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WORKING CAPITAL MANAGEMENT PRACTICES AT SAIL AND TATA STEEL- A COMPARISON THROUGH RATIO ANALYSIS

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ABSTRACT

The present paper deals with data analysis and interpretation which enables a researcher to arrive at findings, conclusions and suggestions. Data collection is the process of gathering and measuring information on targeted variables in an established system, which then enables one to answer relevant questions and evaluate outcomes. The study is based on the secondary data. To conduct the study with the help of Annual report of both Tata Steel and SAIL which include the Cash flow statement, Balance sheet, Profit and Loss Account etc. are the main theme of the research. The data analysis and interpretation is based on the fact present in annual report.

KEY WORDS: *Current Ration, Liquid Ratio, Absolute Liquid Ratio, Cash Ratio.*

Data Collection and Data Analysis:

The end products of the business transactions are the financial statement comparing the position statement or balance sheet and the income statement or profit and loss account. Financial statements are the basis for decision making by the management and as well as all other outsiders who are interested in the affairs of the firm such as investors, creditors, customers, suppliers, financial instructions, employees, potential investors, government and the general public.

RATIO ANALYSIS

➢ CURRENT RATIO:

The Current Ratio is one of the best known measures of financial strength. It is the most common measure of short term liquidity. It is also referred as the working capital ratio because net working capital is the difference between current assets and current liabilities.

The current ratio is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets include cash and those assets, which can be converted into cash within a year, such as Marketable Securities, Debtors and Inventories. Prepaid expenses are also including in current

assets as they represent the payments that will not be made by the firm in future. Current Liabilities include Creditors, Bill payable, Accrued expenses, Short-term bank loan, and Income Tax Liability and Long-term debt maturing in the current year.

The current ratio is a measure of the firms` short-term solvency. The higher the current ratio, the larger is the amount of rupees available per Rupee of current liability, the more is the firms` ability to meet current obligations and the greater is the safety of funds of short- term creditors.

The Generally Acceptable Current Ratio is **2:1.**

TABLE – 1:

TABLE SHOW YEAR WISE CALCULATION OF CURRENT RATIO FOR SAIL

CURRENT RATIO FOR SAIL			
YEAR	**CURRENT ASSETS**	**CURRENT LIABILITIES**	**CURRENT RATIO**
2017-18	**29732.18**	**43418.66**	**0.68**
2018-19	**32381.58**	**41,617.21**	**0.77**
2019-20	**41098.26**	**44,964.84**	**0.91**
2020-21	**30531.88**	**45061.50**	**0.67**
2021-22	**28659.74**	**39317.73**	**0.72**

SOURCE – ANNUAL REPORT

INTERPRETATION:

- From the above table it is interpreted that the company (SAIL) is maintaining Current ratio of 0.91 in the year's 2019-20 which is highest compared to all other years, and the lowest in the year 2020-21 i.e. 0.67, this is acceptable.
- With the observation of above table the current ratio of 2017-18 (i.e 0.68) is less than the next year's 2018-19 (i.e 0.77), year's 2019-20 (i.e 0.91), and year's 2021-22 (i.e 0.72), and lastly more than the year's 2020-21(i.e 0.67).
- It has been observed that the current ratio of SAIL is below ideal ratio for the year 2017-18, Onwards upto year 2021-22. But the ideal current ratio is 2:1, So it can be observed that the Current ratio is less than ideal ratio.

TABLE-2:

TABLE SHOW YEAR WISE CALCULATION OF CURRENT RATIO FOR TATA STEEL

CURRENT RATIO FOR TATA STEEL			
YEAR	**CURRENT ASSETS**	**CURRENT LIABILITIES**	**CURRENT RATIO**
2017-18	**67,774.69**	**55,661.30**	**1.21**
2018-19	**54,848.72**	**59,608.01**	**0.92**
2019-20	**55,909.27**	**60,312.58**	**0.92**
2020-21	**60,112.37**	**70,867.13**	**0.84**
2021-22	**92,256.07**	**90,396.89**	**1.02**

SOURCE – ANNUAL REPORT

INTERPRETATION:

- From the above table it is interpreted that the company (TATA STEEL) is maintaining Current ratio of 1.21 in the year's 2017-18 which is highest compared to all other years, and the lowest in the year 2020-21 i.e. 0.84, this is acceptable.
- With the observation of above table the current ratio of 2017-18 (i.e 1.21) is more than the next year's 2018-19 (i.e 0.92), year's 2019-20 (i.e 0.92), and year's 2020-21 (i.e 0.84), and lastly year's 2021-22(i.e 1.02).

