A Study on Working Capital Management of Steel Companies in India

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Abstract

An efficient control over the working capital is one of the most important considerations of the financial management of any business undertaking. Working capital is an integral part of the total financial management. Management of current assets is called as working capital. Management of short-term assets and liabilities warrants a careful investigations ince the working capital management plays an important role for the firm’s profitability and risk as well as its value. The optimal level of working capital is determined to a large extent by the methods adopted for the management of current assets and liabilities. It requires continuous monitoring to maintain proper level in various components of working capital i.e. cash receivables, inventory and payables, etc.

Key Words: Cash position ratio, Current ratio, Gross profit, Working capital

Introduction

Every business needs funds for two purposes - for its establishment and to carry out its day–to–day operations. Long–term funds are required to create production facilities through purchase of fixed assets such as plant and machinery, land, building, furniture, etc. Investments in these assets represent that part of firm’s capital which is blocked on a permanent fixed basis and is called fixed capital. Funds are also needed for short –term purposes for the purchases of raw materials, payment of wages and other day-to-day expenses, etc. These funds are known as working capital. In simple words, working capital refers to that part of the firm’s capital which is required for financing short term or current assets such as cash, marketable securities, debtors and inventories. Funds, thus, invested in current assets keep revolving fast and are being constantly converted into cash and this cash flow out again in exchange for other current assets. The networking capital of a firm may be positive or negative. Hence, it is also known as revolving or circulating capital. The circular flow concept of working capital is based upon this operating or working capital cycle of a firm. The cycle stars with the purchase or raw material and other resources and ends with the realization of cash from the sales of finished goods. The speed/time duration required to complete one cycle determines the requirements of working capital – longer the period of cycle, larger is the requirement of working capital.

Problem statement

The company's working cash situation

affects its overall success. Therefore, itneeds to be handled carefully because it demonstrates a company's effectiveness and financial stability. Working capital management is crucial for businesses because it helps them produce additional profits for their stakeholders.

Because of these reasons, working capital management is a crucial aspect of financial management:

- Current asset investments make up a large share of the entire investment.
- Current asset investments and current liability levels must be swiftly adjusted to changing sales.

The lifeblood and nerve Centre of a business firm is its operating capital. In any industry, the value of working capital cannot be overstated. An adequate amount of working capital is necessary for every business to operate profitably.

Maintaining the proper amount of working capital is essential. One of the most crucial aspects of business management is working capital management. A company with sufficient working cash is always able to take advantage of good opportunities, whether it be to purchase raw materials, carry out a specific order, or wait for improved market situation.

Operating expenses that are engaged in the daily operations of the business might be covered by working capital. Even highly successful business owners occasionally require working capital financing due to unforeseen situations.

Working capital management is crucial for businesses because it helps them produce additional profits for their stakeholders. Allocating too much working capital will make management ineffective and lessen the advantages of short-term investments if it is managed improperly. However, if working capital is toolow, the business may miss out on many lucrative investment possibilities orexperience short-term liquidity problems, which would damage the company's credit since it will be unable to meet sudden cash needs.

LiteratureReview

Every business need working cash to cover ongoing operating costs and pressing obligations. Profitable working capital increases business revenue, and vice versa. Collection days should be lower, payment days should be higher, and the overall cash conversion cycle days should be very low or negative for effective working capital. Many academics have investigated working capital from various angles and settings.

The following ones were excellent sources of information for my study:

Awalakki Manjunath (2020) has studied the efficiency of working capital management an efficiency index is constructed and compared with firm’s Profitability, and Return on Current Assets is used as proxy for measuring the firms’ Profitability. The paper used statistical tools like correlation, and Regression model, with diagnostic tests for justification of accuracy of the model. The study highlights that selected firms doesn’t have significant Relationship with earnings of the firms. There is sufficient evidence in existing financial literature that presents the significance of working capital Management. Results of empirical analysis show that there is statistical evidence of a strong relationship between a firm's profitability and working Capital management efficiency. A firm that faces lesser competition normally focuses on minimizing receivables to increase future possibilities of cash Flow.

