



## **A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF SAIL AND TATA STEEL LTD**

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### **Abstract:**

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. Steel Authority of India and TATA STEEL LTD.

While analyzing the financial performance of the selected units, we include the analysis of working capital and analysis of profitability.



Key Words: *Financial Performance, Profitability Management, Working Capital Management*

## **A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF SAIL AND TATA STEEL LTD**

### **Introduction**

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. Steel Authority of India and TATA STEEL LTD.

While analyzing the financial performance of the selected units, we include the analysis of working capital and analysis of profitability.

### **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

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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.

**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

**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.

**Components of Working Capital:**

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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.

**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.

**Objectives of study:-**

The present study “A comparative study of Financial Performance of SAIL and TATA STEEL LTD.”, has been designed to achieve the following objectives:-

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- (1) To analyses and evaluate the overall working capital management in the selected units.
- (2) To analyses and evaluate the overall profitability in the selected units.
- (3) To analyses and evaluate the trends in financial performance of the selected units.

**Scope of the study:**

The present study is confined to the two leading units in steel industry namely SAIL and TATA STEEL LTD. The study covers a period of five years from 2007-08 to 2011-12. This period is enough to cover both the short and medium terms fluctuations and to set reliability.

**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 made use of.

**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:-

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- 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.

## Data Analysis

### Current Ratio:

One of important function of the financial manager is to maintain sufficient liquidity. Current ratio is an important criterion to test the liquidity and also the short term solvency. The ratio of 2:1 is considered as standard of current ratio.

**Table & Graph No.1: Current Ratio**

**(In Times)**

Year/Company	SAIL	TATA STEEL LTD.
2008	1.73	3.92
2009	1.82	0.97
2010	2.05	1.12
2011	1.97	1.82
2012	1.49	0.79

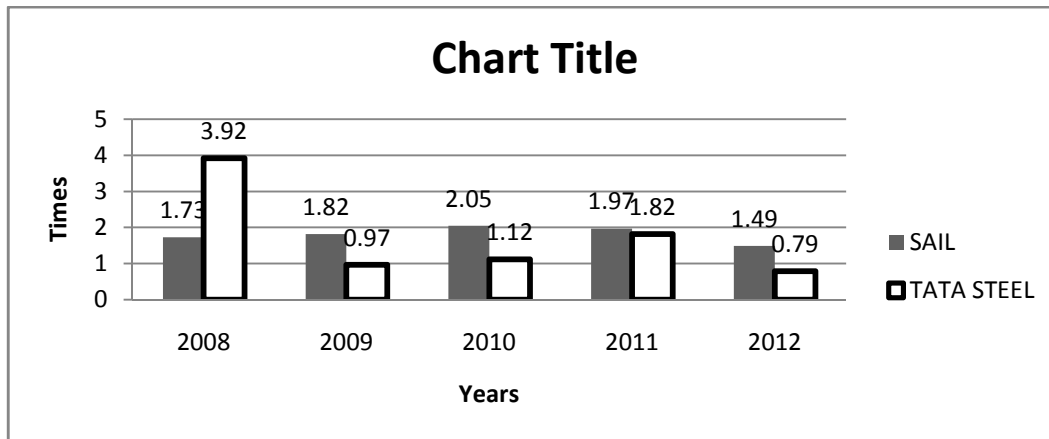


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(Source: Compile Personally from Annual Reports)

### INTERPRETATION

From the above table and graph it is clear that SAIL have 1.73 times current ratio in the year 2008. It became 2.05 times in the year 2010 but in the last year of the study i.e. in the 2012 the current ratio of SAIL is 1.49 times. On the other hand current ratio of TATA STEEL LTD. is 3.92 times in 2008 and 0.79 times in 2012. From the above it can be concluded that the financial position of SAIL is better than the TATA STEEL LTD. in terms of current ratio because TATA STEEL LTD. have more variations in current ratio as compare to SAIL.

### Quick Ratio:

This ratio also tests liquidity. But it is a more refined test of liquidity and solvency. This ratio takes into consideration the liquid assets only which are directly convertible into cash. The current assets like inventories which are two steps away from the cash are excluded. The quick ratio is computed by dividing liquid assets by current liabilities. A quick ratio of 1:1 is considered adequate.

