CHAPTER SIX

CONCLUSIONS AND SUGGESTIONS

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In keeping with the chapter-scheme proposed for the presentation of this Dissertation, this final Chapter is devoted to presenting the conclusions drawn from the historic and statistical data presented, analyzed and interpreted in the preceding Chapters and to offering certain meaningful suggestions.

6.1 CONCLUSIONS:

(1) The first Objective of this research endeavour, as outlined in Chapter-1, was to retrace the history of organized paper industry in India. The researcher has attempted to fulfil this objective in Chapter-2 by tracing the industry's origin in India to the year 1832, its growth and development over a century and half since then, and then recording certain knowledgeable opinions about the industry's future.

Although paper is deemed to be a powerful incidental tool for the development of a country's human capital, India's per-capita consumption of paper is quite below at 3.2 kg./annum as against the world average of 45.6 kg./annum. Furthermore, though indigenous paper mills have grown numerically, they are constrained in giving installed output because of several causes like smaller plant capacities, shortages of raw materials, antiquated machinery, uneconomic production techniques and a general lack of clearly defined policy perspective in the Government's planning process. India's organized paper industry, on the whole, is inflicted from an industry-wide sickness. Any delay in initiating proper and adequate steps for its turnaround would aggravate the situation further and result in mounting paper shortages with every passing year.

(2) The second Objective was to study the Mysore Paper Mill Limited's financial structure. For fulfilling this objective, it was imperative to study the profile of the Company. This has been attempted in Chapter-3 of the Dissertation.

The Company had made a small beginning in the joint sector, on the patronage of the erstwhile Princely State of Mysore's Ruler in the year, on an initial capital of Rs.25.0 lakhs. The Princely States merged into the Indian Union in the year 1949 and the Company's ownership eventually devolved on to the Government of Karnataka State. Today, the Government of Karnataka holds 74.88% of the Company's paid-up share capital of Rs.9.85 crore, the remaining 24.12% shares are held by about 300 individual families, many of whom are the Company's employees for the last 2-3 generations. Overall, the Company possesses both favourable and unfavourable characteristics of a public sector enterprise.

It is this attribute of being a Government-controlled Company that has held it in good stand in terms of obtaining resources allocations from the State and Union Governments for accomplishing its expansion and diversification plans. Although the pace was slow, the Company expanded its initial installed capacity of 4,000 tonnes per annum (TPA) of cultural varieties of paper and newsprint to 8,000 TPA in 1952, to 18,000 TPA in 1964 and to 24,000 TPA in 1972. Since 1970's, however, the country's organized paper industry is passing through dire straits and hence, instead of further capacity expansion, the Company has concentrated on backward integration and diversification for obtaining its raw materials of pulpable woodstock and sugarcane bagasse by raising captive forest plantations and setting up a sugarmill.

For financing these capacity expansion and diversification projects, the Company has had to first strengthen its financial structure, which it has done over the years through expanding its equity base. The original authorized share capital of Rs.25.0 lakhs has since then been raised to Rs.20.0 crores, out of which shares of Rs.9.85 crores were issued, subscribed and paid-up at the end of 1993-94. Aided by the broadening of its financial structure, the Company has been able to mobilize additional funds by way of secured and unsecured loans as well as working capital loans.

For assessing the Company's financial structure as also the capital structure, an exercise in trend analysis has been carried out in Chapter-4 of the Dissertation, which has returned certain interesting findings.

For the reasons explained above, the Company has not only reined in its capacity expansion programs, it is making only marginal fresh additions/improvements in the existing plant and machinery. As a result, its fixed assets collectively are showing declining trends, parti-cularly worrisome is the decline in the value of the plant & machinery from 100% (base year: 1989-90) to mere 36.30% in 1993-94. On the other hand, both 'capital work-in-progress' and 'captive forest plantations' have shown powerful increasing trends. The elements of 'current assets' have shown varying increasing trends - inventories (148.89%), cash and bank balances (230.17%) and sundry debtors (506.93%). While the Company's share-capital has recorded an increase of 152.38% over the period of five years, its reserves and surpluses have gone down (21.58%) as also its secured and unsecured loans (63.17%) during the same period.

The Company's current assets and loans & advances collectively have shown only an increase of 228.75% while its current liabilities have grown to 269.79% over the base year 1989-90. Considering the long-term and short-term sources and their investments in fixed and current assets, it can be said that the Company's financial position is evenly balanced.

Judging from the Company's current-assets, current-liabilities and net working capital positions, it may safely be inferred that the Company's financial structure is sturdy enough to satisfactorily maintain the momentum of its ongoing diversification plans.

(3) The third objective of the present study focussed on assessing the Company's working capital position, for which the net working capital concept has been followed (i.e. current assets less current liabilities).

