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FINANCIAL PERFORMANCE ANALYSIS – A CASE STUDY

(With special reference to large scale private sector paper unit in Tamilnadu- Seshasayee Paper and Boards Limited)

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Abstract

The Indian paper industry plays a key role in national economic by generating substantial revenue for the state and central government. Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The analyst attempts to measure the firm's liquidity and profitability position of Seshasayee Paper and Boards Limited is a leading and large scale private sector paper mill in Tamilnadu. The study is primarily based on the secondary data taken from the CMIE, Annual Reports and other relevant publications of SPBL. A moderate period of seven years from 2005-06 to 2011-12 is adopted to draw the meaningful inferences. Financial position of the SPBL is satisfactory, but there is a need for improvement in certain factors. A lot of funds invested in inventory and receivables can be released for alternative uses.

Key Words: Financial Characteristics, Inventory, Liquidity, private Sector, Profitability, Receivables.

INTRODUCTION

A close association exists between industrial growth and general economic growth. The speedy industrialization can be achieved only if the basic industries are suitably planned started. The Indian paper industry plays a key role in national economic by generating substantial revenue for the state and central government. The industry is highly fragmented with a number of players of global standard. In term of quantity, productivity and efficiency standard, it competes with foreign industries. Several attributes of paper, including its pedagogic and packaging value makes Pulp and Paper industry (P&P) uniquely positioned among the

manufacturing industries. Paper, is thus, recognized almost as a touchstone of socio-economic development. This traditional Indian P&P sector had leverage and played a pivotal role in laying the foundation for economic growth. It is also one of the 35 high priority industries of Government of India. It contributes around Rs. 2500 crores per annum to the national exchequer. The sector has witnessed a sea change in the structure during the last three decades especially after liberalization.

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. It gives an outcome regarding workings and performance of a company during a specific period. It relates to the earning capacity and utilization of available resources. The analyst attempts to measure the firm's profitability and liquidity position of Seshasayee Paper and Boards Limited is a leading and large scale private sector paper mill in Tamilnadu.

Profile of the Seshasayee Paper and boards Limited

Seshasayee Paper and Boards Limited (SPB), the flagship company belonging to 'ESVIN GROUP', operates an integrated pulp, paper and paper board Mill at Pallipalayam, Namakkal District, Tamilnadu, India. SPB, incorporated in June 1960, was promoted by Seshasayee Brothers (Pvt) Limited. SPB commenced commercial production in December 1962, on commissioning a 20000 tpa integrated facility, comprising a Pulp Mill and two Paper Machines (PM-1 and PM-2), capable of producing, writing, printing, kraft and poster varieties of paper. The company's paper plant was originally designed for using bagasse, as the primary raw material mixed with 20 per cent bamboo fibre. Bagasse was being obtained from nearby sugar mill on substitution basis using oil fired boilers. SPB's exports are nearly 20 per cent of its production and are a significant exporter in the Indian Paper Industry.

REVIEW OF LITERATURE

Rathore G.S. and Pinki Roi, (2007) in their study entitled "financial performance of Air India" have analyzed pointed out capital structure, working capital, profitability position, operating performance and over all financial performance. It is concluded that Air India shows better performance of capital

structure and improves the capital structure in the study period.

Amalendu Bhunia, (2010) has undertaken an analysis of financial performance of pharmaceutical companies to understand how management of finance plays a crucial role in the growth. The present study covers to public sector drug & pharmaceutical enterprises listed on Bombay Stock Exchange (BSE). In order to analysis financial performance in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios have been used.

Chander and Chandel, (2010) analyzed the financial efficiency and viability of HARCO Bank and found the poor performance of the bank on capital adequacy, liquidity, earning equity and the management efficiency parameters.

Mistry, (2011) in his study, "Performance Appraisal of Indian Automotive Industry through Production Trend Analysis". The study showed that the mean value of production is the highest in two-wheeler segment. Coefficient of variation suggested higher fluctuations in commercial vehicle and passenger vehicle segments as compared to two wheelers and three wheelers segments.

