

A Case Study on Financial Performance of Tata Steel Limited

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ABSTRACT

Measurement of financial position is very important aspect to know the current financial situation of the company. This study is used to assess the financial position of the Tata Steel Company because it is major steel producing company among other companies in the world. It is an empirical study and it used secondary data which is available in company website. The study used data from financial year 2011-12 to 2015-16. For analysis the paper used simple percentage and applicable ratios are used. The findings and suggestions are given in the end of the paper.

Key words: Empirical, Financial, Percentage, Ratios, Steel Producing.

INTRODUCTION

An industry plays a vital role in any country since it is backbone of the economy; the economic development is based on the industrial development. Every new steel product contains recycled steel, which makes sustainable growth of steel desirable. Normally, the growth in steel is directly related to GDP. The steel industry's fortunes are tightly linked to the overall performance of the economy, as consumption has strong correlation with growth in GDP.

REVIEW OF LITERATURE

S. KANDASAMY AND M. P. MAHESH (2011) in their article analyzed the liquidity and profitability of SAIL. The study tested the liquidity and profitability through the spearman's rank correlation analyses. They found that the company maintains overall control; the liquidity and profitability positions and the company's techniques adopted for liquidity assets management is satisfactory.

S. KANDASAMY AND M. P. MAHESH (2011) in their article analyzed the financial health of SAIL through Z score analysis. The Z score analysis is used to predict the corporate difficulties. The Z score model incorporates five weighted financial ratios such as the ratio of working capital to total assets, the ratio of retained earnings to total assets, EBIT to total assets, market value of equity to total debt and net sales to net assets. The profitability affected due to increase in all major elements of the Z-score. The cost component of the company increased but low overall borrowing strengthen the company to mobilize the recourses while keeping the

leverage at managing level so it concludes that, the financial health shown by Z score analysis during that period reveals better management of the solvency position of the company.

R. Sathishkumar study used only the secondary data to attain the objectives of the study. The data take from 15 financial year annual reports of Tata Steel Limited from 2000-01 to 2014-15. To analyze the profitability statement were Simple Percentage Analysis and Ratios are used in the present study. Profitability of Tata Steel (stand-alone) is at the appreciable level. Even then, if it takes some steps by generating internal sources the profitability position will be increased more than the present study.

STATEMENT OF THE PROBLEM

The Indian Steel industry needs large investment and suffers from paucity of capital. Many of the public sector undertaking units integrated steel plants with the help of foreign aid. The Steel Industry is facing high cost and limited availability of coking coal; low labour productivity; inefficient parameters such as energy consumption; poor infrastructure including transport and electricity supply. Lack of modern technological and capital inputs and weak infrastructural facilities lead to a process of steel making that is more time consuming, expensive yielding inferior variety of goods. Such a situation forces to import better quality steel from abroad.

Tata Steel is one of the best steel units and occupies 11th position among the steel companies in the world, having subsidiaries and joint ventures throughout the world. Surely, unique problems of Indian steel industry namely high conversion cost, underutilization of installed capacity, limited availability of coking coal, low productivity may have some influence in Tata Steel and that may be reflected in its financial position. In this context, the researcher has taken Tata Steel Limited as a study unit to study its financial position.

OBJECTIVES OF THE STUDY

The main objective of the study is to measure the financial position of the Tata Steel Limited. The measurement is taken in many aspects. The financial statements are analysed through simple percentage and ratios which help to make the researcher to take correct decision about the company's financial position. The financial statement (balance sheet and profitability) components are well analysed in the study period to offer correct conclusion and suggestions. The statistical tool such as correlation is used to measure the relationship between the components of financial statement.

SCOPE AND PERIOD OF THE STUDY

This study has been confined to Tata Steel Limited (Stand-alone) only. Subsidiary companies of Tata Steel have been excluded from this the study. The study covers 5 financial years from 2011-12 to 2015-16 to make measure the financial position that are deemed quiet sufficient.

METHODOLOGY

The study is purely based on secondary data. Data relating to Tata Steel Limited have been collected through company websites, capital line, Annual Reports of Tata Steel, Journals, Books and Magazines. Detailed financial statement analyses were made in Tata Steel (Standalone) company by adopting empirical study method. Ratio analysis, Percentage analysis and ratio analysis were applied to measure the financial position of the company.

