CHAPTER- 7

SUMMARY OF CONCLUSIONS AND SUGGESTIONS
1.0 INTRODUCTION

Finance is one of the basic foundations of all kinds of economic activities. Finance is the life-line of all commercial activities. In other words, it can be said to be the “heart” of an organization. Financial Performance is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. The objective is to identify any weakness in the firm’s financial health that could lead to future problems and to determine strength that the firm might capitalize upon. Financial performance is measured by applying various analytical tools and techniques to the financial statements and also drawing meaningful conclusions and useful information for making
predictions that may have a direct impact on the decisions made by the different users of the financial statements.

The financial performance of Indian Iron and Steel industry is severely affected by several problems such as acute shortage of working capital, uncertainties in raw material availability, its fluctuating price, high cost of production, low profitability and managerial incompetence, lack of research and development, lack of skilled manpower, inabilities to meet interest commitments, non-repayment of loans, obsolete technology, the need for modernization, exports and taxation. Unfortunately, in certain cases, the entire net worth has been completely wiped out due to continued operating losses. Majority of the companies are in peripheral financial crisis and for them, securing additional funds is becoming almost impossible. There is a rigorous increase in excise duties, interest and other taxes in the state. While imposing taxes the Government does not make a distinction between highly profitable and low profit making industry. The imposition of taxes affects the capital structure of the company and also its profits. Profitability of the Iron and Steel industry is low due to the high cost of production. All these problems make financial management of the industry complicated. How do all these problems affect the profitability? How are profits managed? There are other related questions which surface while examining the financial performance of the Indian Iron and Steel Industry. The present study is an attempt in that direction.
Adoption of unsound financial principles, policies, priorities and control and inadequate attention to financial management have been responsible for the financial crisis faced by Iron and Steel industry in India. Better results can be achieved by the industry if sound financial management canons are adopted. The present study, therefore, tried to evolve norms for better financial performance in Iron and Steel Industry in general, and select firms in particular. The present study has been designed to examine the ability of the industry to meet its currently maturing obligations; the extent to which the industry has used its long-term solvency by borrowing funds; the efficiency with which the industry utilized assets so as to generate sales revenue; and the overall operating efficiency and financial performance. Further, the intra-sectoral and inter-sectoral analysis has been carried out so as to assess the financial performance of sample units.

2.0 CONCLUSIONS

The conclusions that emerged from the foregoing intra and inter-sectoral analysis of core Chapters are summarized as follows:

FINANCIAL STRUCTURE

- In SAIL, the internal funds in view of earning profits are at a positive level. The operating revenue is adequate to provide depreciation during the study period. In order to finance activities, it has to largely rely on the internal sources. In
RINL, the proportion of internal and external sources of funds is more or less equal in financial structure.

- ESL had depended more on external sources as compared to internal sources. The external funds were used to meet financial needs, which is a good practice. The share of internal and external sources of funds is more or less equal in JSPL. TSL had heavily relied on internal sources of funds.

- All the sample units have employed more long-term debt funds as against short-term ones. Long term borrowing seems to be more acceptable to these companies.

- Sector-wise analysis reveals that SAIL in public sector and TSL in private sector had heavily depended on internal sources of funds whereas RINL in the former and JSPL in the latter have equally used internal and external sources. But, only one company in private sector viz., ESL had depended more on external funds than internal funds.

- In SAIL, there is a big increase in the quantum of long term funds. In other words, SAIL had preferred to rely more on long term funds to finance expansion as against short term funds. A similar trend exists in RINL.

- ESL had shown an inclination to strengthen long term funds. JSPL preferred to rely more on owned funds and long term...
borrowed funds rather than short term funds. In TSL, owned funds were more significant than the borrowed funds.

- All the units put together had heavily depended upon long term funds in meeting financial requirement.

- Sector-wise analysis shows that the long term funds were more than the short term funds in both the sectors during the study period. It may be observed that all the sample iron and steel companies in public as well as private sectors have heavily depended on long term funds to acquire fixed assets and meet a part of current assets.

- In SAIL, the capital structure was conservative as the magnitude of long term borrowed capital is less than the owners’ equity. A likewise situation prevails in RINL. The long-term borrowed funds were insignificant as against net worth. It seems that the company is averse to using long term debt.

- The ESL had relied more on loan funds than owners’ equity, which indicates that there is a higher risk with lopsided capital structure. A converse situation emerges in both the TSL and JSPL. As a result, they have failed to reap the benefit of trading on equity.

