CHAPTER - I
INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

The success of Economic growth of any country mainly depends on constructive Industrial growth. Industrial activities consist of small, medium and large scale industries. Management of these industries gained considerable importance of right from the inception of the business. This has become more apparent because of the global competition under the broad areas of management, the subject financial management gained importance for the success of business units.

MEANING

Financial Management is an appendage of the finance function. With the creation of a complex industrial structure, this function has grown so much that it has given birth to a separate subject- Financial Management.

Howard and Upton have observed that : “Financial Management involves the application of general management principles to a particular financial operation”. Financial Management provides the best guide for future resource allocation by a firm. It provides relatively uniform yardstick for judging most of the enterprise’s operations and projects. Financial Management implies the designing and implementation of a certain plan. Plans aim at an effective utilisation of funds. In the words of James Van Horne: “Planning is an inextricable dimension of financial management”. The term ‘financial management’ connotes that funds flow are directed utilizing funds necessary for the efficient operation of an enterprise. In this connection, Raymond Chambers has observed: “Financial Management may be considered to be the management of the
finance function. It may be described as making decisions on financial matters and facilitating and reviewing their execution. It may be used to designate the field of study which lies beneath these process.

DEFINITION

Joseph and Massie defines “Financial Management is the operation activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations”.

Weston and Brigham defines “Financial Management is an area of financial decision making, harmonizing individual motives and enterprise goals”.

Financial Management refers to that part of the management activity which is concerned with the planning and controlling of firms financial resources. It deals with finding out various sources for raising funds for him. The sources must be suitable and economical for the needs of the business. The most appropriate of such funds also firms of part of financial Management\(^1\).

According to Gutham, “Financial Management is concerned with the management decisions that results in the acquisition and financing of long term and short term credits for the firm. As such it deals with the situations that require selection of specific assets or combination of liabilities as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives”\(^2\).

Finance is an art of recording, classifying and summarizing, in terms of money transactions and events of a financial characters. It makes use of the information provided by the accounting system.
According to Solomon, “Financial Management is concerned with efficient use of an important economic resource namely, capital Funds”\(^3\).

**CONCEPT OF FINANCIAL MANAGEMENT**

Financial Management is the dynamic, evolving or making of day-to-day financial decisions in a business of any size. Financial Management holds the essence as it has an “impact on all activities of a firm”. In this connection, Raymond chambers have observed, “Financial Management may be considered to the management of the finance function. It may be described as making decisions, a financial matters and facilitating their execution”.

Financial Management implies a more comprehensive concept than the simple objective of profit making or efficiency. Its broader mission is to maximize the value of the firm so that interest of different section of the community remain undistributed and protected. Thus, the financial Management, as an integral part of overall management, is not totally independent area. It draws heavily on related disciplines and fields of study such as economics, accounting, marketing, production and quantitative methods.

Financial Management is a form of applied economics which draws heavily on economic theory which is evident more visibly in too broad areas-macro economics and Micro Economics. Macro economics is concerned with overall institutional and international environment in which the firm must operate. It is also concerned with the structure of banking system, financial intermediaries, public finance system and the economic policies of the Government. Micro Economics is concerned with the determination of optional operating strategies for firms or individuals, with efficient operations and with defining an action that will make it possible for a firm achieve financial success.
SCOPE OF FINANCIAL MANAGEMENT

Financial Management essentially optimizes the output from the given input of funds. It attempts to use the funds in the most productive manner. In a country like ours where resources are scarce and the demand on funds are many, the need for proper financial management is enormous. If proper financial management techniques are used, most of our enterprises can reduce their capital employed and improve their return on investment. It clearly shows that just as men and machines are to be managed properly in the similar manner finances are also to be well managed.

Often, in newly started companies with a high growth rate adequate attention is not paid to proper financial management on the ground that they want to develop their production and marketing facilities first. However, such companies ignore finance only at their own peril. Actually, in the case of such companies, it is even more important to have sound financial management since finance alone guarantees their survival.

Financial Management is very important in the case of non-profit organizations also which do not pay adequate attention to financial management. Even a simple act, like depositing the cheques on the day of their receipt is not performed. Such organizations pay heavy interest charges on borrowed funds, yet they are tardy in realizing their own debtors. All this arises because one has no realization of the concept of time value of money. It is not appreciated that each rupee has to be made use of, and that it has a direct cost of utilization. It has to be realized that keeping rupee idle even for a day results into losses. A non-profit organization may not be keen to make profit, in the traditional sense of the term, but surely it needs to cut down its cost and use the funds at its disposal to their optimum capacity. A sound sense of financial management has to be cultivated among our bureaucrats, administrators, engineers, educationalists,
and public at large. Unless this is done the colossal wastage of the scarce capital resources of our country cannot be stopped.

