

## **FINANCIAL PERFORMANCE APPRAISAL OF SELECTED FERTILIZER COMPANIES IN INDIA**

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### **Introduction**

The corporate sector is the backbone of the Indian economy so far as it provides a vital, effective and organized system for the growth of the industrial as well as non-industrial sectors of the economy. Corporate sectors have short term goals such as improving annual profits and value addition as well as long term goals in terms of contribution to national wealth, creation of more employment, building up infrastructural facilities, building up a broad-based and healthy capital structure, operating of essential services, creating export potential and thereby participating actively in the overall economic growth of a country and improving the standard of living of its people. Ultimately, the Gross Domestic Product (GDP) and the tax revenue to the government in the form of both direct and indirect taxes are maximized. The ever increasing importance and role of corporate sector in the economic growth of a country, particularly, in developing countries like India, have attracted several academicians, professional institutions, researchers and administrators to conduct diverse studies in the area. There is a need to study the industry's internal efficiency which ultimately shall determine the overall industrial development in future. The present study is a small endeavor to update our knowledge in this aspect.

### **Financial Performance Appraisal**

The phrase "Performance Appraisal" is composed of two words, i.e., "Performance" and "Appraisal". The word "Performance" is used to mean the efforts extended to achieve the targets efficiently and effectively. The dictionary meaning of performance refers to "achievement". The achievement of targets involves the integrated use of human, financial and natural resources (Robert, 1978). Performance directly reflects the disposition and utilization of the resources. Appraisal refers to a critical review of the activities for improving performance. It compares the actual performance with targets fixed, identifies causes of significant variations, and devises corrective actions.

This is naturally tuned to assessing whether the business operations would be safe, profitable, and appropriate in a given economic situation. The interest of good operating results every concern should have a periodical appraisal-both diagnostic as well as preventive in nature. In the case of an already bad or deteriorating situation, it locates the areas and indicates where to improve, where, as in

case of good condition, it shows ways to further improve the performance. Performance might be improved by paying attention on how a unit has improved on an accepted standard and the lessons learned may be applied with advantage to other units rather than directing the efforts to eliminate deviations from the plan. Checking performance is the third major management activity, which the financial planning and control function aims to assist in particular. It implies the existence of a bench mark against which actual results can be compared (Robson, 1981).

The assessment of business performance is more complex and difficult, since it must deal with the effectiveness with which capital is employed, the efficiency and profitability of operations and the value and safety of various claims against the business (Erich, 1977). Performance Appraisal through Financial Statement Analysis of a company can be done through a careful and critical analysis of financial statements. Financial analysis helps managers in controlling their enterprise's performance. It does this by providing them with a system and set of procedures for analyzing and understanding financial indicators of performance. The two important financial statements are the "Profit and Loss Account" and the "Balance Sheet". Although any formal statement expressed in money value might be thought of as financial statement, the term has come to be limited by most accounting and business writers to mean the "Profit and Loss Account" and "Balance Sheet".

### **Need for the study**

Fertilizer plays an extremely important role in increasing agricultural production. It continues to be the most important input, next only to water in agricultural production. Fertilizer is required in increasing quantities to enable to feed the teeming millions in our Country. Government of India has been planning and approving huge investments in Fertilizer sector. The increased production of fertilizer is as important as producing it efficiently and at lowest unit cost. Though fertilizer industry was previously dominated by multinational corporations, (MNC's) recently Indian companies have entered the area and initial results have been encouraging. The Profitability and Liquidity analysis aims to find out the Profitability Performance of the respective firm. The study concentrates profitability which is greater importance in strategic financing decisions for new investments.

Even though many studies in the direction have been conducted, the present one would be of greater significance to many because it would help to understand the evaluation of financial variables of companies apart from identifying the financial relationship of companies with their profitability. As such, the study is expected to help the corporate management, the financiers, the investors and the government at large, to take valuable decisions on their own. The study has academic relevance too in so far as new theoretical and practical knowledge would undoubtedly, be added to the existing stock of knowledge. The present study will act as a masterpiece on the subject for further research and development. There are few studies on financial performance of Indian Fertilizer industry in the aspects of liquidity and working capital and not cover in the aspects of determinants of profitability and financial health. Therefore, covering the gaps in the earlier studies, the present study is undertaken to give an insight into the performance appraisal of selected sectors of Fertilizer industry. It might also help the academic researchers, researchers in securities, industries and companies by providing different perspectives.

## SCOPE OF THE STUDY

The present study is done to evaluate the Financial Performance Appraisal of Fertilizer Industry. Performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goals of such analysis are to determine the efficiencies or performance of a firm's management as reflected in the financial records and reports. The analyst attempts to measure the firms operating performance, profitability, liquidity, solvency etc., to prove that the business is conducted in a rational and normal way ensuring enough returns to the shareholders to atleast maintain its market value. Therefore, Performance Appraisal of a company stands the most important factor for its evaluation. The study continues itself with the Performance Appraisal of selected Companies. It excludes non-financial areas such as personal, research and development from its purview.

### Statement of the Problem

The Performance Appraisal programme enables the management to operate the control system of the business organization more effectively. It helps to identify the weaker spots of a company's operations and to take corrective action. Furthermore, it tends to restrain management as they are under pressure to maintain a favorable financial position. Investors comprising shareholders and debenture holders, have a vital interest in the appraisal of performance of an enterprise. In this context, an attempt has been made to analyse the Financial Performance Appraisal of selected fertilizer companies in India, to understand how management of finance plays a crucial role in the growth. The efficiency of the business is measured by the amount of profit earned. The greater the profit, the more efficient is the business considered to be. The profit of a business may be measured by studying the profitability of investment in it.