Dr. Muhammad Azam (2011) has done the Study to investigate the impact ofworking capital Management on firms' performance. The results are obtained by using Canonic Cal Correlation Analysis for identifying the relationship between working capital management and firms' performance. The findings of his study show that working capital management has significant impact on firms' performance and it is concluded that managers can increase value of shareholders and returns on assets by reducing their inventory size, cash conversion cycle and net trading cycle.

Chowdhury and Amin (2007) have done the study to measure the impact of over all working capital policies on the profitability firms. The primary and secondary data was used for the purpose of study. The results of their study indicated that for the over all performance of the industry, working capital management played a vital role and there existed a positive relationship between current assets management and performance of firms.

Sumaira Tufail (2012) has mentioned in her study that Working Capital result be considered as source of existence for a financial body and management of working capital is regarded as one of the most essential part of business management. Results of her study shows that aggressiveness of working capital management policies is negatively associated with profitability. Moreover, liquidity and size of the firm have positive relation profitability whereas debt to equity ratio is negatively correlation with profitability.

Singh and Pandey (2008) have made an attempt to study the working capital components and the impact of WCM on profitability Hindalco industries limited for period from 1990 to 2007. Results of the study have shown that current ratio, liquid ratio, receivable turnover ratio and working capital to total assets ratio have a statistically significant impact on the profitability of Hindalco Industries limited. Singh has found that the size of inventory directly effects on workingcapital management. He has suggested that inventory is the major component of working capital and needs careful attention. Singh and Pandey (2008) have suggested that for the successful working of any business organization, fixed and current assets play vital roles, and the management of working capital is essential as it has a direct impact of profitability and liquidity.

Afzaand Nazir (2009) have made an attempt to investigate the traditional relationship between working capital management policies and a firm's profitability for a sample of 204 non-financial firms listed on Karachi Stock Exchange (KSE) for the period 1998-2005. The study reveals some significant differences among various working capital needs and financial policies across different industries. Moreover, regression result has also found a negative relationship between the profitability of firms and degree of aggressiveness of working capital investment and working capital financial policies.

Ramachandran and Janakiraman (2009) have found a negative relationship between earnings before interest and tax (EBIT) and the CCC. The study reveals that operational EBIT dictates how to manage the working capital of a firm. Further, it is found that lower gross EBIT is associated with an increase in the account payable days. Thus, the study concludes by saying that less profitable firms wait longer to pay their bills, taking advantage of credit period granted by supplier. The positive relationship between average receivable days and a firm's EBIT suggests that less profitable firms pursue a decrease of their account receivable days to reduce their cash back in the CCC. Nasir and Afzal (2009) have used internal and external factors to explore the determinants of working capital requirement of a firm. Internal factors where operating cycle, operating cash flow, leverage, size, ROA, Tobin's q and growth with industry dummy andlevel of economic activity has external macroeconomics factors. Uyar (2009) has examined industry bench marks for CCC in case of merchandising and manufacturing companies and has found that the merchandising industry has a shorter CCC than manufacturing industries. The study further shows significant negative correlation between the length of CCC and the profitability.

Significance of the study

The working Capital management has significantly affected every business because every business intends to maximize their shareholders' worth through several financial management techniques, this objective of business enterprise will be achieved only when it earns reasonable profits from its operations.

As profits are depending upon the volume of sales, these sales may not result in immediate conversion of stock into cash. The business enterprises, therefore, should maintain reasonable working capital for smooth running of its day-to-day operations.

This short-term financing decision should be accurately match between profitability and liquidity. Any mismatch in effective management of current assets and current stabilities would not only result negative impact of profitability and firm's growth but also financial distress as well as bankrupt of business entity. As a large manufacturing industry, working capital management in the steel industry involves a large portion of the company's total assets. The optimum working capital ensures the success of the business, while its inefficient management will lead to the down fall of the company.

Objectives of the study

The main objectives of the study are:

- To study the financial position of the selected steel companies.
- To review the profitability position of the Indian select steel companies.
- To compare the financial performance and find the growth trend of the steel companies.

- To make necessary suggestions and recommendations.

Scope of the study

The study is exclusively conducted for Indian Steel Companies for five financial years i.e. (2017 to 2021). The trends indicated may differ from year to year as the pattern of investments, borrowings etc. The study becomes more meaningful only if it covers a longer period of ten or more years which is beyond the scope of this dissertation work.

Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It constitutes the blueprint for the collection, measurement and analysis of data. This research work is analytical in nature which analyse the financial ratios for drawing conclusion.

Sampling Design

The sample Design is steel Companies and the following five companies are selected for the analysis:

2 **SAIL**
3 **Tatasteel**
4 **Kalyanisteel**
5 **Lloyds**
6 **JSWsteel**

The sample has been selected by two stage sampling method. For selecting the first stage sample, convenient sampling method is used, whereas for selecting the second stage sample proportional stratified sampling will be used.

- I have taken these all five companies on the basis of Market Capitalization.
- The necessary Data will be collected for period of five years from 2017 to 2021.

Data Collection Method

Secondary Data

Main source of secondary data was Annual report of the selected steel companies, standard text books, relevant journals, reports, magazines and steel companies'websites.

TOOLS USED FOR THE ANALYSIS:

The following tools were adapted to analysis the working capital management.

- Ratio analysis concerned to working capital
- Trend analysis of the ratios

Financial Ratio such as:

1. Currentratio
2. Cashpositionratio
3. Quick ratio
4. Working capital turnover ratios

Current Ratio:

Current ratio = (Cash + Marketable Securities + Receivables + Inventory)/ Current Liabilities

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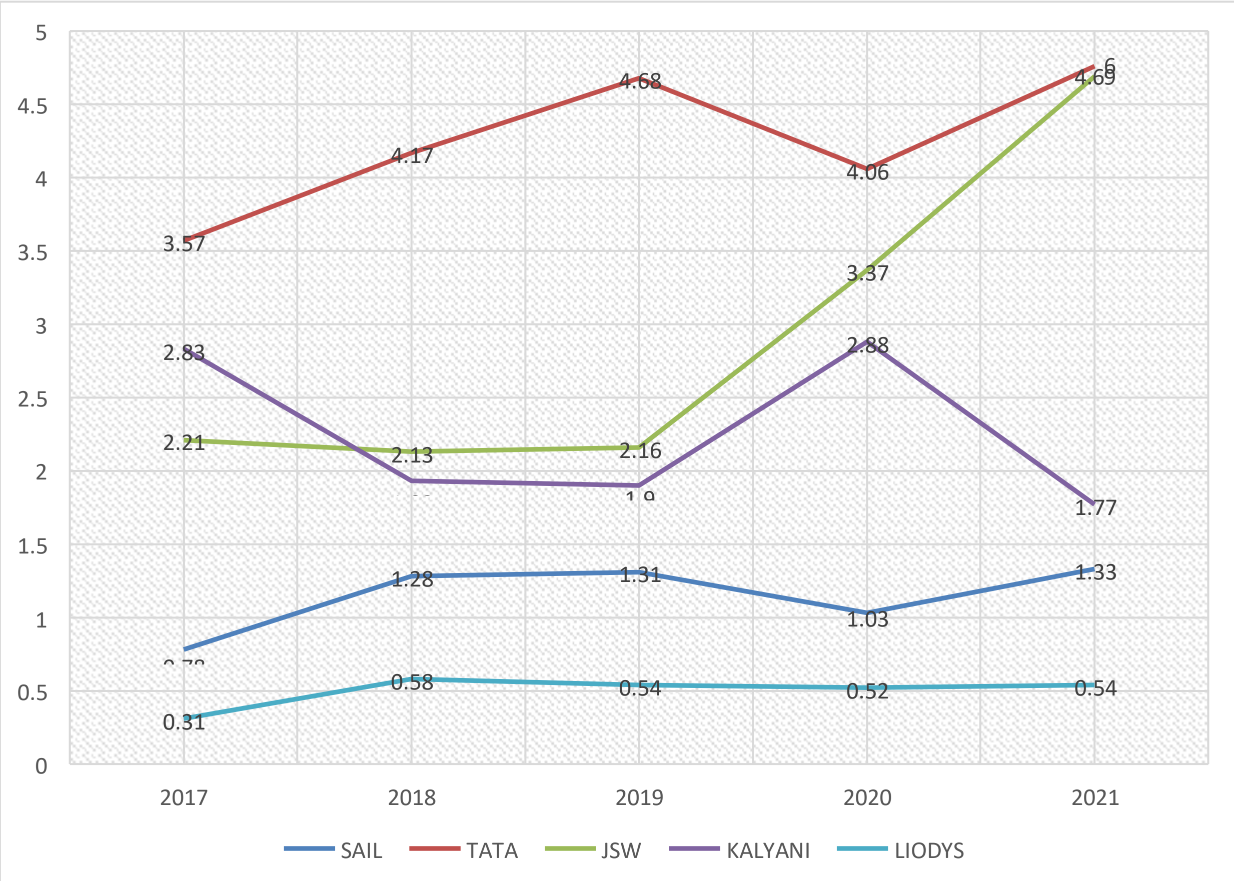
Tableno:1.1 current ratio for selected steel companies

