

## FINANCIAL STATEMENT ANALYSIS OF SELECTED PAPER COMPANIES IN INDIA

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### ABSTRACT

*Balance sheet, Income statement and Cash flow statement are includes in financial statements. Financial statements are written records which are state the business activities and financial performance of a company. Financial statements are audited by chartered accountants to make sure about true and fair view. Process of analyzing the company's financial statement is called financial statements analysis. Results displays from analysis of financial statements can be used by managers and external parties like investors, suppliers, government etc. for the purpose of decisions making. In this paper, I analyzed the financial statements and performance of selected paper companies in terms of liquidity, profitability and solvency positions. The current research is mainly used secondary data which were collected from the annual reports of the selected paper companies for a period of four years from 2015-16 to 2018-19. The study is done on three paper companies namely, The South India Paper Mills Ltd., Rama Pulp and Papers Ltd. and West Coast Paper Mills Ltd. The main objective of the present study is to analysis of financial statements to know the trends, profitability, short-term financial position of selected companies. The techniques used in this study include comparative financial statements, trend analysis and ratio analysis.*

**KEYWORDS:** *Financial Performance, Profitability, Solvency, Tools and Techniques.*

### Introduction

#### Concept of Financial Statements and Analysis of Financial Statements

Financial statements are includes Balance sheet or Position statement, Profit and loss account or Income statement and Cash flow statement. These are provides a summary of the accounting data for a particular accounting period. These statements include sufficient and valuable information that would help in decision making. Indicators of profitability and financial soundness are financial statements of the company. Financial statements of companies are often audited by chartered accountants to make sure about true and fair view. The financial statements of all selected paper companies have been prepared to comply with the Ind AS according to section 133 of the Companies Act, 2013. Analysis and interpretation of financial statements is necessary for decision making relating to investment, provide loans, supply on credit, management etc. Financial statement analysis is the process for analysis of financial data which is presented in the financial statements for decision-making. Analysis and interpretation of financial statements is necessary to measure efficiency, solvency, profitability and future prospects of the company. The study is done on three paper companies namely, The South India Paper Mills Ltd., Rama Pulp and Papers Ltd. and West Coast Paper Mills Ltd. The tools and techniques used for this study includes comparative financial statements, common-size financial statements, trend analysis, ratio analysis from the year 2015-16 to 2018-19.

#### Paper Companies in India

More than 95% population is depend on papers. So, paper industry is very important industry for developing countries especially for India.

- **The South India Paper Mills Ltd.:** The SIPM is a public incorporated on 6<sup>th</sup> June, 1959. The company is India based and the business activity is manufacturing and sale of kraft paper, corrugated paper and paperboard, containers of paper and paperboard. Its registered office is at Nanjangud (Karnataka) and corporate office at Bengaluru. It is equipped with high speed litho laminating, corrugating machinery for single face sheets and die-cutting equipment.

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- **Rama Pulp and Papers Ltd.:** Rama Pulp was established in 1980 as a private limited company after that in 1983 Rama Pulp and Papers became a public limited company. Rama pulp has its plant at Vapi, Gujarat and it is India's foremost industrial papers manufacturer with capacity of 10,000 tpa in 1986, after that expanded its capacity to 17,000 tonnes of kraft paper. sales comes from Middles East (29%).
- **West Coast Paper Mills Ltd.:** WCPM was established in 1955 in India. The registered office is located at Uttar Kannada, Karnataka. The company is is one of the oldest and the largest producers of **paper** for printing, writing, and packaging in India. West Coast Paper Mills (WCPM), part of Bangur group is one of the leading role player in the paper industry. The company consist paper mill with an installed capacity of 1.57 lakh MTPA. The Company completed its ongoing expansion project at a cost of Rs.230.14 crores.

### Objectives of the Study

The main objective is to analysis of financial statements of selected paper companies from 2015-16 to 2018-19. The other objectives can be listed below:

- To understand the concept of financial statements and analysis of financial statements.
- To describe the various tools of financial statements analysis.
- To analyze the profitability position of selected paper companies in India.
- To assess and evaluate the solvency position of selected paper companies.
- To give suggestions for improving the financial performance.

