European Journal of Business & Social Sciences
Available at https://ejbss.org/
ISSN: 2235-767X
Volume 07 Issue 05
May 2019

A Study On Financial Performance Of Selected Paper Industries In India

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Abstract

Financial ratio analysis is the process of calculating financial ratios, which are mathematical indicators calculated by comparing key financial information appearing in financial statements of a business, and analyzing those to find out reasons behind the business's current financial position and its recent financial performance, and develop expectation about its future outlook. In this paper an effort has been made to study the financial performance of selected paper industries in India. Ratio analysis is prepared to obtain the financial position of the companies. Ratio analysis is a better way to evaluate the various aspects of firm's operating and financial performance such as efficiency, liquidity, profitability and solvency. Analysis and interpretation is prepared to view the better understanding about the financial position of the selected companies. In this study, profitability and liquidity ratios were prepared for better study.It has been concluded that overall financial performance of the selected industries are good.

Key words: Financial performance, Profitability ratios, Liquidity ratios

INTRODUCTION

India's share in global paper demand is gradually growing as domestic demand is increasing at a steady pace while demand in the western nations is contracting The domestic demand in India grew from 9.3 million tonnes in FY08 to 15.3 million tonnes in FY16 at a CAGR of 6.4%. In spite of the sustained growth witnessed by the industry, the per capita paper consumption in India stands at a little over 13 kg which is well below the global average of 57 kg and significantly below 200 kg in North America. As per IPMA's (Indian Paper Mills Association) estimates, this industry contributes approximately Rs 4,500 crore to

ISSN: 2235-767X
Volume 07 Issue 05
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the exchequer and provides employment to over 5 lakh people across approximately 750 paper mills. The broad characteristics of the industry are that it is capital, energy and water intensive and highly fragmented (small units account for ~60% of the industry size).

As a part and parcel of self-appraisal, each and every industry is constantly engaged in search of tools for assessing its own current performance. This performance can be judged suitably by comparing it with the various targets, past achievements and operative capacity and productivity growth. Business decision-making and policy formulation mostly depend on productive, financial and economic indicators. Profitability, liquidity, capital structure analysis etc. have been recognized as the main indicators of financial performance of an industry.

Thus the analysis of financial statements or financial analysis is a preliminary step towards the financial evaluation of the results drawn by the analysts or management accountants. The appraisal or evaluation of such results is made by the management for decision making process.

The financial performance analysis identifies financial strength and weakness of the firms within paper industry by establishing relationship between items of Balance Sheet and profit & loss account.Thus, the present paper is of crucial importance to measure the firm's liquidity, profitability, capital structure, and other indicators that the industry has been running in a rational and normal way ensuring enough returns to the shareholders to maintain at least its market value.

HISTORY OF PAPER INDUSTRY

The word paper derives from the Greek term for the ancient Egyptian writing material called papyrus, which was formed from beaten strips of papyrus plants. The immediate predecessor to modern paper is believed to have originated in China in approximately the 2nd century CE, although there is some evidence for it being used before this date. Papermaking is considered to be one of the Four Great Inventions of Ancient China, since the first papermaking process was developed in China during the early 2nd century CE by the Han court eunuch CaiLun. China used paper as an effective and cheap alternative to silk, letting them sell more silk, leading to a Golden Age. The use of paper spread from China through the Islamic world, and entered production in Europe in the early 12th century. Mechanized production of paper in the early 19th century caused significant cultural changes worldwide, allowing for relatively cheap exchange of information in the form of letters, newspapers and books for the first time. In 1844, both Canadian inventor Charles Fenerty and German inventor F.G. Keller had invented the machine and process for pulping wood for the use in paper making. This would end the nearly 2000-year use of pulped rags and start a new era for the production of newsprint and eventually all paper out of pulped wood.

