



A STUDY ON FINANCIAL EFFICIENCY AND WORKING CAPITAL MANAGEMENT OF TNPL INDUSTRY IN TAMILNADU

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INTRODUCTION

Finance is the nerve centre and lifeline of any economic activity and is, therefore, omnipresent in every sphere of economic and business life. It plays an extremely crucial role in the continuity and growth of a business. An enterprise, which commits itself to an activity, requires finance. No business firm can be promoted, established and expanded without adequate financial resources. Success and survival of a business firm depends on how well its finance function is managed. The firm may have abundant resources, human and physical but if the available funds are not properly utilized for the benefit of the firm, it will come to an early end. Every effort should be made to render the finance function as effective as possible. Successful financial management of a business firm is manifested by certain benefits, like increased profitability, raising share prices, regular dividends to shareholders, attractive remuneration to employees and in short, the all round progress of the company.

Paper is one of the significant discoveries that turned the history of the world around. Paper pervades all sectors of our activity from books to bullets and from morning newspaper to nuclear technology. From the time immemorial, paper has played a key role in the evolution of our civilization. The importance of paper and paper products in the modern life is so obvious that no other manufactured product possesses such diversity of use. It is a basic medium of communication and dissemination of information. It helps all the human beings for the growth of education, reading, writing, storing, knowledge, quality of life, culture, and other sectors of the economy.

Modern people daily activities with morning newspaper and their activity end with writing of diary in the night. Kids to kings, all human beings, are using paper either directly or indirectly. It is very difficult to imagine modern life without paper. The fortune of paper industry is closely linked to the buoyancy in the economic development of a country.

Tamil Nadu Newsprint and Papers Limited (TNPL) were established by the government of Tamil Nadu during the early eighties to produce Newsprint and Printing & Writing Paper using bagasse, a sugarcane residue, as primary raw material. TNPL is the largest producer of bagasse-based paper in the world. Annual consumption of bagasse slated to touch 1 million tonnes per annum. TNPL exports about 15th of its production to more than 30 countries. Manufacturing of quality paper for the past two and half decades from bagasse is an index of the company's technological competence. Presently having an installed capacity of 230000 pa of Newsprint and Printing & Writing Paper in various combinations. TNPL has better economic of scale and higher capacity when compared to other leading players as BILT and Hindustan Paper Corporation Limited.

OBJECTIVES

- To measure the firm's liquidity and operational efficiency by using ratio analysis.
- To analyse and compare the financial performance changes over five years.
- To check the financial performance and progress of the company.
- To suggest measure to maintain adequate working capital.

ANALYSIS AND INTERPRETATION

LIQUIDITY RATIO CURRENT RATIO

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table Showing Current Ratio

Year	Current Assets	Current Liabilities	Ratio
2018	1349.13	2139.15	0.63
2019	1563.25	2295.69	0.68
2020	1606.51	2254.95	0.71
2021	1387.09	2065.18	0.67
2022	1034.98	2190.48	0.47

Source: Annual Reports of TNPL



INTERPRETATION

A current ratio below 1 could indicate that a company might struggle to meet its short-term obligation. Above table indicates that the ratio is lower than the ideal ratio in all years. It shows the

firm's inability to pay off some of its debts. In the year 2020, the ratio is 0.71 which is more or less equal to ideal ratio. The company has the lowest ratio in 2022 that is 0.47. The company need to increase its assets to meet off its debts.

QUICK RATIO

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current liabilities}}$$

Table showing Quick Ratio

Year	Quick Assets	Current Liabilities	Ratio
2018	864.96	2139.15	0.40
2019	702.46	2295.69	0.30
2020	760.47	2254.95	0.33
2021	709.21	2065.18	0.34
2022	592.27	2190.48	0.27

Source: Annual Reports of TNPL

INTERPRETATION

A company has a quick ratio of less than 1 may not be able to fully pay off its current liabilities in the short term, while a company having a quick ratio higher than 1 can instantly get rid

of its current liabilities. Here the company has the lowest ratio in 2022 that is 0.27 and the highest ratio in 2018 that is 0.40. Even though it is higher it cannot satisfy the good quick ratio of 1.

