

A STUDY ON PERFORMANCE ANALYSIS OF STEEL INDUSTRY IN INDIA

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ABSTRACT:

This research paper examines the financial performance of identified units in the steel industry in India in terms of financial ratios such as Liquidity, Solvency, and Profitability position. A group companies listed in the stock exchanges in India namely, Tata Steel Ltd., Jindal Steel Ltd, J S W Steel Ltd., Steel Authority of India Ltd, Mahamaya Steel Ltd and Kalyani Steels Ltd are selected for this study. To evaluate the impact of selected variables on the financial performance of identified units in the steel industry, ratio analysis is used. 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. The best indicators of the financial performance are return on assets, sales, equity and other financial variables. 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.

Key words:

Financial performance analysis, Ratios, profitability position.

Introduction

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship

between the items of balance sheet and profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of analysis is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole

and to each other. Information about financial performance of an enterprise during the financial period is primarily provided in an income statement or profit and loss account. This shows income, expenditure and finally net profit.

Statement of the Problem

Analysing financial performance is the process of evaluating the common parts of financial statements to obtain a better understanding of companies position and performance. Financial performance analysis enables the investors and creditors to evaluate past and current performance and financial position, and to predict the future performance. It is the process of identifying the financial strength and weakness of the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account. The task of financial analyst is to determine the information relevant to the decision under consideration from the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusion. Thus, financial analysis is the process of selection relating and the evaluation of the accounting data.

Objectives of the Study:

- To study the financial performance analysis of steel industry
- To analyze the profitability position of the steel industry in India
- To examine the liquidity position of steel industry in India

- To analyze the solvency position of steel industry in India
- To know the growth of steel industry

Research Methodology

Research is a process of systematic inquiry that entails collection of data; documentation of critical information; and analysis and interpretation of that data or information, in accordance with suitable methodologies set by specific professional fields and academic disciplines.

The research is an attempt to study a problem or a situation at any given circumstance and identify various causes or consequence of that particular problem. It tries to solve a complex and complicated problem through use of various tools and techniques. These tools and techniques try to bring out a logical, accurate and scientific solution to given problem. In general research can be termed as an inquiry into the nature of reasons for and the consequences of any particular set of circumstances. It's the process of finding solutions for the problem after a through analysis of the situational factors.

Research Methodology is a systematic way to solve a research problem; It includes various steps that are generally adopted by a researcher in studying the problem along with the logic behind them. The present study was conducted at Steel Industry. The study depends mainly on the secondary data namely the annual reports of the company. Five years annual reports had been collected from the company. The data required for the study has been collected from secondary source. The relevant information was taken from annual reports, journals and internet.

- <https://www.investopedia.com/investing/top-steel-stocks/> **Tools Used For Analysis**

Research Design

The present study is deal with Quantitative Research. (Quantitative research is the process of collecting and analysing numerical data. It can be used to find patterns and averages, make predictions, test casual relationships, and generalize results to wider populations.

The research design is the conceptual structure with in which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data, the research design utilized in this study is analytical research..

Sampling Size

6 Steel Industries

1. Tata Steel Ltd.
2. JSW Steel Ltd.
3. Steel Authority of India (SAIL) Ltd.
4. Jindal Steel Ltd.
5. Mahamaya Steel Industries Limited (MSIL)
6. Kalyani Steels Ltd.

Sampling Method

Simple Random Sampling

Methods of Data

- <https://www.moneycontrol.com/>
- <https://money.rediff.com/>
- books and magazines
- fundamentals of big data: network analysis for research and industry

Ratio analysis

- EPS
- Current Ratio
- Liquid ratio
- Gross profit ratio
- Net profit Ratio
- Operating profit ratio
- Total debt equity ratio
- Fixed asset turnover ratio
- Inventory turnover ratio

Scope ofthe Study

Study aims to analyse the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc are prepared to analyse the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc.The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

Limitation of the Study

Although the research is useful to industry and academics, it is not free from certain limitations. Some limitations are as follows ;

- The reliability of the data depends on the accuracy of data collected.

- The present study is based on the published secondary data, hence the limitations of the published financial statement limitations may be applicable to the study as well.
- The period considered for the study is only last five year's financial statement. So it is not possible to find out the life time performance of the company.
- Most of the information is collected from the financial statements. So the limitations of the financial statements may affect the study.
- Non-monetary factors like human behaviour, their relationship extra are not considered.