OBJECTIVES OF FINANCIAL MANAGEMENT

Efficient Financial Management requires the existence of some objective or goals because judgement as to whether or not a financial decision is efficient must be made in the light of some objective. Although various objectives are possible we assume two objectives of financial managements. These are:

Profit Maximisation

It has traditionally been argued that the objective of a company is to earn profit. Hence the objective of financial management is also profit maximization. This implies that the finance manager has to make decisions in a manner so that the profits of the concern are maximized. Each alternative, therefore, is to be seen as to whether or not it gives maximum profit. However, profit maximization cannot be the sole objective of a company. It is at best a limited objective. If profit is given undue importance, a number of problems can arise.

Wealth maximization

It can be appreciate that a company, which has profit maximization as its objective, may adopt policies yielding exorbitant profits in the short run which are unhealthy for the growth, survival and overall interests of the business. A company may not undertake planned and prescribed shut-downs of the plant for maintenance, etc. for simply to maximize its profits in the short run. If this reduces the life of a plant say by five Years, the company is ignoring maintenance only at its own peril although it may have greater profits in the short run. Hence, it is commonly agreed that the objective of a firm should be, to maximize its value or wealth.
How do we measure the value/wealth of a firm? According to Van Horne, “Value of a firm is represented by the market price of the company’s common stock…. The market price of a firm’s stock represents the focal judgement of all market participants as to what the value of the particular firm is. It takes into account present and prospective future earnings per share, the timing and risk of these earnings, the dividend policy of the firm and many other factors that bear upon the market price of the stock. The market price serves as a performance index or report card of the firm’s progress. It indicates how well management is doing on behalf of stockholders”. There is no doubt that prices in the share market, at a given point of time, are the result of a curious mixture of many factors like general economic outlook, particular outlook of the companies under consideration, technical factors and even mass psychology. However, taken on a long term basis, the market prices of a company’s shares do reflect the value which the various parties put on a company.

**STATEMENT OF THE PROBLEM**

Indian economy has grown at a 7-8% rate in last 4 years. Manufacturing and services industries contributed approximately at 90% of the growth. A strong economy contributes to consumption of papers in all sectors - office, education and personal consumers. Due to improving living standard and higher disposable incomes, the demand for branded high end paper and hygiene paper products has increased in last 3-4 Years. The demand for upstream market of paper products like tissue paper, tea bags, filter paper, light weight coated paper, medical grade coated paper, etc., is picking up with the growth of economy. These developments are expected to give strong support to the paper industry. Strong consumer demand for packaged goods is fueling high growth in industrial grades of paper and boards, largely led by growing disposable incomes and lifestyle changes.
Indian paper Industries have also planned to develop this sector and to increase production. Due to heavy inflation rate prevailing now and heavy cost of raw materials, heavy interest on debt have prevented all these measures to nothing.

Not only political reasons, but other factors like clearing heckles in getting the land where paper industry would be built pose a major set-back. Heavy decline in stock-exchange also hinders the funds required for their enlargement.

In recent Years, paper prices are high because of the factors like high government duties and taxes, and fragmentation of the industry, excise duties, sales and other local taxes. In addition to this, power costs are also soaring and in many states paper industry have to install expensive captive power units, as the state power supply is erratic and unreliable. This industry has been experiencing acute power shortage, poor quality of raw material and inadequate transport facility. The paucity of some inputs prevented the industry from using its full capacity. Continuous technological upgrading and assimilation of latest technology is essential for the paper industry. The induction of advanced technology has helped the industry immensely to conserve energy and to save materials substantially. Therefore paper industries require finance. Finance is the nerve centre and life line of their economic activity. It plays an extremely crucial role in the continuity and growth of a paper business.

Based on the above issues, the following queries were probed by researcher to take up this study:

i) To what extent the paper industry affected by its financial position?

ii) How the paper industries perform their capital structure?

iii) What strategies should be adopted for effective financial position?
So, it is essential to study about the requirements of finance of both short term and long term funds of major paper industries in Tamil Nadu. Hence, the researcher selects the two major paper industries i.e., Tamil Nadu News Print and Papers Limited (TNPL) and Seshasayee Paper and Boards Limited (SPB Ltd).

