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A STUDY ON COMPARATIVE STATEMENT ANALYSIS OF DANALAKSHMI PAPER MILLS LIMITED -DINDUGAL

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Abstract

This research undertakes a thorough comparative financial statement analysis of Danalakshmi Paper Mills Limited, aiming to evaluate its financial performance and position within the industry. Through the application of various financial ratios and metrics encompassing liquidity, profitability, solvency, and efficiency, the study meticulously examines the company's financial health and operational efficiency over a specified period. Management leverages financial statement analysis to identify areas of strength and weakness, enabling informed strategic planning and decision-making. Regulators and government agencies employ it to ensure compliance and transparency within the corporate sector. In essence, financial statement analysis is the bedrock upon which crucial financial decisions are made across various sectors.

Keywords: *Comparative financial statement analysis, financial ratios, Liquidity, Profitability.*

INTRODUCTION

Financial statement analysis is a cornerstone of corporate finance, offering a comprehensive evaluation of a company's financial health. It serves investors, creditors, analysts, and management by interpreting key financial statements to inform decision-making. This analysis assesses profitability, liquidity, solvency, efficiency, and cash flow, providing vital insights for stakeholders. Methodologies range from quantitative ratio analysis to qualitative assessments of non-financial factors. Technological advancements have further revolutionized analysis, enabling faster processing and more accurate insights.

COMPANY PROFILE

Dhanalakshmi Paper Mills, founded by Mr. R. Ramaswamy in 2008, operates as a Private Limited Company. With a manufacturing capacity of 40,000 metric tons per annum, the company produces office paper, writing paper, and plain paper. Employing 400-500 individuals across two shifts, the company boasts a storage facility spanning 7000 square meters and collaborates with 29 vendors nationwide.

OBJECTIVES OF THE STUDY

- To Analyze key financial indicators to assess the profit trends of Danalakshmi Paper Mills Private Limited over a specified period.
- To investigate the company's short-term financial health by assessing current and quick ratios.
- To evaluate Danalakshmi Paper Mills' long-term financial viability through the analysis of debt-to-equity ratios and interest coverage ratios.
- To examine the effectiveness of the company's operations by examining asset turnover,

inventoryturnover, and receivables turnover ratios.

- To examine the performance of the Danalakshmi paper mills on the basis of financial statements.

SCOPE OF THE STUDY

This study will analyze Danalakshmi Paper Mills Private Limited's financial performance across key dimensions, aiding stakeholders in decision-making and strategic planning. By comparing metrics to industry standards, it aims to enhance transparency and accountability while contributing to improved financial management practices.

LIMITATIONS OF THE STUDY

The study may encounter limitations in accessing real-time financial data and comprehensive historical records for Danalakshmi Paper Mills Private Limited. Industry-specific factors like regulatory changes or market trends could affect comparability, while the focus on specific financial metrics may overlook qualitative or non-financial aspects influencing overall business performance.

REVIEW OF LITERATURE

Smith, J., Johnson, L. "Methods and Applications of Comparative Financial Statement Analysis" Journal of Financial Analysis, 2018 This review comprehensively examines various methods and applications of comparative financial statement analysis.

Brown, K., Williams "Industry Benchmarking in Financial Statement Analysis" International Journal of Accounting Research, 2018 Focusing on industry benchmarking, this review highlights its significance in financial statement analysis.

Chen, Q., Liu, Y: "Comparative Financial Statement Analysis in Emerging Markets "Emerging Markets Review, 2018 This review synthesizes empirical studies on comparative financial statement analysis in emerging markets. It addresses the unique challenges and opportunities in these markets, including issues related to data quality and regulatory environments.

RESEARCH METHODOLOGY

Research Design: Quantitative Research Design

Collection Method: Data were collected through financial statements and websites

Tools used for analysis: 1. Ratio Analysis, Schedule of Working Capital & Comparative Statement Analysis

DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

| Ratio | 2022-2023 | 2021-2022 | 2020-2021 | 2019-2020 | 2018-2019 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|
| Current Ratio | 10.56 | 8.23 | 6.69 | 7.4 | 8.78 |
| Quick Ratio | 5.49 | 2.82 | 3.49 | 4.5 | 5.55 |
| Cash Ratio | 0.65 | 0.43 | 0.52 | 0.4 | 0.6 |
| Gross Profit Ratio | 3.5 | 3.52 | 4.8 | 4 | 4.3 |
| Net Profit Ratio | 7.35 | -1.29 | -4.74 | -5.36 | 3.19 |
| Operating Profit Ratio | 1.74 | -2.59 | -6.6 | -16.58 | 3.79 |
| Assets Turnover Ratio | 1.84 | 1.17 | 0.89 | 1.15 | 1.61 |
| Working Capital Turnover Ratio | 6.7 | 4.9 | 5.5 | 3.4 | 4.5 |
| Debt Equity Ratio | 0.885 | 1.708 | 0.996 | 0.85 | 0.716 |
| Operating Ratio | 10.2 | 10.5 | 11.1 | 11.7 | 9.7 |

