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WORKING CAPITAL MANAGEMENT PRACTICES IN INDIAN STEEL COMPANIES SAIL AND TATA STEEL

Rakhi Kumari[1] and Prof. Ajit Kumar Singh[2]
[1]Research scholar, Univ. Dept. of Commmerce and Business Administration, L.N. Mithila University, Darbhanga.
[2]Head cum Director, Supervisor, Univ. Dept. of Commmerce and Business Administration, L.N. Mithila University, Darbhanga .

ABSTRACT

The ineffective use of the resources at their disposal is typically an issue for developing economies. In these economies, capital is the most precious productive resource, and effective use of this resource encourages growth, lowers production costs, and, most importantly, increases the effectiveness of the productivity system. There are two types of capital that a company enterprise will need: fixed capital and operating capital. Therefore, the two main sources of a developing country's capital are fixed capital and working capital. Working capital enables the usage of productive capacity, which in turn ensures the continuation of the cyclical flow of production and sales. Fixed capital investments create productive capacity. As a result, working capital is often referred to as the heart of a company. Prior to now, financial management had a stronger focus on long-term financial choices. Working capital management, which is focused on making short-term financial decisions, seems to have received less attention in the financial literature. Leslie R. Howard correctly points out that a better understanding of working capital's significance and its adequate provisions can help businesses achieve their ultimate goal of maximizing financial return on the least amount of capital employed, as well as result in significant material capital cost savings.

KEYWORDS: *Working Capital Management, Financial Decisions, Fixed Capital Investment*

INTRODUCTION

It is a well known fact that working capital Management has been one of the most important aspects of running a business. Maintaining adequate liquidity in the business without much compromise with profitability is a red challenge to the business houses and therefore, working capital management has got conventional but continuous attention of corporate financial management. Ineffective management of working capital has been the principal factor behind many corporate failures. Moreover, with the passage of time with the advancement of technology there has been a paradigm shift from traditional approaches in the management of current assets and current liabilities.

At present many companies are following aggressive and efficient working capital management policies for running their businesses at no extra cost. Cash credit facility available from banks has stimulated this concept more prominently. Not only that many companies are even regularly maintaining negative net working capital in course of their business operations successfully. Due to

cash credit facility companies are allowed to borrow money in times of need and repaying the same as soon as it has surplus cash, which ultimately reduces interest burden and gives fuels to profitability.

Working capital management plays an important role in the success of businesses because of its impact on liquidity and profitability. Against this background, the present study will make a comparative analysis of working capital management practices in Steel Authority of India Limited(SAIL) and Tata Steel. These two players have been selected for studying the working capital management practices practiced in public and private sector Indian Steel Companies.

FACTORS DETERMINING THE WORKING CAPITAL REQUIREMENTS

The company's need for working capital is determined by a number of variables. It should be emphasized that this depends on a variety of factors. Internal and external variables are the two main categories into which the determining elements can be divided. The factors that correspond to each category are shown below.

INTERNAL FACTORS

A corporation will take into account the following elements when evaluating the amount of working capital needed for a specific time period. Each variable is thoroughly discussed. nature of the enterprise- The amount of working capital needed will vary depending on the kind of business the company does. Manufacturing and trading businesses will keep more inventory on hand, have a large number of trade debtors, and may need to use short-term financing and trade payables to pay them off. As a result, a lot of working capital is needed. Service businesses with cash transactions, such hotels or restaurants, will, on the other hand, have a modest proportion of debtors. As a result, a restaurant's working capital may be considerably lower than that of a manufacturing company, but it will nevertheless maintain food and beverage inventories to ensure smooth operations. Size of the company - Small businesses, particularly those who are just starting out, will not have enough money to finance their working capital, and creditors won't lend to persons they don't believe to be creditworthy. Small businesses will therefore typically have minimal levels of working capital. Large companies, on the other hand, will seek to maintain the growing momentum and will have big stocks and debts. They also have enormous turnover and profits. As a result, the large company typically needs a lot of working cash. Production strategy of the company - The working capital needs of the company may be influenced by the company's production strategy. There are often two extreme production policies: steady policy, where the need for working capital will be constant over the course of the term. The other is seasonal policy, when businesses expand production during periods of high sales, which causes a rise in the need for working capital. Firms' credit policies - Some businesses might only grant their consumers 15 days of credit, while others might extend it to 60 days. The company will need to use additional working capital to finance the debtors if the loan period is extended. A company's need for working capital is reduced when it has a credit policy that lasts for a shorter time period since more money will flow in and the company won't be as cash-starved. Firm growth and expansion - There will be a higher requirement to fund current assets and fixed assets when a company's directors decide to extend the business or when the business is developing naturally. The greatest need for working cash arises in these two scenarios. Stocks are purchased with the idea of selling them, and generous trade credit terms are offered. As a result, working capital will be more necessary in order to support the business over time.

