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Introductory Background
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1.1. Introduction

Your future is still before you. Your land is a vast storehouse of mineral and agricultural wealth awaiting further development for the benefit of mankind. Its potentialities are magnificent (Charles F. Wilson).

The economic development of a nation depends on utilizing its natural resources optimally. Mineral resources are essential natural assets which help in the industrial development of a country that ultimately enhances the living standard of the people. Industrialization is possible only when ample resources are available. Industries engaged in various types of production processes depend heavily on these resources. The rationale behind the establishment of an industry is to meet the social and economic requirements of a nation. Generally, the ownership of natural resources lies in the hands of the State and business process of these resources is done by the State run companies i.e. Public Sector Enterprises (PSEs).

The sound performance of any enterprise reflects how effectively its resources are utilized. Performance indicates the management set up of an enterprise which is accomplishing the goals that are being set for the enterprise. It is the measure of a degree to which an organization fulfills its purpose and tries to achieve its objectives. There are various aspects to measure the performance viz. marketing, human resource, operations and finance being major areas for measurement of overall performance of any company.

Financial Performance is thus the key tool to measure the overall activities of a company. There are many techniques available to check the performance of financial activities in an industrial set up. Generally, financial performance of a company is checked through its financial statements published annually. Financial performance indicates as to what extent does a company utilizes its assets. Financial Performance Evaluation gives a thorough account of marketing practices, human resource management, operations and trading practices of a company which is going through its financial statements for a given period of time. Financial Statements give a clear picture about the working and progress of a company. Balance Sheet, Profit & Loss Account and Cash Flow Statement are the chief financial statements. These financial statements are considered in acquiring information for evaluation of financial performance.
The Indian subcontinent is endowed with a rich variety of natural mineral wealth. There are numerous valuable natural resources found in India. The Government has sole ownership upon the natural resources found in its territory. Business of these resources is the primary function of Government owned companies called public sector enterprises. Public Sector Enterprises play significant role in Indian economy. In India, there are number of public sector companies that are doing business in different sectors such as minerals, metals, coal, electricity, oil and gas etc. These companies are responsible for acceleration of economic development of India. Minerals and Metals are natural resources and business of these resources yields a major contribution in economic growth of the nation. State Trading Corporation (STC), National Minerals Development Corporation (NMDC), Minerals Exploration Corporation Limited (MECL), Gujarat Mineral Development Corporation (GMDC) and Minerals and Metals Trading Corporation (MMTC) are some of the major public sector companies which are doing business in minerals and metals at national as well as international level. MMTC Ltd. is a state owned corporation of India engaged in the trade of Minerals and Metals. It is the leading international trading company for Public Sector avenues engaged in import of Minerals and export of Metals (MMTC, n.d.). Being an international trading company, it thus becomes essential to measure the financial performance of this company and this research work basically deals with this issue.

1.2. Concept of Financial Performance and its Evaluation

Performance and financial position are the key inputs for decisions related to activities of the concerned company. To understand and analyze the financial viability of a company, it is important to peruse through its financial statements. One can procure most of the information related to the company’s performance from its financial statements. A company’s performance evaluation should be the prerequisite for developing any financial relation of the company.

Financial Performance is a process of measuring the results of policies and operations of a company in monetary terms. It is used to measure overall financial health of a company over a given period of time (Shodhganga, n.d.). The performance of a company can be measured through its financial results. Financial performance is therefore, normally adjudged by a series of ratios or other accounting parameters.
However, it is to be noted that fundamentally, the balance sheet indicates the financial position of the company as on that point of time (Pandey, 2009). Financial Performance Evaluation is the appraisal and interpretation of financial statements of a business concern. It is the study of relationship among various financial factors of a business disclosed by a single set of statements and study of these factors as shown in a series of statements.

Balance Sheet and Profit & Loss Account are the two principal financial statements. They reveal financial position, profitability and utilization of retained earnings. However, financial analysis is not an end in itself. It is merely a vehicle of communication. As such the technique of financial analysis is typically devoted to evaluate the past, present and projected performance of a business firm in future. Financial Analysis is a process of determining the significant operating and financial characteristics of a corporation from data presented in the form of financial statements (Hunt et al., 1971). The analysis and interpretation of financial statements is an attempt to determine the significance and meaning of the financial statements data so that the forecast may be made about the future prospects for earnings, ability to pay interest, debt maturities and profitability (Mittal, 2011). Financial appraisal is the process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the position and performance of a firm (Metcalf & Titard, 1976).

