CHAPTER – I

INTRODUCTION

Steel is used in every aspect of our lives from automotive manufacture to construction products, from steel toecaps for protective footwear to refrigerators and washing machines and from cargo ships to the finest scalpel for hospital surgery.

Steel is widely used in railways, defence, nuclear and atomic energy, oil and gas transportation, automobiles, ship building, heavy machinery, roads and highways, construction, power and telecom, electrical equipments, airports, consumer durables etc. In fact steel touches all the aspects of human life.

There is a close relationship between consumption of steel and the level of economic development. It is no exaggeration to say that steel consumption is the yardstick for measuring the economic progress of a country. The per capita steel consumption in the country is very low at about 35 kg as compared to world average of around 170 kg. In rural India
per capita consumption of steel is as low as 3 kg. Steel is yet to touch the lives of millions of people in India.

India produced 44 million tonnes of crude steel in 2006 and was ranked the 7th largest steel producer in the world in the same year. The country produces standard quality of steel in almost all grades with a growing acceptability in international market. Indian steel industry is poised for tremendous growth in the coming years.

Objectives of the Study

The present study has been undertaken to appraise the financial performance of Steel Authority of India Limited (SAIL). The whole study aims at the following objectives:

1. To examine the historical background and current scenario of steel industry in India.

2. To study the various accounting ratios in detail.

3. To examine and evaluate the profitability of SAIL in terms of margins, returns and financial market measures.

4. To identify the factors which are affecting the performance of the company.
5. To analyse the short term as well as long term financial strength of SAIL.

6. To assess the asset management efficiency and working capital management of SAIL.

7. To analyse the capital structure of SAIL.

8. To suggest appropriate measures for improving the profitability, liquidity and long term solvency of SAIL.

Methodology Adopted

The study covers a period of seven years from 1999-00 to 2005-06. The data used in this study have been taken from the published Annual Reports. The data were also collected from various books, websites, newspapers, company release material and government publications. The data thus collected have been analysed and interpreted with the help of accounting ratios.

The nature of the work requires industry average which is not available, the inter period comparison in the absence of industry average cannot provide an insight into the efficiencies and inefficiencies in the working of the firm.
therefore in order to make the study more effective the performance of SAIL has been compared with Tata Steel, the largest steel company in the private sector.

**Hypothesis**

The proposed study makes an attempt to substantiate 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.

**Review of the Literature**

Lyn M. Fraser/Aileen Ormiston’s book entitled “Understanding Financial Statements” [2004] the main thrust
of the book is to provide an idea about the financial statement analysis step by step. The various accounting ratios have been explained in detail. The authors have expounded the computation, utility, limitations of ratios and precautions in using the ratios have also been presented clearly. Another important feature of the book is financial analysis of the company Recreational Equipment and Clothing Incorporated (R.E.C. Inc.), the third largest retailer of recreational products in the U.S. in a very lucid manner. This book covers all the aspects of financial statement analysis.

B.L. Verma's book entitled "Analysis of Financial Statement" [1988], in this book the author has provided a detailed coverage of techniques of Analysing and Interpreting Financial Statements. The book contains an in depth financial analysis of six State Electricity Boards of India. The various aspects profitability, working capital and short term financial strength, capital structure and long term financial strength have been explained thoroughly and clearly.

Sangeeta Gupta's book entitled "Accounting and Statistical Techniques" [1996], this book is a published thesis work of the author. The study offers a comprehensive
application of accounting ratios in the field of financial appraisal. In this work seven selected companies of the Wagon and Engineering Industry of India have been analysed with the help of accounting ratios. The outstanding feature of the book is working capital analysis.

Leopold A. Bernstein/John J. Wild’s book entitled “Analysis of Financial Statements” [2006], this book provides essential guidelines for examining financial statements. The authors have explained the reasons for the increase or decrease in ratios. Importance of short term liquidity, capital structure and solvency, profitability analysis, in fact all the aspects of financial analysis have been discussed exhaustively. Use of tables, graphs and charts at every stage of the work makes the book more effective. A case analysis of Campbell Soup Company, one of the world’s largest food companies, has also been given at the end of the book.

M.C. Khandelwal/Sugan C. Jain’s book entitled “Cost Management in Public Enterprises” [1994], this book is a collection of fifteen articles contributed by various teachers of different universities of India. Some of the articles in the book are Cost Behaviour in Bharat Aluminum Company, Inventory
Control Techniques: A case study of Iron and Steel Industry in India, Cost Management in Public Enterprises: A case study of Oil and Natural Gas Commission, Cost Management in Public Enterprises: A case study of Steel Authority of India Limited, Cost Analysis and Control in Public Enterprises in India, Materials handling in the Iron & Steel Industry in India etc. The different authors have laid emphasis on controlling the costs effectively.

C.R. Kothari's book entitled "Quantitative Techniques" [2000], author has discussed various accounting ratios comprehensively. Computation of ratios, utility of ratios, precautions in using the ratios have also been focused in the book.

M.C. Gupta's book entitled "Profitability Analysis An Empirical Approach" [1989], where the author has discussed the concepts and techniques of analysis of profitability. The book contains the profitability analysis of eight Cement Companies of India through various aspects viz. profit margin, assets turnover, return on capital employed etc.

Pramod Kumar’s book entitled “Analysis of Financial Statements of Indian Industries” [1991], this is a published
thesis work. In this book twenty three cement companies in the private and public sector have been analysed through accounting ratios. Private sector showed better performance in comparison to public sector. The author has suggested various measures for improving the performance of the public sector.


