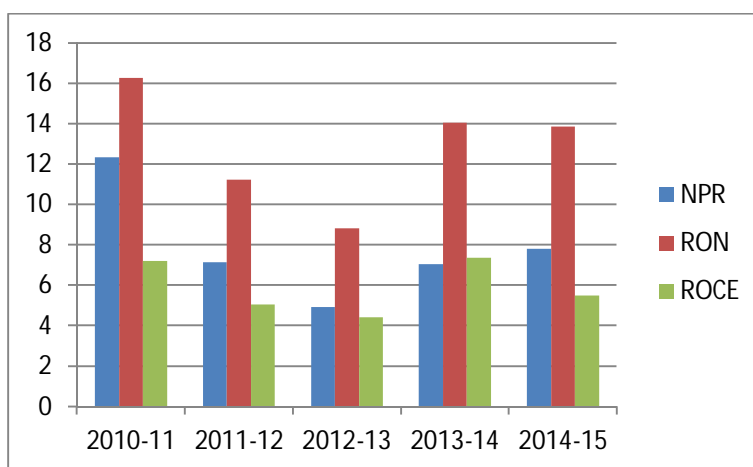




Table 4: Descriptive Statistics of Profitability ratios

Statistics	N	Range	Min.	Max.	Average	Standard Deviation	Variance	Skewness
NPR	5	8.61	4.91	12.32	7.846	2.439546	5.951384	1.302016
RON	5	7.43	8.83	16.26	12.848	2.567095	6.589976	-0.46903
ROCE	5	2.93	4.42	7.35	5.898	1.175405	1.381576	0.241952

Profitability ratios show the relation of profit earned with different components of balance sheet and profit and loss account. It can be observed from table no. 3 that NPR of the company has decreased from 12.32 in 2010-11 to 4.91 in 2012-13 and later has increased to 7.8 in 2014-15. Similarly RON has decreased from 16.26 in 2010-11 to 8.83 in 2012-13 which later increased to 14.06 in 2013-14 and again decreased to 13.87 in 2014-15. ROCE has decreased from 7.2 in 2010-11 to 4.42 in 2012-13 which again increased to 7.35 in 2013-14 and later decreased to 5.49 in 2014-15. The company has maintained an average NPR of 7.846 with a standard deviation of 2.44. Average RON is 12.848 with a standard deviation of 2.56 and average ROCE is 5.898 with a standard deviation of 1.18. Similarly NPR, RON and ROCE of TNPL can also be observed from figure no. 2.

Turnover Ratios

Table 5: Turnover ratios of TNPL

Year	STR	ATR
2010-11	5.9	39.29
2011-12	4.65	42.84
2012-13	7.04	53.46
2013-14	8.01	61.55
2014-15	4.93	45.46

Source: Calculated from the data extracted from annual reports of TNPL.

STR = Stock turnover ratio and ATR = Assets Turnover Ratio

Figure 3: Turnover ratios of TNPL

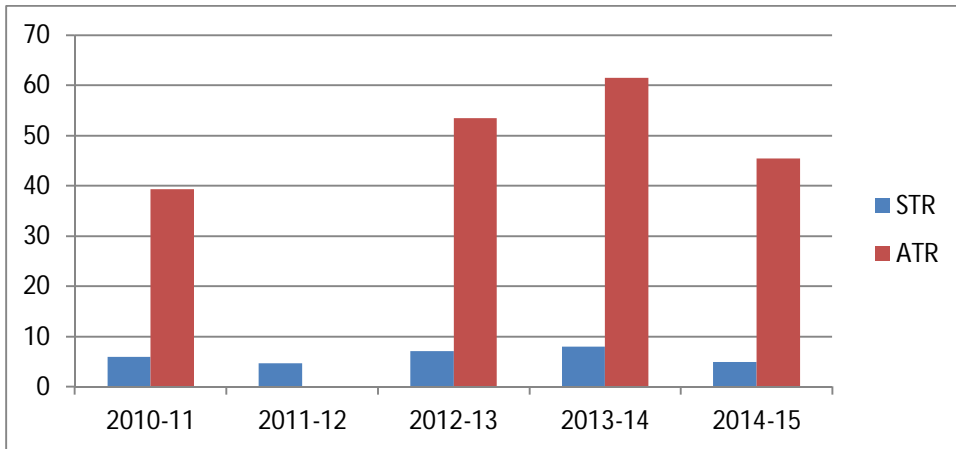


Table 6: Descriptive Statistics of Turnover ratios

Ratio	N	Range	Min.	Max.	Mean	Standard Deviation	Variance
STR	5	3.36	4.65	8.01	6.11	1.2683	1.608584
ATR	5	22.26	39.29	61.55	48.52	8.376685	70.16885

It can be observed from table no. 5 that the STR of TNPL has increased from 4.65 in 2011-12 to 8.01 in 2013-14 while in 2014-15 it has fallen to 4.93. The average STR during the study period has been around 6.11 with a standard deviation of 1.26. Similarly the ATR of the company has been increased from 39.29 in 2010-11 to 61.55 in 2013-14 but has fallen in the year 2014-15 to 45.46. The average ATR has been 48.52 with a standard deviation of 8.37.



Findings and Conclusion

1. The current ratio of the company is below the standard ratio i.e. 2:1 so the company should increase its current assets to meet out its current liabilities.
2. Average liquidity ratio of the company is also below the standard i.e.1:1. It shows that the company does not keep enough funds in liquid form.
3. Net profit ratio of the company has decreased from 12.32% in 2010-11 to 4.91% in 2012-13 but later on it has shown an increasing trend and reached 7.8% in 2014-15.
4. Similarly Return on net worth has also decreased from 16.26% in 2010-11 to 8.83% in 2012-13 and later increased to 14.06 % in 2013-14 but again fallen to 13.87% in 2014-15.
5. Return on Capital employed has decreased from 7.2% to 4.42% in 2012-13. Later increased to 7.35% in 2013-14 and again fallen in 2014-15 to 5.49%
6. Stock turnover ratio shows the efficiency of the firm to convert its stock into sales. This ratio of the company has shown fluctuations but has maintained an average of 6.11 over the period under study.
7. Assets turnover ratio of the company has shown an increasing trend up to 2013-14 but fallen to 45.46 in 2014-15.

Limitations of the study and scope for future research

The present research is based on secondary source i.e. the data has been extracted from the annual reports of the company. The period of study has been taken as five years; a longer period may be taken to have a clearer picture of the financial performance of the company.



This is a case study so only one company has been taken; a comparative study of two or more companies can be undertaken.

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