10.1. Summary & Conclusion

An attempt has been made in this research study to evaluate the financial performance of some selected public sector and private sector companies belonging to the iron and steel industry in India. It has also been attempted to make a comparative study of financial performance between the public sector and private sector companies under reference.

In Introduction chapter discussions have been made on the selection of study area, its significance, objectives, nature and scope, research design and methodology and lastly the scheme of study.

In fact, Indian economy has been experiencing a radical change over the past few couple of decades. Out of two fields – public sector and private sector in the Indian economic structure, public sector units were considered to be the main engine of growth and many areas were reserved only for public sector even a few decades ago. But since the beginning of 1980s, the functioning of public sector began to be questioned, even the question of withdrawing some units of public sector was also raised. Then after the enactment of new industrial policy in the year 1991, the thrust of industrialization has been changed from nationalization to privatization and consequently the issue of privatization has emerged. In this backdrop, a comparative evaluation of financial performance between public sector and private sector on empirical evidence is virtually necessary to justify this issue. For this purpose we have selected Indian iron & steel industry, as it is a vital sector contributing a lot in the economic development of the country. With the nation’s focus on infrastructure development coupled with growth in manufacturing sector, the iron and steel industry in India finds added significance. Considering the importance of this industry in the economic development of the country, some
public sector and private sector steel companies have been selected for the study to judge their financial performance on comparative basis.

Against this background, the following objectives have been set for this research study:

1. Measuring and assessing financial performance in terms of liquidity, leverage, assets management and profitability of the selected public sector and private sector companies.

2. Assessing overall financial performance of selected public sector and private sector companies more rigorously considering the above-mentioned areas of performance into a composite measure.

3. Identifying the favourable factors contributing for good performance and also unfavourable the factors responsible for poor performance of the companies under study.

4. Making a comparative evaluation of financial performance between the selected public sector and private sector companies with a view to knowing which sector is doing well in this respect.

5. Finally summarizing the main findings of the study and offering some suggestions for better performance of these companies.

The above objectives have been pursued taking a sample of twenty companies belonging to the Indian iron and steel industry. Out of these twenty, all six public sector companies have been selected and the rest fourteen private sector companies have been selected in a screening process based on their capital employed. The study has been conducted for a period of ten years from 1995-96 to 2004-05. The data used in this study are secondary in nature and collected from PROWESS database published by the CMIE. Besides these, Annual Reports of these companies and RBI Bulletins have been consulted as and when required for the study. We have also visited the websites of individual companies and other relevant websites for collection of data and other information required for the study. The data used for the analysis are financial in nature and the study covers evaluation of performance on different
financial aspects. It does not include evaluation on different non-financial areas of performance.

In this study we have used simple mathematical tools like ratios, percentages etc. for analyzing the data. For judging performance from the viewpoint of liquidity, leverage, assets management and profitability of the companies, different liquidity ratios, leverage ratios, assets turnover ratios and profitability ratios have been used. Measures of central tendency, measures of dispersion etc. have also been used in the study for different statistical analysis. All computations have been done through a personal computer using MS-Excel package.

The study suffers from the limitation of using secondary data. It is limited to a study period of ten years only. The analysis is restricted to twenty companies only. Modern measures of performance evaluation could not be applied in this study.

Lastly, the chapter plan, having ten chapters, of this research study has also been mentioned in the introductory chapter.

Chapter two has been devoted to the brief history of iron and steel industry in India. In fact iron and steel industry in any country provides the route for its economic development. The per capita consumption of steel is generally considered as a yardstick of measuring the standard of living of the people. Indian iron and steel industry, a core of the core industries belonging to infrastructural sector of Indian economy has a long heritage. This industry started growing after independence with the direct initiative of the government. The growth of this industry has been considered as a pre-requisite for rapid industrialization and being a core sector, it had been kept reserved for the public sector only. Since liberalization of economy, this industry has been opened to the private sector and after that it started radical departure from public sector dominated controlled economy to the market economy. With private participation it has achieved a spectacular growth having linkage to the global market. India has now emerged as a significant steel producer and it occupies seventh position in the world at present.
Despite remarkable progress, this industry is facing some problems like, shortage of quality raw material and power, transportation problem, high rise in input cost, low labour productivity, under-utilisation of capacity, lack of up-to-date technology etc. But with its competitive advantages in areas like, abundance of raw material, cheap labour, vast untapped domestic and foreign market, Indian iron and steel industry has the potentiality to grow to be the commanding height of the economy in near future. All these aspects have been analysed in details in chapter two.

In chapter three it has been attempted to present a brief profile of the selected public sector and private sector companies belonging to iron and steel industry in India. This chapter outlines brief accounts of sample companies indicating their years of establishment, installed capacities, objects and activities, products range, expansion and modernization programme, research and development etc. The present study has been conducted taking a sample of twenty companies. The above particulars in respect of each of those twenty companies have been mentioned one by one.

Survey of literature has been made in chapter four. Among a vast volume of empirical works in the literature on different aspects of financial performance of corporate sector, some important works in connection with this research study have been reviewed in this chapter. Our survey has covered such aspects as various studies carried out to reflect financial performance in areas like liquidity, leverage, capital structure, profitability, assets management etc. A close review of these studies revealed that almost all studies have been conducted to judge performance in one or more such areas and rarely on all areas at a time. Moreover these studies were based on some companies belonging to a particular industry or some industries operating in the economy. These were not conducted in such way that would judge the financial performance of public sector and private sector companies on a comparative basis. These apart, there are hardly any research work done on all such areas at a time on iron and steel industry though this industry is at top priority in the context of infrastructure development of our country at present. These
deficiencies in earlier studies have been tried to be covered in this study as far as practicable.