REVIEW OF LITERATURE

The Indian Paper Industries had an impressive growth during last decades and occupies an important place in Indian economic development. Even though the paper industries have shown a substantial growth, many companies have incurred losses and some companies have made good profits. The profit represents one of the elements of the financial performance. In this section an attempt is made to review the earlier studies in order to identify the gap that exists. The research conducted by different researchers and agencies were examined.

Anup Agarwal and Nandu J.Nagarajan (1990), presented a research paper on, “Corporate Capital structure, agency costs, and ownership control: The case of all-equity firms”. In this study, they attempted to reveal that all equity firms (Firms which use no long-term debt over a continuous five-Year period) exhibit greater levels of managerial stock holdings, more extensive family relationships among top management, and higher liquidity positions than a matched sample of levered firms.

Further, it leads that, the managerial control of voting rights and family relationships among senior managers are important factors in the decision to eliminate leverage. Their main findings are:

1) Managers of all-equity firms have significantly larger stock holdings than managers of similar-sized levered firms in their industry.
II) There is significantly greater family involvement in the corporate of all-equity firms than in levered firms.

III) Managerial ownership in all equity firm is positively related to the extent of family involvement, and

IV) All-equity firms are characterized by greater liquidity positions than levered firms.

Harish Hanoa (1990), in his study entitled, “Capital Structure and financing of sugar Industry in India”, had the objective of examining the capital structure of both joint stock sector and the co-operative sector sugar mills. It also examined the equity-debt proportion in the two segments with a view to determine whether they have evolved the optional capital structure. Harish Hanoa collected data from the primary and secondary sources. The primary data were collected from the sample units. The secondary sources comprised Stock Exchange Official Directory, Indian Sugar Mills Association and IFCI. The sample consisted of 50 Units from joint stock sector and 25 units from cooperative sector.

He used ratios and statistical techniques such as correlation and regression to analyse the capital structure. He concluded that the sample units had optimal capital structure and working capital requirements were met by short-term finance provided by banks and financial institutions. The capital structure of co-operative sugar mills differed from joint stock sugar Mills. The single industry study did not look into the effect of cost of capital on the capital structure.

Matta N.S. (1990), in his Ph.D., thesis entitled, “A study of the pattern of corporate Financial Structure in India”, aimed at studying. The pattern, if any, in the inter industries variation in financial structure, which are associated with the
characteristics of different industries. The pattern of financial structure, if any, caused by the variation in corporate size, and the variation in the financial structure of companies caused by the different growth rates. He collected data from the 75 companies included in his sample from the published annual reports of the companies, RBI Monthly Bulletin, Reports of Industrial Credit and Investment Corporation of India, Kothari Economics and Industrial Guide, and Bombay Stock Exchange Official Directory. He used various statistical tools and ratio analysis to study the financial structure of companies. The result of his analysis revealed that two variables, viz., industry size and growth were the significant determinants of financial structure.

The empirical findings of the study supported the hypothesis of capital structure’s dependency on growth, size of industry, though in some cases the results were not as favourable as expected.

**Milton Harris and Author Raviv (1991)**, issued a paper on “The theory of capital structure” which surveys capital structure theories based on agency costs, asymmetric information, product/input market interactions, and corporate control considerations (but excluding tax based theories) for each type of model, a brief overview of the papers surveyed and their relation to each other is provided. They concluded that the theories surveyed have identified a great many potential determinants of capital structure (in addition to taxes). Based on the study, a fairly small number of “general principles” is evident. This area is still in infancy and is short on implications relating capital structure to industrial organization variables such as demand and cost parameters, strategic variables etc.

**Yesoda Devi (1992)**, has studied “Cost of capital and capital structure of Indian industries” with the objectives of
I) Analyzing the components of capital structure of selected industries,
II) Studying the relationship between the capital structure and cost of capital and
III) Ascertaining the influence of selected ratios on cost capital.

The study was a doctoral research work submitted to Bharathiyar University, Coimbatore. She collected data from 87 sample units that were classified into ten categories. The required data were collected from the Bombay Stock Exchange Directory. The capital structure of sample units were analysed by using debt equity ratio, price-earnings ratio, payout ratio, etc. Simple statistical tools like mean and co-efficient of variation were used for analysis. She conducted that the extent of relationship between capital structure and cost of capital varied from company to company. The weighted average cost of capital was sensitive not only to the proportions of capital components but also to earnings per share, retaining ratios as well as market price of the shares. Debt equity ratio was one of the factors, which affected the cost of capital.

