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Research Article

Comparative financial performance about Tata steel and sail steel companies

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Keywords

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Abstract

This study was based on secondary data collected from companies report, and profile of the organization. The strength of any research is based on the efficient method of data collection analysis. Financial analysis is a powerful mechanism which helps in ascertaining the strength& weakness in the operation and financial position of the companies. The current study has frightened major absorption ratio analysis in ratio analysis, from the 5 years balance sheet and profit and loss a/c. The objectives of the study are to compute financial position of the company. To suggest ways and means to improve present conditions. Examine overall performance of the company. To study the profitability, liquidity, solvency position of the industries. Based on the data suggestions are given by the researcher to the industries for better improvement in weaker sections.

INTRODUCTION

Steel is an alloy of iron and carbon that is widely used in construction and other applications because of its high tensile strength and low cost. Carbon, other elements, and inclusions within iron act as hardening agents that prevent the movement of dislocations that naturally exist in the iron atom crystal lattices.

The carbon in typical steel alloys may contribute up to 2.1% of its weight. Varying the amount of alloying elements, their formation in the steel either as solute elements, or as precipitated phases, retards the movement of those dislocations that make iron so ductile and weak, and thus controls qualities such as the hardness, ductility, and tensile strength of the resulting steel. Steel's strength compared to pure iron is only possible at the expense of ductility, of which iron has an excess.

Although steel had been produced in bloomery furnaces for thousands of years, steel's use expanded extensively after more efficient production methods were devised in the 17th century for blister steel and then crucible steel. With the invention of the Bessemer process in the mid-19th century, a new era of mass-produced steel began. This was followed by Siemens-Martin process and then Gilchrist-Thomas process that refined the quality of steel. With their introductions, mild steel replaced wrought iron.

HISTORY:

TATA STEEL:

Tata Steel Ltd is the world's 10th largest steel company and the world's 2nd most geographically diversified steel producer. The company is a diversified steel producer with major operations in India, Europe and South East Asia. They have manufacturing units in 26 countries and a presence in 50 European and Asian markets. The company together with their subsidiaries, engages in the manufacture and sale of steel products in India and internationally. They offer hot and cold rolled coils and sheets, galvanized sheets, tubes, wire rods, construction rebars and bearings.

Tata Steel Ltd was incorporated in the year 1907 with the name Tata Iron & Steel Company Ltd. In the year 1911, the company commenced the operations of the first Blast Furnace or the 'A' Blast Furnace. In December 2, 1911, the fist collieries were obtained and the first cast of pig iron was produced. In they ear 1912, the first ingot of steel rolled out of the Sakchi Plant and in October 1912, the Bar Mills started their commercial production. Also, the B Blast Furnace became operational during the year. In the year 1918, India's first steel (coke) plant was established in Jamshedpur.

SAIL:

Steel Authority of India Ltd (SAIL) is the leading steel-making company in India. The company is a fully integrated iron and steel maker, producing both basic and special steels for domestic construction, engineering, power, railway, automotive and defence industries and for sale in export markets. They are also among the five Maharatnas of the country's Central Public Sector Enterprises.

The company manufactures and sells a broad range of steel products, including hot and cold rolled sheets and coils, galvanised sheets, electrical sheets, structurals, railway products, plates, bars and rods, stainless steel and other alloy steels. They produce iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India and situated close to domestic sources of raw materials, including the company's iron ore, limestone and dolomite mines.

NEED FOR THE STUDY:

1.Quantitative analysis of information enclosed in company's financial statements. Ratio analysis is used to estimate various facets of a company's operating and financial performance such as its productivity, liquidity, effectiveness and wealth.

2.Ratios are also compared across different companies in the same sector to get an idea of comparative valuations.

3.Financial ratios are mathematical assessments of financial statements accounts or groups. These relationships between the financial statements accounts help investors; creditors and internal company management recognize how well a business is execution and areas of requiring development.

REVIEW OF THE LITERATURE

Rajendran and Nagarajan (2010)[1] in their research work entitled "A study on solvency position of LIC of India" have intended to evaluate the solvency position of LIC during the study period from 1988 to 2008. Financial analysis techniques like, Ratio analysis and trend analysis are executed to analyze the financial data. The researcher have observed a positive correlation analysis revealed a positive correlation between the equity share capital and total current liabilities in the analysis reveals that LIC proportionally distributed its profit to equity share capital as well as to liabilities which vary due to the needs of the company. The analysis has found that there is more variation in current liabilities due to heavy competition.

Robert W. Smith and Thomas D. Lynch[2]Ratio is any strategic or tactical advantage, and as a verb, means to exploit such an advantage, just as the use of a physical lever gives one an advantage in the physical sense. Ratio is a very popular business term .In the world of finance, Ratio is the use of borrowed money to make an investment and the return on an investment.

