A STUDY ON FINANCIAL PERFORMANCE ANALYSIS IN SALEM STEEL PLANT AT SALEM *

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ABSTRACT

Today SAIL is one of the largest industrial entities in India. Its strength has been the diversified range of quality Steel product catering to the domestic, as well as the export market sandal large pool of technical and professional expertise. Today, the accent in SAIL is to continuously adept to the competitive business environment and excel as a business organization, both within and outside in India. Hence, this study was undertaken to investigate into the financial performance of Salem Steel Plant at Salam District, Tamilnadu understand their performance in a highly competitive environment. The study revealed that Salem Steel Plant in the study area have not performed well on all the parameters of financial performance. On plant performed best on one parameter, but worst on another which prove that the overall financial performance of the steels has not been quite good and all the Steel Plants have to make improvements on different fronts.

Keywords: Salem Steel Plant, Financial performance

INTRODUCTION

Finance is of the most primary requisites of a business and the modern management Financial Statement are prepared primary for decision making. The play a dominant role in setting the frame works of managerial decision. The finance manager has to there to the five R's with regard to money. This right quality of money for liquidity consideration of right quality. Whether owned or borrowed funds. At the cost of capital.

The term of financial analysis is also known as ' analysis and interpretation of financial statement' refers to the process of determining financial strength and weakness of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data.

The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness f the firm.

REVIEW OF LITERATURE

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FINANCIAL STATEMENT ANALYSIS

The financial statements are indicators of the two significant factors;

1. Profitability and
2. Financial soundness

Analysis and interpretation of financial statement therefore, refers to such a treatment of the information contained in the Income Statement and Balance Sheet so as to afford full diagnosis of the profitability and financial soundness of the business.

Balance sheet

A balance sheet is the basic financial statement. It presents data on a company financial conditions on a particular data, based on conventions and generally accepted principles f accounting. The account shown in the statements on the balances, at the time it was prepared in the various accounts listed in the company accounting records, is considered to be fundamental accounting statements. The income statement of the business operations during the specific period and shows the results of such operations in the form of net income or net loss. By comparing the income statements of successive periods, it is possible to determine the progress of a business.

A statement is supplemented by a comparative statement of the cost of goods manufactured and sold. It is prepared at regular intervals and shows what a business enterprise owns and what it owes. It provides information which helps in the assessment of the three main aspects of an enterprises position its profitability, liquidity and solvency. The latter two are concerned with an enterprises ability to meet its liabilities, while profitability is most useful overall measure of its financial conditions, the balance sheet is a statement of assets, liabilities capital on specified data. It is therefore a static statement, indicating resources and the allocation of these resources to various categories of asset. It is so to say financial photography finance. It is a liabilities show the claims against its assets.

The shareholders equity companies the total ownership claims in a firm. This claim includes net worth of shareholders equity and preferred stock. The traditional company balance sheet statement of assets valued on the basis of their original cost and the means by which they have been financed by its shareholders, lenders, suppliers and by the retention of income.

This tool suffers from the following limitations:

1. A balance sheet gives only a limited picture of a state of affairs of a company, because it includes only those items which can be expressed in monetary terms.
2. The values shown on the balance sheet for some of the assets are never accurate.
3. A balance sheet assumes that the real value of money remain constant.
4. On the basis of balance sheet, it is not possible to arrive at any conclusion about the success of an enterprise in the future.
5. It is a detailed statement of the financial structure of a business.

Income statement

The results of operations of a business for a period of time are presented in the income statement.

From the accounting point of view, an income statement is subordinate to the balance sheet because the former simply presents the details of the changes in the retained earnings in this balance sheet accounts. However, if vital source of financial information an income statement summarizes the results of business operations during specific period and shows in the form of net income or net loss by comparing income statements for successive

periods, it is possible to observe the progress of the business the statement is supplemented by a comparative statement of cost of goods manufactured and sold. It summarizes firms operating results for the first period.

METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. So, the research methodology not only talks about the research methods but also considers the logic behind the method used in the context of the research study.

DATA COLLECTION

The required data for the study are basically secondary in nature and the data are collected from the audited reports of the company.

FINANCIAL PERFORMANCE IN SAIL

The financial performance of selected Salem Steel Plant is shown in the succeeding.

SOLVENCY ANALYSIS

The solvency with which the assets are used would be reflected in the speed and rapidity with which assets are converted into sales. The greater is the rate of turnover or conversion, the more efficient is the utilization / management, other things being equal.