Subarna Sarkar (1993) 10, in her doctoral research work on “Capital Structure and productivity of capital in Indian corporate sector” had the objectives of
I) Analyzing the pattern and distribution of capital structure,
II) Assessing the parameters revealing the productivity of capital,
III) Appraising factors that help in ascertaining the optimum capital structure.

Evaluating the impact of such factors on the capital structure and its productivity power, and ascertaining the capital structure that yields the maximum capital productivity under given circumstances in the corporate sector. She had selected 15 companies from private sector and 14 from public sector in textile industry as sample for her study. The data for this study were collected from Bombay Stock
Exchange Directory, Reports of Bureau of Public Enterprises Survey and Reports of the Textile Committees in India and other secondary sources. She concluded that a greater debt oriented financing in public sector enterprises during the overall period and positive trends of private sector companies shows that such profits are retained in business for augmenting the resources. The level of leverage directly reflects the distribution of capital structure. The total coverage and structural ratios of private sector were polls apart in terms of their approach to managerial problems; the study compared the capital structure of both the sectors.

Rajeshwari Rao (1994)\textsuperscript{11}, in her study entitled, “Impact of capital structure decisions of operating performance of State Enterprises in Andhra Pradesh”, had the objective to analyse the impact of capital structure decisions in public sector enterprises. The data for the study were drawn from circulars, publications, consolidated annual reports published by the department of public sector undertakings of the Government of Andhra Pradesh. She analysed the capital structure by using debt equity ratio, current ratio, price earnings ratio, proprietor’s ratio, etc. She also examined the behavior of the above all variable by computing index number for ten Years. She concluded that the process of capital structure planning was not a one time job, but needs revision and monitoring through time in different situation.

Her conclusion also clearly exhibits that finance executives of state enterprises are not paying adequate attention to the multi-dimensional implications for the capital structure decisions.

Greg Filbeck, Raymond F.Gorman and Dianna C. Preece (1996)\textsuperscript{12}, submitted a research paper, titled, “Behavioural aspects of the Intra-industry Capital structure decision”, in which they examined that firms may actually make financing
decisions following the trend set by some industry leader. In other words, a certain firm within an industry is a “leader” and the other firms in the industry are “followers”, will try to emulate the leader’s capital structure decisions. Applying the concepts of prospect theory and self deception to financial manager’s decision making may provide important insights into the way firms make choices. However, this field is in its infancy and much work remains to be done.

Haim, Ben Shahar (1996)\textsuperscript{13} in his article, “The capital Structure and the Cost of Capital - A suggested exposition”, has examined the firm’s capital structure and the efficient opportunity curve of yield versus risk. The capital structure theorem was formulated stating that the firm’s cost of capital is constant along with the range of efficient structure and rises at the inefficient range. Since the range of efficient capital structure was shown to depend on the market structures, interest rates, it followed that the shape of the cost of capital curve is determined by the interest rate structure.

It was therefore concluded that, in a perfect capital market where the interest rate is constant and capital structure is efficient, the cost of capital is constant. When a firm’s borrowing rate rises and the investor rate is constant, the range of efficient capital structure is limited. The highest efficient financial leverage is determined where the firm’s marginal borrowing rate equals the investor rate. The cost of capital is therefore constant along with the range or efficient capital structure and rises along with the range of inefficient capital structure affecting the shape of the cost of capital curve. This analysis was carried out under the constraint that the investors have the opportunity to invest their own capital with any borrowed capital either in stocks or in riskless bonds.
Dev Prasad, Garry D.Broton and Andreas G.Merkas (1997) 14, presented a research paper on “Long-run strategic capital structure” in which they analysed to confirm the link between capital structure and strategic posture of the firm. Specifically, managers were found to structure the selection of debt and capital intensity in a means consistent with the strategic goal of long-run control of systematic risk. Therefore, the efficacy of a strategic perspective of capital structure will be examined by investigating the control of systematic risk in firms over long term through the adjustment of the firm’s capital structure. They concluded that their study demonstrates the relevance of the concept of long run strategic capital structure.

Further, their empirical findings suggest that the interaction between asset and financial structure explains a large portion of the variation in beta. Managers do engage in tradeoffs to control and maintain the strategically selected level of systematic risk and that trade off is stringer at higher level of systematic risk.

Ramkumar Kakani (1999) 15, in his study has analysed the debt structure of large Indian private manufacturing firms during pre and post liberalization periods founds that liberalizations, profitability, capital intensity and non debt tax shield are important determinants of capital structure.

