Steel-intensive structures can resist earthquakes to a much significant degree than concrete ones. In a country like India, most regions which are earthquake-prone, steel constructions are most suitable. Moreover, steel constructions have a huge life span compared to concrete ones and steel is recyclable.

Steel industry plays a vital role in the development of a country. The level of per capita consumption of steel is treated as an important index of the level of socio-economic development and living standards of the people in any country.

India with the production of 44 million tonnes of crude steel in 2006 was ranked the seventh largest steel producer in the world in the same year. Today, steel industry in India is facing many problems, viz; high cost of energy and transport, rising raw material prices, higher interest cost burden, infrastructural crisis, frequent price fluctuations, time and cost over-run in projects implementation etc. The outlook for the
industry remains positive though rising costs on account of raw materials, freight and energy will keep the margins under pressure.

Verification of the Hypotheses

The study has been conducted to test the following hypotheses:

1. That the financial performance of SAIL is better than Tata Steel.

2. That the short term financial strength of SAIL is satisfactory.

3. That the fixed assets utilization efficiency of SAIL is better than Tata Steel.

4. That the SAIL is successfully trading on the equity.

5. That the SAIL manages its working capital more efficiently in comparison to Tata Steel.

6. That the long term financial strength of SAIL is satisfactory.
**First Hypothesis**

The first hypothesis has proved wrong as SAIL incurred losses in the first four years 1999-00 to 2002-03 of the seven years period under study while Tata Steel earned profit in all the years of the study period. In the last three years i.e. 2003-04 to 2005-06 when the SAIL earned profit, the profit measures of SAIL were quite lower than Tata Steel in the years 2003-04 and 2005-06 while in the year 2004-05 the profitability ratios of SAIL were slightly lower than Tata Steel. The return on average capital employed of SAIL during the study period was -7.83, -3.91, -9.69, -1.80, 15.79, 38.57 and 19.39 in comparison to Tata Steel's 4.97, 6.42, 2.38, 11.78, 21.24, 39.82 and 35.38 respectively.

**Second Hypothesis**

In the second hypothesis, the hypothesis of 1:1 for quick ratio has been tested by applying ‘t’ test.

Table 9.1 on the next page shows the quick ratio of SAIL from 1999-00 to 2005-06.
### Table 9.1
Quick Ratio of SAIL from 1999-00 to 2005-06
(In Times)

<table>
<thead>
<tr>
<th>Year</th>
<th>Quick Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>0.72</td>
</tr>
<tr>
<td>2000-01</td>
<td>0.73</td>
</tr>
<tr>
<td>2001-02</td>
<td>0.63</td>
</tr>
<tr>
<td>2002-03</td>
<td>0.74</td>
</tr>
<tr>
<td>2003-04</td>
<td>0.83</td>
</tr>
<tr>
<td>2004-05</td>
<td>1.51</td>
</tr>
<tr>
<td>2005-06</td>
<td>1.38</td>
</tr>
</tbody>
</table>

(i) Mean of quick ratio ($\overline{X}$) = 0.93

(ii) Standard deviation of quick ratio ($\sigma$) = 0.34

(iii) Number of observations (N) = 7

(iv) Hypothetical Ratio (μ) = 1

(v) Degrees of Freedom = N − 1 = 6

(vi) Level of significance = 1%

(vii) Table value of 't' = 3.7

\[
t = \frac{|X - \mu|}{\sigma} \sqrt{N - 1}
\]

\[
= \frac{0.93 - 1}{0.34} \sqrt{7 - 1}
\]

116
\[ = \frac{0.07}{0.34} \times 2.45 \]

\[ = 0.50 \]

Since the calculated value of t (0.50) is less than its critical value (3.7), therefore the hypothesis is true that the short term financial strength of SAIL is satisfactory.

**Third Hypothesis**

The third hypothesis is correct as the fixed assets turnover ratio of SAIL was always higher than Tata Steel during the study period.

Table 9.2 on the next page shows the fixed assets turnover ratio of SAIL and Tata Steel.

From the table it becomes evident that fixed assets value of SAIL is declining in each year whereas Tata Steel’s fixed assets are showing increasing trend, so if the fixed assets figure of first year 1999-00 of SAIL is taken with the sales figure of all the years then the fixed assets turnover ratio of SAIL will be 1.02, 1.02, 0.98, 1.21, 1.52, 2 and 2.03 respectively. The average of this ratio of SAIL is 1.40 whereas the average of fixed assets turnover ratio of Tata Steel is 1.32.
Thus, fixed assets utilization efficiency of SAIL is better than Tata Steel.

