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A Comparative Financial Analysis of TATA Steel Ltd. and SAIL

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Abstract: *The present study aims to show the financial strengths and weaknesses of the Indian steel industries by proper analyzing the items of the balance sheet and profit and loss account. The study covers one public sector steel company and one private sector. Both are listed on BSE and NSE. The study has been undertaken for a period of five years from 2010-11 to 2014-15. The necessary data has been obtained from annual reports of both the companies. The study measures liquidity, solvency, profitability and overall management efficiency of both the companies. It will be helpful for the prospective investors to take decision regarding investment.*
Keywords*: Tata Steel, SAIL, Financial performance, Liquidity, Solvency, Dividend payout*

I. Introduction

Financial analysis refers to analysis of financial performance evident from financial statements, of a concern. It is done through evaluating the relationship among different components of balance sheet and income statement. The financial analysis comprises of liquidity analysis, solvency analysis, profitability analysis, activity analysis and so on. Different types of stakeholders are interested in this analysis to take judicious decision. Any type of analysis requires three steps namely selection of components, arrangement of the selected components and evaluation and interpretation.

II. Objectives of the study

Tata steel ltd. and Steel Authority of India Limited (SAIL) are the two leading company in the iron and steel industry. Here we try to present a comparative picture of their financial performance. More precisely it deals with:

1. to know the short term and long term solvency position and trend,
2. to assess the profitability and management efficiency,
3. finally to come to a decision about their financial position.

III. Scope of the study

The present study is confined only two units namely Tata steel ltd. and SAIL. The study covers a period of five years 2010-11 to 2014-15. A period of five years seems to be sufficient to infer about their financial position.

IV. Limitations of the study

The present study is not free from limitation like others. Here we use financial information only for a period of five years. The study would give much more clear picture if we can cover a larger period. On the other hand, the study is based on the financial report, hence failed to incorporate any qualitative aspects.

V. Methodology

The present study covers two leading steel manufacturer namely Tata steel ltd., a private sector enterprise and SAIL, a public sector enterprise. We like to compare these two undertakings and try to analyze their financial performance. However, both of them are listed in BSE and NSE. The two units are selected on a convenient basis and the necessary data have been obtained from their annual reports. Financial performance analysis can be done through accounting technique as well as statistical technique. Here we follow accounting techniques and various accounting ratios have been used.

VI. Data analysis and interpretation

In this study we analyze the financial performance of the selected units component wise like liquidity analysis, solvency analysis, profitability analysis and finally activity analysis. Different accounting ratios are used to analyze the performance of the selected units as follows:

Current ratio: It is the ratio of current assets and current liabilities. The ratio of 2:1 is considered as standard. Usually a high ratio indicates that the firm is liquid enough and on the other hand a low ratio represents the firm's bad liquidity position.

Table 1: Current Ratio

Year/ Company	Tata Steel ltd.	SAIL
2010-11	1.53	1.21
2011-12	0.93	1.22
2012-13	0.86	1.01
2013-14	0.57	0.79
2014-15	0.62	0.68

Source: Annual Reports

From the above table it is clear that the current ratios of both Tata Steel ltd. and SAIL are decreasing over the years. In case of Tata Steel ltd. it was 1.53 in the year 2010-11 but decreased to 0.93, 0.86 and 0.57 in the years 2011-12, 2012-13 and 2013-14 respectively. In the year 2014-15 a little bit increase in current ratio has been seen as it rose to 0.62. On the other hand the current ratio of SAIL was 1.21 and 1.22 in the year of 2010-11 and 2011-12 respectively. But from the year 2012-13 it gradually decreases from 1.01 to 0.79 then to 0.68 in the year 2013-14 and 2014-15 respectively. The table shows that the current ratio of SAIL is always better than Tata Steel ltd. throughout the study period. Although none of them cannot reach the desired level. The lower ratio always indicates that neither the firms is in a position to meet their short term liabilities. However, the Current Ratio individually is not enough to infer about their liquidity level. We have to examine the quick ratio for better inference.

Quick Ratio: It is the ratio of current assets except inventories due to its less liquid nature and current liabilities. It is more refined test of liquidity. The standard ratio is 1:1.

Table 2: Quick Ratio

Year/ Company	Tata Steel ltd.	SAIL
2010-11	1.31	1.35
2011-12	0.69	0.82
2012-13	0.61	0.68
2013-14	0.32	0.62
2014-15	0.27	0.55

Source: Annual Reports

It is clear from the above table that in case of quick ratio also both the Tata Steel ltd. and SAIL fail to attain the standard in most of the years during the study period except 2010-11 when it was 1.31 and 1.35 respectively. More interestingly in every case the ratio is gradually decreasing over the years. It comes down to 0.27 and 0.55 in the year 2014-15 for Tata Steel ltd. and SAIL respectively. Both the firms play very aggressively in respect of their short term liquidity. However, if we compare them SAIL has better liquidity position than the Tata Steel during this period.