REVIEW OF LITERATURE

Ray (2011) in his paper "Financial Performance of Paper and Paper Product Companies in India in Post- Liberalization Period: An Exploratory Study" studied the financial performance of Indian paper and paper product companies using data from CMIE over the period, 2000-01 to 2008-09. He has analyzed from seven key financial dimensions, namely, financial profitability, capital structure, operational efficiency, fixed asset age, current asset efficiency and liquidity position. The study suggested that liquidity position and profitability of the industry as a whole were sound and strong ensuring good liquidity management and better profitability to both investors as well as entrepreneurs. The study revealed that high and gradually increasing current asset turnover has been a contributing factor responsible for ensuring current asset efficiency which means that resources like current assets of the firms of the industry were getting utilized more efficiently. But, dividend payment being lower, the companies need to improve the quantum of dividend payment in order to satisfy the investors without affecting the future expansion and modernization programmes of the sector. Moreover, companies should makea concerted effort in maximizing assets and minimizing liabilities so that overall financial position could be improved.

Lamaan Sami and Anas Khan (2015)in their paperanalyses the financial performance of two paper industries namely Ballarpur Industries Limited (BILT) and Tamil Nadu Newsprint & Papers Limited (TNPL). The data has been collected from the annual reports of BILT and TNPL since 2012-13 to 2014-15. Mean, standard deviation and independent sample t-test have been used to analyze the results with the help of SPSS 19. The analysis of the data shows that there is a significant difference in BILT and TNPL with respect to Gross Profit Ratio, Net Profit Ratio, Current Ratio, Quick Ratio and Debt Equity Ratio.

Megaladevi(2015),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.

Judith Priya and Subashree et al (2018), in their project report, "A Comparative study on the financial performance of the Tamil Nadu Newsprint And Papers Limited and JK Paper Limited" ratio analysis is prepared to obtain the financial position of the companies. The main objective is to analyze and compare the financial performance of both companies. It also aims to determine the capacity of the companies to deal with their current scenario. In this study, profitability and solvency ratios are prepared for better comparative study. It has been concluded that overall financial performance of the Tamil Nadu Newsprint and Papers Limited And JK Paper Limited is good. On comparing the financial performance of the latter paper companies, Tamil Nadu Newsprint and Paper limited is constant but JK Paper is not certain. Tamil Nadu Newsprint ad Paper limited is having a good performance when compared to JK paper. JK paper is in earning scale it's not as stable as Tamil Nadu newsprint.

RESEARCH GAP:

While going through the related literatures, it has been observed that financial performance appraisal of various industries like Food Products, Banking Industry, Tea Industry, Cement Industry, Steel Industry, Pharmaceutical Industry, Automobile Industry and many more have been performed by different researchers while there are few studies analysing the performance of the Indian paper industry. So, the present study has tried to highlight this untouched area.

SCOPE OF THE STUDY

The study has great significance and provides benefits to various parties whom directly or indirectly interacted with the companies. It is beneficial to management of the companies by providing clear picture regarding important aspects like liquidity and profitability. The study is also beneficial to employees and offers motivation by showing how actively they are contributing for companies' growth. The investors who are interested in investing in the companies' shares will also benefited by going through the study and can easily take a decision whether to invest or not.

SIGNIFICANCE OF THE STUDY

Performance appraisal is of special importance in industries and paper is one suchindustry. From the point of view of the socio-economic development of the country, paper industry is significant enough in terms of investment and employment. The sales and profitability function in paper industry differ from that of other industries. Even though many studies in this direction have been conducted, the present one would be of greater significance to many. It would help to understand the pattern and the structure of financial variables of leading companies apart from identifying the financial relationship of companies with their respective industries. The change in the economic policy of the government certainly has got impact on the performance of corporate units in India. A need at the present juncture is therefore felt to study the impact of such changes on the performance of corporate sector. As such, the study is expected to help the corporate management, the financiers, the investors and the government at large, to take valuable decisions at their own. Further, it would provide insight to banks, financial institutions and long-term lenders to understand the financial capability effectiveness of the companies.

STATEMENT OF THE PROBLEM:

Analysis of financial performance is immensely significant to all stakeholders of a company, especially to its common equity investors. Although a company's performance can be evaluated from multiple dimensions, this study is confined to only financial aspects. Therefore, it examines how a set of predictor variables that reflect operating characteristics of companies and strategic decision of firms' manager affects multiple measures of firms' financial performance. Through a vigilant analysis of its financial performance, firms within industry can identify opportunities to improve performance of each individual unit. Therefore, ability of a single unit within the industry to analyze its financial position is essential for improving its competitive edge in market arena.