Table 9.2
Fixed Assets Turnover Ratio of SAIL and Tata Steel from 1999-00 to 2005-06

<table>
<thead>
<tr>
<th>Years</th>
<th>SAIL</th>
<th>Tata Steel</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales (Rs. in crore)</td>
<td>Fixed Assets (Rs. in crore)</td>
<td>Ratio (Times)</td>
</tr>
<tr>
<td>1999-00</td>
<td>16250</td>
<td>15873</td>
<td>1.02</td>
</tr>
<tr>
<td>2000-01</td>
<td>16233</td>
<td>15177</td>
<td>1.07</td>
</tr>
<tr>
<td>2001-02</td>
<td>15502</td>
<td>14798</td>
<td>1.05</td>
</tr>
<tr>
<td>2002-03</td>
<td>19207</td>
<td>14036</td>
<td>1.37</td>
</tr>
<tr>
<td>2003-04</td>
<td>24178</td>
<td>13168</td>
<td>1.84</td>
</tr>
<tr>
<td>2004-05</td>
<td>31805</td>
<td>12485</td>
<td>2.55</td>
</tr>
<tr>
<td>2005-06</td>
<td>32280</td>
<td>12162</td>
<td>2.65</td>
</tr>
</tbody>
</table>

Source: Annual Reports of SAIL and Tata Steel from 1999-00 to 2005-06.

Fourth Hypothesis

In the first four years of the study period the SAIL incurred losses while in the remaining three years i.e. 2003-04 to 2005-06 the firm successfully traded on the equity as the Financial Leverage Index was greater than 1 in these years.
Fifth Hypothesis

Null Hypothesis: There is no significant difference between working capital management of SAIL and Tata Steel, i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis: The working capital management of SAIL is better than Tata Steel, $H_1: \mu_1 > \mu_2$

The t test has been applied for the purpose of testing the hypothesis.

$$t = \frac{|\bar{X}_1 - \bar{X}_2|}{S \sqrt{\frac{n_1n_2}{n_1 + n_2}}}$$

$\bar{X}_1$ and $\bar{X}_2$ = Means of two samples

$n_1$ and $n_2$ = Number of observations in two samples

$S$ = Combined standard deviation

Table 9.3
Working Capital Turnover Ratio of SAIL and Tata Steel from 1999-00 to 2005-06 (In Times)

<table>
<thead>
<tr>
<th>Years</th>
<th>SAIL</th>
<th>Tata Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>5.03</td>
<td>5.76</td>
</tr>
<tr>
<td>2000-01</td>
<td>5.26</td>
<td>6.82</td>
</tr>
<tr>
<td>2001-02</td>
<td>6.87</td>
<td>7.00</td>
</tr>
<tr>
<td>2002-03</td>
<td>7.67</td>
<td>10.22</td>
</tr>
<tr>
<td>2003-04</td>
<td>11.79</td>
<td>128.18</td>
</tr>
<tr>
<td>2004-05</td>
<td>4.20</td>
<td>41.35</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.48</td>
<td>39.96</td>
</tr>
</tbody>
</table>
Means of two samples ($X_1$ and $X_2$) = 6.33 and 34.18

Number of observations in two samples ($n_1$ and $n_2$) = 7 and 7

Combined standard deviation = 31.41

Degrees of freedom ($n_1+n_2-2$) = 14-2 = 12

Level of significance = 5%

Table value of $t$ = 2.179

$$t = \frac{|6.33-34.18|}{31.41} \sqrt{\frac{7 \times 7}{7+7}}$$

$$= \frac{27.85}{31.41} \times 1.87$$

$$= 1.66$$

Since the calculated value of $t$ (1.66) is less than the table value (2.179) therefore, the null hypothesis is accepted that there is no significant difference between working capital management of SAIL and Tata Steel. The alternative hypothesis that SAIL manages its working capital more efficiently in comparison to Tata Steel is rejected.
Sixth Hypothesis

In the last hypothesis, the hypothesis of 1 for cash flow coverage ratio has been tested with the help of t test. The following table shows the cash flow coverage ratio of SAIL from 1999-00 to 2005-06.

