

An Analysis on Financial Health of Nse Listed Steel Industries



Commerce

KEYWORDS : Financial health, Steel Industries, NSE, Z-Score (Altman/s model).

K.S.Kavitha

PhD Scholar, Department of Commerce, Karpagam University, Coimbatore-21

Dr.P.Palanivelu

M.Com, M.Phil, MBA, PhD, PGDCA. Controller of Examinations, Karpagam University, Coimbatore-21

ABSTRACT

The Iron and Steel industry in India is one of the most essential industries in the country, which propels the industrial development of the nation. 7 NSE listed companies have been selected for this study. The Objectives of the Studies are to know about the financial health of the steel industries. To analyze and compare the financial performances of NSE listed steel industries based on ratio analysis and Z-Score (Altman/s model). This article finds financial health of steel industries in India.

INTRODUCTION

The Iron and Steel industry in India is one of the most essential industries in the country, which propels the industrial development of the nation. It has helped in generation of several subsidiaries and small scale industries and also supports the power, transport, fuel and communication industries in the country. Out of the 200 MT of total production, 50% is exported. Furthermore, Iron ore exports have augmented by 17%, because of demand from China. Production in the iron and steel segment has been escalating since the last 20 years. Moreover, export duty levied on iron ore has been reduced which has been proved as an impetus to the industry. Iron and Steel Industry in the country has experienced a sustainable growth since the independence of the country.

Research Methodology Sampling Design

7 companies have been selected for this study. The sample size constitutes of the population. Before selecting the companies for study, list of companies were prepared which satisfied the following criteria,

- The companies have been listed in NSE.

Selection of sample

Companies of Iron and Steel industry in India are randomly selected based on their listing in NSE for the purpose of this study. In spite of taking into consideration the listings, all companies Equity Share Capital, Total Assets, Net Sales and Net Profit are taken as the base for selection of samples.

Sources of Data

To accomplish the objectives of the Study, Primary and Secondary data were used. Primary data were collected from banks and secondary data has been collected from bank records, published and unpublished financial reports, journals, magazines, and websites.

Data analysis

Data analysis is done using the following tools.

Tools used

Ratio Analysis

Z-Score (Altman/s model)

Objectives of the Study

- To know about the financial health of the steel industries.
- To analyze and compare the financial performances of NSE listed steel industries

Statement of the Problem

The study is conducted to analyze the present financial health of the organizations. The study aims to measure the profit and growth of steel industries listed in NSE and also to identify the drawbacks which are the indicators of the low profit of the

industry. The tool used for the study is to understand the actual position and a trend projection was given for the next five years based on the present situation. This will be useful for the companies to ascertain the actual situation and the comparative study for the companies will also help to assess themselves their stand in the steel market in India and thus this concludes the statement of the problem.

Limitations of the Study

However, the study hedges with certain limitations:

- The study has considered only ten years of data for its analysis.
- Any change the policy or attitude of the government may make the conclusions obsolete.
- The study is fully evident and based on the monetary information provided by the organizations.

Analysis and Interpretation

Liquidity Ratios

Table: 1 Current Ratio (Values in Crores)

Companies	Average	SD
Bhushan Steel	0.90	0.16
India Steel Works	0.33	0.18
Panchmahal Steels	0.83	0.19
Sarda Energy and Minerals	1.25	0.26
Steel Strips Infrastructures	4.45	1.79
Sunflag Iron and Steel Company	1.49	0.28
Visa Steel	1.75	1.56

Table 1 shows the seven steel industries which are listed under NSE has been taken for the study towards its Liquidity Position. The Current Ratio is taken for analysis shows that most of the industries were satisfying the rule of thumb i.e. 1:1 towards the current ratio. However, the highest ratio was found with Steel Strips which recorded 4.45 times and the lowest current ratio was recorded by India Steel which stood at 0.33 times. It is observed that on an average the Current Ratio of NSE listing companies were found to be satisfactory.

Table: 2 Quick Ratio (Values in Crores)

Companies	Average	SD
Bhushan Steel	1.07	0.26
India Steel Works	1.22	0.37
Panchmahal Steels	0.46	0.06
Sarda Energy and Minerals	1.68	0.50
Steel Strips	1.02	0.74
Sunflag Iron and Steel Company	1.17	0.17
Visa Steel	1.21	1.30

Table 2 shows the seven steel industries liquidity position which are listed under NSE has been taken for the study that analyses the quick ratio. The Quick Ratio is taken for analysis reveals that except Panchmahal Steel, the remaining six industries were almost fairing in average towards the quick ratio. However, the highest ratio was recorded by Sarda Energy and Minerals at 1.68 times and the lowest quick ratio was recorded by Panchmahal Steels which stood at 0.46 times. It is observed that on an average the quick ratio of NSE listing companies were found to be satisfactory.

