



## A COMPARATIVE STUDY ON TOP FIVE STEEL COMPANIES BASED ON DIFFERENT BUSINESS VALUATION METHODS

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### ABSTRACT

The iron and steel industry is one of the most important industries in India. In the year 2014 to 2015, India was the third largest producer of raw steel in the world. Performance of the companies is based on the valuation. This is the main reason to select this topic. The main objective of the study is to know the performance of the steel companies based on different business valuation method. Every company has different valuation method. Based on that company evaluates their performance. In this study, we collected top five steel companies based on market price for the year 2013 to 2016. We found that rank of company vary from the different valuation method.

**KEYWORDS :** Business valuation method, performance, steel company.

### 1. Introduction:

A business valuation is calculated for the estimated market value of a business entity. An assumption on valuation system is complex and economic benefits that arise from total of physical assets with intangible assets of the business which is going. The valuation, which is part art and part science, estimates the price that hypothetical informed buyers and sellers would negotiate at arm's length for an entire business or a partial equity interest.

The business owner needs to develop a strategy to obtain value from the company when he or she decides to sell. If a potential buyer is able to invest fewer dollars on his or her own and duplicate the seller's business the potential buyer would obviously be better off starting a new business than buying an existing one. If you own stock in a public corporation, you can readily determine its value by going to the Wall Street Journal and finding the price at which the stock is trading. However, if you own stock in a closely held corporation, you have no market reference to determine the stock's value.

Each and every step in to the valuation process requires the imminent and input of owners and managers to assure a valuation for conclusion of the business. The process itself can be as worthwhile as the value conclusion to all who participate in the gathering of information and its analysis. Most important, an appraisal of a closely held business enterprise is not merely an academic exercise. Real businesses and individuals are involved, and the appraiser must be careful to reflect the judgments that real business owners and investors would apply in determining the fair market value for a business enterprise or its securities.

### 2. Literature Review:

CA Hozefa Natalwala (2015) evaluated that the different points of view of different techniques the resulted values can be also differed from each other. Valuation models and techniques should be adapted to the rapidly changing world, but the basic statements remain the same. On the other hand there is a need for more accurate models in order to help investors get as many information as they could. Today information is one of the most important resources and financial models should keep up with this trend.

Xander Olsthoorn, Daniel Tyteca, Walter Wehrmeyer and Marcus Wagner (2001) environmental data, once normalized, should be used in a diversity of indicators that are tailored to the information needs of the data users and that, as long as normalization of data is kept separate from aggregation and standardization, many different indicators can be developed based on a comparatively small dataset.

Dr. Rajat Agrawa & Dr. V.K. Nangia (2013) firm valuation model for M&A in the area of Corporate Finance that is NRR Approach 1.0. The methodology is divided into five phases, modeling forecasting hurdle rate, finding sales growth rate, computation of free cash flows & estimation of future free cash flows and finally determination of firm value under NRR approach. The findings suggest that NRR approach considers various imperative factors while valuing target firms for the benefit of shareholders. The value of study could be credited by NRR Approach 1.0 and this is the first of its kind model considers political, transfer and commercial risk factors while estimating hurdle rate.

Hence, approach is the first version of development thought and has limited scope to validate in other industries.

Pablo Fernandez (2007) concluded that there are many common errors in valuations. There is a list that contains the most common errors that are detected in more than one thousand valuations to access to his capacity as business consultant.

Jimmy Torrez, Mohammad Al – Jafari and Ahmad H Juma'h (2006) Performance based measures are intellectually attractive because of the use of Microeconomic and Corporate Finance theory to explain valuation. The theory is still in its infancy; however at this early stage it seems to provide a better explanation of valuation than theories that rely on accounting based measures of performance.

### 3. Research Methodology:

The research design in this study is conclusive research design as this study will assist the decision maker in determining, evaluating, and selecting the best course of action to take in a given situation. In conclusive, it is causal research design that is used to obtain evidence of cause-and-effect relationships. We used Rank analysis, Net asset value, Economic value added, Discounted- cash flow and Market Value added methods for this research.

