TEST Engineering & Management

November-December 2019
ISSN: 0193-4120 Page No. 6233 - 6236

"Research and Assessment of Profitability and Liquidity Position of Selected Iron and Steel Firms in India"

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Article Info
Volume 81
Page Number: 6233 - 6236
Publication Issue:
November-December 2019

Article History
Article Received: *5 March 2019*
Revised: *18 May 2019*
Accepted: *24 September 2019*
Publication: *28 December 2019*

Abstract

This paper has documented the analysis and assessment of "Profitability and Liquidity position of selected Iron and Steel firms in India". The data have been collected from the Balance sheet and Profit & Loss A/C of the selected Companies as a secondary data. The financial tools used under the study are ratio analysis with solvency and profitability ratios. It helps is knowing the present position of current assets, fixed assets, current liabilities and Non-current liabilities of the Industry. In this study Profitability ratios serves as overall measures of the effectiveness of the Industry's management. Profitability ratio includes the net profit ratio, return on total assets, operating profit margin, and income return on investment.

It measures the amount by which an Industry's revenue exceeds its relevant expenses. The profit of a business is the difference between its revenue and its cost. Every stakeholder has interest in the liquidity position of a company. Thus, a company needs to maintain adequate liquidity so that liquidity greatly affects profits of which some portion that will be divided to shareholders. Liquidity and profitability are closely related because one increases the other decreases.

Key words: *Assessment, Liquidity, Profitability, Revenue, Iron & Steel Industry, Stakeholders.*

I. INTRODUCTION

A company is required to maintain a balance between liquidity and profitability for conducting its day to day operations. Liquidity is a precondition to ensure that firms are able to meet its short-term obligations. The 'liquidity position' of a company is measured based on the 'current ratio' and the 'quick ratio'. The current ratio establishes the relationship between current assets and current liabilities. Normally, a high current ratio is considered to be an indicator of the firm's ability to promptly meet its short term liabilities.

Profitability is a measure of the amount by which a company's revenues exceeds its relevant expenses. Profitability ratios are used to evaluate the management's ability to create earnings from revenue-generating bases within the company. The 'profitability position' of a company is measured using the 'gross profit margin' and the 'net profit margin'

The researcher selected the following Iron and Steel firms according to their production capacity.

- Tata Steel Limited (TSL)
- Steel Authority of India Limited (SAIL)
- JSW Steel Limited (JSWSL)
- Jindal Steel and Power Limited (JSPL)
- Steel Exchange of India Limited (SEIL)

II. OBJECTIVES

- To analyze the Profitability and liquidity position of the Industry.
- To know the credibility of the Industry
- To analyze the Profit trend of selected Iron and Steel firms
- To study the impact of liquidity on profitability of the companies
- To make suggestions for the improvement of financial soundness

III. RESEARCH METHODLOGY

Research Design

The methodology used in the study is analytical and descriptive in nature where the researcher has to use facts (or) information already and study the characteristic of a particular group respectively and there by analyze to make a critical evaluation of the study.

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Sources Of Data

The researcher is primarily based on secondary data, with addition information gathered from the finance department. The main sources are company's previous year's annual reports and schedules.

Secondary Data

The secondary data has been collected from the Balance sheets and Profit & Loss A/C of the selected Iron and Steel firms.

Period Of The Study

To study the liquidity and profitability of any industry in a true sense, a longer time -span of the past data is required, in order to have a well - balanced and undisputed findings. Taking this reality into consideration, the researcher has chosen to analyze the financial statements, under liquidity and profitability parameters, from the year 2013 - 14 to the year 2017 - 18, that is, 5 years.