Financial performance appraisal is generally directed towards evaluating the liquidity, stability and profitability of a concern which, when put together, symbolizes the financial efficiency of a business concern. It is the examination and evaluation of a firm’s financial position, operations and involves a comparison and interpretation of accounting data (Kulkarni, 1994). It is the analysis of financial statements viz. Balance Sheet and Profit & Loss account aimed at diagnosing the profitability and financial condition of a business concern (Srivastava, 1979). Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationships between the items of balance sheet and profit and loss account (Pandey, 1995). The first task to evaluate the financial performance is to select the information relevant to the decision under consideration from the total information contained in financial statements. The second is to arrange the information in a way to highlight significant relationships. The final task is the interpretation and drawing of inferences and conclusion (Meigs, 1978). Financial
analysis is defined as the process of discovering economic facts about an enterprise or a project on the basis of an analysis of available financial data. It is helpful in assessing corporate excellence, judging creditworthiness, forecasting bond writing, predicating bankruptcy and assessing market risks (Desai, 1999).

The main purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm. Just like a doctor who examines his patient by recording his body temperature, blood pressure, etc. before making his conclusion regarding the illness and before giving his treatment, so is the case with a financial analyst who evaluates the financial statements with various tools of analysis before commenting upon the financial health or weaknesses of a business (Gupta & Sharma, 2005).

Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions (Neepre, 2012). There are different tools and techniques available for doing evaluation of financial performance of any company. Financial performance can be analyzed with the help of accounting, financial as well as statistical tools and techniques. Accounting techniques include common size statements analysis, comparative financial statements analysis, ratio analysis etc while financial techniques consist of Economic Value Added (EVA) and Market Value Added (MVA) etc. The statistical techniques include correlation and regression etc used for analysis (Gupta et al., 2009).

1.3. Minerals and Metals Trading Corporation (MMTC) of India Ltd.: A Brief Review

Minerals and Metals Trading Corporation (MMTC) Ltd. is a trading company under the administrative control of Government of India. It was established in 1963 with the aim to accelerate international trade of Minerals, Metals and Agro Products etc. It was set up to bifurcate the State Trading Corporation (STC) in a viable mode. The State Trading Corporation of India Ltd. was founded in 1956 as a wholly owned government subsidiary with the aim to manage the export and import of selected commodities. However, the need for a specialized institution which could handle the
complexities of mining, transporting and exporting large amounts of mineral ores became increasingly apparent and in 1963, the MMTC was established specifically to monitor trade in minerals and metals and in particular, iron ore which it began purchasing from the public and private sector mining companies. Its initial objective was twofold, one was to ensure full employment of miners in less developed areas and second was to oversee the import and distribution of raw materials to agriculture and industry where production often fell short of domestic requirements (Funding Universe, n.d.). MMTC is India's largest international trading company and is recognized as first Public Sector Undertaking to be awarded Premier Trading House status in the country. It is actively involved in exploring overseas markets for export and sourcing material for domestic needs (Ministry of Commerce & Industry, 2009-10). The diverse trade activities of the company encompass third country trade, joint ventures and link deals including all modern day tools of international trading. The vast international trade network of MMTC includes a wholly owned international subsidiary in Singapore which spans almost in all countries of Asia, Europe, Africa, Oceana and America, providing global market coverage to MMTC (Reuters, n.d.).

1.4. MMTC Ltd. since Liberalization

MMTC was established as the Government owned Minerals and Metals Trading Corporation. The company was responsible for exporting minerals such as iron ore, chrome, mica and importing non-ferrous metals such as tin, zinc, lead, nickel, aluminum and it held a monopoly on the trade through India's canalization system. In the 1970s, fertilizers and diesel oil were also canalized to import through MMTC and in the 1980s diamonds and bullion were added to the company's portfolio (Khurana, 2010).