Company/year	SAIL	TATA	JSW	KALYANI	LIODYS
2017	0.78	3.57	2.21	2.83	0.31
2018	1.28	4.17	2.13	1.93	0.58
2019	1.31	4.68	2.16	1.9	0.54
2020	1.03	4.06	3.37	2.88	0.52
2021	1.33	4.76	4.69	1.77	0.54

Source: www.moneycontrol.com.

Chartno1.1:(current ratio)



Source: From the above table.

Interpretation: The above table shows that the current ratio of selected steel company, highest value of 4.76 was observed to current ratio of TATA and lowest value of 0.31 for current ratio of Lloyds and other selected steel companies are maintaining moderate levels in current ratio, sail 0.78, Kalyani 1.9, JSW 2.13, respectively. And highest variability of 2.88 was observed in current ratio of JSW steel, which value a higher degree of variability and lowest variability of 0.31 was observed in current ratio of TATA, which a lower degree of variability. The current ratio of TATA 4.69 was the highest with 4.68 TATA and the lowest variability of 0.31 in the current ratio of Lloyds.

<u>Cash Position Ratio</u>

Cashratio= (Cash+Marketable Securities)/Current Liabilities

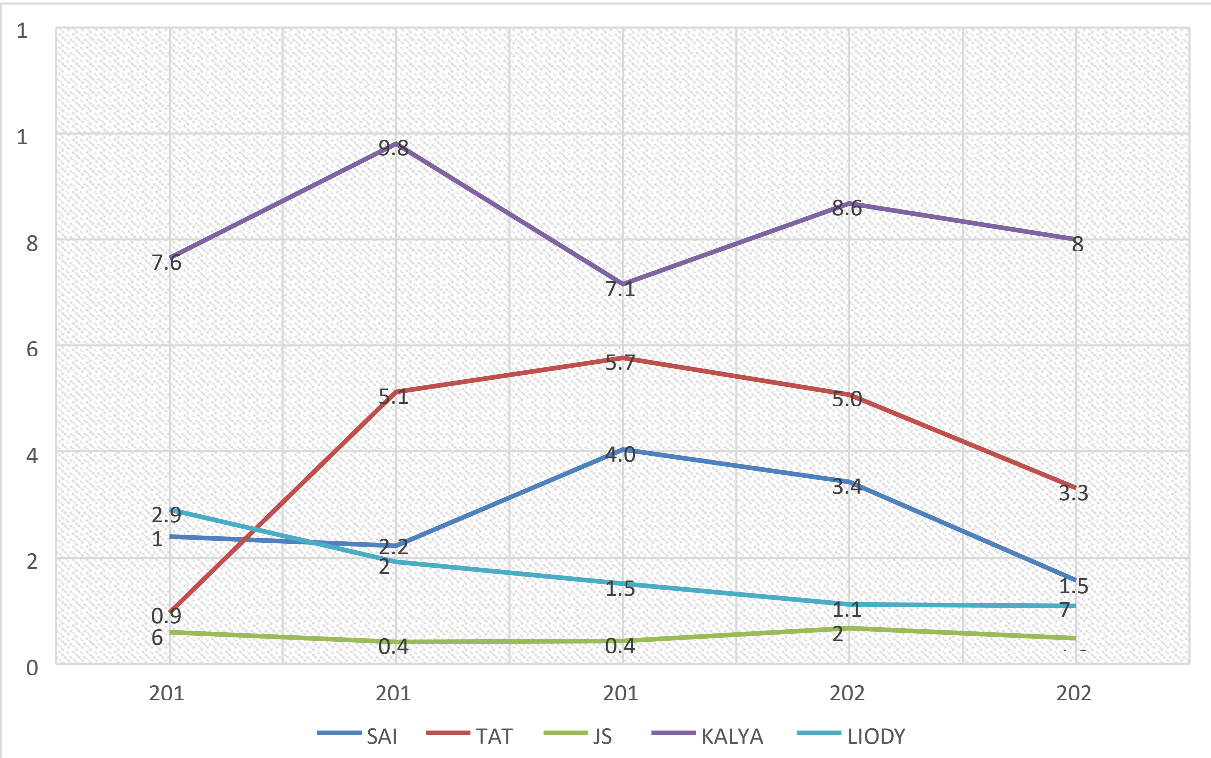
Table no 1.2 cash position ratio for selected steel companies

