



An Analysis on Profitability Position of Selected Steel Industries in India

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ABSTRACT

Iron and Steel Industry in the country has experienced a sustainable growth since the independence of the country. A humble beginning of the modern steel industry was reached in India at Kulti in West Bengal in the year 1870. One of the Objectives of the Study is To assess the profitability position of the companies. The study aims to measure the profit and growth of steel industries listed in BSE and NSE and also to identify the drawbacks which are of the indicators of the low profit of the industry. Ratio Analysis and T-Test are used in this research article.

KEYWORDS: Iron and Steel Industry, Current Ratio, Solvency and Profitability

INTRODUCTION

Iron and Steel Industry in the country has experienced a sustainable growth since the independence of the country. A humble beginning of the modern steel industry was reached in India at Kulti in West Bengal in the year 1870. But the outset of bigger production became noticeable with the establishment of a steel plant in [Jamshedpur](#) in Bihar in 1907. It started production in 1912. The new township was named after J.R.D Tata. This venture was followed by Burnpur and Bhadravati Steel plants in 1919 and 1923 respectively. It was, however, only after Independence that the steel industry was able to find a strong foothold in the country. Excluding the Jamshedpur plant of the Tatas, all are in the public sector and looked after by Steel Authority of India Ltd. (SAIL). [Bhilai](#) and [Bokaro](#) Steel plants were set up with Soviet alliance. [Durgapur](#) and [Rourkela](#) came up with British and West German technical expertise, respectively.

Research Methodology

A total number of 14 public limited companies have been selected for the purpose of the study. The sample size constitutes of the population. Before selecting the companies for study, list of companies were prepared which satisfied the following criteria that, Companies of the Iron and Steel industry in India are randomly selected from the list available in the Prowess Online database for the purpose of this study. The companies have been selected based on their listing in BSE or NSE. However, there are 14 companies in which 7 companies are listed in NSE which has been taken as Large Scale Industries and another 7 companies which are listed in BSE has been taken as Medium Scale Industries

List of Companies Selected For the Study

Steel Strips Infrastructures, Bhushan Steel, India Steel Works, Visa Steel, Sun flag Iron & Steel, Panchmahal Steels, Sarda Energy and Minerals, Bajaj Steel Industries, Kanishk Steel Industries, Mahamaya Steel Industries, Modern Steels, Vallabh Steels, Welcast Steels, Gangotri Iron & Steel Company.

Sources of Data: To accomplish the objectives of the study secondary data, namely the iron and steel industry statistics and the final accounts of the companies along with the schedules are used as secondary data needed for the study.

Data analysis

Data analysis is done using various accounting tools and statistical tools. Charts also are used.

Tools are used

- 1) Ratio Analysis
- 2) T-Test

Objectives of the Study

- To assess the profitability position of the companies.
- To analyze liquidity position of the companies.
- To Compare Liquidity and Profitability

Statement of the Problem

The study aims to measure the profit and growth of steel industries list-

ed in BSE and NSE and also to identify the drawbacks which are of the indicators of the low profit of the industry.

Limitations of the Study

However, the study hedges with certain limitations The study has considered only ten years of data for its analysis. In the case of secondary data there is a possibility of "Aggregation Error", In the analysis, though the various factors contributing to the industrial sickness.

Data Analysis and Interpretation

The study was taken for the period of 10 years data from 2001-02 to 2010-11. For the purpose of data analysis the researcher collected secondary data from the purposively Selected Steel Industries which are listed under BSE and NSE categories.

Table: 1 Current Ratio (Values in Crores)

Companies	Average	SD
Bajaj Steel Industries	1.19	0.13
Gangotri Iron & Steel Company	1.15	0.38
Kanishk Steel Industries	1.14	0.22
Mahamaya Steel Industries	1.42	1.34
Modern Steels	1.11	0.91
Vallabh Steels	1.24	0.82
Welcast Steels	1.06	0.32

Table 1 shows the seven steel industries which are listed under BSE has been taken for the study towards its Liquidity Position. The Current Ratio is taken for analysis shows that all the industries were satisfying the rule of thumb i.e. 1:1 towards the current ratio. However, the highest ratio was found with Mahamaya Steel Industries which recorded 1.42 times and the lowest current ratio was recorded by Modern Steels which stood at 1.11 times. It is observed that on an average the Current Ratio of BSE listing companies were found to be satisfactory.

Table: 2 Quick Ratio (Values in Crores)

Companies	Average	SD
Bajaj Steel Industries	1.14	0.27
Gangotri Iron & Steel Company	2.96	1.93
Kanishk Steel Industries	0.89	0.41
Mahamaya Steel Industries	1.78	0.88
Modern Steels	1.64	0.45
Vallabh Steels	1.67	0.49
Welcast Steels	1.22	0.38

Table 2 shows the seven steel industries liquidity position which are listed under BSE has been taken for the study that analyses the quick ratio. The Quick Ratio is taken for analysis reveals that except Kanishk Steel Industries, the remaining six industries were matching the rule of thumb i.e. 2:1 towards the quick ratio. However, the highest ratio was recorded by Gangotri Iron and Steel at 2.96 times and the lowest quick ratio was recorded by Kanishk Steels which stood at 0.89 times. It is observed that on an average the quick ratio of BSE listing companies were found to be satisfactory.

