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PROFITABILITY POSITION OF SELECT STEEL COMPANIES IN INDIA : AN ANALYSIS

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Abstract

Steel Industries plays a vital role in the economic development of the country in terms of foreign exchange, employment generation infrastructure, technology etc. India being the seventh largest producer steel in the world the study concentrates to understand the level of profitability with some of the important financial indicators reveals the liquidity, solvency and profitability positions of the steel industries for the 10 years period (2004-05 to 2013-14) is analyzed and considered five companies to measure the profitability positions of the companies. The objectives are to analyse the influence of financial indicators to measure the profitability of select steel companies, to estimate the trend of profitability of select steel companies during the projected periods and to provide constructive suggestions. The research applied in the study is Analytical Research Design. . The sample steel companies are analyzed with the financial indicators for the period from 2004-05 to 2013-14 (10 years) periods. The companies selected for the study are Bhushan Steel, JSW Steel, Rashtriya Ispat, SAIL and Tata Steels. The ratios used for the study are "R1: Current Ratio, R2: Debt Equity Ratio, R3: Return on Net Wroth, R4: Return on Capital Employed Ratio and R5: Net Profit Ratio". Tools used for analysis are Ratio Analysis, Mean, Standard deviation and Trend Projection. JSW Steel need to improve the liquidity position to achieve profitability Higher Return on Equity margin was observed with all five companies during the study period. SAIL, Tata Steels and Rashtriya Ispat was found to have recorded negative projections. Rashtriya Ispat and SAIL was found to have inconsistency and negative fluctuating trend of net profitability during the entire projected periods and finally, SAIL, Tata Steels and Rashtriya Ispat was found to have recorded negative projections. The study concludes that based on the financial variables Bhushan steels and Tata Steels recorded favourable positions in achieving its profitabilities, whereas significant improvement is needed to achieve profitability by JSW Steels, Rashtriya Ispat and SAIL.

Key Words: Steel Industry, Profitability, Financial Indicators, etc.

1. Introduction

Steel is the backbone for any economy. As a multiple use commodity increased consumption of steel is an indicator of enhanced construction activities, manufacturing, and infrastructure, capital goods, defense and agriculture so on. There is a close correlation between growth of gross domestic product (GDP) of a country and consumption of steel, meaning a direct relation between investment in the economy and the growth of steel industry. In a competitive environment, for the purpose of increasing their profitability are these industries able to increases their productivity of factors. The present study is directed towards finding out the financial impact on profitability of 10 firms. More specifically, the present study attempts to understand the performance and status of this industry as measured in terms of profitability and future growth and eventually reflecting its financial strength.

Steel Industries plays a vital role in the economic development of the country in terms of foreign exchange, employment generation infrastructure, technology etc. India being the seventh largest producer steel in the world, the industry has been passing through difficult times for the last five years, this is due to over capacity ,poor demand, sluggishness in growth and declining tariffs. The Indian steel Industry is in its best shape ever; both the long and flat product industries are thriving , companies across value chain are in the met coke, iron ore , pig iron ,sponge iron or alloy steel and are doing extremely well.

The most important factor was the revival of the demand for steel in the world market led by china, which consumes almost 25% of global steel production, other traditional market like US and European union have also shown a steady recovery. There is accelerated demand from emerging economies like india, Brazil, Russia , Ukraine etc. The word steel Industry is sustained significantly by the huge expansion of contribution activity in china. In terms of world steel trade, china together with Taiwan was the largest net importer of steel in the world. The Industry faces many problems such as inefficiency, sickness, underutilization of capacity, non- availability of raw materials, externally increasing demand, labour unrest etc. Let as discuss some of the important problems of the industry.

2. Statement of the Problem

The development of industries contributes to the faster growth of the economy. When considering the iron and steel industries there exists a cut-throat competition faced by India because of the drastic improvement in producing steel by the

Asian countries. Therefore the study concentrates to understand the level of profitability with some of the important financial indicators reveals the liquidity, solvency and profitability positions of the steel industries for the 10 years period (2004-05 to 2013-14) is analyzed and considered five companies to measure the profitability positions of the companies. Based on the ten years period the study attempted to find

- Whether the profitability has increased for all the five companies in the actual periods
- What will the profitability position of all the five companies in the projected periods

3. Objectives of the Study

- To analyze the influence of financial indicators to measure the profitability of select steel companies.
- To estimate the trend of profitability of select steel companies during the projected periods.
- To provide suggestions.