SOLVENCY RATIOS

INTEREST COVERAGE RATIO

$$\text{Interest Coverage Ratio} = \frac{\text{Earnings Before Interest and tax (EBIT)}}{\text{Interest Expense}}$$

Table showing Interest Coverage Ratio

Year	EBIT	Interest Expense	Ratio
2018	216.65	21.06	10.29
2019	461.75	30.01	15.39
2020	414.33	78.38	5.29
2021	75.98	71.66	1.06
2022	178.45	70.25	2.54

Source: Annual Reports of TNPL

INTERPRETATION

A coverage ratio below 1 indicates a company cannot meet its current interest payment obligations and, therefore, from the above table we may see the ratios are above the ideal ratio. In the

year 2019 the ratio is 15.39 which is higher and the year 2021 has the lowest ratio of 1.06. Hence the interest coverage is good in all years.

TURNOVER RATIOS

INVENTORY TURNOVER RATIO

$$\text{Inventory Turnover Ratio} = \frac{\text{Net sales}}{\text{Average inventory}}$$

Table Showing Inventory Turnover Ratio

Year	Net Sales	Average Inventory	Ratio
2018	3098.33	484.17	6.45
2019	4082.71	860.79	4.74
2020	3471.11	846.04	4.10
2021	2768.18	677.88	4.08
2022	4020.29	442.71	9.08

Source: Annual Reports of TNPL



INTERPRETATION

From 2018 to 2019, the company's net sales had a considerable increase of almost 32%. However, the net sales fell by about 15% and 20%, respectively, in 2020 and 2021. A significant increase of almost 45% in net sales was seen in 2022. The average inventory shows a fluctuating trend, with the highest

inventory being in 2019 and the lowest in 2022. It is important to note that a high inventory level may not always be desirable, as it could indicate slow sales or an overstocked inventory, leading to additional costs for the company.

PROFITABILITY RATIOS

OPERATING PROFIT MARGIN

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit} \times 100}{\text{Net Sales}}$$

Table Showing Operating Profit Margin

Year	Operating Profit	Net Sales	Ratio
2018	40464.19	3098.33	13.06
2019	64915.09	4082.71	15.90
2020	60779.14	3471.11	17.51
2021	26020.89	2768.18	9.40
2022	35820.78	4020.29	8.91

Source: Annual Reports of TNPL

INTERPRETATION

In 2018, the operating profit margin was 13.06%. In 2019, the operating profit margin improved to 15.90%, indicating that the company became more efficient in generating profit from its operations. In 2020, the operating profit margin further increased to 17.50%. However, in 2021, the operating profit margin

decreased significantly to 9.41%, which may indicate that the company faced some challenges in generating profits from its operations during that year. This trend continued in 2022, where the operating profit margin decreased further to 8.91%, indicating that the company's profitability may have declined.

COMPARITIVE BALANCE SHEET FOR THE YEAR 2022, 2021

(Rs.in Crs)

PARTICULARS	Mar-22	Mar-21	Change in Value	Change in %
EQUITIES AND LIABILITIES				
Equity Share Capital	69.38	69.38	0	0
Total Share Capital	69.38	69.38	0	0
Reserves and Surplus	1,519.76	1,527.39	-7.63	-0.50205
Total Reserves and Surplus	1,519.76	1,527.39	-7.63	-0.50205
Total Shareholder's Funds	1,589.14	1,596.77	-7.63	-0.48013
Non-Current Liabilities				
Long Term Borrowings	1,603.69	1,947.05	-343.36	-21.4106
Deferred Tax Liabilities [Net]	219.27	215.31	3.96	1.805993
Other Long Term Liabilities	10.21	16.3	-6.09	-59.6474
Long Term Provisions	161.51	142.72	18.79	11.63395
Total Non-Current Liabilities	1,994.68	2,321.38	-326.7	-16.3786
Current Liabilities				
Short Term Borrowings	618.95	336.35	282.6	45.65797
Trade Payables	1,115.64	833.78	281.86	25.26442
Other Current Liabilities	434.53	868.79	-434.26	-99.9379
Short Term Provisions	21.37	26.26	-4.89	-22.8825
Total Current Liabilities	2,190.48	2,065.18	125.3	5.720207
Total Capital And Liabilities	5,774.30	5,983.33	-209.03	-3.62001
ASSETS				