### Methodology of Research

The present research paper is based on secondary data which are collected from annual reports of all the selected three paper companies. Books, internet, journals etc. are also used. The period covered under the study is four financial years from 2015-16 to 2018-19. In order to analyse and interpretations of financial statements, various tools and techniques of financial management like comparative balance sheet and income statement, trend analysis and ratio analysis have been used. Statistical technique such as trend analysis has also been used. Following companies have been selected for research:

- The South India Paper Mills Ltd.
- Rama Pulp and Papers Ltd.
- West Coast Paper Mills Ltd.

### Literature Review

**Izhar ahmed (2016)**, the research paper heading is "Analysis of financial performance of Hindusthan Petroleum Coporation Limited". This research describes on the analysis of financial and profitability position, profit margin ratio and expenses ratios. He used secondary data from the years 2000 to 2015. The investigator has used numerous regression analysis for the testing of the hypotheses. The researcher has in use return on capital employed as a dependent variable under return on investment.

**Hooks, Jill. (2007)**, explained the financial presentation of three companies over a 15 years period. The purpose of his study is to give details the impact of commercialization, corporatization and ownership formation on the reported financial performance of three companies.

### Techniques and Tools for Financial Statements Analysis

Various tools and techniques are used for analyzing the financial statements:

- Comparative financial statement
- Common-size statement
- Trend analysis.
- Ratio analysis

The explanation of the tools and techniques for analysis of financial statement as follows:

- **Comparative Financial Statements:** These are the statements reporting the comparison of data of two or more accounting periods. It usually applies to the two important financial statements, i.e. balance sheet and profit and loss account. They are the statements presents the profitability and financial position in a comparative form. Financial Statement provides

significant conclusions by expressing absolute increase or decrease in % terms. The comparative statement may show: Absolute figures, increase or decrease in absolute figures and Increase or decrease in terms of percentages.

- **Common-size Financial Statements:** The total assets or total liabilities or sales are taken as 100 and the remaining items are compared to the total assets, total liabilities or sales in terms of percentage. Independent common-size statement is prepared for profit and loss a/c as Common-size Income Statement and for balance sheet as Common-size Balance Sheet.
- **Trend Analysis:** It shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more than two periods are used in trend analysis. Trend analysis determines the tendency it may be increasing or decreasing. Generally, the first year is taken as the base year and taken as 100. Data of each year is divided by the figure of base year.
- **Financial Ratios:** The ratio analysis is made in four categories: liquidity ratios, leverage ratios, profitability ratios and activity ratios. Liquidity ratios describe the capacity to meet its short term obligation. Leverage ratios includes debt ratio, proprietary ratio etc. Profitability can be calculated by gross profit ratio, net profit ratio, operating profit ratio, return on equity, earnings per share. Activity ratios are receivables turnover, inventory turnover, total asset turnover, fixed assets turnover.

#### Data Analysis and Interpretation

- **Comparative Balance Sheet**

**Table 1: Comparative Balance Sheet of the South India Paper Mills Ltd.**

(Rs. in Lakhs)

Particulars	As on 31 <sup>st</sup> March		Absolute change in Amount	Change in %
	2016	2019		
<b>Assets</b>				
• <b>Non-Current Assets</b>				
▪ Property, plant & equipments	11429.88	13229.68	1799.80	15.75
▪ Capital work-in-progress	1593.61	782.01	-811.60	-50.93
▪ Intangible assets	11.59	1.82	-9.77	-84.30
▪ Other non-current assets	901.27	1020.69	119.42	13.25
<b>Total Non-Current Assets</b>	<b>13936.35</b>	<b>15034.20</b>	<b>1097.85</b>	<b>7.88</b>
• <b>Current Assets</b>				
▪ Inventories	2733.48	3640.20	906.72	33.17
▪ Financial assets:				
○ Trade receivables	3619.49	3970.82	351.33	9.71
○ Cash and cash equivalents	58.68	99.88	41.20	70.21
○ Other bank balances	328.50	676.40	347.90	105.91
○ Other financial assets	24.24	18.68	-5.56	-22.94
▪ Other current assets	892.36	440.53	-451.83	-50.63
<b>Total Current Assets</b>	<b>7656.75</b>	<b>8846.51</b>	<b>1189.76</b>	<b>15.54</b>
<b>Total Assets (1+2)</b>	<b>21593.10</b>	<b>23880.71</b>	<b>2287.61</b>	<b>10.59</b>
<b>Equity and Liabilities</b>				
• <b>Equity</b>				
▪ Equity share capital	1500.00	1500.00	0.00	0.00
▪ Other equity	11911.09	14103.81	2192.72	18.41
<b>Total Equity</b>	<b>13411.09</b>	<b>15603.81</b>	<b>2192.72</b>	<b>16.35</b>
<b>Liabilities</b>				
• <b>Non-Current Liabilities</b>				
▪ Financial liabilities				
○ Borrowings	1431.88	3217.04	1785.16	124.67
○ Other financial liabilities	155.49	170.49	15.00	9.65
▪ Provisions	13.96	28.62	14.66	105.01
▪ Deferred tax liabilities (net)	1294.06	1492.86	198.80	15.36
▪ Other non-current liabilities	488.15	0.00	-488.15	-100.00
<b>Total Non-Current Liabilities</b>	<b>3383.54</b>	<b>4909.01</b>	<b>1525.47</b>	<b>45.09</b>