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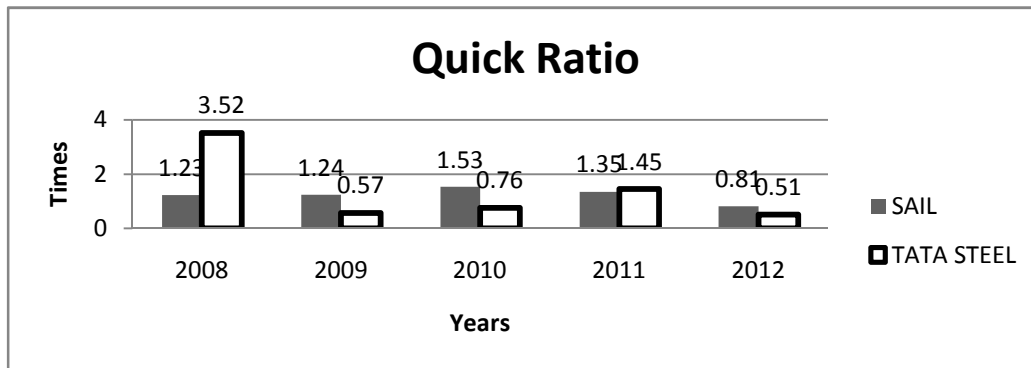


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**Table & GraphNo.2: Quick Ratio (In Times)**

Year/Company	SAIL	TATA STEEL LTD.
2008	1.23	3.52
2009	1.24	0.57
2010	1.53	0.76
2011	1.35	1.45
2012	0.81	0.51



(Source: Compile Personally from Annual Reports)

### INTERPRETATION

It is clear from the above table and graph it is clear that SAIL have 1.23 times quick ratio in the year 2008. It became 1.35 times 2011. But in the last year of the study i.e. in 2012 the quick ratio of SAIL is 0.81 times. This decrease only once time during the study period. On the other hand quick ratio of TATA STEEL LTD. is 3.52 times in 2008 and 0.51 times in 2012. From the above it can be concluded that the financial position of SAIL is better than the TATA STEEL LTD. in terms of quick ratio. TATA STEEL LTD. has more variations in quick ratio as compare to SAIL.



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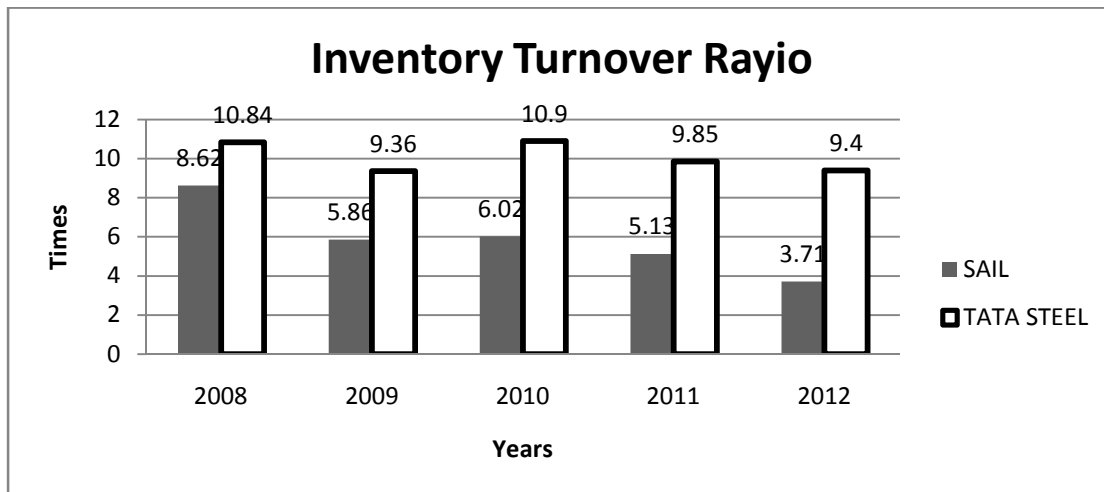
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### Inventory Turnover Ratio:

This ratio indicates whether stock has been efficiently used or not. A high ratio is considered better.

