Financial Performance Analysis of Steel Authority of India Limited (SAIL)

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Abstract

Business firms exist in a world of rapid changes. In 21st century, business and economic environment is characterized by various changes like High growth markets, financial crisis, technological advances, stiff competition, innovation etc. in such a complex and rapidly changing corporate environment, a firm will not be able to survive in the long run if its financial performance is not sound in all respects.

Steel is crucial to the development of any modern Indian economy and plays a crucial role therein. The iron economy and is considered to be the backbone of human and steel industry of India, which is enormous in size, civilization. The level of per capita consumption of steel holds an important position in the industrial system of is treated as an important index of the level of India. Furthermore, given the role of the iron and steel socioeconomic development and living standards of the industry in boosting the development of related industrial people in any country.

It is a product of a large and sectors and sectors oriented to serving the iron and steel technologically complex industry having strong forward industry (such as research and trade sectors), the and backward linkages in terms of material flows and industry plays a greater part in promoting indirect income generation. All major industrial economies are employment.

The iron and steel industry is vital in characterized by the existence of a strong steel industry promoting employment and boosting economic prosperity and the growth of many of these economies has been and serves as the pillar of local economic development largely shaped by the strength of their steel industries in and social stability.

*K*eywords: Working Capital Management, Current Assets, Current Liabilities, Current Ratio.

Introduction

. Finance is the life blood of business. It flows in mostly from sale of goods and services. It flows out for meeting various types of expenditure. The activating element in any business which may be an industrial or commercial undertaking is the finance. Finance plays a very important role in the day-to-day lives of each individual or corporation. It is a very wide term and it can be said to be the study of the science of managing funds. Usually finance includes the areas of public, personal and business finance. It includes things related to lending, spending and saving money. An important aspect of finance is that individuals and corporations deposit money in a financial institution, especially banks, which in turn lend out money and charge an interest for their services.

A sound financial performance enables a firm to attain profitability, market share and sustainable competitive advantage for its survival and growth. Financial performance evaluation is a process of determining the financial health of a concern from different angles, identifying its strengths and weaknesses and suggesting ways for improvement in its future workings. Financial performance measures evaluate how well a company is using its resources to make profit .

The present study has been conducted to evaluate financial performance of Steel Authority of India Limited, which is a public sector enterprise in Indian steel Industry and largest steel producer in India.

REVIEW OF LITERATURE

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Many researchers have considered working capital from different interpretations and in different situations. The following studies were very stimulating and useful for research.

Chudson[1] has presented a research paper on, “The pattern of corporate financial structure”, in which he provides direct evidence on the companies with high properties of fixed assets to use more long-term debt. The research also indicated that there is no simple linear relationship between corporate size and debt ratio.

Barges, Alexander,[2] in his research paper on “The effect of Capital Structure on the cost of capital”, adopted the most comprehensive test of Modigliani-Miller hypothesis. He analyzed the relationship between the average cost of capital and leverage, and between the stock yield and debt equity ratio. For the purpose of his study, he utilized cross-section data from three different industries namely rail road, departmental stores and cement industries. Unlike Modigliani-Miller’s study, his observations have good distribution over the entire range of capital structure. Each sample has a significant number of observations with little or no debt. He made a special effort to introduce homogeneity into the sample firms so that it might not distort the relationships. Barges criticized Modigliani and Miller for using market value as it introduced bias in the estimate of leverage coefficient. He, therefore, used book value as measure of leverage.

Wippern Ronald,[3] in his research paper on “Financial structure and the value of the firm”, concentrated on the cost of equity function instead of the overall cost of capital function. By doing this, he could show that the cost of equity function was significantly linear and increased at an appropriate rate to exactly off-set the injection of debt into the capital structure and keep the overall cost of capital constant.

Comanor,W.S. and Wilson.T[4] in their article on “Advertising, Market Structure and performance”, examined the relevance of advertising intensity as a factor for industrial profitability. They found advertising intensity as a major determinant of profitability (leverage after-tax return on equity) in thirty-five US consumer goods industries.

Jain, D.C[5] has analyzed the financial statements of cement companies in India. The study revealed by and large that their financial performance was satisfactory, on the basis of ratio analysis made.

There are number of works on determinants of profitability in India. Subramanian and Papoia,T.S[.6] have studied the relationship between profitability and growth of firms in Indian chemical industry during the period 1960-69 with data of 27 companies quoted in stock exchange. They found that most of the firms want to grow in an expanding market with differing intensities and that those who have ability aided by profit continued to grow faster.

S.Pramila & K.Kumar A Study on “Working Capital Management in Tata Steel Limited” for the period from 2010-2011to2014-2015. The study concludes that the Lower fixed assets ratio of Tata Steel Limited is satisfactory. But, Cash ratio is less than the standard and not encouraging for the entire study period i.e. 2010-11 to 2014-15. Though the additional funds raised are invested in fixed assets instead of providing necessary working capital, the Working Capital turnover ratio is not satisfactory. Accordingly, the management may resort to effective utilization of cash and bank balances in attractive investments or to pay back in short-term liabilities (current ratio).