In **chapter five**, performance of selected public sector and private sector companies has been evaluated through *liquidity management*. Before empirical analysis, some theoretical framework pertaining to the liquidity management is analysed first. Liquidity i.e. short-term debt paying capacity is measured by current ratio and acid test ratio. Liquidity ratios are generally based on the relationship between current assets and current liabilities. In measuring liquidity, a conventional norm of 2:1 for current ratio and 1:1 for acid test ratio is taken into consideration. The norm of RBI, Tandon and Chore committee and other relevant studies with regard to the liquidity ratios are also taken into account. An appropriate degree of liquidity is required to be maintained as both inadequate and excessive liquidity have their own demerits. The major findings of this chapter pertaining to the liquidity performance of selected public sector and private sector companies are now summarized below:

1) So far as empirical results are concerned, it is observed that 75% of the sample companies could not reach the 2:1 norm of current ratio and 50% of the sample could not reach the 1:1 norm of acid test ratio on average during the period of study. Thus liquidity performance was poor for most of the selected public sector and private sector companies.

2) The liquidity performance in terms of current ratio was observed to be very poor for two public sector companies viz. MEL and IISCOL and also for two private sector companies viz. ISL and IL. These have been facing serious liquidity crisis over the years as net working capital of these companies was negative.

3) The liquidity performance in terms of acid test ratio was also found to be very poor for the above-mentioned four companies as well as for another two companies viz. SAIL which belongs to public sector and BSIL which belongs to private sector. Their proportion of liquid assets in relation to current liabilities were very low. These companies have been facing chronic liquidity crisis. Among these six companies, signal was
red for one public sector company viz. IISCO and one private sector company viz. ISL.

4) Excessive degree of liquidity was observed for AIL in terms of both current ratio and acid test ratio. It was borne out by the fact that the company has been holding a very high and disproportionate level of current and liquid assets in relation to its current liabilities. Such excessive liquidity adversely affected the profitability of the company as we found it later.

5) Liquidity to some extent was higher in terms of acid test ratio for some other companies like SIIL, FSNL, KISL, GISCOL, ASL and KSL.

6) Another notable finding is that liquidity in terms of current ratio was low but in terms of acid test ratio was high for two private sector companies viz. ASL and KSL in particular. It was indicative of the fact that these two companies could successfully manage their current assets and current liabilities with minimum amounts blocked in inventories.

7) Empirical evidence showed that average current ratio of majority of the sample companies belonged to a range of 1.00 to 1.75 and average acid test ratio of the majority belonged to a range of 0.5 to 1.00.

8) Almost all companies were characterized with a uniformity and stability in maintaining liquidity ratios during the study period except two public sector companies viz. SIIL and RINL.

9) As between two sectors, liquidity performance of private sector companies was observed to be better than that of public sector companies as a whole.

Thus from the above findings it can be concluded that liquidity performance of most of the public sector and private sector companies was not satisfactory. In fine, combined position was comparatively better for private sector companies as against public sector companies. But aggregate values of current ratio and even acid test ratio are not sufficient enough to justify the liquidity performance of the companies. It is necessary to analyse the liquidity of individual components of current assets such as inventories, debtors, cash.
etc. for better appraisal of liquidity which has been properly dealt with in chapter seven.

**Leverage** practice followed by the selected companies has been analysed in *chapter six*. Some theoretical framework relating to the leverage is discussed at the outset. Leverage discussed in this chapter is attached to financing decision and accordingly it focuses on the proportion of debt and equity in the capital structure or financial structure on the one hand and debt-use capacity on the other. For analysing the leverage position, we have used debt-equity ratio, interest coverage ratio and total debt to total assets ratio in our study. The major findings presented in this chapter are in a nutshell given below.

1) The iron and steel industry used both debt and equity in designing its capital structure during the study period. But the debt-equity ratios of majority of the sample companies were observed to be low and below the prescribed norm. So the capital structure of majority of the sample was ‘low geared’. It is indicative of the fact that management of those companies were very conservative in using debt fund and they had a marked preference for reliance on internal fund in lieu of long-term borrowed fund.

2) Despite satisfactory interest coverage position, some companies like FSNL, AIL, GISCOL, RUL, ASL and TSL followed conservative financing policy. The management of these companies had ample scope to increase the level of debt to utilize the unused debt capacity.

3) A few companies like SAIL, BSIL and IIL adopted high capital gearing techniques by using more long-term debt in their capital structure to maximize the return on equity.

4) An unhealthy situation was observed in case of IISCO, MEL, ISL and IL as their debt-equity ratios were negative either in whole or in part during the study period. It indicates that the entire equity base of these companies was completely eroded by their mounting operating losses. These companies exclusively depended on borrowed funds and were suffering from severe financial crisis.
5) In view of negative profitability and no debt use capacity as reflected by negative ICR, employment of debt capital in the financial structure is unjustified for some companies like MEL, SIIL, IISCO, KISL, ISL and IL. These companies were exposed to a greater degree of financial risk and were subject to financial distress.

