A Comparative Financial Statement Analysis of Selected Steel Companies in Public-Private Sectors

Amandeep Kaur

Assistant Professor, G.G.S. College for women, Chandigarh (Chandigarh) India

Abstract

In today's competitive scenario Finance is considered to be the lifeline of all Business Enterprises. In the steel Sector too finance has a crucial role to play. A well managed finance would deeply provide boost to the globalised steel industry. This industry is a big source of revenue for our central and state government, besides earning of foreign exchange through exports. Thus finance is considered indispensable for all economic activities. Further financial statements provide a good base for decision making in various managerial and financial affairs. Financial statements provide useful information for the utility of investors, creditors, government agencies and analysts so as to evaluate a company's financial performance. Adequacy of finance is vital for financial decision makings. Financial statements are considered as an important tool for communication of past achievements and future planned achievements. Despite satisfying the fixed and the working capital needs, it is also required for other vital issues. Every company aims to procure finance at the cheapest possible cost though accompanied with an element of risk. So, every company would make adequate efforts to know its true financial performance so as to know its current financial standing. This paper aims for a comparative study of financial performance of steel industry in the public sector (in case of SAIL) and private sector (in case of Tata Steel) over a period of five years so as to gain deep insights into the company's working.

Key Words: Finance, Financial Performance, Ratio Analysis.

Introduction

Ratio Analysis is a tool which helps in providing a quick indication of a firm's financial Performance. It is a fundamental analysis of the information gathered from the financial statements. It is a vital tool so as to evaluate various aspects of a company's financial and operating performance such as its liquidity efficiency, profitability and solvency. It is an important tool to measure the strengths and weaknesses of a firm's performance. It is an important tool for quantitative analysis of the information gathered from the financial statements of the company .It is thus an important tool for viewing, measuring and analyzing the financial performance of the firm. This tool helps in a better understanding of the strengths and weaknesses of a firm. Thorough study and analysis of financial performance is must for smooth running, growth and for the advancement of the company's working. It is a vital instrument in the hands of management to use and to indicate about the financial health of a firm Adequate balance between the liquidity, solvency and profitability positions of the companies needs to be sustained .Further Working capital needs to be maintained for survival and growth of the firm Therefore, in the management of financial affairs of steel companies, working capital has a direct effect on the liquidity, profitability and solvency position of the firms. While Liquidity position needs to be studied to meet short-term obligations of the firm. On the other hand Profitability of the firms can be improved only if the firm's working capital position is good. It is required for the companies to efficiently manage the components of finance for its advancement and survival. Several stakeholders like Creditors, management, owners, government, investors and employees are directly or indirectly interested to know the true financial position of the concern. Therefore, This study aims to study, analyzes and does comparative analysis of the financial performance of the selected public –private sector steel companies i.e. SAIL and Tata Steel.

Profile of SAIL:

It is a leading steel making company in India and is a producer of both basic and special steel for domestic construction, engineering, power, railways, automotives, defense etc. SAIL is amongst India's fastest growing public sector unit .It is amongst the seven Maharatna's from the public sector enterprises. It owns and operates five integrated steel plants at Durgapur, Bokaro, Bhilai, Rourkela and Burnpur with three special steel plants at Salem, Bhadravati and Durgapur. It is a holding company engaged in manufacturing of flat products such as hot rolled coils, HR plates, pipes and electric sheets and wire rods. It also has a SAIL refractory unit at Bokaro and is also into export of it in the overseas market. SAIL is competitive regarding availability of inputs for steel making. SAIL's (RDCIS) i.e. its research and development centre for iron and steel at Ranchi is helping in the production and maintenance of quality steel.