EXTERNAL VARIABLES

These are the outside variables over which managers have no control. These elements are mostly influenced by the environment in which a business operates.

Economic and business seasonal cycle: The majority of businesses encounter swings in demand for their goods and services, sometimes as a result of seasonality. These operational inconsistencies have an impact on the working capital requirements. When the economy is booming, demand for the items will typically rise, leading to higher sales. As a result, the firm's investment in inventories,

debtors, and short-term obligations will also rise. Additional investments could be made in useful fixed assets in this scenario. If there is a cash balance, the businesses will often use retained earnings or long-term debt to pay for these fixed asset investments. While a slowing of the economy will result in decreased sales, the company will attempt to cut their short-term borrowings as the amount of stocks and debtors will be little.

Changes in technology: If a company manufactures items, better technology might speed up the production process and shorten the cash operating cycle because finished goods could be sold sooner. However, a large capital outlay will be needed for the technological investment's first investment.

Taxation policy: A nation's tax laws will govern the amount of tax that must be paid. If the business environment is conducive to investment, there may be lower tax rates, which won't affect the company's capacity to pay taxes. This is not typically the case. Some taxation systems demand upfront tax payments, such as quarterly of a company's financial period. As a result, if the money is invested in debtors, the company might need to borrow some of the money needed to pay taxes. Working capital management is impacted by taxes.

In conclusion, the financial manager of the company needs to be aware of the internal and external variables that may affect the company's requirement for working capital. He or she should plan solutions to deal with these issues in order to manage working capital.

ISSUES THAT LED TO THE 1973 CREATION OF SAIL

Once the phase of import substitution was complete and the mid-1960s droughts had forced a diversion of resources from industry, the rate of growth of the iron and steel industry and of the engineering and machinery producing sectors, with which its fate was so closely linked, significantly decreased. Pig iron production increased from seven million tons in 1965 to ten million tons in 1985, while steel production increased from six million tons to twelve million tons during the same time period. Pig iron production had risen so dramatically in the 1950s. Although the technical issues were distinct, the industry suffered from a legacy of antiquated and ineffective plants and machinery, as well as from state interference to keep domestic prices low as an indirect subsidy to steel users.

Since 1965, the Indian government's policy has been to use its ore more as an export, earning foreign currency and aiding in the reduction of the nation's persistent deficit on its trade balance. To satisfy a rising number of foreign markets, ore production expanded from 18 million tons in 1965 to 43 million tons in 1985.

With Hindustan Steel's growth and diversification, Bokaro's independent establishment, and the start of planning for new plants in Salem, Vishakhapatnam, and Vijyanagar, it became increasingly obvious that new forms of coordination were required for public sector iron and steel production in order to avoid duplication and better allocate resources. In order to serve as a holding corporation, similar to more established but comparable organizations in Italy and Sweden, The Steel Authority of India Ltd. was founded in January 1973 specifically for this purpose. When the Indian Iron and Steel Company was nationalized, SAIL gained control over all iron and steel production, with the exception of the venerable Tata Iron and Steel Company and a few small-scale electric-arc furnace plants. This gave the new company a firm foundation.