LIMITATIONS OF THE STUDY

1. Reliability of the results of the study is purely based on the reliability of the secondary data.
2. The study has not covered the subsidiaries and foreign companies of the Tata Steel Limited.
3. The study does not cover any non-financial data (qualitative) which may have some impact on financial performance on the whole.
4. The suggestions will be applicable only to Stand-alone Company of Tata Steel Limited.

ANALYSIS AND INTERPRETATION OF DATA

TABLE – 1: TREND PERCENTAGE OF BALANCE SHEET OF TATA STEEL LIMITED (STANDALONE)

| PARTICULARS | 2011 -12 | 2012 - 13 | 2013 – 14 | 2014 - 15 | 2015 - 16 |
|----------------------------------|-----------------|------------------|------------------|------------------|------------------|
| Equity Share Capital | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Reserves & Surplus | 100.00 | 105.01 | 116.51 | 127.19 | 134.57 |
| Secured Loans | 100.00 | 102.88 | 105.01 | 107.57 | 110.10 |
| Unsecured Loans | 100.00 | 110.75 | 111.40 | 111.28 | 135.26 |
| Net Block | 100.00 | 218.85 | 213.49 | 222.14 | 223.72 |
| Capital Work-in-progress | 100.00 | 54.32 | 115.26 | 143.45 | 168.03 |
| Investments | 100.00 | 100.27 | 108.71 | 105.73 | 112.72 |
| Current Assets, Loans & Advances | 100.00 | 96.63 | 73.60 | 76.97 | 76.37 |
| Current Liabilities & Provisions | 100.00 | 104.43 | 119.57 | 114.73 | 109.37 |

*Note - Figures Shows in Percentage

Source: Computed from Secondary Data of Tata Steel Ltd.

It is interpreted from the above table-1 that the trend percentage of various component of balance sheet of Tata Steel Limited. There are no changes in the equity share capital of the company in the study period. The reserve & surplus of the company shows that an increasing trend through which the company retained more profits to maximize the shareholders' fund instead of making fresh issues of shares. The percentage ranges from 105.01, 116.51, 127.19 and 132.96 respectively in 2012, 2013, 2014, 2015, and 2016. The company has two type of loan such as secured loans and unsecured loans. Both the loan (secured and unsecured) proportion in company shows an increasing trend. The company's net block (assets) shows an increasing trend and it

increased over a of study period as double time with base year. Investment of the company shows fluctuation trend and also current assets and loans & advances. The net current assets available as the working capital have high in the year 2013-14 as 729.99 per cent and lowest in the year 2012-13 as 207.96 per cent. The overall fund raised and fund utilisation of the company is good if the company made some alteration in the financial structure as well as components of assets structure.

**TABLE – 2: BALANCE SHEET RATIOS OF TATA STEEL LIMITED
(STANDALONE)**

| PARTICULARS | 2011 -12 | 2012 - 13 | 2013 – 14 | 2014 - 15 | 2015 - 16 |
|--------------------------------|-----------------|------------------|------------------|------------------|------------------|
| Debt-Equity Ratio | 0.45 | 0.47 | 0.43 | 0.39 | 0.44 |
| Proprietary Ratio | 0.55 | 0.54 | 0.55 | 0.58 | 0.57 |
| Capital Turnover Ratio | 0.44 | 0.47 | 0.48 | 0.45 | 0.38 |
| Total Assets Turnover Ratio | 0.35 | 0.37 | 0.38 | 0.36 | 0.31 |
| Fixed Assets Turnover Ratio | 0.55 | 0.51 | 0.53 | 0.53 | 0.47 |
| Current Assets Turnover Ratio | 1.84 | 2.14 | 3.07 | 2.94 | 2.71 |
| Working Capital Turnover Ratio | -0.04 | -0.08 | -0.24 | -0.21 | -0.20 |

Source: Computed from annual Report of the Company

It is observed from the above table-2 that the debt-equity ratio of the company has fluctuating trend. The total debt to company's total equity recorded as 0.47 proportion in 2012-13 and 0.39 proportion in 2014-15 which means the company has 47 per cent and 39 per cent of debt in equity fund. The proprietary ratio of the company indicates that the proportion of total tangible assets to total shareholder funds of the company. It shows an average of 56 proportions to the company tangible assets and also it shows an increasing trend. A high proprietary ratio indicates that the company is well and the company is well growing in this aspect.

