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Performance Against Financial Turbulence

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ABSTRACT
The case is about how a company leads its way through a situation of turmoil in its short-term financing and liquidity position. It takes into account the financial statements for ten years to study the revamp mechanism that the company management adapts to make itself a profitable entity by ensuring crisp management of short-term funds and their deployment in day to day working of the company. The case draws specific inputs from the financial statements of White Paper Ltd. and analyses their policies in management of the working capital. The period in consideration is between the years 2010-2020. The problems faced by the company and how it came out of it need to be discussed and analyzed. Alternative courses of action need to be discussed by the students and should also evaluate the policy decisions.

Keywords: Ratios, Ratio Analysis, Working Capital, Liquidity, Profitability

Background

Sanskar joined a multinational financial services company immediately after his Post- graduation from a renowned Business school. After joining the organization, he had an induction programme on financial reporting and financial statements analysis for 15 Days. He was very inquisitive to learn as he could upgrade his skills of financial statements analysis.

After completion of his induction he was first assigned a task to analyze working capital of White Papers Ltd. and to evaluate their working capital management practices for ten years from 2010 to 2020 and comment on their working capital policies. He took three days to collect the data and prepared a statement for ten years. He also prepared a PowerPoint presentation to show to a group of senior managers for their comments and approval.

Sanskar recalled what he studied about working capital in his accounting class. He remembered that a working capital statement is one of the useful statements for analysis of liquidity position of the company.

Still it was a big challenge for him to prepare a working capital statement from the available financial information and interpret the liquidity position of the company. He started looking at companies' annual reports.

About White Paper

White Paper Ltd. is one of the leading paper industries that started its operations in the 1960s and crossed many milestones from that period till date.

White Paper Ltd. is one of the leading players in the paper segment and is also exporting to 35 countries. Company is a market leader in the office paper segment and one of the two companies manufacturing coated paper in India. The Company's distribution footprint covers 28 States and 8 Union Territories. White Paper was the first within the paper sector in India to extend to proprietary retail, which helped widen its value chain, engage with customers and capture consumer insights.

On observing the working capital of White Paper Ltd. from March'2010 to 2020 it is evident that the company had negative working capital throughout the period 2010- 2016, and afterwards turned positive, which means their current liabilities are more than their current assets. From 2010 to 2015 company pass through stabilization phase. Company received a good number of industrial projects during this period but those projects requires almost 2 to 3 years of implementation period so it was a challenging period to manage cash flows for the company. But later on after 2015, the company started getting cash inflows from projects. Further details given in working capital statement of White Paper Ltd. are summarized below:

Working Capital of White Paper Ltd											
CURRENT ASSETS (Cr)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Current Investments	**382.64**	636.72	127.22	242.59	10.01	0	63.79	0	60.31	70.12	0
Inventories	**447.29**	322.47	394.23	382.94	334.71	374.35	292.59	216	164.19	127.53	126.89
Trade Receivables	**74.7**	77.17	109.15	110.81	139.18	146.25	170.8	119.38	144.16	107.87	104.49
Cash And Cash Equivalents	**30.22**	15.04	122.02	27.4	14.64	17.83	12.05	33.92	147.82	31.1	7.94
Short Term Loans And Advances	**93**	73.04	0	0	21.89	141.86	153.46	178.94	133.52	73.59	160.98
Other Current Assets	**161.13**	142.34	105.02	83.1	111.63	162.13	140.16	11.38	8.68	1.39	0
Total Current Assets	**1,188.98**	**1,266.78**	**857.64**	**846.84**	**632.06**	**842.42**	**832.85**	**559.62**	**658.68**	**411.6**	**400.3**
CURRENT LIABILITIES											
Short Term Borrowings	116.67	18.04	76.03	127.75	128.29	245.21	219.05	123.14	130.63	138.73	129.75
Trade Payables	337.24	266.48	254.86	230.94	187.85	238.23	213.35	137.23	142.98	116.2	115.71

