A STUDY ON PERFORMANCE APPRAISAL OF SELECTED IRON AND STEEL COMPANIES IN INDIA

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ABSTRACT

Steel is one of the most important products of the modern world and is of strategic importance for any industrial nation. From construction industrial machinery to consumer products, steel finds a wide variety of applications. The progress of the steel industry has a critical influence on the pace of India's development and as such great importance is attached to capacity expansion in line with expected demand at cost and price which make Indian steel internationally competitive. India is expected to become the world's second largest producer of steel in the next 10 years, moving up from the third position, as its capacity is projected to increase to about 300MT by 2025. Companies should design a balanced capital structure, use fixed assets efficiency, adopt credit policies, apply modern inventory and cash management systems and control operating costs to improve and maintain the financial performance in future.

***Key Words**: Fixed Assets Efficiency, Credit Policies, Modern Inventory and Cash Management Systems.*

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INTRODUCTION

Steel is fundamental to the development of any nation. The per capita consumption of steel is generally accepted as a yardstick to measure the level of socio-economic development and standard of living of the people in any country. The Indian steel sector enjoys advantages of domestic availability of raw material and cheap labour. This provides major cost advantage to the domestic steel industry. The steel industry reflects the overall economic growth of an economy in the long term as demand for steel is derived from other sectors like automobiles, consumer durable and infrastructure.

STATEMENT OF THE PROBLEM

Iron and Steel industry is importance for the economic development of a country in terms of foreign exchange, employment generation. Infrastructure development and technology. All major industrial economies are characterized by the existence of a strong steel industry and the growth of many of these economies has been largely shaped by the strength of their steel industries in their initial stage of development. The efficiency of the business is measured by the amount of profit earned. Hence an attempt has been made to study the profitability of steel industry in India. What are the factors influencing the financial performance of selected iron and steel companies in India?

OBJECTIVES OF THE STUDY

- To study the factors influencing the financial health of selected companies of Indian steel.
- To assess the financial health of select companies.

SCOPE OF THE STUDY

This study confines itself to the issues relating to the financial performance of the iron and steel companies with regard to its growth. Profitability and liquidity and the impact on various factors such as Capital, liquidity, Debt equity, inventory, Debtors, Interest coverage, asset quality, earning quality and liquidity position of iron and steel companies for the period of ten years.

RESEARCH METHODOLOGY

The primary purpose for basic research is discovering interpreting and the development of methods and system for the advancement of human knowledge on a world and the universe. Methodology is a way of systematically solving a research problem.

Research Design

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. It may consist of a system of mathematical models or statistical techniques applicable to numeric data.

Sources of data

The study mainly used secondary source of information. For this purpose the researcher has collected 10 years data from 2004 to 2014 for six steel industries in India. Apart from these financial data, the theoretical foundation of the study and selected review of literatures were collected from journal, magazines and library sources.

Sampling units

The research study is based mainly on secondary data, there are totally six companies were selected on the basis of purposive sampling method. The selection of following sampling units based on the availability of continuous data from the year 2004-2014.

- Tata Steel
- JSW Steel Limited
- Sail Steel Authority of India
- Ferro alloys Corporation
- Mahindra Ugine Steel Company
- Wels pun Corporation

Data Analysis

The performance of select iron and steel company in India were analysed for the period of ten years from 2004-2005 to 2013-2014 with the help of the following tools and techniques.

Tool Used

- ANOVA

ANALYSIS OF VARIANCE

To find out whether the liquidity, efficiency positions of the steel companies during the selected period of time have any significant difference in the profitability position. Hence, Analysis of Variance (ANOVA) has been used.

HYPOTHESIS-1: There is no significant difference between the current ratio having impact on profitability position of select steel companies.

TABLE - 1

ANOVA OF CURRENT RATIO

Source of variation	SS	DF	MS	F value	Table value	S / NS
Between Groups	7.8	5	1.56	5.78	2.369	NS
Within Groups	14.7	54	0.27			
Total	22.5	59				

Source: Compiled from annual reports of the companies

It is cleared from table -1 that the calculated value of 'F'value is 5.78 which is more than the table value of 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more than the table value. From the above table concludes that there is significant relationship among the current ratio having impact on profitability position of the selected companies during the study has been rejected.

HYPOTHESIS-2: There is no significant difference between the Debt equity ratios having impact on profitability position of selected companies.

TABLE - 2

ANOVA OF DEBT EQUITY RATIO

Source of variation	SS	DF	MS	F value	Table value	S/NS
Between Groups	30.7	5	6.14	13.06	2.369	NS
Within Groups	25.3	54	30.37			
Total	56	59				

Source: Compiled from annual reports of the companies

The above table - 2 reveals that the calculated value of 'F' ratio is 13.06 which are more than the table value of 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more than the table value. From the above table concludes that there is significant relationship among the Debt equity ratio having impact on profitability position of selected companies during the study has been rejected.

HYPOTHESIS-3: There is no significant between the Inventory Turnover ratio having impact on financial health of iron and steel companies.