**Table & Graph No.3: Inventory Turnover Ratio (In Times)**

Year/Company	SAIL	TATA STEEL LTD.
2008	8.62	10.84
2009	5.86	9.36
2010	6.02	10.90
2011	5.13	9.85
2012	3.71	9.40



(Source: Compile Personally from Annual Reports)

### INTERPRETATION

This ratio indicates whether stock has been efficiently used or not. It shows the speed with the stock is rotated into sales or the number of times the stock is turned into sales during the year. Above chart & graph shows that inventory turnover ratio of SAIL is 8.62

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times in the year 2008 & 3.71 times in the year 2012 it is very low. On the other hand the TATA STEEL LTD. is 10.84 times in the year 2008 & the remaining year it is maximum the 9 times and the last year of the study i.e. 2012 this is 9.40 times .In the term of Inventory turnover ratio the TATA STEEL LTD.'S financial position is better than SAIL.

### Dividend per Share:

Dividend per share means how much dividend per share the company is paying to its shareholders.

**Table & Graph No.4: Dividend per Share Ratio**

**(In Rs.)**

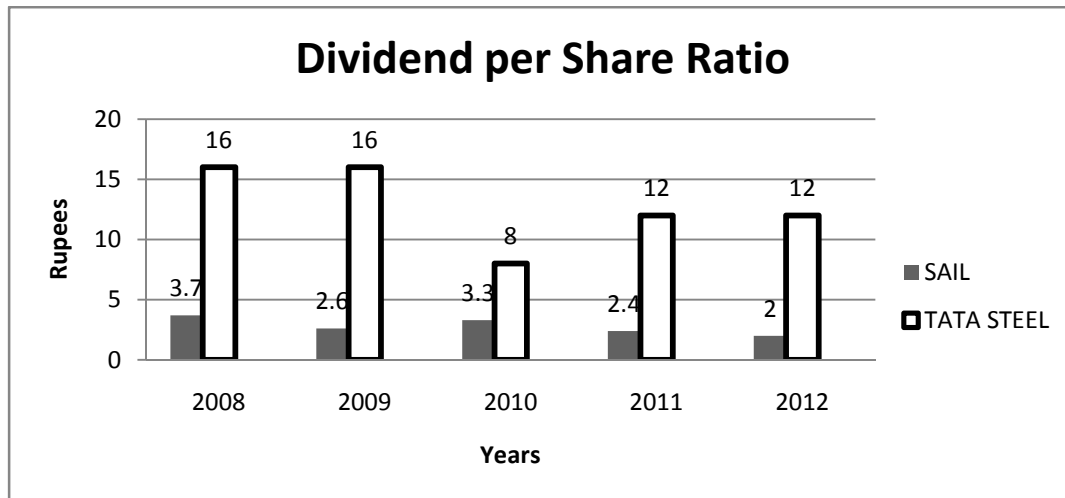
Year/Company	SAIL	TATA STEEL LTD.
2008	3.70	16.00
2009	2.60	16.00
2010	3.30	8.00
2011	2.40	12.00
2012	2.00	12.00

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(Source: Compile Personally from Annual Reports)

### INTERPRETATION

From the above table & graph it is clear that SAIL have Rs. 3.70 dividend per share in the year 2008. It became Rs. 3.30 in the year 2010 but in the last year of the study i.e. in 2012 the dividend per share of SAIL is Rs. 2.00. On the other hand the dividend per share of TATA STEEL LTD. is Rs. 16.00 in 2008 and 12.00 in 2012. From the above it can be concluded that the TATA STEEL LTD. is paying the more dividend than to SAIL.

### Operating Ratio:

A low operating ratio is better because it reflects the efficiency of management the lower the ratio, higher would be the profitability.