P.K. Sahoo’s book entitled “Management and Financing of Working Capital” [1992], in this book working capital aspect of financial analysis has been focused comprehensively. The concepts of working capital, results of inadequate or excessive working capital etc. have been elaborated in the book.

Accountancy" [1999], J.R. Monga's book entitled "Fundamentals of Corporate Accounting" [2001], P.C. Tulsian's book entitled "Accountancy for class XII" [1999], in all these books accounting ratios have been discussed at length.

M.S. Ansari's thesis entitled "A study of Financial Structure of Thermal Units under the National Thermal Power Corporation of India" [1991], where various financial aspects such as profitability, working capital, capital structure, short term financial strength and long term financial strength have been covered. The profitability ratios of NTPC did not maintain a steady trend during the study period due to the change in capital structure at various intervals of time. The study in particular attempts to provide an insight into the appraisal of financial structure of NTPC.

S.C. Varshney in article "Trade Credit and Company Liquidity: A case study of Steel Authority of India Limited and Tata Steel Limited" [2001], has analysed the inventory management, receivables management and liquidity position of both the companies. The period of study is from 1985-86 to 1996-97. The liquidity position as well as inventory
management of Tata Steel was far better than SAIL during the study period while the receivables management of SAIL was better.

P. Veni and J.S. Talekar in article "Turnaround Strategies: A case study of Visakhapatnam Steel Plant" [2005], have made an attempt to study the turnaround strategies that brought about a profit of Rs. 521 crore to the plant in 2002-03 after several years of losses. The study covers a period of five years from 1998-99 to 2002-03. Technological improvement schemes, recycling of metallurgical waste and smaller fractions of coke in solid waste, usage of recycled solid waste, usage of certain inputs in partial replacement with costlier ones, power generation through waste heat and internal recovery of copper for making value added steel have been the major contributing factors that led to Visakhapatnam Steel Plant’s turnaround.

P. Veni and V.S. Narayana in article "Leverage, Capital Structure, Dividend Policy and Practices: A case study of Coromandel Fertilizers Limited" [2002], have studied the capital structure and dividend policies of Coromandel Fertilizers Limited, an Indo-American joint venture over the
period 1995 to 2001. The debt equity ratio of the company varied between 0.68 and 1.37 during the study period. The EPS of the company increased in all the years and so the DPS. But the effects of growing DPS were not very clear on the market price of share as the market value of share showed fluctuating trend during the study period.

S.K. Khatik and P.K. Singh in article “Liquidity Management in EICHER Limited: Case study” [2003], have made an attempt to examine and evaluate the liquidity position of EICHER Limited, a leading tractor manufacturing company in India. The paper has focused on the importance of liquidity in the successful functioning of a business unit as well as the effects of both lack of liquidity and excessive liquidity.

A. Vijayakumar and S. Kadirvelu in article “Profitability and size of firm in Indian Minerals and Metals Industry: An Empirical Evidence” [2003], have studied the relationship between size of firm and profitability. Indian Minerals and Metals Industry has been analysed for this purpose. Some theoretical arguments suggest that profitability should increase with the firm size while others suggest a negative relationship. It becomes evident from the analysis that size is
positively associated with the profitability. The larger firm may be in a position to earn a higher rate of return on investment through diversification and moving into higher technology.

M.V. Rama Prasad in article "Materials Management in the context of cost control and reduction" [2002], has emphasized the need for efficient material management. The author observes that material cost comprises 55% to 65% of total production cost in many Indian Industries and the efficiency and productivity of material management in India is very low. He further states that as capital is scarce in India we have been borrowing huge sums from other countries to whom we have to pay interest, therefore, it is imperative to safeguard the items in stock, to minimize foreign debt in the form of inventories, to reduce the manufacturing costs and to increase the profitability.

The various case studies of different firms and industries of India the researcher went through in books, theses, articles etc. were mainly confined to the traditional accounting measures. In this work an attempt has been made to throw light on other important aspects of financial analysis like cash
flow measures, implications of cash flow on short term as well as long term financial strength, healthiness of the capital structure, financial leverage index and financial market measures.

**Limitations of the Study**

There should be certain parameter on the basis of which the performance of a firm can be judged and the best parameter is industry average. Industry average is prerequisite for the financial appraisal of any concern in order to know the efficiencies and inefficiencies in the working of the firm. Due to the non-availability of industry average, the present study has been carried out in the absence of industry average, this is a serious limitation of the work.

The study is also suffered from the inherent limitations of the accounting ratios itself, but still the researcher is confident that the conclusions drawn and suggestions put forth would be fruitful and would be able to provide a useful base for the future working and growth of the company.
Design of the Study

The whole work has been divided into nine chapters. The first chapter deals with the introduction of the study, it includes objectives of the study, review of literature, research methodology, hypothesis and limitations of the study. The second chapter gives the historical profile of Indian Steel Industry. It also covers structure, key concerns, weaknesses, strengths and current scenario of steel industry in India. The third chapter carries out the brief profile of SAIL. The fourth chapter is devoted to a discussion on accounting ratios. In the fifth chapter short term solvency position of SAIL has been examined. Profitability has been analysed in chapter sixth. Chapter seventh throws light on the management and utilization of assets and also on working capital management of SAIL. Capital structure and long term financial strength have been examined in eighth chapter. Finally in the last chapter findings of the study have been summed up and suggestions have been given for improving the performance of SAIL.