Tools Used For Analysis Of Data

The tool used for analyzing the financial position of the company in Ratio analysis

DATA ANALYSIS AND INTERPRETATION

<table>
<tr><th>Table No.</th><th>Ratio (in Times)</th><th>Inference</th></tr>
<tr><td>1</td><td>Current Ratio (in Times)
<table>
<tr><th>Year / Company</th><th>TSL</th><th>SAIL</th><th>JSWSL</th><th>JSPL</th><th>SEIL</th></tr>
<tr><td>2013-14</td><td>0.61</td><td>0.95</td><td>0.73</td><td>0.76</td><td>1.07</td></tr>
<tr><td>2014-15</td><td>0.71</td><td>0.83</td><td>0.93</td><td>0.88</td><td>1.13</td></tr>
<tr><td>2015-16</td><td>0.68</td><td>0.63</td><td>0.62</td><td>0.58</td><td>1.06</td></tr>
<tr><td>2016-17</td><td>0.87</td><td>0.55</td><td>0.68</td><td>0.61</td><td>0.84</td></tr>
<tr><td>2017-18</td><td>1.35</td><td>0.68</td><td>0.76</td><td>0.62</td><td>0.67</td></tr>
</table></td><td>The current ratio of TSL was less than the standard norm of 2:1 in all the years. This indicates that current assets management was not up to the mark in most of the years under study. In SAIL, the current assets management was not at all satisfactory in all the years, as ratio was not maintained at the level of two. In JSWSL, the ratio of current assets to current liabilities in all the years shows an unsatisfactory trend, because, in none of the years, the current ratio touches the standard norm 2:1.But, the current ratio shows more consistency, as revealed by co-efficient of variation. There was a little positive growth in current ratio over the years. In JSPL, the current ratio did not satisfy the standard norm of 2:1 thorough the years. The results of current ratio suggest that there was a little inconsistency in maintaining current ratio. In SEIL, the trend of current ratio indicates that the firm has not been maintaining current ratio to the standard in all the years of the study.</td></tr>
<tr><td>2</td><td>Quick Ratio (in Times)
<table>
<tr><th>Year / Company</th><th>TSL</th><th>SAIL</th><th>JSWSL</th><th>JSPL</th><th>SEIL</th></tr>
<tr><td>2013-14</td><td>0.29</td><td>0.41</td><td>0.43</td><td>0.53</td><td>0.40</td></tr>
<tr><td>2014-15</td><td>0.23</td><td>0.31</td><td>0.51</td><td>0.60</td><td>0.48</td></tr>
<tr><td>2015-16</td><td>0.35</td><td>0.25</td><td>0.31</td><td>0.43</td><td>0.43</td></tr>
<tr><td>2016-17</td><td>0.43</td><td>0.21</td><td>0.33</td><td>0.48</td><td>0.28</td></tr>
<tr><td>2017-18</td><td>0.92</td><td>0.29</td><td>0.36</td><td>0.42</td><td>0.19</td></tr>
</table></td><td>The quick ratio of selected sample firms has been indicated in Table 2. The ratio of TSL was not good in all the years, because the ratio was less than 1:1 in these years. The quick ratio of SAIL was also fall short of standard norm in all the years. SAIL shows consistency the maintaining quick assets and there was a negative growth rate in respect of these assets over the years of the study. In JSWSL, the quick ratio was not satisfactory in all the years under study. In JSPL, the quick ratio was below the standard quick ratio of 1:1 in all the years. In SEIL also the quick ratio was not found to be good in all the years.</td></tr>
<tr><td>3</td><td>Absolute Liquid Ratio (in Times)
<table>
<tr><th>Year / Company</th><th>TSL</th><th>SAIL</th><th>JSWSL</th><th>JSPL</th><th>SEIL</th></tr>
<tr><td>2013-14</td><td>0.05</td><td>0.10</td><td>0.02</td><td>0.04</td><td>0.05</td></tr>
<tr><td>2014-15</td><td>0.03</td><td>0.07</td><td>0.09</td><td>0.02</td><td>0.07</td></tr>
<tr><td>2015-16</td><td>0.05</td><td>0.01</td><td>0.03</td><td>0.02</td><td>0.08</td></tr>
<tr><td>2016-17</td><td>0.04</td><td>0.01</td><td>0.04</td><td>0.01</td><td>0.01</td></tr>
</table></td><td>The information pertaining to absolute liquid ratio has been observed from the above Table 3. The absolute liquid ratio of TSL was so poor in all the years, except in the years, because the ratio was below the standard norm of 0.50:1. In SAIL, this ratio was so poor in 2015-16 to 2017-18. In all other years also, the ratio was not good. In JSWSL, the ratio was in poor light in all the years and the ratio was so poor. There was a consistency in maintaining absolute liquid assets. The firm reported a negative growth rate in respect absolute liquid assets over the years. In JSPL, this ratio was not found to be good in all the years. In SEIL also absolute liquid ratio</td></tr>
</table>

