CHAPTER – I

INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

Business decision-making and policy formulation mostly depend on productive, financial and economic indicators. Profitability, liquidity, solvency, capital structure analysis etc. have been recognized as the main indicators of financial performance of an industry. On the other hand, economic performance can be studied in terms of productivity, efficiency, technology and technical progress etc. just as there is no single criterion for judging performance, performance in turn, in whatever manner it is measured, can be influenced by a number of factors.

The financial performance analysis identifies financial strength and weakness of the firms within steel industry by establishing relationship between items of Balance Sheet and profit & loss account. Thus, the present study is of so crucial to measure the firm's liquidity, profitability, and other indicators that the industry has been running in a rational and normal way ensuring enough returns to the shareholders to maintain at least its market value.

The financial statement analysis refers to an assessment of the viability, stability and profitability of an organization. In other words financial statements are the statements prepared at the close of the accounting period, to ascertain the results of business activities during the period and the financial status at the end of the period.

Business activities include the following:

- Operating Activities – The routine activities which generate revenue and profit.
- Investing Activities – These include investment in various permanent assets and disposal of them.
- Financing Activities – It includes raising finance from own and borrowed sources and repayment.

The result of the business activities may be profit or loss. Financial status refers to the status of investments made in various assets viz., equity. The basic financial statements prepared by the business concerns are balance sheet, income statements and statements of retained earnings. Apart from the basic financial statements, business concerns may also prepare fund flow statements, cash flow statements and statements of changes in working capital. Using financial tools that make use of information taken from financial statements and other reports performs it. These reports are usually presented to the top management as one of the bases in making business decisions.

Based on the reports, management may:

i. Continue or discontinue its main operations or part of its business.
ii. Make or purchase certain materials in the manufacture of its products.
iii. Acquire or rent/lease certain machinery and equipment in the production of its goods.
iv. Issue stocks or negotiate for a bank loan to increase its working capital.
v. Make decisions regarding investing or lending capital.
vi. Other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

IMPORTANCE OF FINANCIAL STATEMENTS

Financial statements play an important role in the financial planning and financial control.

TO MANAGEMENT

Increase in size and complexities of factors affecting the business operations necessitate a scientific and analytical approach in the management of modern business enterprises. The management requires up to date, accurate and systematic financial information for many purposes. Financial statements help the management to understand the position, progress and prospects of business or industry. The management communicates only through these financial statements, their performance to various parties to justify their activities and thereby their existence and enables the management to make suitable changes in the policies to avert unfavorable situations.

TO INVESTORS

The perspective investors, who want to invest their money in a firm, of course wish to see the progress and prosperity of the firm, before investing their money, by going through the financial statements of the firm. This is to safeguard the investment and the investors are eager to go through the accounting statement which enables them to know the safety of investment.

TO CREDITORS & LENDERS

The financial statements serve as useful guideline for the present and future suppliers and probable lenders of a company. It is through a critical test of financial statements that see these groups can come to know about the liquidity, profitability and long term solvency position of a company. This would help them to decide about their future course of action.

TO GOVERNMENT, RESEARCH AND INTERESTED PARTIES

Government keeps a close observation on the firm which yield good amount of profits. The state and central governments are interested in the financial statements to know the earning for taxation. At present most of the business concerns are organized and operated in the form of joint stock companies. One of the main features of company form of organization is that there is a distinction between providers of capital and those entrusted with the actual operation and the management of the business. Just to safeguard the interest of former class, the government is interested in the financial statements.

TO EMPLOYEES :

Workers are entitled to bonus depending upon the size of the profit as disclosed by audited profit and loss account. Thus profit & loss account becomes greatly important to the workers. In wages negotiations also, the size of profits and profitability achieved greatly relevant.

TO PUBLIC

Business is a social entity. Various groups of society, though directly not connected with business, are interested in knowing the position, progress and prospects of a business enterprise. They are financial analysts, lawyers, trade associations, trade unions, financial press, research scholars and teachers, etc. It is only through these published financial statements these people can analyse, judge and comment upon business enterprise.

TECHNIQUES OF FINANCIAL STATEMENTS ANALYSIS

A financial analyst can adopt one or more of the following techniques/tools of financial statements

- Comparative financial statements
- Comparative income statement
- Comparative balance sheet
- Common size financial statements
- Trend analysis
- Fund flow analysis
- Cash flow analysis
- Net working capital analysis
- Ratio analysis

ORGANIZATION ROLE IN FINANCIAL ANALYSIS

How financial analysis fits into financial manager's organization role is a key question that is unique for every company and department. Financial management is an internal service and a liability on the bottom line. As such, it must create value and promote its financial contribution to the overall organization. Financial analysis provides a standardized tool helps the chief financial officer and executive management to decide where to put money.

