Study on Liquidity of Sail and Tisco - a Comparative Study

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ABSTRACT *This Study was focused on the analysis and comparison of liquidity ratios in top two iron and steel industries in India. This analysis is based upon the liquidity ratios calculation for the companies under study. To evaluate the liquidity of the TATA Steel and SAIL and to analyze the comparative study between them. The data were collected by the secondary sources through the financial data were obtained from their websites. The study involved assessment of the liquidity through the Ratio analysis and Motaal Comprehensive Test. The study was during 5 years 2010 to 2014 of the two companies. The result of this study suggests that these two companies do not have the good liquidity position.*

IRON AND STEEL INDUSTRY IN INDIA- INTRODUCTION

The history of steel-making in India can be traced back to 400 BC when the Greek emperors used to recruit Indian archers for their army who used arrows tipped with steel. Many more evidences are there of Indians' perfect knowledge of steel-making long before the advent of Christ. Archaeological finds in Mesopotamia and Egypt testify to the fact that use of iron and steel was known to mankind for more than six thousand years and that some of the best products were made in India. Among the widely-known relics is the Iron Pillar near Qutab Minar in Delhi. The pillar, built between 350 and 380 AD, did not rust so far an engineering marvel that baffles the scientists even today. Yet another engineering feat is the famous Sun Temple at Konark in Orissa, built around 1200 AD, where steel structural were used for the first time in the world.

These were the halcyon days when India flourished in all directions and when its prosperity was a matter of envy for the foreigners. But as ill luck would have it, India's prosperity gave way to poverty after the advent of the foreign rule. India's indigenous industry languished because of a deliberate policy of the colonial rulers to make the country only a supplier of raw materials.

Steel Role plays a vital role in the development of any modern economy. The per capita consumption of steel is generally accepted as a yardstick to measure the level of socio-economic development and living standards of the people. As such, no developing country can afford to ignore the steel industry.

STEEL AUTHORITY OF INDIA LIMITED (SAIL)

SAIL is one of the largest state-owned steel making company based in New Delhi, India and one of the top steel makers in world. With an annual turnover of 50627crore (US$7.6 billion) (FY 2014-15). It is a public sector undertaking which trades publicly in the market is largely owned by Government of India and acts like an operating company. Incorporated on 24 January 1973, SAIL has 93,352 employees (as of 31-Mar-2015). With an annual production of 13.9 million metric tons, SAIL is the 24th largest steel producer in the world.[4] The Hot Metal capacity of the Company will further increase and is expected to reach a level of 23.5 million tons per annum by the end of the Financial Year 2015-16. P.K Singh is the current chairman of SAIL.

SAIL operates and owns 5 integrated steel plants at Rourkela, Bhilai, Durgapur, Bokaro and Burnpur and 3 special steel plants at Salem, Durgapur and Bhadravathi. It also owns a Ferro Alloy plant at Chandrapur. As part of its global ambition, the company is undergoing a massive expansion and modernization programme involving upgrading and building new facilities with emphasis on state of the art green technology. SAIL is a public sector company, owned and operated by the Government of India. According to a recent survey, SAIL is one of India's fastest growing Public Sector Units. Besides, it has R&D centre for Iron & Steel (RDCIS), Centre for Engineering and Technology (CET), Management Training Institute (MTI) and SAIL Safety Organization (SSO) located at Ranchi capital of Jharkhand.

TATA IRON AND STEEL INDUSTRY

Established in 1907 as Asia's first integrated private sector steel company, Tata Steel Group is among the top-ten global steel companies with an annual crude steel capacity of over 29 million tonnes per annum. It is now the world's second-most geographically-diversified steel producer, with operations in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of Rs. 1, 48,614 crores in FY 14, has over 80,000 employees across five continents and is a Fortune 500 company.

Tata Steel's larger production facilities comprise those in India, the UK, the Netherlands, Thailand, Singapore, China and Australia. Operating companies within the Group include Tata Steel Limited (India), Tata Steel Europe Limited (formerly Corus), Tata Steel Singapore and Tata Steel Thailand.

The Tata Steel Group's vision is to be the world's steel industry benchmark in "Value Creation" and "Corporate Citizenship" through the excellence of its people, its innovative approach and overall conduct. Underpinning this vision is a performance culture committed to aspiration targets, safety and social responsibility, continuous improvement, openness and transparency.

In 2008, Tata Steel India became the first integrated steel plant in the world, outside Japan, to be awarded the Deming Application Prize 2008 for excellence in Total Quality Management. In 2012, Tata Steel became the first integrated steel company in the world, outside Japan, to win the Deming Grand Prize 2012 instituted by the Japanese Union of Scientists and Engineers.

