CHAPTER SEVEN
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SUMMARY OF THE FINDINGS

Our Present study is confined to public sector steel plants with special reference to Rourkela Steel Plants which form the core of public sector both from the point of view of investment and strategic importance. The Steel plants account for nearly 1/3rd of the total investments of the country, therefore, the importance of analysing the performance of steel plants is enormously required. The present age is popularly known as steel age. Iron and steel industry has acquired tremendous importance because it is treated as the basic key industry for all round development of any country of the world.

The broad objective of this study is to critically evaluate and examine the profitability of public sector steel plants in general and the Rourkela Steel Plant in particular. Being the first public sector plant, the Rourkela steel plants occupies prominent position among all the public sector steel plants, Its profitability affects the profitability of SAIL, the parent company. Therefore, the importance of studying the profitability of the Rourkela steel plant arises. Moreover, a comparative study of profitability is also made between Rourkela Steel plant and other units of SAIL, i.e. Bhilai, Bokaro, Durgapur Alloy (Durgapur) Salem, and SAIL itself and also with TISCO, a private sector company. This study clearly shows the relative superiority of TISCO over the public sector units including Rourkela steel plant. This study also reveals the reasons for poor performance of the public sector steel plants including Rourkela steel plant.

This study of financial performance for 25 years from 1978-79 to 2002-2003 of different steel plant under public sector in general and Rourkela Steel Plant in particular as well as the TISCO in the private sector has been carried out by using the popular techniques of trend analysis, common size statements, ratio analysis and coefficient of correlation analysis.
7.1 MAJOR FINDINGS:
❖ Since the adoption of industrial policy Resolution of 1948, the public sector has been expanding in diverse directions and has gradually come to occupy an important place in the economy. There were only 5 units in 1951, which increased to 240 units under the central public sector undertakings by 2002. Similarly, the investments of Rs. 29 Crore has been increased to Rs. 3,24,632 Crore in these enterprises in the said period.

❖ The public sector is now being increasingly used as the main investment towards achieving the board objectives of our economy, such as self reliance, equitable distribution of wealth and income, eradication of poverty and balanced regional growth. The Industrial policy Resolution of 1956, has further placed on it the arduous task of developing a strong broad based industrial economy. Still then, from profitability point of view, these enterprises are very poor. The return on capital employed was just 6.7 % in 2001-02, Similarly, out of 240 central public sector enterprises, there were 109 loss making enterprises in 2001-02. It shows the dismal picture of the performance of public sector enterprises. About 50 percent of the total profit was contributed by the petroleum sector only in 2001-2002. So the financial performance of pubic enterprises is not at all satisfactory.

❖ However, the public sector has come to occupy a prominent place in the Indian Economy. It has to be understood that privatisation is not an end itself but only a means to the end.

❖ In spite of tremendous importance given to steel industry in industrial policy. 1948, 1956 and different five year plans, it is a pity that India imported steel worth Rs. 3570 crore in 2000-01. In terms of per capita consumption, Indian average is only 11 kgs in comparison to 685 kgs in USA, 428 kgs in Russia, 623 kgs in Sweden and 494 kgs in Japan. China remained world largest producer of crude steel with 149 million metric tonnes whereas India produced only 29 million metric tonnes in spite of special advantage of availability of raw materials, power and labour force. The major disadvantages of Iron and
Steel industry, include overstaffing, high rate of raw materials consumption, higher wastage, poor infrastructure etc.

- The profitability position of Rourkela steel plant is not satisfactory. It has sustained, since its inception, net losses for 23 years out of 45 years. Its cumulative net loss as on 31st March 2003 was Rs. 3929.38 crore. The reasons for poor performance of Rourkela steel plant are increase in operating expenses like material cost, interest and depreciation charges due to huge modernisation programme undertaken by SAIL for Rourkela Steel Plant and adverse market position for flat and tabular products.