OBJECTIVES OF THE STUDY

The objectives of the study are stated as follows:

1. To study the profile and functions of Steel Authority of India (SAIL)
2. To understand the performance efficiency and managerial ability of Steel Authority of India (SAIL).
3. To determine short term and long-term solvency of Steel Authority of India (SAIL) with the help of annual reports.
4. To analyse the profitability and performance of Steel Authority of India (SAIL) with the help of important ratios.
5. To offer suggestions for the better performance of Steel Authority of India (SAIL)

TOOLS FOR DATA COLLECTION

1. Primary Data

The primary data are collected by an unstructured interview schedule by the researcher regarding the functioning of the industry from 2014-2019.

2. Secondary Data

The secondary data are collected from the annual reports, magazines, websites and the internal auditing books of Steel Authority of India (SAIL)

SCOPE OF THE STUDY

The main scope of the study is to evaluate, analyse and understand the financial statements and to know the influence of the financial position on reputation in the years 2014 -2015 to 2018-2019. This period is enough to cover both the short and medium terms fluctuations and to set reliability.

LIMITATIONS OF THE STUDY

1. This study mainly depends on the secondary data i.e., a balance sheet of Steel Authority of India Limited.
2. Operating and financial performance of the companies is analyzed using 5years data alone.
3. The validity of analysis and suggestion depends on the financial statements and reports alone, provided by the company.

TOOLS OF FINANCIAL ANALYSIS

The financial statements must be made simpler for any reader to understand the operating results and the financial health of the business. This is done with the help of the following tools of the financial analysis. These are also termed as methods of Financial Analysis.

Ratio Analysis

Ratio Analysis is a powerful tool of financial analysis. Analysis of financial statements with the assistance of ratios helps the management in decision making and control. Ratio analysis is used by creditors, banks, financial institutions investors and shareholders. It helps them in making a decision concerning the granting of credit and making investments in the firm. Thus, ratio analysis is of enormous use and has wide application.

Current Ratio

The statistical data relating to calculation of current ratio was computed through the financial statements referred in their respective annual reports of Steel Authority of India Limited for the study period from 2014-15 to 2018-19 is depicted in table 1.

Current Assets of Steel Authority of India Limited (Rs. In Crore)
Table 1

Years	2014-15	2015-16	2016-17	2017-18	2018-19
Current Investments	-	48.31	-		-
Inventories	17736.37	15363.61	15711.35	16996.67	19441.80
Trade Receivables	3192.00	2825.21	2921.69	3869.24	4495.05
Cash and Bank Balances	2305.24	692.76	289.09	254.06	219.42
Short – Term Loans and	3056.33	2113.85	61.47	63.41	53.24

Advances					
Other Current Assets	2192.35	1839.24	6578.95	8454.12	8039.76
Total	28482.29	22882.98	25562.55	29638.20	32249.27

* Source: Annual Reports of SAIL

Current liabilities of Steel Authority of India Limited are presented in table 2.

Current liabilities of Steel Authority of India Limited. **(Rs. In Crore)**

Table 2

Years	2014-15	2015-16	2016-17	2017 - 18	2018 -19
Short-Term Borrowings	14195.16	15891.76	19813.04	12244.32	10631.22
Trade Payables	3606.38	4301.57	5219.20	7540.50	7257.99
Other Current Liabilities	14016.53	16006.79	18372.88	21312.62	21399.48
Short – Term Provision	2638.71	2604.54	2914.77	2715.65	2308.77
Current Tax Liabilities	-	-	4.52	-	-
Total	34456.78	38804.66	46324.41	43813.09	41597.46

* Source: Annual Reports of SAIL

The above two tables show that the current assets decreased from Rs.28482.29 crores in 2014-15, to Rs. 22882.98 crores in 2015-16,after it was increased continued from Rs. 25562.55 crores in 2016-17, Rs.29638.20 crores in 2017-18, and Rs.32249.27crores in 2018-19. When coming to current liabilities continuously three years it is increased from Rs.34456.78 crores in 2014-15 to Rs.46324.41 crores.in 2016-17,after it was decreased from Rs.43813.09 crores in 2017-18 and Rs.41597.46 crores in 2018-19.