OBJECTIVES OF THE STUDY

- To assess the liquidity position of the companies.
- To evaluate the liquidity of the using Tata Iron and Steel companies and Steel Authority of India Motaal's Comprehensive Test.

LIMITATIONS OF THE STUDY

- This study is mainly based on secondary data.
- It is only for a period of 5 years.

- It is confined only to two iron and steel companies, so it cannot be generalized for other similar companies having identical operations.
- The calculation is made on the basis of the figures provided in the published information such as financial statement etc. hence the study is subject to inherent limitations of accounting and its practices.

Source of data

The source of data for the study is collected from the Annual Report and Balance sheet of 2 steel companies. The companies are,

- TATA Iron and Steel Company
- Steel Authority of India

Period of study

The period of study covers 5 years 2010-2014.

STATISTICAL TOOLS FOR ANALYSIS

Statistical tools are used to analyze the data are

Ratio analysis

- Current ratio
- Liquid ratio
- Absolute liquid ratio

Motaal's Comprehensive Test

Statement of the problem:

Iron and steel is one of the core industries which plays a vital role in the growth and expansion of a nation. The demand for iron and steel depends primarily on the pace of activities in the business, real estate and infrastructure sectors of the economy. Iron and steel is considered preferred building material and is used worldwide for all construction works such as housing and industrial construction, as well as for creation of infrastructure like ports, roads and not only in construction industry also useful in different sectors of industry for manufacturing plants and machineries. Indian iron and steel industry is globally competitive because of the industry up gradation.

The Indian iron and steel industry is extremely energy intensive, it is modern and uses latest technology, which is among the best in the world. Also, the industry has tremendous potential for development almost throughout the country. So the analysis of financial performance of iron and steel industries is inevitable.

LITERATURE REVIEW

1. Bardia (1988) in his work on "Working Capital Management of Iron & Steel industry in India" analyzed the Iron & steel industry practices in working capital management and examined management performance in this segment of financial management. He explained that inventory occupied a major share in the current assets of the iron and steel industry. The analysis of sundry debtors shows that its absolute figure continuously moved to rise. Besides this, he pointed out that the proportion of debtors considered doubtful was much higher and commented that this is due to inefficient management of receivables and a slackness in collection efforts. He also examined that the liquidity position of such industry is poor. Finally he concluded that the levels of inventories must Journal of Business Management, Commerce & Research A study on liquidity position of Tata Steel Ltd and Vol. II, No. 6, December 2013 (ISSN 2319 250X)   Steel Authority of India Ltd: A comparative analysis   www.jbmcr.org 13 be reduced to a reasonable extent and also a strict control over inventories has to be introduced so as to improve the liquidity and profitability position. Further he suggested that the industry should centralize the administration of cash and establish a standard optimum cash balances.

2. Patra analysed the impact of liquidity on profitability in his study considering the case tata iron and steel company limited. The study of the impact of liquidity ratios on profitability showed both negative and positive association. Out of seven liquidity ratios selected for this study, four ratios namely current ratio, acid test ratio, and current assets to total assets ratio and inventory turnover ratio showed negative correlation with profitability ratio. However, these correlation co-efficient were not statistically significant. The remaining three ratios namely working capital turnover ratio, receivable turnover ratio and cash turnover ratio have shown positive association with the profitability ratio, all of which are statiscally siginificant at @ 5% level of significance. The result of all the correlation co-efficient was as desirable except correlation co-efficient between inventory turnover ratio and ROI. However this undesirable sign between ITR and ROI was not supported by the multiple regression analysis, which showed the positive association between these two variables. There is increasing profitability which depends upon many factors including liquidity.

3. Barad in the thesis "A study on liquidity management of Indian Steel Industry" dealt with the Analysis on liquidity of steel industry in india, which were mainly engaged in production of steel products, The study aimed at exploring analysis of liquidity performance of steel industry in india. The study covered a period of 10 years i.e. from 1999-2000 to 2008-2009. Four companies JSWSL, JS&AL, SAIL and TSL were selected for the study. In order to analyze the liquidity performance six types of ratios were calculated i.e. current ratio, quick ratio, and inventory ratio working capital turnover ratio, debtor turnover ratio and average collection period. To test the hypothesis the one way ANOVA was used. The analysis describes that the need for liquidity to run day-to-day business activities can't be over emphasized.

4. Lal Manohar26, in 1990, in his doctoral research on A Comparative Study of Financial Health of SAIL and TISCO, submitted to the Kurukshetra University, has undertaken a comparative study of financial health of SAIL and TISCO. In this study the researcher focus on the financial health of the mentioned company SAIL and TISCO where he studied comparative financial statement of SAIL and TISCO and made the comparative analysis.