The term of "solvency" refers to the ability of a concern to meet its long term obligations. The long term indebtedness of a firm includes debenture holders and financial institutions providing medium and long term sales. The long term creditors of a firm are primarily interested in knowing the firm's ability to pay regularly the interest on long term sales, repayment of the principal amount at the maturity and security of their sales.

Accordingly, long term solvency ratios indicate the firm's ability to meet the fixed interest and costs and repayment schedules associated with its long term sales. The following ratios have been used to determine the solvency position of the selected Salem Steel Plant in the study area.

DEBT – EQUITY RATIO

The debt – equity ratio is calculated to the measure in relative claims of the outsiders and the owners (shareholders) against the firm's assets. This ratio is calculated to measure the extent to which debt financing has been used in a business. The purpose is to get an idea of the sales available to outsiders on the liquidation of the firm. As a general rule, there should be an appropriate mix of sellers funds and outsiders' fund in financing firm's assets. In general, a low of ratio (debt being low in comparison to shareholder's funds) is considered as favorable from the long term creditors' point of view because a proportion of seller's funds provide a larger margin of them. In the same way, a very low ratio is not considered satisfactory for the shareholders because it indicates that the firm is not able to use the low – cost outsiders' funds to magnify their earnings. The debt – equity ratio of the selected Salem Steel Plant in the study area is shown in Table.

Table 1 Debt – Equity Ratio

YEAR	Debt – Equity Ratio (in sales)							
SAIL	SSP	TREND (%)	BSP	TREND (%)	DSP	TREND (%)	RSP	TREND (%)
2008-09	22.39	100.00	09.65	100.00	06.56	100.00	10.24	100.00

2009-10	15.41	68.83	06.77	70.16	04.73	72.10	11.35	110.84
2010-11	10.93	48.82	06.11	63.32	05.56	84.76	11.01	107.52
2011-12	07.94	35.46	03.99	41.35	04.32	65.85	12.17	118.85
2012-13	06.61	29.52	03.43	35.54	03.23	49.24	06.98	68.16
2013-14	06.14	27.42	03.12	32.33	02.78	42.38	07.04	68.75
2014-15	07.22	32.25	03.89	40.32	03.49	53.20	08.64	84.38
2015-16	08.15	36.40	03.72	38.55	04.16	63.41	09.61	93.85
2016-17	09.46	42.25	04.05	41.97	04.12	62.80	10.35	101.07
2017-18	09.31	41.58	04.25	44.04	04.08	62.20	10.89	106.35
Mean	10.36	-	04.89	-	04.30	-	09.83	-
S.D	04.10	-	02.03	-	01.11	-	01.77	-
C.V (%)	39.58	-	41.51	-	25.81	-	18.01	-

Source: compiled and calculated from annual reports.

Where: SAIL = Salem Steel Plant., BSP = Bokaro Steel plant., DSP = Durgapur Steel plant., RSP = Rourkala Steel Plant.

It is understood from the Table 1 that the debt – equity ratio of all the selected Salem Steel Plant has declined considerably except Rourkala Steel Plant during the study period. In these three Steel Plants, long term creditors get a larger margin against steel' assets, but at the same time the steel plants have failed to utilize lower cost outsider's fund to magnify their earnings. Salem and Bokaro Steel Plants have a high Co – efficient of variation of the debt equity ratio when compared to Durgapur and Rourkala Steel plants. it shows that the debt equity ratios of the Salem and Bokaro have a high volatility in nature as compared to Durgapur and Rourkala steels (Wong Lin Jing, et al.2022).

In order to find out whether there is any significant difference between the debt equity ratios of the selected Salem Steel Plant in the study area, a null hypothesis framed and tested with the help of ANOVA test.

Null Hypothesis: Salem Steel Plant (SAIL) in the studyarea maintain the same level of debt equity ratio.

TABLE 2 ANNOVA TEST

	Sum of Squares	**Df**	**Mean Squares**	**F**	**Result**
Between groups	**304.730**	**03**	**101.577**		**Significant****
Within groups	**301.374**	**36**	**8.371**	**12.1336**	
Total	**606.104**	**39**	**-**		

**** Significant at 5% and 1% level**

The calculated F value is 12.13, which is greater than that the Table value at 5 per cent level (2.87) and 1 per cent level (4.38). Therefore, the null hypothesis is rejected. Hence, it can be concluded that the debt equity ratio of selected Salem Steel Plant significantly differs.

CAPITAL GEARING RATIO

The term 'capital gearing' is used to describe the relationship between equity share capital, including reserves and surplus to financial performance share capital and other fixed interest bearing sales. The capital gearing ratio is calculated to test the long term financial position of the firm.

