EVALUATION OF LIQUIDITY POSITION OF STEEL AUTHORITY OF INDIA LIMITED

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ABSTRACT

Liquidity refers to the ability of a concern to meet its obligations in the short run, usually one year and to test its ability to maintain positive cash flow, while satisfying immediate obligations. In fact, liquidity is a pre-requisite for the very survival of the company. However, liquidity should be neither excessive nor inadequate. This paper is focused on examining liquidity position of SAIL using the ratios like CR, QR, and LR. The study brought the conclusion that overall financial performance of SAIL was satisfactory during initial years of the study but deteriorated in subsequent years.

KEYWORDS: LIQUIDITY, CR, QR, LR

1. INTRODUCTION:

Financial performance evaluation is a process of determining the financial health of a concern from different angles, identifying its strengths and weaknesses and suggesting ways for improvement in its future workings. Financial performance measures evaluate how well a company is using its resources to make profit (Financial performance). In the words of Keynes, (Cited in Gupta & Sharma, 2011) “Profit is the engine that drives the business enterprise”.

Steel Authority of India Ltd (SAIL) is the leading steel-making company in India that operates through its five integrated plants and three special steel plants, located principally in the eastern and central regions of India. SAIL has the largest captive iron ore operations in India, which takes care of its entire requirement. With plans in place to expand the mining operations, the Company will continue to be self-sufficient in iron ore after completion of the on-going phase of expansion. It is India’s largest steel producing company and one of the top steel makers in world with an annual turnover of Rs. 50,627 crores in the year 2014-15.

2. LITERATURE REVIEW

Arab, Masoumi & Barati (2015) examined the financial performance of identified units in the steel industry in India in terms of financial ratios under...
Liquidity, Solvency, Activity and profitability. A group of companies listed in the stock exchanges in India namely, Tata Steel Ltd., Jindal Steel & Power Ltd., JSW Steel Ltd., Bhushan Steel Ltd. and Steel Authority of India Ltd. were selected for the study. ANOVA was used to evaluate the impact of selected variables on the financial performance of identified units in the steel industry. Finally, it was concluded that there was significant difference in financial performance of identified units in the steel industry in India with regard to Liquidity, Solvency, Activity and Profitability Position.

Sinku & Kumar (2014) attempted to review the financial performance of Steel Authority of India Limited (SAIL). The study was purely based on secondary data conducted for a period of five years from 2005-06 to 2009-10. The data were tabulated, analyzed and interpreted with the help of various financial ratios and Multivariate Discriminate Analysis (MDA) developed by Prof. Edward I. Altman (1968). It was observed from the analysis of various ratios that the profit earning capacity, liquidity position and long-term solvency position of SAIL was quite good during the study period and the level of bankruptcy position was also very low.

Pal (2013) to study the financial performance of Indian steel companies during 1991-92 & 2010-11. A sample of top ten companies, based on their market share in 2008-09, was selected for the study. Multiple regression analysis was conducted to estimate the impact of fifteen financial ratios from different segments like liquidity, activity, leverage etc, on profitability for all the selected companies. Ratios with high t value but low p value were retained in the model. Finally, Pal concluded that the sale was not the only indicators of profitability but the profitability was also depended upon liquidity, activity and financial leverage of the firms.

Bhunia and Khan (2011) tried to analyze the association between the liquidity management and profitability of 230 Indian private sector steel companies. The period covered under the study extends to nine years ranging from 2002 to 2010. Liquidity management indicators and profitability indicators were modeled as a linear regression system in multiple correlation and regression analysis. Descriptive statistics disclosed that liquidity and solvency position in terms of debt was satisfactory but liquidity position had no impact on profitability.

Mayank (2010) in his project report analyzed financial performance of SAIL from 2003 to 2009 with the help of comparative financial statement, trend analysis, common size statement and ratio analysis. Various ratios under the categories of profitability, liquidity, solvency and management efficiency were calculated. He also compared financial performance of SAIL with other leading steel companies in India Viz., TATA, ISPAT, JINDAL and ESSAR for the year 2009. Finally, it was concluded that sales turnover of SAIL have increased during the study period but profit have decreased, showing increase in cost of goods sold. It
was also found that the debtor’s turnover was lower for SAIL when compared with other companies but the liquidity position of SAIL was better than other companies.

3. OBJECTIVE OF THE STUDY

1. To evaluate the liquidity position of SAIL.
2. To examine the financial health of the SAIL Company.
3. To summarise the main findings of the study.