STATEMENT OF THE PROBLEM

Profitability is the ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. Liquidity is a vital factor in business. It measures the relationship between cash and other current assets to current obligations. Financial analysis reveals where a company stands in respect to profitability, liquidity and an effective use of assets. The financial

reports provide the frame work in which the business planning take place. Hence an attempt has been made to study the “**Financial Performance Analysis of Seshasayee Paper and Boards Limited**”.

OBJECTIVES OF THE STUDY

The present study aims at endeavoring to evaluate the financial performance of Seshasayee Paper and Boards Limited for the period from 2005-06 to 2011-12. The main objective of the study is to analyze the financial performance of Seshasayee Paper and Boards Limited.

1. To evaluate the short term financial position of SPBL
2. To analyze the profitability position of SPBL
3. To assess the operational efficiency of SPBL

RESEARCH DESIGN

Methodology of the study

Present study covers only leading & large scale private sector enterprises which is engaged in the business of Paper and Paper Board in Tamilnadu and listed in BSE. . The sample of company has been selected on a convenient basis.

The study is primarily based on the secondary data taken from the CMIE, Annual Reports and other relevant publications of SPBL. A moderate period of seven years from 2005-06 to 2011-12 is adopted to draw the meaningful inferences. Data of last seven years are sufficient to have an idea about the financial performance of SPBL. The methodology used under this study in order to evaluate the financial performance of SPBL used different types of ratios like liquidity ratio, profitability ratio and activity ratios.

ANALYSIS AND INTERPRETATION

Table No. 1

Liquidity Ratios of SPBL (in times)

Year	CR	LR	WCTR
2005-06	1.41	1.03	8.61
2006-07	1.41	1.02	9.00
2007-08	1.54	1.14	6.72
2008-09	1.42	0.99	7.93
2009-10	1.8	1.22	5.95
2010-11	2.15	1.69	4.36
2011-12	3.33	2.92	2.32

Source: Computed

Where: CR= Current Ratio, LR= Liquid Ratio, WCTR= Working Capital Turnover Ratio

The table indicates that the current ratio of the company has fluctuating trend during the study periods. It is to be highest level of 3.33 in the year 2011-12, and its lowest level of 1.14 in the years 2005-06 and 2006-07. Current ratio of the company is below the standard norm 2:1 during the study periods except 2010-11 and 2011-12. The analysis of liquidity position of SPBL through liquid ratio and the results are

presented in the above table. The ratio has been bound at its highest level of 2.92 during the year 2011-12, and its lowest level of 0.99 in the year 2008-09. From the analysis, it is evident that the liquid ratio of the SPBL is very sound which indicates that the company can meet the short term obligations. Working capital turnover ratio shows the proportion of working capital as

current as current liabilities and it was fluctuating during the study period.