TABLE - 3

ANOVA OF INVENTORY TURNOVER RATIO

Source of variation	**SS**	**DF**	**MS**	**F value**	**Table value**	**S/NS**
Between Groups	110	5	22	8.8	2.369	NS
Within Groups	135.01	54	2.50			
Total	245.01	59				

Source: Compiled from annual reports of the companies

The above table - 3 reveals that the calculated value of 'F' ratio is 8.8 which are more than the table value of 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more than the table value. From the above table concludes that there is significant relationship among the Inventory turnover ratio having impact on profitability position of selected companies during the study has been rejected.

HYPOTHESIS-4: There is no significant difference between the Debtors turnover ratio having impact on profitability position of selected steel companies.

TABLE - 4

ANALYSIS OF VARIANCE – DEBTORS TURNOVER RATIO

Source of variation	SS	DF	MS	F value	Table value	S/NS
Between Groups	9943	5	1988.6	29.31	2.369	NS
Within Groups	3663.38	54	67.84			
Total	13606.38	59				

Source: Compiled from annual reports of the companies

The above table - 4 reveals that the calculated 'F' value is 29.31 where as the table value is 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more than the table value. From the above table concludes that there is significant relationship among the Debtors turnover ratio having impact on profitability position of the selected steel companies during the period of study has been rejected.

HYPOTHESIS-5: There is no significant difference between the Fixed Assets turnover ratio having impact on profitability position of selected steel companies.

TABLE - 5

ANOVA OF FIXED ASSETS TURNOVER RATIO

Source of variation	SS	DF	MS	F value	Table value	S/NS
Between Groups	115.4	5	23.08	18.61	2.369	NS
Within Groups	66.8	54	1.24			
Total	182.2	59				

Source: Compiled from annual reports of the companies

The above table - 5 reveals that the calculated 'F' value is 18.61 where as the table value is 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more than the table value. From the above table concludes that there is significant relationship among the fixed assets turnover ratio having impact on profitability position of the steel companies during the period of study has been rejected.

HYPOTHESIS-6: There is no significant difference between the Interest coverage ratios having impact on profitability position of steel companies.

TABLE- 6

ANOVA INTEREST COVERAGE RATIO

Source of variation	SS	DF	MS	F value	Table value	S/NS
Between Groups	2227.5	5	445.5	6.26	2.369	NS
Within Groups	3844.22	54	71.19			
Total	6071.72	59				

Source: Compiled from annual reports of the companies

The above table - 6 reveals that the calculated 'F' value is 6.26 where as the table value is 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more than the table value. From the above table concludes that there is significant relationship among the interest coverage ratio having impact on profitability positions of the steel companies during the period of study has been rejected.

HYPOTHESIS-7: There is no significant difference between the operating profit ratios having impact on profitability position of selected steel companies.

TABLE - 7

ANOVA OPERATING PROFIT RATIO

Source of variation	SS	DF	MS	F value	Table value	S/NS
Between Groups	4975.9	5	995.18	23.92	2.369	NS
Within Groups	2246.47	54	41.60			
Total	7222.37	59				

Source: Compiled from annual reports of the companies

The above table - 7 reveals that the calculated 'F' value is 23.92 where as the table value is 2.369 at 5% level of significance. A comparison of the calculated value with the table value shows that the calculated value is more that the table value. From the above table concludes that there is significant relationship among the operating profit ratio having impact on profitability position of the selected steel companies during the period of has been rejected.

FINDINGS

- ✓ The current ratio having impact on profitability positions of the steel companies.
- ✓ The Debt equity ratio having impact on profitability positions of the steel companies.
- ✓ The inventory turnover ratio having impact on profitability positions of the steel companies.
- ✓ The Debtors turnover ratio having impact on profitability positions of the steel companies.
- ✓ The Fixed assets turnover ratio having impact on profitability positions of the steel companies.
- ✓ The interest coverage ratio having impact on profitability positions of the steel companies.
- ✓ The Operating profit ratio having impact on profitability positions of the steel companies.

SUGGESTIONS

Companies can reduce the interest burden by giving quality products and building brand image which will help to increase profit and utilize maximum production capacity. They can control the cost of goods sold and operating expenses. Improper planning and delays in implementation of projects lead to rise in their cost. So proper planning should be made Companies try to increase production and sales for getting maximize profit to strengthen financial position. The management should utilize maximum production capacity.

CONCLUSION

Competition brings the best out of any one perhaps this concept will help the steel industries in long run, with the government initiating; the future prospects of these industries are undoubtedly bright. The Indian Steel industries have been growing robustly. Companies should design a balanced capital structure, use fixed assets efficiency, adopt credit policies, apply modern inventory and cash management systems and control operating costs to improve and maintain the financial performance in future. To conclude, all major steel producers in India are expanding their capacities and many new Greenfield projects are seems to coming up in near future. How much a huge investment will be mobilized is a big question. With the trust given by the government on construction sector and infrastructure, the product mix of the finished steel may show a different picture in future.

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