4. Methodology

Research is the process of systematic and in depth study or search of any particular topic, subject or area of investigation, backed by collection, compilation, presentation and interpretation of relevant details or data. Research design constitutes the blueprint for the collection, measurement and analysis of data. The research applied in the study is Analytical Research Design. Analytical study is a system of procedures and techniques of analysis applied to quantitative data. Five steel industries out of 227 sponge iron and steel units are taken for the study considering their performance and consistency in the data for the 10 years period. The sample steel companies are analyzed with the financial indicators for the period from 2004-05 to 2013-14 (10 years) periods. As far as the study is concerned the profitability is the prime concept which needed to be addressed and the profitability is based on the Net Profit of the companies is considered for the study. The companies selected for the study are Bhushan Steel, JSW Steel, Rashtriya Ispat, SAIL and Tata Steels. The ratios used for the study are "R1: Current Ratio, R2: Debt Equity Ratio, R3: Return on Net Wroth, R4: Return on Capital Employed Ratio and R5: Net Profit Ratio". Tools used for analysis are Ratio Analysis, Mean, Standard deviation and Trend Projection.

5. Limitations of the Study

The study period is limited to ten years only. Therefore, a detailed trend analysis covering a lengthy period has not been carried out. The study is based on secondary data collected from CMIE 'Prowess' (package). Therefore, the quality of study depends purely upon the accuracy, reliability and quality of secondary data source.

6. Literature Review

Dr. Kavita chavali; Ms. Karthika.s (2012), the paper is an empirical study to understand the financial soundness of steel industry in India. For this purpose twenty large and medium steel units which are listed are taken. A sample period of 2001 - 2010 was selected for the study. The financial performance of the Steel industry was monitored and measured by using Altman's Z-score model which was extensively used by practitioners and researchers in the past. This study analyses the possibility of business failure with reasonable accuracy by using the z-score model. The research findings are that the steel industry is in good financial performance inspite of the impact of sluggish demand and global economic slowdown with an exception of two companies in the study period.

Ketan H.Popat(2012), Steel Ministry, at present, has 12 public sector undertakings (PSUs) including the Steel Authority of India Limited (SAIL), National Mineral Development Corporation (NMDC), Kudramukh Iron Ore Company Limited (KIOCL), Rastriya Ispat Nigam Limited (RINL), Metallurgical and Engineering Consultants India Limited (MECON). these various steel companies are working in India. The profitability ratios are calculated to measure the operating efficiency of the business enterprise. Besides management of the company, creditors and owners are interested in the profitability of the firm. Investor wants to get reasonable return on their investments. This is only possible when the company is having satisfactory profit. For this purpose researcher would like to evaluate the profitability analysis with reference to various ratios like, PBDT to Gross Sales, PAT to Gross Sales, PAT to Net Sales, PAT to Shareholders fund and PAT to Total Assets to examined the financial result of selected steel industries in India. This research give us result of profitability with reference to study period from 2006-07 to 2010-11.

Amalendu Bhunia and Sri Bidhan Brahma,(2011), The main purpose of this study is to identify the effectiveness of working capital in terms of short-term liquidity of the private sector steel companies in India. Since LPG, to ensure swift economic development it was deemed essential that a sound steel production program with private sector on a formidable basis must be formulated. To some extent the priority given by the country failed to flourish due to poor capacity, under-utilization and poor consumption. We select four private sector steel companies operating in India purposively in the present study. Liquidity position is more satisfactory in the case of TSL and unsatisfactory in the case of JSWSL. Cash management

performance is weak in case of JSWSL which means liquidity crunch exists. There exists a relationship between liquidity and profitability indicators.

7. Analysis and Results

The profitability of the five steel industries namely, Bhushan Steel, JSW Steel, Rashtriya Ispat, SAIL and Tata Steels are analyzed with few financial ratios. The ratios are Current Ratio (Liquidity), Debt Equity (Leverages), Return on Networth and Return on Capital Employed (Returns) and finally, the Net Profit Margin (Profitability) are taken for analysis are presented with Ratios followed by mean, standard deviation and Trend Projection.

