



# **A STUDY ON FINANCIAL DISTRESS AND FIRMS PEERFORMANCE WITH SPECIAL REFERENCE TO TANTEA, COONOR**

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## ***ABSTRACT***

*The study is about financial distress and firm's performance in TANTEA Coonor. In financial terms distress says that the company may have a chance to meet certain stages like insolvency, financial instability. With respect to this condition the study portrays how effectively distress can be managed using analysis like ratio and Altmans Z score. From these analysis a firm can know how effectively financial distress can be managed.*

*Key Words : Financial Distress, TANTEA , Altmans Z Score, Firms Perfomance*

## **I. INTRODUCTION**

Financial distress is a situation, which makes the company's survival difficult. A firm, which is exposed to higher business risk, faces a greater chance of financial distress (Pandey 1999). A firm



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experiences financial distress when it defaults the external obligations. Though a levered firm has the tax advantage, a highly levered firm is always under the threat of distress because of the high cost of debt. A firm in distress condition reduces the value of the firm because:

$$\text{Value of the firm} = \text{Value of equity finance} + \text{PV of tax shield} - \text{PV of cost of financial distress}$$

Therefore as the PV cost of financial distress increases, the value of the firm declines. Financial distress leads to incipient sickness, ultimately resulting into closure of the unit, unless a revival programme is effectively put into operation

## **II. REVIEW OF LITERATURE**

**Nyunja, 2011 Credit Risk Theory** Credit is the provision of goods and services to a person or entity on agreed terms and conditions where the payments are to be made later with or without interest. During the contract period, not all debtors will repay their dues as and when they fall due. When the debtor does not pay their dues on the due date, the lender is exposed to credit risks which may in turn lead to default. Credit risk is therefore the investor's risk of loss, financial or otherwise, arising from a borrower who does not pay his or her dues as agreed in the contractual.

**Aziz & Dar, 2006** "An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such an imbalance may cause financial distress to the firm and, hence, business failure".

**Eberhart (1998) and Sandler & Lowenstein (1991)** suggested that investors do invest in companies that have been bankrupt before. These studies have shown that the equity performance of a company emerged from bankruptcy is positive.



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**Dambolena, 1988, Journal of Applied Business and Economics vol. 12(4) 2011,** Financial distress researchers seek accurate predictions from well-specified models predicated on theory, and which, ideally, derive their parameter estimates from appropriately selected samples. Early research on corporate bankruptcy and financial distress emphasized the role of diminished cash flow as a sign of financial trouble a direct link to meeting scheduled payments as well as other debt covenant criteria.

**Beaver (1966) and Altman (1968) International Journal of Business and Management Vol. 7, No. 1; January 2012.** Searching the history of the researches conducted in the financial distress prediction and bankruptcy shows that many researches have been undertaken in this field. These researches have considerable differences in the number and the kinds of predictive factors and the structure of model-making. By presenting a univariate model and multiple discriminate analysis (MDA), Beaver (1966) and Altman (1968) respectively have great effects on the prediction and classification of the distressed and non-distressed corporations.

**Ohlson (1980)** used the Logit model and showed that size, financial structure (Total Liabilities to Total Assets), performance and current liquidity were best determinants of bankruptcy.

**Virambhai (2010)** textile industry productivity and financial efficiency focused on industry's current position and its performance. It concluded the company/management should try to increase the production, minimize the cost and operating expenses, exercise proper control on liquidity position, reduction of power, fuel, borrowing funds, overheads, interest burden, etc.

### **III. RESEARCH METHODOLOGY**

Research methodology is a way to systematically solve the research problems. According to Clifford Woody, "research comprises defining and redefining problems, formulating hypothesis, or suggesting solution, collecting, organizing and evaluating data, making deduction and researching conclusion, and at last carefully testing the conclusion to determine whether they fit to formulating hypothesis".



#### **IV. STATISTICAL TOOLS USED**

1. Ratio analysis
2. Altman z score.

##### **Ratio analysis**

Ratio Analysis is the process of determining and presenting the relationship of items and groups and group of items in the statements. According to Batty J. Management Accounting “Ratio can assist management in its basic functions of forecasting, planning coordination, control and communication.”

