



Study on the Financial Analysis of the Servalakshmi Paper Limited in Coimbatore.

KEYWORDS

Financial Statements, Creditors, Investments, Dividend policy, Paper mills.

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ABSTRACT The financial health of a company is determined by not only the values shown on the financial statements but also the relationship among these values. Financial statements and ratio analysis these relationships are known as financial ratios. Good paper mill financial management includes monitoring the critical financial ratios and comparing them to other companies in the industry. We look at ratios that are commonly used to measure the performance of the company, regardless of its industrial segment. Where necessary these ratios are adapted to the unique characteristics found in the paper mill industry. As suggested earlier, various users approach financial statements analysis with many different objectives. Creditors are interested in whether a company will be able to repay its debts on time. Both creditors and stockholders are concerned with how the company is financed, whether through Debt, equity, or earnings. Stockholders and potential investors analyze past earnings performance and dividend policy for clues to the future value of their investments. In addition to using internally generated data to analyze operations, company managers find much information prepared for external purposes useful for examining past operations and planning future policies. The study covers a period of 6 years from 2009 -2010 to 2013 -2014. The secondary data were extracted from the published annual reports of the study units for a period of six years. The data have been analyzed with the help of different accounting and statistical techniques such as ratio analysis. This financial analysis involves studying various relationships between different items reported in a set of financial statements. This research evaluates to a firms financial statements in order to point out the strengths and weaknesses of the firm, and the areas that need improvement. The researcher has suggested suitable measures to improve the efficiency of the financial analysis of the paper mills.

INTRODUCTION

Finance is indispensable spoke in the wheels of an organization. It is the very life blood and forms the back bone of an enterprise. Financial analysis refers to the treatment of information contained in income statement and the balance sheet, so as to offer full diagnosis of the profitability and financial soundness of the business. Efficient management of capital is necessary for any business organization as it is the life blood of business. It has a great impact on the success or failure of business. Management control as exercised in planning, performance evaluation, and coordination of financial activities as aimed at achieving desired return on investment. Managers use financial statements a budget being the primary one, operating ratios, and other financial tools to exercise financial control. All financial sources are that company's capital which is used for purchasing raw material and involve in sundry debtors. We all know that current assets are very important for proper working of fixed assets. Suppose, if you have invested your money to purchase machines of company and if you have not any more money to buy raw material, then your machinery will no use for any production without raw material. From this example, you can understand that finance is very useful for operating any business organization. We can also take one more liquid item of current assets that is cash. If you have not cash in hand, then you cannot pay for different expenses of company, and at that time, your many business works may delay for not paying certain expenses. The study covers a period of 6 years from 2009-10 to 2013-14. The secondary data were extracted from the published annual reports of the study units for a period of six year.

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SERVALAKSHMI PAPER LIMITED

Servalakshmi Paper Limited was incorporated on 3rd November, 2005 vide Certificate of Incorporation issued by the Registrar of Companies, Coimbatore, Tamil Nadu. Servalakshmi Paper Limited Company belongs to the "Serval" Group. Servalakshmi Paper Limited engaged in the business of manufacturing Printing & Writing Paper and Newsprint. Servalakshmi Paper Limited production through our state-of-the-art production unit situated at Kodaganallur Village, Tirunelveli district, the plant is located in an area covering about 340 acres of land. The location of the plant is in close proximity to Tuticorin Port which is 72 km away. The plant is also nearer to the National Highway (NH7) and river Thaimrabarani which are just 5 km and 6 km away respectively. Tamil Nadu with total installed production capacity of 90,000 MTPA making it one of the largest single location plants in India. Servalakshmi group is proficient in handling turnkey projects, design, consultancy, erection & commissioning of paper machinery, machine rebuilding, unit equipment and spares and has built and supplied 35 paper machines of various capacities up to 300 tons per day to paper mills in India. Servalakshmi group has a clientele base of more than 300 paper mills in Asia, Europe, Africa and Gulf Countries. The Servalakshmi group has the following three closely held paper mills which are manufacturing newsprint and specialty papers

like wax-match, tissue, OTC, base paper for fax and other grades of printing & writing: Danalakshmi Paper Mills Private Limited (DPML), - Servalakshmi Paper and Boards Private Limited (SPBL) - Vijayalakshmi Paper Mills (VJPM) The above three existing group mills together have a combined paper manufacturing capacity of 45000 tonnes per annum. Along with Servalakshmi Paper Limited, the group will have a market share of 2-3% in the paper industry.