Figure No.1

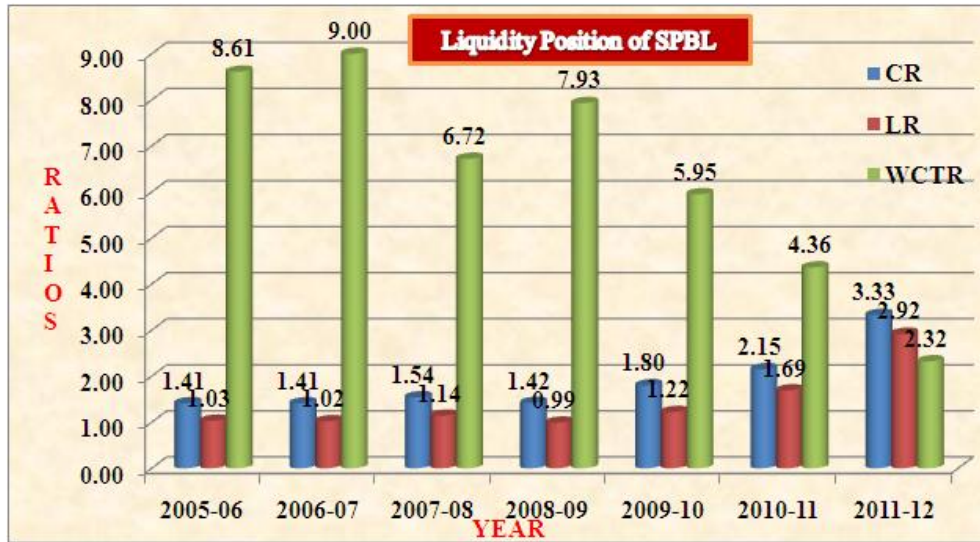


Figure No. 1 displays the graph of the liquidity ratios of SPBL from 2005-06 to 2011-12. The figure shows the actual position of current ratio, liquid ratio and working capital turnover ratio of SPBL.

SPBL. Under this mean, standard deviation, variance, minimum, maximum, skewness and kurtosis have been calculated. Statistical description is made in order to find out whether the data shows normality or not.

The following table represents statistical description of liquidity position of

Table No.2
Statistical Description of Liquidity Position of SPBL.

Statistics	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
CR	7	1.92	1.14	3.33	1.89	0.70	0.50	1.93	3.75
LR	7	1.93	0.99	2.92	1.43	0.69	0.49	2.09	4.40
WCTR	7	6.69	2.32	9.00	6.41	2.42	5.85	-0.75	-0.75

Source: Computed

The above table showed the statistical description of liquidity ratios of SPBL. Average current of the SPBL was 1.92 times during the study period. From the analysis, it is evident that the current ratio of SPBL is not equal to the standard norm which indicates that the SPBL cannot meet its short term obligations within time and does not have a sufficient amount of working capital for the smooth running of the business activities. The mean value of liquid ratio is more than its standard norm (1:1). The

skewness and kurtosis of current ratio, liquid ratio and working capital turnover ratio are shown in above table which represents that the observed data is perfectly normally distributed. The skewness value of current ratio and liquid ratio are indicating the positively skewed while the skewness value of working capital turnover ratio negative. Kurtosis value of working capital turnover ratio is flatter than the normal curve so that they are platykurtic.

Table No.3
Profitability Ratios (in percent)

YEAR	OPR	NPR	RON	ROCE
2005-06	8.00	1.52	7.34	14.49
2006-07	12.00	3.80	17.11	23.60
2007-08	14.00	8.21	29.35	17.92
2008-09	17.00	8.36	25.13	17.31
2009-10	14.00	2.67	7.80	13.55
2010-11	23.00	7.54	17.77	22.13
2011-12	20.00	11.02	22.96	17.15

Source: Computed

Whereas: OPR= Operating Profit Ratio, NPR= Net Profit Ratio, RON= Return on Network, ROCE= Return on Capital Employed.

The above table reveals that the fluctuating and increasing trend in operating profit ratio of SPBL since 2005-06. It increased continuously from 8.00 per cent in 2005-06 to 20.00 percent in 2011-12. Net profit ratio of SPBL shows increasing trend all the years except 2009-10 due to increase in cost of production. Return on network represents the company's to the ordinary shareholder investment. A return of at least ten per cent will be necessary to ensure that shareholders hold on to their shares. Return

on network of SPBL was 7.34 per cent in 2005-06 which increase over the years and reach at its highest level of 22.96 per cent. Return on Capital Employed indicates the profit generated by the company considering the total capital invested. A constant return of ten percent or above would be considered a healthy trend. The return on capital employed of the company was 14.49 per cent in 2005-06. It was reached at a level of 22.13 per cent in 2010-11.

Table No.4
Statistical Description of Profitability Position of SPBL.