The series of economic reforms were introduced by the Indian Government in 1991 when the liberalization era begun. It has since been impressive and spawned many global business giants. India was declared the second fastest growing economy in the world, only surpassed by China, which has been liberalizing its economy since 1978. One of the companies that rose to the challenge of liberalization was MMTC, which holds the position of India's largest international trading company today. Since, the liberalization of trade was one of the first acts on Government's agenda and MMTC was thus hit hard. The company did very well in retaining its iron ore trade too, as it
has an excellent logistics network capable of moving iron ore from the producer to the port iron facilities and exporting it to stable long-term buyers in countries such as Japan. The company developed a two pronged strategy to survive in the newly evolved business environment. Firstly, it began the process of consolidating its existing business by building on its areas of expertise and its market knowledge. In 1993, it officially changed its name to MMTC Limited. Today, the company is the country’s largest exporter of minerals and pig iron, the largest importer of bullion, non-ferrous metals, agro products and steam coal and continues to be a major player in the import of fertilizers. The second prong of the growth plan was to diversify into closely associated industries through a range of joint ventures and linked activities. The first step was to invest in an integrated steel plant in Odisha viz. Neelachal Ispat Nigam, a joint venture in which MMTC holds over 49 per cent of the shares; the remainder being held by the state of Odisha, the mining company NMDC and various financial institutions. Established in the mid 1990s largely to produce pig iron, the venture has been so successful that it is now India’s largest producer of pig iron (Khurana, 2010).

In 1994, the company also began to extend its reach in global marketplace by setting up a 100 per cent wholly owned subsidiary company in Singapore to take advantage of South East Asian market and this step has also been hugely profitable for the company. The company is also in initial stages of a similar project to double the capacity of the port at Paradeep in Odisha and construct a permanent deep draft iron ore berth. Located some 150 kilometers from the company’s pig iron factory, Paradeep is the plant’s main export port and after reaching to completion, this project has started supporting growth in the plant’s output.

The other area of considerable expansion and diversification in recent years has been in bullion, where MMTC leads the field as an importer. It is, however, another MMTC’s joint venture that seeks to change the face of the company throughout India and make it visible to the public. The company has linked up with India’s leading diamond jewellery retailer Gitanjali and is in the process of launching a chain of retail stores selling gold and diamond jewellery, medallions and silverware. Aptly named Shudhi, the stores are located across India, not only in prestigious districts and large cities but also in small towns, making MMTC a household name (Khurana, 2010).

MMTC has also extended its trading capacity by setting up a commodity exchange viz. Indian Commodity Exchange (ICEX) as a joint venture with India bulls. The
fourth of its kind in India, the exchange currently trades in bullion and agro products but the plan is to extend this to include iron ore as well. However, MMTC has come through economic liberalization very well. Today, it has a healthy balance sheet, strong backing from the financial institutions and solid plans for future growth.

1.5. Scope of the Research

This study is based on the analysis of published annual reports of MMTC for the period of twenty two years from 1991-92 to 2012-13. All results and findings are confined to this period only because in this study the Researcher wants to assess the impact of economic reforms on the performance of MMTC. The area of the present study is to evaluate the financial performance of MMTC. Financial performance of the corporation is analyzed in detail which will provide information about efficiency of business, operations and performance of the company especially export-import activity of Minerals and Metals.

The financial performance of MMTC has been evaluated with the help of different accounting, financial tools and techniques. Liquidity, solvency and profitability position have been analyzed using accounting ratios and DuPont technique. Market performance is assessed with the help of Market Value Added (MVA). In order to assess the overall financial performance of the company, common size statements analyses and comparative statements analysis have been taken into consideration. Trade practices i.e. export, import and domestic trade are also analyzed. Value addition in shareholder's wealth considers a very significant indicator for sound financial performance of a company which has been examined through Economic Value Added (EVA).

The present research will provide information regarding financial performance of the company towards other major stakeholders of MMTC. This will lead to the development of industrial and business processes with regards to Minerals and Metals export-import activity in the country. As a public sector corporation of Mineral trading sector, the MMTC plays a significant role in Indian economy. The financial analysis of this corporation will highlight the efficiency of business operations and performance of the company which will be helpful for the stakeholders to enter into the relationship with the company.
1.6. Rationale of the Research

The proper utilization of Minerals and Metals is very crucial for any economy due to their finite availability and their efficacy in industrial and social development. Mineral trading sector is crucial for overall economic growth of a nation as almost all industries are dependent on availability of Minerals and Metals for their very existence. MMTC is one of the leading trading companies of India doing trade of various Minerals, Metals, Fertilizers, Agro Products, Coal and Hydrocarbon etc. at international as well as national level. The main focus of the company is export of Minerals and import of Metals side by side it is also engaged in the domestic trade. Being a leading international trading company of India and engaged in business of Minerals and Metals, it becomes very important to assess the financial performance of this company for economic stability and development of the country. In spite of this, a little research has been done on this sector till date. Hence, there is a great need and vast scope of further research in this area which made the Researcher to realize the need of doing research on MMTC Ltd. Some of the major reasons which motivated the Researcher to conduct the present research work are as under:

- Financial analysis is the canopy under which all business activities like human resource practices, marketing strategies, assets utilization and operational efficiency are evaluated in terms of financial aspects.
- The Researcher opted for evaluating the financial performance of MMTC with accounting and financial tools and techniques in a different perspective.
- As it is a major public sector trading company of Indian Government, still there is no research work has been done on this company as the Researcher gone through the existing literature.
- Being a leading international trading company and one of the major foreign exchange earners for India, it becomes very important to measure the financial performance of this company for economic stability and development of the country.

1.7. Objectives of the Research

The objectives of the present research include an analysis regarding the liquidity, solvency, profitability and patterns of earning with a view to evaluate the role of MMTC in economic development of the country. The researcher has made an attempt
to examine in detail the various aspects of its financial performance with a view to identify its strengths, weaknesses, opportunities and threats. The researcher also explores the reasons of bottlenecks and suggests ways and means to overcome financial problems of the Corporation, if any. The key objectives are:

- To evaluate liquidity and solvency position of MMTC.
- To examine its profitability position in terms of sales and investment.
- To analyze business activities of the corporation i.e. export, import and domestic trade.
- To evaluate overall performance of the corporation.
- To assess performance of its shares (price behavior) in the stock market.
- To suggest strategies for improving the financial performance of MMTC.

1.8. Hypotheses of the Research

Setting of hypothesis is an indispensable tool of a scientific research. It guides the investigator to examine the facts at micro level and it directs the researcher to move or not to move in particular direction. As regards the formulation of hypothesis, the researcher seeks to make financial performance evaluation of MMTC and decided whether or not the financial performance of the company has resulted into significant acceleration of satisfactory return. The hypotheses of the present research are as follows:

- H1: There is no significant correlation between sales and profit after tax.
- H2: There is no significant impact of sales on shareholders’ fund.
- H3: There is no significant correlation between trade practices and total turnover.
  - H3(i): There is no significant correlation between import and total turnover.
  - H3(ii): There is no significant correlation between domestic trade and total turnover.
- H4: There is no significant impact of export on total turnover.
- H5: The event of announcement of stock split has no significant impact on the stock price of MMTC.
- H6: There is no significant impact of Liquidity position on Return on Capital Employed (ROCE).
  - H6(i): There is no significant impact of current ratio on ROCE.
  - H6(ii): There is no significant impact of liquid ratio on ROCE.
H₇: There is no significant impact of Profitability position on ROCE.
- H₇(0): There is no significant impact of gross profit ratio on ROCE.
- H₇(1): There is no significant impact of net profit ratio on ROCE.
- H₇(2): There is no significant impact of operating ratio on ROCE.
- H₇(3): There is no significant impact of return on net worth on ROCE.

H₈: There is no significant impact of the Solvency Position on ROCE.
- H₈(0): There is no significant impact of interest coverage ratio on ROCE.
- H₈(1): There is no significant impact of proprietary ratio on ROCE.

1.9. Methodology of the Research

This study is primarily based on the secondary data obtained from the Profit & Loss Account and Balance Sheet associated with schedules, annexeure available in the published annual reports of MMTC Ltd. since Liberalization. For the purpose of the study, journals, conference proceedings, Government publications, different websites and other relevant documents have also been perused to supplement the data. Relevant data is also collected from Institute of Public Enterprises (IPE), Hyderabad.

The collected information and data has been systematically arranged, synthesized, tabulated and analyzed. In order to arrive at conclusions, the different financial and statistical tools have been applied for. In some cases, calculated data are presented in graphs to give the reader a better understanding about the study. This study uses major enterprise activities and comprises sales, cost of goods sold, export, import, domestic trade, shareholder’s equity, expenses, profit and total assets etc.

1.9.1. Period of the Research

The time period of twenty two years from 1991-92 to 2012-13 is taken to draw meaningful inferences. Data of last twenty two years are sufficient to have an idea about the financial performance of MMTC because Indian economy experienced major changes during this period. Common Size Statement Analysis and Comparative Statement Analysis of MMTC have been done from 1991-92 to 2011-12 by taking an equal gap of four years. Economic Value Added and Market Value Added have been analyzed from 2002-03 because the data of MMTC’s share is available from 2002 onwards.
1.9.2. Collection of Data

The data was collected from the published annual reports of MMTC Ltd. since 1991-92. Annual reports of the company were taken from its head office in New Delhi as well as Institute of Public Enterprise (IPE), Hyderabad. Websites of MMTC Ltd. and Bombay Stock Exchange (BSE) have also been used for collecting useful information. The information regarding the performance of the company has also been collected from various news papers, journals, Government reports as well as through internet.