Other Current Liabilities	479.74	527.57	456.39	449.1	512.51	380.65	448.34	289.49	239.36	171.13	42.83
Short Term Provisions	6.39	5.55	5.88	7.85	5	1.2	2.67	12.64	26.13	3.61	25.77
Total Current Liabilities	**940.04**	**817.64**	**793.16**	**815.64**	**833.65**	**865.29**	**883.41**	**562.5**	**539.1**	**429.67**	**314.06**
Working Capital	**248.94**	**449.14**	**64.48**	**31.20**	**-201.59**	**-22.87**	**-50.56**	**-2.88**	**119.58**	**-18.07**	**86.24**
Other Financial Information											
Revenue From Operations [Gross]	3,014.13	3,233.64	2,826.25	2,736.83	2,548.34	2,260.97	1,821.73	1,536.68	1,395.31	1,280.38	1,299.57
Changes In Inventories Of FG,WIP And Stock-In Trade	-123.6	47.19	-10.36	-4.69	19.22	-25.46	-58.36	-12.12	-16.13	10.37	8.94
Revenue From Operations [Net]	3,014.13	3,233.64	2,793.03	2,601.41	2,421.69	2,138.55	1,721.37	1,453.19	1,328.26	1,230.72	1,258.82
Purchase Of Stock-In Trade	279.9	301.53	284.48	222.66	171.31	66.39	92.98	84.07	72.2	33.35	43.98

Cash Flows

	Mar-20	**Mar-19**	**Mar-18**	**Mar-17**	**Mar-16**	**Mar-15**	**Mar-14**	**Mar-13**	**Mar-12**	**Mar-11**	**Mar-10**
	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths
NET PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAX	**718.59**	**678.35**	**375.19**	**231.71**	**89.24**	**-51.03**	**-122.94**	**37.34**	**52.12**	**148.45**	**126.93**
Net Cash Flow From Operating Activities	636.48	852.69	555.44	561.32	403.5	253.97	130.23	123.72	7.07	229.34	243.83
Net Cash Used In Investing Activities	-298.26	-836.79	46.5	-259.72	-33.51	-50.02	-332.01	-791.66	-596.5	-99.51	-66.13
Net Cash Used From Financing Activities	-323.04	-122.88	-507.32	-288.84	-372.7	-194.94	176.32	554.05	706.22	-106.8	-204.05
Foreign Exchange Gains / Losses	0	0	0	0	0	0	0	0	0	0	0
Adjustments On Amalgamation Merger Demerger Others	0	0	0	0	0	0	0	0	0	0	0
NET INC/DEC IN CASH AND CASH EQUIVALENTS	**15.18**	**-106.98**	**94.62**	**12.76**	**-2.71**	**9.01**	**-25.46**	**-113.89**	**116.79**	**23.03**	**-26.35**
Cash And Cash Equivalents Begin of Year	15.04	122.02	27.4	14.64	17.35	8.34	33.8	147.69	30.9	7.87	34.22
Cash And Cash Equivalents End Of Year	30.22	15.04	122.02	27.4	14.64	17.35	8.34	33.8	147.69	30.9	7.87

Sanskar came up with the report after analyzing financial statements of the company for the period of 10 years. He calculated the working capital and profitability ratios and commented on the position of the company in terms of liquidity and profitability.

Sanskar also did some groundwork about the company's progress for the 10 years in consideration. He made some remarks from the points he had carefully noted. These were as follows:

The company has grown steadily over years 2010-11 to 2019-20. The production increased by 4.5%, plant utilization 119%, packaging plant was operating at 125% Capacity. The operating profit was higher despite increase in raw material cost and pulp. The working capital management was gradually improved using new technology and receivables cycle was brought to 9 days from initial 18 days. The company always focused on product quality standards and thereby endeavored to achieve customer satisfaction and delight.

