

A Study On Financial Performance Of Steel Industry

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Abstract

Growth of any industries can be designated by the financial performance of indicators. It is true in the case of steel industry as well. The financial performance of any organization is influenced by several factors like capital structure, cost, revenue and the consequential profit margin. Financial performance of steel industry can be studied with many aspects like financial facts, financial ratios, financial health, financial strength and utilization of assets, etc. The financial performance can be influenced by the operational and financial efficiency of the steel industry, which are related to cost and the revenue aspects. The best indicators of the financial performance are return on assets, sales, equity and other financial variables. Thus, the problem related to the financial performance of the steel industry is interlinked to many aspects like cost, revenue, capital, assets and other related variables. If the analysis made on all the aspects related to the steel industry gives a clear cut picture about the financial performance, it can be used for policy decisions for its future development. In this connection, the researcher has analyzed the performance of steel industry in India on the parameters such as profitability, utilization of assets, growth of performance, financial strength and capital structure. The researcher has also attempted to identify the nature of relationship between the various aspects of financial performance.

Keywords: Financial Performance, Steel Industry, Financial Ratio

INTRODUCTION

Steel is considered to be the backbone for the development of modern economy and human civilization. The level of consumption of steel is considered as a vital index to measure the socio-economic development and standard of life of people of the country. This product is the outcome of the large and technological complex industry poisoning in terms of material flows and incomes that are strong. The economic status of industries is strong ended by the existence of strong steel industry and the development of these industries at the initial stage is shaped by the steel industries. Industrial sector has made rapid steps with the help of steel industry using it as a vanguard. The latest technology used by the green field plant has increased the output and the industry has improved the global economy. The new plants have also brought a great regional dispersion in the western region and earned the domestic supply position. The domestic steel industry has faced new challenges and due to the high cost of commissioning of new projects, the developed markets face many problems. The domestic demand too has not improved to significant level. The litmus test of the steel industry will be to surmount these difficulties and remain globally competitive.

HISTORY OF STEEL

The **iron and steel industry** is one of the most important industries in India. During 2014 through 2016, India was the Second largest producer of raw steel and the largest producer of sponge iron in the world. The industry produced 91.46 million tons of total finished steel and 9.7 million tons of raw iron. Most iron and steel in India is produced from iron ore.^[2] The Indian Ministry of Steel is concerned with: the coordination and planning of the growth and development of the iron and steel industry in the country, both in the public and private sectors; formulation of policies with respect to production, pricing, distribution, import and export of iron and steel, ferro alloys and refractories; and the development of input industries relating to iron ore, manganese ore, chrome ore and refractories etc., required mainly by the steel industry.

Most of the public sector undertakings market their steel through the Steel Authority of India (SAIL). The Indian steel industry was de-licensed and de-controlled in 1991 & 1992 respectively.

There are two types of steel plants - mini steel plants and integrated steel plants.

Mini steel plants are smaller, have electric furnaces, used steel scrap and sponge iron. They have re-rollers that use steel ingots as well. They produce Carbon steel and alloy Steel of certain specifications. There are around 650 mini steel plants in India.

Integrated steel plants are large, handle everything in one complex - from putting together raw material to steel making, rolling and shaping. Iron ore, coke, and flux are fed into the blast furnace and heated. The coke reduces the iron oxide in the ore to metallic iron, and the molten mass separates into slag and iron. Some of the iron from the blast furnace is cooled, and marketed as pig iron; the rest flows into basic oxygen furnaces, where it is converted into steel. Iron and steel scrap may be added to both to the blast furnace and to the basic iron furnace. There are about five integrated SAIL plants in India.

