

A Comparative Study on Financial Performance of Tata Steel Ltd and Welspun Corp Ltd

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Abstract - This study is conducted purely based on secondary data obtained through website (screener.in) of the specified private steel industry. By using the ratio analysis tool, we can analyze the performance of both Tata Steel Ltd and Welspun Corp Ltd in India, and we can easily find out the strength and weakness of the companies and their position in the market. Different ratios are used in this study and particularly those which are related to the financial statement for this purpose balance sheet of year 2011-12 to 2017-18 of Tata Steel Ltd and Welspun Corp Ltd the industries are used and from then ratios are calculated so according to which we can easily compare the company performance and tell which company grows faster and whose position is better than the other one. After comparing the financial position, it is clear that position of Tata Steel Ltd is much better than the Welspun Corp Ltd.

Index Terms - Balance sheet, Companies, Ratio analysis.

I. INTRODUCTION

The steel sector in India is almost a century old and exhibits significant economic importance due to rising demand by sectors such as infrastructure, real estate, and automobiles, in domestic as well as international markets. The level of per capita consumption of steel is an important determinant of the socio-economic development of the country. The Indian steel industry is divided into primary and secondary sectors. The primary sector comprises a few large integrated steel providers producing billets, slabs and hot rolled coils. The secondary sector involves small units focused on the production of value-added products such as cold rolled coils, galvanized coils, angles, columns, beams and other re-rollers, and sponge iron units. Both sectors cater to different market segments. The Indian steel industry has entered a new development stage since 2007–08 and is riding on the resurgent economy and the growing demand for steel.

India's 33 % growth in steel production in the last five years was second only to China among the top five steel producing nations, according to data by World Steel Association India is the fourth largest producer of crude steel and the largest producer of soft iron in the world. Presently, the Indian steel industry employs around 500,000 people while the per capita consumption in 2013 stood at around 57.8 Kgs. India steel industry produced the steel is 101.5 million tons and ranked 3 with in the year of 2017 and 106.5 million tons and ranked 2 with in the year of 2018 compared with the production growth between 2017 - 2018 in the years 4.7 %.

II. CONCEPT OF WORKING CAPITAL ANALYSIS

From the financial management point of view, capital in broader sense can be divided into two main categories-fixed capital and working capital. Here I am going to study the concept of working capital. The term working capital generally is used in two senses – ‘Gross working capital’ which denotes total current asset and ‘Net working Capital’ which denotes the excess of current assets over current liabilities. Both the concepts have their own significance and relevance. In common parlance, working capital is that part of capital, which is in working or which is used to meet day-to-day expenses. To understand the exact meaning of the term “Working Capital”, it will be appropriate to understand its two components current assets and current liabilities. The current assets are those assets, which can be converted into cash within a short period of time, say not more than one year during the operating cycle of business or without affecting normal business operations. Current liabilities are such liabilities as are to be paid within

the normal business cycle a within the course of an accounting year out of current assets.

A. Gross working Capital Concept

According to the gross concept, working capital means total of all the current assets of a business. It is also called gross working capital.

Gross working Capital = Total Current Assets

B. Net Working Capital Concepts

The concepts of Net Working Capital refer to the excess of current assets over current liabilities. It indicates the surplus value of current assets. Since, all the current liabilities are met out of current assets and after meeting the current liabilities what remains in the enterprise is called net working capital. Net working capital will exist only in that case when long-term funds, to some extent, are invested in current assets and comparatively less amount of short-term funds are involved in current assets.

III.COMPONENTS OF WORKING CAPITAL

The working capital consists of two components current assets and current liabilities. Assets of a concern are of two types- Fixed assets and current assets: Fixed assets are to be in business on permanent basis and are not intended for sale whereas the current assets are for conversion into cash at the earliest. Similar is the case with liabilities, which may be long-term liabilities and current liabilities. Long-term liabilities are those maturing over a long period of time usually five or ten years whereas short-term liabilities are those maturing within a short period usually less than a year.

IV.CONCEPT OF PROFITABILITY ANALYSIS

The third part of financial performance analysis is profitability analysis. The analysis of profitability is mainly a test of earning capacity of business. Profit is the lifeblood of every business unit. It is also very essential for the survival of any business.