FINDINGS OF THE STUDY

- Tata Steel Ltd has the highest EPS of 270.06 . Higher EPS ratio is always good because if EPS is higher market value of equity share will be higher in stock exchange and thus it is a good measure of profitability. Mahamaya Steel Industries Ltd has lowest EPS ratio in all five years. It shows they are not maintaining a good EPS.
- Mahamaya Steel Industries Ltd (MSIL) is maintaining a highest current ratio of 3.75 in 2021 and also the company have a good ratio in other four years. JSW Steel Ltd has a moderate ratio in 2022 which is 1.32 and a low ratio of 0.81 in 2021. A very low current ratio indicates that the liquidity position is not good.
- Mahamaya Steel Industries Ltd (MSIL) is having a highest liquid ratio of 2.11 in 2022 and in other four years they maintained a moderate ratio which is good for the company. Tata Steel Ltd. has lowest liquid ratio of 0.25 in 2019. The liquid ratio is below 1 is considered as not satisfactory.
- Tata Steel Ltd has the highest gross profit ratio of 35.39% in 2022 which is a sign of efficient production. Steel Authority of India (SAIL) Ltd. is not maintaining a good ratio in all five years. In 2018 they have a very low gross profit ratio of 2.69%. And Kalyani Steels Ltd maintained a moderate ratio in all five years.
- Tata Steel Ltd has the highest net profit ratio of 25.58% which indicates the company has high efficiency as well as profitability. Mahamaya Steel Industries Ltd (MSIL) is having a low net profit ratio in all the five years and it is not good for the company. The company faced a low ratio in 2021 which is 0.21%.
- Tata Steel Ltd has the highest operating profit ratio of 39.62% in 2022 and in 2021 it was 32.23%. Jindal Steel Ltd maintained a moderate ratio of 30.41%. And Mahamaya Steel Ltd has very low operating ratio when compared to other companies.
- Mahamaya Steel Industries Ltd has the highest debt equity ratio of 1.46 in 2018. JSW Steel Ltd has a moderate ratio in 2020 which is 0.94. Kalyani Steel Industries Ltd has very poor debt equity ratio of 0.14 in 2018.

- Mahamaya Steel Industries Ltd has the highest fixed asset turnover ratio of 2.81 during the five years. And the highest ratio indicates the better utilization of fixed assets. Jindal Steel Ltd has the lowest fixed asset turnover ratio of 0.37 in 2018 and it indicates the underutilisation of fixed assets. Kalyani Steels Ltd. is maintaining moderate fixed asset turnover ratio in all years which is also good for the company.
- Kalyani Steels Ltd has the highest inventory turnover ratio of 12.42 in 2019 and hence it is an indication of good inventory management. Jindal Steels Ltd has the lowest inventory turnover ratio which is 0.38 in 2018 and it indicates that inventories are lying in stock for a long time. Mahamaya Steel Industries Ltd. is maintaining moderate fixed asset turnover ratio in all years which is also good for the company.
- Mahamaya Steel Industries Ltd (MSIL) is having a low gross profit ratio in all the five years and it is not good for the company. A good ratio will enhance the production or trading operations.
- The Mahamaya Steel Industries Ltd has to maintain the same current ratio in the following year. Since it has growth and development in its business. It should not be lost its control in the business.
- Operating ratio of Mahamaya Steel Industries Ltd is decreasing in every year. It has to plan its business to increase its gross profit in future. The company has to increase its business operation to increase its gross profit.
- The Kalyani Steels Ltd, Jindal Steel Ltd must maintain idle debt equity ratio.

Suggestions

- Mahamaya Steel Industries Ltd (MSIL) has to maintain a good EPS ratio. Its EPS has been decreasing every year. EPS is a good measure of profitability and it will help the investors to take decisions on investment.
- The Tata Steel Ltd. has to maintain idle current ratio in every year since it has fluctuations in the 5 years. Current ratio is the measure of the ability of a firm to pay its current liabilities out of current assets.
- Steel Authority of India (SAIL) Ltd. has to maintain adequate level of liquid ratio. The liquid ratio is below 1 in every year.
- Jindal Steel Ltd has the lowest fixed asset turnover ratio. It must maintain adequate fixed asset value in its total assets.
- Tata Steel Ltd is having a low inventory turnover ratio. So the should focus to maintain an adequate level of inventories.
- The net profit of Mahamaya Steel Industries Ltd the has been going decreasingly. It has to follow strict financial implications and strategies to increase its net profit.

Conclusion

After analyzing the financial statements of selected Steel companies in India during the five financial

years, it is clear that the financial position of the companies is in fluctuation. We can say that there should be an efficient financial management system in the organizations. It should overcome the adverse condition and minimize its losses and protect firm from facing the decreasing condition of liquidity. In tomorrow's economy the world will belong to those who are open to creative, imaginative and flexible to changes, having open mindless, strength of taking risk and an innovative spirit. These entire characteristics can lead the company on a successful path.

However, the management needs to focus more on the net profit and go for increase its revenue. Because net profits of most of the companies are fluctuating. So, majority of the companies has to maintain adequate level of net profit as it measures the overall profitability. Based on this study the major findings are that from the overall finance point of view, companies are performing to a very high degree level of achievement. This study indicates that in order to improve further the overall performance of company the management must take all possible steps to review and modify various policies, cash budgets, financial status by using sound information management system. This will enable the management to have a close control over the various operations.