APART FROM THE ABOVE, THE FOLLOWING TWO COMPANIES ALSO BELONG TO THE SERVALAKSHMI GROUP

Servall Engineering Works Private Limited (SEWL) which is engaged in manufacturing of machineries and accessories for Paper Manufacturing Units. Techno Spin Private Limited (TSPL) which is engaged in the manufacturing of rolls and spares for paper industry. The concern is employed latest technology and many of them are employed for the first time in India. The high level of automation introduced will provide higher productivity through uninterrupted operations and lower wastage there by providing better margins. Servalakshmi group's expertise in paper industry has made it possible for us to save capital cost by more than 100 Crores by adopting superior technology in the paper mill as compared to other paper mills being setup in India

PRODUCTS

Printing and writing papers include most papers used for publishing and advertising, with the exception of newsprint and papers generally referred to as office papers. Four main grades make up the printing and writing papers industry: uncoated mechanical, uncoated wood-free, coated wood-free and coated mechanical papers. Uncoated mechanical papers are made of fibres produced by a mechanical pulping process. However, they are not classified as newsprint because they possess other properties, such as higher brightness or smoothness that enhance their value. Their main end users are directories, magazines, catalogues, inserts, flyers, coupons, as well as books. Coated papers, generally selected for their brightness, create a uniform surface on which one can print a higher quality product. Coated mechanical papers are mostly used for magazines and catalogues, whereas coated wood-free papers, the highest quality of printing papers, are used for annual reports and high-end catalogues, magazines, and promotional material.

(Source: www.pppc.org, Printing and Writing Paper Association).

COMPETITIVE STRENGTHS

Servalakshmi Paper Limited (SPL) is an ambitious project of leading Servall Group, who for more than four decades has established a strong presence in all the verticals of paper industry namely paper machinery manufacturing, paper manufacturing, project consultancy and turnkey project implementations. The company believes that following are the principal competitive strengths:-

➤ Strong management Team: Servalakshmi Paper Limited is managed by a team of professionals led by the Chairman & Managing Director Mr. R. Ramswamy. The senior management team of our Company has significant industry experience in the field of paper manufacturing and has been instrumental in company's operations. Mr. Ramswamy has been conferred with Udhhyog Patra award for his achievements in paper Industry and many other awards in India and Abroad. He is a renowned paper technologist and has over 40 years of experience in the industry and

therefore Company acquires strength from our Chairman's vision and recognition in the industry.

➤ Relationship with established players in industry, Servalakshmi Paper Limited have found acceptance by wide customer base which includes a diverse set of industries. We have already procured orders from the domestic as well as international clients. Servalakshmi Paper Limited is well poised to benefit from the strong relationship with the industry players enabling us to provide better services to its customers. The credit cycle is 30 days on an average in respect of printing and writing paper and 45 days in respect of news print.

➤ Wide product range: Servalakshmi Paper Limited manufacture a wide range of products based on the customer specifications. This allows us to cater to the diverse demands of its customers and to consolidate and establish its presence across regions.

➤ New Products in pipeline: Servalakshmi Paper Limited plan to foray into wide range of Printing & Writing Paper and high-end newsprint under the name 'Lakshmi'. We also intend to produce coated, uncoated, copier, cream wove, SS Maplitho, computer stationary and text/note book papers.

➤ Selling and Distribution network: Servalakshmi Paper Limited have gradually developed our selling and distribution network over a period of time. Servalakshmi Paper Limited successfully developed an extensive clientele. Servalakshmi Paper Limited currently doing business through 38 dealer's network in domestic market and 12 agents for exports.

➤ Locational Advantages: The location of the paper mill is in close proximity to Tuticorin Port, which is 72 Km away, also near to the National Highway NH7 which is just 5 Km away and 6 Km away from river Thaimrabarani. This facilitates efficient movement of raw materials and finished products. Our location also helps us to service wide array of customers.

NEED FOR STUDY

➤ The sheer size and complicity of modern enterprises have increased the responsibility to not only controlling the finance but also analyzing and interpreting the economic situation, appraising management performance and setting all policies that determine the company future.

➤ The analysis and interpretation is essential to bring out the mystery behind the figures of financial statements. Interpretation will involve the comparison of different figures of different periods.

STATEMENT OF A PROBLEM:

Moves and action in the field of Production, Procurement, Marketing and Services are ultimately interpreted and viewed in financial terms; hence the importance of financial management and its components plays an important role in overall corporate management. The financial analysis of a business enterprise can be said to be that portion of its total financial resources, which has put a variable operative purpose.

