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"A STUDY ON FINANCIAL PERFORMANCE OF SELECT IRON & STEEL COMPANY IN CHHATTISGARH"

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ABSTRACT

Iron & steel industry play a major role in Chhattisgarh's socio-economic development. Nine steel companies have been taken for this study. This paper analyzes financial performance of selected steel companies. Profitability analysis is based on various financial ratios & comparison among gross profit ratios of select steel companies. This sector should have efficient financial management with optimum utilization of production capacity.

KEYWORDS :Steel Industry, Financial Ratio, Profitability.

INTRODUCTION

Iron & steel industry is very important for any growing economy. India is the largest producer of sponge iron & third largest producer of crude steel in the world. Now a day per capita steel consumption is taken as an indicator of socio-economic development. According to world steel association estimate India's per capita steel consumption is only around 58 kg. While the world average per capita steel consuption is around 217 kg. Hence, there is huge potential for demand & supply .The target of 1 trillion investment in infrastructure during 12th five year plan will also boost the production of steel sector immensely in India. With the concept of 100 new smart cities, the steel sector seems optimistic for the future.

Since inception of Chhatt- isgarh state, Iron &steel industry has grown up in many folds. It has two proposed smart cities now & expansion of railway line also have appetite for huge steel production & consumption. This sector has become a major contributor of state's economy. Chhattisgarh's steel industry is contributing almost 32 % of total steel production in India.

The present study indicates financial performance of iron & steel companies in Chhattisgarh is good. There are other factors like government policy reforms for infrastructure, development, tax benefits, availability of raw materials & regular power supply can immensely affect the industry's performance. The industry trends could also be better understood for future challenges.

REVIEW OF LITERATURE:

BANERJEE, A, & DE, A. (2014), observed the impact of nine independent variables on the profitability performance of iron & steel sector. These nine variables were "business risk", "size of the firm (log(sales))", "growth rate", "debt service capacity (interest)", "dividend payout", "financial leverage", "degree of operating leverage", "firm's age" and "size of the firm (log(assets)). These variables also belongs to the capital structure of the firm technically.

Further it is found that "financial leverage", "debt service capacity (interest)" and "size of the firm (log assets)" had significant effect on the profitability.

On the other hand , "dividend payout," "growth rate (assets)," "business risk," "degree of operating leverage," "firm's age" and "size of the firm (log sales)" did not had any significant effect on the profitability.

CHANDRA, H AND SELVARAJ, A. (2013), studied financial health of major 38 iron & steel companies out 118 companies listed on BSE. He used ratio analysis & Z -score analysis for multiple discriminate tools. Additionally, mean, standard deviation, compound annual growth rate, linear growth rate & "t" test had been used to examine the financial health. Further, he concluded, to be more focused on improving Z- score to avoid possible liquidity & solvency problem.

PAL, S. (2012), tried to establish the linear relationship between liquidity, leverage, efficiency & profitability of selected steel companies in terms of financial performance measures. She had taken major steel players from govt. & private sectors both. Multiple regression was used to judge the impact of variables on profitability & various models were designed for the same purpose. She further concluded that the total profitability performance is combined effect of different finance indicators such as liquidity, activity, financial leverage & profitability.
So, steel companies should be focused to improve on overall solvency, liquidity & efficiency all together for better financial performance.

VENKATESHAN, T. & NAGRAJAN, S.K. (2012), applied two - way ANOVA on return on investment of selected steel companies and found out that there is no significant difference on the ROI of SAIL, TATA, BHUSHAN, JSW and VISA. In fact all these companies had maintained different level of return on their investment.

BARADIA, S.C., (2004), studied the liquidity position of SAIL & concluded that it is very important to have sound liquidity position to maintain profitability of iron & steel industry as it is capital intensive in nature and has long cash conversion cycle also as compared to other sectors.