Inventory Turnover Ratio: It is the ratio between cost of goods sold and average stock. The ratio indicates the speed in which the stock turns into sales and so the efficiency of management. The profitability of a business also depends on this as sales with greater speed means more sales in a year and more sales ensures more profit also.

Table 3: Inventory Turnover Ratio (in times)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	8.07	5.13
2011-12	7.62	3.37
2012-13	8.05	2.79
2013-14	7.71	3.45
2014-15	5.79	2.88

Source: Annual Reports

From the above table it has been seen that the Tata Steel ltd. is efficient enough to turn its stock into sales than the SAIL throughout the study period. The ratio is gradually worsening in case of both the firms but the position of SAIL is drastic enough. The ratio was 8.07 and 5.13 in the year 2010-11 of Tata Steel and SAIL respectively. Finally it climbed down to 5.79 and 2.88 respectively in the year of 2014-15.

Debtors Turnover Ratio: The ratio indicates the efficiency of the management in collection of its debt. It is the ratio between the turnover and average debtors. Better ratio speaks of more frequent collection of debts. It is the prime duty of management to endeavor speedy collection of debts as more outstanding debtors means blockage of more fund which are certainly not cost-free.

Table 4: Debtors Turnover Ratio (in times)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	68.46	11.11
2011-12	51.10	10.39
2012-13	44.91	9.71
2013-14	53.21	9.43
2014-15	66.21	10.54

Source: Annual Reports

From the table above it is crystal clear the SAIL is not practically in a comparable position with the Tata Steel ltd.. Tata Steel ltd. is more efficient in collection of its outstanding debtors. When the debtor turnover ratio of Tata Steel ltd. was 68.46 in the year 2010-11 SAIL has only 11.11. However, it has been seen that during the study period Tata Steel ltd. becomes liberal in its credit collection policy as in the year 2014-15 it decreases to 66.21. On the other hand, SAIL somehow manages to increase its ratio at 10.54 after previous three years turmoil.

Interest Coverage Ratio: It is the ratio of Earning before interest and taxes (EBIT) and interest charges. It measures the number of times a company can meet its interest obligation with its EBIT or in other words to what extent the fall of EBIT is tolerable without affecting the ability to interest payment. The higher the ratio, the greater is the company's ability to handle the fixed interest bearing securities.

Table 5: Interest Coverage Ratio (in times)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	6.26	15.86
2011-12	5.85	9.00
2012-13	5.53	5.59
2013-14	6.41	3.19
2014-15	4.35	2.68

Source: Annual Reports

From the table above it has been seen that the interest coverage ratio in Tata Steel ltd. is gradually decreasing from 6.26 in the year 2010-11 to 4.35 in the year 2014-15 with an exception in the year 2013-14 when it touched to 6.41. On the other hand in case of SAIL the interest coverage ratio is declining in a galloping way from 15.86 in 2010-11 to 2.68 in 2014-15. The situation in both the cases is alarming from the point of view of lenders as a fall in the EBIT may lead to default in payment of interest.

Gross profit Ratio: The ratio is calculated by dividing gross profit by net sales. A high ratio implies that cost of goods sold is relatively low in relation to selling price. A firm should have sufficient gross profit to cover its operating expenses and a reasonable return to the shareholders.

Table 6: Gross Profit Ratio (in percentage)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	35.16	12.88
2011-12	30.60	9.66
2012-13	24.83	7.20
2013-14	26.10	4.71
2014-15	19.17	6.30

Source: Annual Reports

The above table shows that in the year 2010-11 the gross profit margin of Tata Steel ltd. and SAIL were 35.16% and 12.88% respectively. The gross profit margin is reducing over the years of study period of both the companies. However, in the year 2013-14, the Tata Steel ltd. and in the year 2014-15 the SAIL both the concerns able to reverse their downward turn of gross profit from 24.83 to 26.10 and 4.71 to 6.30. It is evident from the table that the rate of gross profit of SAIL shows a dismal picture of its activities.

Net profit Ratio: It is the ratio between net profit and sales. Higher the ratio, the better is the performance of the concern. This ratio shows the firms capacity to face any adverse situation such as price competition, low demand etc. In fact it indicates the overall efficiency of the management in manufacturing, selling, administrative and other activities. The higher ratio ensures adequate return to the shareholders.

Table 7: Net profit Ratio (in percentage)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	23.35	11.53
2011-12	19.73	7.94
2012-13	13.25	4.86
2013-14	15.37	5.60
2014-15	15.41	4.57

Source: Annual Reports

The table shows that in the year 2010-11, the net profit margin of Tata Steel ltd. was 23.35% whereas SAIL had only 11.53%. On the other hand the net profit margin reduced to 15.41% and 4.57% in the year 2014-15 of Tata Steel ltd. and SAIL respectively. From the above table it can be said that the net profit margin of Tata Steel ltd. is quite satisfactory but the SAIL continues to show its dismal performance as gross profit. The financial performance of Tata Steel ltd. is far better than the SAIL.

Return on Capital employed: The ratio reveals the overall efficiency or otherwise of the firm. It is the ratio between earnings before interest and taxes (EBIT) and average capital employed. The higher the return, the firm is in more profitable position.