It is important that financial managers follow accepted financial practices so that others can easily understand their analysis and make fair comparisons to other projects. It is also important that they market their services and push their agendas to the forefront by using accepted financial analysis. Each organization will have its own customized financial practices and financial managers must be expert at using their internal financial analysis tools.

STATEMENT OF THE PROBLEM

Analysis of financial performance is immensely significant to all stakeholders of a company, especially to its common equity investors. Although a company's performance can be evaluated from multiple dimensions, this study is confined to only financial aspects. Hence the financial function plays an important role in the development of any industry. Therefore to assess the overall financial performance of steel companies, the researcher has selected the topic entitled "A Comparative Study on financial performance of JSW Steel and TATA Steel".

OBJECTIVES OF THE STUDY

The present study is designed to carry out with the following broad objectives:

1. To compare the profitability of the selected steel companies
2. To measure liquidity of the selected steel companies
3. To analyze the operating efficiency of the selected steel companies
4. To summarize the findings and offer suitable suggestions to enhance the performance of the selected steel companies.

SCOPE OF THE STUDY

Therefore to assess the overall financial performance of steel companies, the researcher has selected the topic entitled "A Comparative Study on financial performance of JSW Steel and TATA Steel".

HYPOTHESES OF THE STUDY

Null Hypothesis (H_0)

- There is no significant difference between the profitability ratios of the selected steel companies.
- There is no significant difference between the liquidity ratios of the selected steel companies.
- There is no significant difference between the operating efficiency ratios of the selected steel companies.

RESEARCH METHODOLOGY

The study is empirical in nature with a focus on assessing the financial performance of the selected steel companies – JSW Steel and TATA Steel from the point of view of profitability, liquidity, and operating efficiency.

SOURCES OF DATA

The present study encompasses the secondary data. The secondary data required for the present study have been collected from the published annual reports of the selected companies for the study period.

SAMPLING TECHNIQUE

The researcher has adopted convenient sampling method in this research study. For the purpose of the present study, JSW Steel and TATA Steel have been selected as per the convenience of the researcher.

STATISTICAL TOOLS USED FOR ANALYSIS

The collected data were analyzed with the help of Statistical Package for Social Science (SPSS). The following various statistical tools were applied for the present study are:

- Ratio Analysis
- Mean
- Standard Deviation
- Co – efficient of variation
- Hypothesis Test (t - test)

PERIOD OF THE STUDY

The present study is primarily projected to examine the financial performance of selected steel companies. This study is conducted for the period of ten years staring from the accounting year 2014-2015 to 2023-2024. During the study period the summarized financial facts of these companies were prudently perceived and analyzed for deriving valid conclusion

LIMITATIONS OF THE STUDY

1. This study is subject to certain limitations. The study is confined only to the financial performance of selected steel companies.
2. This study is based on secondary data taken from published annual reports of selected steel companies.
3. The present study is largely based on ratio analysis. The different views have been applied in the calculation of different ratios and it has its own limitations.
4. The financial position of an industry is affected by several factors like economic, social and financial, but the recorded financial matters only have been taken into consideration.
5. Different methods of accounting followed by these concerns may render difficulty to compare the financial statements.

CHAPTER SCHEME

This study has been organized into five chapters:

CHAPTER-I

The First chapter deals with “Introduction and design of the study”. It presents the subjects matter of the thesis, statements of the problem, and objectives of the study, , hypotheses of the study, research methodology, limitations and chapter scheme.

CHAPTER-II

The Second chapter deals with “Concepts and Review of Literature” found relevant to this study.

CHAPTER-III

The Third chapter deals with “Profile of the selected steel companies”. It presents the historical background and profile of the selected steel companies.

CHAPTER-IV

The Fourth chapter deals with “Analysis and Interpretation of Financial Performance of the selected steel companies”. This chapter analyses the data with the help of various financial and statistical tools to draw inferences.

CHAPTER-V

The Fifth chapter recapitulates the summary of Findings, Suggestions and Conclusion”. It consolidates all the observations made in the previous chapters.