5. Kolluru investigated a study on performance of Indian steel companies during 1999-2003. The objective of this study was to measure an overall index of performance across the Indian steel companies based on eleven financial ratios including the profit ratio for each company by using the globally popular methodthe Taxonomic method. The empirical results showed that, overall composite index would serve as a better performance indicator than the conventional stand alone operating profit margin.

Analysis and results

1) CURRENT RATIO

Current ratio is used to measure the relationship between current assets and current liabilities. It is most orderly used to make the analysis of a short term financial position or liquidity of a firm.

Current Ratio =Current assets

Current liabilities

Current assets includes cash, marketable securities, bills receivable, sundry debtors, inventories, work in progress and prepaid expenses. Current liabilities are outstanding expenses, bills payable, sundry creditors, accrued expenses, short term advances, income tax, dividend payable and bank draft.

Table No .1
Table showing the Current Ratio

Year	SAIL	TATA STEEL	Average
2010	0.952	0.707	0.830
2011	1.115	0.608	0.861
2012	1.706	0.483	1.094
2013	1.621	0.387	1.004
2014	1.232	0.493	0.862
Average	1.325	0.536	0.930

Interpretation

Table No. 1 shows increasing trend in the Current Ratio of the organizations during the study period. It is evident that during the year 2010 the average was showing 0.830 which fluctuating year after year by a increasing and marginally fluctuating trend in all the years' up to 2012 showing 1.094 and decreased to 0.862 in 2014.

When taking the companies into consideration the average was not achieved by both SAIL and TATA STEEL these were below the average a rule of thumb i.e. 2:1.

It is observed that the highest Current ratio was performed by SAIL during the year 2012 at 1.706 and the lowest ratio was also performed by TATA STEEL during 2013 at 0.387.

When taking company wise overall performance, SAIL was showing high with 1.325 as an average current ratio whereas TATA STEEL was low with 0.536.

2) QUICK RATIO
Quick ratio is a more rigorous test of liquidity than the current ratio. The liquidity refers to the ability of a firm to pay its short term obligations as and when they become due.

Quick ratio = Quick Assets

Liabilities

Quick assets are current assets minus inventories and prepaid expenses and quick liabilities are current liabilities minus bank over draft.

Table No. 2
Table showing the Quick Ratio

Year	SAIL	TATA STEEL	Average
2010	0.278	0.379	0.328
2011	0.307	0.303	0.305
2012	0.765	0.176	0.470
2013	0.552	0.086	0.319
2014	0.436	0.053	0.244
AVERAGE	0.468	0.199	0.333

Interpretation
Table No.2 shows a fluctuating trend in the quick ratio of the organizations during the study period. It is evident that during the year 2010 the average showing 0.328 which fluctuated year after year in all the years up to 2014 reach at 0.244.

When taking the companies into consideration the average was achieved by both SAIL and TATA STEEL was above the average

and achieving the rule of thumb i.e. 1:1.

It is observed that the highest Quick ratio was performed by SAIL during the year 2012 at 0.765 and the lowest ratio was performed by TATA STEEL during 2014 at 0.053.

When taking company wise overall performance, SAIL was showing high with 0.468 as an average quick ratio whereas TATA STEEL was low with 0.199.

3) ABSOLUTE LIQUID RATIO
Although receivables, debtors and bill receivables are generally more liquid than inventories, there may be doubts regarding their realization into cash immediately or in time. Hence absolute liquid ratio is calculated together with current ratio and liquid ratio so as to exclude receivables from the current assets and find out absolute liquid assets. It includes cash in hand and at bank and marketable securities or temporary investments. The acceptable norm for this ratio is 0.5:1.

Absolute Liquid Ratio = Absolute liquid assets

Current liabilities

Table No.3
Table showing the Absolute Liquid Ratio

Year	SAIL	TATA STEEL	Average
2010	0.017	0.343	0.180
2011	0.010	0.247	0.128
2012	0.439	0.129	0.284
2013	0.257	0.048	0.152
2014	0.149	0.026	0.087
AVERAGE	0.174	0.397	0.286

Interpretation
Table No.3 shows decreasing trend in the Absolute Liquid Ratio of the organizations during the study period. It is evident that during the year 2010 the average was showing 0.180 which fluctuated year after year in all the years' upto 2014 to reach at 0.087.

When taking the companies into consideration the average was not achieved by both the companies. However, TATA STEEL was showing 0.397 as the highest and SAIL was posing lowest with 0.174 and not achieving the rule of thumb i.e.0.5:1.

It is observed that the highest Absolute Liquid Ratio was performed by SAIL during the year 2012 at 0.439 and the lowest ratio was also performed by the same SAIL during 2011 at 0.017.

When taking company wise overall performance, TATA STEEL was showing high with 0.397 as an average Absolute Liquid Ratio whereas SAIL was low with 0.174.