REVIEW OF LITERATURE

Rooh Ollah Arab, Seyed Saadat Masoumi and Azadeh Barati (2015) analysed the performance of the iron and steel companies in respect of liquidity, solvency, profitability and activity over the period starting from 2003-04 to 2012-13. Five companies were selected for the study : Steel Authority of India Ltd., Tata Steel Ltd., J S W Steel Ltd, Jindal Steel & Alloy Ltd. and Bhushan Steel Ltd. To test the hypothesis One way ANOVA test was conducted on sixteen different ratios selected from different segment like liquidity, solvency, activity and profitability such as current ratio, quick ratio, absolute cash ratio, financial institutions and creditors selling goods on debt-equity ratio, total assets to debts ratio, proprietary ratio, interest coverage ratio, total asset turnover, inventory or stock turnover ratio, debtors turnover ratio, creditor turnover ratio, gross profit margin, net profit margin, operating ratio, return on investment and earning per share .The analysis revealed that there exists substantial difference in the financial performance of the identified units studied under the iron and steel industry.

Shipra Bhatia (2017) provided a holistic view of the iron and steel industry with special emphasis on the issues and challenges faced by the steel industry of India. Areas focused were production, capacity utilization, import and export, price movements and impact of international

demand and supply conditions on the Indian steel industry. The conclusion of the study was that a special turnaround plan is required to be formulated by Government of India for meeting the future targets set aside by Government of India.

STATEMENT OF THE PROBLEM

The efficiency of the business is measured by the amount of profit earned. The greater the profit, the more efficient is the business considered to be. The profit of a business may be measured by studying the profitability of investment in it. Profitability may be defined as the ability of a given investment to earn a return from its use. This ability is referred to as lending power or operating performance of the concerned investment. Profitability is a relative term and its relation with the other factors by which the profit is affected. It is the test of efficiency, powerful motivational factor and the measure of control in any business. Hence, an attempt has been made to study the profitability of steel industry in India after liberalization.

OBJECTIVES OF THE STUDY

1. To study the growth of the steel industries in the world and in India.
2. To examine the short-term and long-term financial solvency, profitability and growth performance of the steel industries in India.

PROFILE OF THE SELECTED STEEL INDUSTRIES

1. Steel Authority of India Limited (SAIL):

Steel Authority of India Limited is an Indian state-owned steel making company based in New Delhi, India. It is a public sector undertaking, owned and operated by the Government of India with an annual turnover of INR 44,452 Crore for fiscal year 2016-17. Incorporated on 24 January 1973, SAIL has 74,719 employees.

SAIL is a public sector company, owned and operated by the Government of India. According to a recent survey, SAIL is one of India's fastest growing Public Sector Units. Besides, it has R&D centre for Iron & Steel (RDCIS), Centre for Engineering and Technology

(CET), Management Training Institute (MTI) and SAIL Safety Organisation (SSO) located at Ranchi capital of Jharkhand.

2. Tata Steel Ltd.,

Tata Steel Limited, formerly Tata Iron and Steel Company Limited (TISCO), is an Indian multinational steel-making company headquartered in Mumbai, Maharashtra, India, and a subsidiary of the Tata Group.

It is one of the top steel producing companies globally with annual crude steel deliveries of 27.5 million tonnes (in FY17), and the second largest steel company in India (measured by domestic production) with an annual capacity of 13 million tonnes after SAIL.

Tata Steel operates in 26 countries with key operations in India, Netherlands and United Kingdom, and employs around 80,500 people. Its largest plant (10 MTPA capacity) is located in Jamshedpur, Jharkhand. In 2007, Tata Steel acquired the UK-based steel maker Corus. It was ranked 486th in the 2014 Fortune Global 500 ranking of the world's biggest corporations. It was the seventh most valuable Indian brand of 2013 as per Brand Finance.