OBJECTIVES OF THE STUDY

The objectives of the study are to analyze the financial performance of selected paper industries of India. This studyseeks to examine the changes that have occurred in the performance of the companies over the period of time from 2015 to 2019. The main objectives of this study are as under:

1. To study the profitability position of selected paper industries in India.
2. To analyze the liquidity position of selected paper industries in India.

PROFILE OF THE SELECTED PAPER INDUSTRIES

1. **Tamilnadu Newsprint & Papers Ltd (TNPL)**

   TNPL was founded in the year 1979. It is headquartered in Chennai, Tamil Nadu. Company's registered office is located in Guindy, Chennai. The company has a huge production capacity. The company produces newsprint and writing paper made with bagasse, a sugarcane residue.

2. **Ballarpur Industries Ltd (BILT)**

   Ballarpur Industries Ltd was founded in the year 1945 by LalaKaramchandThapar. The leading paper mill is headquartered in Gurgaon, India. It is leading manufacturer of writing and printing paper.

3. **International Paper APPM Ltd (IPAPPM)**

   International Paper APPM Ltd was founded in the year 1964. The leading paper mill is involved in the production of writing, printing and copier papers for foreign and domestic markets. It is headquartered in Hyderabad.

4. **JK Paper Ltd**

   JK Paper Ltd is having manufacturing units including Central Pulp Mills, Songadh, Gujarat, and JK Paper Mills, Rayagada. It is leading market in Branded Copier Paper segment.

5. **Seshasayee Paper & Boards Ltd (SPB)**

   Seshasayee Paper & Boards Ltd was founded in the year 1960 by Sri S Viswanathan. The company is manufacturing a different range of products through its advanced manufacturing facilities. The company belongs to The ESVIN GROUP. The company commenced commercial production in December 1962. SPB is in receipt of various Awards awarded by Government of India, Government of Tamil Nadu, Industry Associations, etc.

RESEARCH METHODOLOGY

DATA COLLECTION AND COLLECTION

The sample was taken from the list of companies' listed on IPMA (The Indian paper manufacturers association).The data is purely based on secondary and the data was collected from the Annual Reports of the industries. Secondary data has been collected from various journals and websites like moneycontrol.com and paper websites. By using this secondary data profitability and liquidity ratios are calculated

STUDY PERIOD

The study covers a period of five years from 2014-15 to 2018-19

APPRAISAL OF FINANCIAL PERFORMANCE

The present paper measures the financial performance of selected industries on the following aspects:

- Profitability
- Liquidity

Profitability

Profitability is the ability to earn profit from all activities of an enterprise. Profitability of a firm is judged with net profit margin, return on equity and return on assets.

Liquidity

The term" liquidity" refers to the ability of a firm to meet its maturing obligations. Current Ratio, Quick Ratio, Inventory turnover Ratio have been calculated to judge the liquidity position of selected industries.

LIMITATIONS OF THE STUDY.

The data available for the study to a few limitations, which are as follows;

1. Data is collected for the period from 2014-2015to 2018-2019; the analysis is constrained only for the given period.
2. The study is only for particular concern.So the inter firm comparison is not possible.

ANALYSIS AND INTERPRETATION

PROFITABILITY RATIOS

Net Profit Margin

Year	TNPL	BILT	IPAPPM	JK	SPB
2015	7.80	1.98	0.02	-0.59	1.71
2016	10.50	3.85	3.18	2.49	3.44
2017	8.94	-314.50	2.76	6.19	11.56
2018	-1.36	-102.63	6.57	9.14	11.12
2019	2.31	-141.35	14.01	13.42	14.33
Mean	**5.64**	**-110.53**	**5.31**	**6.13**	**8.43**
SD	4.98	130.73	5.39	5.49	5.52

Source: Computed from Annual Reports

Above table shows the net profit margin of the selected industries. Mean scores of current ratio of TNPL, BILT, IPAPPM, JK and SPB were 5.64, -110.53, 5.31, 6.13 and 8.43 respectively. It is clear from the above table that BILT mean score of net profit margin is negative.