Profile of TATA Steel:

It was established as Asia's First integrated private steel company in 1907.It was founded by Dorabji Tata on 26August 1907.It is a global company with extension of its operations in more than 100 of countries across continents. Its products include flat sheets, cold rolled, direct rolled, hot rolled, metallic coatings, electro plated steels etc. Its brand encompasses TISCON, Tata Shaktee, Tata steelium, etc. Tata steel has been very sensitive towards the communities where it had its operations. It distributes nearly 66% of its profits for philanthropy through its various Tata trusts. Continuous improvements in its products and service portfolio along with success in value creating initiatives for customers allow them to serve in the global growth market.

Literature Review

1. Dr Kumar. M. Ramana (2014) in his paper concentrated on leverage and its relationship to profitability in case of Bata India Limited. The research design is exploratory and data has been gathered through Primary and secondary sources i.e. through discussions, published and unpublished sources and the websites for the study period from 2006-7 to 2012-13.Financial tool of Ratio Analysis has been applied for calculating profitability, Liquidity and three leverage ratios. It was concluded that degree of operating leverage was at an optimum level but degree of financial leverage and combined leverage needs to be brought to an optimum level thus it was suggested that Bata ltd should revise its capital structure so as to include optimum blend of equity and borrowed funds so as to have a positive impact on return on investment and as regard to profitability the performance of the concern was regarded as satisfactory.

2. Idhayajothi. R and Manjula. N (2014) in their study aimed to examine the financial position -liquidity and profitability and further to unveil the financial strengths and weaknesses of Ashok Leyland Ltd at Chennai. Their study was based on secondary data gathered through the annual reports of the company and through its website for the study period from 2008-2013.Financial tools like common size statements, comparative statements, Trend analysis and Ratio analysis were used .It was concluded that company needs to raise its goodwill so as to have a good creditworthiness, further maintenance of debt position supplemented by increased sales without addition of fixed assets would further help in raising the financial performance of the concern.

3. Khedkar E.B. (2015) in his paper discussed the relationship between financial leverage and return on investment ;operating leverage and ROI; and combined leverage and ROI for Dr Reddy's Laboratories, a Pharmaceutical firm for a period from 2010-2014.The selected firm was one of the topmost firms in terms of net sales in India. The secondary data for analysis had been obtained from the published annual reports of the firm from 2010-14.Ratio analysis and Karl Pearson's coefficient of correlation has been applied to study the relationship between. The analyses revealed that Dr Reddy is steeply enhancing its leverage ratio but the firm depends heavily on its shareholders funds for its capital requirement therefore it is not getting the leverage of borrowed funds. so firms should think of obtaining leverage benefits.

4. Vijayalakshmi. S (2017) in her paper aims to analyze the financial stability and profitability of Bharti Airtel Limited for the study period from 2011 -2016.Since Telecommunication sector plays a vital role towards the growth of Indian economy; this study further aims to study the relation between financial profitability and growth of the firm. The analysis is based upon secondary data gathered through Annual reports of the company for the selected study period. Financial tool i.e. Ratio analysis had been used to study the financial soundness of the company. The study revealed that the financial performance of the company is fair. Bharti Airtel Limited is competent enough in maintaining good financial performance over the study period .A control over the operating, administrative and selling expenses would further help in improving the financial performance of the concern.

5. Kavitha. K.S and Palanivelu P (2014) in their paper aimed to examine the financial performance of selected Iron and Steel industries and further investigated the factors contributing to the improvement of profitability position of Iron and Steel industry based on a profitability model. The study is based on performance of 21 industries selected from the iron and steel sector. The data for the study was selected from secondary sources i.e. audited balance sheet, Journals, Magazines, Bulletins and other library sources. Statistical tool ANOVA was used for analysis during the study period of ten years from 2002-03 to 2011-12.It was concluded that current ratio, quick ratio, Debt equity ratio, Proprietary ratio, Fixed asset to net worth ratio and inventory turnover ratio all have an impact on the profitability position of iron and steel companies. It was suggested to reduce the interest burden by providing quality products and by building brand image which would help in increasing profit and would utilize maximum production capacity. Improper planning and delayed implementation was the major weaknesses to be worked upon. Further management was suggested to utilize maximum production capacity.