- The efficiency of management functioning is also determined on the basis of the profitability of business. Profit is also required for the long-term growth of the business.
- The profitability analysis of selected units has been made while using various ratios such as net

profit ratio, return on capital employed ratio and return on total asset ratio.

- This analysis is restricted to the above-mentioned ratio because the given data provides the information relating to these ratios only.

At last it can be said that the profitability analysis depicts a clear and comparative position regarding the financial performance of the selected units.

V.OBJECTIVES OF STUDY

The present study “A comparative study on Financial Performance of Tata Steel Ltd and Welspun Corp Ltd.”

Has been designed to achieve the following objectives:

- To study the financial performance of Tata steel and Welspun Corp Ltd.
- To compare the financial performance of Tata steel and Welspun Corp Ltd

VI.SCOPE OF THE STUDY

The present study is confined to the two leading units in steel industry namely Tata Steel Ltd and Welspun Corp Ltd. The study covers a period of seven years from 2011-12 to 2017-18. This period is enough to cover both the short and medium terms fluctuations and to set reliability.

VII.DATA COLLECTION

For completion of my study only secondary data has been used. The main sources are annual reports. Besides for framing conceptual framework, various books and published material in standard books and newspapers, Journals and websites has been used.

VIII.LIMITATIONS OF THE STUDY

To know the extent to which the study is reliable it is necessary to note the limitations under which the study has been completed. The following important limitations have been noted while conducting the present study:

- The main source of information is annual reports. They represent financial information/position on particular date. What happened between such two dates cannot easily be presumed or predicated.

- The annual reports mostly contain quantitative and financial information and as regards to qualitative aspect of financial performance, my source was limited due to far away location of head offices of the selected units.
- The financial performance covering a large period say twenty-five years or forty years can give a much clear picture of management practices of financial performance. Our study covering a period of seven years can touch only a part of the problem.

IX.RESEARCH METHODOLOGY

In this present study, an attempt has been made to evaluate and compare the financial performance of Tata Steel Ltd and Welspun Corp Ltd and both of the companies are related with the private sector. The study is purely based on secondary data and the details are collected through websites, magazines, and journals. The time period of study is seven years 2011-12 to 2017-18. Ratio analysis was applied to analyze the performance of these companies.

Following Ratios are Used for this Study.

- Inventory Turnover Ratio
- Fixed Assets Turnover Ratio
- Gross Profit Ratio

Comparative Study on Financial Performance Analyses of Fixed Asset Ratio, Fixed Assets Turnover Ratio and Gross Profit Ratio for Tata Steel Ltd and Welspun Corp Ltd

The following data is compared with the financial performance analysis of inventory turnover ratio, Fixed Asset Turnover Ratio and Gross Profit Ratio different between the Tata steel and Welspun Corp Ltd from the years of 2011-12 to 2017-18.

Table 1- Comparative Study on Financial Performance Analyses of Fixed Asset Ratio, Fixed Assets Turnover Ratio and Gross Profit Ratio for Tata Steel Ltd and Welspun Corp Ltd

| Narration | Inventory Turnover Ratio | | Fixed Asset Turnover Ratio | | Gross Profit Ratio | |
|-----------|--------------------------|---------|----------------------------|---------|--------------------|---------|
| | TATA | Welspun | TATA | Welspun | TATA | Welspun |
| 2011-12 | 2.599 | 2.404 | 0.890 | 0.563 | 49.939 | 31.348 |
| 2012-13 | 2.454 | 2.315 | 0.903 | 0.533 | 56.116 | 34.571 |
| 2013-14 | 2.353 | 3.632 | 0.850 | 0.861 | 57.439 | 39.583 |
| 2014-15 | 2.169 | 2.632 | 0.860 | 0.850 | 60.901 | 31.222 |
| 2015-16 | 1.934 | 3.410 | 0.549 | 0.806 | 62.049 | 39.046 |

To find out financial performance ratios for the Tata Steel Ltd and Welspun Corp Ltd, ratio analysis was used.