Kumar Sanjay (1999) 16, stated that there have been various measures of profitability of the banks. An excellent framework of profitability measurement has been provided by Return on Equity (ROE) model given by David Cole, in 1972. Return on Equity (ROE) measures profitability from shareholders’ perspective. It is defined as the net profit divided by shareholders equity, where the net profit is the net income before appropriation and the shareholders equity comprises of the equity share capital and all reserves and surpluses entitled to equity shareholders.
Mahesh Chand Garg and Chander (2002)\textsuperscript{17}, has made the study on “The determinants of Capital Structure in India”. They have selected cotton, chemical, engineering and cement industries for analyzing the debt structure that underlines the determinants of capital structure. They have concluded that assets composition, collateral value, life and corporate sizes are the significant factors in deciding the capital structure of these industries. The studies reviewed in this chapter are all related to the capital structure of various industries and to the financial performance of some specific industries. Intense analysis has not so far been done with reference to the capital structure of paper industrial units, especially TNPL and that of SPBL.

Utkarsh Majumdar (2003)\textsuperscript{18}, in order to study the phenomenon in the Indian Market at a time when the pricing norms had been liberalized had undertaken a study by paying attention to both the initial and the aftermarket price performance of IPO’s. He has presented his findings in the article titled “Under Performance of Initial Public offerings in India”. This study creates an idea to understand the affecting effect of institutional set-up while comparing the results of studies made across the country.

Eijelly, A.,(2004)\textsuperscript{19}, elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner to eliminate the risk of inability to meet due short-term obligations and avoids excessive investment in these assets. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (Cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis. The study found that the cash conversion cycle was of more importance as a measure of liquidity than current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were
stable and had important applications for liquidity management in various Saudi companies. First, it was clear that there was a negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined.

Kanaga Anbuselvam and Namasivaym (2005)\textsuperscript{20}, in their article analyzed the emerging trends in sugar industry and suggested that lending banks have to come forward to provide adequate cash credit limits to sugar industries, as they were the valuable customers of Banks. This measure would enable the industries not only to find buffer stock adequately, but also to minimize the process loss of sugar and to minimize the wage index per bag of sugar by utilizing the sophisticated information technologies. They strongly formed the view that the twin objectives of agricultural development and industrialization in India could be achieved only by the successful operation of sugar industry.

Thirunarayansamy (2006)\textsuperscript{21}, in his study analysed Co-operative sugar mills in Tamil Nadu and concluded that the sickness in co-operative sugar mills was found to increase Year by Year. It is reflected by Altman’s Z- Score. The accumulated losses, Absolute technology, mismanagement in finance and production factors were the important causes for sickness in the mills. The deviation from High Level Commission norms was due to the above mentioned factors, which clearly revealed the weak position of the mills. The officials opined that there was little scope for reviving the sick mills. However, for recovery from sickness, norms in production and related aspects have to be followed. The study concluded that better management practices and strict implementation of norms would produce better results.
Aarati Krishnana and Srividya Sivakumar (2006), have observed that due to the prevalence of a see-sawing stock market and the enforcement of restrictions by the SEBI on multiple applications made by those IPOs losing sheen among retail investors, there is necromantic decline in the level of retail response on IPO in the Year 2006 compared to the Year 2005. The same has happened in the concept of over-subscription. (The quantum of over subscription has declined from an average of 191 times in the Year 2005, to just around 5 times in the Year 2006). It is also found that the retail investors were applying for fewer shares in the Year 2006 than they did in the Year 2006.

Fulbag Singh and Balwinder Singh (2006), studied the funds management in the District Cooperative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Cooperative Banks and thus had a larger provision for non-performing assets.

M.Kannadhasan (2007), made an attempt to have an insight into the examination of financial health of a watch company in India. To evaluate the financial conditions and performance of a company, this study used the Z- Score model, which captured the predictive viability of a company’s financial health by using a combination of financial ratios that ultimately predicted a score, which can be used to determine the financial health of a company. The study concluded that the company’s overall financial health was good.

