Impact Of Receivables Management On Working Capital And Profitability: A Study On Tamil Nadu News Print And Papers Limited– Chennai

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ABSTRACT
Receivable management on working capital management is very important due to its affect on risk and profitability of company and thus the value of the company. The study concentrates on the main components of working capital like inventory management, accounts receivable management and cash management of TNPL. The tools used in this study includes ratio analysis, trend analysis and percentage method. Even in a given industry, paper mills may have very different working capital needs, and it is therefore impossible to determine an overall optimal working capital level without considering a paper mills’s specific situation. As working capital spans over a wide range of different business activities, the parameters in the equation must be set in relation to the overall strategy and business model to determine the optimal level of working capital.

INTRODUCTION
Efficiency in this area can help, to utilize fixed assets gainfully, to assure the firm’s long-term success and to achieve the overall goal of maximization of the shareholders’ fund. Shortage or bad management of cash may result in loss of cash discount and loss of reputation due to non-payment of obligation on due dates. Insufficient inventories may be the main cause of production held up and it may compel the enterprises to purchase raw materials at unfavourable rates. The adequacy of cash and current assets together with their efficient handling virtually determines the survival or demise of a concern. Both, excessive working capital and inadequate working capital will impair the profitability and general health of a concern. A major challenge for many businesses is therefore to find a balance, and there are generally numerous benefits to gain from a working capital reduction. Such benefits include better growth prospects, higher profitability due to lower provisions for bad debt and/or slow moving inventory, and a reduction of interest bearing loans. All these benefits serve to increase a company’s overall competitiveness and thus improve its long-term position in the market.

REVIEW OF LITERATURE
Deloof (2003) investigated the relation between working capital management and corporate profitability for a sample of 1,009 large Belgian non-financial firms for the period 1992-1996. The result from analysis showed that there was a negative gap between profitability that was measured by gross operating income and cash conversion cycle as well number of day’s accounts receivable and inventories. He suggested that managers can increase corporate profitability by reducing the number of day’s accounts receivable and inventories. Less profitable firms waited longer to pay their bills. 
Almazari (2013) investigated the relationship between the working capital management (WCM) and the firms’ profitability for the Saudi cement manufacturing companies. The sample included 8 Saudi cement manufacturing companies listed in the Saudi Stock Exchange for the period of 5 years from 2008-2012. Pearson Bivariate correlation and regression analysis were used. The study results showed that Saudi cement industry’s current ratio was the most important liquidity measure which affected profitability, therefore, the cement firms must set a trade-off between these two objectives so that, neither the liquidity nor profitability suffers. It was also found, as the size of a firm increases, profitability increased. Besides, when the debt financing increased, profitability declined. Linear regression tests confirmed a high degree of association between the working capital management and profitability.
COMPANY PROFILE
The Tamil Nadu Newsprint and Papers Limited (TNPL) was established by the Government of Tamil Nadu to produce newsprint and writing paper using bagasse, a sugarcane residue. The Government of Tamil Nadu listed the paper mill in April 1979 as one of the most environmentally compliant paper mills in the world under the provisions of the Companies Act of 1956. The factory is situated at Kagithapuram 11.0488°N 77.9977°E in the Karur District of Tamilnadu. The registered office of the company is located in Guindy, Chennai. The machine is designed to run with 100% bagasse. Over the years, the production capacity has been increased to 2,45,000 tonnes per annum and the Company has emerged as the Largest bagasse based Paper Mill in the world consuming about one million tonnes of bagasse every year. The Company is in the process of implementing the Mill Expansion Plan for increasing the capacity to 4,00,000 tonnes per annum from July 2010.

STATEMENT OF A PROBLEM
The profitability of the paper mills in Tamilnadu is in a fluctuating state due to the change in price of the paper products as well as in cost of paper production. To be specific, the increase in input cost due to inflation factors, high level of taxation, and high proportion of asset sales, high proportion of various cost components to sales are responsible for low profitability. Hence, in this study, an attempt is made about the trend of the components of the Receivable management on working capital movements to provide a deep and broad base which examines the Receivable on working capital profitability of the Tamil Nadu Newsprint and Papers Limited.