<b>• Current Liabilities</b>				
▪ Financial liabilities				
○ Borrowings	1452.01	14.80	-1437.21	-98.98
○ Trade payables	1826.45	2176.41	349.96	19.16
○ Other financial liabilities	959.76	639.87	-319.89	-33.33
▪ Other current liabilities	307.61	246.95	-60.66	-19.72
▪ Provisions	252.64	289.86	37.22	14.73
<b>Total Current Liabilities</b>	<b>4798.47</b>	<b>3367.89</b>	<b>-1430.58</b>	<b>-29.81</b>
<b>Total Equity and Liabilities</b>	<b>21593.10</b>	<b>23880.71</b>	<b>2287.61</b>	<b>10.59</b>

Source: Annual reports of Paper Companies, year 2015-16 to 2018-19

The above comparative balance sheet reveals that the balance in each account has increased between the end of 2016 and 2019 with exception of capital WIP, intangible assets, other financial assets, other current assets, other non-current liabilities, borrowings, other financial liabilities and other current liabilities. The significant changes which have occurred in specific balance sheet accounts during the two periods are:

- There is 105.91% increase in other bank balances, 124.67% increase in borrowings, 84.30% decrease in intangible assets, 100% decrease in other non-current liabilities and also 98.98% decrease in borrowings.
- The other equity has also increased by 18.41%.
- It is clear from the comparative balance sheet of South India Paper Mills Ltd. that total fixed assets increase is 7.88% in the 2018-19 over the 2015-16. The main reason for increase is on account of expansion project.
- There has been substantial increase in working capital in financial year 2018-19 due to increase in current assets by 15.54% and borrowings (current liabilities) has repaid.

#### Comparative Income Statement

**Table 2: Comparative Income Statement of the South India Paper Mills Ltd.**

(Rs. in Lakhs)

Particulars	For the year ended 31 <sup>st</sup> March		Increase or Decrease in amount	Increase or Decrease in %
	2016	2019		
<b>Income</b>				
• Revenue from Operations	20673.75	24249.58	3575.83	17.30
• Other income	45.65	80.39	34.74	76.10
<b>Total Income</b>	<b>20719.40</b>	<b>24329.97</b>	3610.57	17.43
<b>Expenses</b>				
• Cost of materials consumed	9704.22	11023.01	1318.79	13.59
• (Increase)/Decrease in inventories	2.53	93.71	91.18	
• Employee benefits expense	1816.73	2236.32	419.59	23.10
• Depreciation & amortization expense	797.43	949.99	152.56	19.13
• Finance costs	165.04	445.37	280.33	169.86
• Other expenses	5569.91	7259.86	1689.95	30.34
<b>Total expenses</b>	<b>18055.86</b>	<b>22008.26</b>	3952.40	21.89
<b>Exceptional items</b>	821.57	0.00	-821.57	-100.00
<b>Profit before Tax (1-2+3)</b>	3485.11	2321.71	-1163.40	-33.38
<b>Tax Expense</b>				
• Current tax expense	752.96	(503.00)	-1255.96	-166.80
• Tax exp. relating to prior years	2.69	(0.97)	-3.66	136.06
• Deferred tax (incl. MAT credit entitlement)	320.48	19.01	-301.47	-94.07
<b>Total tax expenses</b>	1076.13	(484.96)	-1561.09	-145.07
<b>Net Profit after Tax (3-4)</b>	2408.98	1836.75	-572.24	-23.75
<b>Earnings per equity share</b>				
• Basic	16.06	12.25		
• Diluted	16.06	12.25		