	2017-18 · 0.18 · 0.01 · 0.02 · 0.01 · 0.01	for all the years was not satisfactory. The average ratio was also not good and there was more deviation.
4	**Working Capital Turnover Ratio** *(in Times)*	The calculated working capital turnover ratio for the selected five Iron and Steel firms in India during the study are presented in above Table. The working capital turnover ratio of TSL was found to be high in 2017-18 (6.48 times) and very low in 2016-17 (-16.06 times). SAIL reported high of this ratio in the year 2016-17 (2.11 times) and low in the year 2013-14 (-31.88 times). This ratio was high in the year 2015-16 (-2.11 times) and low in the year 2014-15 (-32.69) in the case of JSWSL. JSPL recorded high ratio in the year 2015-16 (-1.81 times) and low in the year 2014-15 (-8.16 times). In SEIL, this ratio was more in 2015-16 (23.06 times) and very less in the year 2016-17 (-7.08).
5	**Table 5 - Operating Profit Ratio** *(in Percentage)*	The operating profit ratio of TSL was more in 2013-14 (27.95 percent), SAIL in 2013-14 (8.75 percent), JSWSL in 2014-15 (13.58 percent), JSPL in 2013-14 (18.60 percent) and SEIL in 2014-15 (10.70 percent). Comparatively, TSL (21.294 percent) earn more operating profits among the selected firms on an average and also this firm found less deviation in operating profit ratio over the years.
6	**Table 6 - Net Profit Ratio** - *(in Percentage)*	The net profit ratio reveals that the net profit was more in TSL in the year 2013-14 & 2014-15 (15.54 percent), SAIL reported with high net profit in 2013-14 (5.66 percent), JSWSL recorded more net profit in 2017-18 (7.25 percent). JSPL registered a high net profit ratio in 2015-16 (11.38 percent) and SEIL in 2013-14 (2.87 percent). An average net profit of TSL (11.68 percent) was more and in SAIL and SEIL it was negative, it was very low. The deviation of net profit was also less in the case of TSL. The firm also maintains consistency in earning net profits.
7	**Table 7 - Debt Ratio***(in Times)*	The result of debt ratio reveals that is, TSL (0.55 times) in 2016-17, SAIL (0.69 times) in 2017-18 and JSWSL (0.71 times) in 2015-16. In 2014-15 (0.73 times) JSPL reported more ratios. SEIL reported high ratio in 2017-18 (0.92 times). The average debt to total assets was more in SAIL (0.82 times) and less in TSL (0.45 times). JSWSL shows more deviation in debt to total assets.

Year / Company	TSL	SAIL	JSWSL	JSPL	SEIL
2017-18	0.18	0.01	0.02	0.01	0.01

Working Capital Turnover Ratio *(in Times)*

Year / Company	TSL	SAIL	JSWSL	JSPL	SEIL
2013-14	-5.64	-31.88	-7.85	-3.40	21.68
2014-15	-8.68	-7.57	-32.69	-8.16	11.11
2015-16	-5.67	-2.65	-4.34	-1.81	23.06
2016-17	-16.06	-2.11	-6.20	-2.43	-7.08
2017-18	6.48	-4.18	-10.72	-2.87	-2.58