(AMOUNT IN CRORE)

Company/year	SAIL	TATA	JSW	KALYANI	LIODYS
2017	2.4	0.96	0.59	7.65	2.91
2018	2.22	5.13	0.41	9.81	1.92
2019	4.04	5.77	0.43	7.16	1.51
2020	3.43	5.08	0.67	8.68	1.12
2021	1.57	3.31	0.48	8	1.09

Source: www.moneycontrol.com.

Tableno:1.2(Cash Position Ratio)



Source: From the above table.

Interpretation: The above Table shows that the values to Cash position ratio of selected steelthe highest value of 9.81 was observed to cash position ratio of Kalyani andlowest value of 0.41 for cash position ratio of JSW and other selected steel companies are maintaining middle level TATA 5.77, SAIL 4.04, Lloyds, respectively. Highest variability of 9.81 was observed in cash position ratio of

J S W steel, which value, a higher degree of variability and the lower of 0.41 was observed in Tata Steel.

Quick Ratio

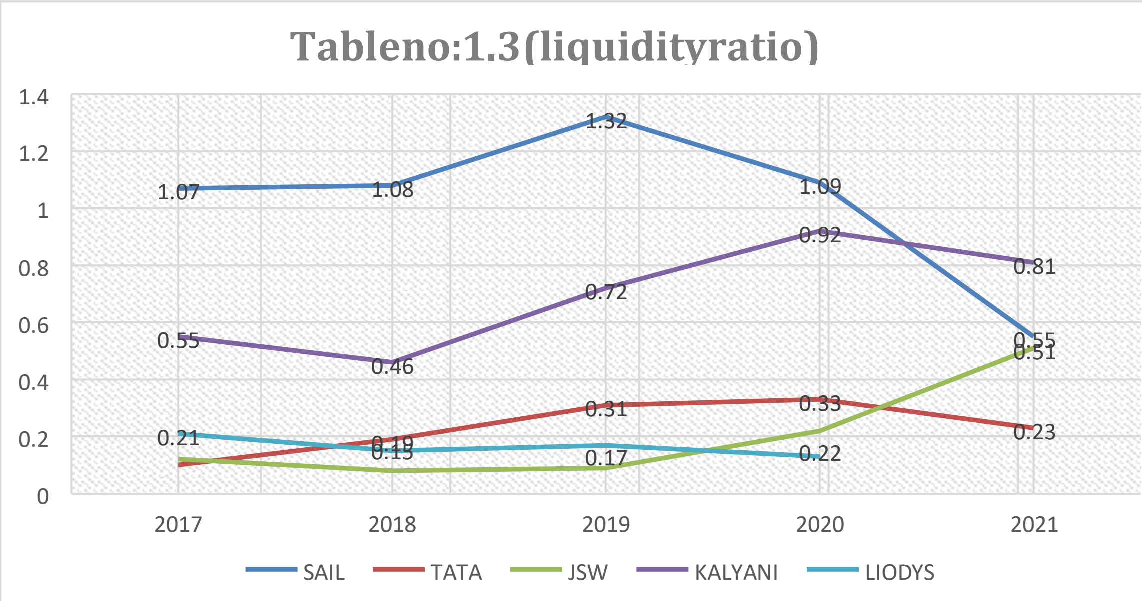
Table no 1.3: Quick **Ratio for selected steel companies**

Quick Ratio=(Cash+Accounts Receivables+Marketable Securities)/ CurrentLiabilities

(AMOUNT IN CRORE)

Company/year	SAIL	TATA	JSW	KALYANI	LIODYS
2017	1.07	0.1	0.12	0.55	0.21
2018	1.08	0.19	0.08	0.46	0.15
2019	1.32	0.31	0.09	0.72	0.17
2020	1.09	0.33	0.22	0.92	0.13
2021	0.55	0.23	0.51	0.81	0.09

Source: www.moneycontrol.com.