- SAIL had unblemished profit track record till the mid 1990's responded by upgrading its plants at Rourkela, Durgapur and Bokaro through modernization. The project cost by the time it was finally completed, was nearly Rs. 12000 crore (Durgapur Rs. 4850 Crore, Rourkela Rs. 4186 Crore, Bokaro Rs. 2450 Crore). From 1998-99 onwards SAIL incurred losses due to high interest and depreciation charges.

- Technologically SAIL lagged behind its competitors even though older companies like TISCO went in for 100 percent continuous casting for producing finished steel. The Units of SAIL after massive capital infusion were hardly able to convert 50 percent of its operations in this mode, the rest were being produced through the ingot route.

- The privately owned TISCO has been steered by a professional management all through, whereas the same is absent in public sector steel plants.

- The nature of public sector steel giant, SAIL has overloaded itself with legacies inimical to its commercial prospects, while TISCO, being a private entity, has escaped a similar ordeal. SAIL even today spends for its units around Rs. 450 crore for meeting its social obligations, which is more than ten times higher than that of TISCO's which amounts to Rs. 40 crore.
- TISCO has inherited certain historical advantages over units of SAIL. For example, its captive coal mines (Coal contributes 30 percent of input cost) provide it with a high grade coking coal with consistent ash content of lower than 16 percent, whereas the units of SAIL, which traditionally has been dependent on Coal India Limited, has to content itself with low grade coking coal with ash content almost always higher than 19 percent.

- TISCO has less than 46000 employees as compared to SAIL's 137000. The average labour productivity of SAIL is less than 130 tonnes of crude steel per man year. Whereas for TISCO, this figure is 245.

- The prepared trend analysis in table 6.1 helps in finding out the trend of net sales and net profits. It is observed that net sales trend of all the steel plants showed a rising trend from the base year. The net profit trend of TISCO is far better than that of SAIL and its units. The net profit trend of Rourkela steel plant is not at all satisfactory. It showed negative trend from 1995-96 to 2002-2003 continuously SAIL also showed negative trend from 1998-99 to 2002-2003, In TISCO, the net profit showed a rising trend all through 25 years of our study. It has increased to 51 times from the base year.

- Comparative statement showing various expenses with percentages of total expenses (as 100) have been prepared in table 6.2 of Rourkela Steel plant, SAIL its other units and TISCO. It is found that the percentage of materials consumed, and the expenses incurred towards power and fuel, excise duty, depreciation etc. by TISCO is lower than that of SAIL and its units.

- Comparative profit and loss statement in table 6.3 reveals that the percentage of cost of materials, interest, depreciation and other expenses of TISCO is much below the expenses incurred by SAIL and its units. It depicts better profitability position of TISCO. In SAIL and its units, operating expenses exceed net sales.
The average gross profit ratio of Rourkela steel plant is only 7.68% whereas in TISCO, this is 17.80%. In Bhilai and Bokaro Steel Plant, this ratio is 16.00% and 17.75% respectively. In SAIL, the parent company, this ratio is 12.75%. The performance of Rourkela Steel Plant is poor in comparison to TISCO, SAIL, Bhilai and Bokaro Steel Plants. The average gross profit ratio of Durgapur, Alloy and Salem Steel Plants was 3.54%, 4.43% and 9.44% each respectively. The performance of Salem Steel Plant is slightly better than that of Rourkela Steel Plant whereas the performance of Durgapur and Alloy Steel Plants is worse than that of Rourkela Steel Plant.

The average net profit ratio of Rourkela Steel Plant is only 2.14%, whereas in TISCO, SAIL, Bhilai and Bokaro Steel Plants, this ratio is 7.81%, 2.42%, 6.86%, 5.89% respectively. It clearly shows the average net profit ratio in TISCO is better than that of SAIL, Bhilai and Bokaro Steel Plants. Of course, the performance of Bhilai and Bokaro Steel Plants is far better than that of Rourkela Steel Plant. These are the only two profit making units of SAIL as SAIL itself is not a manufacturing unit. Its profitability depends entirely on the performance of its individual units. It is revealed from 25 years of study that Durgapur, Alloy, Salem and, to some extent, Rourkela Steel Plants showed net losses for 23 years, 22 years, 13 years and 11 years respectively.