SAIL did not have a good decade in the 1980s. Between 1982 and 1984, it experienced losses, but the following two years saw a return to profitability. Tata Iron and Steel, meanwhile, regularly made money. Even though the Indian steel industry had a 15.5 mt total capacity by 1986, only 12.8 mt were actually produced, of which 7.10 mt were produced by SAIL. Thus, after years of exporting Indian steel, imports of 1.50 mt were required to satisfy the overall demand. All of India's major steel factories, with the exception of Vishakhapatnam, had outdated machinery and equipment by 1988, and Indian steel prices were the highest in the world.

SAIL continued to be a key component of governmental goals for industrial development during this time period and remained in the public sector. The industry became essential to the economy thanks to the nation's supplies of iron ore and other raw resources for making iron and steel. India possessed 10.6 billion tons of recoverable iron deposits at the start of the 1980s, a natural endowment

that would take 650 years to exhaust at the time's production rates. However, it was estimated that this total's high-grade ore—ore with an iron content of at least 65 percent—would likely run out in 42 years, even if it still accounted for around one-tenth of the global supply. It was difficult for SAIL to keep up production, let alone increase it, in large part due to uncontrollable external factors. Any increase in the price of coal, ferro-manganese, limestone, or iron ore reduced the profitability of the Indian steel industry because the procurement of raw materials typically accounted for 30% of production costs. For instance, during the first half of the 1980s, the cost of these materials increased by 95 to 150 percent while the cost of power increased by the same amount. Other state enterprises imposed the majority of these increases.

It also didn't help SAIL that its steel facilities had to invest heavily in desulphurization due to the high sulfur content of Indian coal. In fact, the industry experienced ongoing issues trying to run blast furnaces that were meant to use low-sulfur coking coal. Later, the private sector adopted the more efficient method of producing sponge iron from non-coking coal and turning it into steel in electric arc furnaces, albeit by 1989, only 300,000 tonnes had been generated in this manner. India's basic output costs of INR 6,420 per ton in 1986 were competitive with the averages for West Germany, Japan, and the United States (INR 6,438, INR 7,898, and INR 6,420, respectively) (INR 6,786). The implementation of levies, which increased Indian steel's price per ton by nearly 30% and included excise duties, a freight capitalization premium, and a Steel Development Fund fee, was what ultimately prevented Indian steel from being competitive.

SAIL was not any more able to strike the ideal balance between supply and demand, between growing output and enhancing quality by modernizing, and between escaping from its history of antiquated plant and equipment than huge steel corporations in other nations.

The industry's strengths, weaknesses, opportunities, and threats are listed below.

STRENGTHS

1. Iron ore is readily available in the short and medium terms.
2. India has low wages as compared to other countries.
3. The potential future availability of labor with the necessary managerial and technical capabilities.
4. New facilities, technology, and production effectiveness are reaching global standards.
5. Greater efficiency benefits are anticipated from the current integrated steel mills, which are modernizing and increasing their capacity.
6. Stable governmental structures and legal frameworks that encourage industry competitiveness and advance consumer interests.
7. A strong domestic economy with the potential for long-term growth in the demand for domestic steel.

WEAKNESSES

1. The future availability of iron ore is uncertain due to environmental, legal, and social issues, as well as potential exhaustion threats from excessive exports.
2. A sizeable sector of the steel industry still uses antiquated methods to make subpar steel, which results in high levels of pollution and CO2 emissions and has socioeconomic costs associated with its continued operation or closure. With transportation costs among the highest in the world, the local market may lose important competitiveness.
3. There is not enough land available in the right location and size.
4. Very little project execution has been done as a result of various issues, such as hand acquisition delays.
5. Insufficient attempts to build the steel industry's R&D foundation.
6. Because domestic coking coal is of poor quality, there is a high dependence on imported coal. High capital costs are caused by a lack of domestic design and manufacturing capacity for iron and steel equipment.
7. Sluggish acquisition and development of mining assets abroad.