**Table & Graph No.5: Operating Ratio (%)**

Year/Company	SAIL	TATA STEEL LTD.
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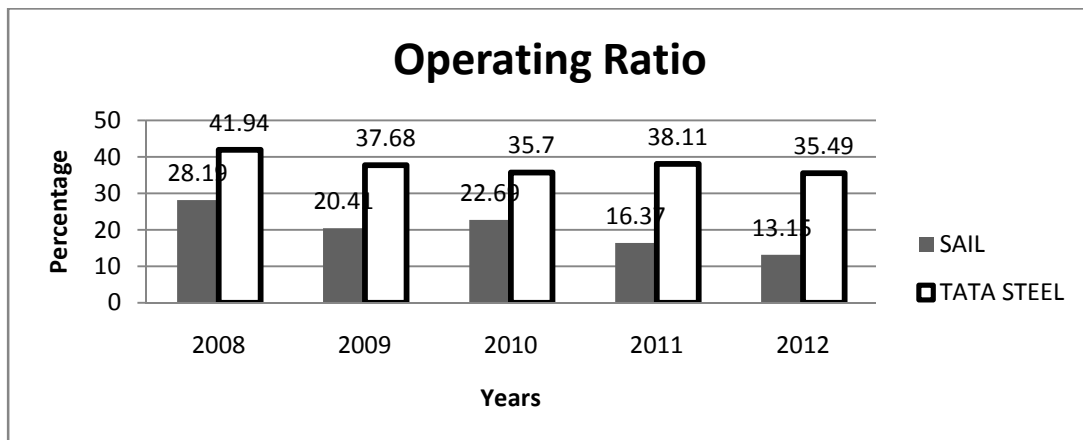
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2008	28.19	41.94
2009	20.41	37.68
2010	22.69	35.70
2011	16.37	38.11
2012	13.15	35.49



(Source: Compile Personally from Annual Reports)

### INTERPRETATION

From the above table & graph it is clear that SAIL have 28.19% operating ratio in the year 2008. It became 22.69 % in the year 2010 but in the last year of the study i.e. in 2012 the operating ratio of SAIL is 13.15 %. On the other hand operating ratio of TATA STEEL LTD. is 41.94 % in 2008 and 35.49 % in 2012. From the above it can be concluded that the financial position of SAIL is better than the TATA STEEL LTD. in the terms of operating ratio because the operating ratio of SAIL is low, as compare to TATA STEEL LTD.

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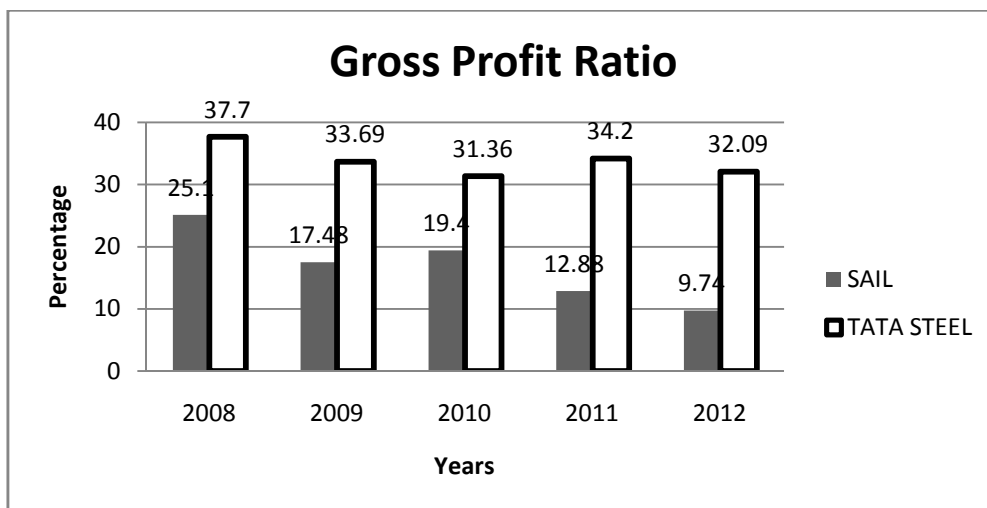
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### Gross Profit Ratio:

This ratio measures the gross margin of profit from sales. The higher the gross profit ratio the better it is.