Profitability may be defined as the ability of a given investment to earn a return from its use. This ability is referred to as lending power or operating performance of the investment concerned. Profitability is a relative term and its relation with the other factors affects profit. It is the test of efficiency, powerful motivational factor and the measure of control in any business. Hence, an attempt has been made to study the profitability of Fertilizer Industry.

Actually, Profitability is a highly sensitive economic variable which is affected by a host of factors operating through a variety of ways. Some of them are relevant in the short run while others have impact in the long run. It is difficult to build a theory of Profitability, which accounts for all such factors. Because of these difficulties, it is quite natural to analyse the variation in profitability by taking the partial approach i.e., to find the effect of certain major variables, ignoring the implications of other left out independent variables at a time. The present study is a step towards this direction.

Financial Appraisal provides a method for accessing the financial strengths and weaknesses of the Fertilizer industry using financial statement. There are two views of the financial strength of every organization based on the period of lending i.e., the short term and long term. Short term financial strength relates to the technical solvency of an organization in the near future, while the long-term financial strength depends on the structure that has been imposed in financing more permanent asset requirements. The study analyses the short-term and long-term financial strength of the Indian Fertilizer

industry. Therefore, the present study is undertaken to make a Performance Appraisal of the selected Companies of the Indian Fertilizer industry.

### **Objectives of the study**

1. To study the growth and development of Fertilizer Industry in India.
2. To analyze the Liquidity and Profitability position of selected Fertilizer companies in India.
3. To determine the Profitability in respect to financial variables of selected Fertilizer companies in India.
4. To evaluate the Financial Health of selected fertilizer companies in India.
5. To suggest the improvement in the aspects of Financial Position of Fertilizer Industry in India.
- 6.

### **Methodology**

The research approach is descriptive and analytical in nature. The study is mainly based on secondary data, which is collected as per requirements of the study. The secondary data is used for the evaluation of Financial Performance Appraisal. Secondary data is taken from CMIE, Prowess Database and published annual reports of the Fertilizer companies. In addition to that, financial literature and published articles on the related aspects are also considered. Other information related to the industry are collected from the Economic Times, Financial Express, Business Standard, RBI Bulletin, Periodicals, Journals and various documents of the companies.

### **Tools of Analysis**

In the course of analysis, various accounting tools and statistical techniques are applied. Accounting techniques include Ratio Analysis and Trend Analysis. The statistical techniques applied are the Arithmetical mean, Standard deviation, Coefficient of variation, Maximum, Minimum, Average and Compound growth rates, Correlation coefficient, Coefficient of determination, Liner regression equations and Altman's Z Score discriminant model.

### **Sampling Design**

The study covers two major sectors engaged in manufacturing fertilizers viz. Public and Private. From the Public sector undertakings, there are nine of which six companies were selected and included for the study. In the Private sector, there are 18 fertilizer units, out of which eight undertakings are selected for the study based on the availability of financial report and information. The details of the sample selection are shown in Table 1.1.

Table 1.1: Selection of sample companies

S.No	Public Sector	Private Sector
1	Madras Fertilizers Limited	Southern Petrochemical Industries Corporate Limited (SPIC)
2	Fertilizers and Chemical Travancore Ltd.	Tuticorin Alkali Chemicals and Fertilizers Limited (TAC).
3	Rashtriya Chemicals and Fertilizers Limited	Basant Agro Tech(India) Limited
4	National Fertilizers Limited	Deepak fertilizer and Petrochemicals Corporation Limited
5	Steel Authority of India	Coromandal Fertilizers Limited
6	Neyveli lignite Corporation Limited.	Gujarat state fertilizers & Chemicals Limited
7		Mangalore chemicals & Fertilizers Limited
8		Zuari Fertilizers and Chemicals Limited.

Source: Compiled from Annual Report of respective companies

## Period of the study

The study covers a period of Twelve years from 2001 to 2012.

## Limitations of the study

1. The research design selected for the study is having a great chance of personal bias in the selection of sample companies. However, it is attempted to be as objective and impartial to obtain reliable and meaningful results from final analysis.
2. This study is based on secondary data taken from CMIE database as well published annual reports of the said companies and as such its finding depends entirely on the accuracy of such data.
3. The analysis is based on annual reports of the company. So it is subjected to the limitations of secondary data. The study is largely based on Ratio analysis, which has its own limitations that also applies to this study.
4. Hence, the conclusions drawn in the present study should be taken in the light of these deficiencies of data.
5. This study is limited to 12 years from 2001 to 2012 only and related to the Fertilizer Industry in India.
6. The companies chosen are restricted to only 14 due to the non-availability of data from the database and annual reports.

## Chapter Scheme

Chapter I: Introduction and Design of the study

Chapter II: Review of Literature

Chapter III: Growth and Development of the Fertilizer Industry

Chapter IV: Profitability and Liquidity Analysis

Chapter V: Determinants of Profitability

Chapter VI: Evaluation of Financial Health

Chapter VII: Findings, Suggestions and Conclusion

## **SUMMARY & CONCLUSION:**

Chapter titled “Profitability and Liquidity analysis” describes the conceptual framework of financial efficiency and profitability. Financial efficiency is the ability of a given investment to earn a return from its use. It’s vital instrument to measure not only the business performance but also overall efficiency in its concerned.

In present study eight types of measurement tools of financial efficiency were discussed i.e. Gross profit ratio, Net profit ratio, operating ratio, Return on capital employed, Return on total assets ratio, earning per share, return on capital employed, Return on Equity ratio. Generally, Earning per share ratio uses widely and famous. The present study showed concept, importance and measurement tools for profitability performance for measure the efficiency of business organization.

## **References:**

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