6) Only twenty percent of the sample companies could maintain their respective debt-equity norm on average as prescribed by the Government and other regulatory authorities. It was far below the prescribed norm for eighty percent of the sample companies.

7) Theoretically total debt to total assets ratio (TDTAR) varies between zero to one as total assets can be financed either by debt or by equity in full or in part. But it was observed to be more than one for the companies like MEL, IISCO, ISL and IL in certain years. It indicates that excessive debt burdens of these companies were even uncovered by their total real assets in those years. The debt-equity ratios were observed to be negative for those cases.

8) As far as the total debt to total assets ratios are concerned, it is observed that some companies like MEL, IISCO, SAIL, ISL, MSL, BSIL, IL, MUSCOL and IL used relatively higher proportion of total debt in financing their total assets during the period of study.

9) The study findings indicate that there was a shift towards preference for short-term debt in lieu of long-term debt in financing total assets in case of SIIL, FSNL, RINL and AIL. It was represented by the cases when debt-equity ratios were zero but TDTA ratios were positive.

10) So far as the comparative study of leverage is concerned, it was found that both public sector and private sector companies followed more or less similar pattern of financing policy, both relied more on internal fund rather than long-term borrowed fund and both sector could not achieve the prescribed debt-equity norm on average with the exception of very limited cases. However, out of a total study period of ten years, private sector companies employed higher proportion of long-term debt for six
years and public sector companies used it higher for four years as compared to another. Debt use capacity was observed to be relatively higher for public sector companies for six years and it was found to be higher for private sector companies for four years.

Further, public sector companies, on aggregate, used relatively greater proportion of total debt in financing their total assets as compared to the private sector companies.

Thus from these findings it can be said that most of the sample companies followed conservative financing policy. They relied more on internal fund rather than long-term debt fund. It may be justified in view of their poor debt use capacity for some companies. But the companies having satisfactory coverage should have used more debt fund to boost their profitability. Some companies were exclusively dependent on debt providers because of their erosion of entire equity base. Some companies showed their preference towards use of short-term debt instead of long-term debt in financing their assets.

In chapter seven, performance of selected public sector and private sector companies has been evaluated in terms of assets management. In fact, returns are generated from proper utilization of a firm's assets. So assets should not remain unutilized or under-utilized. In other words, under-investment and over-investment in assets should be avoided for the own interest of the firm which requires appropriate management. So assets management is the most important area on the part of financial management which has been mentioned at the beginning of the chapter. Assets management has been analysed by dividing the firm's assets structure into fixed assets and current assets. Again current assets management has been analysed in terms of the main components of current assets viz. inventories, debtors and cash. Different assets turnover ratios have been used in this study to evaluate the performance of assets management. The turnover ratios are based on the relationship between the level of activity presented by sales and level of various assets. Fixed assets turnover ratio has been used to judge the performance in utilizing fixed assets.
Likewise inventory turnover ratio, debtors turnover ratio together with average collection period and cash turnover ratio have been considered in managing inventory, debtors and cash respectively. Now we sum up the main findings of the study relating to the assets management of the companies under reference in the subsequent paragraphs.

1. (a) The assessment of performance of the sample companies in the utilization of fixed assets by FATR reveals that only one public sector company viz. MEL and five private sector companies viz. MSL, BSIL, RUL, GISCOL and ISL could satisfy on average the standard FATR of 5. So the fixed assets of these six companies have been utilized efficiently. Highest efficiency was observed in case of MSL. The remaining fourteen companies were operating below the satisfactory level. So the performance of majority of the sample was not satisfactory in the utilization of fixed assets during the period of study. These companies could not utilize their full capacity and have idle investments in their fixed assets. The signal was alarming in case of KISL, IIL and SIIL having average FATR below one during the period of study. There was no turnover in case of KISL for a period of three years.

(b) High FATR was observed in case of MSL and BSIL. It indicates that the fixed assets of these companies were generating enough sales to sustain their operating structure. These companies were very much efficient in utilizing their capacity.

(c) Almost all companies improved their performance in utilizing fixed assets during the later years of study except FSNL, ISL and IIL. The unfavourable trend for these three companies indicates deterioration in the technical capacity of assets, product obsolescence and failure in marketing function.

(d) A high degree of variability was found in case of KISL and IIL in maintaining the ratio as compared to others.

(e) The combined position of all public sector companies shows that in none of the years the ratio touched the standard, whereas it touched
for the last two years for the private sector companies on aggregate. But undoubtedly, the combined position of all private sector companies was always better than that of public sector companies in managing and utilizing fixed assets throughout the entire period of study.

2. (a) So far as the analysis of inventory management of selected companies is concerned, it is found that performance of majority of the sample companies in managing inventory was good during the study period. Performance was satisfactorily highest for one public sector company viz. FSNL. Performance was also very much satisfactory for four private sector companies viz. RUL, KSL, IL and ASL. Performance was moderately satisfactory for nine private sector companies viz. IIL, GISCOL, BSIL, TSL, MSL, AIL, BSSL, ISL and MUSCOL and three public sector companies viz. SIIL, MEL and IISCOL. Performance was not so satisfactory for remaining two public sector companies viz. SAIL and RINL. It was ineffective for one private sector company viz. KISL. This particular company has no turnover of inventory for three years. For the remaining years deterioration in the performance was also observed for the company.

(b) It is also observed that almost all companies under reference tried to improve performance in managing inventory effectively during the later period of study. Further, almost all companies were found to be consistent in managing inventory properly over the years except KISL, IL and SIIL.

