



FINANCIAL PERFORMANCE OF THE SELECT PAPER COMPANIES IN INDIA

Mrs.J.Nimala¹, Dr. B. Kanagaraj²

¹Assistant Professor, Hindustan Arts and Science College, Coimbatore

² Assistant Professor , Chikanna Government Arts College, Tirupur

1.1.Introduction

Industries are the key factors in the economic development of any nation. In developing economy like India industries are indispensable. It raises the productive capacity of the people and creates ever-increasing employment opportunities. An increasing industrial sector is critical to superior economic development and takes in a number of areas as a country develops. Ensuring steady industrial expansion helps to tribute and sustains continuous economic development. A well developed industrial sector, covering various different areas is vital to the economic development of a country. Increasing the GDP rate of an economy is vested in the nest of industrial development. Indian industrial development was categorized into pre-liberalization and post – liberalization period. In the pre-liberalization period. Indian economy followed a protectionist policies, which slowed down our growth rate and our nation was faced with adverse balance of payment. So, attempts were made to liberalize the economy in 1980's¹, which emphasis the industries to go for upgrading their technology and modernization of industries. On July 24, 1991 Indian economy was liberalized². Economic liberalization reduces the government intervention in controlling the industries, deregulate the license, lowering the taxes, allowing the foreign investment and provide room for the private sectors to enter into the market.

The new industrial policy also enhances the support to small industries, ensures the running of the public sector enterprise and increases the competitiveness of industries. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays. Removal of entry barriers and bringing about transparency in procedures.

The public sector's role has been confined largely to industries of defence, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The Indian Paper Industry accounts for about 3 per cent of the world's production of paper. The estimated turnover of the industry is INR 50,000 crore approximately and its contribution to the exchequer is around INR 4500 crore. The industry provides employment to more than 0.5 million people directly and 1.5 million people indirectly. Most of the paper mills are in existence for a long time and hence present technologies fall in a wide spectrum ranging from oldest to the most modern.

The mills use a variety of raw material viz. wood, bamboo, recycled fibre, bagasse, wheat straw, rice husk, etc. In terms of share in total production, approximately 24% are based on wood, 65% on recycled fibre and 11 per cent on agro-residues. The geographical spread of the industry as well as market is mainly responsible for regional balance of production and consumption.³ The operating capacity of the industry currently stands at around 13 million tonnes. During 2015-16, domestic production was estimated to be around 12.2 million tonnes. As per industry guesstimates, over all paper consumption has now touched 13.9 million tonnes and per capita consumption is pegged at slightly below 10 kg. So far, the growth in paper industry has mirrored the growth in GDP. Demand of paper has been growing around 8 per cent per annum for some time⁴

India is the fastest growing market for paper globally and it presents an exciting scenario; paper consumption is poised for a big leap forward in sync with the economic growth and is estimated to touch 16.5 million tonnes in 2016-17. As per government numbers, the consumption will increase to 18.4 million tonnes in 2016-17 (the terminal year of the 12th Plan)⁵. The futuristic view is that growth in paper consumption would be in multiples of GDP and hence an increase in consumption by one kg per capita would lead to an increase in demand of 1 million tons

1.2 STATEMENT OF THE PROBLEM

Growth in manufacturing industry has been mainly driven by domestic demand expansion followed by contribution of export expansion during both pre-liberalization as well as post-liberalization period, but after 1991, ⁶ Liberalisation of licensing rules, relaxation on foreign investment and sectors reserved for the public sector were thrown open to private sector entry and competition, has increased the contribution of both domestic demand expansion and export expansion. Formalities for foreign direct investment were made simple and trade tariffs were lowered. The maximum import tariff was relaxed to 40 percent from 340 percent. Quantitative barriers were removed for capital and intermediate goods. The significant change of 1991 reforms was to expose bearer firms to greater domestic as well as international competition⁷. Again, one might expect to see an increase in rivalry in the period following these reforms. Larger firms with their greater resources were arguably better placed to respond to the fiercer competition with a range of investments.