Objective of the Study

1. To know about the liquidity and the profitability position of selected steel companies in the public private sector. (i.e. SAIL and Tata Steel).

2. To study the financial performance of the selected steel companies in the public-private sectors.

3. To gain an insight into the financial strengths and weaknesses of SAIL and Tata Steel in case of steel sector.

Research Methodology

Research Design-The study is based upon secondary data .The requisite data related to the liquidity, profitability and solvency has been collected from the respective P&L A/C and the B/S of SAIL and TATA Steel. The other required necessary data has also been obtained from the published annual reports of the companies.

Tool Applied-To have a useful analysis and interpretation of the collected data, tools like Rat*io* Analysis have been applied.

Data Analysis

Classification of Ratios: Liquidity Ratios, Solvency Ratios and Profitability Ratios.

1. Liquidity Ratios

These ratios reflect the ability of a concern to meet its current obligations.

A) Current Ratio

This ratio is a general measure of liquidity of a firm and expresses the relationship between current assets and liabilities of a firm. It is calculated as

Current Ratio=Current Assets/current Liabilities

year	Current ratio of SAIL	Current ratio of Tata Steel
2014	**0.79**	**0.57**
2015	**0.68**	**0.62**
2016	**0.61**	**0.52**
2017	**0.60**	**0.55**
2018	**0.70**	**0.64**

Interpretation:

During the years of the study period SAIL never met the ideal rule of thumb of 2:1i.e current Ratio was less than 2% in the above years which indicates SAIL did not enjoy a very good creditworthiness for the study period ;similar was the case in Tata Steel company where current ratio never touched the rule of thumb but a comparative study predicts that current ratio was better in case of SAIL than Tata Steel.

B) Quick Ratio

This ratio is also a general measure of liquidity of a firm and expresses the relationship between quick assets and current liabilities of a firm; where quick assets are those current assets which can be converted into cash within a period of 90 days or within amore shorter period. This ratio basically indicates how well the current assets are able to cover up its current liabilities. It is calculated as

Quick Ratio=quick Assets/current Liabilities

year	Quick ratio of SAIL	Quick ratio of Tata Steel
2014	**0.62**	**0.32**
2015	**0.55**	**0.34**
2016	**0.42**	**0.32**
2017	**0.38**	**0.28**
2018	**0.40**	**0.34**

Interpretation:

A quick ratio of 1:1 is considered to be good ideally. So a company with lesser than 1 quick ratio would not be able to meet its current liabilities .On comparison between two steel companies in the public-private sector for the study period, it is found that both the companies need to make tremendous efforts so as to improve its quick ratio. SAIL's quick ratio was .62 which declined to .40 by 2018 whereas it is more poorer in case of Tata steel which was .32 in 2014 and reached to .34 with a minor improvements .This ratio needs to be improved since it provides a good cover to current liabilities. SAIL 's quick ratio is a little better than Tata steel although both companies need to improve its liquid ratio.

2. Solvency Ratios

These ratios help in measuring the ability of a firm to meet its long term obligations i.e. fixed interest, cost, and repayment schedules. It helps in reflecting the companies' income after taxes.

A)Debt Equity Ratio

This ratio helps in knowing the relative claim of outsider and owners against the firm's assets .It is calculated as.

Debt Equity Ratio=Outsiders Funds/Shareholders Funds

year	Debt Equity Ratio of SAIL	Debt Equity Ratio of Tata Steel
2014	**0.57**	**0.43**
2015	**0.65**	**0.39**
2016	**0.84**	**0.44**
2017	**1.08**	**0.61**
2018	**1.18**	**0.45**

Interpretation:

Although there is no rule of thumb for debt equity ratio but 1:1 is considered to be an ideal ratio. During the study period the debt equity ratio is not favorable in case of Tata steel from the company's point of view as credits are generated at the cost of high rates of interest .On comparison of the debt equity ratios of two steel companies in the public-private sector for the study period, it is found that both the companies need to make tremendous efforts so as to improve its debt equity ratio. SAIL'S debt equity ratio improved from 0.57 in 2014 to 1.08 in 2017 and further to 1.18 in 2018 which seems satisfactory at the later years whereas in case of Tata steel, debt equity ratio never reached the rule of thumb thus remained far from satisfactory for the study period .