8. There is a lot of litigation, particularly concerning the granting of mining rights and environmental approvals.

OPPORTUNITIES

1. A rapidly growing economy with a low base of steel consumption, a sizable and young population with the potential to increase the base of steel consumption, a backlog of infrastructure investment that can be cleared by savvy government spending, and the potential expansion of the industrial base to increase the base of steel consumption in the nation.
2. Due to rising rural incomes, government development plans with a focus on housing, and the building of rural infrastructure like bridges etc. to support a stronger rural steel consumer base, opportunities in rural markets are projected to dramatically increase.
3. There is a large opportunity to save costs by raising efficiency levels.
4. With the passage of related legislation, more clarity on crucial policy concerns, such as land acquisition and the grant of mineral assets, is likely to emerge.

THREATS

1. Concern that new steel mills will become less competitive as a result of expensive land, labor, and capital costs as well as higher allowances for environmental protection, CSR, and increases in the cost of using infrastructure like power, trains, roads, and ports
2. The financial crisis in the Eurozone and the slowdown in other developed nations may last longer than anticipated. China's economic slowdown could result in an oversupply, steel dumping, and a decline in steel prices.
3. Social unrest and environmental issues related to the water supply for business are expected to become a greater hazard in the future.
4. A rising trend in wage rates coupled with a lackluster increase in labor productivity is eroding the Indian industry's labor cost advantage.
5. A general decline in efficiency in the Indian manufacturing sector could have an impact on the expansion of the steel demand at one level and lead to increased capital equipment prices for the sector at another.

NEED OF THE STUDY

At the beginning of the twentieth century, industrialization-driven economies began to emerge, and nations with a strong steel industry benefited from a first-mover advantage. As part of its newly adopted mixed economy model, India sought to achieve self-sufficiency after gaining independence in the middle of the 20th century. To do this, the primary (raw materials), secondary (manufacturing), and tertiary (services) sectors had to all be developed simultaneously. Steel served as both a raw material and an intermediate good for all three sectors. In addition to being a primary sector product, steel is arguably the most commonly utilized input in manufacturing.

The development of every contemporary economy depends on steel, which is regarded as the cornerstone of human society. The amount of steel consumed per person is seen to be a key marker of a nation's socioeconomic progress and standard of living. It is the end result of a sizable, technologically sophisticated industry with distinct forward and backward links for material flow and income creation. In actuality, the Indian Steel sector, like the majority of others, has gone through the highs and lows of the business cycle, been impacted by globalization, and has been forced to follow the demands of the market in a liberalized environment. But in the end, the study reveals a highly developed, sturdy, and vigilant industry that has kept up with changing times through the adoption of cutting-edge technology, producing a product that has not only withstood the test of time but has also altered how men think about and conduct business in the steel industry on a global scale.

Steel production by TISCO in India first started in the year 1907. To rival TISCO, the IISC was founded in 1918. The Mysore Iron & Steel Company was founded in 1923. According to the Industrial Policy Statement, the Central Government was the only entity that pursued new projects (1948).

Hindustan Steel Ltd. and Bokaro Steel Ltd. were established in 1954 and 1964, respectively. In the early 1990s, steel manufacturing was subject to government regulation. Private enterprises primarily manufactured finished steel from raw steel products in downstream processing. SAIL was established in 1973 as a holding corporation to oversee the majority of India's steel and iron production. SAIL purchased Vivesvata Iron and Steel Ltd. in 1989. In 1993, the government started making plans to partially privatize SAIL. Foreign players started to enter the Indian steel market. To increase capacity, no license is necessary. levying a tax on iron ore exports to direct attention toward satisfying growing domestic demand The government has announced the commencement of a program to encourage research and development in the iron and steel industry and has started to deregulate domestic steel prices. India was the second-largest producer of crude steel in the world in 2018. 6.36 mt of steel were exported by India in the 2018–19 fiscal year. A little over 2% of the nation's GDP comes from the steel sector. This proportion represents the direct contribution. Steel makes a far larger indirect contribution because of the reliance on other industries. About 500,000 people are employed directly and another two million indirectly by the steel industry.