3. JSW Steel Ltd.,:

JSW Steel Ltd. (BSE: 500228, NSE: JSWSTEEL) is an Indian steel making company based in Mumbai, Maharashtra. It is a subsidiary of JSW Group. It is one of the fastest growing companies in India with a footprint in over 140 countries. JSW Steel is an Indian steel company owned by the JSW Group based in Mumbai, Maharashtra, India. JSW Steel, after merger of ISPAT steel, has become India's second largest private sector steel company. The current installed capacity is 18 MTPA. A \$13 billion conglomerate, with presence across India, USA, South America & Africa, the JSW Group is a part of the O.P. Jindal Group with strong footprints across core economic sectors, namely, Steel, Energy, Infrastructure, Cement, Ventures and Sports.^[4] JSW's history can be traced back to 1982, when the Jindal Group acquired Piramal Steel Limited, which operated a mini steel mill at Tarapur in Maharashtra and renamed it as Jindal Iron and Steel Company (JISCO).

4. Jindal Steel and Power Ltd.,:

Jindal Steel and Power Limited (JSPL) is an Indian steel and energy company based in New Delhi, India. With turnover of approx. US\$ 3.3 billion, JSPL is a part of about US\$18 billion diversified Jindal Group conglomerate. JSPL is a leading player in steel, power, mining,

oil and gas and infrastructure in India. The company produces steel and power through backward integration from its own captive coal and iron-ore mines.

In terms of tonnage, it is the third largest steel producer in India. The company manufactures and sells sponge iron, mild steel slabs, ferro chrome, iron ore, mild steel, structural, hot rolled plates and coils and coal-based sponge iron plant.

RESEARCH METHODOLOGY

Source of Data:

The study is mainly based on the secondary data collected from the Annual reports of steel companies and articles from the journals and websites. The period of study is 5 years, starting from 2014-15 to 2018-19.

Sampling:

For the study of financial performance of steel industry of India, following large sector steel entities listed in BSE are selected: Steel Authority of India Ltd, Tata Steel, JSW Steel and Jindal Steel are chosen.

Data Analysis:

Analysis is conducted on financial ratios (variables) selected from the aforementioned segments like liquidity & solvency, Debt coverage and profitability term, such as net profit ratio, current ratio, quick ratio, absolute cash ratio, debt-equity ratio, total debt to owners fund.

LIMITATIONS OF THE STUDY

The data available for the study to a few limitations, which are as follows;

1. Data is collected for the period from 2014-2015 to 2018-2019; the analysis is constrained only for the given period.
2. The study is only for particular concern. So the inter firm comparison is not possible.

DATA ANALYSIS & INTERPRETATION

TABLE NO.1.1

CURRENT RATIO OF SELECTED STEEL COMPANIES IN INDIA

(in Times)

Year	Sail	Tata	JSW	Jindal
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2014-15	0.68	0.62	0.77	0.74
2015-16	0.61	0.52	0.78	0.36
2016-17	0.60	0.55	0.79	0.32
2017-18	0.70	0.64	0.80	0.34
2018-19	0.64	0.55	0.80	0.36
Mean	0.65	0.58	0.79	0.42
SD	0.04	0.05	0.01	0.18

Source: Computed from Annual Reports

Above table shows the current ratio of the selected industries. Mean scores of current ratio of SAIL, Tata, JSW and Jindal were 0.65, 0.58, 0.79 and 0.42 respectively. It is clear from the above table that Jindal mean score of current ratio is less and JSW mean score of current ratio is high.

TABLE NO.1.2
QUICK RATIO OF SELECTED STEEL COMPANIES IN INDIA
(in Times)

Year	Sail	Tata	JSW	Jindal
2014-15	0.42	0.27	0.38	0.35
2015-16	0.38	0.32	0.40	0.45
2016-17	0.40	0.28	0.35	0.54
2017-18	0.70	0.34	0.37	0.59
2018-19	0.41	0.26	0.45	1.22
Mean	0.46	0.29	0.39	0.63
SD	0.13	0.03	0.04	0.34

Source: Computed from Annual Reports

Above table shows the quick ratio of the selected industries. Mean scores of quick ratio of SAIL, Tata, JSW and Jindal were 0.46, 0.29, 0.39 and 0.63 respectively. It is clear from the above table that Tata Steels mean score of quick ratio is less and Jindal steel Ltd., mean score of quick ratio is high.