If preference share capital and other fixed interest bearing sales exceed the equity share capital, including reserves, the firm is said to be highly geared. The firm is said to be low gear if preference share capital and other fixed interest – bearing sales are less than equity capital and reserve. A capital gearing ratio is a very important leverage ratio. Gearing should be kept in such a way that the company is able to maintain a steady rate of dividend. The high gearing ratio is not good for a new company or a company in which future earnings are uncertain. The capital gearing ratio of the selected SAILs is given in the Table3.

Table 3 Capital Gearing Ratio

YEAR	Capital Gearing Ratio (in sales)							
SAIL	SSP	TREND (%)	BSP	TREND (%)	DSP	TREND (%)	RSP	TREND (%)
2008-09	0.06	100.00	0.12	100.00	0.20	100.00	0.09	100.00
2009-10	0.09	150.00	0.15	125.00	0.23	115.00	0.11	122.22
2010-11	0.12	200.00	0.20	166.67	0.20	100.00	0.12	133.33
2011-12	0.11	183.33	0.27	225.00	0.26	130.00	0.13	144.44
2012-13	0.18	300.00	0.31	258.33	0.34	170.00	0.15	166.67
2013-14	0.15	250.00	0.34	283.33	0.41	205.00	0.15	166.67
2014-15	0.16	266.70	0.31	258.33	0.33	165.00	0.13	144.44
2015-16	0.15	250.00	0.29	241.67	0.28	140.00	0.12	133.33
2016-17	0.13	216.67	0.26	216.67	0.27	135.00	0.10	111.11
2017-18	0.13	216.67	0.24	200.00	0.31	155.00	0.12	133.33
Mean	0.13	-	0.25	-	0.28	-	0.12	-
S.D	0.04	-	0.07	-	0.07	-	0.02	-
C.V (%)	30.77	-	28.00	-	25.00	-	16.67	-

Source: Complied and calculated from annual reports

Table 3 shows that among the four selected Salem Steel Plants, Salem and Rourkala Salem Steel Plants have a low average capital gearing ratio compared to Bokaro and Durgapur at SAILs. Salem and Bokaro Salem Steel Plants have a high Co – efficient of variation when compared to Durgapur and Rourkala plants in SAILs. The Table further reveals that all the plants have a capital gearing ratio less than 1 time, which implies that the all

plants have a low gearing ratio. It is necessary for Salem Steel Plant because their future profitability is uncertain due to competitions between public sector in the study of this area.

GROWTH OF NETWORTH FIXED ASSETS RATIO

It is the ratio of proprietor's fund to total assets. It is also called net worth to total assets ratio because proprietor's fund is also known as net worth. It indicates the strength of financial foundation of the concern and serves as a measure of ultimate or long – term solvency. The net worth of SAIL has been presented in Table.

Table 4 Growth of Net worth fixed Assets Ratio

YEAR	Growth of Net worth fixed Assets Ratio (%)							
SAIL	SSP	TREND (%)	BSP	TREND (%)	DSP	TREND (%)	RSP	TREND (%)
2008-09	4.56	100.00	20.90	100.00	22.05	100.00	08.43	100.00
2009-10	6.66	146.05	23.11	110.57	26.27	119.14	10.65	126.33
2010-11	9.34	204.82	16.19	77.46	22.05	100.00	11.38	134.99
2011-12	11.44	250.88	32.45	155.26	68.59	311.07	15.39	182.56
2012-13	13.41	294.08	51.47	246.27	55.41	251.29	21.47	254.69
2013-14	12.32	270.18	64.08	306.60	57.58	261.13	23.25	275.80
2014-15	33.74	739.91	62.14	297.32	62.14	281.81	19.55	231.91
2015-16	27.49	602.85	37.94	181.53	68.11	308.89	26.60	315.53
2016-17	29.40	644.74	42.48	203.25	32.71	148.34	30.72	357.30
2017-18	21.11	462.94	20.66	98.85	46.18	212.56	28.47	337.72
Mean	16.95	-	37.14	-	46.18	-	19.59	-
S.D	10.26	-	17.57	-	18.84	-	07.88	-
C.V (%)	60.53	-	47.31	-	40.80	-	40.22	-

Source: Compiled and calculated from annual reports

Table 4 indicates that the analysis of the growth of net worth to fixed asset ratio of the selected banks revealed that the Bokaro and Durgapur Steel plants have maintained high net worth to fixed asset ratio as compared to Salem and Rourkala Steel Plants during the study period. The high Co – efficient of variation of the ratio of the all the plants indicates the variable nature of the ratio.