1.9.3. Tools Used in the Research

The researcher has taken the financial statements and applied financial tools on available data i.e. common size and comparative statements analysis. Liquidity, profitability and solvency of MMTC analyzed through different accounting ratios accordingly. DuPont Model and Economic Value Added (EVA) and Market Value Added are also used for financial performance evaluation. In next phase, to check the trade performance of the company i.e. export, import and domestic trade have been considered and statistical tools i.e. regression analysis and correlation along with descriptive statistics have been applied. The event study is also employed to measure the impact of stock split announcement on share performance of MMTC in stock market. The financial ratios of MMTC Ltd. were calculated and their graphical presentation was done with the help of MS-Excel. Return on capital employed considers the important parameter in order to check the financial performance of any business concern. The impact of different ratios on return on capital employed of MMTC Ltd. has been measured in order to evaluate the financial performance of this company. The statistical tests were applied for using Statistical Package for the Social Sciences (SPSS).

1.9.4. Tools & Techniques of Financial Performance Evaluation:

**Accounting & Financial Tools**

- Common Size Statements Analysis
- Comparative Statements Analysis
- Economic Value Added (EVA)
- Market Value Added (MVA)
- DuPont Analysis
- Event Study
- Ratio Analysis
Statistical Tools
- Descriptive Statistics
- Correlation
- Regression Analysis

Figure – 1.1 Accounting, Financial, Statistical Tools and Techniques for Financial Performance Evaluation

1.10. Significance of the Research

It has already been discussed in the preceding paragraphs that MMTC is one of the leading international trading companies of India and it plays a significant role in Indian economy. So, it can be judged that large investments blocked in this company undertaken the study for research purpose, making it one of the reasons for present study. The following points will clarify the significance of the study:

- The present study provides information regarding the financial performance of MMTC. If suggestions made in this study are acted upon some meaningful outcome of industrial and business process of MMTC are likely to emerge.
- The financial performance evaluation will give an outcome about the workings and performance of this company which will be helpful for the company itself in order to enhance its performance and business activities.
- A large population of the country, even from housewife to businessman have started to invest their money in share markets. This financial analysis will be helpful to them in making proper decisions while investing their money to buy the shares of this company.
- The suggestions of this study may also be helpful for the Government in making policies regarding foreign trade of the country.
- It is also necessary to find out some important factors which may affect internal decision making of the company. Hence, this research is deemed to be useful for this purpose.
- An analysis has been made on various aspects like liquidity, solvency, profitability and assets utilization. Thus, the relevant information can be used by stake holders in decision making.

1.11. Chapter Plan

The structure of the thesis is as follows:

Chapter one provides introductory background of the research topic, research methodology along with objectives, hypotheses, scope, significance and chapter plan of the research. In Second chapter, extensive reviews of available literature have been made on Public Sector Enterprises and Financial Performance Evaluation separately. Chapter three discusses about the Public Sector Enterprises in India especially engaged in the business of Minerals and Metals with special focus on MMTC Ltd.
Chapter Four serves as a concise discussion on methodology of financial performance evaluation and elaborates different accounting, financial, statistical tools and techniques used to evaluate the financial performance. Fifth chapter is the main part of the thesis and various accounting, financial and statistical tools are used to evaluate the financial performance of the MMTC Ltd. with the help of available data. Chapter six is the concluding part of the study. It presents the findings of the research based on pre-determined hypotheses. The findings of the study help in suggesting scope and directions for further research. Limitations are always there in a study. This research also has some limitations which have been pointed out in this chapter.

**Figure – 1.2 Chapter Plan of the Research**

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*Source: Researcher Compilation*

The present chapter dealt with introductory background of the research i.e. financial performance, its evaluation and an epigrammatic discussion about the MMTC Ltd.
The research design was also briefed in the same chapter which included objectives, hypotheses, research methodology followed by the scope and significance of the study. The successive chapter will highlight the Public Sector Enterprises of India engaged in the Minerals and Metals Trade. The detailed description of MMTC Ltd. along with its all important facets will also be given in the next chapter.

References