(c) As between the two sectors, private sector companies were found to be better in the effective management of inventory in comparison with the public sector companies.

3. (a) From the study of debt management of the companies under study, it is found that performance of most of the companies was not satisfactory in this regard. An assessment of credit policy of the sample companies reveals that most of them adopted a liberal credit policy. As a result, their debtors were not turned over rapidly and those could not be
managed properly. It was an indication of slower realization, higher risk of bad debt and lower degree of liquidity.

(b) RINL, a public sector company showed highest performance in managing debt by minimizing the collection period and thus reducing investment in debtors. Performance was also found to be satisfactory for another two public sector companies viz. SIIL and SAIL and four private sector companies viz. BSIL, ISL, RUL and GISCOL. They could manage their debts properly by reducing investment in debtors because of their sound credit and collection policy.

(c) Almost all companies under study except MEL, KISL, AIL and IL tried to improve their performance on debt management during the later years of the study. The unfavourable trend of these four companies was observed because of their defective credit policy and slackness of collection effort. To enumerate, the highest liquidity of AIL in terms of CR and ATR was adversely affected by the poor quality of debt realization of the company. The liquidity of KISL was also badly affected by over investment in inventory and debtors. Again the benefit of rapid inventory turnover in case of IL was outweighed by the bad quality of debtors of the company.

(d) When public sector and private sector companies are jointly considered in two separate groups, we find that public sector companies showed better performance than private sector companies in the effective management of debt.

4. (a) So far as cash management of sample companies is concerned, we find that cash turnover ratios of one public sector company viz. MEL and six private sector companies viz. ISL, BSIL, MSL, BSSL, RUL and ASL were very high. So these companies preferred to maintain minimum cash balance. But a close look at the other liquidity ratios of these companies reveal that MEL and ISL were suffering from serious liquidity crisis. Shortage of cash of these two companies in particular has led them to borrow short-term fund more and more. As a result
working capital of these companies was found to be negative. But BSIL, MSL and RUL were found to manage the liquidity position with minimum cash balance in a modest way.

(b) It is also observed from the study of cash turnover ratio that it was too low for three public sector companies viz. FSNL, SIIL and RINL and for two private sector companies viz. KISL and AIL. So practice of these companies was to hold excessive cash balance. After a query it was revealed that except RINL investment of these companies in current assets was high. It indicates idleness of their funds and these companies loses the benefit of investing the resources gainfully elsewhere.

(c) As a whole cash management of nearly 50% of sample companies was not found to be effective.

(d) Then on comparison in the combined position between the sample public sector and private sector companies it is found that there is a wide gap between these two sectors in terms of their average cash turnover ratio. The ratios of public sector companies were much below those of the private sector companies throughout the entire period of study. So private sector companies were found to be much better in the combined position than the public sector companies in respect of cash management.

After the study of assets management as whole it can be concluded that different companies showed different pictures in managing fixed assets and different components of current assets. However, majority of the sample companies showed mixed level of performance in managing different assets. Utilization of fixed assets and individual components of current assets should have been made in much more effective manner for most of the companies under study in order to maintain their proper liquidity and solvency.

Finally, on comparison between the combined position of public sector and private sector companies it can be concluded that private sector companies showed better performance in managing fixed assets, inventories and cash than
the public sector companies, whereas public sector companies showed better performance only in managing debtors than the private sector companies.

In chapter eight the performance of sample companies has been evaluated in terms of their profitability. Profitability is the ability of earning profit and such ability depends on performance in all activities that a firm has to undertake. It is the main motivational force on the part of owners. At the same time it is the means of survival and growth of a firm. A corporate enterprise cannot discharge its various obligations without adequate profit. Profitability is the end product of all activities and as such all aspects of financial performance like liquidity, leverage, assets management etc. have a bearing on profitability. Thus profitability is the ultimate measure of performance of a firm.

Profitability position of the sample companies has been analysed in this study by the use of profit margin ratios like gross profit ratio, operating profit ratio and net profit ratio and rate of return ratios like return on investment ratio, return on long-term fund ratio and return on equity ratio.

The major findings which have been identified in this chapter are summarized below:

1. (a) From the findings of gross profit ratio it is revealed that about seventy five percent of the sample companies was not in a satisfactory position in earning gross profit return. It was satisfactorily highest for a public sector company viz. FSNL. One private sector company viz. TSL was also found to belong to a very much satisfactory position. Except these two companies, none of the sample companies was found to be in a comfortable position and none could reach the standard gross profit margin, if the rate of 30% is taken as standard (shown in section 8.2 of chapter-8). The ratio was however nearest to the standard for RINL and KSL. Unfortunately, ratios were negative for MEL, SIIL, IISCOL and KISL in some years. Such negative ratios continued for a long period in case of IISCOL. Three public sector companies viz. MEL, SIIL and
IISCOL and one private sector company i.e. KISL were associated with high degree of variability of the gross profit ratio.

(b) On investigation it is found that high cost of production has brought down the gross profit ratio in majority of the sample companies during the period of study. This was due to increase in the cost of raw materials and other inputs and absence of effective cost management. Only two companies FSNL and TSL successfully controlled the cost of production while others could not.

(c) Further, under-utilization of capacity and managerial inefficiency led to deterioration of the position of some companies like SIIL, IISCOL, KISL, AIL, IL, MUSCOL, BSSL, and IL. IISCOL is the clear example of extreme inefficiency.