Capital turnover ratio is used to measure the company's efficiency and effectiveness of the operations. Lower ratio indicates lower profit and higher ratio shows higher profit. The capital turnover ratio ranges from 0.38 times to 0.48 times in 2015-16 and 2013-14 respectively. The total assets turnover ratio and fixed assets turnover ratio have fluctuating trend over the study period. The Total assets (current as well as fixed) to net sales range from 0.31 times in 2015-16 to 0.38 times in 2013-14. Utilization of assets of the company especially use of fixed assets is high in comparison with total assets and it is low due to current assets usage of the company.

Current asset turnover ratio indicated that the efficiency of the employment of the current assets. Current asset turnover ratio ranges from 1.84 in 2011-12 to 3.07 in 2013-14. It fluctuates during the study period. There is limited investment in current assets so it reflected in ratios. Working capital turnover ratio also measures the efficiency of the employment of the working capital. It indicates the number of times of the working capital is turned over in the course of a year. During the study period, the working capital investment is very low in the company so that the working capital turnover ratio shows negatively fluctuating trend from -0.04 to -0.24 in 2011-12 and 2013-14 respectively. Therefore the company has an inefficient in working capital management.

The study found that the increasing trend of company's sources of fund such as secure and unsecured amount of loans and reserves & surplus which resulted in increasing the application of fund component such as fixed assets of the company.

TABLE – 3: TEND PERCENTAGE OF PROFITABILITY STATEMENT OF TATA STEEL LIMITED (STANDALONE)

| Particulars | 2011 -12 | 2012 - 13 | 2013 - 14 | 2014 - 15 | 2015 - 16 |
|-------------------------|-----------------|------------------|------------------|------------------|------------------|
| Operating Income | 100.00 | 112.57 | 122.92 | 123.14 | 112.60 |
| Expenses | | | | | |
| Material Consumed | 100.00 | 123.93 | 128.77 | 143.93 | 136.74 |
| Manufacturing Expenses | 100.00 | 126.13 | 139.30 | 135.89 | 144.77 |
| Personnel Expenses | 100.00 | 118.42 | 120.54 | 151.02 | 141.93 |
| Administrative Expenses | 100.00 | 116.64 | 130.01 | 137.20 | 137.46 |
| Operating Profit | 100.00 | 96.44 | 111.10 | 86.76 | 62.51 |
| Other Recurring Income | 100.00 | 101.76 | 88.86 | 65.74 | 438.92 |
| Adjusted PBDIT | 100.00 | 96.82 | 109.51 | 85.26 | 89.37 |
| Financial Expenses | 100.00 | 97.47 | 94.55 | 102.62 | 75.84 |
| Depreciation | 100.00 | 142.46 | 167.50 | 173.49 | 167.89 |
| Adjusted PBT | 100.00 | 91.06 | 105.45 | 70.81 | 82.48 |
| Tax Charges | 100.00 | 87.75 | 104.44 | 65.48 | 38.77 |
| Adjusted PAT | 100.00 | 92.76 | 105.96 | 73.53 | 104.82 |
| Non Recurring Items | 100.00 | -132.00 | -27.74 | 370.02 | -309.69 |
| Reported Net Profit | 100.00 | 75.61 | 95.76 | 96.16 | 73.19 |
| Retained Earnings | 100.00 | 114.71 | 137.26 | 158.29 | 171.93 |

*Note - Figures Shows in Percentage

Source: Computed from Secondary Data of Tata Steel Ltd.

It is interpreted from the above table that the income from operation of the company shows an increasing trend except in the year 2015-16. The highest growth shows in the year 2014-15 and the year 2015-16 shows a decreases when compared with base year 2011-12. Material consumption, Manufacturing expenses, Personal expenses and Administrative expenses have fluctuated according to operation f the business. It is interesting to note that in the year 2015-16 even the operation of the company is less compared with previous year but the administrative expenses does not change. Operating income of the company is very pathetic conditions because it has not increases according to operating income instead of that it highly fluctuated.

The financial expenses highly fluctuated over a study period. The depreciation shows a highly increasing trend. Tax charges recorded in 2013-14 as 104.44 per cent and 38.77 per cent in 2015-16. In 2014-15, Non Recurring items highly increased as 370.02 per cent through which the company increases the reported profit. The reported profit of the company shows gradually an increasing trend except in the financial year 205-16 as 73.19 per cent. The retained earnings of the company shows highly increasing trend. It ranges from 114.71 per cent in 2012-13 to 171.93 per cent in 2015-16.

