A Comparative Study on Financial Performance of Tata Steel Ltd and JSW Steels Ltd

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Abstract:**This study is conducted purely based on secondary data obtained through website of the specified private industry. By using the ratio analysis tool we can analyze the performance of both the steel industries in India and we can easily find out the strength and weakness of the companies and their position in the market. Different ratios are used in this study and particularly those which are related to the financial statement for this purpose balance sheet of year 2009-2014 of both the industries are used and from then ratios are calculated so according to which we can easily compare the company performance and tell which company grows faster and whose position is better than the other one. After comparing the financial position it is clear that position of Tata steels is much better than the Jindal steels.**

Keywords: Balance sheet, Companies, Ratio analysis, Steel Companies.

I. INTRODUCTION

The steel sector in India is almost a century old, and exhibits significant economic importance due to rising demand by sectors such as infrastructure, real estate, and automobiles, in domestic as well as international markets. The level of per capita consumption of steel is an important determinant of the socio-economic development of the country.

The Indian steel industry is divided into primary and secondary sectors. The primary sector comprises a few large integrated steel providers producing billets, slabs and hot rolled coils. The secondary sector involves small units focused on the production of value-added products such as cold rolled coils, galvanized coils, angles, columns, beams and other re-rollers, and sponge iron units. Both sectors cater to different market segments.

The Indian steel industry has entered a new development stage since 2007–08 and is riding on the resurgent economy and the growing demand for steel. India's 33 per cent growth in steel production in the last five years was second only to China among the top five steel producing nations, according to data by World Steel Association (WSA).

India is the fourth largest producer of crude steel and the largest producer of soft iron in the world. Presently, the Indian steel industry employs around 500,000 people while the per capita consumption in 2013 stood at around 57.8 kilograms. However, these figures are expected to rise with increased industrialization throughout the country. China remained the world's largest crude steel producer in 2014 (823 mt) followed by Japan (110.7 mt), the USA (88.3 mt) and India (83.2 mt) at the 4th position.

II. CONCEPT OF WORKING CAPITAL ANALYSIS

From the financial management point of view, capital in broader sense can be divided into two main categories- fixed capital and working capital. Here I am going to study the concept of working capital. The term working capital generally is used in two senses –

'Gross working capital' which denotes total current asset and ***'Net working Capital'*** which denotes the excess of current assets over current liabilities.

Both the concepts have their own significance and relevance. In common parlance, working capital is that part of capital, which is in working or which is used to meet day-to-day expenses.

To understand the exact meaning of the term 'Working Capital', it will be appropriate to understand its two components – current assets and current liabilities. The current assets are those assets, which can be converted into cash within a short period of time, say not more than one year during the operating cycle of business or without affecting normal business operations. Current liabilities are such liabilities as are to be paid within the normal business cycle a within the course of an accounting year out of current assets.

A. Gross working Capital Concept:-

According to the gross concept, working capital means total of all the current assets of a business. It is also called gross working capital.

Gross working Capital = Total Current Assets

B. Net Working Capital Concepts:

The concepts of Net Working Capital refer to the excess of current assets over current liabilities. It indicates the surplus value of current assets. Since, all the current liabilities are met out of current assets and after meeting the current liabilities what remains in the enterprise is called net working capital.

Net working capital will exist only in that case when long-term funds, to some extent, are invested in current assets and comparatively less amount of short term funds are involved in current assets.

III. COMPONENTS OF WORKING CAPITAL

The working capital consists of two components current assets and current liabilities. Assets of a concern are of two types- Fixed assets and current assets: Fixed assets are to be in business on permanent basis and are not intended for sale whereas the current assets are for conversion into cash at the earliest. Similar is the case with liabilities, which may be long-term liabilities and current liabilities. Long-term liabilities are those maturing over a long period of time usually five or ten years whereas short-term liabilities are those maturing within a short period usually less than a year.

IV. CONCEPT OF PROFITABILITY ANALYSIS

The third part of financial performance analysis is profitability analysis. The analysis of profitability is mainly a test of earning capacity of business. Profit is the lifeblood of every business unit. It is also very essential for the survival of any business. The efficiency of management functioning is also determined on the basis of the profitability of business. Profit is also required for the long-term growth of the business.

The profitability analysis of selected units have been made while using various ratios such as net profit ratio, return on capital employed ratio and return on total asset ratio.

This analysis is restricted to the above mentioned ratio because the given data provides the information relating to these ratios only. At last it can be said that the profitability analysis depicts a clear and comparative position regarding the financial performance of the selected units.