Source: Annual Report for the year 2015-16 and 2018-19

The above comparative income statement reveals the following:

- There are significant changes in the other income (increase by 76.10%), 169.86% increase in finance costs and 166.80% decrease in current tax expense.
- Amount of revenue from operations and other income have increased by 17.30% and 76.10% where absolute change is Rs. 3575.83 lakhs and Rs. 34.74 lakhs respectively during the period under study. Consequently, the amount of gross profit has increased. The increase in sales is quite satisfactory.
- The net profit after tax for the year 2015-16 is Rs. 2408.98 lakhs and 2018-19 Rs. 1836.75 lakhs respectively. Here, net profit after tax decreased by 23.75% (Rs. 572.24 lakhs) due to interest on term loans and working capital loans. The finance costs have increased by 169.86%.

### Trend Analysis

**Table 3: Working Capital Indices and Trend Values of Selected Paper Companies**

(Rs. in Lakhs)

Companies	Items	2015-16	2016-17	2017-18	2018-19
South India Paper Mills Ltd.	Working Capital	2336.26	3568.57	4230.99	5478.62
	Indices	100.00	152.75	181.10	234.50
	Trend Values	2390.20	4780.39	7170.59	9560.78
Rama Pulp and Papers Ltd.	Working Capital	1169.37	1183.05	1118.12	557.44
	Indices	100.00	101.17	95.62	47.67
	Trend Values	1672.25	3344.49	5016.74	6688.98
West Coast Paper Mills Ltd.	Working Capital	1113.54	2909.06	12225.29	33211.25
	Indices	100.00	261.24	1097.88	2982.49
	Trend Values	-3476.62	-6953.24	-10429.86	-13906.48
Consolidated	Working Capital	4619.17	7660.68	17574.40	39247.31
	Indices	100.00	165.85	380.47	849.66
	Trend Values	205.67	411.34	617.01	822.68

Source: Annual Reports of Paper Companies, year 2015-16 to 2018-19.

Note:

- Indices have been calculated taking year 2015-16 as base year.
- Trend Values have been calculated on the basis of straight line method of least squares.

#### South India Paper Mills Ltd.

The indices of working capital of SIPML marked an increasing trend during the period of 2015-16 to 2018-19. During the year 2018-19, the indices of working capital increased significantly and reached at the top to 234.50. The reason of acute rise in working capital in the year 2018-19 was owing to sharp increase in inventories and trade receivables. The least square trend values of working capital in SIPML are shown in table 3. The average annual increase in working capital comes to Rs. 2390.20 lakhs.

#### Rama Pulp and Papers Ltd.

The indices of working capital in RPPL throughout the period of study marked a fluctuating trend as shown in table 1. During the year 2016-17 the indices of working capital increased to 101.17. The main reason of the sharp increase in the indices of working capital during the year 2016-17 is that the current assets registered a higher growth rate than current liabilities. It was 100 in the year 2015-16, which decreased continuously from the year 2017-18 and 2018-19. The least square trend values of working capital of RPPL are also shown in table 3.

#### West Coast Paper Mills Ltd.

The indices of working capital in WCPML throughout the period of study went up as shown in table 3. The management of working capital was not satisfactory. All the trend value are negative.

**Table 4: Trend Analysis of the South India Paper Mills Ltd. (2015-16 to 2018-19)**

Year	Income		Expenditure		Profit Before Tax		Net Profit	
	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)
2015-16	20719.40	100.00	18055.86	100.00	2663.54	100.00	2408.99	100.00
2016-17	20799.49	100.39	18979.91	105.12	1819.58	68.31	1195.47	49.63
2017-18	13661.25	65.93	13580.65	75.21	80.60	3.03	95.28	3.96
2018-19	24329.97	117.43	22008.26	121.89	2321.71	87.17	1836.75	76.25

Source: Annual Reports of South India Paper Mills Ltd.

The table 4 reveals that the trend of South India Paper Mills Ltd. regarding revenue and expenditure are increasing (except in 2017-18) during the period of study but trend of expenditure is more than the revenue trend. As a consequence of which the trend of profit before tax and trend of net profit after tax show the decreasing trend.