OBJECTIVES OF THE STUDY
- To evaluate the liquidity and operational efficiency of the Tamil Nadu Newsprint and Papers Limited through ratio analysis.
- To examine the effectiveness of receivable management of the Tamil Nadu Newsprint and Papers Limited.
- To analyze cash position and the efficiency with which the same is managed during the period.
- To interpret the result of the financial performance of the firm.

SCOPE OF THE STUDY
The present study “Impact of receivables management on working capital and profitability: A study on Tamil Nadu News Print and Papers Limited” analyses the efficiency of the working capital management and its components i.e. inventory amount, cash and bank balances and various current liabilities. The scope of the study is identified after and during the study is conducted. The main scope of the study was to put into practical the theoretical aspect of the study into real life work experience. The study of working capital and analysis is based on tools like Ratio Analysis. Percentage Analysis and Trend Analysis. Further the study is based on last 5 years 2009-2010 to 2013-2014 Annual Reports of Tamilnadu News Print and Papers Limited.

METHODOLOGY AND TOOLS
The methodology adopted for the study is given below.

SOURCE OF DATA
The reason for choosing this source is primarily due to the better reliability of the financial statements. Due to time constraint, only one Paper Mill has been selected for the said research. The duration covered in this study was from the year 2010 to 2014 for this analysis. The Study is based on secondary data obtained from annual reports of Tamilnadu Newsprint and Papers Limited, Chennai and Clarifications were obtained from the company’s officials whenever necessary.
DATA ANALYSIS
Blood circulation is must to maintain a life in human body. Receivable management of working capital being lifeblood for the business is essential for the smooth and profitable running of a business.

CURRENT RATIO OF THETAMILNADU NEWS PRINT AND PAPERS LIMITED FROM 2009 – 2010 TO 2013 -2014

This ratio is used to assess the firm’s ability to meet its current liabilities. Current ratio also known as the working capital ratio is the most widely used ratio. In general 2:1 is considered ideal for a concern.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Table No: 1 (Rs. In Lakh

<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>59398.46</td>
<td>73659.58</td>
<td>92972.71</td>
<td>82740.68</td>
<td>91400.41</td>
</tr>
<tr>
<td>Liabilities</td>
<td>33405.62</td>
<td>42184.57</td>
<td>138928.12</td>
<td>141382.71</td>
<td>152151.29</td>
</tr>
<tr>
<td>Ratio</td>
<td>1.778</td>
<td>1.746</td>
<td>0.669</td>
<td>0.585</td>
<td>0.601</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

Table: 1 shows the higher the current ratio, the more capable the company is of paying its obligations. The ratio in the year 2010 is 1.778, and in the year 2011, 2012, 2013 and 2014 was 1.746,0.669,0.585 and 0.601. Current ratio position was satisfactory for the year from 2009-2010 to 2013-2014.

LIQUID RATIO OF THETAMILNADU NEWS PRINT AND PAPERS LIMITED FROM 2009 – 2010 TO 2013 -2014

This ratio is also known as quick ratio or acid test ratio. All current assets except inventories and prepaid expenses are categorized as liquid assets. The ideal ratio is considered as 1:1 as the firm can easily meet all current liabilities.

\[
\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}
\]

Table No:2 (Rs. In Lakh

<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>42487.16</td>
<td>53159.43</td>
<td>60205.45</td>
<td>56298.21</td>
<td>62863.93</td>
</tr>
<tr>
<td>Liabilities</td>
<td>33405.62</td>
<td>42184.57</td>
<td>138928.12</td>
<td>141382.71</td>
<td>152151.29</td>
</tr>
<tr>
<td>Ratio</td>
<td>1.272</td>
<td>1.260</td>
<td>0.433</td>
<td>0.398</td>
<td>0.413</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

Table: 2 shows The ratio in the year 2010 is 1.272, and in the year 2011, 2012, 2013 and 2014 was 1.260, 0.433, 0.398 and 0.413. Here in all the years from 2010 to 2014 the firm liquid ratio position is quite satisfactory.