Return on Equity

Year	TNPL	BILT	IPAPPM	JK	SPB
2015	13.87	0.55	0.05	-1.64	4.41
2016	17.56	1.29	8.18	5.47	8.45
2017	15.52	-750.20	6.77	12.32	22.00
2018	-2.62	-39.65	14.72	15.80	17.51
2019	5.71	-961.14	26.19	21.41	21.89
Mean	**10.01**	**-349.83**	**11.18**	**10.67**	**14.85**
SD	8.37	468.04	9.88	8.99	8.03

Source: Computed from Annual Reports

Above table shows the mean scores of return on equity of selected industries. Mean scores of TNPL, BILT, IPAPPM, JK and SPB were 10.10, -349.83, 11.18, 10.67 and 14.85 respectively.

Return on Assets

Year	TNPL	BILT	IPAPPM	JK	SPB
2015	3.54	0.30	0.01	-0.38	1.57
2016	4.62	0.44	2.91	1.74	3.19
2017	4.69	-14.51	2.80	4.53	11.69
2018	-0.76	-7.57	7.57	7.21	9.77
2019	1.70	-17.80	16.86	10.32	13.47
Mean	**2.76**	**-7.83**	**6.03**	**4.68**	**7.94**
SD	2.31	8.35	6.63	4.26	5.27

Source: Computed from Annual Reports

It is clear from the above table that mean scores of return on assets of TNPL, BILT, IPAPPM, JK and SPB from 2014-15 to 2018 - 19 were 2.76, -7.83, 6.03, 4.26 and 5.27 respectively.

LIQUIDITY RATIOS

Current Ratio

Year	TNPL	BILT	IPAPPM	JK	SPB
2015	0.74	0.87	0.64	0.97	0.91
2016	0.70	0.70	0.88	0.76	0.95
2017	0.69	0.44	0.67	1.04	1.06
2018	0.63	0.14	0.80	1.08	1.31
2019	0.68	0.23	1.52	1.55	1.75
Mean	**0.69**	**0.48**	**0.90**	**1.08**	**1.20**
SD	0.04	0.31	0.36	0.29	0.35

Source: Computed from Annual Reports

Above table exhibits the mean score of current ratio of selected industries for a period of five years from 2014-15 to 2018.19.Current ratio of TNPL was 0.69, BILT was 0.48, IPAPPM was 0.90, JK was 1.08 and SPB was 1.20.

Quick Ratio

Year	TNPL	BILT	IPAPPM	JK	SPB
2015	0.48	0.51	0.23	0.54	0.59
2016	0.46	0.48	0.33	0.36	0.66
2017	0.40	0.29	0.25	0.57	0.60
2018	0.40	0.11	0.37	0.58	0.83
2019	0.31	0.21	0.92	1.15	1.35
Mean	**0.41**	**0.32**	**0.42**	**0.64**	**0.81**
SD	0.07	0.17	0.29	0.30	0.32

Source: Computed from Annual Reports

Above table exhibits the mean score of Quick ratio of selected industries for a period of five years from 2014-15 to 2018.19. Quick ratio of TNPL was 0.41, BILT was 0.328, IPAPPM was 0.42, JK was 0.64 and SPB was 0.81.

INVENTORY TURNOVER RATIO

Year	TNPL	BILT	IPAPPM	JK	SPB
2015	4.93	1.54	5.64	5.78	7.54
2016	6.24	1.97	5.43	7.28	9.04
2017	5.18	0.67	6.38	6.86	8.59
2018	6.40	5.64	8.17	7.21	7.00
2019	4.74	8.47	9.09	10.10	9.85
Mean	**5.50**	**3.66**	**6.94**	**7.45**	**8.40**
SD	0.77	3.29	1.61	1.60	1.15

Source: Computed from Annual Reports

Above table shows the mean scores of inventory turnover ratio of selected industries. Mean scores of TNPL, BILT, IPAPPM, JK and SPB were 5.50, 3.66, 6.94, 7.45 and 8.40 respectively.

CONCLUSION

This study is aimed to analyze the financial performance of TNPL, BILT, IPAPPM, JK and SPB for a period of 2015 – 2019 in terms of profitability and liquidity. It has been concluded that overall financial performance of the selected industries are good. On comparing the financial performance of the paper companies, SPB is having a good performance when comparing to others. Profitability position of BILT is not satisfactory because it shows the negative mean score.

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