Ratio	N	Range	Mini mum	Maxi mum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
OPR	7.00	15.00	8.00	23.00	15.42	5.03	25.28	0.14	-0.35
NPR	7.00	9.50	1.52	11.02	6.16	3.51	12.31	-0.10	-1.56
RON	7.00	22.01	7.34	29.35	18.21	8.39	70.41	-0.23	-1.26
ROCE	7.00	10.05	13.55	23.60	18.02	3.69	13.62	0.50	-0.85

Source: Computed

The above table indicates the description statistics of profitability ratios of SPBL for the period from 2005-06 to 2011-12. In this table mean, standard deviation, variance, minimum, maximum, skewness and kurtosis have been calculated which reveals the important statistical aspects related to profitability ratios of SPBL. The mean value of Return on capital employed is higher as

compared to other profitability ratios and mean value of net profit ratio is very low. The skewness value of operating profit ratio and return on capital employed ratio are reveal the positively skewed while the skewness value of net profit ratio and return on network are negative. Kurtosis values of OPR, NPR, RON and ROCE are flatter than the normal curve so that they are platykurtic.

Figure No.2



Figure 2 shows the graphical presentation of profitability position of SPBL from 2005-06 to 2011-13 which consist operating profit ratio, net profit ratio, return on network and return on capital employed.

Table No.5
Activity Ratios of SPBL (in times)

YEAR	STR	DTOR	FATR	TATR
2005-06	9.20	10.47	2.00	1.82
2006-07	9.39	9.90	2.20	2.05
2007-08	9.16	10.96	2.12	1.31
2008-09	7.75	11.45	2.14	1.05
2009-10	8.19	11.76	1.06	1.00
2010-11	11.06	11.28	1.06	0.96
2011-12	13.14	6.38	1.24	0.87

Source: Computed

Whereas: STR= Stock Turnover Ratio, DTOR= Debtors Turnover Ratio, FATR= Fixed Assets Turnover Ratio, TATR= Total Assets Turnover Ratio.

Activity ratios measure how effectively a firm is using its assets. These ratios help us gauge how effectively the company is at putting its investment to work. Inventory turnover ratio measure how quickly inventory is sold. A should neither have a high ratio nor a low ratio. STR of SPBL was 9.20 times in 2005-06 which was fluctuating among the years and it was reached on its

lowest at 7.75 times on 2008-09. DTOR indicates how quickly current assets i.e., receivable or debtors are converted to cash. Should neither have a high ratio nor a low ratio. Debtor’s turnover ratio of SPBL was 10.47 times in 2005-06 which was fluctuating trend during the study period and finally it reached on 6.38 times in 2011-12. Fixed assets turnover ratio and Total assets

turnover ratio measures the efficiency of a firm in managing and utilizing its long term assets. Higher the ratio, more efficient is the firm in utilizing its assets. As per results

show the assets turnover ratio is very low it may be stated company is using the long term assets in very low quantity.

Table No.6
Statistical Descriptions of Activity Ratios of SPBL

Ratio	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
STR	7.00	5.39	7.75	13.14	10.00	1.84	3.40	1.20	1.20
DTOR	7.00	5.38	6.38	11.76	10.31	1.84	3.40	-2.06	4.55
FATR	7.00	1.14	1.06	2.20	1.70	0.54	0.30	-0.40	-2.60
TATR	7.00	1.18	0.87	2.05	1.30	0.46	0.21	1.00	-0.74

Source: Computed

It is observed from the above table that the statistical description of activity ratios of SPBL from 2005-2012. The average, standard deviation, variance, minimum, maximum, skewness and kurtosis of activity ratio have been calculated in this table which showed the important statistical aspects related to activity ratios of SPBL.

The mean value of STR, DTOR, FATR and TATR is 10.00, 10.31, 1.06 and 1.18 times respectively. The standard deviation of STR and DTOR are high among the ratios which mean it implies the more viability.