ABSOLUTE LIQUID RATIO OF THETAMILNADU NEWS PRINT AND PAPERS LIMITED FROM 2009 – 2010 TO 2013 -2014

It is a modified form of liquid ratio. The relationship of absolute liquid assets to liquid liability is known as absolute liquid ratio. This ratio is calculated as,

\[
\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}
\]
Table No:3

<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Bank Balance</td>
<td>1936.31</td>
<td>1222.00</td>
<td>1973.52</td>
<td>2450.54</td>
<td>1221.45</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>33405.62</td>
<td>42184.57</td>
<td>138928.12</td>
<td>141382.71</td>
<td>152151.29</td>
</tr>
<tr>
<td>Absolute Liquid Ratio</td>
<td>0.058</td>
<td>0.029</td>
<td>0.014</td>
<td>0.017</td>
<td>0.008</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

Table 3 shows This ratio is useful only when used in conjunction with current ratio and quick ratio. Throughout the years from 2014 the ratio is low 0.008 but from 2010 to 2013 the firm Absolute liquid ratio was 0.058, 0.029, 0.014 and 0.017 respectively.


This ratio signifies the return on equity shareholders’ funds, the profit consolidated for computing the ratio is taken after payment of reference dividend, the ratio of return on equity share holders for fund is calculated as given below:

\[
\text{Return on net worth Ratio} = \frac{\text{Net Profit (After interest & Tax)}}{\text{Shareholders fund}} \times 100
\]

Table No:5

<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after Tax</td>
<td>12606.44</td>
<td>14899.65</td>
<td>10893.84</td>
<td>9148</td>
<td>16117.76</td>
</tr>
<tr>
<td>Shareholders Fund</td>
<td>80450.21</td>
<td>91579.04</td>
<td>97068.63</td>
<td>103547.65</td>
<td>114597.40</td>
</tr>
<tr>
<td>Return on SH fund</td>
<td>0.157</td>
<td>0.163</td>
<td>0.112</td>
<td>0.088</td>
<td>0.141</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

Table No: 5 shows this here in all the years from 2010 to 2014 the company is following a steady process to return funds to the shareholders and that is very well encourageble, so the investment from the shareholders will increase so as the company grows. In the year 2010, 2011 and 2012 the ratio was0.157, 0.163 and 0.112 and in the year 2013 and 2014 the ratio was 0.088 and 0.141 respectively.


Higher the value of debtors turnover the more efficient is the management of debtors. Low debtors turnover implies inefficient management of debtors.

\[
\text{Debtors Turnover Ratio} = \frac{\text{Total Sales}}{\text{Average Trade Debtors}}
\]

Table No:6

<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>105610.07</td>
<td>121675.86</td>
<td>157484.74</td>
<td>193705.24</td>
<td>238332.1</td>
</tr>
<tr>
<td>Average Trade Debtors</td>
<td>19956.91</td>
<td>20585.34</td>
<td>36390.35</td>
<td>27694.17</td>
<td>37673.97</td>
</tr>
<tr>
<td>Debtors Turnover Ratio</td>
<td>5.292</td>
<td>5.911</td>
<td>4.328</td>
<td>6.994</td>
<td>6.326</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

Table: 6 presents the debtors turnover ratio during the study period. In the year 2010, 2011 and 2012 debtor’s turnover is 5.292, 5.911 and 4.328 times. In the year 2013 the ratio was 6.994 and 2014 the ratio has increased 6.326 but the increased the ratios of the company credit sales have been increased due to liberal credit policy.