Solvency Ratios

Table: 3 Debt Equity Ratio (Values in Crores)

Companies	Average	SD
Bhushan Steel	2.44	0.90
India Steel Works	33.83	29.31
Panchmahal Steels	2.14	1.97
Sarda Energy and Minerals	109.83	343.51
Steel Strips	0.93	0.48
Sunflag Iron and Steel Company	0.86	0.11
Visa Steel	1.93	1.25

Table 3 shows the seven steel industries solvency position which are listed under NSE has been taken for the study that analyses the Debt Equity Ratio. The Debt Equity Ratio is taken for analysis reflects that Sarda Energy performed exceptionally high showing 109.83 times and the remaining six industries were almost matching the rule of thumb i.e. 1:1 towards the debt equity ratio. However, the highest ratio was recorded by Sarda Energy and Minerals at 109.83 times and the lowest debt equity ratio was recorded by Sunflag Iron and Steels which stood at 0.86 times. It is observed that on an average the short

Table: 5 The Altman's 'Z' Score Model for NSE Units

Companies	Years									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Steel Strips Infrastructures	1.55	0.89	2.67	1.5	0.42	0.89	1.04	1.55	1.63	1.74
Bhushan Steel	2.17	1.99	2.01	2.35	1.83	1.68	1.25	1.21	1.35	1.29
India Steel Works	0.62	0.03	-0.36	0.72	0.27	0.65	1.54	0.89	0.85	1.70
Visa Steel	2.00	2.64	3.01	2.12	1.59	1.45	1.18	1.00	1.23	1.1
Sunflag Iron and Steel Company	2.12	2.28	2.77	3.41	3.01	2.57	2.64	2.76	3.03	2.81
Panchmahal Steels	0.79	1.26	1.32	1.81	2.44	3.12	3.23	2.85	2.48	3.16
Sarda Energy and Minerals	0.98	1.24	3.27	3.09	2.70	2.42	2.47	3.39	2.44	2.66

From the above table it is clear that the Altman's Z-Score reveals healthy situation for Steel Industries except in the year 2003-04, which falls in the grey zone that stood at 2.67. Apart from the only one period, the limits were between the unhealthy zone during the entire study period. When taking Bhushan Steel into consideration during the periods from 2001-02 the value was found to be in the grey zone 2.17. The other two years were 2003-04 (2.01) and 2004-05 (2.35). Otherwise, rest of the periods reveals that the unit was found to be in the unhealthy zone. While taking India Steel Industries for the study during the entire period of study the Z-Score was found to be in the unhealthy zone, however, it was found to be gradually improving in the last three years which was found initially at 0.62 during 2001-02 that reached 1.70 during 2010-11.

Altman's Z-Score reveals grey zone for Visa Steel except in the years 2001-02 to 2001-05. Apart from the period of four years, the limits were between the healthy zone during rest of the entire study period. When taking Sunflag Iron and Steel into consideration during the entire study period the unit was found to

term solvency position of the NSE listing companies were found to be satisfactory.

Table: 4 Interest Coverage Ratio (Values in Crores)

Companies	Average	SD
Bhushan Steel	6.75	4.57
India Steel Works	1.62	4.08
Panchmahal Steels	4.94	4.62
Sarda Energy and Minerals	11.60	10.71
Steel Strips	1.59	1.10
Sunflag Iron and Steel Company	3.35	1.67
Visa Steel	6.36	8.77

Table 4 shows the seven steel industries solvency position which are listed under NSE has been taken for the study that analyses the Interest Coverage Ratio. The Interest Coverage Ratio is taken for analysis reflects that except India steel works which poses negativity towards Interest coverage the remaining six industries were found to be performing positively and marginally good towards the interest coverage ratio. However, the highest ratio was recorded by Sarda Energy and Minerals which stood at 11.60 times and the lowest interest coverage ratio was recorded by India steels which recorded at 1.62 times. It is observed that on an average the solvency position of the NSE listing companies towards interest coverage ratio was found to be satisfactory.

Z-Score: NSE:

The Z-Score measurement of the financial health of a company and a powerful diagnostic tool that forecasts the probability- of a company entering bankruptcy within a 10-year period.

be in the healthy zone. While taking Panchmahal Steel for the study initially from 2001-02 to 2004-05 the value was found to be in the unhealthy zone which gradually improved during the rest of the study period to reach at 3.16 during 2010-11. With regards to Sarda Energy and Minerals during the initial two years period i.e. 2001-02 and 2002-03 the values falls in the danger zone that stood at 0.98 and 1.24 respectively. The remaining periods the company was found to be in the healthy zone during the entire study period. To sum up, it is clear that the Altman's Z-Score reveals healthy situation only for few years for some companies, otherwise, for all the companies it was found to be in the unpredictable and unhealthy zone. Especially, India Steel Works was found to be in the danger zone which was found to be in the unpredictable zone and unhealthy zone in all years during the entire study period.

Findings

- 1 The Current Ratio of NSE listing companies were found to be satisfactory.
- 2 The quick ratio of NSE listing companies was found to be

satisfactory.

- 3 The short term solvency positions of the NSE listing companies were found to be satisfactory.
- 4 The solvency position of the NSE listing companies towards interest coverage ratio was found to be satisfactory.
- 5 The Altman's Z-Score reveals healthy situation only for few years for some companies, otherwise, for all the companies it was found to be in the unpredictable and unhealthy zone.

Suggestions

The companies' tries to increase production and sales get maximize profit to strengthen financial position of the NSE listed companies. The management should reduce administrative

cost. The management may utilize maximum production capacity. Companies to reduce interest burden it will help to increase profit. The policy of borrowed financing in selected steel group of companies under study was not proper. So the companies may use widely borrowed funds and can try to reduce the fixed charges burden gradually by decreasing borrowed funds and by enhancing the owner's fund. For this purpose companies might enlarge their equity share capital by issuing new equity shares. For regular supply of raw materials and the final product infrastructure facilities are required further improvement.

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