OBJECTIVES OF THE STUDY:

- To analyze efficiency of the industries through ratios.
- To suggest ways and means to improve present condition.
- Examine overall performance of the company.
- To study the profitability, liquidity, solvency position of the industries.
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METHODOLOGY:

The methodology adopted for the present study regarding source of data, sample size, period of study, data analysis and research tools & techniques.

1. Source of the data:
   This study is mainly based on the secondary data. They were collected from company annual reports, journals, magazines and newspapers.
2. Sample Size:
   This study data collected for five years oftata steel and sail steel industries.
3. Research tools & Techniques:
   The tools are used ratio analysis in the year period of the study 2009-2010 to 2013-2014.
   1)Current ratio, 2)Quick ratio, 3)Debtors turnover ratio,
4. Inventory turnover ratio, 5)Working capital ratio, 6)Fixed asset turnover ratio, 7)Gross profit margin ratio, 8)Net profit margin ratio.
5.

LIMITTATIONS OF THE STUDY

- This study is based on only secondary data; the essential limitations of the secondary data would have affected the study.
- The financial analysis based on such financial statements or accounting figures would not portray the effects of price level changes over the period.
- This study need to be interpreted carefully. They can provide intimations to the company's performance or financial situation. But on their own, they cannot show whether performance is good or bad. It requires some quantitative information for a knowledgeable analysis to be made.

ANALYSIS AND INTERPRETATIONS:

The financial performance of TATA steel and SAIL industries is evaluated mainly from three facts namely liquidity performance through current, liquid, cash, working capital ratios, profitability through gross profit, net profit and activity ratios through average collection period, fixed asset turnover ratio, inventory turnover ratio. These ratios computed to make effective judgments about the financial performance of both the industries.

Liquidity Ratios:

These ratios are also termed as working capital ratio or short term solvency ratio. Industries must have adequate working capital to run its day-to-day operations.

1) Current Ratio:

This ratio is an indicator of the firm's commitment to meet its short term liabilities. It is expressed as

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Year	TATA	SAIL
2009-2010	1.36067	2.27099
2010-2011	1.62627	2.61712
2011-2012	0.9664	2.01416
2012-2013	0.88239	1.87079
2013-2014	0.62422	1.60374

Interpretation:

The rule of thumb suggest a current ratio of 2:1, both the companies fall below the standard on comparison, it is evident that Sail steel is better, because Tata steel ratio is 0.62 it is below the standard .but sail steel ratio is 1.60 it comes under the standard.

2) Quick ratio:

This ratio is termed as acid test ratio or liquidity ratio. It may be expressed as

$$\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Year	TATA	SAIL
2009-2010	1.0188229	1.740046
2010-2011	1.2008197	1.799387
2011-2012	0.5621315	1.010425
2012-2013	0.4633119	0.759986
2013-2014	0.2175343	0.691952

Interpretation:

In this case of quick ratio Tata has 0.22:1 and Sail steel has 0.69:1 were the rule of thumb is 1:1. Sail has more satisfactory amount of quick ratio when compared to Tata steel.

Overall liquidity position of Sail steel is good and Tata steel is very poor so it will increase their liquidity position, it will help to meet day to day expenses.

Activity ratio:

1) Average collection period:

The ratio indicates the extent to which the debts have been collected in time.it very helpful to lenders. It can be calculated as under:

$$\frac{\text{Days}}{\text{Debtors turnover ratio}}$$

Year	TATA	SAIL
2009-2010	6.25605	31.0414
2010-2011	5.19273	34.3336
2011-2012	9.59138	36.8955
2012-2013	7.51035	35.839
2013-2014	6.65272	42.2608

Interpretation:

Average collection period measures the quality of debtors since it measures the rapidity or slowness with which money is collected from them. A longer collection period implies inefficiency collection period. Tata steel exceeds 3-4 months so it is in efficiency credit collection performance. Sail steel collection period is maximum 42 days so it is more efficiency compare with Tata steel

2) Inventory turnover ratio:

This ratio indicates whether investment in inventory is efficiently used or not. It can be calculated by

$$\frac{\text{Net Sales}}{\text{Inventories}}$$

Year	TATA	SAIL
2009-2010	8.12996	4.40789
2010-2011	7.43504	3.77547
2011-2012	6.98364	3.32935
2012-2013	7.26509	2.7446
2013-2014	6.9428	3.0316

Interpretation:

A high inventory turnover ratio indicates brisk sales. The level of inventory maintained by Tata steel is over stocking or slow disposal compare with sail. Because the ratio of Tata steel is 7 and sail is 3. So Sail steel is satisfactory level.