MOTAAL'S COMPREHENSIVE TEST
In order to evaluate the overall liquidity position of TATA STEEL and SAIL during the study period, "Motaal's Comprehensive Test is applied.

In this test, a method of ranking has been applied to reach at the more comprehensive assessment of liquidity in which three

different ratios, viz., Inventory to current assets; Liquidity to current asset and loans and advances to current assets has been computed and combined in points score.

A high value of Liquid Asset to Current asset shows greater liquidity and according the ranking has been done in the order. On the other hand, a low efficiency to Liquidity (Inventory to Current Assets) indicates more favorable liquidity position to current assets ratio. More the liquidity towards loans and advances to current assets reveals more favorable liquidity position. Therefore, ranking has been done accordingly which shows lower the total or individual ranks; the more favorable is the liquidity position of the organizations which is self explanatory in the tables given below.

Table No. 4
Motaal's Comprehensive Test showing the Overall Liquidity Position of SAIL

Year	Inventory to Current Assets		Liquid assets to Current Assets		Loans and Advances to Current Assets		Total Rank	Ultimate Rank
	Percentage	Rank	Percentage	Rank	Percentage	Rank		
2010	70.8	2	29.21	4	40.43	1	7	1
2011	72.41	1	27.58	5	39.57	2	8	2
2012	55.14	5	44.85	1	22.3	5	11	5
2013	65.92	3	34.08	3	26.97	4	10	4
2014	64.57	4	35.42	2	30.93	3	9	3

Interpretation
According to Motaal's Comprehensive Test, year 2010 was ranked as 1st on the basis of liquidity followed by the year 2011 and the third rank was achieved during 2014 by SAIL. The last rank was achieved during the year 2012.

Table No.5
Motaal's Comprehensive Test showing the Overall Liquidity Position of TISCO

Year	Inventory to Current Assets		Liquid assets to Current Assets		Loans and Advances to Current Assets		Total Rank	Ulitmate Rank
	Percentage	Rank	Percentage	Rank	Percentage	Rank		
2010	46.42	5	53.57	1	200.23	1	7	1
2011	50.04	4	49.95	2	90.35	3	9	3
2012	63.55	3	36.44	3	115.89	2	8	2
2013	77.62	2	22.37	4	75.76	4	10	4
2014	89.23	1	10.76	5	57.87	5	11	5

Interpretation
According to Motaal's Comprehensive Test, year 2010 was ranked as 1st on the basis of liquidity followed by the year 2012 and the third rank was achieved during 2011 by SAIL. The last rank was achieved during the year 2014.

FINDINGS
Ratio Analysis Findings
It was found that the overall performance, SAIL was showing high with 1.325 as an average current ratio whereas TISCO was low with 0.536.

It was found that the overall performance, SAIL was showing high with 0.468 as an average quick ratio whereas TISCO was low with 0.199.

It was found that the overall performance, TISCO was showing high with 0.397 as an average Absolute Liquid Ratio whereas SAIL was low with 0.174.

Motaal's Comprehensive Test Findings:
According to Motaal's Comprehensive Test, year 2010 was ranked as 1st on the basis of liquidity followed by the year 2011 and the third rank was achieved during 2014 by SAIL. The last rank was achieved during the year 2012.

According to Motaal's Comprehensive Test, year 2010 was ranked as 1st on the basis of liquidity followed by the year 2012 and the third rank was achieved during 2011 by TISCO. The last rank was achieved during the year 2014.

SUGGESTIONS
There was a low performance of liquidity by both the companies SAIL and TISCO. But comparatively SAIL liquidity is better than TISCO. TISCO have to reduce the current liabilities like sundry creditors and bank overdraft.

Both TISCO and SAIL have to increase the current assets especially the cash in hand and bank balance to meet the current liabilities and to maintain the standard in liquidity.

According to motaal comprehensive test SAIL was in increasing in the subsequent years, so it taken steps to maintain the liquidity during the study period.

But in TISCO there was decreasing trend in the subsequent years and have to take steps immediately to control the current liabilities and quick liabilities.

CONCLUSION
The study is concluded to analyse the present liquidity performance position of the organizations. The present situation of the organization was taken for the study is through analyzing the five years annual report which clearly depicts the balance sheet in which the source of funds, application of funds and current liabilities & provisions of the company. The objectives are to assess the liquidity, position of the companies, to analyze and compare the performances of the SAIL and TISCO during the period from 2010 to 2014.

It is confined only to two companies, one is SAIL is public sector, and other is TISCO is private sector, so it cannot be generalized for other similar companies or different company having identical operations. "Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is an Analytical Research. The source of data for the study is collected from the Balance sheet of two companies in India.

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