##### **Classifications of Ratios**

Generally ratios are used for the purpose of assessing profitability, activity or operation efficiency and financial position of a concern. Based on the purpose the ratios are classified as

- Financial Ratios or Solvency Ratios
- Turnover Ratios
- Profitability Ratios

#### **V. ALTMAN Z SCORE**

The Z –Score formula for predicting bankruptcy was published in 1986 by Edward I. Altman, who was, at the time, an Assistant Professor of Finance at New York University. The formula may be used to predict the profitability that a firm will go into bankruptcy within two years.

Z- scores are used to predict corporate defaults and an easy-to-calculate control measure for the financial distress status of companies in academic studies. The Z- score uses multiple corporate income and balance sheet values to measure the financial health of the company.

$$Z' = 0.717T1 + 0.847T2 + 3.107T3 + 0.420T4 + 0.998T5$$

$$T1 = (\text{Current Assets} - \text{Current Liabilities}) / \text{Total Assets}$$



T2= Retained Earnings/Total Assets

T3= Earnings Before Interest and Taxes/Total Assets

T4= Book Value of Equity/Total Liabilities

T5= Sales/Total Assets

Zone of Discrimination

$Z' > 2.9$  -“Safe” Zone

$1.23 < Z' < 2.9$  -“Grey” Zone

$Z' < 1.23$  -“Distress” Zone

## **VI. STATEMENT OF THE PROBLEM**

1. The business is in price war
2. Inadequate financing.
3. Lack in labour force.
4. Price fluctuations due to seasonal changes.

## **VII. OBJECTIVES OF THE STUDY**

1. To study the TANTEA'S financial distress.
2. To study the factors contributing towards financial distress.
3. To analyze why there is inadequate financing.
4. To identify the natural causes in price fluctuation of the product.

## **VIII. SCOPE OF THE STUDY**

1. The study helps to know the factors influencing financial distress.
2. The study aims to reduce the impact of distress in firms profitability
3. This study helps to project how seasonal changes will influence in product pricing.



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4. This study helps the upcoming researchers to determine financial distress easily.
5. This study portrays how work force helps in productivity and its result over the firms profitability.

## IX. LIMITATIONS OF THE STUDY

1. The study is limited to TANTEA Coonoor
2. This study provides only five year data.
3. The study will not portrays the overall financial position of TEA Industry
4. The study is confined to TANTEA Coonoor Head office

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liability}}$$

**Table and Chart Showing Current Assets**

Years	Current assets	Current liability	Ratio
2008-2009	200607596	539295042	0.37
2009-2010	284901466	530015295	0.53
2010-2011	145939037	564499451	0.25
2011-2012	136595133	276556951	0.49
2012-2013	193668114	221133612	0.87

From the above table the years 2012-2013 resulted in highest ratio. The year 2009, 2010, 2011 having higher current assets than the current liabilities. The year 2013 witnessed a fall due to increase in current liability. The average rate maintained by the firm is 10.9

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$



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**Table and Chart Showing Quick Ratio**

Years	Quick assets	Current liability	Ratio
2008-2009	128625680	539295042	0.23
2009-2010	147076235	530015295	0.27
2010-2011	71125380	564499451	0.12
2011-2012	68917161	276556951	0.24
2012-2013	113621786	221133612	0.51

**Ratio**

- 2008-2009
- 2009-2010
- 2010-2011
- 2011-2012
- 2012-2013

From the above table the years 2012-2013 resulted in highest ratio, because the current liability has reduced. The year 2009, 2010, 2011 witnessed a fall due to low sundry debtors. The average rate maintained by the firm is 0.27

$$\text{Cash ratio} = \frac{\text{Cash and bank balances}}{\text{Current liability}}$$

**Table and Chart Showing Cash ratio**

Years	Gross profit	Sales	Ratio
2008-2009	92552902	676505028	13.65
2009-2010	105248285	754301851	13.95
2010-2011	193090828	652798800	29.57
2011-2012	59797725	603423496	9.90