3) Working capital turnover Ratio:

This ratio indicates whether or not working capital has been effectively utilized in making sales. It can be calculated by

$$\frac{\text{Net sales}}{\text{Net Working capital}}$$

Year	TATA	SAIL
2009-2010	7.70566	1.84136
2010-2011	5.0509	1.90915
2011-2012	-84.021	3.29513
2012-2013	-25.888	3.50109
2013-2014	-7.5138	4.57843

Interpretation:

Working capital position of Sail steel is satisfactory level but Tata steel is not satisfactory. Additional funds raised are invested in fixed asset instead of providing necessary working capital. The company may not be in a position to meet its obligations in time.

4) Fixed asset turnover Ratio:

This ratio indicates the extent to which the investment in fixed assets contributed towards sales. These ratio calculated by

$$\frac{\text{Net sales}}{\text{Net fixed Assets}}$$

Year	TATA	SAIL
2009-2010	0.41029	1.38591
2010-2011	0.45944	1.14515
2011-2012	0.43675	1.00965
2012-2013	0.45467	0.83243
2013-2014	0.42808	0.76378

Interpretation:

Fixed asset of a company are not held for sale but use in the business for a long span of time. Therefore a lower fixed asset turnover ratio is better. Both the companies maintain lower ratio. Compared with Sail, Tata Steel is lower which is satisfactory.

Profitability Ratio:

1) Gross profit Margin:

This ratio indicates the efficiency of the production or trading operations. It can be done by.

$$\frac{\text{Gross Profit} * 100}{\text{Net Sales}}$$

Year	TATA	SAIL
2009-2010	33.1608	28.305
2010-2011	37.1578	20.043
2011-2012	32.4423	14.4985
2012-2013	24.8092	10.4491
2013-2014	27.9116	10.5812

Interpretation:

The gross profit ratio may vary from one business to another. In this case, Tata steel having highest percentage of gross profit ratio is 27.91 compare with Sail steel ratio 10.58. Tata steel is more satisfactory gross profit ratio.

2) Net profit Margin:

This ratio indicates net margin on sales. It can be done through.

$$\frac{\text{Earnings after interest \& taxes} * 100}{\text{Net Sales}}$$

Year	TATA	SAIL
2009-2010	20.1695	16.6691
2010-2011	23.3556	11.3254
2011-2012	19.734	7.64586
2012-2013	13.254	4.88371
2013-2014	15.3729	5.60293

Interpretation:

The net profit ratio of Tata steel is higher by 15% when compared to Sail steel. In the case of Tata steel, company has adequate gross profit to pay the expenses which has resulted in a net profit of Rs6412.19where as in Sail it is Rs2616.48 which is lower. Therefore Tata steel has a satisfactory net profit ratio.

In profitability ratio analysis Tata steel industry is more satisfactory level.

FINDINGS:

Findings of the study are:

- The current ratio of Sail steel industry fall below the standard. It is evident that sail steel is better than Tata steel industry.
- In case of quick ratio, Sail steel is more satisfactory when compared to Tata steel.

- Sail steel collection period is maximum 42 days so it is more efficiency compare with Tata steel
- In inventory turnover ratio Sail steel is satisfactory level.
- Working capital position of Sail steel is satisfactory level
- In fixed asset turnover ratio,compared with Sail, Tata Steel is satisfactory level
- Tata steel is more satisfactory gross profit ratio.
- Tata steel has a satisfactory net profit ratio.
- In overall profitability ratio analysis Tata steel industry is more satisfactory level.

SUGGESTIONS:

On the basis of findings of the study, some suitable suggestions are recommended in this study. They are summarized as follows.

- Tata steel industry should concentrate liquidity assets by increasing the percentage of cash and marketable securities to meet its current liabilities.
- The company may try to maintain adequate level of working capital.
- Fixed asset turnover ratio of Sail steel is not satisfactory, the company is suggested have to take measure for the effective utilization of total assets for making good sales.
- The stock turnover of Tata steel is not found encouraging. The ratios are comparatively low. So, the company can take care of effective stock management.
- Sail steel has to increase its profitability by reducing the cost of production.

CONCLUSION:

Study accompanied on comparativeFinancial Performance of Tata steel and Sail industries provides an opinion of analysis assessment of liquidity position of the company, activity of the company and profitability of the company based on their balance sheet and profit and loss a/c. the tools used and analysis and interpretation have been made giving method for useful and productive suggestions. The ratio analysis of the company is suitable. The company should enrich its performance for meeting challenges and exploiting chances in future and helps the management to take financial decisions.

Finally from the fundamental analysis, among these two companies sail have outperformed in all except profitability.

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