Table 5 - Operating Profit Ratio *(in Percentage)*

Year / Company	TSL	SAIL	JSWSL	JSPL	SEIL
2013-14	27.95	8.75	10.54	18.60	9.57
2014-15	25.31	8.63	13.58	10.61	10.70
2015-16	20.06	-12.22	-5.58	2.54	8.28
2016-17	17.01	-5.29	17.00	6.46	-0.11
2017-18	16.14	3.59	16.72	10.20	-7.77

Table 6 - Net Profit Ratio - *(in Percentage)*

Year / Company	TSL	SAIL	JSWSL	JSPL	SEIL
2013-14	15.54	5.66	3.00	8.95	2.87
2014-15	15.54	4.63	4.78	2.34	1.87
2015-16	12.96	-10.44	-9.75	11.38	0.45
2016-17	7.28	-6.45	6.93	7.35	-12.51
2017-18	7.12	-0.84	7.25	2.14	-16.70

Table 7 - Debt Ratio*(in Times)*

Year / Company	TSL	SAIL	JSWSL	JSPL	SEIL
2013-14	0.43	0.54	0.65	0.72	0.76
2014-15	0.40	0.56	0.66	0.73	0.80
2015-16	0.41	0.61	0.71	0.62	0.80
2016-17	0.53	0.66	0.70	0.64	0.83
2017-18	0.49	0.69	0.67	0.62	0.92

IV. FINDING& RESULTS

Current Ratio - To sum up, in all the firms, the current assets management was not satisfactory. Comparatively, SAIL fared better and JSWPL fared poor in maintaining current assets to current liabilities.

Quick Ratio - To sum up, the quick ratio of all selected firms under study was not commendable. Comparatively, the quick ratio position of TSL was good, followed by SAIL, JSPL, SEIL and JSWSL respectively.

Absolute Liquid Ratio

To sum up, the absolute liquid ratio of all the selected firms were not found to be satisfactory. But, comparatively SAIL stood first, followed by TSL, JSWSL, SEIL and JSPL on the yard stick of average ratio.

Working Capital Turnover Ratio

To sum up, the working capital turnover ratio of all the selected firms was found to be very poor. This means that all the firms failed in utilizing working capital efficiently in relation to sales. There was zero growth of this ratio in TSL, SAIL, JSWSL and JSPL during the period of study.

Operating Profit Ratio

TSL was relatively more consistent in earning in operating profits over the years. But, none of the selected firms shows a growth operating profits over the years. In later part of the years, SAIL, JSWSL and SEIL reported operating losses on few occasions.

Net Profit Ratio

No selected firm is registered a positive growth in net profit generation over the years. In SAIL, JSWSL, JSPL and SEIL, there was net loss in some of the years after 2014-15.

Debt Ratio

JSPL comparatively maintains debt to total assets consistently over the years. But, none of the firms reported growth in debt in relation to the total assets, over the years except SEIL.

V. SUGGESTIONS

On the basis of findings of the above study, the researcher presents the following suggestions which are notable. If these suggestions might taken care of, will undoubtedly improve the liquidity and the profitability of selected Iron and Steel firms in India.

1. JSPL and SEIL should pay attention to the current assets management, in such a manner, that the current assets always exceed current liabilities. To ensure this, these firms outline sensible credit policies and get attractive credit terms from the suppliers.
2. The projection in the growth of inventory of SEIL is less. So, this firm must valve the new markets to entice more customers in order to boost its production and sales.
3. The debt content, in relation to the total assets of JSWSL, has to be minimized, so that its profitability improved.
4. SAIL has to resort to effective cost cutting strategies to have more operating profits.
5. The financial fitness of all the selected firms should be enhanced through sound working capital management, more retained earnings, more sales and more operating profits. These measures will ultimately help the firms in increasing their market value of equity.

VI. CONCLUSION

Liquidity plays a vital role in survival of a business. Some describe it as solvency but it would be better if the term 'solvency' is reserved for "ability to survive in the long run. Selected companies should always keep itself in an adequate state of liquidity by keeping adequate cash, marketable securities and good trade debtors. The selected company’s performance is said to be satisfactory. This study reveals the findings and recommendations which would be useful for the development and improvement of the selected Iron and Steel firms in India.

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