CHAPTER – I
CHAPTER-I

INTRODUCTION

There has been a remarkable transformation in the Indian economy from laissez-faire policy to socialistic pattern of society and then nationalization of industries to privatization of industries. After the implementation of the New Economic Policy only six\(^1\) industries are reserved for public sector and only eight\(^2\) industries required industrial license. The above information shows that the role of public sector in promoting the industrial development of India has been marginalized. The Indian economy has become a market economy and everything is determined by market forces rather than by Government regulations. The reasons for privatization of industries and giving less importance to public sector enterprises was due to unsatisfactory financial performances of public sector enterprises in the fields of industrial production, banking, life assurance, general insurance etc., The public sector undertakings may be of department undertakings, statutory corporations and Government companies.

---

\(^2\) Dr. M.M. Varma, & Dr. R.K. Agarval, Business Society & Government, Forward Book Depot, Delhi.
In case of Government companies there are also investors from private. When there are investors from outside Government in Government companies, there might be some directors also from outside of the Government. In such a collective administrative decision making process the performances of Government companies are expected to be better. Therefore, it is interesting to study the financial performances of a Government company. The TamilNadu Newsprint And Papers Limited (here in after referred to as TNPL) is a Government company of Government of TamilNadu situated at Kagithapuram village of Karur taluk, and Karur District of TamilNadu is taken to analyse its financial performances.

**Statement of the Problem**

TNPL is a Government company. Its shares are held by the Government of TamilNadu, individual investors and the employees of TNPL. The shares of the TNPL were sold at a premium. The employees of the TNPL fought to buy the shares of TNPL. The shares of TNPL were sold at a premium even to its employees. However, as on 28th January 2002 the market value of one equity share of TNPL was Rs.43.3

---

It is one third of the price at which the shares were initially sold to the public. What made the investors to buy the shares of TNPL at a higher rate and what made them to sell the shares in the stock exchanges at one-third of the original price needs re-examination. The fall in prices of equity shares may be due to poor financial performance of the TNPL. To ascertaın as to whether the poor financial performances of TNPL is the reason for the fall in price of shares, the financial performances of TNPL over a given period of time have to be examined.

**Importance of the study**

It is an era of liberalisation, globalization and privatization. Privatization is a process of selling away the shares of public sector undertakings to private. The shares of public sector undertakings could easily be sold in the market when the financial performances of a public sector undertaking is upto the expectation of the investors. The investors view the financial performances of a public sector undertaking from the point of view of intrinsic value of shares, market value of shares, earnings per share, retention ratio etc., A study on appraising the financial performances of TNPL may reveal several results which will enable the investors and prospective investors to take appropriate decisions. The study is significant in examining the financial performances of a Government company with a view to project the implications of past results to future.
**Scope of the study**

TNPL is a Government company. 22 Annual general meetings have been held by the TNPL. The accounts of the TNPL have been audited statutorily. The auditor's report have been placed before legislative assembly of TamilNadu to have a better legislative control over the affairs of the TNPL. Every other facts and figures of the TNPL is highly transparent and published. Every year the TNPL publishes its annual report. Its shares have been quoted in the National stock Exchange and Regional stock exchanges. In this context of privatization of public sector undertakings there is a scope to study the financial performances.

**Objectives of the study**

The Government of TamilNadu, shareholders of TNPL, the society as a whole and the prospective buyers and sellers of TNPL shares are very much interested to know the past, present and future financial performances of TNPL. The proposed study is undertaken to examine the financial performances of TNPL from the point of view of the investors. The specific objectives of the study are as follows:

1. To examine theoretically the rationale of establishing TNPL in a village Kagithapuram.
2. To bring out the production, operational and financial results of TNPL with a view to project its performance in quantitative terms.

3. To analyse the financial performances of TNPL statistically with view to ascertain the facts for the fall in prices of its shares.

4. To suggest views to improve the financial performances of TNPL.

**Limitations of the study**

The study is confined to TNPL and that to only for a period of five years from 1997-98 to 2001-2002. The study is based on facts and figures published by the TNPL through its annual reports.

**Research Methodology**

The Research methodology of case study is adopted. TNPL is taken as a case. Historical method of collecting past data is adopted.

**Sampling Technique**

Sample unit is TNPL. Sample size is one. Purposive sampling or convenient sampling technique is adopted, as the TNPL is nearer for every other purpose.
Data Collection

Only secondary data is used. Articles. Research paper publications. Ph.D., works, Books, Journals, Conference results, Stock Exchange Reports and the Annual Reports of the TNPL are widely used.

Data Analysis

All statistical techniques which are used in financial accounting are widely used. Mostly ratio analysis is used for the purpose of comparative study. Graphs, charts and diagrams are kindly used for the purpose of data interpretation.

Chapter Arrangements

In the first chapter an attempt has been made to give an Introduction about the topic, Statement of the problem, Importance of the study, Objectives of the study, Limitations of the study, Research Methodology, Sampling Technique, Data Collection, Data Analysis...etc.,

In the second chapter deals with profile of the TNPL.

In the third chapter, Rationale behaviour public sector undertakings are dealt at length.

In the fourth chapter, Analysis of Financial performance of TNPL is being made.

The summary of all the chapters are given in the fifth chapter.