The company also worked on capacity expansion and took it to 4.55lac tonnes from 2.4 lac tonnes in 2009-10. It carefully financed the expansion by use of internal accruals, debt and equity. The timely expansion strategy paid well for the company and resulted in profits for almost all the years except once in 2013-14 to the tune of Rs. 77.19 crores which was reduced to Rs. 12.74 crores in 2014-15. That too was due to unprecedented increase in prices of raw material and coal. The company took steps to prevent dependence on raw material sourcing from outside. This resulted in growing acreage under the company and more forestation every year. Also the raw material requirement was sourced majorly (from 41% in 2015-16 to 96% in 2018-19) from within a radius of 200 kms of its manufacturing facilities. This helped in significant reduction in the dependence on external sources and the cost. The company also assisted farmers in acquiring loans and training for improving yields.

The Human resources policy of the company also had many plus points. It launched newer methods of employee motivation and participation. Some of these were "Krishna-Arjuna initiative" to develop leaders under senior mentors. Top three pairs every year were rewarded. It was quite successful. Then the company launched "Passion in Action" initiative in 2016-17. This concept transformed each worker in an owner. Company deputed each worker to visit customer for product feedback. Further, company designated each worker as a management cadre staff. So they started feeling a sense of ownership. It resulted in the most competitive paper manufacturing unit in the country.

The company invested in new technology, The Company invested in clonal Technology and Elemental Chlorine Free Technology (ECF) amongst others. The company also acquired Sirpur Plant in Telangana with a capacity of 1.36 lac tonnes. The company also invested in technology driven credit control to shrink its receivables cycle, which resulted in a significant improvement in the working capital management.

Effective working capital management helped the Company reduce its overall working capital requirement to 18 days of turnover equivalent from (32 days in FY2015-16). Repaid high-cost debt and negotiated further with banks to reduce interest rates on rupee term loans and working capital loans converted its variable rate borrowings into fixed rate borrowings from 33% to 51% of total borrowings, de-risking the debt portfolio from fluctuating interest rates. It strengthened trade terms by enhancing the proportion of cash-and-carry and reinforcing guidelines. It further funded a substantial portion of its working capital outlay through cheaper interest buyer's credit and Export Packing Credit.

The company invested in each of its manufacturing facilities around the prevailing economies of scale, which translated into a relatively low manufacturing cost per tonne, a substantial platform on which to grow the business. The Company focused on generating a low capital cost per tonne, one of the most critical drivers of long-term competitiveness – through a combination of prudent negotiation at the time of capital spending and technological insights.

Thus the company White Papers Ltd. has sailed successfully through the challenges of higher input costs (including Raw material, power, and fuel), shortage of raw material and the competitions (low or nil import tariff on paper from ASEAN countries) and remained the consistent leader in the industry. Focus on product quality, customer satisfaction, introduction of new products, newer approaches to marketing and a very successful financial planning and a perfect working capital management were the back bone of success of White Paper, Sanskar mentioned in his end note.

Questions

Q.1 Analyze the case and discuss the SWOT for the Company.
Q.2 Evaluate the working capital management at White Paper Ltd.
Q.3 Calculate Liquidity and profitability Ratios and comment on the liquidity and profitability position of the company.
Q.4 Identify the factors that led to the liquidity position worsen till 2016? Comment.
Q.5 Explore the reasons for getting a positive working capital after 2016.
Q.6 What are working capital requirements? Further, elaborate on the need for Working Capital Management (WCM) in the above company.
Q.7 Calculate the current ratio for the company from 2010- 2020. Calculate and interpret the inventory turnover ratios and debtors' turnover ratios.
Q.8 On the basis of the information provided, has the company been efficiently managing its working capital? Comment giving suitable reasons.

Suggestive Answers

Ans 1 SWOT

Ans 2: From working capital and cash flow statements of White paper Ltd from March'2010 to 2020 it was observed that short term borrowings are created to manage working capital of the company, although it has raised finance cost. But somehow company could manage their working capital in this turmoil period till they reach up to comfortable condition. After 2015, the recovery of debt helped them to manage their working capital and turn it in positive numbers.

Ans 3.