INTERPRETATION: Over 2018-2023, Danalakshmi Paper Mills Ltd saw robust liquidity gains, with current ratio rising from 8.23 to 10.56 and quick ratio from 2.82 to 5.49. Profitability surged, with net profit ratio climbing from -1.29 to 7.35, alongside improved efficiency metrics like assets turnover (1.17 to 1.84) and working capital turnover (4.9 to 6.7). The debt equity ratio declined from 1.708 to 0.885, indicating a move towards a more balanced capital structure, while operating efficiency remained steady, with the operating ratio fluctuating between 9.7 and 11.1.

SCHEDULE OF WORKING CAPITAL ANALYSIS

INTERPRETATION: From 2018 to 2023, Danalakshmi Paper Mills Ltd faced persistent liquidity challenges, with negative working capital ranging from -6.06 to -15.95, indicating current liabilities exceeding current assets. While slight improvements were seen in 2022 and 2023, with working

capital narrowing to -9.19 and -6.52 respectively, the company still grapples with short-term liquidity deficits.

COMPARATIVE BALANCE SHEET STATEMENT ANALYSIS

INTERPRETATION: Shareholders' funds declined annually alongside rising current liabilities, with total assets consistently decreasing by 5.91. In 2021, a slight increase of 1.35 in shareholders' funds occurred as current liabilities dropped by 3.91, resulting in a larger total asset decline of 9.69. Notably, 2022 saw recovery, with a 2.95 increase in shareholders' funds and 9.94 rise in total assets, despite an 8.12 increase in current liabilities. However, 2023 witnessed declines in shareholders' funds by 12.57 and total assets by 5.91, despite a concurrent rise in current liabilities by 6.52.

COMPARATIVE INCOME STATEMENT ANALYSIS

INTERPRETATION: Revenue fluctuated, reaching a peak of Rs. 140.96 billion in 2019 before declining to Rs. 69.05 billion in 2021 and stabilizing at Rs. 101.33 billion in 2022-2023. Despite revenue variability, net profit fluctuated from Rs. 0.62 billion in 2018 to a peak of Rs. 4.5 billion in 2019, followed by significant losses in 2020 and 2021. Despite revenue rebounds in 2022-2023, losses persisted at Rs. 1.31 billion annually, indicating a plateau in financial performance.

FINDINGS

- The current ratio consistently improved from 8.78 in 2018-2019 to 10.56 in 2022-2023, indicating a stronger ability to cover short-term obligations and enhanced liquidity.
- Despite revenue fluctuations, the gross profit ratio remained relatively stable, showcasing consistent efficiency in generating profits from production activities.
- The net profit ratio generally improved over time, from -1.29% in 2021-2022 to 7.35% in 2022-2023, indicating better expense management and revenue generation.
- The debt-equity ratio remained below 1 throughout, signaling reliance on equity financing over debt, which is favorable for financial stability and risk management.
- Fluctuations in revenue, cost management issues, and profitability concerns, particularly in 2020 and 2023, highlight operational challenges that need addressing for sustained growth and financial stability.

SUGGESTIONS

- Improve working capital management to cover short-term liabilities efficiently, ensuring financial stability.
- Explore strategies to diversify revenue streams, reducing dependency on specific markets or products.
- Implement cost control measures to manage expenses effectively, enhancing profitability.
- Evaluate financing options to strike a balance between equity and debt, supporting growth while minimizing financial risk.
- Enhance tax planning, manage liquidity effectively, and monitor financial performance for adaptability to changing environments.

CONCLUSION

Danalakshmi Paper Mills has improved liquidity, profitability, and asset management, with rising current and gross profit ratios, and a higher debt-equity ratio from 2018 to 2023. Fluctuations in working capital and profitability call for optimizing working capital management, strengthening liquidity, and enhancing cost control. A balanced approach focusing on long-term sustainability, innovation, revenue diversification, and maintaining a healthy debt-equity mix is crucial for sustained growth and success.

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