Table 9.4
Cash Flow Coverage Ratio of SAIL from 1999-00 to 2005-06
(In Times)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>0.25</td>
</tr>
<tr>
<td>2000-01</td>
<td>0.47</td>
</tr>
<tr>
<td>2001-02</td>
<td>0.25</td>
</tr>
<tr>
<td>2002-03</td>
<td>0.53</td>
</tr>
<tr>
<td>2003-04</td>
<td>1.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>5.39</td>
</tr>
<tr>
<td>2005-06</td>
<td>5.16</td>
</tr>
</tbody>
</table>

(i) Mean of cash flow coverage ratio ($\bar{X}$) = 1.99

(ii) Standard deviation of cash flow coverage Ratio ($\sigma$) = 2.14

(iii) Number of observations (N) = 7

(iv) Hypothetical Ratio ($\mu$) = 1

(v) Degrees of freedom = N-1 = 7-1 = 6
(vi) Level of significance = 1%

(vii) Table value of t = 3.707

\[ t = \frac{|\bar{X} - \mu|}{\sigma} \sqrt{N-1} \]

\[ = \frac{|1.99 - 1|}{2.14} \sqrt{7-1} \]

\[ = \frac{0.99}{2.14} \times 2.45 \]

\[ = 1.14 \]

Since the calculated value of t (1.14) is less than its critical value (3.707), the hypothesis is correct that the long term financial strength of SAIL is satisfactory.

**Short Term Financial Strength**

Short term financial strength refers to the ability to meet short term debts. The analysis of short term financial strength is of paramount importance as a weak liquidity position may lead to forced sale of assets and may also invite liquidation of the company.

The current ratio, quick ratio and cash ratio have been used for the purpose of liquidity analysis. The current ratio is a quantitative concept not a qualitative one as it shows the
cushion of protection or margin of safety to short term creditors while quick ratio is a more stringent test of liquidity because this ratio does not take into account inventory which is generally the least liquid current asset as it takes time to sell finished goods and convert raw material and work-in-progress into finished goods. The cash ratio is the most severe test of liquidity as this ratio considers only cash and marketable securities which can readily be converted into cash.

From the year 1999-00 to the year 2002-03 the current ratio of 1.64, 1.59, 1.47 and 1.52 of SAIL was not much different with the Tata Steel's current ratio of 1.65, 1.55, 1.54 and 1.36 respectively but the firm's acid test ratio of 0.72, 0.73, 0.63 and 0.74 was quite lower than Tata Steel's 1.14, 1.10, 1.03 and 0.93 respectively and was also far below the norm of 1:1. Thus, short term solvency position of SAIL was weak during the period 1999-00 to 2002-03. The cash ratio of both the firms was more or less the same during this period.

In the year 2003-04, the liquidity position of SAIL was better than Tata Steel but not sound as the quick ratio was below 1. The current ratio, quick ratio and cash ratio of SAIL
were 1.34, 0.83 and 0.34 while in the case of Tata Steel the current ratio, quick ratio and cash ratio were 1.03, 0.57 and 0.09 respectively.

In the last two years 2004-05 and 2005-06 the current ratio of 2.15 and 2.14, quick ratio of 1.51 and 1.38 and cash ratio of 0.93 and 0.76 of SAIL suggest that the ability of the firm to meet short term obligations was quite good and was far better than Tata Steel whose current ratio was 1.10 and 1.11, quick ratio was 0.60 and 0.54 and cash ratio was 0.07 and 0.08 respectively.

The sound liquidity position of SAIL in the years 2004-05 and 2005-06 is mainly due to the substantial increase in term deposits with Scheduled Banks.

In the first five years of the study period i.e. 1999-00 to 2003-04 the short term solvency position of SAIL was not satisfactory. In order to improve the liquidity position, the SAIL is required not to concentrate on the current ratio which is a crude measure of liquidity and moreover the management attention on this ratio affects the inventory management and consequently profit. Therefore, the firm just maintain quick ratio, which is a more refined and more penetrating measure of
liquidity around 1 and if this ratio comes below 1 then necessary steps should be taken to improve the liquidity position.

The firm can plough back some portion of profit regularly or may resort to either long term loans or equity shares to ameliorate the acid test ratio. Depending on the circumstances the SAIL can exercise any option.

**Profitability**

The various measures of profitability have shown that the profitability of Tata Steel was better than SAIL in all the years of the study period. The gross profit ratio of SAIL during the study period 1999-00 to 2005-06 was 5.02 percent, 11.51 percent, 2.39 percent, 11.43 percent, 19.19 percent, 33.94 percent and 21.65 percent respectively while gross margin of Tata Steel during the study period was 11.71 percent, 15.65 percent, 9.82 percent, 17.84 percent, 24.08 percent, 34.18 percent and 30.07 percent respectively.