Table 8: Return on Capital employed (in percentage)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	14.86	12.88
2011-12	14.77	10.91
2012-13	12.80	6.67
2013-14	13.37	4.60
2014-15	9.25	5.43

Source: Annual Reports

The table 8 shows that Tata Steel ltd. managed to earn 14.86% of return in the year 2010-11 whereas the SAIL had 12.88%. The return on capital employed of Tata Steel ltd. shows a downward trend except in the year 2013-14 when it rose to 13.37% from 12.80%. On the other hand, SAIL had also same downward trend except in the last year when it rose to 5.43% from 4.60%. From this table it is clear that overall performance of SAIL is inferior to Tata Steel ltd..

Earnings per Share: It means how much the company earns for the equity shares. The ratio indicates whether the earnings per share have been increased over the period or not. It is derived by dividing PAT (excluding preference dividend) by number of outstanding equity shares. It is an indicator of profitability from the point of view of equity shareholders.

Table 9: Earnings per Share (in rupees)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	71.58	11.87
2011-12	68.95	8.91
2012-13	52.13	5.25
2013-14	66.02	6.33
2014-15	66.30	5.07

Source: Annual Reports

It is evident from the table 9 that Tata Steel ltd. earns more than the SAIL for its equity shares although the face value of shares of the two concerns is same Rs. 10. The earnings per share of Tata Steel ltd. were Rs. 71.58 in the year 2010-11 whereas of SAIL, it was 11.87 in the same year. On the other hand, earnings per share of Tata Steel ltd. and SAIL are Rs. 66.30 and Rs. 5.07 respectively in the year 2014-15. So obviously, the prospective investors choose the Tata Steel ltd. over SAIL while taking the decision of investing.

Dividend Payout Ratio: Dividend payout ratio shows how much portion of company's earnings available to equity shareholders is distributed. That is retained earnings is created when the dividend payout ratio is less than 100%. Although practically, very few companies distributes all of their earning as dividend. They keep a certain percentage of earnings for future requirements. Besides, a company which distributes less percentage of earnings as dividend means it has enormous investment opportunities in hand and by this retained earnings it merely creates its internal capital.

Table 10: Dividend Payout Ratio (in percentage)

Year/ Company	Tata Steel ltd.	SAIL
2010-11	16.76	20.21
2011-12	17.40	22.43
2012-13	15.34	38.06
2013-14	15.14	31.88
2014-15	12.06	39.47

Source: Annual Reports

The table above shows that SAIL is leading enough in distributing its earnings to the shareholders. In the year 2010-11, when Tata Steel ltd. distributes 16.76% of its earnings SAIL distributes 20.21%. But in the year 2014-15 when Tata Steel ltd. distributes 12.06%, a sharp decrease from 2010-11 then SAIL distributes 39.47% almost two fold increase from the year 2010-11. It means SAIL may have less number of investment opportunity as compared to Tata Steel ltd.. So SAIL considered it better to distribute most of its earnings as dividend.

Debt-Equity Ratio: It is the ratio between total debt and equity in the capital structure of a firm. It indicates the proportion of funds which are acquired by borrowings in comparison to equity shareholders funds. Higher the ratio, greater is the possibility of increasing rate of return to its equity shareholders so long as the cost of debt is less than the rate of return on investment. But it also entails higher financial risk on the part of the company.

Table 11: Debt-Equity Ratio

Year/ Company	Tata Steel ltd.	SAIL
2010-11	0.56	0.54
2011-12	0.45	0.40
2012-13	0.47	0.52
2013-14	0.43	0.57
2014-15	0.39	0.65

Source: Annual Reports

The above table 11 shows that when Tata Steel ltd. reduced the debt-equity ratio from 0.56 in 2010-11 to 0.39 in 2014-15 then SAIL increased it from 0.54 in 2010-11 to 0.65 in 2014-15. The interest burden has been increased due to increase in debt over the period. So when we see the interest coverage ratio decreases gradually it implies that interest burden increases without proportionate increase in EBIT. It’s a dangerous situation indeed. SAIL has two alternatives to tide over the situation either it should reduce the debt element in its capital structure or increase its earnings.

VII. Conclusion

Efficient management of finance is very important for the success of any concern. In this study we made an endeavor to analyze the financial performance of the two giant companies in the iron and steel industry. We analyze from a number of direction e.g short term liquidity, long term solvency, profitability and above all management efficiency. Current ratio and quick ratio of both the company are below standard which may hinder their ability to meet short term liability. SAIL uses debt capital more aggressively but the interest coverage ratio is not well enough. So it may face any untoward situation. Again its gross profit margin and net profit are also not satisfactory as compared with Tata Steel ltd.. The management of SAIL is not efficient enough as it is lagging behind in turnover its inventory and collection of its debt. All of these affect its return on capital employed and earnings per share. Although SAIL follow a liberal dividend payout ratio but earnings per share is not at all comparable with the Tata Steel ltd.. So in all financial aspect Tata Steel ltd. could be judged as better performer than its rival SAIL.

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