Current assets and current liabilities of SAIL are presented in table 3

Current Assets and Current Liabilities Steel Authority of India Limited (Rs. In Crore)

Table 3

Year	Current Assets	Current Liabilities	Current Ratio
2014 - 15	28482.29	34456.78	0.83:1
2015 - 16	22882.98	38804.66	0.59:1
2016 - 17	25562.55	46324.41	0.55:1
2017 -18	29638.20	43813.09	0.67:1
2018-19	32249.27	41597.46	0.77:1

* Source: Annual Reports of SAIL

As a conventional rule, a current ratio of 2:1 is considered satisfactory. This ratio is below the accepted standard norm in Steel Authority of India Limited in the entire study period. It clearly indicates, the normal general accepted solvency to meet their current obligations in time is not satisfactory during 2014-15 to 2018-19. The management of Steel Authority of India limited must initiate necessary steps to utilize its idle cash and bank balances in attractive investments or to pay back its short-term liabilities.

Quick Ratio or Liquid Ratio

The quick ratio is also called Acid-test ratio because it is the acid test of a concern`s financial soundness. It is the relationship between quick assets and quick liabilities. Quick assets are those assets which are readily converted into cash.They include cash and bank balances, bills receivable, debtors, and short- term investments. Quick liabilities include creditors, bills payable, outstanding expenses. It is used as a complementary ratio to the current ratio. Quick assets and current liabilities of SAIL is presented in table 4.

Quick Assets and Current Liabilities of Steel Authority of India Limited (Rs. In Crore)

Table 4

Year	Quick Assets	Current Liabilities	Quick Ratio
2014-15	10745.92	34456.78	0.31
2015-16	15363.61	38804.66	0.40
2016-17	9851.20	46324.41	0.21
2017-18	12641.53	43813.09	0.28
2018-19	12807.47	41597.46	0.30

Source: Annual Reports of SAIL

A quick ratio of 1:1 is considered to represent a satisfactory current financial condition. A quick ratio of 1:1 doesnot necessarily mean satisfactory liquidity position if all debtors cannot be realized and cash is needed immediately to meet current obligations. A low quick ratio does not necessarily mean a bad liquidity position as inventories is not an absolutely non-liquid. It is observed from the above data the quick ratio is less than the accepted norm from 2014-15 to 2018-19.The quick ratio is very poor so it will increase their liquidity position, it will help to meet day to day expenses.

Cash Ratio (Absolute Liquid Ratio)

Cash is the most liquid asset. The relationship between cash including cash at bank and short-term marketable securities with current liabilities is examined to know the immediate solvency. Cash & Bank Balance and current liabilities of SAIL is presented in table 5.

Year	Cash & Bank Balance	Current Liabilities	Quick Ratio
2014-15	2305.24	34456.78	0.06
2015-16	692.76	38804.66	0.02
2016-17	289.09	46324.41	0.00
2017 -18	254.06	43813.09	0.00
2018-19	219.42	41597.46	0.00

Source: Annual Reports of SAIL

The acceptable norm for cash ratio is 1:2. This ratio is less than the standard and not heartening for the entire study period i.e. 2014-15 to 2018-19.

Working Capital Turnover Ratio

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

Net Working Capital = Current Assets - Current Liabilities

Current assets and current liabilities and Net Working capital of SAIL are presented in table 6.

Current Assets, Current Liabilities and Net Working Capital of Steel Authority of IndiaLimited (Rs. In Crore)

Table 6

Year	Current Assets	Current Liabilities	Net Sales	Net Working Capital	Working Turnover Ratio
2014-15	28482.29	34456.78	50627	-5974.49	-8.47
2015-16	22882.98	38804.66	43294	-15921.68	-2.72
2016-17	25562.55	46324.41	49180	-20761.86	-2.37
2017- 18	29638.20	43813.09	58297	-14174.89	-4.11
2018-19	32249.27	41597.46	66267	-9348.19	-7.88

* Source: Annual Reports of SAIL

Working Capital turnover ratio indicates the velocity of the utilization of net orking capital. This ratio indicates the number of times the working capital is turned over in the course of a year. A higher ratio indicates the efficient utilization of working capital and a low ratio indicates otherwise. But a very high working capital turnover ratio is not a good situation for any firm and hence care must be taken while interpreting the ratio.Working Capital turnover ratio 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 on time.

CONCLUSION

Efficient management of finance is very important for the success of an enterprise. Term financial performance is very dynamic term. The subject matter of financial performance has been changing very rapidly.

The current ratio, Cash ratio of Steel Authority of India Limited is less than the standard norm and not encouraging for the entire study period i.e. 2014-15 to 2018-19. Working Capital turnover ratio is not satisfactory.

Though the additional funds raised are invested in fixed assets instead of providing necessary working capital, the management may resort to the operative utilization of cash and bank balances in attractive investments or to pay back in short-term liabilities. Proper control over various expenses like Labour cost, material cost and other overheads are reduced so as to improve the profitability of the company. The purchase of raw material at lower cost will reduce the cost of material. The company can reduce the cost of production and try to improve its profitability. The company has to give importance to maintenance and consumption of raw materials which would otherwise result in the overstocking and leads to obsolescence.

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