Inventory Turnover Ratio

Inventory turnover ratio (ITR) is an activity ratio that evaluates the liquidity of the inventories of a company. It measures how many times the company has sold and replaced its inventory during a certain period. This ratio is computed by dividing the cost of goods sold by average inventory at cost.

$$\text{Inventory Turnover ratio} = \frac{\text{Cost of Goods}}{\text{Average inventory}}$$

Fixed Assets Turnover Ratio

Fixed assets turnover ratio (also known as sales to fixed assets ratio) is a commonly used activity ratio that measures the efficiency with which a company uses its fixed assets to generate its sales revenue. It is computed by dividing net sales by average fixed assets.

$$\text{Fixed Assets Turnover ratio} = \frac{\text{Net sales}}{\text{Average fixed assets}}$$

Gross Profit Ratio

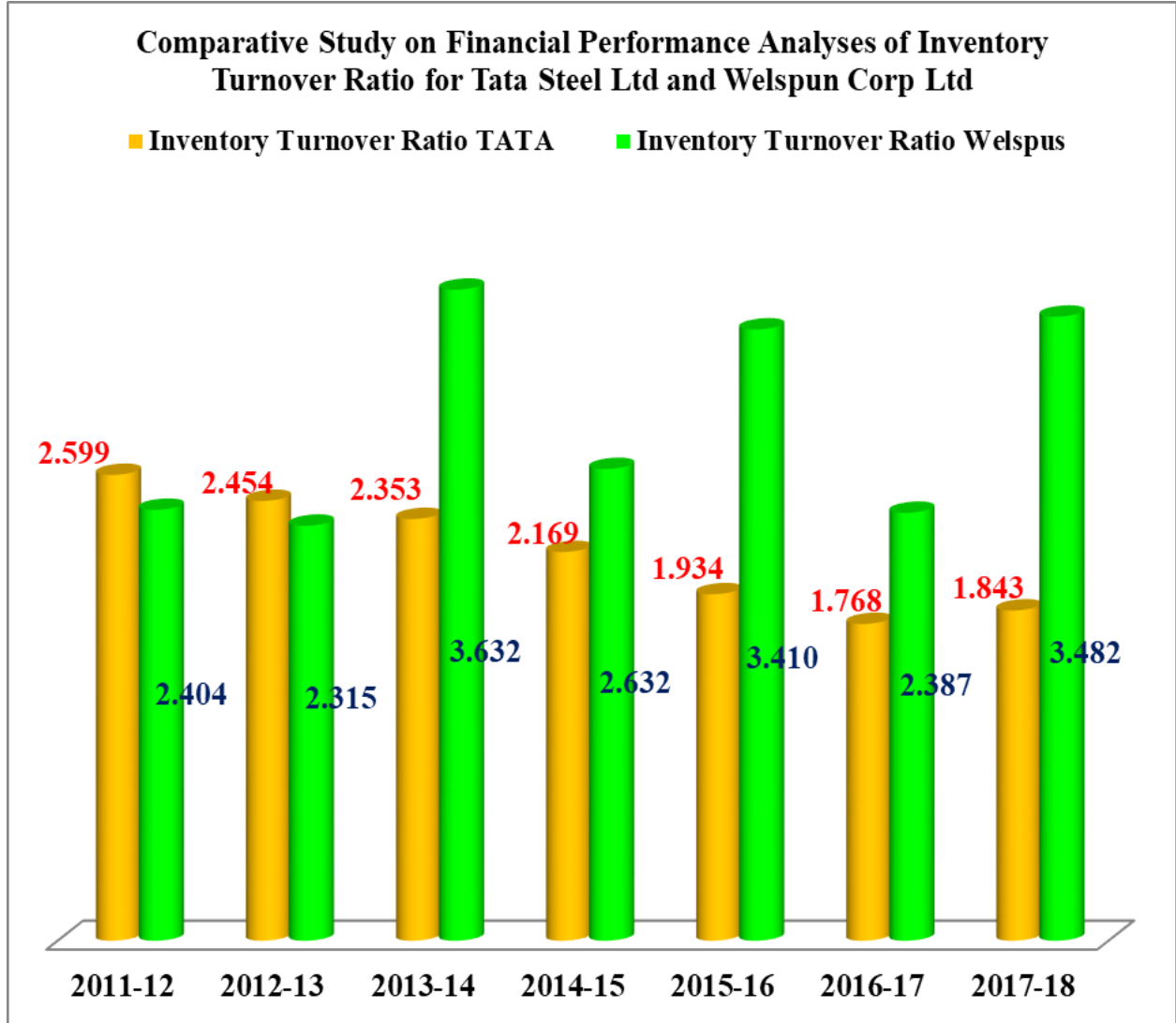
Gross profit ratio (GP ratio) is a profitability ratio that shows the relationship between gross profit and total net sales revenue. It is a popular tool to evaluate the operational performance of the business. The ratio is computed by dividing the gross profit figure by net sales. The following formula / equation is used to compute gross profit ratio is:

$$\text{Gross Profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

The following table is used to inventory turnover ratio, Fixed Asset Turnover Ratio and Gross Profit Ratio different between the Tata steel and Welspun Corp Ltd from the years of 2011-12 to 2017-18.