Table 1 : Current Ratio

Years	Bhushan Steel	JSW Steel	Rashtriya Ispat	SAIL	Tata Steel
2004-05	1.12	1.06	3.01	0.99	0.65
2005-06	1.21	0.87	3.78	1.18	0.71
2006-07	1.32	0.78	3.83	1.36	1.27
2007-08	1.24	0.62	3.39	1.6	2.88
2008-09	1.14	0.5	2.55	1.72	2.3
2009-10	1.31	0.51	1.96	1.77	1.14
2010-14	0.79	0.57	1.59	1.59	1.13
2014-12	0.66	0.64	1.27	1.39	0.85
2012-13	0.95	0.71	1.04	1.22	0.65
2013-14	1.02	0.72	0.87	0.99	0.55
Mean	**1.076**	**0.698**	**2.329**	**1.381**	**1.213**
SD	**0.221**	**0.173**	**1.135**	**0.285**	**0.777**
Trend Projection					
2016-17	0.84	0.53	0.42	1.40	0.89
2017-18	0.79	0.50	0.07	1.40	0.83
2018-19	0.75	0.47	-0.27	1.40	0.77
2019-20	0.71	0.44	-0.62	1.40	0.71
2020-21	0.66	0.41	-0.97	1.41	0.65

Source: Computed from Secondary Data

From the table-1 it is evident that, the current ratio across the five steel industries during the ten years period (2004-05 to 2013-14), the Mean ratio was minimum recorded by JSW Steel at 0.698 times and the maximum 2.329 times was recorded by Rashtriya Ispat. Rashtriya Ispat has the best performance of current ratio out of the five steel industries taken for the study. The standard deviation of current ratio for the selected steel industries ranges between minimum 0.221 times and 1.173 times. When considering the trend projections for the five years periods (2016-17 to 2020-21) it is clear that growth trend was observed with all the five companies however there is negative growth observed with Rastriya Ispat during the final the projected periods (2018 to 2021) while there was a declining trend observed with Bhushan Steels, JSW Steels, and Tata Steels. SAIL was found to be consistent for the first four years and growth in the fifth year.

It is inferred that the current ratio was found to be declining among all the steel industries during the actual periods, whereas the rule of thumb was highly maintained by Rashtriya Ispat, SAIL, Tata Steels and Bhushan Steels whereas JSW Steel need to improve the liquidity position to achieve profitability.

Table 2 : Debt Equity Ratio

Years	Bhushan Steel	JSW Steel	Rashtriya Ispat	SAIL	Tata Steel
2004-05	1.7	1.85	0.05	0.94	0.53
2005-06	2.07	1.06	0.07	0.44	0.31
2006-07	2.51	0.83	0.08	0.28	0.51
2007-08	3.16	0.88	0.06	0.18	0.67
2008-09	3.77	1.2	0.06	0.21	0.78
2009-10	3.23	1.29	0.09	0.39	0.78

2010-14	2.83	0.87	0.09	0.51	0.64
2014-12	2.78	0.78	0.14	0.46	0.55
2012-13	2.97	0.88	0.29	0.47	0.5
2013-14	3.5	1.02	0.41	0.56	0.48
Mean	**2.852**	**1.066**	**0.134**	**0.444**	**0.575**
SD	**0.630**	**0.321**	**0.120**	**0.216**	**0.145**
Trend Projection					
2016-17	4.00	0.61	0.40	0.39	0.63
2017-18	3.73	0.71	0.34	0.40	0.61
2018-19	3.87	0.66	0.37	0.39	0.62
2019-20	4.00	0.61	0.40	0.39	0.63
2020-21	4.14	0.55	0.43	0.38	0.63

Source: Computed from Secondary Data

It is observed from the table 2 that the Debt Equity ratio among the five steel companies during the period from 2004-05 to 2013-14, the Mean ratio was minimum recorded by Rashtriya Ispat at 0.13 times and maximum was recorded by Bhushan Steels 2.852 times. Rashtriya Ispat, SAIL and TATA Steels recorded the least Debt Equity while JSW and Bhushan Steels found to registered its Debt Equity above the rule of thumb. The standard deviation of Debt Equity Ratio for the selected companies ranges between minimum 0.120 times to 0.630 times.

As far as the trend projection for the next five years periods are concerned the highest debt equity was projected with SAIL followed by Rashtriya Ispat and TATA Steels. While comparing Bhushan steels, JSW steels was marginally in a good position in projecting its debt position. Consistency in maintaining leverages by Bhushan steels to achieve the profitability among the steel industries.