- Sector-wise analysis points out that the capital structure was bleak and imbalanced in both the sectors, which can be
observed from their consolidated average debt equity ratio. However, the long term solvency was relatively better in private sector.

- In SAIL, the interest coverage ratio revealed an erratic behavior during the period of study. The very high ratio in most of the study period indicates that SAIL was very conservative in employing debt capital so that shareholders could enjoy the benefits. The financial risk of RINL was low but the company failed to enjoy the advantages of financial gearing during last three years. The ability of RINL to meet fixed interest commitments was good compared to SAIL.

- ESL uses debt excessively, which is a danger signal. Consequently, ESL is unable to offer assured payment of interest to lenders. It is admirable in the JSPL, as it could reduce the debt burden and also strengthen the owners’ fund, whereas act of TSL is safe as it uses debt conservatively. In the private sector, the interest coverage was commendable in TSL relative to JSPL and ESL.

- Sectoral analysis shows that the average interest coverage ratio of the public sector companies had exceeded the private sector as well as industry average. Of the sectors, public sector companies were unable to reap the benefits of financial leverage due to excess use of equity funds.
The proportion of long term funds has exceeded the quantum of fixed assets in both the SAIL and RINL.

The proportion of long term funds has outweighed the quantum of fixed assets in most of the period in ESL and TSL and concluding year in JSPL.

Sector-wise analysis reports that the fixed assets were adequately financed by long-term funds in both the sectors. It may be concluded that they have adopted sound canons of financial management.

**FIXED ASSETS PERFORMANCE**

In SAIL, depreciation shows an impressive upward swing. RINL had provided for sufficient depreciation. Capital-work in progress, on an average, formed 28.49 per cent of total assets. There was an increasing trend of capital work in progress due to massive expansion programmes.

In ESL, the share of long term investments in fixed assets is low. In the case of JSPL, in terms of absolute figures, there is a growing trend in capital work in progress. Capital work in progress had disappeared in TSL. The long term investments have recorded a sizeable increase in TSL than in other private sector units.

Investment in fixed assets (net) in all the select units has gone up progressively, which implies rapid and appreciable
expansion. Similarly, there is a continuous upward trend in depreciation. Further, long term investment has registered on an average of 16.82 per cent.

The major investment in public sector companies was current assets whereas it was fixed assets in private sector companies. In all the years, fixed assets were over the current assets in private sector barring TSL. Depreciation was regularly provided for in both the sectors. From the viewpoint of capital work in progress, SAIL in public sector had undertaken massive expansion programme. The private sector companies have excelled in long term investments as compared to public sector companies. An identical trend can be observed in gross fixed assets of sample units.

In SAIL, the shareholders’ funds were inadequate to meet the fixed assets requirements. A contrary picture emerges in RINL i.e. all the fixed assets were financed from shareholders’ equity.

In the private sector also, fixed assets were acquired from long term loans. This is against the canons of financial management and vulnerable to solvency problems.

The sector wise analysis reveals that the fixed assets to net worth ratio in both the sectors were above the ideal norm.
Out of these sectors, it is better in public sector than in private sector.

- In SAIL and RINL, after meeting fixed assets long term loans were used to finance working capital. But the growth in the use of long term loans for working capital in the latter is higher. In the private sector units' viz., ESL, JSPL and TSL, long term loans were employed marginally.

- Only meager long term funds were utilized to cater to the needs of working capital in the private sector. But, 40 per cent was used to meet the same in its counterpart. It means that the latter has followed a conservative financing policy of current assets.

- In SAIL and RINL, the fixed assets turnover ratio was far from the standard norm of 5 times. It denotes that the use of fixed assets to generate sales was low. A similar situation appears in the individual units of private sector. Particularly, it is comparatively bad in JSPL. Thus, the fixed assets were under utilized in both the sectors.

- Depreciation to gross block and depreciation to sales show that the SAIL had followed a consistent depreciation policy, while inconsistent depreciation policy was followed in RINL.

- The inconsistent depreciation policy was pursued by ESL. The ratio of depreciation to gross block depicted a decline.
despite variations in JSPL. Mild variations were marked between the ratios, which reflect that a consistent depreciation policy was followed by TSL.

- There is homogeneity in the depreciation policy of TSL while heterogeneity in ESL and JSPL. Consequently, the same reflects between the two sectors.