The SAIL incurred losses in the first four years of the study period due to the lower gross profit margin and higher
interest charges while Tata Steel earned profit in all the years under study. The net profit ratio of SAIL was -10.58 percent, -4.49 percent, -11.01 percent, -1.58 percent, 10.39 percent, 21.43 percent and 12.43 percent in comparison to Tata Steel’s 6.14 percent, 7.13 percent, 2.70 percent, 10.33 percent, 14.65 percent, 21.88 percent and 20.45 percent respectively.

In the last three years i.e. 2003-04 to 2005-06 when the SAIL earned profit, the return on average capital employed of the firm was 15.79 percent, 38.57 percent and 19.39 percent in comparison to Tata Steel’s 21.24 percent, 39.82 percent and 35.38 percent respectively.

The reason for lower gross profit margin of SAIL in comparison to Tata Steel is apparent from table 9.5 on the next page.

There is a vast difference between the efficiency of the two firms regarding raw material consumption. The raw material consumed to sales ratio of SAIL was far higher than Tata Steel in all the years of the study period. The average of raw material consumed ratio of SAIL of the seven years period
<table>
<thead>
<tr>
<th>Years</th>
<th>SAIL Raw material consumed to sales ratio</th>
<th>SAIL Wages and salaries to sales ratio</th>
<th>SAIL Power and fuel consumed to sales ratio</th>
<th>SAIL Stores and spares consumed to sales ratio</th>
<th>SAIL Repairs and maintenance to sales ratio</th>
<th>Tata Steel Raw material consumed to sales ratio</th>
<th>Tata Steel Wages and salaries to sales ratio</th>
<th>Tata Steel Power and fuel consumed to sales ratio</th>
<th>Tata Steel Stores and spares consumed to sales ratio</th>
<th>Tata Steel Repairs and maintenance to sales ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>30.62</td>
<td>16.83</td>
<td>9.02</td>
<td>10.65</td>
<td>1.05</td>
<td>14.31</td>
<td>13.89</td>
<td>9.24</td>
<td>4.72</td>
<td>6.47</td>
</tr>
<tr>
<td>2001-02</td>
<td>36.41</td>
<td>20.96</td>
<td>11.03</td>
<td>10.23</td>
<td>1.05</td>
<td>16.01</td>
<td>14.45</td>
<td>9.46</td>
<td>5.23</td>
<td>5.49</td>
</tr>
<tr>
<td>2002-03</td>
<td>32.42</td>
<td>19.38</td>
<td>10.61</td>
<td>9.03</td>
<td>0.98</td>
<td>13.18</td>
<td>12.44</td>
<td>8.05</td>
<td>5.22</td>
<td>4.86</td>
</tr>
<tr>
<td>2003-04</td>
<td>28.51</td>
<td>19.68</td>
<td>8.93</td>
<td>7.96</td>
<td>0.81</td>
<td>12.40</td>
<td>11.32</td>
<td>6.08</td>
<td>4.01</td>
<td>4.84</td>
</tr>
<tr>
<td>2004-05</td>
<td>29.40</td>
<td>11.99</td>
<td>6.90</td>
<td>6.80</td>
<td>0.75</td>
<td>10.80</td>
<td>8.13</td>
<td>4.90</td>
<td>3.91</td>
<td>4.24</td>
</tr>
<tr>
<td>2005-06</td>
<td>38.18</td>
<td>12.88</td>
<td>7.71</td>
<td>8.19</td>
<td>1.07</td>
<td>13.81</td>
<td>7.89</td>
<td>5.24</td>
<td>4.30</td>
<td>3.97</td>
</tr>
<tr>
<td>Average</td>
<td>32.70</td>
<td>17.26</td>
<td>9.13</td>
<td>9.00</td>
<td>0.98</td>
<td>13.55</td>
<td>11.43</td>
<td>7.41</td>
<td>4.58</td>
<td>5.12</td>
</tr>
</tbody>
</table>
under study is even more than double of the average of Tata Steel's ratio.

The wages and salaries to sales ratio of SAIL was also quite high in comparison to Tata Steel. The average of power and fuel consumption ratio of SAIL is 9.13 percent while in the case of Tata Steel it is 7.41 percent. The stores and spares consumption ratio too was much higher of SAIL than Tata Steel in all the years under study, but the repairs and maintenance expenditure of the firm was considerably lower than Tata Steel during the study period.