**Table & Graph No.6: Gross Profit Ratio (%)**

Year/Company	SAIL	TATA STEEL LTD.
2008	25.10	37.70
2009	17.48	33.69
2010	19.40	31.36
2011	12.88	34.20
2012	9.74	32.09



(Source: Compile Personally from Annual Reports)

### INTERPRETATION

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From the above table & graph it is clear that SAIL have 25.10% gross profit in the year 2008. It becomes 19.40% in the year 2010, but in the last year of the study i.e. in 2012 the gross profit of SAIL is 9.74%. On the other hand gross profit of TATA STEEL LTD. is 37.70% in 2008 and 32.09% in the year 2012. From the above it can be calculated that the financial position of TATA STEEL is better than the SAIL in term of gross profit because SAIL has more variation in Gross Profit as compared to TATA STEEL LTD.

### Net Profit Ratio:

This is the ratio of net profit to sales. The greater the ratio, the more profitable the business will be.

**Table & Graph No.7: Net Profit Ratio (%)**

Year/Company	SAIL	TATA STEEL LTD.
2008	18.16	23.43
2009	13.40	21.09
2010	15.73	19.96
2011	11.03	23.16
2012	7.44	19.47

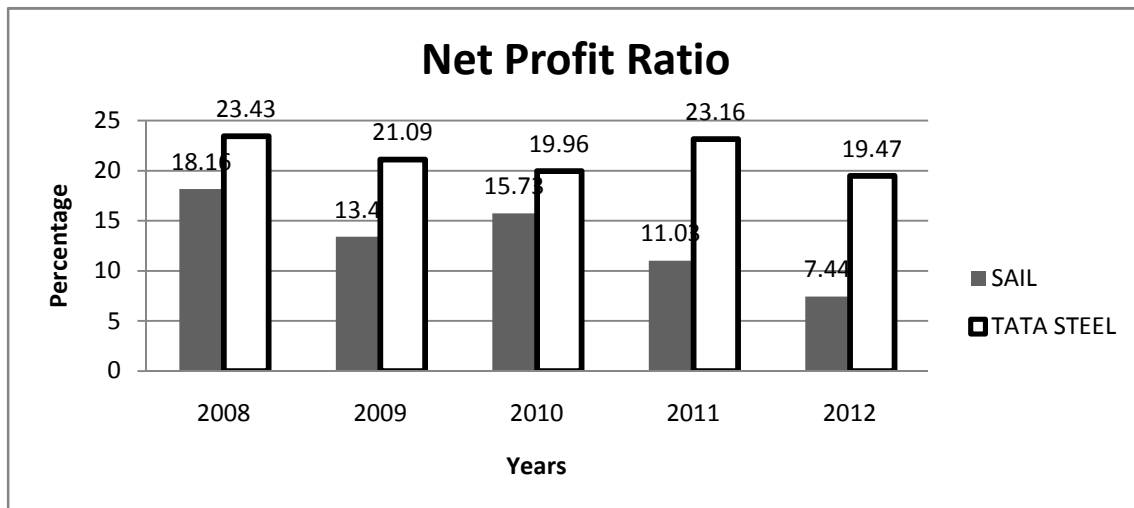


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(Source: Compile Personally from Annual Reports)

### INTERPRETATION

Above chart shows that net profit ratio SAIL is 18.16% in the year 2008 and 7.44% in the year 2012. It is very low. On the other hand the TATA STEEL LTD. 23.43% in the year 2008 it become 19.96% in the year 2010 but in the last year of the study i.e. in 2012 the net profit of TATA STEEL LTD. 19.47%. The financial position of TATA STEEL LTD. is better than the SAIL in terms of net profit.

### Dividend Payout Ratio:

Dividend payout ratio shows that how much dividend the company is paying to its shareholders out of net earnings available to shareholders.