The Company's net working capital has increased from Rs.3,693.63 lakhs in 1989-90 to Rs.7,360.97 lakhs in 1993-94, averaging at about Rs.5,693.64 lakhs per year over the study period. Obviously, the Company had been able to raise the necessary net working capital to meet its needs from time to time. It may also be safe to conclude that atleast some of the working funds are being changed into medium-term assets like loans and advances and sundry debtors and long-term assets like captive forest plantation.

(4) The fourth objective pertained to evaluating the Company's financial position with the help of financial ratios. This has been attempted in Chapter-5 of the Dissertation.

The Company's statistical data was subjected to three sets of financial ratios, namely, (a) liquidity ratios (current ratio and quick ratio), (b) Solvency ratios (debt: equity ratio, net worth to total assets and net block to net worth), and (c) Profitability ratios (gross profit ratio and net profit ratio). The worked out results have also been presented graphically in the same Chapter. The ratio-wise findings are being reproduced briefly here:

(a) The Company's current ratio throughout the study period has remained over the accepted standard of 2:1, signifying a good short-term solvency.

Its quick ratio, however, has remained below the accepted standard of 1:1 for the four years of study period, signifying that during this period, the Company was facing problems of liquid cash. The ratio has since then increased because of improved inventory management.

(b) The accepted standard value of the debt:equity ratio is 1:1 and the Company had maintained itself over this value for the period 1989-93. The ratio has gone down a little in 1993-94, because of Company's tapping of internal financial resources, particularly it has reduced its reserves and surpluses from Rs.9182.35 lakhs (1989-90) to Rs.1,982.01 lakhs (1993-94). The significance of the drop in this ratio value has to be understood against another fact revealed in the Company's balance sheets, i.e. its secured loans have gone down from Rs.15,830.05 lakhs (1989-90) to Rs.9,622.09 lakhs in (1993-94). Probably, the Company was compelled to tap its internal financial resources because it was finding it difficult to raise long-term loans from the financial institutions or had chosen a deliberate course of internally financing its diversification plans.

The Company's net worth to total assets ratio during the study period has remained below the accepted norm. It is natural for a manufacturing company passing through a general industry sickness and at the same time embarked on diversification plans, to acquire future productive assets on borrowed finance. In any case, the Company's reliance on the borrowed finance is not much and if the paper industry recovers in time, the Company's present investments would prove to be wise ones. Likewise, for four years (1989-93), the Company's net block to net worth ratio had consistently remained quite high above the accepted norm of 100%, but it was showing a decreasing trend and was finally brought under control in 1993-94. It means that the Company's overall solvency situation had improved steadily.

(c) The Company's gross profit ratio for the study period shows a declining trend throughout, inspite of the increasing sales value. The decline could be attributed to the overall increase in the costs of raw material, labour and other inputs.

The net profit ratio, however, has shown a fluctuating behaviour, beginning with 7.64% in 1989-90, reaching a high of 12.8% in 1990-91 and dipping to 2.41% in 1993-94. It has already been pointed out that being a Government-controlled enterprise, the Company possesses the characteristics of a public sector undertaking; in which set-up, the public utility angle overshadows the profit and cost considerations. Hence, it is not surprising that the Company is returning the very low net profits but striving to fulfil its social obligations.

6.2 SUGGESTIONS:

(1) Financial and Capital Structure:

Satisfactory completion of the Company's diversification plans is going to be a rather difficult proposition unless, of course, the Company mobilizes additional shareholders' funds and raises additional financial resources on the basis of it.

(2) Working Capital Management:

Especially, in a manufacturing Company, working capital funds necessarily have to be used for meeting its day-to-day operational expenditure. However, a manufacturing Company well on its way with ambitious diversification plans cannot resist the temptation of diverting its working funds to long-term investments. The Company should keep under strict control such diversification of funds, so as to avoid latter-day problems with its working capital management.

(3) Sundry Debtors Management:

The Company's sundry debtors have shown an alarming increase of more than 500% in a brief period five years. It is quite clear that this sundry debt burden is being financed from the Company's net working capital. The Company may pay particular attention to sundry debtors management, which in turn, would reduce the Company's interest costs on working capital. Special attention should be paid to long overdues.

Some acceptable, moderate credit policy may be adopted.

(4) The Company has made substantial long-term investments, even at the cost of reducing its reserves and surpluses, in captive forest plantations and a sugarmill. Although the Company, at the present stage, does not stand significantly exposed to the risks involved, it would be advisable to critically watch these endeavours and ensure adequate returns from these investments in shortest possible time.

(5) The Company is patronized by the State and the Union Governments. Its main product-range of cultural paper and newsprint has good marketing potential in a developing country like India. Nonetheless, it is, at the moment, is passing through somewhat difficult times because of the general sickness in the paper industry and the diversification plans it has launched. The Company's helmsmanship, as revealed through the financial statements, is enlightened and forward looking. Still, the Company's financial decisions at this phase would have far-reaching consequences and hence, these be taken with due care and caution.

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