India produced 9.6 mt of crude steel in February 2020, an increase of 1.5% from February 2019, making it the second-largest steel producer in the world. The growth of the Indian Steel Industry has been spurred by the availability of raw materials like iron ore and inexpensive labor in India. It is anticipated that domestic players will lessen their reliance on imports by enhancing and expanding their manufacturing facilities. As a result, India's manufacturing output has benefited greatly from the steel industry.

Over the past five years, the amount of steel consumed per person has increased from 57.6 kg to 74.1 kg. In 2019, India is anticipated to surpass the United States as the second-largest steel producer in the world. According to the Indian Steel Association, the demand for steel is anticipated to rise by more than 7.2% in both 2019–20 and 2020–21. (ISA).

Modern steel mills and a modern steel industry make up India's steel sector. It has consistently sought for improved levels of energy efficiency as well as constant renovation and upgrade of aging units. India's economic growth has benefited greatly from the use of steel. This is demonstrated by the fact that India's GDP and steel output have had comparable growth rates, underscoring the dependence of the country's economy on steel.

Both SAIL and TSL are steel-producing companies that produce a variety of goods. It costs a lot of money to develop and maintain each product and feature. To this purpose, create a useful and efficient capital structure in the process of attaining the company's profit and asset maximization goals.

Finance managers need to prepare for both the issue of new shares and borrowings. It's crucial to determine when and how long extra funding from outside sources would be required. The best ways to raise capital and repay it may be chosen by the financial management. Therefore, financial choices help to build a long-term capital structure. Risk, return, and control are all crucial elements to take into account while making financial decisions. In order to achieve this goal, the study looks at SAIL and TSL's capital structure performances over a ten-year period, from 2010 to 2020. It then determines the ideal capital structure, taking into account the firm's annual profits, leverage, and EPS as well as how effectively it can reduce its cost of capital. This study compares and contrasts the capital structures of SAIL and TSL as well as the present values of equity and debt. The study's conclusions show why and how the relative values of equity and debt have changed over the past ten years. The study proceeded because of

- It was noted that there aren't many studies in this field that discuss capital structure, and the steel industry dominates economic growth.
- The steel industry requires more capital.
- The value of the company is increased by an ideal capital structure.

SCOPE OF THE STUDY

The goal of the current study is to examine SAIL and TSL's capital structures during a five-year period, The study will make coverage of a period of five years starting from 2015-2016 to 2019-2020,

saw the study focus on two significant steel businesses. The research's data collection for the thesis was done using information from the annual reports and journals of the relevant Steel businesses. Based on necessity and need, some information has been categorized and further divided. The investigation's focus was primarily on old documents.

OBJECTIVE OF THE STUDY

This study's main objective is to identify and look into the appropriate financial structure for the two steel businesses under consideration. The primary goals of this study are as follows:

1. To study the composition and structure of working capital of the selected Indian Steel Companies Viz. SAIL- Public sector Tata Steel- Private Sector,
2. To study the working capital management practices of the selected Indian Steel Companies , and
3. To identify the problems in the way of effective working capital management and suggest remedial measures for betterment.

STUDY HYPOTHESES

The analysis looks at whether the sample companies' chosen factors change significantly over time. These fundamental hypotheses are tested when necessary, and the results are then examined and interpreted. The following null hypotheses were picked to be tested.

- There is no significant difference in between working capital ratios of selected Indian Steel Companies.
- There is no significant difference in the current ratio of selected steel companies in India.
- There is no significant difference in the quick ratio of selected steel companies in India.
- There is no significant difference in the debtor turnover ratio of selected steel companies in India.
- There is no significant difference in the inventory turnover ratio of selected steel companies in India.
- There is no significant difference in the net profit ratio of selected Indian Steel Companies
- There is no significant difference in the return on investment ratio of selected Indian Steel Companies.