4. RESEARCH METHODOLOGY

Research design: Exploratory research design was adopted for present study to analyze and interpret the available information.

Source of data: The Financial data for the study are drawn purely from the secondary data and the data has been collected from the annual reports of the company.

Period of the study: The study is covering 10 year duration from 2005 to 2015.

Tools of data analysis: the study uses different financial ratios and statistical tools like Mean, Standard deviation, coefficient of variance etc.

DATA ANALYSES AND INTERPRETATION

LIQUIDITY RATIO OF SAIL (IN TIMES)

<table>
<thead>
<tr>
<th>Years</th>
<th>Current ratio</th>
<th>Quick ratio</th>
<th>Liquidity ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>1.17</td>
<td>0.73</td>
<td>0.88</td>
</tr>
<tr>
<td>2006-07</td>
<td>1.52</td>
<td>1.01</td>
<td>1.48</td>
</tr>
<tr>
<td>2007-08</td>
<td>1.68</td>
<td>1.23</td>
<td>1.47</td>
</tr>
<tr>
<td>2008-09</td>
<td>1.61</td>
<td>1.24</td>
<td>1.44</td>
</tr>
<tr>
<td>2009-10</td>
<td>1.60</td>
<td>1.53</td>
<td>1.75</td>
</tr>
<tr>
<td>2010-11</td>
<td>1.21</td>
<td>1.35</td>
<td>1.05</td>
</tr>
<tr>
<td>2011-12</td>
<td>1.22</td>
<td>0.82</td>
<td>0.79</td>
</tr>
<tr>
<td>2012-13</td>
<td>1.01</td>
<td>0.68</td>
<td>0.53</td>
</tr>
<tr>
<td>2013-14</td>
<td>0.79</td>
<td>0.62</td>
<td>0.42</td>
</tr>
<tr>
<td>2014-15</td>
<td>0.68</td>
<td>0.55</td>
<td>0.32</td>
</tr>
<tr>
<td>AVG</td>
<td>1.249</td>
<td>0.976</td>
<td>1.013</td>
</tr>
<tr>
<td>SD</td>
<td>0.32731</td>
<td>0.3340</td>
<td>0.34968</td>
</tr>
<tr>
<td>CV</td>
<td>26.205%</td>
<td>34.221%</td>
<td>34.511%</td>
</tr>
</tbody>
</table>

Source: Calculated Values from Annual Report
5. INTERPRETATION:

The average current ratio was 1.249 times and standard deviation is 0.3273 times and it varies 26.20% during the last 10 years. The lowest current ratio is 0.68 times during the year 2014-15 and highest ratio is 1.68 times during the year 2007-08. It shows that the company failed to maintain current ratio the ideal standard of 2:1.

The average quick ratio was 0.976 times and standard deviation is 0.3340 times and it varies 34.40% during the last 10 years. The lowest quick ratio is 0.55 times during the year 2014-15 and highest ratio is 1.53 times during the year 2009-10. It shows that the company maintaining average quick ratio is almost near ideal ratio 1:1.

The liquid ratio showed a decreasing trend during the period of study. Standard ratio for Liquid Ratio is 1:1. However, mean value of liquid ratio is satisfactory (1.01 times) the lowest liquidity ratio 0.32 times in 2014-15 and highest ratio is 1.75 times but the company should revise the liquidity position.

6. CONCLUSION:

It is very common for companies to go through ups and downs in terms of performance because of the impact of business cycle and other macro-economic variables. Liquidity position of SAIL was not good during study period as current ratio, quick ratio and liquidity ratio were lower than standard norms. Liquidity is an area which needs sincere attention in the case of SAIL. Current ratio of SAIL indicates poor liquidity position the company had negative working capital during last year of the study. It may be suggested that the company must reduce the amount of current liabilities and/or increase the amount of current assets up to a reasonable level. Therefore, it can be concluded that liquidity position of SAIL deteriorated during study period. Although, SAIL is earning enough profit to cover its financial charges but proper attention is required in this area. Findings of the study brought the conclusion that overall financial performance of SAIL was satisfactory during initial years of the study but deteriorated in subsequent years.

7. LIMITATION OF THE STUDY:

The study is based on secondary data, the results and findings are subject to all limitations inherent in the published financial data. The study is limited to a period of ten years only. The study covered only one company in the Indian steel industry. Therefore, the finding may not be applicable to other companies or entire industry as a whole. Under the study, a comparative study of the selected company with other companies within the industry was not undertaken.
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