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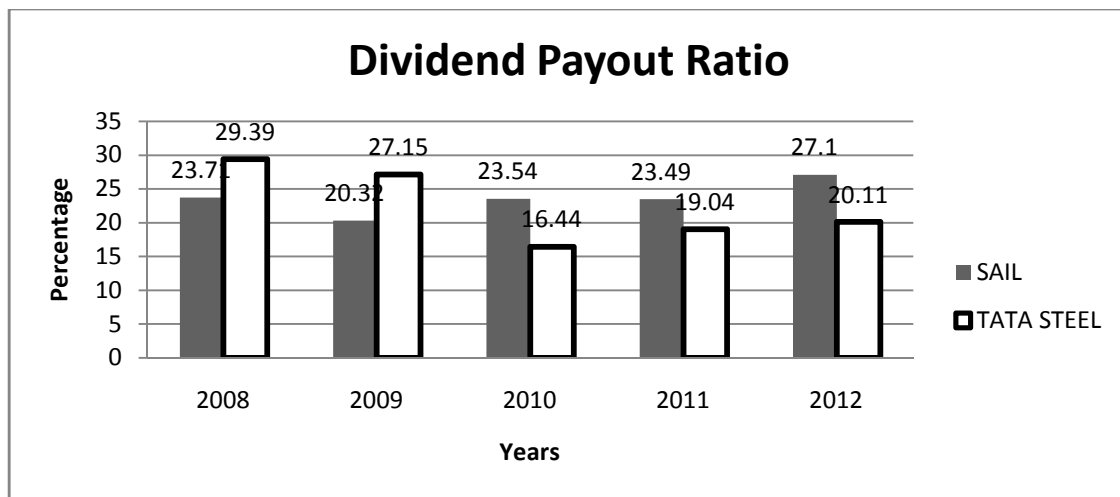


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**Table & Graph No.8: Dividend Payout Ratio (%)**

Year/Company	SAIL	TATA STEEL LTD.
2008	23.71	29.39
2009	20.32	27.15
2010	23.54	16.44
2011	23.49	19.04
2012	27.10	20.11



(Source: Compile Personally from Annual Reports)

### **INTERPRETATION**

Above chart indicates that the dividend payout ratio of SAIL is 23.71% in the year 2008. In the year 2009 it has 20.32% & the year 2010 & 2011 it almost stable but in the last year of the study 2012 the dividend payment ratio was 27.10%. On the other hand the dividend payout ratio of TATA STEEL LTD. was 29.39% in the year 2008 & in 2011 it was 19.04%. In the last year of the study it becomes 20.11%. From the above it can be

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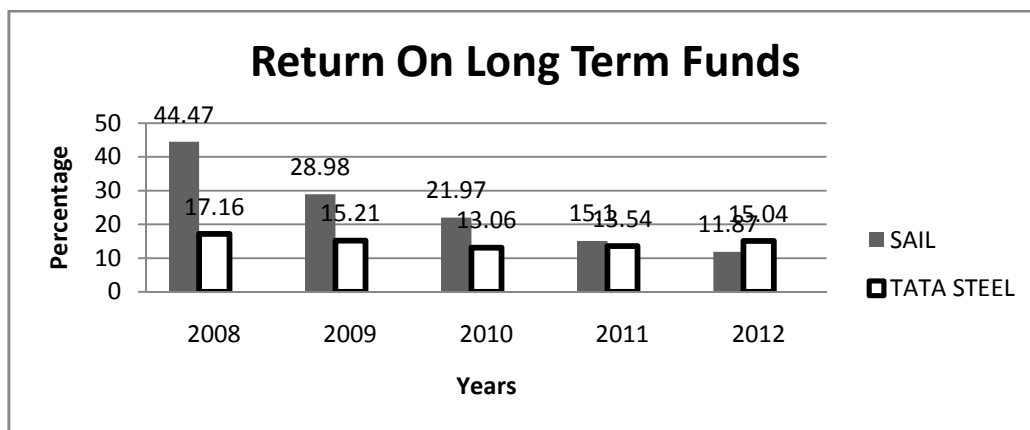
concluded that the financial position of SAIL is better than the TATA STEEL LTD. in terms of dividend Payout Ratio.