| | | | | | | |
|---------|-------|-------|-------|-------|--------|--------|
| 2016-17 | 1.768 | 2.387 | 0.631 | 0.691 | 60.959 | 28.582 |
| 2017-18 | 1.843 | 3.482 | 0.608 | 0.957 | 60.495 | 30.208 |

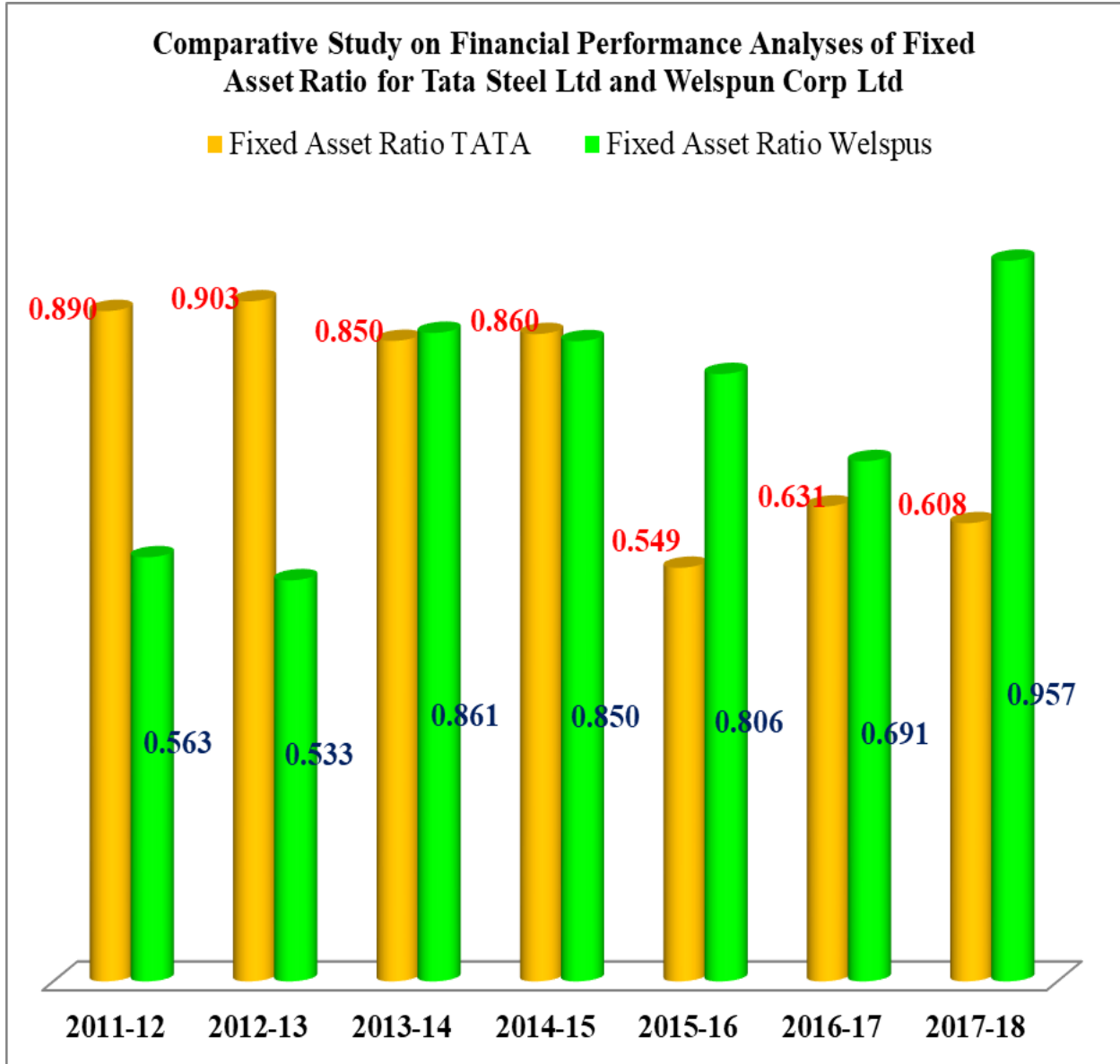
Figure 1- Comparative Study on Financial Performance Analyses of Inventory Turnover Ratio for Tata Steel Ltd and Welspun