Abdul Raheman and Mohamed Naser (2007), Working Capital Management has its effect on liquidity as well on profitability of the firm. In this research, they have selected a sample of 94 Pakistani firms listed on Karachi stock
exchange for a period of 6 Years from 1999-2004, they have studied the effect of different variables of working capital management including the Average payment period, Cash conversion cycle and Current ratio on the Net operating profitability of Pakistani firms. Debt ratio, size of the firm (measured in terms of natural logarithm of sales) and financial assets to total assets ratio have been used as control variables. Pearson’s correlation, and regression analysis (Pooled least square and general least square with cross section weight models) are used for analysis. The results show that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that as the cash conversion cycle increases it will lead to decreasing profitability of the firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. They find that there is a significant negative relationship between liquidity and profitability .they also find that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

Murray Z. Frank and Vidhan K. Goyal(2009)\textsuperscript{26}, in his Paper, “Capital Structure Decisions: Which Factors are Reliably Important?” he examines the relative importance of many factors in the capital structure decisions of publicly traded American firms from 1950 to 2003. The most reliable factors for explaining market leverage are: median industry leverage (+ effect on leverage), market-to-book assets ratio (?), tangibility (+), profits (?), log of assets (+), and expected inflation (+). In addition, we find that dividend-paying firms tend to have lower leverage. When considering book leverage, somewhat similar effects are found. However, for book leverage, the impact of firm size, the market-to-book ratio, and the effect of inflation
are not reliable. The empirical evidence seems reasonably consistent with some versions of the trade-off theory of capital structure.

Manjit Singh and Rohit Kumar, (2009)\textsuperscript{27}, in their study evaluated the emerging trends in the growth and financial performance of General Insurance Companies in India. The study reveals that the private sector general insurance companies results present better efficiency in terms of expenses of management ratio, combined ratio under writing results ratio, whereas the performance of public sector general insurance companies in terms of best earnings, and return of net worth ratio is better than that of private sector companies. The study concludes that the entry of private sector insurance companies has contributed to the strengthening of general insurance business.

Suganlakshmi.P and Kiruthiga, S., (2009)\textsuperscript{28}, discussed the impact of globalization of Indian insurance business. The foreign investment in insurance sector is important in promoting financial stability, it also helps to facilitate the trade and commerce in developing economies. India is an attractive destination for global insurers. She also explained the effects of global insurance. (1) It might have positive signals on creating more number of job opportunities. (2) There would be huge inflow of funds into the country with foreign capital. (3) There will be a deep fall in the outward reinsurance, India would receive inflow of funds from the neighboring countries. (4) Revolution in the transfer of technologies and knowledge from the global participants in the market. (5) The distribution channels will be widened when the products offered are many.

Matthew Hill, G Wayne Kelly, Michael High field (2010)\textsuperscript{29}, in his Paper titled “Net Operating Working Capital Behavior: A First Look”, examined that Net
operating working capital captures multiple dimensions of firms’ adjustments to operating and financial conditions. Sales growth, uncertainty of sales, costly external financing, and financial distress encourage firms to pursue more aggressive working capital strategies. Firms with greater internal financing capacity and superior capital market access employ more conservative working capital policies. The evidence suggests that operating and financing conditions should be considered when evaluating working capital behavior, not just industry averages. Additionally, industry concentration magnifies the effect of sales growth.

**Chander and Chandel (2010)**[^30], analyzed the financial viability of HARCO Bank and found weak financial position in terms of capital adequacy, liquidity, earning quality and the Management efficiency parameters. Centric to the ratio analysis, these studies have customized and bended different ratios in a model form to examine and predict the financial health. Similarly, comparative performance, recovery performance, cost reduction, productivity and efficiency are vital areas which have been considered by various analysts. With inquisitiveness, the present study has been undertaken with specific objectives as envisaged in the next section.

**Prof.D.P.Singh (2011)**[^31], in his study on working capital management and profitability in it and telecom industry in India investigated the relationship between working capital management and profitability in the firms belonging to IT and telecommunication industry in India. 11 firms were randomly selected, out of which, 05 belong to information technology industry and the remaining are from the telecommunication industry. The researcher took the return on capital employed as a measure of profitability. And other variables for studying working capital management were working capital turnover, current ratio, days’ inventory outstanding, days’ sales

[^30]: Chander and Chandel (2010)
[^31]: Prof.D.P.Singh (2011)
outstanding, days’ payable outstanding and cash conversion cycle. The researcher collected financials of the companies for 12 Years from 1999 to 2010. Therefore, in all, 132 firm Year observations (after pooling cross section and time series data) were used for the study. The researcher carried out descriptive statistics and correlation analysis using SPSS. The results show a positive relationship between working capital turnover, current ratio, sales to total asset ratio and profitability. Day’s inventory outstanding shows a negative relationship with profitability. Relationship of current ratio with profitability, which is positive, is a departure from past studies.