LIQUIDITY

Liquidity is very important for any organization dealing with money. For a bank, liquidity is a crucial aspect which represents its ability to meet its financial obligations. It is of utmost importance for a plant to maintain the correct level of liquidity, which will otherwise lead to declined earnings. Plants have to take proper care in hedging liquidity risk, while at the same time ensure that a good percentage of profits are invested in higher return generating investments. So that plants can generate profit while at the same time provides liquidity to the workers. Among a plant asset, profits – to – asset ratio investments are the most liquid.

LIQUID ASSETS TO TOTAL ASSETS

Liquid Assets include cash in hand, balance with other (both in India and abroad), and money at call and short notice. This ratio is arrived by dividing liquid assets by total assets. The proportion of liquid assets to total assets indicates the overall liquidity position of the plants. The ratio of liquid assets to total assets of the selected plants is revealed in Table 5.

Table 5 Liquid Assets to Total Assets

YEAR	Ratio (%)							
SAIL	SSP	TREND (%)	BSP	TREND (%)	DSP	TREND (%)	RSP	TREND (%)
2008-09	02.51	100.00	51.70	100.00	32.30	100.00	01.98	100.00
2009-10	03.10	123.51	45.28	87.58	35.45	109.75	02.82	142.42
2010-11	03.17	126.51	38.47	74.41	32.29	99.97	02.63	132.83
2011-12	02.50	99.60	24.20	46.81	40.68	125.94	02.72	137.37
2012-13	02.70	107.57	20.54	39.73	36.29	112.35	02.66	134.34
2013-14	04.35	173.31	20.71	40.05	31.32	96.96	03.78	190.91
2014-15	30.09	1198.80	31.02	60.00	32.13	99.47	02.49	125.76
2015-16	35.23	1403.59	31.94	61.78	40.54	125.51	03.01	152.02
2016-17	34.71	1382.87	05.50	10.64	34.71	107.46	02.89	145.96
2017-18	31.40	1250.99	06.76	13.07	02.99	09.26	17.42	879.80
Mean	14.98	-	27.61	-	31.87	-	04.24	-
S.D	15.47	-	15.18	-	10.69	-	04.65	-
C.V (%)	103.27	-	54.98	-	33.54	-	109.67	-

Source: Compiled and calculated from annual reports

It is understood from the Table 5 that Bokaro and Durgapur Steel Plants has the higher liquid assets to the total assets ratio as compared to Salem and Rourkal Salem Steel Plants. All the selected Steel plants have a high Co – efficient of variation; it indicates the variable nature of the ratio.

To find out whether there is any significant difference among the Salem Steel Plant for maintaining the ratio of liquid assets to total assets, a null hypothesis is framed and tested with the help of ANOVA test.

Null Hypothesis: There is no significant difference among the Salem Steel Plant for maintaining liquid assets to total assets ratio.

ANOVA TEST

SUM OF SQUARES	**Df**	**Mean square**	**F**	**Result**

Between groups	4720.338	03	1573.446	10.39	**Significant
With in groups	5449.426	36	151.373		
Total	10169.764	39			

****Significant at 5% and 1% level**

The calculated F value is 10.39, which is greater than that the table value at 5 per cent level (2.87) and 1 per cent level (4.38). Therefore, the null hypothesis is rejected. Hence, it can be concluded that there is a significant difference among the Salem Steel Plant in the study area in maintaining liquid assets to total assets ratio.

CONCLUSION

The company has judicious mix of export and domestic sales so as to dependency on any market. The company has taken measures to derrick the operations. The company has taken up vertical integration by having long term arrangement with supplies for key inputs like to iron ore, oxygen and coal etc. certain other inputs viz power, coke, lime are available from the house facilities the company manufactures a wide range of product like pellets, slabs, coils, plats, galvanized coils and colour coated products with a flexibility to increase or reduce suppliers in line with market dynamics. This maintains a natural hedge against exchange rate movements. SAIL focus on sustainable development by establishing equilibrium and social performance. They have always focused on maintaining a clean and safe environment at all their operating plants. All expansion projects are planned and designed keeping in mind their environmental and compliance standards.

Finance is the life blood of every business. Without effective financial management a company cannot in this competitive world.

A product financial manager has to measure the working capital policy followed by the company. SAIL continues to play an important role in the industrial development of country; there is every possibility that SAIL would establish for itself a permanent and unshakable position in the industrial map of Indian and also in the emerging international market for sales in steel plants.

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