### 4. Data analysis and Interpretation:

#### 4.1: Net Asset Value (NAV):

**Table 1 Analysis as per Net Asset Value method**

Company Name/Year	2016	Rank	2015	Rank	2014	Rank	2013	Rank
Kalyani steel	7.13	4	3.22	5	1.42	5	1.82	5
Gangotri iron steel	12.47	3	15.86	2	17.76	2	2.43	4
Mahindra ugin steel	12.72	2	13.62	3	10.38	3	11.79	2
Jindal steel	93.34	1	53.72	1	279.66	1	296.27	1
Tata steel	6.58	5	8.42	4	9.04	4	6.87	3

As per the Net asset Value method, Jindal steel stands 1<sup>st</sup> rank from the year 2013 to 2016. From the overall analysis there is a slight change into rank position of the other companies.

#### 4.2: Economic Value Added (EVA):

**Table – 2 Analysis as per Economic Value Added method**

Company Name /Year	2016	Rank	2015	Rank	2014	Rank	2013	Rank
Kalyani steel	52.51	3	41.09	3	-1.06	4	74.88	3
Gangotri iron steel	-0.87	4	0.95	5	0.27	3	0.09	5
Mahindra ugin steel	-9.22	5	1.42	4	-22.08	5	26.24	4
Jindal steel	2054.77	2	1470.37	2	1534.93	2	1235.42	2
Tata steel	6765.75	1	4958.06	1	4581.39	1	4066.7	1

As per the Economic Value added method, Tata steel and Jindal steel stands 1<sup>st</sup> and 2<sup>nd</sup> position from the year 2013 to 2016 respectively. While, other companies have changes with one or two rank.

#### 4.3: Discounted Cash flow (DCF):

**Table – 3 Analysis as per Discounted cash flow method**

Company Name/ Year	2016	Rank	2015	Rank	2014	Rank	2013	Rank
Kalyani steel	33.40	4	81.09	3	73.73	3	-48.55	5
Gangotri iron steel	7.49	5	-11.36	5	-8.76	5	-5.96	4
Mahindra ugin steel	56.55	3	34.06	4	64.67	4	6.00	3
Jindal steel	1630.78	2	1984.94	2	2029.19	2	964.25	2
Tata steel	7765.33	1	6912.98	1	5555.31	1	4271.62	1

As per the Discounted cash flow method, Tata steel and Jindal steel stands 1<sup>st</sup> and 2<sup>nd</sup> position from the year 2013 to 2016 respectively. While, other companies have minor changes with one or two rank.

#### 4.4: Market Value Added (MAV):

**Table – 4 Analysis as per Market Value Added method**

Company Name / Year	2016	Rank	2015	Rank	2014	Rank	2013	Rank
Kalyani steel	33.04	2	203.54	2	-2.68	2	247.56	2
Gangotri iron steel	27.44	3	11.55	4	-3.44	3	0.94	4
Mahindra ugin steel	21.87	4	32.62	3	-14.48	4	27.12	3
Jindal steel	595.32	1	609.13	1	184.79	1	329.64	1
Tata steel	-338.91	5	-254.76	5	-524.79	5	-37.63	5

As per the Market Value Added method, all companies have same position from the year 2013 to 2016. In which, Jindal steel, Kalyani steel, Gangotri steel, Mahindra ugin steel & Tata steel stands 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> & 5<sup>th</sup> position respectively.

#### 4.5: Overall summary:

**Table – 5 Overall summary from all methods**

Company Name / Year	Rank as per NAV	Rank as per EVA	Rank as per DCF	Rank as per MAV
Kalyani steel	4	3	4	2
Gangotri iron steel	3	4	5	3
Mahindra ugin steel	2	5	3	4
Jindal steel	1	2	2	1
Tata steel	5	1	1	5

Above table shows the overall summary from all methods. it shows that from Net Asset Value & Market Added Value gave the all most similar result and Economic Value added & Discounted Cash flow gave the almost similar result for Tata steel and Jindal steel.

#### Conclusion:

The choice of valuation methods depends on the main objective behind the valuation. Internal and external investors have different aims in valuation of the company. External investors have main focus on the company's present value as per market price. They prefer to market flow methods for making future investment decisions. While, Internal investors prefer to internal accounting methods valuating company at present time. For future investments it is better to apply internal flow methods. Valuation is very helpful for taking decision for customer, investor as well as company.

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