(d) As between the two sectors, public sector companies were found to be better in their combined position than the private sector companies.

2. (a) So far as the analysis of operating profit ratio is concerned, it is found that the performance of nearly fifty percent of the companies under study was not satisfactory. Like GPR, the performance was highest for FSNL. It was also very much satisfactory for TSL. If we consider that the standard OPR is 6.5% (referred to section 8.3 in chapter-8), we find that near about fifty percent of the sample companies satisfied such standard on average. Operating profit performance of some companies was relatively better than their gross profit performance. Except FSNL all other public sector companies and also five private sector companies viz. KISL, ISL, IL, MUSCOL and IIL experienced operating losses in one or more years of study. Operating inefficiency was prominent in case of two public sector companies viz. MEL and IISCOL and also in case of four private sector companies viz. KISL, AIL, ISL and RUL in particular. Again the signal was alarming for IISCOL and KISL. Five companies viz. MEL, SIIL, KISL, ISL and IL were associated with greater degree of variability of OPR and again it was highest for ISL.
On query it is found that operating expenses of some companies under reference absorbed a higher portion of operating revenues leaving a little margin which was quite insufficient to cover interest and tax burden. Higher operating cost coupled with declining in sales volume has put some companies in an unhealthy situation.

So far as the comparative analysis is concerned, it is somewhat difficult from the analysis of data to draw a clear inference about the operating performance of these two sectors. However, on the basis of combined average, the performance of public sector companies was marginally better than that of private sector companies.

It is observed from the analysis of net profit ratio that net profit performance of about eighty percent of the sample companies was unsatisfactory. The ratio was negative on average for seven companies out of which three viz. MEL, SIIL and IISCOL belong to the public sector and four viz. KISL, ISL, IL and MUSCOL belong to the private sector. It was very much poor for seven companies with ability of earning net profit below one percent on average during the study period. Performance was highest for FSNL on average, but a declining trend was observed for it. Among the private sector companies, TSL showed satisfactory performance during the study period. Only four companies viz. FSNL, ASL, BSSL and TSL were able to earn positive net profit margin throughout the entire study period without incurring any loss in any year. Further, majority of the sample companies were characterized by inconsistent net profit return.

After investigation it is found that inadequate net profit performance of the companies under reference was caused by their inefficiency in manufacturing, administering and marketing functions. In view of rise in operating cost and heavy interest burden, net profit of some companies turned out to be negative. These companies were exposed to a greater degree of financial risk and they had no margin to reward their equity holders.
(c) In terms of combined performance, both public sector and private sector companies were not in a satisfactory state, but private sector companies are found to have performed comparatively better than the public sector companies.

4. It is revealed from the study findings of **return on investment ratio and return on long-term fund ratio** that:

(a) Performance of majority of sample companies was not satisfactory. The ratios were negative for one public sector company viz. IISCOL as well as for one private sector company viz. KISL. The highest performance was observed for a private sector company viz. MSL. Only one public sector company and eight private sector companies had the ability of earning positive return from their investment for all the years of study, while others showed negative return in one year or other. Near about fifty percent of the sample companies were associated with high degree of variability. Few companies like FSNL, MSL, BSIL, TSL and ASL were in a comfortable position.

(b) In terms of combined result, the performance of both public sector and private sector companies deteriorated over the years with the exception of last two or three years. Unlike private sector companies, the combined return was negative for public sector companies during four mid years of study. Public sector companies registered higher volatility amongst them during the six mid years of study. As a whole, private sector companies appeared to have performed better than public sector companies.

(c) After an enquiry into the state of profitability position of the companies under reference, it was found that defective investment policy, under-utilization of capacity, old plant and machinery, outdated technology, inefficient working capital management coupled with other reasons of low profit margin indicated earlier were responsible for negative / inadequate return earning capacity.
5. (a) Lastly, from the analysis of return on equity, being the single most important ratio from the viewpoint of equity shareholders, we find that the picture of all sample companies was not encouraging. The ratios were found to be negative on average for three public sector companies viz. MEL, SIIL and IISCO and also for three private sector companies viz. KISL, IL and MUSCOL. Performance was highest for a public sector company i.e. FSNL. Among the private sector companies, performance was very much satisfactory for TSL, BSSL and ASL and satisfactory for MSL and BSIL. Further, KSL, RUL and II were found in a comfortable position in rewarding their equity shareholders. The performance of remaining two public sector and three private sector companies was far away from the satisfactory level. Besides, most of the sample companies were characterized by inconsistent return on equity.

(b) The study of all profitability ratios reveals an important observation that in the year 2004-05, majority of the companies under study were able to improve their performance. This is because of the fact that the year 2004-05 was a remarkable one in the history of steel industry recording highest production and market demand in the world’s scenario.

(c) So far as the comparative analysis is concerned, the combined performance of private sector companies was strikingly better than that of public sector companies from the equity shareholders’ point of view.

(d) Defective capital structure along with other reasons of low profitability are responsible for poor / negative return on equity of the companies under sufferance.