The two main reasons for the poor performance of SAIL are idle time of workers and excess manpower. The Government of India appointed Mckinsey, a World Bank sponsored MNC consultancy firm, to suggest measures for improving the working of SAIL. The firm advised SAIL to drastically reduce the manpower and increase the workload on the workers.

Idle time is a very serious problem for any organization. Idle time leads to wastage of raw material, power and fuel, higher manpower cost and excess manpower results in heavy
expenditure on wages and salaries, thus cost of production becomes too high.

In order to solve the problem of idle time, the SAIL should establish a cost control unit employed by professional and competent persons. The unit should evaluate the performance of each worker in all the departments. If the workers are not achieving the desired results in terms of production and cost within the specified time then they should be treated according to Factories Act 1948 in the interest of SAIL and consequently in the welfare of the nation. If the firm found persons incompetent to perform the required task they should be provided full fledged training.

Besides, raw material should be purchased of standard quality and the firm should employ latest techniques in the production methods.

Another serious problem of the concern is excess manpower both in production and administration. As a result of voluntary separation and natural separation, the manpower of SAIL has reduced from 2,08,765 as on 31.3.1998 to 1,38,211 as on 31.3.2006, a reduction of 70,554 employees.
The firm introduced voluntary retirement scheme on deferred payment basis in 1998.

Though 70,554 employees have reduced in the organization in a span of eight years but still the labour cost is high, therefore, there is further need for manpower reduction.

The repairs and maintenance expenditure of the firm is very low in comparison to Tata Steel, it means machines are not maintained properly, this is also the reason for the higher consumption of raw material, power and fuel, stores and spares. The firm should provide proper repairs and maintenance to the plant and machinery regularly to reduce the cost of production. Special thrust should be given to blast furnace productivity as it is directly related to consumption of coking coal which is imported, fluctuations in foreign exchange directly influence the production cost of the company.

According to Annual Reports, the SAIL is also facing infrastructural problems like availability of wagons, port congestion etc. which increase the cost of production. The management should talk to the Government on this matter. The Government should either allow SAIL for purchasing its own
wagons or ensure the availability of more and more wagons at the right time and at the right place so that raw material may be available to the firm at the right time.

Under utilization of capacity is also an area of concern for SAIL. The assets remain under utilized and thus fixed cost increases. The firm should explore new markets in the country as well as abroad so that assets could be put to maximum use and more and more profit could be generated.

Apart from manufacturing, administrative expenses, selling and distribution expenses should also be reduced to the possible extent so as to attain higher profitability.

**Asset Management and Working Capital Analysis**

The efficient management and utilization of assets is essential in order to achieve higher profitability. Working capital is the life blood of a business, the mismanagement of working capital can place the company in serious troubles even can lead to insolvency.

The inventory turnover ratio of SAIL was always lower than Tata Steel during the study period, this suggests that SAIL did not manage its inventory efficiently in comparison to
Tata Steel. The SAIL had excessive inventory in all the years under study. Therefore, it is suggested that the firm should reduce the investment in inventory.

The firm should also conduct special training programmes at regular intervals to make its existing employees well trained on various aspects of inventory control. The programmes may be conducted after every 3 to 4 months or as the management of SAIL think better, this will also create cost consciousness among the inventory managers.

In the first four years of the study period i.e. 1999-00 to 2002-03 the credit and collection performance of SAIL was better as the average collection period of the firm in these years was 41 days, 38 days, 33 days and 32 days in comparison to Tata Steel’s 63 days, 60 days, 52 days and 36 days respectively. The SAIL managed its debtors efficiently in these years.

In the remaining three years i.e. 2003-04 to 2005-06 though average collection period of SAIL improved and reduced to 23 days, 22 days and 21 days but was longer than Tata Steel whose average collection period in these years was 20 days, 13 days and 11 days respectively.
The too short collection period of 13 days and 11 days of Tata Steel in the last two years 2004-05 and 2005-06 is not due to the restrictive credit policy as the sales of Tata Steel increased in these years by 33.19 percent and 7.98 percent as against 31.55 percent and 1.49 percent of SAIL during the same years. Thus, there is further room for improvement in the efficiency of the credit department of SAIL.

The SAIL utilized fixed assets more efficiently in comparison to Tata Steel as the fixed assets turnover ratio of the firm was higher than Tata Steel during the study period. The total assets turnover ratio too was higher of SAIL than Tata Steel. The higher total assets turnover ratio of the firm is due to better utilization of fixed assets as the current assets management of SAIL was not efficient.