NARWARE, P.C., (2004), with the help of ratio analysis approach he established the relation between working capital & profitability. Co- relation tool had been also used in his study on some working capital ratios & return on investment ratios. Multiple regression was applied to judge the impact of working capital management on profitability. The study concluded that working capital & profitability have positive as well as negative association.

STATEMENT OF PROBLEM:

The main objective of the study is to analyze the financial soundness of select steel companies. This study focuses towards profit & growth of the steel industry in Chhattisgarh. Improvement area in this sector has also been pointed out. Various financial tools has been used to understand the actual present position of this industry in this new state.

OBJECTIVE OF THE STUDY:

I)To access the profitability of select steel companies.
II)To analyze the financial performance of select steel companies.

RESEARCH METHODOLOGY:

Secondary data have been used for this study. A total of nine steel companies have been selected for the study. This study covers the period of 10 years from 2005 to 2014. Data analysis is based on various financial ratios and ANOVA test is also used as statistical tool.

Source Of Data: This study is based on secondary data collected from company records, published & financial reports, journal, magazines & websites.

NAME OF STEEL COMPANIES:

Following nine steel companies have been selected for the study having strong presence in Chhattisgarh: Monnet Ispat (MONNET), Jindal Steel & Power Limited (JSPL), Jayaswal Neco Industries (NECO), Prakash Industries limited (PIL), Nova Iron (NOVA), Sarda Energy & Minerals Limited (SARDA), Godawari Power & Ispat (GODAWARI), MSP Steel & Power (MSP), Vaswani Industries (VASWANI).

CONSTRAINTS OF THE STUDY:

I)The study is based on financials, however non- monetary aspects may also affect the industry.
II)Only ten years of data have been used for analysis.
III)Government policy norms may also change the outcomes.

DATA ANALYSIS:

RATIO ANALYSIS
TABLE –I

CONPANY NAME	CR		QR	
	AV	SD	AV	SD
MONNET	1.34	0.74	2.92	0.84
JSPL	0.84	0.20	0.93	0.15
NECO	0.92	0.19	1.42	0.45
PIL	2.66	1.70	0.84	0.85
NOVA	1.16	1.58	1.39	1.43
SARDA	1.12	0.21	1.56	0.54
GODAWARI	1.37	0.45	1.13	0.30
MSP	0.88	0.50	2.03	0.82
VASWANI	2.19	1.54	1.86	0.87

Source : Calculated

INTERPRETATIONS:

Table 1 shows that there are nine steel companies taken for the study for the liquidity position.

On the current ratio perspective most of steel companies are at sound position meeting 1: 1 & above for current ratio standard in actual situation. Prakash Industries limited (PIL) has scored highest in terms of current ratio among selected steel companies with 2.67 times. The lowest current ratio is found for MSP Steel & Power (MSP) with 0.88 times only .The overall performance with current ratio goes for NECO with 0.92 times in current ratio and off - course maintaining consistency with S.D. only at 0.19 level. Overall we can say that the industry is at satisfactory level in Chhattisgarh.

Quick ratio is more reliable indicator of liquidity position in a manufacturing industry. Like steel industry has high inventory level, work in progress & receivables also. It shows more clear picture than the current ratio.

On quick ratio perspective, Monnet is the highest scorer with 2.9 times but Prakash Industries limited (PIL) with lowest score of 0.84 times only. However, all the company except two (JSPL & PIL) are at better position with maintaining standard of 1:1 & having strong liquidity position to pay off debts.