- There is growing trend in the index of gross block to depreciation in SAIL as well as in RINL. A similar situation can be noted in ESL, JSPL and TSL. Among them, it is healthy in the JSPL. Both the sectors have provided for adequate depreciation on historical cost accounting.

**WORKING CAPITAL PERFORMANCE**

- In the sample units, current assets are more than current liabilities. Therefore, there is a positive working capital in public and private sectors.

- The estimated net working capital for the year 2017-18 would be the highest in SAIL under public sector whereas negative in ESL under private sector. The future net working capital requirement at the aggregate level would be higher relative to individual units.

- Inventory turnover ratio was less than the standard norm of eight times in SAIL and RINL. It indicates that the inventory was ineffectively turned into sales. The inventory turnover
ratio in ESL, JSPL and TSL was less than ideal one. Consequently, there is a high risk of loss due to unsalable stock. Out of the sectors, inventory turnover ratio is higher in the private sector relative to public sector at individual and consolidated one.

- The credit policy is favourable in SAIL as compared to RINL. The pace of increase in the indices of sales had outweighed the pace of increase in the indices of debtors in ESL, JSPL and TSL. Hence, credit policy in these units had favourable impact on their sales.

- In RINL, the share of debtors to current assets recorded an increase. This is due to unfavorable collection policy.

- The size of debtors in ESL, JSPL and TSL had increased over the period. But debtors as a percentage of current assets had declined during the same period. These facts point out the expanded credit sales on the one hand and effective cash collection from debtors on the other. A similar kind of situation can be noted at the aggregate level.

- RINL had adopted a stringent credit policy. With regard to SAIL, debtors were less liquid and piled over the time. This shows that the collection is ineffective.

- Management of debtors was relatively unsatisfactory in the JSPL as compared to ESL and TSL. The aforesaid analysis
reveals that the management of debtors was efficient in public sector as compared to private sector.

- SAIL and RINL have maintained high cash and bank balances than ESL, JSPL and TSL. Cash and bank balances were good in the case of public sector as against private sector.

- The liquidity performance of SAIL cannot be favorably compared with that of RINL. However, more working funds were unnecessarily blocked up in current assets in the latter. Average current ratio of ESL, JSPL and TSL was more or less equal to industry average of 1.68 times.

- The sectoral analysis reveals that the liquidity performance of private sector (1.61 times) was not satisfactory as compared to public sector (2.47 times).

- In RINL, liquid ratio was too high in six out of ten years. It implies that more working funds were blocked up in current assets. The situation had resulted in under-trading. Between SAIL and RINL, liquid ratio was better in the former as it had exceeded the standard norm of 1:1. In all the private sector units, liquid ratio is not comparable with that of public sector units.

- The sector-wise analysis shows that the quick ratio in public sector had exceeded the private sector. This means more
liquid funds were blocked up in quick current assets in public sector.

- The actual liquidity performance had deteriorated in SAIL and RINL, more particularly in the latter. However, it may be noted that in RINL the net cash flow to current liabilities ratio had exceeded the cent per cent norm in three out of ten years.

- The actual liquidity performance was relatively poor in ESL during the later years of the study period. It infers that the ESL was unable to meet its current liabilities out of net cash flow generated. An average ratio of JSPL and TSL had exceeded the industry average of 45.59 per cent. Of them, it was relatively better in JSPL as compared to TSL.

- The sector-wise analysis points out that the consolidated average ratios of public sector (54.31 per cent) and private sector (55.56 per cent) had exceeded the industry average. The actual liquidity performance of these two sectors was more or less identical to the industry average but less than the ideal norm of cent per cent.

- The actual liquidity performance was relatively better in RINL relative to SAIL. In the case of private sector units, JSPL and TSL were better placed in terms of actual liquidity performance. But, the actual liquidity position was
unsatisfactory and also precarious in ESL. Sectoral analysis purports that the coverage of current liabilities was satisfactory in all the sample units except ESL.

**PROFITABILITY PERFORMANCE**

- In both the SAIL and RINL, the average annual growth rate in sales was lower than that of operating expenses. Similar trend emerges in private sector units i.e. ESL, JSPL and TSL. It means that the operating expenses were ineffectively controlled. Further, in the aggregate level of industry, the operating efficiency was considerably at very low ebb.

- In public sector units, the gross profit margin had declined. The private sector companies have enjoyed effective gross profit margin. Thus, profitability performance in terms of gross profit margin was more satisfactory in private sector than public sector.