Now it can be concluded that the findings of profitability ratio provide not a very encouraging picture for all the sample companies under study. While the performance of some companies like FSNL, RINL, SAIL, TSL, BSSL, ASL, MSL, and BSIL was found to be promising one, it was, however, challenging for IISCO, SIIL, KISL, ISL, AIL and IL. Some companies were found to be in a quite good position in terms of profit margin ratio but those
were not found in such position in terms of their return on investment. It signifies inefficiency on the part of management of those companies in financing and investment decision. Again few companies, on the contrary, were found to be in extremely satisfactory position in terms of earning return from their investment, although they were not found to be so in their profit margin ratio. It signifies efficiency in financing and investment decision but inefficiency on the part of management of these companies in production, marketing and administrative function. The net profit performance of the sample companies was found to be poor due to their huge administrative overheads.

Necessary measures are to be adopted by the companies under reference for improving their profitability which have been recommended at last.

So far as the comparative analysis of profitability between the public sector and private sector companies is concerned, public sector companies were found to be better in terms of gross profit ratio and operating profit ratio whereas private sector companies were found to be better in terms of net profit ratio, return on investment ratio, return on long-term fund ratio and return on equity ratio.

In chapter nine, overall financial performance of the companies under study has been evaluated considering different aspects of financial performance into a composite form. In earlier chapters performance has been evaluated in terms of liquidity, leverage, assets management and profitability on the basis of some individual performance indicators. The study reveals that all companies have not performed equally well in all fronts. Even a particular company has not been found to be sound in all respects. A company has shown some favourable ratios and some unfavourable ratios too. In such a situation, we are in a somewhat difficult position to judge the total financial health or weakness of sample companies on the basis of individual performance indicators showing divergent results. To overcome this problem, we have evaluated performance of the companies by the use of a multivariate approach which considers a set of ratios reflecting performance in different areas into a composite measure.
Accordingly seven ratios have been selected for the purpose considering their popularity in literature and relevance for the present study. Those are (i) current ratio (ii) inventory turnover ratio (iii) debtors turnover ratio (iv) cash turnover ratio (v) fixed assets turnover ratio (vi) return on investment ratio (vii) return on long-term fund ratio. Leverage ratios have been excluded here as leverage has not been considered in this study to have its impact on profitability. Thus measurement of overall performance is based on the combined ranking of seven such ratios reflecting performance in the area of liquidity, assets management and profitability. A ranking process has been applied to measure overall performance in which above seven ratios have been combined in a score point. Such measurement is done on the basis of average performance as well as consistency performance of the sample companies.

On the basis of average performance, a list of twenty sample companies has been presented in the chapter in order of their ranking in overall financial performance. It is found from the list that public sector companies obtained 6th, 7th, 13th, 14th and 18th position and private sector companies obtained the rest of the positions. It is MEL which performed best among all the public sector companies but it ranked 6th in total ranking. On the other hand, it is BSIL which performed best obtaining first position among all public sector and private sector companies. So it can be said that none of the public sector companies was found in the top-level performance.

Similarly a list of sample companies has been provided thereafter in order of their ranking in overall performance in term of consistency. Here we find public sector companies in 3rd, 11th, 12th, 13th, 15th and 17th position. The remaining positions are obviously obtained by the sample private sector companies. One public sector company i.e. FSNL is found to be the most consistent performer among all public sector companies and it ranked 3rd in total ranking, whereas ASL, a private sector company, is found to be the most consistent performer in ranking among all public sector and private sector companies. The consistency performance of remaining public sector companies was not found in upper level.
Average performance may not necessarily reflect the true position of a firm, it needs to be consistent in maintaining the performance. So when performance is judged both from the viewpoint of average and consistency taken together, it can give a fair picture. From this angle a list of ranking has been prepared and presented in Table 9.6 in the chapter. It is found from the list that three top positions are captured by three private sector companies viz. BSIL, ASL and RUL and the fourth position has also been held by a private sector company i.e. MEL. Fifth position is obtained jointly by one private sector company i.e. BSSL and one public sector company i.e. FSNL. Other public sector companies are found in 9th, 11th, 13th, 14th and 15th position in total ranking. So public sector companies are not found in satisfactory position.

The result enables us to reach at conclusion that FSNL is the best performer and IISCOL is the worst performer among all public sector companies whereas BSIL was the best and KISL was the worst performer among all selected public sector and private sector companies from the viewpoint of overall financial performance.

Lastly, with a view to achieving the ultimate objective of this research study which sector public or private, on aggregate, is performing better -- we have judged overall performance considering the joint effect of all public sector and private sector companies in two groups. Such evaluation is made on the basis of their combined average and consistency in maintaining their average performance. The result derived from Table-9.7 and Table-9.8 shows that private sector companies have performed better than the public sector companies in overall financial performance on aggregate.
10.2. Recommendations

On the basis of the findings of the study as discussed in chapter five, the following recommendations in the form of suggestions may be offered for improving the *liquidity* performance of the companies under study.

1) Liquidity management is an area which needs serious attention for the companies having negative net working capital. Companies included in this category are IISCOL and MEL belonging to the public sector and IL and ISL belonging to the private sector. The management of these companies should take every possible effort to resolve their present working capital crisis. These companies should maintain a reasonable level of current assets and current liabilities to improve their overall state of liquidity. It can be done by reducing excessive burden of current liabilities and / or by increasing the level of current assets depending upon the requirements.

2) The liquid assets of the above-mentioned four companies as well as for another two companies – one (SAIL) belonging to the public sector and the other (BSIL) belonging to the private sector were quite insufficient. So these companies must maintain adequate amount of liquid assets in order to meet short-term commitments and emergency requirements.