B) Interest coverage ratio This ratio measures the ability of a company to interest payments on its outstanding debts. A high interest coverage ratio indicates the ability of a company to meet its interest liabilities several times while a low ratio reflects that a company may default in its interest payments. It is of great use for shareholders and the age retrospective investors..It is calculated as:

year	Interest Coverage Ratio of SAIL	Interest Coverage Ratio of Tata Steel
2014	3.19	6.41
2015	2.68	4.35
2017	(0.83)	3.25
2018	0. 72	4.56

Interpretation:

The lower the interest coverage ratio, the higher is the company's debt burden and greater are the chances for defaults and bankruptcy. On comparison of the interest coverage ratio of the two companies SAIL needs to improve its interest payments positions which are more than its earning in the year2017 and 18 on the other hand Tata Steel has a higher ratio than 1.5 which indicates a better financial health as it is able to meet to its interest obligations from its operating earnings. Over the study period .So, Tata steel's interest coverage position is far better than that of SAIL which indicates company is neglecting the opportunities that can magnify its earnings through leverage.

3. Profitability Ratios

Profitability ratios are a beneficial measure to reflect efficiency of a business.

A) Gross Profit Ratio

This ratio indicates the relationship of gross profit to net sales for a firm. It is calculated as

Gross Profit Ratio= Gross Profit/Net Sales X100

year	Gross profit Ratio of SAIL	Gross profit Ratio Of Tata Steel
2014	(5.94)	26.10
2015	6.30	19.17
2016	(13.57)	13.81
2017	(5.94)	17.36
2018	2.69	20.21

Interpretation:

The table above reflects the gross profit position of the concern over the study period. Despite a downfall in the GP ratio from 26.10 in 2014 to 17.36in 2017,Tata Steel showed a minor improvement in 2018.On the other had fluctuations in the performance of SAIL can be seen over the study period. Despite losses in 2014 and 2017,SAIL was able to recover to gross Profit of 2.69 which is far low in comparison to Tata steel. Both the companies need to is maintain a good gross profit position .Although Tata steel is at a far better position than SAIL

B) Operating Profit Ratio

This ratio establishes a relationship between the operating profit and the net sales. This ratio measures the equation between the cost of operating activities and net sales. It basically measures the overall profitability of a concern. The ratio expresses cost of goods sold as a percentage of net sales .It also reflects the efficiency of the management in different activities like manufacturing, selling, etc of the concern .It is calculated as

Operating Profit Ratio=Operating Profit/Net Sales x 100

Year	**Operating Profit Ratio of SAIL**	**Operating Profit Ratio of Tata Steel**
2014	**8.39**	**30.72**
2015	**10.18**	**23.95**
2016	**(7.42)**	**18.87**
2017	**0.08**	**24.74**
2018	**8.02**	**26.46**

Interpretation:

The table above reflects the operating profit ratio of the two steel companies over the study period. This ratio is a good indicator of how efficiently a company manages its expenses it also reflects revenue returned to the company after meeting its both fixed and variable expenses leaving taxes and interest. A comparison of the two steel companies shows that TATA Steel 's operating margins are higher than SAIL though slight fluctuation is there over the study period .So SAIL needs to manage and control its cost so as to generate and improve its operating profits..

Finding, Suggestion and Conclusion:

Findings:

1.During the study period SAIL never met the ideal rule of thumb of 2:1i.e current Ratio was less than 2% which indicates SAIL did not enjoy a very good creditworthiness for the study period ;similar was the case in Tata Steel company where current ratio never touched the rule of thumb .A comparative study predicts that current ratio of SAIL was .70 and that of Tata steel was .64 in 2018 indicating better current ratio in case of SAIL than Tata Steel.