### Return on long term funds:

This ratio shows that how much return is earned from long term funds. If this ratio is higher than this is consider better.

**Table & Graph No.9: Return On Long Term Funds Ratio (%)**

Year/Company	SAIL	TATA STEEL LTD.
2008	44.47	17.16
2009	28.98	15.21
2010	21.97	13.06
2011	15.10	13.54
2012	11.87	15.04



(Source: Compile Personally from Annual Reports)

### INTERPRETATION

From the above table & graph it is clear that SAIL have 44.47% returns on their long term funds in the year 2008. It became 21.97% in the year 2010. But in the last year of

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the study i.e. 2012 the return on long term funds was 11.87%. On the other hand it is clear that TATA STEEL LTD. have 17.16% returns on their long term funds in the year 2008. It became 13.06% in the year 2010. But in the last year of the study i.e. 2012 the return on long term funds was 15.04%. During the study period the SAIL earn more return on their long term assets but in the last year this became low but the TATA STEEL return have stable. From the above it can be concluded that both companies have more variations. But the last year of the study the TATA STEEL LTD. have better position than the SAIL.

### **Total Debt/Equity Ratio:**

This ratio expresses the relationship between long term debts & shareholders' funds. It indicates the proportion of funds which are acquired by long term borrowings in comparison to shareholders funds.

**Table & Graph No.10: Total Debt/Equity Ratio (%)**

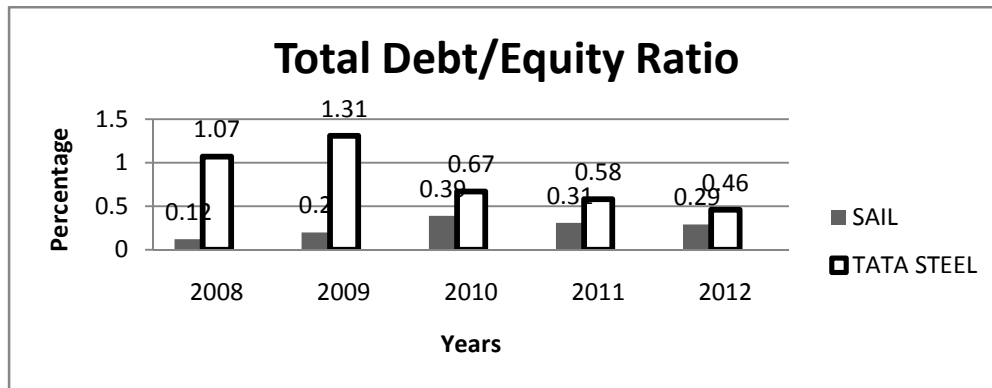
Year/Company	SAIL	TATA STEEL LTD.
2008	0.12	1.07
2009	0.20	1.31
2010	0.39	0.67
2011	0.31	0.58
2012	0.29	0.46

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(Source: Compile Personally from Annual Reports)

### INTERPRETATION

From the above table & graph it is clear that SAIL have 0.12% debt equity ratio in the year 2008, it become 0.20% in the year 2010. But in the last year of the study i.e. 2012 the debt/equity ratio was 0.29%. On the other hand debt/equity ratio of the TATA STEEL LTD. is 1.07% in 2008 & the last year of the study i.e. 2012 is 0.46%.

### 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

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financial performance of the selected units i.e. Steel Authority of India and TATA STEEL LTD.

While analyzing the financial performance of the selected units, we include the analysis of working capital, analysis of fixed assets and analysis of profitability.

Financial performance is an important yardstick to measure a company operational and financial efficiency. This aspect must form part of the company's strategic and operational thinking. Efforts should constantly be made to improve the financial position. This will yield greater efficiencies and improve investor's satisfaction.

SAIL and TATA STEEL LTD. both the companies are major players in steel manufacturing sector in India. After making the comparative analysis of both the firms we find that performance of TATA STEEL LTD. is better than the SAIL It is so because the Net profit of TATA STEEL LTD. is greater than the SAIL Similarly the inventory management of the TATA STEEL LTD. is better than the SAIL.



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