TABLE NO.1.3
DEBT EQUITY RATIO OF SELECTED STEEL COMPANIES IN INDIA

(in Times)

Year	Sail	Tata	JSW	Jindal
2014-15	0.65	0.41	0.80	0.78
2015-16	0.84	0.45	0.89	0.94
2016-17	1.08	0.61	0.90	1.11
2017-18	1.18	0.44	1.08	1.04
2018-19	1.09	0.39	1.09	2.09
Mean	0.97	0.46	0.95	1.19
SD	0.22	0.09	0.13	0.52

Source: Computed from Annual Reports

Above table shows the Debt equity ratio of the selected industries. Mean scores of debt equity ratio of SAIL, Tata, JSW and Jindal were 0.97, 0.46, 0.95 and 1.19 respectively. It is clear from the above table that Tata Steels mean score of debt equity ratio is less and Jindal steel Ltd., mean score of debt equity ratio is high.

TABLE NO.1.4
TOTAL DEBT TO OWNERS FUND OF SELECTED STEEL COMPANIES IN INDIA

(in Times)

Year	Sail	Tata	JSW	Jindal
2014-15	0.65	0.39	0.56	2.09
2015-16	0.84	0.44	0.55	1.04
2016-17	1.08	0.61	0.78	1.11
2017-18	1.18	0.45	0.57	0.94
2018-19	1.09	0.41	0.68	0.78
Mean	0.97	0.46	0.63	1.19
SD	0.22	0.09	0.10	0.52

Source: Computed from Annual Reports

Above table shows the total debt to owners fund of the selected industries. Mean scores of total debt to owners fund of SAIL, Tata, JSW and Jindal were 0.97, 0.46, 0.63 and 1.19 respectively. It is clear from the above table that Tata Steels mean score of total debt to owners fund is less and Jindal steel Ltd., mean score of total debt to owners fund is high.

TABLE NO.1.5
NET PROFIT RATIO OF SELECTED STEEL COMPANIES IN INDIA
(in %)

Year	Sail	Tata	JSW	Jindal
2014-15	4.57	15.41	1.35	2.32
2015-16	1.23	12.82	2.55	11.1
2016-17	2.36	7.17	3.65	7.2
2017-18	1.58	6.99	2.58	2.11
2018-19	3.25	14.91	1.22	0.94
Mean	2.60	11.46	2.27	4.73
SD	1.35	4.12	1.00	4.29

Source: Computed from Annual Reports

Above table shows the net profit margin of the selected industries. Mean scores of current ratio of SAIL, Tata, JSW and Jindal were 2.60, 11.46, 2.27 and 4.73 respectively. It is clear from the above table that JSW mean score of net profit margin is less.

SUGGESTIONS

The following suggestions were offered through this study for the better performance of the selected units.

1. The Steel industry should draw a long-term plan based on a well designed management information system, incorporate economics in it, particularly those relating to cost and revenues.
2. Steel industry has to make a steady progress and withstand competition without eroding its natural resources, it can do so. The best utilization of scarce resources will be feasible.
3. A massive injection of funds to modernize the steel industry, fiscal and non-fiscal incentives to bring down the cost, improvement in infrastructural facilities in the remote but forest –rich areas and suitable changes in the Steel control order would go a long way in improving its profitability and growth prospects.
4. Encouragements of capital investment in the new technology are needed to compete globally.

CONCLUSION

Companies should design a balanced capital structure, use fixed assets efficiently, adopt credit policies, apply modern inventory and cash management systems and control operating costs to improve and maintain the financial performance in future. To conclude, all major steel producers in India are expanding their capacities and may new Greenfield projects are seems to coming up in near future. How much a huge investment will be mobilized is a big question. With the thrust given by the government on construction sector and infrastructure, the product mix of the finished steel may show a different picture by 2019-20.

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