**IMPORTANCE OF THE STUDY**

India being the leading and developing country in Asia after China has been continuously focusing on its fiscal development since long. Our industrial, infrastructures have to be under constant development to par ourselves with neighbours and other world countries to stabilize our status and to cater all sorts of people in India. Modern men need to run faster along with other competitors. A country’s financial growth primarily depends on the availability of natural resources and the process how they are used. Man has learnt how to use all the natural resources to make his life better.

Since the origin of civilization man has fought with natural forces to domesticate his livelihood. As man is a social animal, he has found ways to habitate a territory and has learnt to housing. Man has changed his life style along with the growing phase of civilization. Today’s skyscrapers tell tales about his achievement and his financing ability in the world market. Under globalization everything belongs to anybody and he is in constant chase to have a snitch for his own.
As paper has become a prime source for country’s growth and development and as its production involves a lot of synthesis, the study on paper is a mandatory and details units financing help to know the essence of paper and its manufacturing.

Increase in financial effectiveness is imperative in order to make targeted sales. Improvement in performance efficiency is also essential to increase total production of the company. Like any other functional management in a firm financial performance is a vital functional organ of the company. If financial performance does not operate well, the whole organizations activity will be ruined.

Inefficient financial management often paralyses the activity of the company. For this reason many companies have a separate department to look after the financial performance. Financial analysis and review is very helpful for the assessment of financial strength, weaknesses, opportunities and threats of the company in future. Operating efficiency of the firm results in optimum utilization of resources at minimum cost. If the company successfully controls operating costs, it will be able to improve net profit margin that will, in turn, release greater funds for working capital purposes.

Seasonal fluctuations in sales affect the level of variables working capital. Often, the demand for products may be of a seasonal nature. Yet inventories have got to be purchased during certain seasons only. The size of the working capital in one period may therefore, be bigger than that in another. Hence, the measurement of the financial performance is very much in need to check the effective management of working capital also. So, the researcher attempts to study about the financial performance of select paper industries in Tamil Nadu i.e., Tamil Nadu News Print and Papers Limited (TNPL) and Seshasayee Paper and Boards Limited (SPB Ltd).
SCOPE OF THE STUDY

The scope of the study is to examine about the financial performance analysis in select paper industries in Tamil Nadu. The study is restricted to two major paper industries, namely Tamil Nadu News Print and Papers Limited (TNPL) and Seshasayee Paper and Boards Limited (SPB Ltd). The Researcher ignored other paper industries in Tamil Nadu being they are very small and medium size.

OBJECTIVES OF THE STUDY

The objectives of the present study are as follows:

- To study about the origin and growth of Paper Industries in Tamil Nadu.
- To study about the profile of Tamil Nadu News Print and Papers Limited (TNPL) and Seshasayee Paper and Boards Limited (SPB Ltd).
- To study about the financial structure and operative performance of select paper industries in Tamil Nadu ie., TNPL & SPB Ltd.
- To analyse the financial performance of select paper industries in Tamil Nadu ie., TNPL & SPB Ltd.
- To summarise the findings and offer suitable suggestions to improve the overall performance of select paper industries in Tamil Nadu ie., TNPL & SPB Ltd.

PERIOD OF THE STUDY

The study period is confined to ten years starting from the financial Year 2001-2002 to 2010-2011 and the collected data relates to last ten Years.
RESEARCH METHODOLOGY

SOURCES OF DATA IN STUDY

In the present study only secondary data is used. The secondary data were collected from the annual reports, journals, periodical, websites and through official of the select paper industries. So, the primary data are not considered in this study.

FORMATION OF THE SAMPLE SELECTION

Out of the number of paper industries in Tamil Nadu, two major paper industries Tamil Nadu News Print and Papers Limited (TNPL) public sector and Seshasayee Paper and Boards Limited (SPB Ltd) private sector have been selected for the study.

FRAME WORK OF ANALYSIS

The ultimate objective of the study is to examine the financial performance analysis of select paper industry in Tamil Nadu. In order to study the particulars regarding material consumed, production, total inputs, value added gross output, sales, capital structure, fixed asset, current asset and all other financial variables were obtained from the annual reports of the respective companies.