As far as management of working capital is concerned, the SAIL’s working capital management was not as efficient as of Tata Steel in the first four years 1999-00 to 2002-03. The working capital turnover ratio of SAIL was lower than Tata Steel in these years. In the year 2003-04, the SAIL as well as Tata Steel had insufficient working capital but the position of Tata Steel was very precarious as the working capital turnover
ratio was as high as 128.18. In the remaining years 2004-05 and 2005-06 the SAIL had excessive working capital while Tata Steel had inadequate working capital in these years.

Thus, it becomes clear that barring 2003-04, the SAIL had excessive working capital in all the years of the study period, therefore, it is the immediate task before management to abate investment in current assets.

**Capital Structure and Long Term Financial Strength**

Capital structure refers to the composition of long term sources of funds such as equity share capital, preference share capital and long term debt. The proportion of such sources of funds in the capital structure of a firm should be such that will minimize the cost of capital to the firm and maximize the value of the firm. The long term financial strength is concerned with the payment of interest regularly and repayment of principal in instalments or on maturity.

The capital structure of SAIL comprises equity share capital and debt while Tata Steel has equity share capital, preference share capital and debt in its capital structure, the preference shares have not yet been issued by the company.
The capital structure of SAIL was more aggressive in comparison to Tata Steel during the study period. The debt ratios of SAIL were higher than Tata Steel in all the years under study, especially in the first five years the difference between the debt ratios of the two firms was too much.

The debt to total capitalization ratio of SAIL during the study period 1999-00 to 2005-06 was 71.33 percent, 72.93 percent, 72.60 percent, 70.96 percent, 63.30 percent, 35.89 percent and 25.43 percent respectively. The ratio increased in the year 2000-01 due to the decline of networth not on account of increase in debt. On the other hand, Tata Steel had lower debt content in the capital structure, the debt to total capitalization ratio of the firm during the period 1999-00 to 2005-06 was 51.84 percent, 48.87 percent, 57.72 percent, 57.02 percent, 42.80 percent, 27.96 percent and 20.50 percent respectively.

The debt equity ratio of SAIL was 2.49, 2.69, 2.65, 2.44, 1.72, 0.56 and 0.34 respectively. The debt equity ratio of higher than 1 in the first five years 1999-00 to 2003-04 suggests that the claims of long term creditors were not fully covered against the equity of the firm. The debt equity ratio of
Tata Steel during the study period was 1.08, 0.96, 1.37, 1.33, 0.75, 0.39 and 0.26 respectively. Tata Steel did not have full cushion of protection for the providers of loans in the years 1999-00, 2001-02 and 2002-03.

The capital structure of Tata Steel was quite healthier than SAIL in all the years of the study period. The retained earnings to total capitalization ratio of Tata Steel during the study period 1999-00 to 2005-06 was 42.68 percent, 45.81 percent, 37.76 percent, 38.01 percent, 52.51 percent, 66.39 percent and 74.99 percent respectively while in the case of SAIL the ratio was 9.13 percent, 5.94 percent, 6.01 percent, 6.37 percent, 6.61 percent, 38.42 percent and 50.13 percent respectively.

The debt content in the capital structure of both the firms has reduced considerably in a span of seven years. The debt to total capitalization ratio of SAIL has declined from 71.33 percent in 1999-00 to 25.43 percent in 2005-06 and in Tata Steel the ratio has abated from 51.84 percent in 1999-00 to 20.50 percent in 2005-06. The capital structure of SAIL as well as Tata Steel has become conservative.
As far as long term financial strength is concerned, the long term solvency of SAIL was weak during the period 1999-00 to 2002-03 as the cash flow coverage ratio of the firm during this period was 0.25, 0.47, 0.25 and 0.53 respectively while in the remaining years of the study period i.e. 2003-04 to 2005-06 the cash flow coverage ratio of SAIL was 1.90, 5.39 and 5.16 respectively, the long term financial strength of the firm was satisfactory in these years especially in the last two years the long term solvency was quite good. On the other hand, payment of interest and repayment of principal was not a matter of concern for Tata Steel during the entire period of study. The cash flow coverage ratio was quite higher than 1 and was far better than SAIL in all the years of the study period.

As the proportion of debt in the capital structure of SAIL has reduced to 25.43 percent and the firm has been earning profit since 2003-04, therefore it would be reasonable to assume that in the coming years the long term financial strength of the firm will improve further.