

## CHAPTER ONE

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# INTRODUCTION AND RESEARCH DESIGN

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**1.1 INTRODUCTION:**

The present work is a 'case-study' of financial position of an industrial organization engaged in the manufacture of printing and writing paper and newsprint for over six decades now, in the predominantly rural area of Karnataka State. The 'case' thus is a dual-faceted one - paper manufacture as well as corporate financial position. Both these facets have been discussed at some length in the subsequent Chapters. The present Chapter is devoted to explaining the methodology adopted for this research investigation.

**1.2 HISTORIC & CONTEMPORARY SIGNIFICANCE OF PAPER:**

'Paper' is a pre-historic discovery that certainly has influenced the course of the mankind's history. Ancient Egyptians used the sheets made from the stem tissue of the plant *Cyperus Papyrus*. The oldest written sheet, or papyrus, dates back nearly five thousand years. Aryans are believed to have used dried and parched palm leaves and thin bark sheets of the *Bhotpala* plant for writing. It is, however, the Chinese who are recognized as the first users of coarse paper made from plant fibres. Paper has since then come a long way in terms of quality, finish, texture, thickness, variety and end-use. Indeed, it is rather difficult to imagine that the mankind ever went about its way without using paper. In the modern world, paper has become an indispensable instrument for the development of the human capital.

Compared to the Western World, paper industry was rather late to emerge in India. Although the country's first-ever paper-mill using indigenous raw materials was set up in 1832, it was only in the second quarter of the 20th century that large paper-mills were introduced into the country. During British period, most of the contemporary technology industries in India were dominated by the Europeans and the indigenous capital did not find a favourable climate to enter there; so much so that on the eve of the Britishers' departure from India, there only were 17 paper-mills in the country with a total installed capacity of 1.36 lakh tonnes and the per capita paper consumption in the country was one of the lowest in the world. The process of planned development initiated in the country since 1951 accorded parity to the paper industry with six other basic industries, namely, iron and steel, cotton textiles, jute, sugar and cement. It is because of this emphasis that today, there are nearly 340 paper-mills in the country with an aggregate installed capacity of 35.50 lakh tonnes and India's per capita paper consumption has gradually increased to 3.20 kg. per annum, although it is way below the world average of 45.6 kg.

### 1.3 EVALUATION OF FINANCIAL POSITION:

'Finance' is the lifeblood of business and industry. The profitability and stability of a business or an industrial enterprise depends upon the manner in which its finance is managed. Each and every managerial decision, therefore, has to be first tested in terms of its financial implications.

Financial management thus is concerned with efficient utilization and adequate regulation of the enterprise's income and expenditure.

The optimum financial position of an enterprise depends on the right amount invested in inventories, arrangements made for adequate bank loans for short term requirements, provision for long-term loans keeping in view the long-term objectives of the enterprise, sufficiency of fixed capital, etc.

For evaluating the financial position of an enterprise, financial analysts has evolved certain financial ratios, broadly classified into three categories, namely, (i) liquidity ratios, (ii) profitability ratios, and (iii) solvency ratios. When an enterprise's financial statements like balance-sheets and profit and loss accounts over a period are analyzed through these ratios, the worked out values for each ratio give an indication of the enterprise's overall financial position. In the present work, the researcher has made use of a group of financial ratios to determine the financial position of the study organization over a period of five years (1989-90 to 1993-94).

#### **1.4 RESEARCH DESIGN:**

##### **1.4.1 Selection of Topic:**

Compared to other areas of Karnataka State, Northern Karnataka had an early start in captive industrialization. The study organization - The Mysore Paper Mills Limited, Bhadravati - is one such early industrial enterprise in the area, set up with

the express purpose of exploiting the locally available raw materials for producing a range of cultural paper and newsprint. Since its establishment in 1936, the unit has seen many ups and downs and it would be interesting to study its progress vis-a-vis growth of the Indian paper industry over all these decades; and to evaluate its present financial position.

#### 1.4.2 The Study Organization:

In the 1930's, a Princely Ruler administered his Principality of Mysore State (the predecessor of today's Karnataka) in the British India. The visionary ruler saw an opportunity-in-making in the then fledgeling native paper industry to beneficially exploit the natural resources and to bring prosperity to the State's predominantly agrarian economy. The setting up of the Mysore Paper Mills Limited - the study organization - at Bhadravati in 1936, in the joint sector was the result of this long range vision. The Company's share capital then was Rs.25.0 lakhs and its paper-mill's installed capacity was 4,000 tonnes per annum. Nonetheless, its 'BISON' brand writing and printing paper were readily accepted by the developing market.

After country's attainment of Independence from the British in 1947 and the subsequent merger of the Princely States into the Indian Union in 1949, the ownership of the Mysore Paper Mills became vested in the State Government. Today, the Government of Karnataka State holds 74.88% shares

in the Company's paid-up capital of Rs.9.34 crore. The Company's installed capacity has increased to 24,000 tonnes per annum and it manufactures a variety of cultural paper and newsprint. Its head office is now situated at Bangalore and paper-mill at Bhadravati. The Company also has ambitious plans for expansion and diversification.