It is very essential to keep sufficient stocks in business. Generally efforts are made to dispose of inventory before the close of the years. So, average inventory should be taken for calculating stock turnover ratio. The ratio is calculated by dividing the cost of goods sold by the amount of average inventory at cost.
### STATISTICAL ANALYSIS


<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>105610.07</td>
<td>121675.86</td>
<td>157484.74</td>
<td>193705.24</td>
<td>238332.17</td>
</tr>
<tr>
<td>Trend Value</td>
<td>100.00%</td>
<td>115.21%</td>
<td>149.12%</td>
<td>183.42%</td>
<td>225.67%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

The sales trend of the company is witnessing an increasing trend at the increasing rate. The table shows that the company’s performance was increasing from year to year.


<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
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<th>Mar’12</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>12606.44</td>
<td>14899.65</td>
<td>10893.84</td>
<td>9148</td>
<td>16117.76</td>
</tr>
<tr>
<td>Trend Value</td>
<td>100.00%</td>
<td>118.19%</td>
<td>86.41%</td>
<td>72.57%</td>
<td>127.85%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

The net profit trend of the company is witnessing an increasing trend at the increasing rate. This table shows that the company’s performance was increasing and decreasing from year to year.

#### PERCENTAGE ANALYSIS


<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVERAGE DEBTORS</td>
<td>19956.91</td>
<td>20585.34</td>
<td>36390.35</td>
<td>27694.17</td>
<td>37673.97</td>
<td>142300.74</td>
</tr>
<tr>
<td>PERCENTAGE</td>
<td>14.02</td>
<td>14.47</td>
<td>25.57</td>
<td>19.46</td>
<td>26.47</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

From the above table the average debtors maintained is high in the year 2014 with 26.47% as there is heavy demand for the product, the credit sales is made more than compared to cash sales. The debtor was low with 14.02% in the year 2010.

Table No – 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Mar’10</th>
<th>Mar’11</th>
<th>Mar’12</th>
<th>Mar’13</th>
<th>Mar’14</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALES</td>
<td>105610.07</td>
<td>121675.86</td>
<td>157484.74</td>
<td>193705.24</td>
<td>238332.17</td>
<td>816808.05</td>
</tr>
<tr>
<td>PERCENTAGE</td>
<td>12.93</td>
<td>14.90</td>
<td>19.28</td>
<td>23.71</td>
<td>29.18</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Tamilnadu News Print & Papers Limited from 2009 -2010 to 2013 -2014

From the above table the sale was high with 29.18% in the year 2014 as there is heavy orders and low in the year 2010 with 12.93%.

FINDINGS

- The current ratio in the year 2010 is 1.778, and in the year 2011, 2012, 2013 and 2014 was 1.746, 0.669, 0.585 and 0.601.
- Quick Ratio is in the year 2010 is 1.272, and in the year 2011, 2012, 2013 and 2014 was 1.260, 0.433, 0.398 and 0.413.
- Absolute liquid ratio is throughout the years from 2014 the ratio is low 0.008 but from 2010 to 2013 the firm Absolute liquid ratio was 0.058, 0.029, 0.014 and 0.017 respectively.
- The sales trend of the company is witnessing an increasing trend at the increasing rate. The table shows that the company’s performance was increasing from year to year.
- The average debtors maintained is high in the year 2014 with 26.47% as there is heavy demand for the product, the credit sales is made more than compared to cash sales. The debtor was low with 14.02% in the year 2010.

CONCLUSION

The paper industries occupy a key position in our country. This paper industries has an important role to plan both in the economic stability of the country and in the supply of essential commodity for the entire population. Its further development and progress should therefore be of great concern to everyone. The most firmly established an industry in Tamil Nadu Newsprint and Papers Limited. Hence an analysis of this unit has been undertaken. It is used as a device to analysis and interprets the financial health of enterprise. There are a number of aspects of financial management, which make it an important function of the finance manager. Hence an analysis of Impact of receivables management on working capital and profitability: A study on Tamilnadu News Print and Papers Limited - Chennai of this unit has been undertaken.

REFERENCES

1. Financial Management by Pandey IM (Author) – Publisher:Vikas Publishing House(P) Ltd.

WEBSITES