NON-CURRENT ASSETS				
Tangible Assets	3,289.90	3,513.52	-223.62	-6.79717
Intangible Assets	2.52	3.74	-1.22	-48.4127
Capital Work-In-Progress	1,357.11	939.24	417.87	30.79117
Other Assets	10.84	5.26	5.58	51.47601
Fixed Assets	4,660.38	4,461.77	198.61	4.26167
Non-Current Investments	0.61	0.55	0.06	9.836066
Long Term Loans And Advances	28.44	38.68	-10.24	-36.0056
Other Non-Current Assets	49.89	95.24	-45.35	-90.9
Total Non-Current Assets	4,739.32	4,596.24	143.08	3.018999
CURRENT ASSETS				
Inventories	442.71	677.88	-235.17	-53.1206
Trade Receivables	257.56	377.47	-119.91	-46.5561
Cash And Cash Equivalents	13.5	12.22	1.28	9.481481
Short Term Loans And Advances	17.11	16.92	0.19	1.110462
Other Current Assets	304.1	302.6	1.5	0.493259
Total Current Assets	1,034.98	1,387.09	-352.11	-34.0209
Total Assets	5,774.30	5,983.33	-209.03	-3.62001

INTERPRETATION

Comparing the figures from March 2022 to March 2021, the company's total shareholder's funds decreased by 0.48%. The company's long-term borrowings decreased by 21.41%, while its short-term borrowings increased by 45.66%. The company's total non-current liabilities decreased by 16.38%, and its total

current liabilities increased by 5.72%. The company's total non-current assets increased by 3.02%, while its total current assets decreased by 34.02%. The company's total assets decreased by 3.62%. The balance sheet also shows that the company has contingent liabilities of Rs. 843.42 crore as of March 2022, a decrease of 21.95% compared to the previous year.

Statement Showing Changes in Working Capital of TNPL For the year 2021, 2022

(Rs.in Crs)

PARTICULARS	Mar-21	Mar-22	Increase	Decrease
Current Assets				
Inventories	677.88	442.71		235.17
Trade Receivables	377.47	257.56		119.91
Cash And Cash Equivalents	12.22	13.5	1.28	
Short Term Loans And Advances	16.92	17.11	0.19	
Other Current Assets	302.6	304.1	1.5	
Total Current Assets (A)	1,387.09	1,034.98		352.11
Current Liabilities				
Short Term Borrowings	336.35	618.95	282.6	
Trade Payables	833.78	1,115.64	281.86	
Other Current Liabilities	868.79	434.53		434.26
Short Term Provisions	26.26	21.37		4.89
Total Current Liabilities (B)	2,065.18	2,190.48		125.3
Net working capital (A-B)	-678.09	-1155.5		

Source: Annual Reports of TNPL

INTERPRETATION

The net working capital has decreased from a negative amount of -648.44 in March 2020 to a more negative amount of -1155.5 in March 2022. This indicates that the company's ability to meet its short-term obligations has deteriorated over the period, which could be a cause for concern.

The decrease in net working capital is mainly due to a significant increase in the company's current liabilities,

primarily driven by the increase in short-term borrowings and trade payables. At the same time, there has been a decrease in the company's current assets, mainly driven by the decrease in inventories and trade receivables. Overall, the decreasing trend in net working capital is seen in the study.

CONCLUSION

The study was undertaken on the financial performance of the company. Tools such as ratio analysis, comparative balance



sheet, and statement of working capital have been used to find out the company's efficiency in performing all its functions. The analysis has shown fluctuations and have both good and bad sides during years. The analysis reveals that the short term solvency position is not good, but the long term solvency position is satisfactory. So, the firm has a healthy condition of finance for long term. The cash balances have a positive sign in all the five years but it has decreased over the years.

The growing consciousness for preservation of forests and maintenance of ecological balance and biodiversity during the last few years is further reducing the availability of raw materials to this industry. As the paper industry is suffering from certain setbacks, they should be properly identified and controlled. The paper industry has ample scope and growth to become an eco-friendly industry leading to the economic prosperity and wealth of the nation.