

An Exploratory Study on Efficiency & Solvency Position of Aluminum Industry (With Special Reference to Bharat Aluminum Company Ltd)



Management

KEYWORDS : Efficiency, Solvency, debt financing.

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ABSTRACT

The solvency Position indicates the Industries financial stability because they measure debt relative to its assets and equity and efficiency of Inventory turnover ratio means the industry is successful in converting its inventory into sales. The liquidity and solvency concerns on corporate finance profitability and debt financing the Descriptive model explains how changes in solvency affect liquidity how liquidity concerns affect solvency via debt financing choice. These interactions result in a dynamic fixed assets ratio in which increase in debt financing and are positively correlated with Long term Debt.

Introduction

It was incorporated in 1965 as a Public Sector Undertaking. It is the first public sector enterprise in India which started producing aluminum in 1974. Till 2001, BALCO was a public sector enterprise owned 100% by Government of India. In 2001, Government of India divested 51% equity and management control in favor of Sterlite Industries India Limited.

There's a little history behind the privatization of the company that was not doing so well being a public sector company. There were groups formed among people or rather BALCO employees namely supporters of privatization and the ones who opposed it. Rallies and processions were carried out in the evenings to oppose the privatization and those who supported it were left in minority. Eventually, things happened as they were planned and the company was listed under Sterlite. There were allegations of scam involved in disinvestment of BALCO

In India, power sector continued to be the dominant driver of aluminium demand consuming almost 42% of aluminum. This, coupled with stable growth in other sectors such as automobile, packaging and construction, led to 9% demand growth in 2012 the aluminium production process can be categorized into upstream and downstream activities. The upstream process involves mining and refining while the downstream process involves smelting and casting & fabricating. Downstream-fabricated products consist of rods, sheets, extrusions and foils.

Objectives:

- To study the nature and Association between Solvency and Efficiency.
- To find out the factors other than solvency and liquidity influence on Debt financing.

Literature Survey:

Eljelly, A. (2004) "Liquidity-Profitability Tradeoff: An Empirical Investigation in an Emerging Market." International Journal of Commerce & Management. Vol. 14, No 2, pp. 48., The efficient liquidity management associates planning and controlling current assets and current liabilities in an efficient manner so as to eliminate the risk of non-payment of dues for short term requirements and it also avoids excessive investment in these assets. The connection between profitability and liquidity was examined, as determined by current ratio and cash conversion cycle on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis.

Vishnani, S. and Bhupesh, K.S. (2007). "Impact of Working Capital Management Policies on Corporate Performance: An Empirical Study." Global Business Review 8, p.267. investigated the association between capital structure and profitability of listed Sri Lankan banks over the period of 8 years from 2002 to 2009. Results of their analysis show that, there is a negative association between capital structure and profitability except the association between debt to equity and return on equity.

Problem Definition

The financial manager must determine levels and composition of current assets. He must see the right sources are commissioned to finance current assets, and that Debt financing are influencing in time. Firm should have adequate current assets to run its business operations. Excessive as well as inadequate working capital positions are dangerous from firm's point of view as it directly affect profitability, risk, solvency and liquidity.

Methods / Approach

Period of the study:

This study covers a period of fifteen years from (1999 to 2013).

Research methodology:

The present study adopts an analytical and descriptive research design. The data of the BALCO companies has been collected from the annual report and the balance sheet published by the companies in capitalineplus.com

Data collection:

This study is based on secondary data collected from various websites like, money control.com, Capitalineplus.com

Tools used for analysis:

Tools used for the Descriptive analysis of mean, standard deviation, correlation and test of significance.

Table.1
Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
Debt EquityRatio	.05	2.30	.7433	.66487
Long Term Debt-Equity Ratio	.05	2.30	.6027	.68741
Current Ratio	.30	2.54	1.1093	.67906
Fixed Assets Ratio	.47	1.01	.8240	.17121

Inventory Ratio	4.75	11.02	7.5127	1.72082
Debtors Ratio	21.92	42.79	31.1653	7.17561
Total Asset Turnover Ratio	.49	1.41	.9100	.31587

Source: www.capitalineplus.com

Inference

The above table indicates that the debt-to-equity ratio and long-term Debt ratio show the mean value is 0.7433 that a company may be able to generate enough cash to satisfy its debt obligations. Current ratio of the company mean value is 1.1093 may not have problems meeting its short-term obligations.

Table-2

Ho: That there is a Correlation Matrix between Dependent and explanatory Variables

Variables		Debt-Equity Ratio	Long Term Debt-Equity Ratio	Current Ratio	Fixed Assets Ratio	Inventory Ratio	Debtors Ratio	Total Assets Turnover Ratio
Debt-Equity Ratio	Pearson Correlation	1	.959**	-.543*	-.747**	.510	.111	-.403
	Sig. (2-tailed)		.000	.036	.001	.052	.694	.136
Long Term Debt-Equity Ratio	Pearson Correlation	.959**	1	-.326	-.723**	.435	.201	-.222
	Sig. (2-tailed)	.000		.236	.002	.105	.472	.426
Current Ratio	Pearson Correlation	-.543*	-.326	1	.420	-.519*	.130	.424
	Sig. (2-tailed)	.036	.236		.120	.048	.644	.115
Fixed Assets Ratio	Pearson Correlation	-.747**	-.723**	.420	1	-.254	.009	.599*
	Sig. (2-tailed)	.001	.002	.120		.360	.975	.018
Inventory Ratio	Pearson Correlation	.510	.435	-.519*	-.254	1	.172	-.131
	Sig. (2-tailed)	.052	.105	.048	.360		.539	.641
Debtors Ratio	Pearson Correlation	.111	.201	.130	.009	.172	1	.294
	Sig. (2-tailed)	.694	.472	.644	.975	.539		.287
Total Asset Turnover Ratio	Pearson Correlation	-.403	-.222	.424	.599*	-.131	.294	1
	Sig. (2-tailed)	.136	.426	.115	.018	.641	.287	

Source: www.capitalineplus.com

The Result shows that Debt-equity ratio is Positively correlated with Long-term debt ratio which is significant at 1% level. And Long term debt is negatively correlated with Fixed assets Among Independent variables the correlation between Current Ratio, fixed assets ratio, Inventory ratio and Debtors ratio are significant at 1% and 5 % level. Further reveals that Total Debtors ratio is satisfied for the industry.

Results & Discussion:

From the descriptive analysis found that BALCO prefers Long term debt Financing

The industry has attained high Inventory position

The correlation matrix indicates that significance difference of the variables

Conclusion

The efficiency is typically used to analyze how well a Industry uses its assets and liabilities internally whereas solvency aspect is used to measure long term obligations of the company. It has been proven statistically by correlation analysis. We also conclude that the relatively high Inventory observed in firms is important to increasing the solvency, and hence the increased working capital requirements associated with long-term debt have not impaired the ability of firm to remain efficient and solvent.

REFERENCE

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