TABLE – 4: PROFITABILITY RATIOS OF TATA STEEL LIMITED (STANDALONE)

| PARTICULARS | 2011 -12 | 2012 - 13 | 2013 – 14 | 2014 - 15 | 2015 - 16 |
|-------------------------------|-----------------|------------------|------------------|------------------|------------------|
| Cost of Goods Sold Ratio | 34.44 | 38.03 | 36.58 | 39.87 | 42.24 |
| Administrative Expenses Ratio | 22.58 | 23.40 | 23.88 | 25.16 | 27.57 |
| Personal Expenses Ratio | 8.98 | 9.45 | 8.81 | 11.01 | 11.32 |
| Gross Profit Ratio | 65.56 | 61.97 | 63.42 | 60.13 | 57.76 |
| Operating Ratio | 66.00 | 70.87 | 69.27 | 76.05 | 81.13 |
| Operating Profit Ratio | 34.00 | 29.13 | 30.73 | 23.95 | 18.87 |
| Net Profit Ratio | 19.73 | 13.25 | 15.37 | 15.41 | 12.83 |
| Return on Capital Employed | 15.12 | 13.72 | 14.69 | 10.78 | 7.11 |
| Return on Shareholders' Fund | 12.73 | 9.17 | 10.49 | 9.66 | 6.95 |
| Return on Total Assets | 6.96 | 4.97 | 5.77 | 5.57 | 3.98 |

Source: Computed based on Secondary Data of Tata Steel Limited.

It is noted from the above table 4 that the various ratios are presented to understand the profitability performance of the company. The cost of goods sold ratio reflects about the company spend amount spent on purchasing the raw material used and other expenses relating to that, which shows an increasing trend except in the year 2013-14. The other expenses ratio which is administrative and personal expenses ratios show an increasing trend according to company performance. The gross profit ratio also is known as gross margin ratio. It is highly significant because it is used to measure the business earnings capacity. It is also essential to test of profitability of the company. The gross profit ratio of the company shows highly fluctuating trend according to material cost of the company. The high cost of material resulted in decrease in gross profit margin of the company. The ratio ranges from 60.13 per cent to 65.56.

The operating ratio shows the ability of the company operations. The higher operating ratio shows the lower operating profit and vice versa. The operating ratio of the company shows 66 per cent to 81.13 per cent. The net profit ratio is also called net profit to sales ratio. The profit margin is indicative of management's ability to operate the business with sufficient success. The ratio has highly fluctuated due to increased cost of non-operational expenses. The net profit ratio ranges from 12.83 per cent to 19.73 per cent. The return on capital employed is also called return on investment. The primary objective of making investments in any business is to obtain satisfactory return on capital invested. It indicates the percentage of return on capital employed in business. The return shows decreasing trend. The efficiency of the firm earning return on assets is not satisfactory level. It ranges from 15.12 per cent to 7.11 per cent. Return on shareholders' fund and return on total assets is not satisfactory level it shows decrease trend.

SUGGESTIONS AND CONCLUSION

Tata Steel Limited is a leading steel manufacturer company in the world. Tata Steel is one of the best steel industries and occupies 11th position among the steel companies in the world, having subsidiaries and joint ventures throughout the world. A high proprietary ratio indicates that

the company is well and the company is well growing in this aspect. Utilization of assets of the company especially use of fixed assets is high in comparison with total assets and it is low due to current assets usage of the company. Current asset turnover ratio fluctuates during the study period. There is limited investment in current assets so it reflected in ratios. Working capital investment is very low in the company so that the working capital turnover ratio negatively fluctuating trend from -0.04 to -0.24 in 2011-12 and 2013-14 respectively. Therefore the company has an inefficient in working capital management.

Operating income of the company is very pathetic conditions because it has not increased according to operating income instead of that it highly fluctuated. The reported profit of the company shows gradually increasing trend except in the financial year 2015-16 as 73.19 per cent. The cost of goods sold ratio reflects about the company spend amount on purchasing the raw material used and other expenses relating to that, which shows an increasing trend except in the year 2013-14. The high cost of material result in decrease the gross profit margin of the company. The ratio ranges from 60.13 per cent to 65.56. The net profit ratio is highly fluctuated due to increased cost of non-operational expenses. The net profit ratio ranges from 12.83 per cent to 19.73 per cent. Return on Capital Employed, Return on shareholders' fund and return on total assets are not in satisfactory level and showed decreasing trend.

It is suggested to the company that the loan amount used to purchase of assets is highly affect the profitability of the company in the way of payment of high interest cost. Due to large payment of interest cost the company reported profit to shareholders is very less sometimes the company's nonoperational items helps to increase the final profit and strength the financial position. So the company take necessary steps to minimize it, it will grow up further.

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