- The higher operating ratio has led to reduced operating profits in SAIL as well as in RINL. The operating ratio is more in ESL and JSPL relative to TSL. It may be summed up that private sector units have exercised effective control on operating expenses as compared to their public sector counterparts.

- The net operating profit to sales ratio was less in SAIL and RINL. But the same was moderate in JSPL and TSL while low
in ESL. It may be said that the industry was unable to increase net operating profits.

- The SAIL has made sincere efforts in cutting down the financial costs and increasing sales so as to improve the net profit performance. In the RINL, overall net profit to sales ratio had exceeded the standard norm. Thus, net profit performance was satisfactory.

- In the ESL, profit performance was poor and, therefore, difficult to withstand adverse business conditions. In JSPL as well as in TSL, overall net profit ratio had exceeded the standard norm. As such, the net profit performance was satisfactory. Therefore, the net profit performance of private sector units was good as compared to public sector units.

- The profitability performance in SAIL was satisfactory since the average ROI had exceeded the standard norm. RINL had enjoyed better returns on its resources barring the concluding year.

- ESL could not enjoy better returns as the overall ROI was very poor. But, in TSL the ROI was satisfactory. A mixed trend can be observed in JSPL.

- Sector-wise analysis shows that the profit performance of public sector companies was better as compared to that of private sector.
The ROCE ratio reveals that capital was unproductively used in RINL. A contrary trend emerges in SAIL, which infers more value to investors. In ESL, it was erratic and at very low ebb, which indicates less value for investors. In JSPL, there is a fluctuating trend. However, profitability performance was satisfactory. In TSL, ROCE is higher than that of JSPL and ESL. It clearly indicates that the return on capital employed is quite encouraging to the existing as well as to the prospective investors in TSL.

The public sector has an edge over private sector in terms of ROCE as can be viewed from their consolidated average ratios.

The shareholders’ investment was profitably utilized in SAIL. But it is low and unsatisfactory in the RINL.

The profitability in ESL in terms of owners’ equity was very poor and therefore, unattractive. If negative trend in the ratio persists, then ESL will face lot of problems in raising funds in future. In JSPL, the profitability was well reflected. It means that the management took greater responsibility in the maximization of shareholders’ equity. In TSL, profitability performance was not satisfactory due to increase in cost of goods sold. Despite this, owners’ funds were productively employed.
Sectoral view illustrates the fact that the average shareholders’ fund ratio at the aggregate level was higher in the private sector than that of public sector. Hence, private sector, especially, JSPL and TSL have provided the highest economic welfare to owners. Thus, shareholders’ funds were more productively used in private sector as against public sector.

RESULTS OF HYPOTHESES TESTED

Null hypothesis is framed in the present study i.e. there is no significant difference between the industry’s financial performance and individual iron and steel units in the country. In order to test the four variables of financial analysis viz., solvency, liquidity, operational efficiency and profitability are tested. The following are the results of hypotheses tested:

- **H₀**: There is no significant difference between the debt-equity ratios of individual iron and steel units and that of the industry.

  The null hypothesis was accepted for SAIL and TSL and rejected for RINL, ESL and JSPL.

- **H₀**: There is no significant difference between the fixed assets (net) to net worth ratio of individual iron and steel units and the industry.
The null hypothesis was accepted for SAIL and TSL and rejected for RINL, ESL and JSPL.

- **H₀**: There is no significant difference between the current ratio of individual iron and steel units and the industry.

The null hypotheses was accepted for SAIL, ESL, JSPL and TSL but rejected for RINL.

- **H₀**: There is no significant difference between the return on investment ratio of individual iron and steel units and the industry.

The null hypothesis was rejected for ESL and accepted for the remaining companies i.e. SAIL, RINL, JSPL and TSL.

### 3.0 SUGGESTIONS

The conclusions summarized as to the financial performance of Indian iron and steel industry point out that the finances of sample units need to be managed optimally and productively with adequate care so as to enable overall progress of the industry. The following are the suggestions offered for the better financial health of sample companies in particular and the industry in general.

- Since SAIL and TSL have heavily relied on internal sources, they have to raise funds from external sources so as to attain balanced capital structure. ESL shall generate internal sources on par with external sources to finance its activities.
TSL shall raise long term debt funds for financing expansion as debt funds are relatively cheaper than own funds. Precisely, the interest on debt funds is tax deductive.

SAIL and RINL shall use long term debt so as to reap the benefits of financial leverage. Of these, the latter shall tap more long term debt funds than the former.