Figure No.3

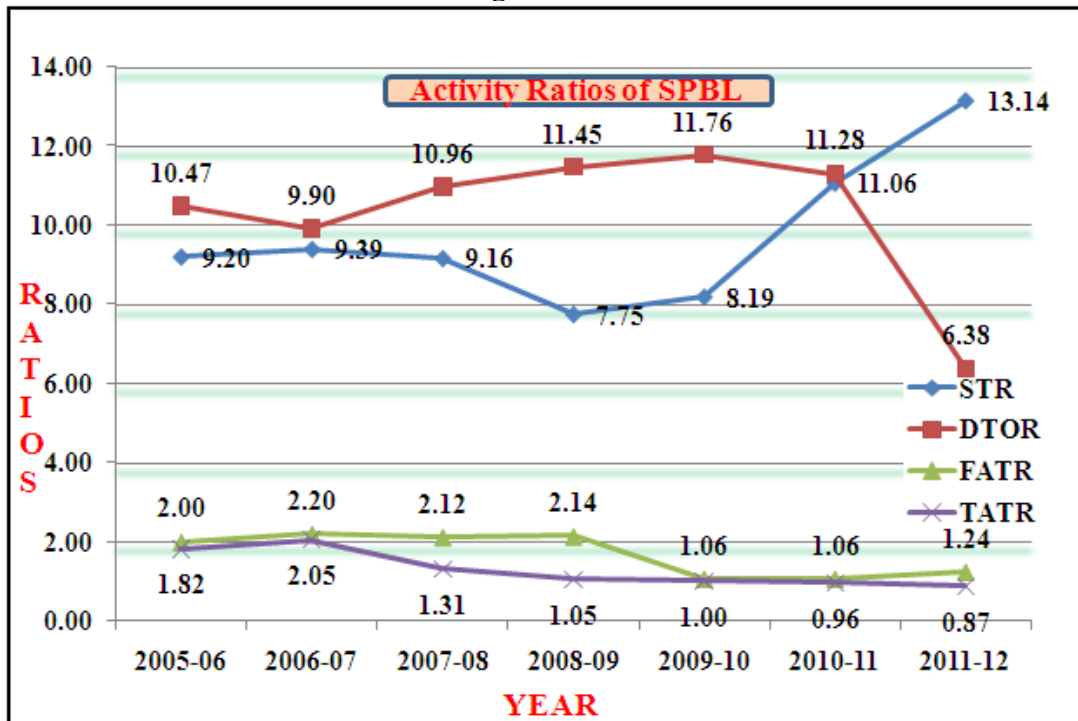


Figure presents the activity ratios of SPBL during the study period including the stock turnover ratio, debtors' turnover ratio, fixed assets turnover ratio and total assets turnover ratio. Debtors turnover ratio is very high during the study period except 2011-12 as compared to other activity ratios. Total assets turnover indicates the lowest turnover ratio during the study period. Stock turnover ratio shows the trading on the company.

MAJOR FINDINGS OF THE STUDY AND CONCLUSION

1. Current ratio of the company is below the standard norm 2:1 during the study periods except 2010-11 and 2011-12
2. Liquid ratio of the company is very sound which indicates that the company can meet the short term obligations.
3. The skewness value of current ratio and liquid ratio are indicating the positively skewed while the skewness value of working capital turnover ratio negative.
4. Net profit ratio of SPBL shows increasing trend all the years except 2009-10.
5. The mean value of Return on capital employed is higher as compared to other profitability ratios and mean value of net profit ratio is very low.
6. Total assets turnover ratio is very low it may be stated company is using the long term assets in very low quantity.

CONCLUSION

Financial performance analysis is vital for the success of an enterprise. Financial performance analysis is an appraisal of the feasibility, solidity and fertility of a business, sub-business or mission. The present study point out that the

overall position of the SPBL is satisfactory, but there is a need for improvement in certain factors. A lot of funds invested in inventory and receivables can be released for alternative uses. Finally liquidity and profitability of the concern will be promoted. The Indian paper industry will witness an increase in the market share. The sector is poised not only to take new challenge but to sustain the growth momentum of the past decade.

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