V. OBJECTIVES OF STUDY

The present study "A comparative study on Financial Performance of TATA STEELS and JSW STEEL LTD." Has been designed to achieve the following objectives:-

1. To study the financial performance of Tata steel and Jindal steel.
2. To compare the financial performance of Tata steel and Jindal steel

VI. SCOPE OF THE STUDY

The present study is confined to the two leading units in steel industry namely JSW and
TATA STEEL LTD. The study covers a period of five years from 2009-10 to 2013-14. This period is enough to cover both the short and medium terms fluctuations and to set reliability.

VII. DATA COLLECTION

For completion of my study only secondary data has been used. The main sources are annual reports. Besides for framing conceptual framework, various books and published material in standard books and newspapers, Journals and websites has been used.

VIII. LIMITATIONS OF THE STUDY

To know the extent to which the study is reliable it is necessary to note the limitations under which the study has been completed. The following important limitations have been noted while conducting the present study:-

1) The main source of information is annual reports. They represent financial information/position on particular date. What happened between such two dates cannot easily be presumed or predicated.

2) The annual reports mostly contain quantitative and financial information and as regards to qualitative aspect of financial performance, my source was limited due to far away location of head offices of the selected units.

3) The financial performance covering a large period say 20 years or 30 years can give a much clear picture of management practices of financial performance. Our study covering a period of 5 years can touch only a part of the problem.

IX. RESEARCH METHODOLOGY

In this present study, an attempt has been made to evaluate and compare the financial performance of Tata steel and Jindal steel and both of the companies are related with the private sector. The study is purely based on secondary data and the details are collected through websites, magazines, and journals. The time period of study is five years 2009 to 2014. Ratio analysis was applied to analyze the performance of these companies.

X. FOLLOWING RATIOS ARE USED FOR THIS STUDY

1. Current Ratio.
2. Quick Ratio.
3. Inventory Turnover Ratio.
4. Fixed Assets Turnover Ratio.
5. Gross Profit Ratio.
6. Debt Equity Ratio.
7. Return on Capital Employed.
8. Dividend Payout Ratio Net profit.

XI. DATA ANALYSIS

1. Current Ratio

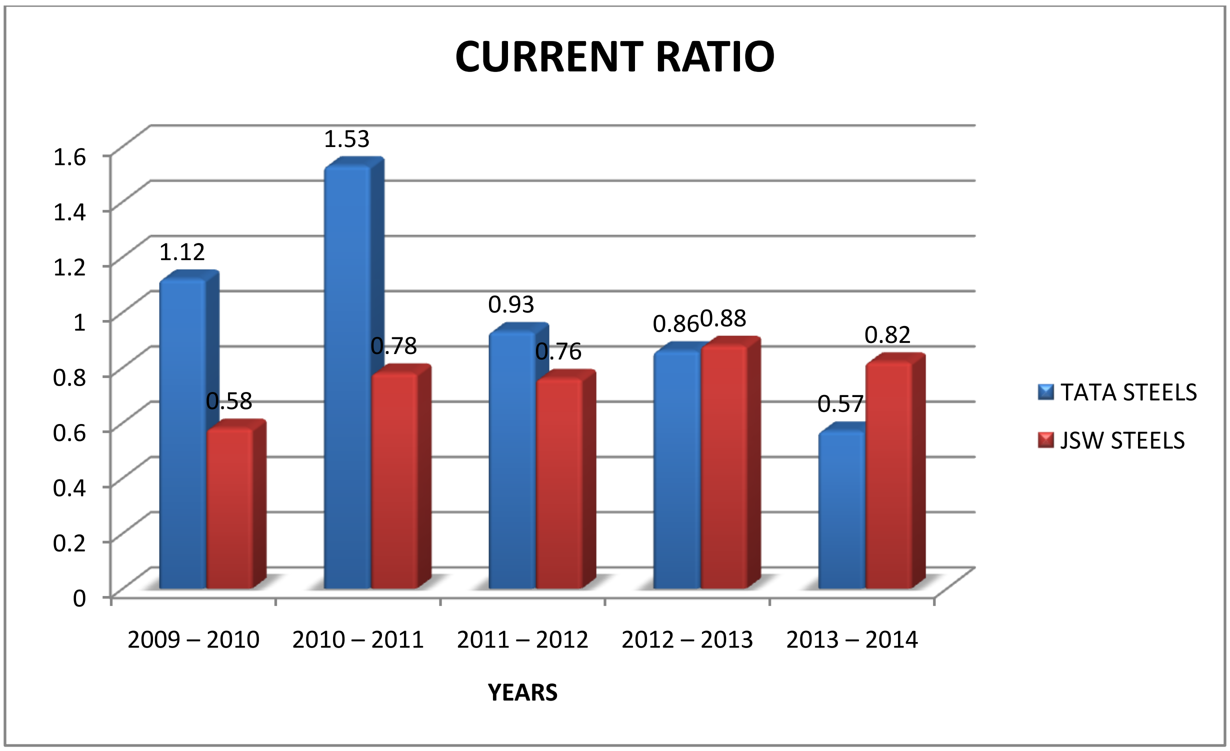
Current ratio may be defined as the relationship between quick or liquid asset and current liabilities. This is a measure of general liquidity & is most widely used to make analysis of short-turn financial position or liquidity of firm. It is calculated by dividing the total current assets by total current liabilities.