OBJECTIVES OF THE STUDY:

The study of financial analysis in "Servalakshmi Paper limited" has been undertaken with the following objectives in view:

- To evaluate the short term liquidity of financial position of Servalakshmi Paper Limited through ratio analysis.
- To study and review the financial performance and progress of the company.
- To find out the impact of the ratios in relation to the liquidity, profitability and financial position by comparing the financial statements of Servalakshmi Paper Limited for a period of 6 years from 2009-10 to 2013-14.
- To interpret the result of the financial performance of the firm.

SCOPE OF THE STUDY

- To analyse the financial performance and to assess the liquidity, profitability and activity position and its various drawbacks.
- To estimate the financial position of the company and its policies to know the financial strengths and weakness of the firm.
- The study relates only to the existing system of financial analysis in financial management in Servalakshmi Paper Limited and it also analytical. For the purpose of the study, the researcher has used facts already available and personal interview from officials and analyzed them to make a critical evaluation of financial management of the company.

METHODOLOGY AND TOOLS

The methodology adopted for the study is given below

SOURCE OF DATA

Primary data:

The study consisted of discussion with the executives of Servalakshmi Paper Limited, these discussions form the primary source of information.

Secondary data:

The study is based on secondary data obtained from the annual reports of Servalakshmi Paper Limited. Clarifications were obtained from the company's officials whenever necessary.

FINDINGS

- The mill current ratio is not exactly equal to the standard 2:1 in any of the year. It was high during the year 2008 - 2009 i.e., 3.71 and also 2009 - 2010, 2010 - 2011 the ratio was 2.38, 2.45 the mill shows the decreasing value in the year 2011 - 2012 the ratio was 0.95, in the year 2012 - 2013 the ratio was 0.98, again 2013 - 2014 the ratio was decreased 0.93 the standard norm is not achieved. It indicates the inadequate working capital. In spite of this liquidity position of the mill is quite satisfactory.
- The fixed assets turnover ratio shows fluctuating trend during the study period. During the year 2009 - 2010 the ratio was increased 5.30 and in the year 2010 - 2011 the ratio was decreased 0.51 then in the year 2011-2012, and 2012 - 2013 the ratio was 0.21 and 0.73. Against the ratio was increased 0.94 in the year 2013 - 2014 respectively. The increase in fixed assets turnover ratio shows that fixed assets of the company utilized properly.

➤ Inventory turnover ratio during the study period. The ratio was fluctuating from 0.06 to 4.89 throughout the study period. The higher ratio was 4.89 in the year 2012 - 2013 again 2013 - 2014 the ratio was increased 4.70, in 2010-2011 the ratio was 2.36 and decreased to 1.36 and 0.06 in the year 2011-2012 and 2009 - 2010 due to low level of inventory and quick turnover of finished goods. It indicates the sound liquidity position. It may also be mentioned here that there are no standard inventory turnover ratio.

➤ Debtors to Sales ratio were fluctuating during the study period. In 2009 - 2010 and 2011 - 2012 the ratio was 0.42 and 0.24 then it was decreased in the year 2010 - 2011, in 2012 - 2013 and 2013 - 2014 the ratio was 0.08. This was due to the fast paying accounts and lenient credit extension given by the management.

➤ Cash turnover ratio is fluctuated in all the years shows fluctuating trend during the study period. During the year 2012 - 2013 the ratio was very high 66.25, again in the year 2013 - 2014 the ratio was increased 53.06. In 2010 - 2011 the ratio was 20.45 and 2011 - 2012 the ratio was 21.57 has been decreased highly because of increased in cash balance. In the year 2009 - 2010 it was tremendously increased to 39.22 due to high sales and merger amount at cash balance. If the ratio is high only it is satisfactory to the firm.

SUGGESTIONS

- The company can put more effort to utilize its assets effectively to increase sale.
- The company should try to increase the inventory in order to increase its sales.
- In order to boost its profits the company has to re-schedule its expenditure, thereby minimizing its operating expenses.

CONCLUSION

This paper industries has an important role to plan both in the economic stability of the country and in the supply of essential commodity for the entire population. Its further development and progress should therefore be of great concern to everyone. The Servalakshmi Paper industry occupies a key position in our country. The financial analysis of Servalakshmi Paper and Boards Limited shows that the fixed assets turnover ratio, cash ratio, inventory ratios and receivable ratio are satisfactory indicating the efficient management of financial analysis, while considering all the three it can be said that the overall efficiency of the organization is satisfactory. The result of financial analysis of Servalakshmi Paper Limited reveals that their operations are satisfactory. The most firmly established an industry in paper industries. Servalakshmi Paper Limited which is one of the biggest firms in the paper industry is also one of our oldest and most firmly established major industries. Hence an analysis of financial management of this unit has been under-taken.

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