- 2008-2009
- 2009-2010
- 2010-2011
- 2011-2012
- 2012-2013





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2012-2013	64164758	724630156	8.08	
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Years	Liquid assets	Current liability	Ratio	Ratio
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From the above table the years 2012-2013 saw the highest rate of 0.322, because the cash and bank balances were high. The years 2009, 2010 and 2011 witnessed a fall due to increase in current liabilities. The average cash maintained by the firm is 0.133

Gross Profit Ratio =  $\frac{\text{Gross profit}}{\text{Sales}} * 100$

Sales

**Table and Chart Showing Gross profit Ratio**





2008-2009	21599235	539295042	0.040	
2009-2010	112803811	530015295	0.212	
2010-2011	6943122	564499431	0.012	
2011-2012	92120571	676505028	0.136	
2012-2013	104740230	754301851	0.138	
2010-2011	168345033	652798800	25.7	

The  
gros

s profit ratio table shows fluctuating trend of gross profit. It was increased in first three years. The following years it was decreasing. In the year of 2012-2013 gross profit ratio was low it shows the firm is not in a good position.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}}$$

**TABLE AND CHART SHOWING NET PROFIT RATIO**



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2011-2012	-	-	-	
2012-2013	40256630	724630156	5.55	

From the above table the year 2011 shows the highest rate. The years 2009, 2010, 2011 shows a slight fall in the net profit. In the year 2012 there was loss. The average rate maintained by the firm was 11.73

## **X. ALTMANS Z-SCORE**

Altman z- score

$$2009=(0.717*(-0.63))+(0.847*0.02)+(3.107*0.205)+(0.42*0.59)+(0.998*1.27)=1.869$$

$$2010=(0.717*(-0.03))+(0.847*0.06)+(3.107*0.19)+(0.42*0.59)+(0.998*1.20)=2.0649$$

$$2011=(0.717*(-0.03))+(0.847*0.107)+(3.107*0.26)+(0.42*0.45)+(0.998*1.25)=2.3134$$

$$2012=(0.717*(-0.26))+(0.847*0.41)+(3.107*0)+(0.42*0.11)+(0.998*1.15)=1.3547$$

$$2013=(0.717*(-0.04))+(0.847*0.30)+(3.107*0)+(0.42*0.10)+(0.998*1.28)=1.56$$

From the above table the years 2009, 2010, 2011, 2012 and 2013 are in the Grey Zone because Z' is more than 1.23 and less than 2.9.



	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
T1[(CA-CL)/TA]	-0.63	-0.03	-0.03	-0.26	-0.04
T2 Retained earnings/TA	0.075	0.06	0.25	0.41	0.30
T3 EBIT/TA	0.205	0.19	0.26	0	0
T4 Value of equity/TL	0.59	0.59	0.45	0.11	0.10
T5 Sales/TA	1.27	1.20	1.25	1.15	1.28

## **XI. FINDINGS**

- The current ratio reveals that the ratio is highest as 0.89 in 2013 and 0.25 in 2011.
- The quick ratio reveals that the ratio is highest as 0.51 in 2013 and 0.12 in 2011.
- The cash ratio reveals that the ratio is highest as 0.322 in 2013 and 0.12 in 2011.
- The gross profit ratio reveals that the ratio is highest as 29.57 in 2011 and 8.08 in 2013.
- The net profit ratio reveals that the ratio is highest as 25.7 in 2011 and 5.55 in 2013.
- The Altman's Z- score reveals that the years 2009, 2010, 2011, 2012, 2013 were in the grey zone.



## **XII. SUGGESTIONS**

- The company should try to reduce its current liabilities
- The company should have a proper receivables management system so they can reduce bad debt by protecting the firm from financial distress
- The company should maintain its gross profit ratio
- There was a slight fall in net profit during 2009,2010, 2011 so the company has to maintain the profit level
- The firm should utilize all its resources in an efficient manner then the productivity and sales will automatically increase and result in profitability.
- The company should give equal importance in marketing the tea so as to boost the sales.

## **XIII. CONCLUSION**

The study reveals that the financial distress sought to find out the causes of distress over a period of five years. The results have been arrived by using Ratio analysis and Altmans Z- score through which turnover ratio portrays that there is no gap between production and supply. Through Z- score it was found that all the years fall in the grey zone in which the study enables the company to plan for the future financial distress management further it may lead to a sound solvency position

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## **WEBSITE**

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