From the above figure, it is clear that Inventory turnover ratio of Tata steel Ltd is decreasing from the year 2011-12 to 2016-17 but increasing trend in the years between 2016-17 to 2017-18. On the other hand, the inventory turnover ratio of Welspun Crop Ltd is fluctuating between the years 2011-12 to 2017-18. Welspun Crop Ltd inventory turnover ratio is decreasing trend in the years between 2011-12 to 2012-13 followed by the Welspun Crop Ltd inventory turnover ratio is increasing trend in the years between

2012-13 to 2013-14, the Welspun Crop Ltd inventory turnover ratio is decreasing trend in the years between 2013-14 to 2014-15, the Welspun Crop Ltd inventory turnover ratio is increasing trend in the years between 2014-15 to 2015-16, the Welspun Crop Ltd inventory turnover ratio is decreasing trend in the years between 2015-16 to 2016-17, the Welspun Crop Ltd inventory turnover ratio is increasing trend in the years between 2016-17 to 2017-18.

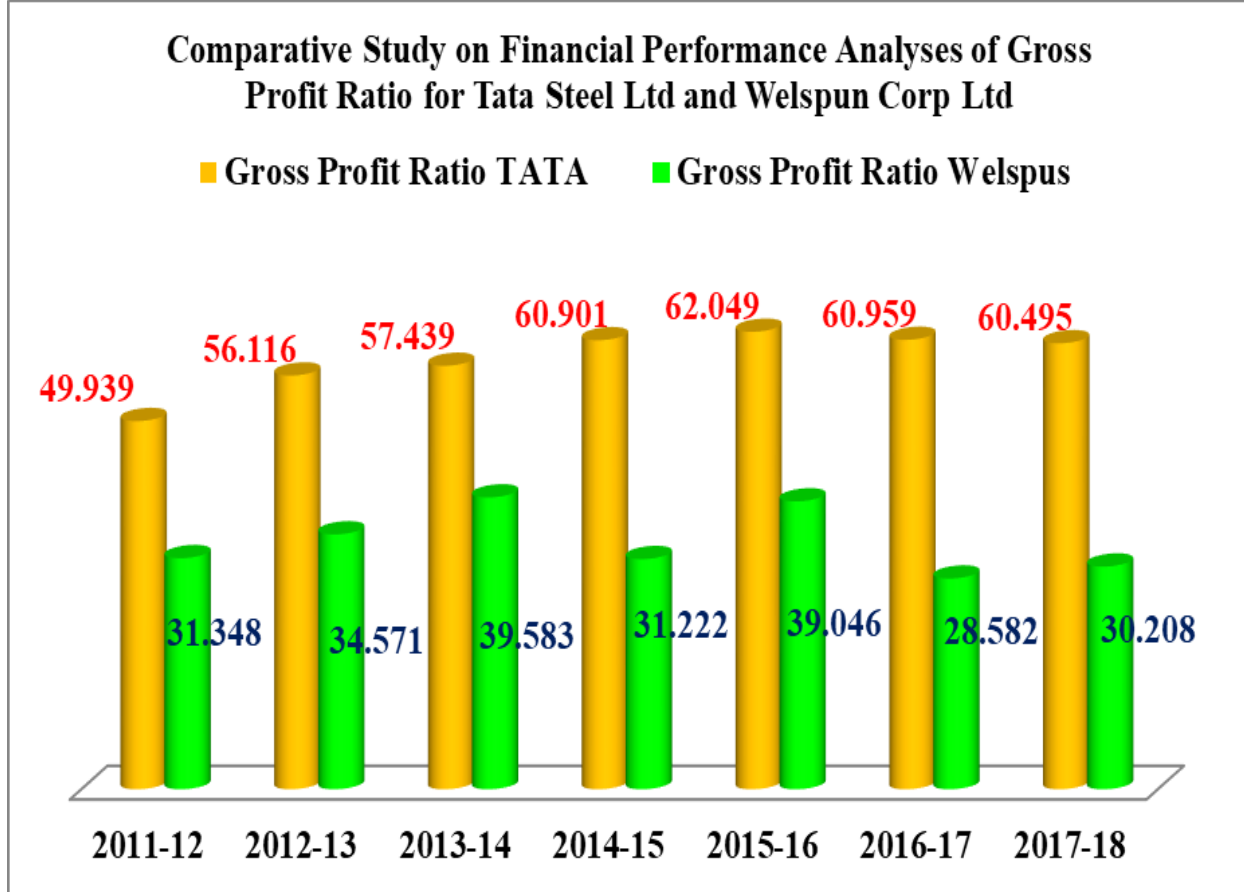
Figure 1- Comparative Study on Financial Performance Analyses of Fixed Asset Ratio for Tata Steel Ltd and Welspun Corp Ltd