TABLE –II
SOLVENCY RATIO (IN TIMES)

CONPANY NAME	DER		ICR	
	AV	SD	AV	SD
MONNET	1.60	0.52	6.24	2.99
JSPL	1.31	0.24	7.70	2.91
NECO	6.63	9.72	1.75	0.55
PIL	0.82	0.83	0.84	0.85
NOVA	1.68	1.55	-4.52	26.18
SARDA	0.92	0.29	6.17	4.14
GODAWARI	0.85	0.21	1.13	0.30
MSP	1.76	0.39	2.89	1.31
VASWANI	1.46	0.88	1.64	1.16

Source: Calculated

INTERPRETATIONS:

Table-II indicates the solvency position of all nine steel companies. In terms of debt equity ratio, Jayaswal Neco Industries (NECO) is at top with 6.6 times. It shows company's high appetite for taking more risk with favorable steel industry policy and state government support. But on the contrary, this could be risky affair from outside investor's point of view also in long run . The lowest score is for PIL with 0.82 times, fairly well in between 0.1 to 0.9 of industry's range.

Interest coverage ratio states company's ability to meet interest obligations in number of times. On this basis; JSPL has the highest capability to honor its interest obligation with 7.7 times. However; Interest coverage ratio is recorded negative for NOVA. Over all industry performance is recorded positive and marginal for interest coverage ratio. Most of selected companies are at good position in terms of solvency position.

ANOVA TEST:

In order to test the uniformity of gross profit among select companies.
Following hypothesis is tested.

NULL HYPOTHESIS: H_0 :There is no significant difference among gross profit ratio of select companies.

ALTERNATIVE HYPOTHESIS: H_a: There is significant difference among gross profit ratio of select companies.

TABLE - III
ANALYSIS OF VARIENCE OF GROSS PROFIT RATIO AMONG SELECT COMPANIES

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	30073.48	8	3759.185	7.467796	2.07E-07	2.054882
Within Groups	40774.28	81	503.3861			
Total	70847.76	89				

Source: Calculated

INTERPRETATIONS:

In order to find out whether there is significant difference among the gross profit ratio of select companies, ANOVA test has been applied.

The above table shows that calculated F-value for variation among gross profit ratio of select companies is (7.46) greater than F- critical value (2.05). Hence, we have to reject the null hypothesis. Thus result says there is significant difference among gross profit ratio of select companies.

$F(8,81) = 7.46, p<0.05$.

FINDINGS:

The current ratio (CR) of selected companies are at satisfactory level.
The quick ratios (QR) is at good level indicting healthy liquidity position.
Solvency position with debt equity ratio (DER) are positive and marginal.
Solvency position with interest coverage ratio (ICR) is at satisfactory level.
Select companies have significant difference on their average gross profit ratio.

SUGGESTIONS:

Optimum capacity utilization should be given priority for this sector.
Just in time (JIT) inventory management should be adopted to reduce buffer stock.
To avoid excessive risk more borrowings should be done to increase debt financing.
Regular power and raw material supply is essential for steel sector.
Adequate infrastructure facilities such as transport, power & water supplies are must for further improved performance of the iron & steel sector in Chhattisgarh.

CONCLUSIONS:

The current study indicates that performance of iron & steel companies in Chhattisgarh is good. However, there are several other factors like policy reforms, infrastructure, availability of raw materials, tax benefits, regular & cheap power supply can immensely affect the industry's financial performance. The total performance of steel industry is actually the mix performance of activity, liquidity, profitability & financial leverage. So, in order to improve on financial performance of the industry, companies should emphasize on overall liquidity, solvency & efficiency level of the business.

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ABBREVIATIONS:

1	CR	Current Ratio
2	QR	Quick Ratio
3	AV	Average
4	SD	Standard Deviation
5	DER	Debt Equity Ratio
6	ICR	Interest Coverage Ratio
7	ANOVA	Analysis of Variance
8	JIT	Just in Time
9	MONNET	Monnet Ispat
10	JSPL	Jindal Seel& Power Limited
11	NECO	Jayaswal Neco Industries
12	PIL	Prakash Industries limited
13	NOVA	Nova Iron
14	SARDA	Sarda Energy & Minerals Limited
15	GODAWARI	Godawari Power &Ispat
16	MSP	MSP Steel & Power
17	VASWANI	Vaswani Industries

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