$$\text{Current Ratio} - \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

TABLE - 1

YEAR	TATA STEELS	JSW STEELS
2009 – 2010	1.12	0.58
2010 – 2011	1.53	0.78
2011 – 2012	0.93	0.76
2012 – 2013	0.86	0.88
2013 – 2014	0.57	0.82

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that Current ratio of Tata steel is increasing from the year 2009 to 2011.But a fall down in year 2012 to 2014 and highest in the year 2011. On the other hand the current ratio of Jindal steels fluctuating from the year 2009 to 2014 showcasing the both increasing and decreasing trend. It indicates the company's ability to meet the short term debts.

2. Quick Ratio

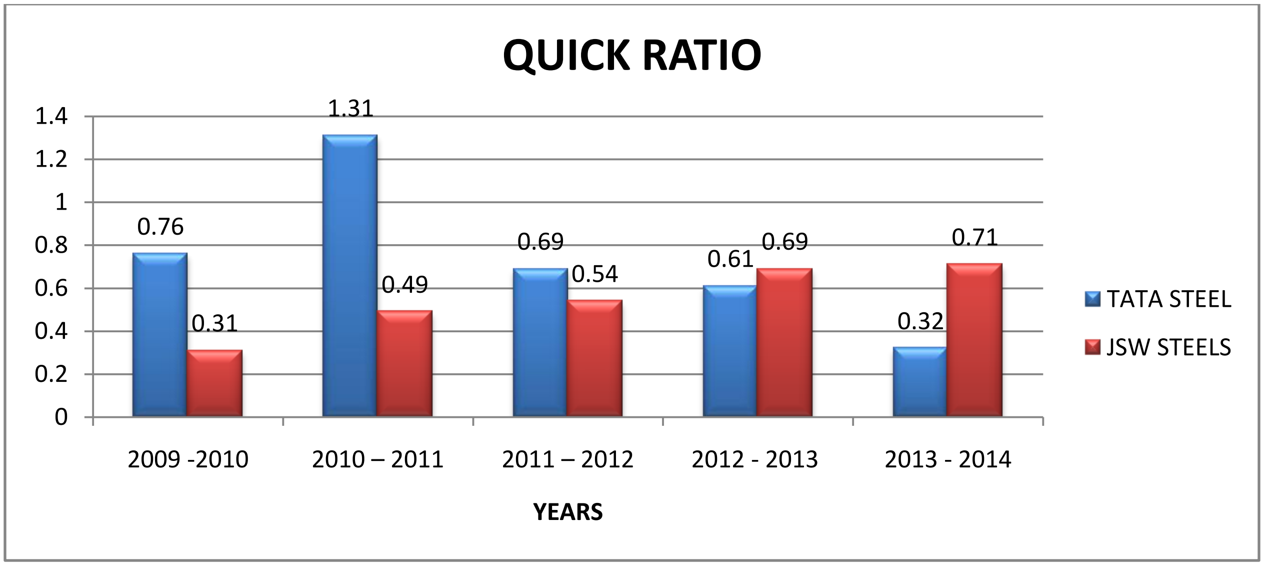
Quick ratio establishes relationship between quick or liquid assets & current liabilities. It is also known as acid test ratio. An asset is said to be liquid if it can be converted into case within short period of time without loss of value. The prepaid expenses and stock were excluded.

$$\text{Quick ratio} = \frac{\text{Quick asset}}{\text{Current Liabilities}}$$

TABLE- 2

YEAR	TATA STEEL	JSW STEELS
2009 -2010	0.76	0.31
2010 – 2011	1.31	0.49
2011 – 2012	0.69	0.54
2012 - 2013	0.61	0.69
2013 - 2014	0.32	0.71

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that quick ratio of Tata steel is increasing from the year 2009 to 2011.But a fall down in year 2012 to 2014 and highest in the year 2011. On the other hand the quick ratio of Jindal steels fluctuating from the year 2009 to 2014 in increasing and decreasing trend but an increase in the year 2013- 2014. It indicates the company's ability to meet the short term debts.