3) Liquidity is an area which also needs sincere attention in the case of AIL, a selected company in the private sector, having excessive degree of liquidity. It may be suggested that the company must reduce the amount of current assets and/or increase the amount of current debt up to a reasonable level. The same suggestion is somewhat applicable to FSNL, SIIL and KISL.

4) Two public sector companies viz. SIIL and RINL should try to maintain a uniform level of current assets and current liabilities over the years.

On the basis of the findings of the study with respect to the *leverage* position of the companies under study, analysed in chapter six, the following suggestions may be presented:
1) The interest coverage ratios of some companies like MEL, SIIL, IISCOL, KISL, BSSL, ISL and IL were found to be negative for a considerable portion. Much dependence on debt fund coupled with negative profitability exposed these companies to carry a higher degree of financial risk. These companies should take caution in using long-term debt fund. Rather they are advised to reduce debt burden in order to avoid financial distress in view of their prevalent debt use capacity.

2) Unfortunately entire net-worth has been completely wiped out for two public sector companies viz. MEL and IISCOL as well as for two private sector companies viz. ISL and IL, in certain cases, due to their continued operating losses. These companies are likely to encounter problems in raising funds in future. The management of these companies should take every possible effort to increase their operating efficiency so that they can get themselves recovered from the loss-making situation. Equity base of these companies should be strengthened by way of converting loans into equity and also by issuing fresh equity shares to meet future requirements of funds. This would enable the companies to reduce debt burden and avoid payment of heavy interest charges. At the same time it will enable these companies to operate at a cheaper cost.

3) Internal reconstruction as per provisions of Indian Companies Act, 1956 is necessary particularly for IISCOL having worst financial condition.

4) Some companies viz. FSNL, AIL, GISCOL, RUL ASL and TSL having satisfactory debt use capacity followed conservative financing policy. The management of these companies had much scope to increase debt finance in their capital structure to boost profitability. In such circumstances, it is suggested that these companies should employ greater proportion of debt to enjoy the benefit of trading on equity.

5) Lastly, there is a need for introspection on the part of finance managers of the companies under study to review their debt policy with a view to keeping the magnitude of debt within safe and reasonable limits.
On the basis of the summary findings relating to the assets management of the sample companies, the following suggestions may be advanced for their better utilization of fixed assets.

(i) Incomes are mostly generated out of proper utilization of fixed assets. Thus profitability of any business depends on the effective utilization of fixed assets. So all the sample companies need to maintain the fixed assets turnover at a healthy level. The management of all companies should take every possible effort to put their fixed assets to the maximum possible use.

(ii) The companies having high FATR belong to the full capacity level. The management of these companies is advised to make additional capital investments, if required after investigation, for expanding capacity level to operate at a larger volume of activity.

(iii) The companies having low FATR, as identified by observation, suffer from under-utilisation of capacity. It may be due to several reasons like shortage of working capital, shortage of raw material and other inputs, labour problem, power cuts, deterioration in technical capacity of assets, product obsolescence, failure in marketing function, defective pricing policy and so on. The management of the companies is advised to detect the reasons, on case-to-case basis, for such unhealthy situation and make possible effort to solve those as far as practicable. The companies under reference should expand their activity levels without further capital investment to take the full benefit of existing capacity of past investments.

(iv) On investigation, it is found that majority of the companies having low FATR were suffering from working capital crises as revealed from the analysis of liquidity and current assets management made in the core part of the thesis. Shortage of working capital resulted in under-utilization of their full capacity. So the companies under reference should plan their working capital requirement more sincerely, manage their cash well and ensure that the amount locked up in inventories and
debtors is minimum. This would perhaps enable the companies to utilize their entire installed capacity.

So far as the practice of public sector companies is concerned, creation of capacity and providing fund for capital expenditure are the main areas of emphasis by the Government. But at the same time sufficient working capital should be provided at the time of project formulation and availability of such fund should also be made by the Government.

(v) The companies under reference should not undertake any programme for expansion of installed capacity until and unless the existing capacities are fully utilized.

(vi) The unfavourable trend in case of FSNL, ISL and IL as found by observation needs to be checked by their management immediately.

(vii) Modernisation programme with latest technology should be undertaken by all sample companies in general and suffering companies in particular. Government, on its part, should extend necessary support to the companies in this regard. This would enable the companies to update their production by the use of latest technology in a qualitative and cost effective manner.

As referred to the findings of the study with respect to the inventory management, the following suggestions may be prescribed for the companies whose efficiency in the management of inventory was not quite satisfactory.

Inventories constitute the most significant part of the current assets. So the level of inventory should be fixed up scientifically in order to avoid the problem of under-stocking and over-stocking. This suggestion is, however, applicable to all companies in general for their effective inventory management. But the management of the companies having low inventory turnover ratio, as per observation, are suggested the following specific points:

a) Marketing functionary should be strengthened for improving sales.

b) Demand forecasting should be made scientifically.
c) Production should be made in tune with the market demand.
d) Inventory of slow moving items should be reduced to the minimum extent possible.
e) Necessary inventory control technique should be adopted in order to avoid accumulation of all sorts of inventory.
f) Quality of product should be taken care of.
g) Price should be fixed up at a competitive rate.

The management of KISL, in particular, should detect the reasons for not having any sale in some years of study and also take immediate steps so that this unhealthy situation does not arise in future.