Table 3 : Return on Networth

Years	**Bhushan Steel**	**JSW Steel**	**Rashtriya Ispat**	**SAIL**	**Tata Steel**
2004-05	23.25	39.89	41.07	88.85	60.02
2005-06	19.06	17.41	24.74	35.04	41.7
2006-07	29.78	26.98	23.04	41.47	35.4
2007-08	29.84	26.8	25.66	37.33	25.97
2008-09	23.02	12.34	14.82	24.1	21.88
2009-10	28.24	23.32	6.08	21.98	14.19
2010-14	20.47	15.04	4.48	13.94	16.36
2014-12	15.03	14.01	6.02	9.22	13.51
2012-13	10.82	10.43	2.3	5.37	9.43
2013-14	0.58	9.72	2.78	4.42	14.02
Mean	**20.009**	**19.594**	**15.099**	**28.172**	**25.248**
SD	**9.233**	**9.563**	**13.056**	**25.145**	**16.021**
Trend Projection					
2016-17	1.55	-1.50	-18.85	-33.70	-15.24
2017-18	5.89	3.46	-10.86	-19.14	-5.71
2018-19	3.72	0.98	-14.86	-26.42	-10.47
2019-20	1.55	-1.50	-18.85	-33.70	-15.24
2020-21	-0.62	-3.99	-22.85	-40.98	-20.00

Source: Computed from Secondary Data

It is observed from the table 3 that the Return on Networth among the five steel companies during the period from 2004-05 to 2013-14, the Mean ratio was maximum recorded by SAIL at 28.172 percent, and the minimum was recorded by Rashtriya Ispat at 15.09 per cent. Higher Return on Equity margin was observed with all five companies during the study period. However, when considering the results of the trend projections for the five years periods (2016-17 to 2020-21) there was a

significant stability maintained in the initial periods by Bhushan Steels and was found to be declining to reach negative during the fifth year. JSW steel was found to have positive and negative growth during the projected periods whereas, SAIL, Tata Steels and Rashtriya Ispat was found to have recorded negative projections during all the five years this is because of inconsistency found in the actual periods.

Table 4 : Return on Capital Employed

Years	Bhushan Steel	JSW Steel	Rashtriya Ispat	SAIL	Tata Steel
2004-05	13.74	30.8	28.14	68.77	63.79
2005-06	9.76	17.59	22.6	38.03	50.13
2006-07	12.41	26.24	23.75	51.28	36.63
2007-08	11.46	24.05	27.09	49.44	23.27
2008-09	9.32	13.43	16.7	31.28	17.23
2009-10	10.68	18.36	9.64	24.63	13.57
2010-14	9.47	14.26	7.89	13.87	16.14
2014-12	8.95	12.68	8.18	10.08	14.53
2012-13	7.09	12.57	5.08	6.18	11.41
2013-14	4.08	14.14	4.93	4.35	12.69
Mean	**9.696**	**18.412**	**15.400**	**29.791**	**25.939**
SD	**2.726**	**6.451**	**9.310**	**21.885**	**18.199**
Trend Projection					
2016-17	5.44	9.17	-0.40	-7.61	-2.94
2017-18	4.67	7.49	-3.27	-14.41	-8.20
2018-19	3.90	5.81	-6.15	-21.21	-13.45
2019-20	3.13	4.13	-9.02	-28.01	-18.70
2020-21	2.35	2.45	-11.89	-34.81	-23.95

Source: Computed from Secondary Data

From the table 4 it is understood that, the Return on Capital Employed ratio five steel industries during the period from 2004-05 to 2013-14, the Mean ratio was minimum recorded by Bhushan Steels at 9.696 percent and maximum was recorded by SAIL at 29.791 percent. SAIL has the best performance of Return on Capital Employed out of the five steel industries taken for the study. The standard deviation of Return on Capital Employed for the selected steel industries ranges between minimum 2.726 percent and 21.885 percent.

It is observed that the trend projections for the five years periods (2016-17 to 2020-21) there was a significant stability maintained in initial periods by JSW Steel and Bhushan Steels was found to be declining but positive. Whereas, SAIL, Tata Steels and Rashtriya Ispat was found to have recorded negative projections during all the five years this is because of the consistent decline found in the actual periods.

Table 5 : Net Profit Margin

Years	Bhushan Steel	JSW Steel	Rashtriya Ispat	SAIL	Tata Steel
2004-05	5.42	12.96	24.52	21.29	21.89
2005-06	5.16	9.3	14.74	12.28	20.46
2006-07	7.5	13.9	14.85	15.71	21.36
2007-08	9.12	13.68	18.46	16.39	21.12
2008-09	7.81	6.31	12.69	12.66	19.38
2009-10	14.16	10.4	7.41	15.38	16.53
2010-14	13.27	7.94	5.67	10.3	21.52
2014-12	9.48	5.66	5.16	6.94	18.1
2012-13	7.7	5.16	2.6	4.36	14.96
2013-14	0.58	4.31	2.73	3.53	13.85