JUSTIFICATION OF THE STUDY

As previously mentioned, Steel Authority of India Limited (SAIL) and Tata Steel Limited (TSL) are two companies from the Indian steel industry that were used in this study. The largest steel producer in India and one of the seven Maharatnas of the Central Public Sector Enterprises is Steel Authority of India Limited (SAIL). Iron and steel are produced by the company's three special steel plants (Salem Steel Plant, Alloy Steel Plant, and Visvesvaraya Iron and Steel Plant), three integrated facilities (Bhilai Steel Plant, Durgapur Steel Plant, Rourkela Steel Plant, Bokaro Steel Plant, and IISCO Steel Plant), and five integrated facilities (Bhilai Steel Plant, Durgapur Steel Plant, Rourkela Steel Plant, Bokaro Steel Plant, and II SAIL manufactures and sells a wide range of steel goods. The capacity to produce crude steel annually is 21.4 million tonnes (MTPA).

It's been over a century since the TSL first began operating. It is the first steel company in India. Tata Steel is the second most internationally diverse steel firm in the world, with a 33 million tonnes per annum (MTPA) annual capacity for crude steel. One of the few fully integrated steel producers, the company's activities span mining, manufacture, and the selling of finished items. The company's capacity to serve rapidly expanding markets throughout the world is based on successful value generation for clients as well as ongoing product and service line expansion. It presently has business operations in more than 50 countries on five continents and employs people in 26 different countries. It is the second-largest steel producer in Europe, with a crude steel capacity of more than 12.1 MTPA.

While SAIL is a key public sector firm, TSL is a privately owned business. These two companies control the majority of the Indian steel market. SAIL and TSL were consequently selected for the study due to their importance in the Indian Steel Sector.

RESEARCH METHODOLOGY

The study will make coverage of a period of five years starting from 2015-2016 to 2019-2020. The majority of the information required for the study's goals was acquired from two sources:
1) Primary and
2) Secondary.
The objectives were critically assessed using primary and secondary data.

PRIMARY SOURCE

Through interviews and conversations about many areas of the SAIL and TSL, the primary data are gathered from the officials and other personnel. During conversations with the relevant officials, Pecking Order Theory was seen in use. The consequences of Pecking Order Theory are internal to the company. The researcher benefited from several meetings with authorities about the Pecking Order Theory and gained insight into the challenges and opportunities that SAIL and TSL confront in the research domain.

SECONDARY SOURCE

The study mainly uses secondary information from SAIL and TSL annual reports as well as audited profit and loss accounts and balance sheets. Additionally, statistics, figures, and observations from relevant prior studies and official publications are added to the secondary material. To create a theoretical foundation for the subject, articles are employed. According to the needs of the study, the financial data gathered from the aforementioned sources has been evaluated, categorised, and tabulated. This examination looks at the effectiveness of factors that affect capital structure, among other techniques. Growth, profitability, asset size, tangibility, interest coverage ratio, sales volume, NDT, liquidity, and income fluctuation were the characteristics used. Financial instruments also included ratio analysis and financial leverage. Predictive analysis was utilized to determine whether SAIL and TSL fall under the purview of Net Income, Net Operating Income, the MM Approach, Pecking Order Theory, and Trade-off Theory. The data was obtained in order to:

1. Examine the factors that determine the capital structure and its effects.
2. Talk about and examine the capital structure gearings and ratios.
3. Calculates the financial leverage.

RESTRICTIONS TO THE STUDY

This study intends to examine the capital structures of SAIL and TSL throughout a ten-year period, from 2015-2016 to 2019-2020. These problems with the analysis exist:

1. The study is limited to just two prominent steel companies.
2. The study can only last from 2015-2016 to 2019-2020, a five-year period.
3. The information for this analysis was compiled from published annual reports and journals of the relevant Steel businesses. Depending on the necessity and requirement, some data is categorized and sub-grouped.
4. Past information and understanding are the main emphasis of the financial assessments.

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