Ratio Analysis

Liquidity and Activity Ratios	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Current Ratio	0.79	0.62	0.77	0.64	0.76	0.97	0.98	1	1.31	0.96	1.27
Quick Ratio	0.58	0.35	0.45	0.34	0.36	0.54	0.65	0.62	1	0.66	0.87
Inventory Turnover Ratio	6.83	10.1	7.3	7.22	7.28	5.78	5.96	6.76	8.1	9.67	9.9
Receivable Days	9.05	8.71	14.10	14.78	19.93	23.61	34.22	28.36	37.71	30.75	29.35
Debtors Turnover Ratio	40.22	34.95	25.86	21.03	18.31	15.46	10.67	12.87	9.68	11.87	12.44
Inventory Days	-0.041	0.015	-0.0037	-0.0018	0.0079	-0.01	-0.03	-0.01	-0.01	0.01	0.01
Payable days	1.20	0.88	0.90	1.04	1.10	3.59	2.29	1.63	1.98	3.48	2.63

Current ratio is approximately 0.90 to 1.00 throughout the period; whereas quick ratio excludes the inventories from current assets. Inventory turnover ratio is approximately 6 to 7 days and debtors' turnover ratio is approximately 10-15 days which means they are recovering their money early from the debtors.

Ans 4

Many factors which worsen liquidity condition in company it could be when business does not have the liquid assets—in cash or other highly marketable assets—necessary to meet its short-term obligations it faces a liquidity problem. Obligations can include repaying loans, paying its ongoing operational bills, and paying its employees. Company could not generate enough current assets to pay their current liabilities which worsen liquidity condition of the company further, company used outside borrowings (shown in Cash flow statement in financing cost) which has increased finance cost of the company. But it was short term challenge and company started getting cash inflows after completion of projects, which was used for repayments of debts and liabilities. In this way the company could manage WC after 2016.

Ans 5 After 2015 company had less borrowing cost because company using operational inflow to repay their current liabilities, which resulted in decreasing finance cost and thereafter yielding a positive working capital. Also, the cash inflows from operating activities increased after 2015 resulting in positive working capital.

Teaching Note

Content

1. Synopsis of the case:

The case is based on ten years' financial statements of White Papers Ltd. from 2010-2020. The case is based on attempting to figure out their working capital management policies and the effect it does have on the- company's profitability, liquidity and turnover. The case also tries to explore if the company has faced any particular problems during this time period and if it has, what were the measures taken by them to resolve the problem. Since White Papers Ltd. is a leader in their industry and the company is in a segment where the raw material is more akin to environmental restrictions, it is all the more important to understand the way they manage their inventories and other aspects of working capital.

2. The Target Learning Group

The target learning group for the case is students of MBA, BBA, BAF, B.Com or anyone having an interest in finance. It can be used as a supplement for teaching working capital management theory.

3. The learning/teaching objectives and key issues

The objective of the case is to make students understand and help them to evaluate the corporate working capital concept, various ratios and their significance in general and significance of the working capital management. Particularly, to estimate and understand the efficient working capital management practices and how the company can be benefited from their working capital policies. On this basis the students should be able to highlight the strengths of the company. Further, it will help to understand the requirement and significance of current assets and its implications on company's long-term profitability.

4. The teaching strategy

The case could begin with a small introduction of working capital management practices. To initiate then, students can be asked to explain how the working capital is calculated from the financial statements. Ask different turnover and activity ratios such as inventory turnover ratio, collection ratio and ratio of Current assets to current liabilities and their interpretation. They can be asked to compare the performance of White Paper Ltd. over the time period in consideration and also can compare with the industry standards.

While handling this case in the class, the emphasis on the cash flow patterns should be given so as to make them understand that the working capital provides a cushion to meet day to day working of the company. It also helps to pay short term loans etc. even if in certain months sufficient revenues are not generated.

5. Analysis of Data

Debtors Turnover Ratio= Gross Sales/Receivables
Receivable Days= Trade Receivables/ Gross sales*365
Inventory Days= FG+RM+WIP/Net Sales
Payable Days= Trade Payables/ Net Purchases

6. Background Reading

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