2.On comparison between two steel companies in the public-private sector for the study period, it is found that both the companies need to make rigorous efforts so as to improve its quick ratio. SAIL's quick ratio was .62 in 2014 which declined to .40 by 2018 whereas it is poorer in case of Tata steel which was .32 in 2014 and reached to .34 with a minor improvements .This ratio needs to be improved since it provides a good cover to current liabilities. SAIL's quick ratio is a little better than Tata steel although both companies need to improve its liquid ratio.**.** This improvement would help company meet its obligations from the available quick funds only.

3. Though there is no rule of thumb for debt equity ratio but 1:1 is considered to be an optimum ratio. The debt equity ratio is not favorable in case of Tata steel; which was .43 in 2014 and only improved to .45 by 2018. From the company's perspective credits are generated at the cost of high rates of interest .On comparison of the debt equity ratios of two steel companies in the public-private sector for the study period, it is found that both the companies need to make tremendous efforts so as to improve its debt equity ratio. SAIL'S debt equity ratio improved from 0.57 in 2014 to 1.08 in 2017 and further to 1.18 in 2018 which seems satisfactory at the later years whereas in case of Tata steel, debt equity ratio never reached the rule of thumb thus remained far from satisfactory for the study period. Thus indicating that the claim of the outsiders was more than that of

4 .On comparison of the interest coverage ratio of the two companies SAIL 's interest coverage ratio which was 3.19 in 2014 and reached to.72 in 2018 which indicates a need for the company to improve its interest payments positions which are more than its earning in the year 2017 and 18 on the other hand Tata Steel has a higher ratio than 1.5 which indicates a better financial health as it is able to meet to its interest obligations from its operating earnings. Which was 6.41 in 2014 and 4.56 in 2018.So Tata steel's interest coverage position is far better than that of SAIL which indicates company is neglecting the opportunities that can magnify its earnings through leverage.

5. The gross profit position of the concern over the study period shows that despite a downfall in the GP ratio from 26.10 in 2014 to 17.36 in 2017, Tata Steel showed a slight improvement in 2018.On the other had fluctuations in the performance of SAIL can be seen over the study period .Despite losses in 2014 and 2017,SAIL was able to recover to gross Profit of 2.69 which is far low in comparison to Tata steel. Both the companies need to is maintain a good gross profit position .Though Tata steel is at a far better position than SAIL

6.Operating profit ratio is a good indicator of how efficiently a company manages its expenses, it also reflects revenue returned to the company after meeting its both fixed and variable expenses leaving taxes and interest In case of SAIL this ratio was 8.39 in 2014 and 8.02 in 2018whereas in case of Tata steel it was 30.72 in 2014 and 26.46 in 2018.A comparison of the two steel companies shows that TATA Steel 's operating margins are higher than SAIL though slight fluctuation is there over the study period .So SAIL needs to manage and control its cost so as to generate and improve its operating profits..

Suggestions and conclusion

On the comparison of two companies (public and private) from the financial perspective in the steel sector; it can be concluded that the liquidity position of SAIL is better than Tata Steel ,although rigorous effort are required at the end of both the companies to improve their short term liquidity positions as they indicate firm's ability to meet its current liabilities. In case of solvency position too Tata steel's debt equity ratio is far from satisfactory whereas it was satisfactory incase of SAIL. Solvency ratios help in measuring the ability of a firm to meet its long term obligations i.e. fixed interest, cost, and repayment schedules. It helps in reflecting the companies' income after taxes so both the companies especially Tata steel needs to make rigorous efforts to improve its solvency. But on observing the profitability position it is found that Tata steel has a better gross profit and operating profit position than SAIL indicating maintenance of good efforts on cost control .Thus the overall financial performance seems satisfactory in case of both SAIL and Tata steel but more rigorous efforts can help in further enhancing the liquidity, solvency and profitability of the respective concerns.

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