**Table 5: Trend Analysis of Rama Pulp and Papers Ltd. (2015-16 to 2018-19)**

Year	Income		Expenditure		Profit Before Tax		Net Profit	
	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)
2015-16	9072.00	100.00	8718.08	100.00	353.92	100.00	222.70	100.00
2016-17	10976.59	120.99	10701.74	122.76	274.85	77.66	150.92	67.77
2017-18	12047.13	132.79	11658.10	133.72	389.03	109.92	245.83	110.39
2018-19	13760.84	151.68	13327.98	152.88	432.86	122.30	378.24	169.84

Source: Annual Reports of Rama Pulp and Papers Ltd.

It is clear from the above table that the trend of revenue and expenditure are increasing but expenditure trend are more than the revenue trend. As a result of which the trend of profit before tax and net profit after tax show the decreasing trend in 2016-17.

**Table 6: Trend Analysis of West Coast Paper Mills Ltd. (2015-16 to 2018-19)**

Year	Income		Expenditure		Profit Before Tax		Net Profit	
	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)	Rs. in lakhs	Trend (%)
2015-16	181225.97	100.00	174522.66	100.00	1379.57	100.00	-46.50	100.00
2016-17	187908.42	103.69	170120.57	97.48	17787.85	1289.38	12850.17	-27634.78
2017-18	175221.29	96.69	152965.67	87.65	22255.62	1613.23	22322.61	-48005.61
2018-19	199976.36	110.35	167434.64	95.94	32541.72	2358.83	29605.57	-63667.89

Source: Annual Reports of West Coast Paper Mills Ltd.

It is found from table 6 that the revenue shows the fluctuating trend during the period of study. Trend of expenditure shows the down and up trend. As a consequence of which the trend of profit after tax shows the decreasing trend.

### Ratio Analysis

**Table 7: Current Ratio of Selected Paper Companies**

(No. in times)

Companies	2015-16	2016-17	2017-18	2018-19	Mean	Min.	Max.
South India Paper Mills Ltd.	1.44	1.84	2.00	2.63	1.98	1.44	2.63
Rama Pulp and Papers Ltd.	1.96	1.62	1.67	1.21	1.62	1.21	1.96
West Coast Paper Mills Ltd.	1.02	1.06	1.32	1.65	1.26	1.02	1.65
Consolidated	1.07	1.15	1.40	1.69	1.33	1.07	1.69

Source: Current assets and current liabilities have been taken from annual reports.

The above table shows that current ratio is always less than the norm (2:1) except in 2017-18 and 2018-19 in case of SIPML. The table reveals that current ratio in South India Paper Mills Ltd. showed a increasing trend. Current ratio in Rama Pulp and Papers Ltd. has been showing a fluctuating trend. It can be said that the current ratio in all selected paper companies has not been satisfactory.

### Findings, Conclusion and Suggestions

#### Findings

- The liquidity analysis shows that current ratio of all selected paper companies are below the standard ratio in 2015-16 to 2018-19 (except in 2017-18 and 2018-19 in case of SIPML). The mean of current ratio during the study period was 1.98, 1.62 and 1.26 South India Paper Mills Ltd., Rama Pulp and Papers Ltd. and West Coast Paper Mills Ltd. respectively.
- The indices of working capital of selected paper companies shows a increasing trend throughout from the year 2015-16 to 2018-19. The annual increase in working capital comes to Rs. 2390.20 lakhs, Rs. 1672.25 lakhs and Rs. -3476.62 lakhs in case of South India Paper Mills Ltd., Rama Pulp and Papers Ltd. and West Coast Paper Mills Ltd. respectively.
- The Net Profit of all selected paper companies have fluctuating trend during the 2015-16 to 2018-19. It shows the fluctuation in sales and decreasing net profit.

### Conclusion

- West Coast Paper Mills Ltd. is comparatively good in financial position. The operative results reveal a variable and positive growth oriented trend. The firm earns profit on every year.
- The present financial position of Rama Pulp and Papers Ltd. has improved quite a lot from the last years. Overall financial performance of company is good.
- All the selected paper companies are utilizing the asset efficiently but have decreasing trend due to mismanagement in the fixed asset.

### Suggestions

- The company should work out on control over the manufacturing cost and must find out the ways and means for reducing the cost of production. This will have a way to increase the profitability of the company.
- It may be suggested that these concerns should generate enough internal funds from operations and reduce their dependence on borrowings.
- The company may improve the liquidity position by making more increments in current asset and decrease in current liabilities.

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