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A Study on the Liquidity Position of TNPL Using Ratio Analysis

KEYWORDS: Liquidity, Ratio Analysis, Financial Statements, Terminology

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ABSTRACT *Ratio analysis is a commonly used analytical tool for verifying the performance of a firm. It involves the calculation and comparisons of ratios which are derived from the information given in the company's financial statements (balance sheet and income statement) .This analysis plays an important role in determining the strengths and weakness of a company. Analysing financial statements showcases the true financial position of a firm.*

The purpose of this study is to analyse the liquidity position of TNPL, which portrays the firm's ability to meet its short term obligations. To achieve this objective, data has been collected from secondary sources and ratio analysis is used as the statistical tool. Inferences from the study provide potential information to the creditors to determine whether a company will be able to continue as a going concern.

1. INTRODUCTION

The Tamil Nadu Newsprint and Papers Limited (TNPL) was established by the government of Tamil Nadu to produce and writing paper using bagasse sugarcane residue. The government of Tamil Nadu listed the paper mill in April 1979 as one of the most environmentally compliant paper mills in the world under the provisions of the companies act of 1956.

Ratio analysis is a process of determining and interpreting relationship between the items of financial statements to provide a meaningful understanding of the performance and financial position of the enterprise. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

2.COMPANY PROFILE

Tamil Nadu Newsprint and Papers Limited (TNPL) was established by the Government of Tami Nadu during early eighties to produce Newsprint and Printing & Writing Paper using bagasse, a sugarcane residue, as primary raw material. The Company commenced production in the year 1984 with an initial capacity of 90,000 tonnes per annum. Over the years, the production capacity has been increased to 2,45,000 tonnes per annum and the Company has emerged as the largest bagasse based Paper Mill in the world consuming about one million tonnes of bagasse every year. The Company is in the process of implementing the Mill Expansion Plan for increasing the capacity to 4,00,000 tonnes per annum from July 2010.

3.OBJECTIVES

- To assess the financial performance of the company using ratio analysis.
- To ascertain liquidity ratio, this determines the firm's ability to meet its short-term obligations.
- To suggest measures to maintain adequate funds to meet their short-term obligations.

4.RESEARCH METHODOLOGY

Research Methodology is a way through which we systematically solve the research problem.

4.1 Area of study:

TNPL, Kagithapuram, is situated north-west of Karur, Tamil Nadu State, India - about 3 kms off National Highway-7(NH7), connecting Salem and Karur.

4.2 Sources of data:

The evaluation of the study is based on the secondary data collected from annual reports. The analyses and recommendations made are based on the facts, diagrams and graphs which are given to represent statistical data for the study.

4.3 Period of study:

The study covers a period of five financial years from 2007-2012.

4.4 Tools used for analyses:

The objective of the study is achieved by using ratios as a tool.

4.5 Limitations:

As the study is based on ratio analysis, it explains only the relationship between past information while users are more concerned about current and future information. The study covers only limited aspects. The officials were reluctant to give complete data as it involves some secrecy. The findings and results are formed only from the past five year's data.

5. INTERPRETATIONS

TABLE NO: 5.01

CURRENT, LIQUID AND ABSOLUTE LIQUID RATIO

YEAR	CURRENT ASSETS	ABSOLUTE LIQUID ASSETS	LIQUID ASSET	CURRENT LIABILITIES	RESULT CR LR ALR		
2007-2009	39051.45	2304.42	24063.21	31047.98	1.26	0.77	0.074
2008-2009	52749.06	1767.15	32900.87	32197.02	1.64	1.02	0.054
2009-2010	59398.46	1936.31	42274.64	33405.62	1.77	1.26	0.0579

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2010-2011	73659.58	1222.00	52907.18	42184.57	1.74	1.25	0.0289
2011-2012	92972.71	1973.52	59870.31	138928.12	0.66	0.43	0.0142

The above table indicates the current ratio is lower than the idle ratio which is 2:1. It shows the firm's inability to pay off some of its debts. Current ratio is highest during the year 2009-2010 (1.77) and is lowest during 2011-2012 (0.66).

It is evident that till the financial year 2010-2011 the company had a quick ratio greater than 1.0 which means that they were sufficiently able to meet their short-term liabilities but in the financial year 2011-2012 the quick ratio of the firm has reduced to 0.43 which interprets that the firm has insufficient funds to meet out their short-term liabilities.

We also infer that the company has low absolute liquid ratio as it is much below the ideal ratio 1:1.It is maximum during the year 2007-2008 (0.74) and minimum in the year 2011-2012 (0.0142). It indicates the company has to improve cash liquidity by changing the policy of credit sales and advancements.

TABLE NO: 5.02
DEBTORS TURNOVER RATIO

YEAR	NET SALES	AVERAGE DEBTORS	RESULT
2007-2008	93852.71	10194.76	9.21
2008-2009	106646.31	13415.145	7.95
2009-2010	102567.74	18465.37	5.55
2010-2011	118444.52	20271.125	5.84

From the above table, we infer that in the year 2007-08 (9.21), the company has high ratio which indicates shorter time lag between credit sales and cash collection. But in 2010-2011 the ratio is at its lowest (5.55) indicating time lag.

6. FINDIINGS

- Current ratio of the firm in the year 2011-2012 shows a decreasing trend indicating firm's inability to maintain short-term liquidity.
- The Acid test ratio shows a fluctuating trend and the firm has insufficient fund to meet out their short-term liabilities.
- Debtors turnover ratio 2011-2012 (5.84) indicating time lag between credit sales and cash collection.
- Inventory turnover ratio is considerably high. It infers the firm has better liquidity.
- The firm shows the positive indication particularly during the year 2011-2012 (2.14) indicating efficient usage.

7. SUGGESTIONS

The company has huge reserves and surpluses available at its discourse. Hence it can go for further expansion of its business ensuring optimum utilization of its resources and resulting in an increase in sales.

During the study period the gross profit seem to have a certain downfall which has to be improved by the company.

The current ratio is satisfactory in some years. The current ratio level need to be improved in the future.

8. CONCLUSION

A close analysis of the financial statements of TNPL for the past five year period reveals that the performance between the years is not consistent. The firm shows a fluctuating fund. The concern will be able to prosper in the future if it makes effective use of cost reduction measures, inventory control measures, suitable credit policy, suitable purchase policy to enjoy economies of large scale production, sound cash management for optimum utilization of all resources and capital.

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