#### 1.4.3 Statement of the Problem:

In view of the preceding discussion, the present work has been titled as "A STUDY OF FINANCIAL POSITION OF THE MYSORE PAPER MILLS LIMITED, BANGALORE : A CASE STUDY".

#### 1.4.4 Objectives of the Study:

The following have been set out as the objectives of the study:

- (1) To trace the history of the paper industry in India;
- (2) To study the financial structure of the Mysore Paper Mills Limited;
- (3) To analyze and examine the working capital position of the Mill;
- (4) To evaluate the financial position of the Mill with the help of certain financial ratios;
- (5) To offer such meaningful suggestions as may be appropriate.

#### 1.4.5 Methods of Data Collection:

As the subject matter of the present investigation relates to the evaluation of the financial position of a specific industrial organization, the research method of 'case-study'

has been adopted. In this method, the organization being studied is taken up for an historic and cross-sectional microscopic examination of its position in the selected functional area referred to in the Statement of Problem. The information obtained, including the statistical data, is then critically analyzed with the help of suitable statistical techniques. The processed information is then presented and interpreted in a meaningful manner.

For the present work, the statistical information pertaining to the study organization was collected by carefully scrutinizing the secondary data sources, like published annual reports and balance-sheets for a period of last five years (1989-90 to 1993-94).

The Company was kind enough to allow the researcher's access to its archives so as to gather unpublished information of historic nature. The researcher has also made extensive use of the Company's office records and current files. Because of the technical complexities of the topic, the researcher further had to rely on observation and interview methods of data collection.

The background data, including the conceptual/theoretical/archival information, necessary for completing this work was gathered from the published sources. Particularly useful in this behalf were:

1. Chh.Shahu Central Institute of Business Education and Research Library, Kolhapur;
2. Barr.Balasaheb Khardekar Library, Shivaji University, Kolhapur;

Lastly, additional verbatim information necessary for completing the picture and arriving at meaningful conclusions was sought from the persons knowledgeable in paper industry and financial management, with the help of interview guides.

#### 1.4.6 Data Analysis and Interpretation:

The statistical data, juxtaposed against conceptual/theoretical background, was interpreted through an intellectual exercise for the purpose of evaluating the study organization's financial position. The findings derived from this exercise have been used to arrive at conclusions and for formulating meaningful suggestions as the concluding exercise of this research endeavour.

#### 1.4.7 Scope of the Study:

The topical scope of the study is confined to studying and evaluating the financial position of the Mysore Paper Mills Limited. The analytical scope covers the fulfilment of the objectives set out for the study. The functional scope is confined to offering certain meaningful suggestions to the study organization.

#### 1.4.8 Significance of the Study:

The significance of a 'case-study' type research investigation is often multi-dimensional. First, the suggestions emerging on the conclusion of such a study can be brought into practice immediately to improve the organization's position in the selected area. These suggestions may also have relevance to similar organizations. Secondly, 'case-study' helps in



identifying the study organization's inner strengths and weaknesses that have to be nurtured or controlled, respectively, for the organization's eventual success. Thirdly, referring to the present study organization particularly, it ought to be pointed out that a manufacturing company, as a form of economic organization, possesses an immense potential to bring about a speedier transfer of market profits to producers and suppliers of raw material, workers and employees, suppliers of ancillary services and the participants in its equity. For enabling industrial organizations to fulfil this social obligation, however, considerable research in their functional management areas needs to be undertaken. The present work is a small step in this direction.

#### 1.4.9 Limitations of the Study:

Resources and time constraints were the general limitations encountered while conducting this study in partial fulfilment of the requirements for the award of the M.Phil.Degree of Shivaji University, Kolhapur. The more specific limitations were as under:

- (1) The endeavour, being of case-study nature, could focus on only one organization. A comparative study of two paper manufacturing Companies - one each in public and private sectors - would have been more enlightening in understanding the paper industry's financial position;
- (2) The study period had to be kept limited to only five years, i.e. from 1989-90 to 1993-94, because under the

impact of recent economic liberalization in the country, the statistical information for the earlier years has now become of archival interest only.

#### 1.4.10 Chapter Scheme:

The study is divided into Six Chapters as follows:

- Chapter-1 : Introduction and Research Design;
- Chapter-2 : Profile of the Paper Industry in India;
- Chapter-3 : Profile of the Mysore Paper Mills Limited;
- Chapter-4 : Financial Position and Working Capital Analyses of the Mysore Paper Mills Limited;
- Chapter-5 : Assessment of the Financial Position of the Mysore Paper Mills Limited;
- Chapter-6 : Conclusions and Suggestions.

A brief Bibliography concludes the Dissertation.

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