The average return on capital employed ratio of Rourkela Steel Plant is only 2.50% whereas in TISCO, this ratio is 9.88%. In Bhilai and Bokaro Steel Plants, this ratio is 9.31% and 7.36% respectively. It shows that TISCO, Bhilai and Bokaro Steel Plants are using their capital in a more efficient manner than their counterpart Rourkela Steel Plant. In SAIL, this ratio is only 2.52% which is slightly more than that of Rourkela Steel Plant.

The average return on total assets of Rourkela Steel Plant is 1.95% only whereas in TISCO, Bhilai and Bokaro Steel Plants, this ratio is 6.95%, 7.11% and 5.71% respectively. It implies that TISCO, Bhilai, and Bokaro Steel Plants are using their assets more efficiently than the Rourkela Steel Plant in generating profits.
The average operating expense ratio of TISCO is only 96.19% whereas, in SAIL, Rourkela, Bhilai, Bokaro, Durgapur, Alloy and Salem Steel Plants, this ratio is 107.18%, 115.35%, 105.17%, 107.59%, 129.79%, 201.87% and 134.82% respectively. In SAIL and its units, the operating expense ratio is too high. That is why the profitability position of Rourkela Steel Plant, SAIL and its other units is very poor in comparison to TISCO.

The average inventory turnover ratio of TISCO is 6.20 times whereas in Rourkela Steel Plant, it is only 2.28 times. In SAIL, Bhilai and Bokaro Steel Plants, this ratio is 2.56, 4.07 and 2.70 times respectively. It means TISCO is more efficient in increasing sales with respect to inventories than its counterparts Rourkela, Bhilai, Bokaro and SAIL. The inventory turnover ratio of Durgapur, Alloy and Salem Steel Plants are 2.34, 0.78, 1.38 times respectively. It shows inefficiency in management of inventory.

It is found from Table 6.10 that sales and net profits have a positive correlation in Bhilai, Bokaro, SAIL and TISCO Steel Plants. It implies more sales lead to more profits. On the other hand, there is a negative correlation in Rourkela, Durgapur, Alloy and Salem Steel Plants. It is due to increase in operating expenses in comparison to sales.

The coefficient of correlation between operating expenses and net profits of Rourkela, Durgapur and Alloy Steel Plants showed negative correlations. It implies more operating expenses reduce net profits. On the other hand, there is a positive correlation in Bhilai, Bokaro and TISCO Steel Plants. It means more operating expenses increase net profits. It indicates every unit of transaction has incremental cost. More expenses may be incurred to increase profits.

The coefficient of correlation between capital employed and net profits showed a negative correlation in Rourkela, Durgapur and Salem Steel Plants. It implies increase in capital employed does not lead to more profits. It showed positive correlation in Bhilai, Bokaro, SAIL and TISCO Steel Plants. It
indicates more capital employed brings more profits. It may be due to proper use of capital employed.

❖ The correlation between total assets and sales showed a positive correlation in all the Steel Plants. It means that more assets give more production which in turn leads to more sales.

TESTING OF HYPOTHESES
The following five hypotheses have been tested.

HYPOTHESES – I
Increased sales lead to increased profits.

From correlation table, it is found that the coefficient of correlation between sales and net profits showed a positive relationship in Bhilai, Bokaro, SAIL and TISCO Steel Plants. It implies that increase in sales leads to increase in profits. Here Hypothesis–I has been proved.

HYPOTHESES - II
Increase in operating expenses generally reduce the profits.

From correlation table, it is found that there is a negative correlation between operating expenses and net profits in Rourkela, Durgapur, Alloy, Salem and SAIL Steel Plants. It indicates that the more the operating expenses, the less is the profit and hence this leads to reduction of profit. The Hypothesis–II has also been proved.

HYPOTHESES – III
Increased capital employed does not lead to increased net profits.