Mean	**8.020**	**8.962**	**10.883**	**11.884**	**18.917**
SD	**3.934**	**3.650**	**7.336**	**5.674**	**2.920**
Trend Projection					
2016-17	8.17	0.66	-8.34	-2.27	12.28
2017-18	8.14	2.61	-3.82	1.06	13.84
2018-19	8.15	1.64	-6.08	-0.60	13.06
2019-20	8.17	0.66	-8.34	-2.27	12.28
2020-21	8.19	-0.32	-10.60	-3.93	11.50

Source: Computed from Secondary Data

From the table 5 it is evident that, the Net Profit Margin across the five steel industries during the period from 2004-06 to 2013-14, the Mean ratio was found to be consistent among all the steel companies selected for the study. The highest mean was recorded by Tata Steels at 18.917 percent and the lowest was recorded by Bhushan Steels at 8.020 per cent. The standard deviation of Net Profit Ratio for the selected steel companies ranges between minimum 2.920 percent and 7.336 percent.

It is observed from the trend projections for the five years periods (2016-17 to 2020-21) there was a significant growth which was marginally fluctuating trend found with Bhushan Steels and Tata Steels during the entire projected periods. While, the profitability was highly fluctuating with JSW steels and recorded negative during the fifth year of the projected period. Whereas, Rashtriya Ispat and SAIL was found to have inconsistency and negative fluctuating trend of net profitability during the entire projected periods. This is due to the declining profitability registered by Rashtriya Ispat and SAIL during the ten years actual periods.

8. Findings of the Results

- It is inferred that the current ratio was found to be declining among all the steel industries during the actual periods, whereas the rule of thumb was highly maintained by Rashtriya Ispat, SAIL, Tata Steels and Bhushan Steels whereas JSW Steel need to improve the liquidity position to achieve profitability.
- Rashtriya Ispat, SAIL and TATA Steels recorded the least Debt Equity while JSW and Bhushan Steels found to registered its Debt Equity above the rule of thumb. Higher Return on Equity margin was observed with all five companies during the study period.
- SAIL, Tata Steels and Rashtriya Ispat was found to have recorded negative projections during all the five years this is because of inconsistency found in the actual periods.
- Rashtriya Ispat and SAIL was found to have inconsistency and negative fluctuating trend of net profitability during the entire projected periods. This is due to the declining profitability registered by Rashtriya Ispat and SAIL during the ten years actual periods.
- SAIL, Tata Steels and Rashtriya Ispat was found to have recorded negative projections during all the five years this is because of the consistent decline found in the actual periods.

9. Suggestions

- The circulating asset in this ratio is extremely useful to predict the significance of profitability. JSW Steels and Bushan steel needs to improve its liquidity position to achieve the profitability in the steel industry.
- It is clear that Rashtriya Ispat, SAIL and TATA Steels recorded the least Debt Equity Debt Equity ratio which ensures that that the debt and equity positions was not over leveraged with the debt that can result in high insolvent risk and may lead to heavy debt repayment burdens. Whereas, it is recommended that Bhushan steels need to maintain consistency in its leverages to achieve the profitability among steel industry.
- The return on equity was found to have been consistent with all the five companies taken for the study. Return on networth is a measure a corporation's profitability that how much profit of a company generate with the money of shareholders have invested and how much the company can reinvest the money into the business to make more profit. It is observed that due to the declining growth observed during the ending periods recorded by SAIL, Tata Steels and Rashtriya Ispat which needs to concentrate to improve its net worth position.
- Eventhough, JSW Steel and Bhushan Steel was found to be fluctuating and declining trend with their Return on Capital Employed it was found to be positive. Whereas, there is a need to improve the RoCE among SAIL, Rashtriya Ispat and Tata steel which will help the companies to achieve the performance between businesses and also for assessing whether the business generated by the company is providing enough returns to pay for its cost of capital.

- The net profit margin shows each sale value converted as net income after meeting out all its expenses. Bhushan Steels and Tata steels recorded the best performance in achieving net profit margin while there is need to improve the net profit margin by JSW Steels, Rashtriya Ispat and SAIL.

10. Conclusion

Steel production in India is also hampered by power shortages. India is deficient in raw materials required by the steel industry. The financial ratio analysis on the trends in the various types of expenditure indicated the higher cost of production. Wastage in expenditure can be identified to increase the profitability. Since there is a greater demand for the steel produce at the global level, increasing the level of output and the productivity is essential. Based on the analysis of data it is concluded that in terms of financial variables Bhushan steels and Tata Steels recorded favourable positions in achieving its profitabilities, whereas significant improvement is needed to achieve profitability by JSW Steels, Rashtriya Ispat and SAIL.

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