Source: From The above table.

Interpretation: The above Table shows that the values to Cash position ratio of selected steel the highest value of 1.32 was observed to cash position ratio of SAIL and lowest value of 0.0.8 for cash position ratio of SAIL and other selected steel companies are maintaining middle level KAYANI 0.92, TATA0.33, LLOYDS0.21, respectively. Highest variability of 1.32 was observed in cash position ratio of SAIL steel, which value, a higher degree of variability and the lower of 0.08wasobservedJSWsteel.

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Tableno:1:3 (Liquidity Ratio)

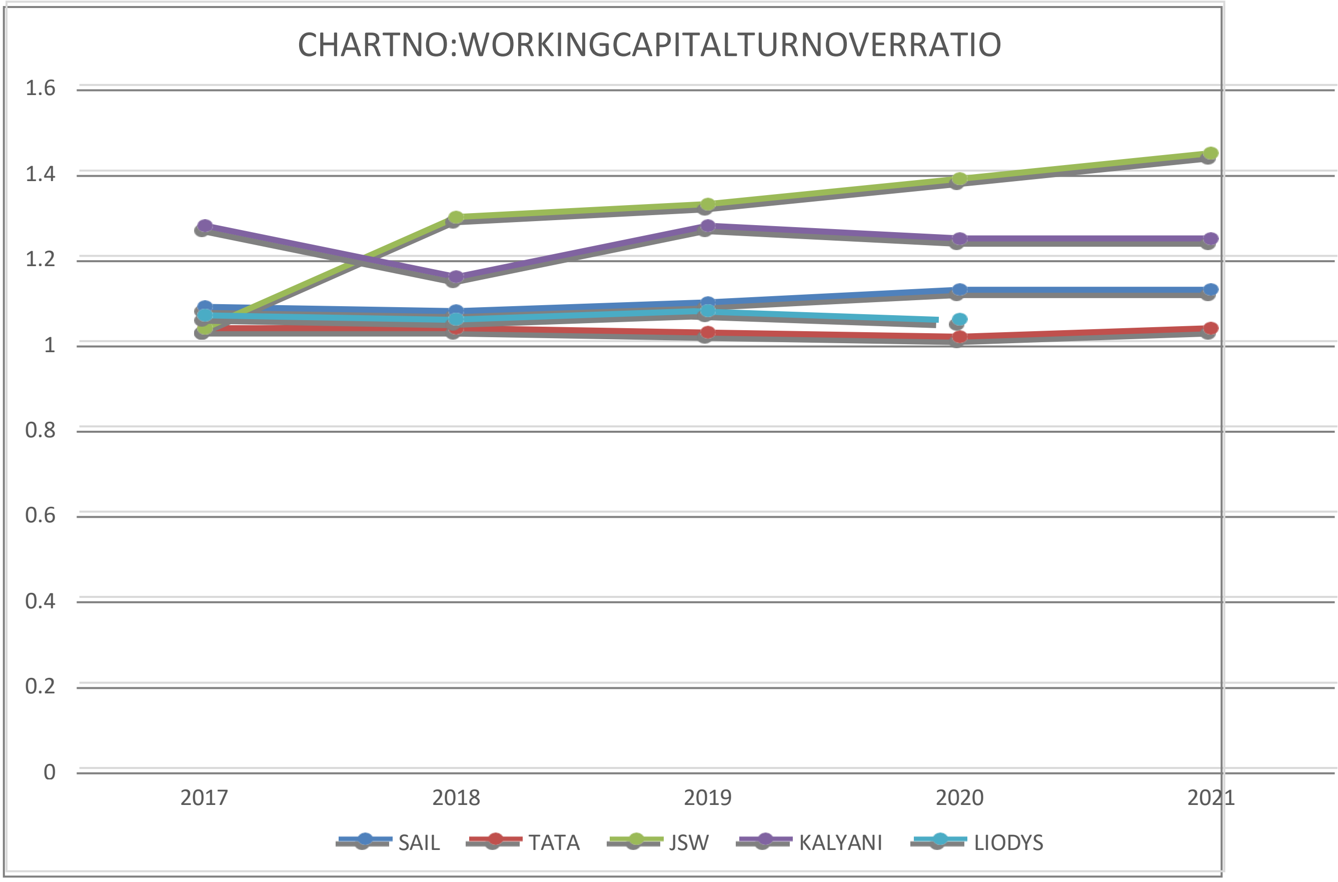
Working Capital Turnover Ratio

TABLE NO: 1.5 Turnover Ratio for Select Steel Companies

(AMOUNT IN CRORE)

(Company/year)	SAIL	TATA	JSW	KALYANI	LIODYS
2017	1.08	1.03	1.03	1.27	1.06
2018	1.07	1.03	1.029	1.15	1.05
2019	1.09	1.02	1.032	1.27	1.07
2020	1.12	1.01	1.038	1.24	1.05
2021	1.12	1.03	1.044	1.24	1.03

Source: www.moneycontrol.com.



Source: From the above table.

Interpretation: The above Table shows that the values to working capital turnover ratio of selected steel the highest value of 1.27was observed to working capital turnover ratio of KALYANI and lowest value of 1.02 for working capitalturnover ratio of TATA steel and other selected steel companies are maintaining middle level SAIL1.12, LIOYDS1.06, JSW1.044, respectively. Highest variability of 1.27 was observed in working capital turnover ratio of KALYANI steel, which value, a higher degree of variability and the lower of 1.02 was observed TATA steel.

LIMITATIONS OF THE STUDY

- This study mainly depends on the secondary data i.e., balance sheet of selected steel companies (Tata Steel, Liodys Steel, Steel Authority of India (Sail), JSW Steel, Kalyani Steel)
- For this study only four ratios are considered here.

Results and Discussions

Findings

1. From current ratio analysis it is observed that Tata steel has very high current ratio in the range of around 4:1, JSW steel has maintained the benchmark ratio of 2:1, it is not exact but nearly to that, Liodys Steel has very lowest in all five steel companies.
2. From cash position ratio

Conclusions