As the reforms emphasize the industrial expansion, it is essential to study the evolution of the new industrial policy. Among the manufacturing industries, machinery and equipments, motor vehicles and etc, shows a higher growth rate, whereas food and processing, fabricated metals, basic metals etc. Show the medium growth rate. But paper and pulp industry has low growth rate.

Consequently the Indian paper industry has a depressing growth, though the manufacturing sector has the privileged growth rate than the other sector through the study period 2015-2016. Thus paper plays a decisive part in existence. On account of these facts, it is great concentration to study the Paper Industry. Paper Industry is a large capital intensive and yields poor return on investment

At present there are over 850 paper mills manufacturing a wide variety of items required by the consumers. While the number of wood based mills is around 14 and balance 836 mills are based on non-conventional raw materials (Agro Residues and Recycled fibre - waste paper). The paper industry in India is looking for state-of-art technologies to reduce its production cost and to upgrade the technology to meet the international standards. The financial status of the paper industry was unsatisfactory, due to various challenges and issues such as high cost of raw materials, heavy investment, low scale of operation, low capacity utilization, outdated technology, low profitability, lack of research and development, environmental issues related to pollution and lack of skilled manpower etc. All these factors, in turn affect the profitability and liquidity of industries. Thus it is worthwhile to conduct a study of financial performance of selected paper industry in India. The study is meant to analyze the financial consequences of the industry for a period of ten years and for understanding financial performance of Paper Industry in India. Based on the above issues, the following questions were probed by the researcher to take up this study.

- i) What is the extent of growth of the Indian paper companies?
- ii) What is the profitability position of the select companies in paper industry in India?
- iii) What is the financial strength of the select companies in paper industry in India?

1.3.OBJECTIVE OF THE STUDY

1. To examine the trend and financial strength of the select Paper companies in India.

1.4. RESEARCH METHODOLOGY

1.4.1. SOURCES OF DATA

The study is mainly based on secondary data. The major source of data analyzed and interpreted in this study related to all those companies selected is collected from "PROWESS" database, which is the most reliable on the empowered corporate database of Centre for Monitoring Indian Economy (CMIE). It contains a highly normalized database built on a sound understanding of discovery in India on around twelve thousand companies, which include public and private sector companies. The database provides financial statements, ratio analysis, funds flow, cash flow, product profiles, returns and risk on the stock market and so on. Besides prowess database, relevant secondary data have also been collected from BSE Stock Exchange Official Directory, CMIE Publications, Annual Survey of Industry, Business newspapers, Reports on Currency and Finance, Libraries of various Research Institutions, through Internet and so on.

1.4.2. Sample Design

The paper companies have been selected through purposive sampling method, among the companies listed in stock exchange. The following criteria were used for the study to select samples. The sample set includes, those companies which are listed and actively operated in BSE under the category of the paper industry and those companies which are continuously functioning till the end of the study period.

1.4.3.Period for the Study

The period 2005-06 to 2015-16 is selected for this study of Indian Paper industry. This period of ten years is preferred in direction to have a objectively longated, at regular intervals of well-balanced period, for which soundly homogeneous, consistent and up-to-date financial data would be available.

1.4.4. Statistical Tools Used

The following statistical tools used like a) Multiple Regression Analysis) ANOVA

1.4.5. Analysis and Findings

TABLE 1
ESTIMATES OF TREND CO-EFFICIENTS FOR SALES OF PAPER INDUSTRY

Name of the companies	Sales	
	Calculated value	P-Value
WCPL	63.56	0.000**
IP APPM Ltd.	24.92	0.001**
JKPL	108.79	0.000**
TNPL	56.71	0.000**
STAR PML	0.29	0.604
SPBL	33.28	0.000**
EPML	64.23	0.000**
SIRPUR PML	64.12	0.000**
SRNL	8.13	0.021*
BIL.	7.71	0.024*
PP& PML	5.31	0.050*

*Significant at the 0.05 level.

It is clear from the Table 4.2, that the difference between actual sales and trend value of sales was significant in selected paper companies except Star paper mills ltd. As the P value less than 0.05, the null hypothesis is rejected at 5 and 1 percent level of significance, while the alternate hypothesis is accepted.