3. *Inventory Turnover Ratio*

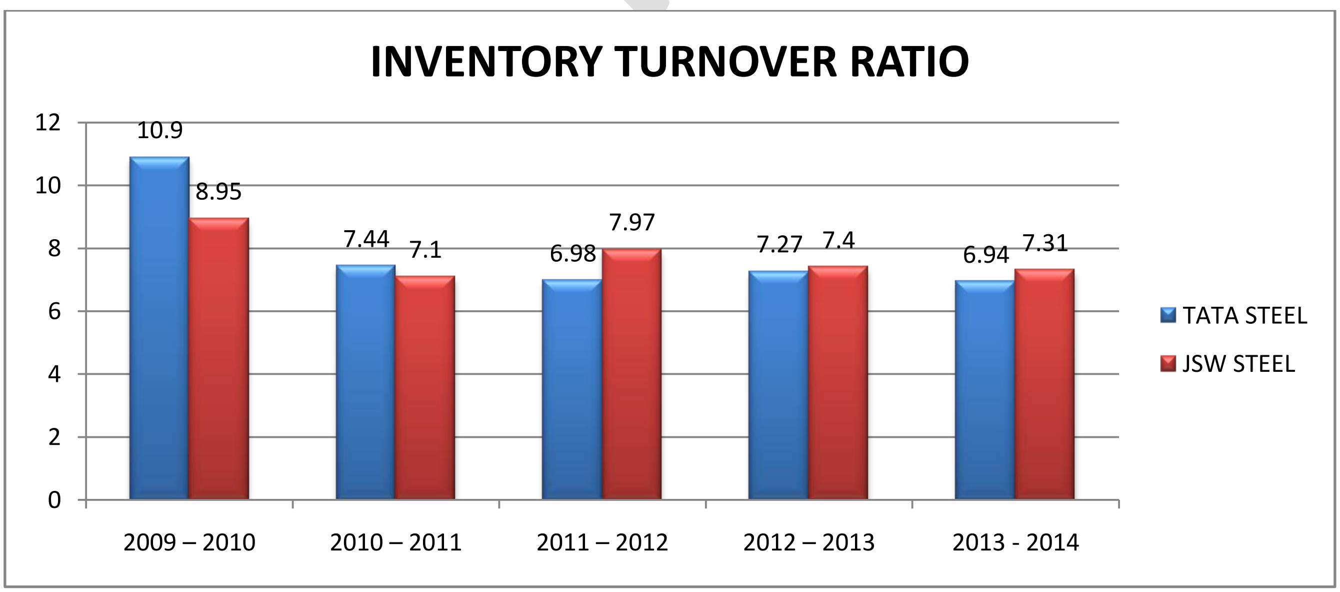
Inventory turnover ratio (ITR) is an activity ratio that evaluates the liquidity of the inventories of a company. It measures how many times the company has sold and replaced its inventory during a certain period. This ratio is computed by dividing the cost of goods sold by average inventory at cost.

$$\textbf{Inventory Turnover ratio} = \frac{\textbf{Cost of Goods}}{\textbf{Average inventory}}$$

TABLE - 3

YEAR	TATA STEEL	JSW STEEL
2009 – 2010	10.90	8.95
2010 – 2011	7.44	7.10
2011 – 2012	6.98	7.97
2012 – 2013	7.27	7.40
2013 - 2014	6.94	7.31

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that inventory turnover ratio of Tata steel is decreasing from the year 2010 to 2014 but an increasing trend only in the year 2009 - 2010. On the other hand the inventory turnover ratio of Jindal steels is fluctuating from the year 2010 to 2014.On the other hand increasing trend only in the year 2009 – 2010, and rest of the years decreasing trend. It indicates the company's ability to manage inventory levels.