The coefficient of correlation between capital employed and net profits has a negative correlation in Rourkela, Durgapur and Salem Steel Plants. It means more capital employed does not lead to increased net profits. Our Hypothesis-III has also been proved.
HYPOTHESES – IV

Increased profits generally give high return on investments.

This hypothesis has been tested with the help of correlation analysis. Sales and net profits of Bhilai, Bokaro, SAIL and TISCO Steel Plants are positively correlated. Similarly, total assets and sales of all the steel plants showed a positive correlation. Thus, it can be proved that net profits and total assets lead to more profits or there is more return on investments. Our Hypothesis – IV has been proved.

HYPOTHESIS – V

The performance of the public sector Steel Plants is not as encouraging as that of the private sector.

From the ratio tables, it is observed that the profitability ratios, like net profit ratio, return on capital employed ratio and return on total assets ratio of TISCO, a private Sector unit are far better than that of SAIL and its units under public sector. From this, we can conclude that the performance of public Sector Steel plant is not as encouraging as that of the private sector. Hypothesis - V has been proved.

CONCLUSION:

In conclusion, it may be stated that Tata Iron and Steel company limited (TISCO) is running much better than the Rourkela Steel Plant, SAIL and its other units, i.e., Bhilai, Bokaro, Durgapur, Alloy and Salem Steel Plants. By studying “ratio analysis” we arrive at this conclusion. The average net profit ratio, return on capital employed ratio, return on total assets ratio of TISCO are far better than that of Rourkela Steel Plant, SAIL and its other units. Bhilai Steel Plant, Bokaro Steel Plant and upto 1994- 95 Rourkela Steel Plant are the main profit contributing units of SAIL. The Durgapur Steel Plant, Alloy Steel Plant and Salem Steel Plant are incurring huge amount of losses for which the profitability of SAIL is adversely affected. The main factors responsible for poor performance of the units of SAIL are working under a highly politicized bureaucracy, a huge work force with low productivity, high operational costs and increase in interest and depreciation charges due to
modernisation programme of Rs. 12000 Crore. Of course, SAIL’s best plants namely, Bhilai and Bokaro steel plants can be compared with TISCO in blast furnace productivity, energy consumptions and fuel cost.

Main causes of poor performance of Rourkela Steel Plant and other units of SAIL:

- The plants are frighteningly overmanned.
- Their technologies are obsolete.
- There has been no on-going maintenance for years.
- Use of poor quality of raw materials and shortage of powers.
- The ultimate authority is not its board of directors, but the government itself. Bureaucrats, who have no technical knowledge, and politicians are acting as public sector managers.
- The organisation lacks promoting the expertise and efficiency of its managerial incumbents.
- There has been no fixation of responsibility.
- Its head office is at Delhi, far away from the throb of steel towns, mainly for convenience of the bureaucrats and the politicians.
- Late decision making due to change of ministry and Chairman from time to time.
- Lack of work culture and cost consciousness.
- Blocking of capital due to huge inventories.
- Lack of capacity utilisation.

7.4 Suggestions for better profit position of Rourkela Steel Plant:

- The first and foremost task before Rourkela Steel Plant is to reduce its administrative and operating expenditure.
- Betterment of the production techniques is also another important factor. The management must improve their technology and capacity utilisation.
• The management should try to reduce their man power strength through voluntary retirement schemes and appointment of specialized personnel.

• The management must be given freedom for pricing, so that they can raise sufficient money from internal accruals. This plant urgently needs replacement of its assets. This will improve its capacity utilization position.

• There must be overall cost consciousness.

7.5 Scope for Further Research:

The findings of this study show the characteristic features of steel industries of India. In view of the present position of profitability, these findings will definitely give a limelight for further research in the following areas; i.e. production, marketing, finance personnel, management etc. As the issue of share to the public is restricted in public sector steel plants, the profitability analysis from the view point of investors could not be made. Further the present study is confined to one aspect among many i.e. profitability. Thus it is a partial study. To have a clear overall picture, the other aspects do need analytical study; i.e., productivity, working capital management, labour turnover, absenteeism, industrial relations, workers' participation in management etc.