Table –2

Analysis of short term financial strength of the selected paper mills in India

ANOVA Results

ANOVA	Current ratio			Liquidity ratio			Interest coverage ratio		
	F-value	p-value	S/NS	F-value	p-value	S/NS	F-value	p-value	S/NS
	7.421	0.000**	S	6.833	0.000**	S		0.000**	

*P<0.05 S- Significant Source : Computed.

Short-term financial strength is the ability of a firm to meet its current obligations as and when they become due for payment. The importance of short-term financial strength can hardly be overstressed. Liquidity ratios measure the ability to meet short-term obligations and reflect the short-term financial strength of the firm. The ratios, which indicate the liquidity of a firm, are mainly the current ratio and the quick ratio. Table 2 shows the ANOVA results, which assess the short term financial strength of the selected paper mills. It shows that current ratio was statistically significant 1% significance (F-7.421, p-value 0.000, p<0.01). The liquidity ratio is significant at 1% level of significance (F-6.833, p-value 0.000, p<0.01). The interest coverage ratio is significant at 1% level. It is concluded that, there is a significant difference between companies in short term financial ratio's.

Table –3

Analysis of Long term financial strength of the selected Indian paper industry

ANOVA Results

ANOVA	Debt-Equity ratio			Fixed assets ratio		
	F-value	p-value	S/NS	F-value	p-value	S/NS
	1.74	0.082	NS	10.22	0.000*	S

*P<0.05 S- Significant NS -Not Significant Source : Computed

The table 4.3 showed the ANOVA results of debt equity ratio and fixed assets ratio which assess the long term financial strength of the selected paper companies in India. Hence (F-value 1.74, p-value 0.082, p<0.01) of debt equity ratio and fixed assets ratio (F-10.22, p-value 0.0000, p<0.01) are statistically significant.

CONCLUSION

The paper industry was passing through rough days and hard times. There have been many periods of adversity, when growth charts have dipped and it has appeared that misfortune will overtake. Today, rapid changes in the World trading system have endangered the stability of the paper industry and created an atmosphere of uncertainty and turbulence in the industry. But it is also a fact that turbulence is necessary for any change in the system. There is need to bring about technological improvement, structural changes, liberalization from controls and regulations, increased productivities of labour and machine and reliable quality assurance systems to meet the present day needs. If there is in security inherent in the globalised economy, there should be also opportunity – opening up of vast markets to Indian paper that were earlier closed or regulated. Indian paper industry is ready to take up this opportunity of free trade and secure its well deserved position in the international paper arena through improved efficient financial management by framing effective policies in raising and utilizing the funds.

References

1. McKinnon, Ronald I, *“The order of economic liberalization: Financial control in the transition to a market economy”*, JHU Press, 1993. Retrieved from <https://scholar.google.co.in/scholar?hl=en&q=liberalize+the+economy+in+1980%E2%80%99s&btnG=>
2. Wacziarg, Romain, and Karen Horn Welch, *“Trade liberalization and growth: New evidence”*, The World Bank Economic Review 22.2 (2008): 187-231..” Comparative Politics (1998): 43-60. Retrieved from <http://wber.oxfordjournals.org/content/22/2/187.short>
3. <http://ipma.co.in/paper-industry/overview/>
4. <http://money.livemint.com/news/sector/outlook/exponential-growth-in-e-commerce-to-provide-fillip-to-the-paper-industry--447911.aspx>
5. The Indian paper industry: All ready to rise on a global stage By Dibyajyoti Sarma, 12 September 2014 Retrieved from <http://www.printweek.in/features/indian-paper-industry-ready-rise-global-stage-17747>
6. Kotwal, Ashok, Bharat Ramaswami, and Wilima Wadhwa, *“Economic liberalization and Indian economic growth: What's the evidence?”*, Journal of Economic Literature 49.4 (2011): 1152-1199. Retrieved from https://scholar.google.co.in/scholar?q=Economic+Liberalization+and+Indian+Economic+Growth+&btnG=&hl=en&as_sdt=0%2C5
7. <http://www.ibef.org/industry/manufacturing-sector-india.aspx>