The working capital management has been going on right lines and there hasbeen close co-operation finance, technical and other executive's and there iscommitted involvement for producing good results to achieve harmony in the working environs of the company. After the analysis of various data, related toselected steel companies in India founded in theoretical statement, it clear that working capital and profitability more or less depends upon the better utilization of resources, cut-off expenses and quality of management function in the products, customer services and to manpower and good will and market share. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor's return point of view. These programs are helpful to increase profitability of selected steel companies in India in future prospects. If the management or government does not look into it seriously, it can result in loss of jobs and the company will become a sick unit

Suggestions

- ✓ SAIL may give attention in the area of direct expenses aswell as indirect expenses to reduction it. Because effective and efficiency performance of company can be measured in terms of working capital and profitability.
- ✓ TATA steel company may sustain their market share and good will due to cut throat competition and arrivals of new entry in the steel industries and also the reason to increase in input cost. They have better financial performances are compared with sample, so give attention to it.
- ✓ JSW may give concentration to make optimum utilization of available resources. Because it has passed high level financial assistance but it fails to make more earnings compared with TATA. But the TATA has lowest financial position compared with JSW however it can earn more profit or achieve high profit volume.
- ✓ KALYANI and LIOYDS have achieved fastest growth rate past FIVE

years, while compared with SAIL, TATA and JSW, and they also give importance to enhance the earning power with help of growth rate. JSW's growth rate of earning profit is low with increase growth rate of expenses so they will give concentration to cutoff expenses like direct and indirect expenses.

Directions for future Research

- Flourishing working of a business organization fixed and current assets play a crucial role as organization commonly invests in these options.
- The study becomes more meaningful only if it covers a longer period often or more years which is beyond the scope of this dissertation work.

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