4. *Fixed Assets Turnover Ratio*

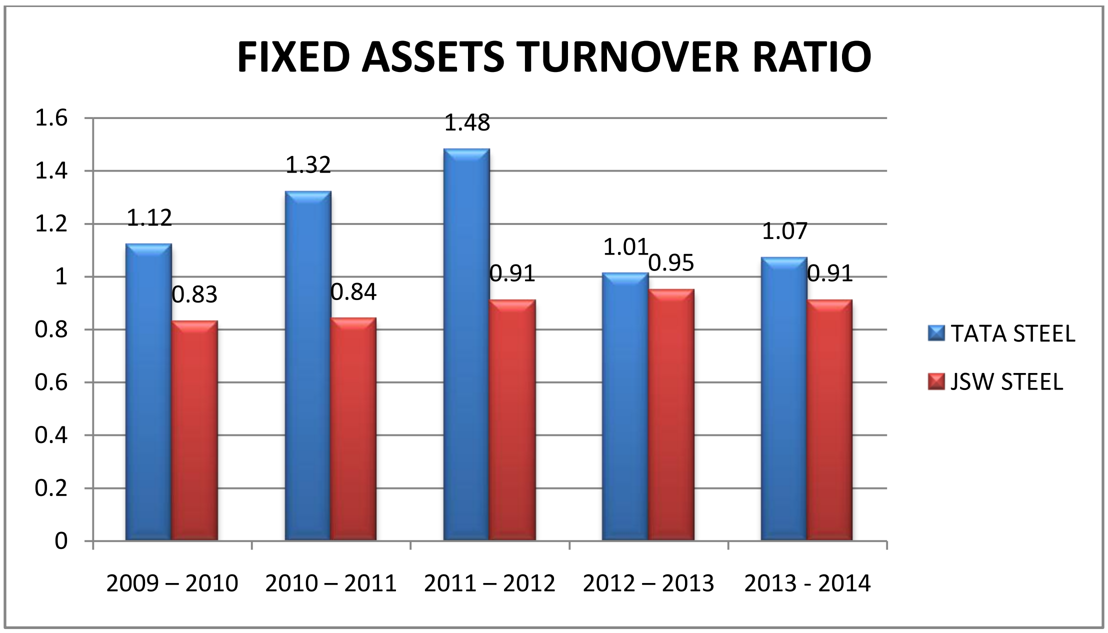
   Fixed assets turnover ratio (also known as sales to fixed assets ratio) is a commonly used activity ratio that measures the efficiency with which a company uses its fixed assets to generate its sales revenue. It is computed by dividing net sales by average fixed assets.

$$\text{Fixed assets turnover ratio} = \frac{\text{Net sales}}{\text{Average fixed assets}}$$

TABLE - 4

YEAR	TATA STEEL	JSW STEEL
2009 – 2010	**1.12**	**0.83**
2010 – 2011	**1.32**	**0.84**
2011 – 2012	**1.48**	**0.91**
2012 – 2013	**1.01**	**0.95**
2013 – 2014	**1.07**	**0.91**

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that Fixed assets turnover ratio of Tata steel is increasing from the year 2009 to 2012 but a decreasing trend in the year 2013 - 2014. On the other hand the fixed assets turnover ratio of Jindal steels fluctuating from the year 2010 to 2014. On the other hand increasing trend in the year 2012 – 2013, and rest of the years decreasing trend. It indicates the company's ability to utilize fixed assets levels.

5. *Debt equity ratio*

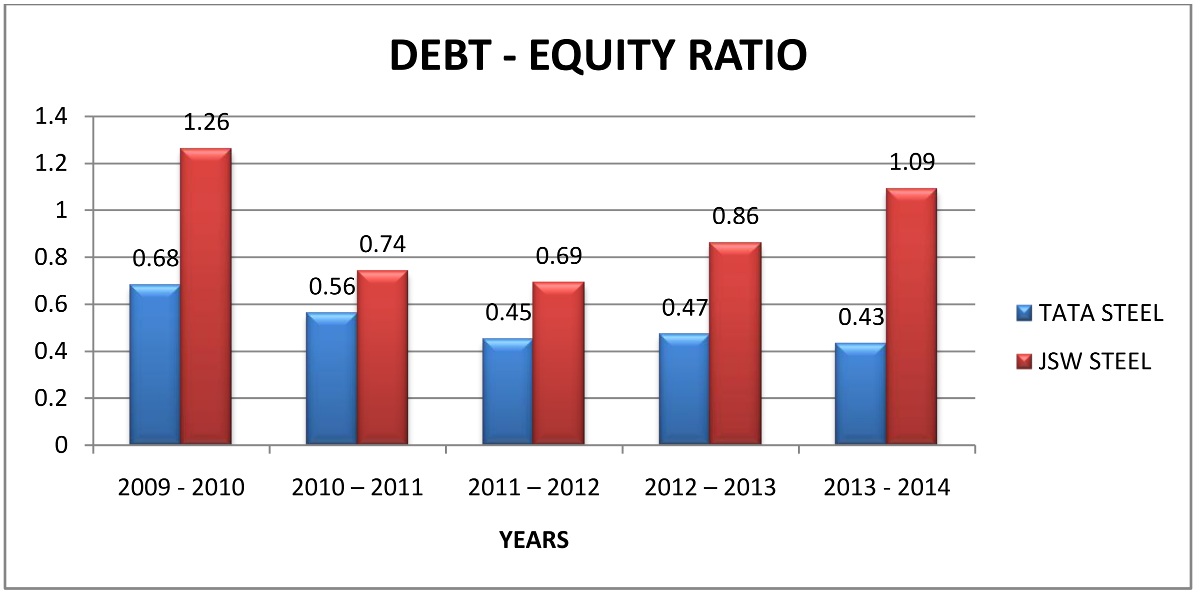
   Debt to equity ratio is a long term solvency ratio that indicates the soundness of long-term financial policies of the company. It shows the relation between the portion of assets provided by the stockholders and the portion of assets provided by creditors. It is calculated by dividing total liabilities by stockholder's equity. Debt to equity ratio is also known as "external-internal equity ratio."