STATISTICAL TOOLS USED

The various financial and statistical parameters are used in this study for the purpose of detailed analysis. The financial parameters are financial ratios, leverage and coverage ratios, liquidity or working capital ratio and profitability ratios.
Financial Ratio includes

1. Funded Debt to Capitalization  = Long-term loan / Total capitalized fund
2. Fixed Assets ratio = Fixed Asset / Capital Employed
3. Inventory Turnover ratio = Net sales / inventory
4. Fixed asset turnover ratio = sales / Fixed Assets
5. Gross profit Ratio = Gross profit / Sales
6. Net profit Ratio = Profit after tax / sales

Leverage and Coverage Ratio includes

1. Debt Equity Ratio = Total Debt / Share holders Fund
2. Interest Coverage Ratio = PBIT / Fixed Interest Charges
3. Proprietary Ratio = Share holders fund / Total Assets
4. Capital Employed Turn over Ratio = Cost of Sales / Capital Employed
5. Capital gearing Ratio = (Long-term loans + preference share capital) / Shareholder fund

Liquidity or Working Capital Ratio includes

1. Current Ratio = Current asset / Current liability
2. Acid Test Ratio = Quick Asset / Current liability
3. Working Capital Turnover Ratio = Sales / networking Capital
4. Cash to Current Asset = Cash / Current Asset
5. Cash to Current liability = Cash / Current liability
6. Inventory to Total Current Asset = Inventory /Total Current Asset
7. Inventory to Working Capital Ratio = Inventory / networking capital
Profitability Ratio includes

1. Return on Shareholder fund = Net profit after tax / shareholder fund
2. Return on Total Assets = Net profit after tax / Total Assets
3. Return on Investment (ROI) = Operating Profit (PBIT) / Capital Employed

The simple statistical tools like mean, standard deviation, coefficient of variation, annual compound growth rate are also calculated.

Correlation analysis, multiple regression analysis and discriminant function analysis have been used to find the degree of relationship between select independent variables, to identify the determinants of profitability, to identify the variables which significantly discriminate the high and low profitability periods of select paper industries respectively.

Simple statistical tools like Mean, Standard Deviation and coefficient of variation were used for absolute values as well as ratios to understand and compare the financial parameters of the time series data.

CORRELATION COEFFICIENT

Correlation coefficient is used to evaluate the inter-relationship between various financial variables under the study in determining the capital structure.

SIMPLE REGRESSION ANALYSIS

Simple regression analysis is used to find out the linear growth of the various financial variables under the study over the given period of time (i.e., in the study ten years of period).
MULTIPLE REGRESSION ANALYSIS

In order to estimate the degree and extent of linear relationship between a dependent variable and the number of independent variables, multiple linear regression equation is used. In the study multiple regression equation is used in determinant of profitability and also used to find out the degree and extent of the relationship of each financial variable with respect to its financial ratio.

HYPOTHESES TESTING - ‘t’ TEST ANALYSIS

For the purpose of analysing the equality of means for different ratios between TNPL and SPB the student ‘s’ ‘t’ test is used.

THE Z SCORE MODEL

To find out TNPL company differ from SPB Ltd multivariate technique of discriminant analysis function is used i.e., how TNPL differ from SPB Ltd by using various financial ratios like a debt equity ratio, capital gearing ratio, proprietary ratio, interest coverage ratio, capital employed turnover ratio, return on capital employed ratio acid test ratio, working capital turnover ratio, cash to current asset ratio, cash to liability ratio, inventory to total asset ratio etc. makes that significantly differ among these two companies.

LIMITATION OF THE STUDY

The study is subject to the following limitations:

- Only secondary data are used for analysis purpose.
- The study is mainly related to financial performance of two major paper industries i.e., TNPL and SPB Ltd only.
SCHEME OF THE CHAPTER

The thesis consists of six chapters.

The First chapter deals with “Introduction and design of the study”, presents the introduction, need for financial Management, statement of the problem, review of literature, importance of the study, scope of the study, objectives of the study, methodology followed, period of the study, Sample selection, framework of analysis, statistical techniques used, limitations of the study and scheme of the report.

The Second chapter deals with origin and growth of Paper Industries in Indian Context.

The Third chapter relates to profile of Tamil Nadu News Print and Papers Limited (TNPL) and Seshasayee Paper and Boards Limited (SPB Ltd) in Tamil Nadu.

The Fourth chapter concentrates on the financial structure and operative performance of TNPL and SPB Ltd in Tamil Nadu.

The Fifth chapter focuses on the analysis and interpretation of financial performance of TNPL and SPB Ltd in Tamil Nadu.

The Sixth chapter deals with the summaries of findings, suggestions and conclusion with a scope for further research.
END NOTES
2. Gutham and Sougali in his corporate financial policy, p-1.