So far as the findings regarding debtors management of selected steel companies are concerned, the following recommendations may be made for their effective management of debt,

(i) Companies having low debtors turnover and longer collection period formed a considerable portion of the sample. These companies should review their credit and collection policy. The management of these companies are advised to tighten their debt collection efforts and reduce the funds tied up in debtors. Reduction of credit period, periodical review of overdues and strengthening collection machinery are some of the measures recommended for these companies for their effective debt management. Private sector companies should take more care of it.

(ii) The study reveals that almost all companies improved their efficiency in managing debt over the years except MEL, KISL, AIL, and IL. The unfavourable trend of these four companies needs to be checked immediately and corrective measures should be taken up at the earliest for future improvement in their debt management.

(iii) The result of KISL in respect of debtors management calls sincere attention by its management to get it recovered from the worst situation which the company has been experiencing over a long period of time. The company, in particular, should strengthen its marketing functionary for improving the amount of sale.
Based on the observations in respect of *cash management*, the following suggestions may help the sample companies in managing their cash effectively.

(i) The companies having high cash turnover ratios found in the study should always have a close watch on the payment schedule of liabilities and other trading requirements and arrangement should be made accordingly.

(ii) The companies having low cash turnover ratio are advised to workout the requirement of cash and their size of cash should be reduced to that level in order to avoid idleness of fund. This would enable the companies to generate greater return by investing the surplus cash balance in profitable opportunities.

(iii) The company under reference should prepare cash budget and cash flow chart on time-to-time basis in order to manage their cash effectively.

(iv) As revealed from the study, public sector companies should take more care for their cash management. In the crisis period, the public sector companies which were unable to earn enough revenue to support their current expenditure should workout a regular schedule of fund with the co-operation from the parent ministry i.e. steel in our case and the Ministry of Finance in order to avoid procedural difficulties and delays in releasing funds.

On the basis of the findings and conclusions drawn so far, the following recommendations are presented for improving the *profitability* of sample companies in general and the companies under sufferance in particular.

1) The companies having excessive and inadequate liquidity were found to be poor in profitability performance. These companies should take care of maintaining an appropriate degree of liquidity in order to improve their profitability. Working capital management of those companies needs to be effective.

2) Low profitability of some companies was caused by high manufacturing cost and high operating cost. These companies are suggested to adopt
different cost control and profit planning techniques such as cost-volume-profit analysis, marginal costing, standard costing, activity based costing, budgetary control etc. for their effective cost and profitability management.

3) The management of the companies having low assets turnover should adopt the policy of maximizing assets efficiency by making use of all the assets at the full capacity to optimize sale. Full capacity utilization would enable them to enjoy the benefit of fixed overhead and reduce the cost of production which in turn, will help them to attain profitability at a higher level.

4) The companies under reference should formulate a sound capital structure policy with reasonable proportion of debt and equity. The company with poor profitability should avoid use of debt financing and the company with satisfactory earning capacity and unused debt capacity should use more debt financing to increase return on equity.

5) Marketing functionaries of some companies need to be strengthened. Developing appropriate marketing strategy and market research will improve sale and hence profit.

6) In the present age, modernisation programme with latest technology is the urgent need of the hour particularly for the companies working with outdated technology. It will bring down the cost of production, improve the quality of product and create high market demand for the product. These will help to improve profitability and enable to achieve high level of performance.

So far as the findings of overall financial performance evaluation are concerned, some companies like KISL, IL, IISCO, SIIL, RINL, IIL etc. appear in lower position. The management of these companies are suggested to review their entire position and take corrective measures in weak areas for improving their performance. In general public sector companies required greater attention in almost all areas covered in this study.
To conclude, study of financial performance provides different pictures of different companies with respect to different performance indicators. Sample companies were suffering from a lot of problems as identified in different parts of the thesis. In the aggregative picture we find that the liquidity position of the sample companies was not strong, their financing policy was conservative, they relied mainly on internal fund though a few of them depended on borrowed fund with huge financial risk, the companies were suffering from under-utilization of installed capacity, their efficiency in utilizing fixed assets was not satisfactory, their ability in managing current assets for generation of sale was moderate, profitability was also not fully satisfactory. Thus as a whole financial performance of the sample companies was not commendable.

However, on comparison of the financial performance between the public sector and private sector companies, it can be concluded that private sector companies on aggregate performed better in liquidity management, fixed assets utilization inventory management, cash management and profitability management. On the other hand, public sector companies performed somewhat better in debtors management. Again private sector companies as a whole were found to be the more consistent performer than the public sector companies. Despite a lot of benefit and active support from the government, the performance of public sector companies is not up to the expected level, even few are incurring continuous losses and in a perpetual financial crisis. So the issue of privatization is not unreasonable for them. The conclusion of this research study drawn from the facts and figures about different aspects of financial performance proved the sub-standard performance of public sector companies over time. So effective measures on the part of government is urgently necessary to uplift the performance of public sector companies.

Finally, sample companies in general need improvement in the degree of liquidity, formulation of sound capital structure, utilization of full capacity, efficiency in using fixed assets, optimizing investment in current assets, adoption of cost control techniques, attention on reducing variability in earnings, strengthening the marketing machineries, replacement of old plant
and machinery, up-gradation of technology and adoption of modernization programme, focus on research and development etc. to achieve high level of performance. With these, there is every possibility that these companies will be able to reach the commanding heights and will contribute a lot for the growth of the industry under reference for building up infrastructure of India.