$$\textbf{Debt - equity ratio} = \frac{\textbf{Total Liabilities}}{\textbf{Stockholders equity}}$$

Table - 5

YEAR	TATA STEEL	JSW STEEL
2009 – 2010	**0.68**	**1.26**
2010 – 2011	**0.56**	**0.74**
2011 – 2012	**0.45**	**0.69**
2012 – 2013	**0.47**	**0.86**
2013 – 2014	**0.43**	**1.09**

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that debt equity ratio of Tata steel is decreasing from the year 2009 to 2012 but fluctuating trend in the year 2013 - 2014. On the other hand the debt - equity ratio of Jindal steels fluctuating from the year 2010 to 2013.On the other hand increasing trend in the year 2012 – 2014, and rest of the years decreasing trend. It indicates the company's ability to utilize fixed assets levels. Debt-to-equity ratio (D/E) indicating the relative proportion of shareholders' equity and debt used to finance a company's assets.

6. *Gross Profit Ratio*
   Gross profit ratio (GP ratio) is a profitability ratio that shows the relationship between gross profit and total net sales revenue. It is a popular tool to evaluate the operational performance of the business. The ratio is computed by dividing the gross profit figure by net sales.

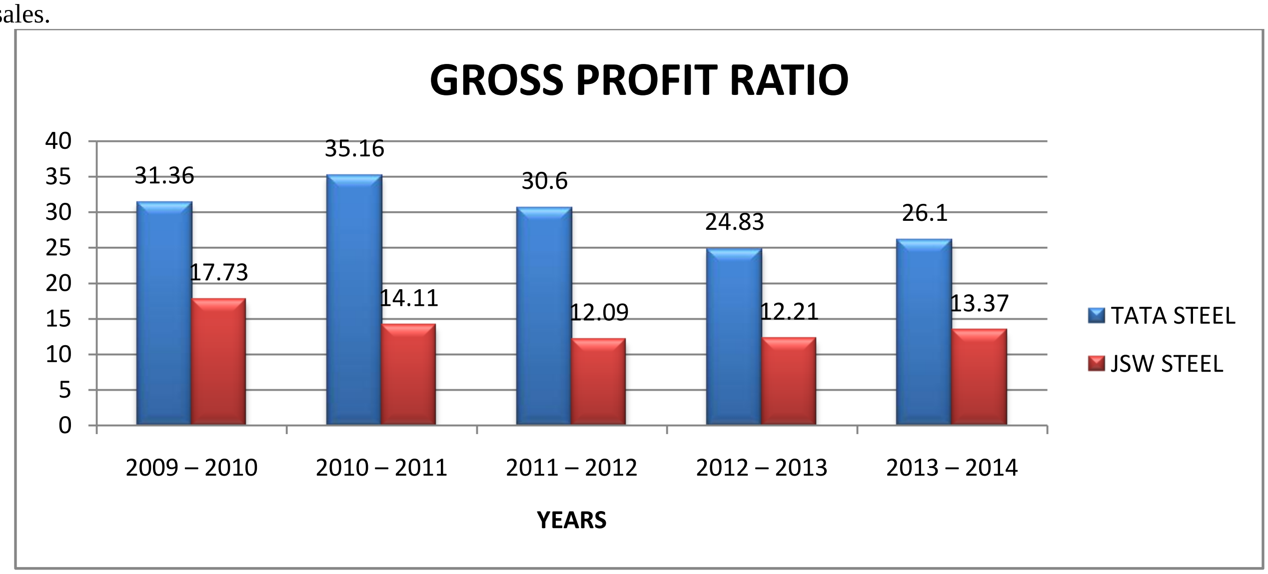
The following formula/equation is used to compute gross profit ratio:

$$\frac{\textbf{Gross Profit}}{\textbf{Net Sales}} \times 100$$

TABLE - 6

YEAR	TATA STEEL	JSW STEEL
2009 – 2010	**31.36**	**17.73**
2010 – 2011	**35.16**	**14.11**
2011 – 2012	**30.60**	**12.09**
2012 – 2013	**24.83**	**12.21**
2013 – 2014	**26.10**	**13.37**

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that gross profit ratio of Tata steel is increasing from the year 2009 to 2011 but decreasing trend in the year 2011 – 2014.On the other hand the gross profit ratio of Jindal steels fluctuating from the year 2010 to 2013.On the other hand increasing trend in the year 2012 – 2014, and rest of the years decreasing trend. It indicates the company's ability to meet its expenses.

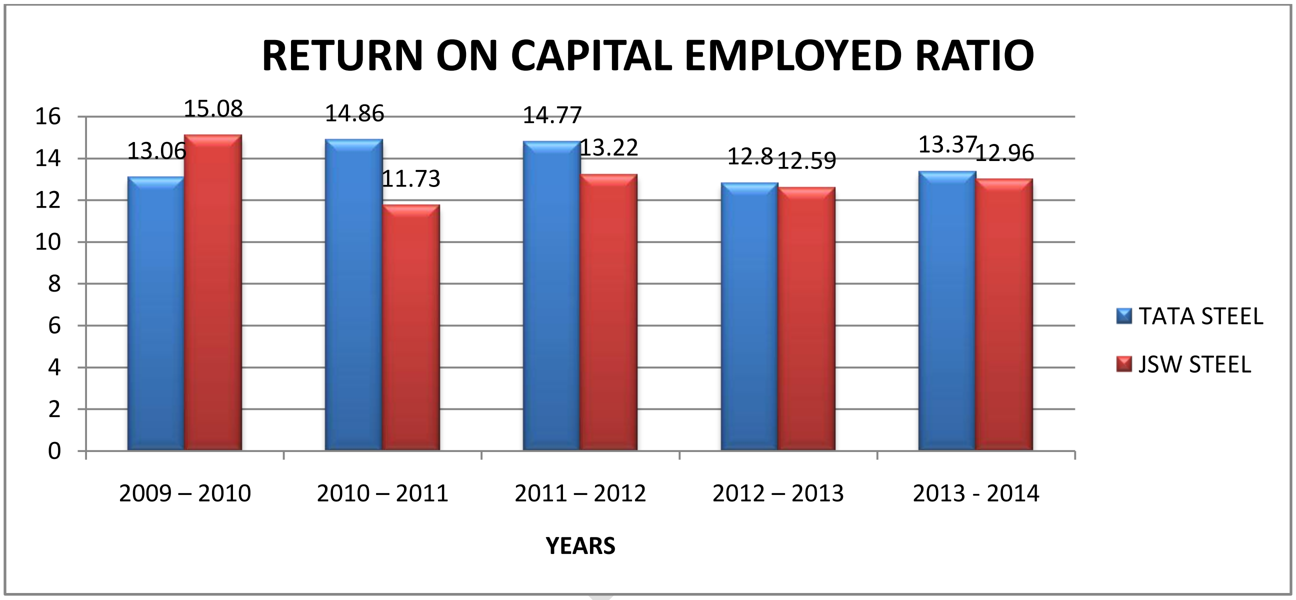
7. *Return On Capital Employed Ratio*
   Return on capital employed ratio is computed by dividing the net income before interest and tax by capital employed. It measures the success of a business in generating satisfactory profit on capital invested. The ratio is expressed in percentage.

$$\text{Return on capital employed ratio} = \frac{\text{Net income before interest and tax}}{\text{Capital employed}} \times 100$$

TABLE- 7

YEAR	TATA STEEL	JSW STEEL
2009 – 2010	**13.06**	**15.08**
2010 – 2011	**14.86**	**11.73**
2011 – 2012	**14.77**	**13.22**
2012 – 2013	**12.80**	**12.59**
2013 – 2014	**13.37**	**12.96**

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that return on capital employed ratio of Tata steel is increasing from the year 2009 to 2012 but decreasing trend in the year 2012 - 2013 and increasing in year 2013 - 2014. On the other hand the return on capital assets ratio of Jindal steels fluctuating from the year 2010 to 2013.On the other hand increasing trend in the year 2013 – 2014, and rest of the years decreasing trend. It indicates the company's ability to generate profits out of shareholders and creditors investments.