The ESL shall reduce loan funds to minimize high financial risk and to have a balanced capital structure. JSPL and TSL shall increase the quantum of long term debt to gain the advantages of capital gearing. In other words, both public and private sectors shall formulate optimum capital structure so as to reap the benefits.

SAIL and RINL shall use the long term debt to gain the advantages of financial gearing. ESL shall reduce the quantum of debt capital since the company is unable to comfortably meet the interest obligations to long term lenders.

Of the sectors, public sector shall reduce its excessive dependence on equity funds so as to reap the advantages of trading on equity.

ESL shall improve its long term investments base as its proportion in fixed assets is low.
SAIL shall increase owners’ equity as it is inadequate to meet the needs of fixed assets. The ESL, JSPL and TSL shall improve shareholders’ funds to finance fixed assets as these have acquired fixed assets from long term loans.

Private sector companies shall employ more long term funds to finance working capital since their contribution is marginal.

SAIL and RINL shall improve the fixed asset turnover ratio as fixed assets have generated relatively low sales. The private sector companies particularly JSPL shall improve the utilization of fixed assets to generate adequate sales.

RINL shall pursue consistent depreciation policy. Similar is the case with ESL and JSPL as depreciation provided by them is disproportionate to the magnitude of fixed assets.

Depreciation provision is sufficient on historical cost basis. But it will surely be inadequate when viewed from the point of view of inflation. Therefore, the industry shall create adequate replacement reserve fund besides depreciation to replace fixed assets.

As inventory is a major item of current assets, the following points may be considered:

- A purchase committee shall be constituted by involving the production and finance managers so as to properly estimate
the raw material requirements to avoid piling up of funds unnecessarily.

Administrative and procurement lead times have to be minimized to avoid over inventory.

The model of Economic Order Quantity (EOQ) shall be preferred to reduce inventory holding costs and ordering costs.

ABC analysis (Selective Inventory Control) shall be carried out for all the components of inventory.

JIT shall be followed to reduce the blocking up of working funds in inventory.

There shall be a separate material planning cell to handle proper storage of materials.

Consumption norms for raw materials shall be developed by taking into account past experience, present conditions and future anticipations.

Inventory methods shall be scientifically specified so as to reduce the risk of loss due to unnecessary blocking up of working funds as already pointed out.

RINL shall put concerted efforts to improve collection from debtors as its collection policy is unfavorable.

SAIL shall formulate effective collection policy since working funds were unnecessarily piled up in debtors. The private
sector companies shall also design effective collection policy to collect debts. To this end the companies shall prepare monthly reports with regard to overdue customers, so that appropriate action may be initiated to accelerate cash collection.

- SAIL shall improve liquidity performance either by increasing current assets or reducing current liabilities. RINL shall minimize working funds in current assets to the possible extent.

- All the private sector companies shall improve liquidity performance by increasing the quantum of current assets to meet maturity obligations without any inconvenience.

- SAIL and RINL shall improve cash flows to meet the current liabilities as liquidity had particularly deteriorated in the latter. ESL shall generate more cash flows as compared to JSPL and TSL to improve liquidity performance.

- All the sample units have failed to control the operating expenses effectively. Therefore, these units shall improve the volume of sales commensurate with the growth rate in operating expenses. Consequently, operating efficiency shall be increased in both the sectors. Further, these have to adopt standard costing, activity based costing and flexible
budgetary control to control and push down the operating costs effectively.

- SAIL and RINL shall take necessary steps to improve the gross profit margin as it had declined. To this end, manufacturing and administrative expenses shall be minimized.

- SAIL, RINL and ESL shall increase the net operating profit on par with volume of sales.

- ESL shall improve the net profit performance to withstand adverse business conditions and to sustain competition.

- The ESL shall improve the overall ROI as it was unsatisfactory. JSPL shall also increase the returns in relation to total capital invested to shift from the mixed profit performance to standard profit performance.

- In RINL, return on shareholders’ funds is low and unsatisfactory. Hence, it has to use them profitably. Similarly, ESL and TSL shall use them productively as the profitability was very poor in the former and unsatisfactory in the latter respectively.

- Public sector shall employ shareholders’ funds productively on par with the private sector to maximize the wealth of the shareholders.
4.0 SCOPE FOR FURTHER RESEARCH

- Capital Structure Planning in Iron and Steel Industry.
- Profitability Performance of Iron and Steel Industry.