CHAPTER -V

FINDINGS, SUGGESTIONS AND CONCLUSION

INTRODUCTION

The present study aimed at analyzing the comparative financial performance of the two biggest steel companies in India – JSW Steel and TATA Steel. For the purpose of the present study, four objectives have been framed. The objectives of the study include comparing the profitability of the selected steel companies, measuring liquidity of the selected steel companies, analyzing the operating efficiency of the selected steel companies and summarizing the findings and offer suitable suggestions to enhance the performance of the selected steel companies. The major findings of the study have been summarized in this chapter.

MAJOR FINDINGS OF THE STUDY

The following are the major findings of the study:

The net profit ratio of TATA was much higher than that of JSW at the beginning of the study period. However, the net profit ratio of TATA has drastically reduced to a greater extent at the end of the period of study. However, the net profit ratio of JSW has increased more than twice during the study period. Even though the average net profit ratio of TATA was higher than that of JSW, it is inferred that JSW has performed well during the period of study as indicated by the net profit ratio.

The analysis of return on net worth revealed that at the beginning of the period of study, the return on net worth of TATA was higher than that of JSW. However, at the end of the study period, the return on net worth of JSW was greater than that of TATA. It implies that the performance of JSW was highly appreciable in terms of return on net worth.

The results showed that the return on capital employed of JSW has witnessed an increase of more than 7 times during the study period while the return on capital employed of

TATA has increased nearly 1.5 times as that of the beginning of the study period. There was no significant difference between the return on capital employed of JSW and TATA. However, it is concluded that the performance of JSW was better than that of TATA with reference to the return on capital employed.

There was fluctuating trend in the return on assets of both JSW and TATA during the study period. However, the return on assets of JSW ended with an increase at the end of the study period whereas the return on assets of TATA has gone down at the end of the period of study. It denotes that the return on assets of TATA was not so good even though it was consistent during the period of study.

It is found that the current ratio of both the companies was less than ideal current ratio throughout the study period. However, the current ratio of TATA has increased to a considerable extent during the period of study. It implies that the short term liquidity of TATA was better than that of JSW.

The increase in the quick ratio of JSW was very marginal during the period of study and it is far below the ideal quick ratio. On the other hand, the quick ratio of TATA has almost touched the ideal quick ratio. Even though the quick ratio of TATA was inconsistent during the study period, it looks better than that of JSW.

The debt equity ratio of both the companies was looking good at the beginning of the study period. The debt equity ratio was found to be consistent during the period of study and maintained the ideal ratio throughout the study period except a few years. However, the debt equity ratio of TATA has gone down sharply. It indicates the long term liquidity of TATA was stronger than JSW.

The inventory turnover ratio of both the companies exhibited almost the similar trend during the period of study. It is implied from the inferential statistics that there is no significant difference between the inventory turnover ratio of JSW and TATA.

The analysis of assets turnover ratio proclaimed that the increase in the assets turnover ratio of JSW during the study period was higher than the increase in the assets turnover ratio of TATA. It implies that JSW was more efficient than TATA with regard to the assets turnover ratio.

There has been no greater increase in the earnings per share of JSW while the earnings per share of TATA have declined during the period of study. However, the average earnings per share of TATA was higher than that of JSW. It draws the conclusion that effective performance was recorded by TATA in respect of earnings per share.

The revenue from operations per share of JSW has declined during the period of study while the revenue from operations per share of TATA has witnessed an increase during the period of study. It reveals that the efficiency of TATA was better than JSW in respect of revenue from operations per share.

There was a vast decline in the book value per share of JSW while the increase in the book value per share of TATA during the period of study was tremendous. The average book value per share of TATA was higher than that of JSW.

SUGGESTIONS

The following suggestions have been offered on the basis of research findings:

It is suggested that TATA has to manage the indirect expenses with a view to enhance the net profit of TATA.

Based on the return on net worth, both the companies are required to manage the net worth in order to increase the return on net worth.

It is considered that the return on capital employed and return on assets shall be increased by establishing strong administrative efficiency in terms of capital employed and total assets.

It is recommended that both the companies have to increase the current assets and reduce the current liabilities to enhance the current ratio and short term liquidity.

Fixed assets and inventory of both the companies should be efficiently managed in increasing the operating efficiency.

CONCLUSION

The financial performance of JSW in terms of net profit ratio, return on net worth, return on capital employed and return on assets is found to be better than that of TATA. The short term liquidity and very short term liquidity of TATA in terms of current ratio and quick ratio has been found to be better than JSW. In the case of long term liquidity also, TATA has proved its efficiency than JSW. On the other hand, JSW has been found to be better performed with regard to operating efficiency in terms of inventory turnover ratio and assets turnover ratio.