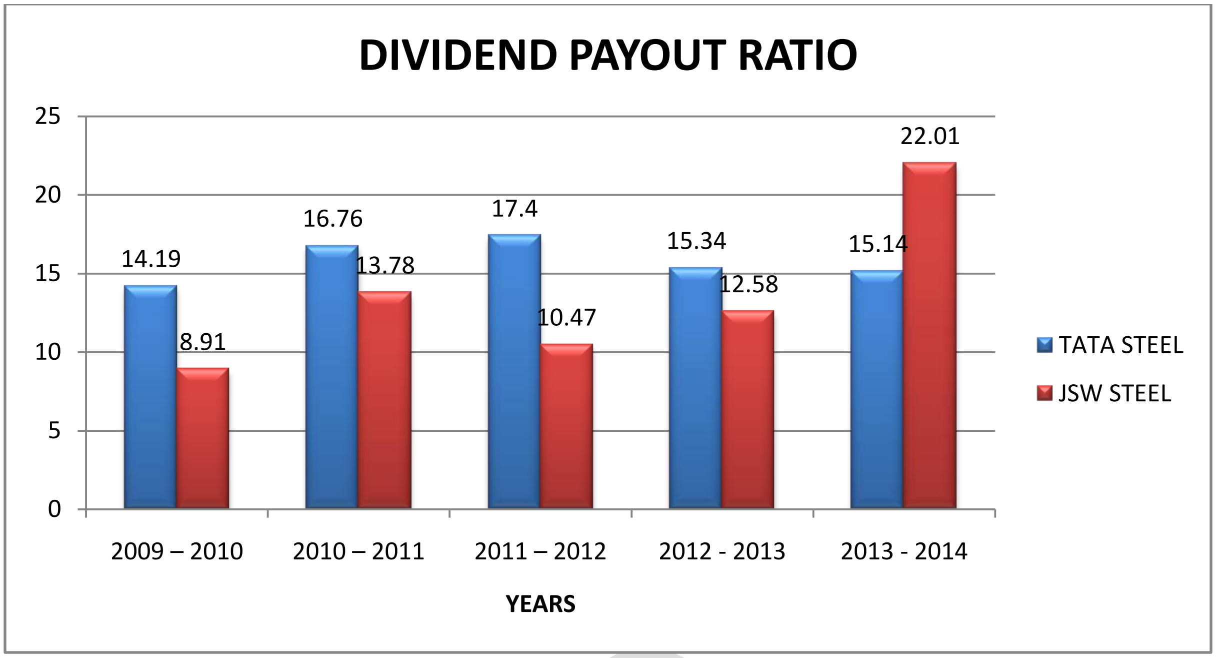
8. *Dividend Payout Ratio*
   Dividend payout ratio discloses what portion of the current earnings the company is paying to its stockholders in the form of dividend and what portion the company is ploughing back in the business for growth in future. It is computed by dividing the dividend per share by the earnings per share (EPS) for a specific period.

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

TABLE - 8

YEAR	TATA STEEL	JSW STEEL
2009 – 2010	**14.19**	**8.91**
2010 – 2011	**16.76**	**13.78**
2011 – 2012	**17.40**	**10.47**
2012 – 2013	**15.34**	**12.58**
2013 – 2014	**15.14**	**22.01**

Source - Dion Global Solutions Limited



Interpretation

From the above figure and table it is clear that dividend payout ratio of Tata steel is increasing from the year 2009 to 2012 but decreasing trend in the year 2012 -2014. On the other hand the dividend payout ratio of Jindal steels increasing from the year 2009 to 2012. On the other hand decreasing in the year 2011 – 2012, and rest of the years increasing trend. It indicates the company's ability to pay out dividend to its shareholders.

XII. 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. In present time greater importance is given to financial performance. So, here an attempt is made by me to compare the financial performance of the selected units i.e. TATA STEEL LTD. and JSW STEEL LTD. While analyzing the financial performance of the selected units, it can be concluded that TATA Steel is performing good in terms of Quick assets, better inventory management, management of fixed assets, gross profit, return on capital employed and dividend payout ratio. When compared with JSW steels. These factors plays important role in forming company's strategic and operational thinking. Efforts should constantly be made to improve the financial position up to next level of performance in order to make benchmark. This will yield greater efficiencies and improve investor's satisfaction.

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