From the above figure, it is clear that the fixed assets turnover ratio of TATA Steel Ltd is fluctuating between the years 2011-12 to 2017-18. TATA Steel Ltd Fixed assets turnover ratio is increasing trend in the years between 2011-12 to 2012-13 followed by the TATA Steel Ltd Fixed assets turnover ratio is decreasing trend in the years between 2012-13 to 2013-14, the TATA Steel Ltd Fixed assets turnover ratio is increasing trend in the years between 2013-14 to 2014-15, the TATA Steel Ltd Fixed assets turnover ratio is decreasing trend in the years between 2014-15 to 2015-16, the TATA Steel Ltd Fixed assets turnover ratio is increasing trend in the years between 2015-16 to 2016-17, the TATA Steel Ltd Fixed assets turnover ratio is decreasing trend in the years between 2016-17

to 2017-18. On the other hand, the fixed assets turnover ratio of Welspun Crop Ltd is fluctuating between the years 2011-12 to 2017-18. Welspun Crop Ltd Fixed assets turnover ratio is decreasing trend in the years between 2011-12 to 2012-13 followed by the Welspun Crop Ltd Fixed assets turnover ratio is increasing trend in the years between 2012-13 to 2013-14, the Welspun Crop Ltd Fixed assets turnover ratio is decreasing trend in the years between 2013-14 to 2016-17, the Welspun Crop Ltd Fixed assets turnover ratio is increasing trend in the years between 2016-17 to 2017-18. It indicates the company's ability to utilize fixed assets levels.

Figure 3 - Comparative Study on Financial Performance Analyses of Gross Profit Ratio for Tata Steel Ltd and Welspun Corp Ltd



From the above figure, it is clear that the gross profit ratio of TATA Steel Ltd is fluctuating between the years 2011-12 to 2017-18. TATA Steel Ltd gross profit ratio is increasing trend in the years between 2011-12 to 2015-16 followed by the TATA Steel Ltd Fixed assets turnover ratio is decreasing trend in the years between 2015-16 to 2017-18. On the other hand, the gross profit ratio of Welspun Crop Ltd is fluctuating between the years 2011-12 to 2017-18. Welspun Crop Ltd gross profit ratio is increasing trend in the years between 2011-12 to 2013-14 followed by the Welspun Crop Ltd gross profit ratio is decreasing trend in the years between 2013-14 to 2014-15, the Welspun Crop Ltd gross profit ratio is increasing trend in the years between 2014-15 to 2015-16, the Welspun Crop Ltd gross profit ratio is decreasing trend in the years between 2015-16 to 2016-17, the Welspun Crop Ltd gross profit ratio is increasing trend in the years between 2016-17 to 2017-18. It indicates the company's ability to meet its expenses.

XI. CONCLUSION

Efficient management of finance is very important for the success of an enterprise. Term financial performance is very dynamic term. The subject matter of financial performance has been changing very rapidly. In present time greater importance is given to financial performance. So, here an attempt is made by me to compare the financial performance of the selected units i.e. Tata Steel Ltd and Welspun Corp Ltd. While analyzing the financial performance of the selected units, it can be concluded that Tata Steel Ltd is performing good in terms of better inventory management, management of fixed assets and gross profit. When compared with Welspun Corp Ltd. These factors play important role in forming company's strategic and operational thinking. Efforts should constantly be made to improve the financial position up to next level of performance in order to make

benchmark. This will yield greater efficiencies and improve investor's satisfaction.

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