Table: 3 Debt Equity Ratio (Values in Crores)

Companies	Average	SD
Bajaj Steel Industries	1.70	0.62
Gangotri Iron & Steel Company	1.42	1.38
Kanishk Steel Industries	0.54	0.22
Mahamaya Steel Industries	1.29	0.42
Modern Steels	2.58	2.03
Vallabh Steels	1.76	0.70
Welcast Steels	0.82	0.47

Table 3 shows the seven steel industries solvency position which are listed under BSE has been taken for the study that analyses the Debt Equity Ratio. The Debt Equity Ratio is taken for analysis reflects that except Kanishk Steel Industries, the remaining six industries were matching the rule of thumb i.e. 1:1 towards the debt equity ratio. However, the highest ratio was recorded by Modern Steel at 2.58 times and the lowest debt equity ratio was recorded by Kanishk Steels which stood at 0.54 times. It is observed that on an average the short term solvency position of the BSE listing companies were found to be satisfactory.

Karl Pearsons Coefficient of Correlation & 'T' Test

➤ Correlation has been used to test the consistency and to find out the significance.

Null Hypothesis: There is no correlation between Liquidity and Profitability

Table: 7 Correlations between Quick Ratio and Return on Capital Employed

Companies	'r'	Result	Companies	'r'	Result
Bajaj Steel Industries	-0.2901	(-) Correlation	Bhushan Steel	-0.339	(-) Correlation
Gangotri Iron & Steel Company	-0.1138	(-) Correlation	India Steel Works	-0.407	(-) Correlation
Kanishk Steel Industries	-0.3810	(-) Correlation	Panchmahal Steels	0.511	(+) Correlation
Mahamaya Steel Industries	-0.2465	(-) Correlation	Sarda Energy and Minerals	-0.023	(-) Correlation
Modern Steels	-0.4247	(-) Correlation	Steel Strips	0.201	(+) Correlation
Vallabh Steels	-0.7237	(-) Correlation	Sunflag Iron and Steel Company	-0.522	(-) Correlation
Welcast Steels	0.0304	(+) Correlation	Visa Steel	0.540	(+) Correlation

The above table shows the correlation between Liquidity and Profitability among the 7 units. Except Welcast Steels, the remaining 6 units has negative correlation between Liquidity and Profitability. Hence there is no correlation between Liquidity and Profitability positions of the BSE listed a steel industry which was found to be negative. While taking the NSE listing steel industries, the table shows the correlation between Liquidity and Profitability among the 7 units. Three industries found to be positively correlated between quick ratio and return on capital employed, namely Panchmahal Steels, Steel Strips and Visa Steels, whereas the remaining 4 industries has been negatively correlated towards Liquidity and Profitability. Hence there is no correlation between Liquidity and Profitability positions of the NSE listed a steel industry which was found to be negative.

Null Hypothesis: There is no correlation between Solvency and Profitability

Table: 8 Correlation between Debt Equity Ratio and Net Profit Ratio

Companies	'r'	Result	Companies	'r'	Result
Bajaj Steel Industries	-0.664	(-) Correlation	Bhushan Steel	0.6329	(+) Correlation
Gangotri Iron & Steel Company	0.138	(+) Correlation	India Steel Works	-0.9793	(-) Correlation
Kanishk Steel Industries	-0.096	(-) Correlation	Panchmahal Steels	0.2071	(+) Correlation
Mahamaya Steel Industries	-0.499	(-) Correlation	Sarda Energy and Minerals	-0.3203	(-) Correlation
Modern Steels	-0.695	(-) Correlation	Steel Strips	-0.5016	(-) Correlation
Vallabh Steels	0.403	(+) Correlation	Sunflag Iron and Steel Company	-0.0694	(-) Correlation
Welcast Steels	0.668	(+) Correlation	Visa Steel	-0.1577	(-) Correlation

The above table shows the correlation between Solvency and Profitability among the 7 units. Except three industries namely Gangotri Iron and Steel, Vallabh Steels and Welcast Steels, the remaining 4 units had posed negative correlation between Solvency and Profitability. Hence there is no correlation between Solvency and Profitability positions of the BSE listed a steel industry which was found to be negative. While taking the NSE listing steel industries, the table shows the correlation between Solvency and Profitability among the 7 units. Two steel industries namely Bhushan Steels and Panchmahal Steels found to be positively correlated between Debt Equity Ratio and Net Profit Ratio, whereas the remaining 5 industries has been negatively correlated towards Solvency and Profitability. Hence there is no correlation between Solvency and Profitability positions of the NSE listed steel industries which were found to be negative.

Findings:

1. The Current Ratio of BSE listing companies were found to be satisfactory.
2. The quick ratio of BSE listing companies were found to be satisfactory
3. The short term solvency position of the BSE listing companies was found to be satisfactory.
4. The Current Ratio of NSE listing companies were found to be satisfactory.
5. The quick ratio of NSE listing companies was found to be satisfactory.
6. The short term solvency position of the NSE listing companies was found to be satisfactory.
7. There is no correlation between Liquidity and Profitability positions of the NSE listed a steel industry which was found to be negative.
8. There is no correlation between Solvency and Profitability positions of the NSE listed steel industries which were found to be negative.

Suggestions:

- o The steel companies are increasing their production and also reducing their fuel consumption and cost.
- In order to increase the profitability of the companies, it is suggested to control the cost of goods sold and operating expenses.
- The quantum of sales generated should be improved impressively in order better to enjoy better per of the assets and capital employed.
- Few companies, which did not follow a definite policy of financing fixed assets, should follow such policy.

Cost accounting and cost audit should be made mandatory for this units and cost sheet along with annual financing statement should be prepared.

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