- It has been observed that the current ratio of TATA STEEL is below ideal ratio for the year 2017-18 Onwards upto year 2021-22. But the ideal current ratio is 2:1, So it can be observe that the Current ratio is less than ideal ratio.

QUICK RATIO/ ACID TEST RATIO/LIQUID RATIO:

Quick assets or Liquid assets mean those assets which are immediately convertible into cash without much loss. All current assets except prepaid expenses and inventories are categorized in liquid assets. Quick liabilities means those liabilities, which are payable within a short period. Normally, Bank overdraft and Cash credit facility, if they become permanent mode of financing are in quick liabilities.

As this ratio concentrates on cash, marketable securities and receivables in relation to current obligation, it provides a more penetrating measure of liquidity than current ratio.

The Quick Ratio is much more conservative measure of short term liquidity than the Current ratio. It consists of only Cash and near cash assets. Inventories are deducted from current assets on the belief that these are not near cash assets and also because in times of financial difficulty inventory may be saleable only at liquidation value.

QUICK RATIO:

The Quick ratio is calculated by dividing quick assets by quick liabilities

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Quick Liabilities}}$$

The Generally Acceptable Quick Ratio is **1:1.**

TABLE – 3:

TABLE SHOW YEAR WISE CALCULATION OF QUICK RATIO FOR SAIL

QUICK RATIO FOR SAIL			
YEAR	**QUICK ASSETS (Current Assets– Inventories)**	**CURRENT LIABILITIES**	**QUICK RATIO**
2017-18	**12707.88**	**43418.66**	**0.29**
2018-19	**12871.25**	**41,617.21**	**0.30**
2019-20	**17261.99**	**44,964.84**	**0.38**
2020-21	**15459.84**	**45061.50**	**0.34**
2021-22	**9090.43**	**39317.73**	**0.23**

SOURCE – ANNUAL REPORT

INTERPRETATION:

- Quick ratio of liquidity is 1:1, is considered as satisfactory. The companies(SAIL) quick ratio is 0.38 in the year 2019-20. which is very high when compared with all five financial years. It decreases to 0.23 in the year 2021-22, which is lowest of the five years.

- From the above table of quick ratio we can observe that it has been in declining from the year 2019-20 to 2021-22 and from 2018-19 to 2017-18. Ideal quick ratio should be in 1:1 but here, We can observe that they are not maintaining the assets which are easily convertible to cash like cash in hand, cash at bank and debtors.

TABLE – 4:
TABLE SHOW YEAR WISE CALCULATION OF QUICK RATIO FOR TATA STEEL

QUICK RATIO FOR TATA STEEL			
YEAR	**QUICK ASSETS (Current Assets– Inventories)**	**CURRENT LIABILITIES**	**QUICK RATIO**
2017-18	**39443.65**	**55,661.30**	**0.70**
2018-19	**23192.62**	**59,608.01**	**0.38**
2019-20	**24840.55**	**60,312.58**	**0.41**
2020-21	**26835.99**	**70,867.13**	**0.37**
2021-22	**43431.68**	**90,396.89**	**0.48**

SOURCE – ANNUAL REPORT

INTERPRETATION:

- Quick ratio of liquidity is 1:1, is considered as satisfactory. The companies (TATA STEEL) quick ratio is 0.70 in the year 2017-18. Which is very high when compared with all five financial years. It decreases to 0.37 in the year 2020-21, which is lowest of the five years.

- From the above table of quick ratio we can observe that it has been in declining from the year 2017-18 to 2019-20 and from 2021-22 to 2020-21. Ideal quick ratio should be in 1:1 but here, We can observe that they are not maintaining the assets which are easily convertible to cash like cash in hand, cash at bank and debtors.

ABSOLUTE LIQUID/CASH RATIO

The cash ratio measures the absolute liquidity of the business. The ratio considers only the absolute liquidity available with the firm.

The ratio is calculated as:

Cash Ratio= Absolute Liquid Assets/ Current Liablities

ABSOLUTE LIQUID ASSETS = CASH + MARKETABLE SECURITIES

A subsequent innovation in ratio analysis, the absolute liquidity ratio eliminates any unknown surroundings receivables.

The absolute liquidity ratio only tests short-term of cash and marketable security.

TABLE-5:
TABLE SHOW YEAR WISE CALCULATION OF LIQUID/CASH RATIO FOR SAIL

LIQUID RATIO/CASH RATIO FOR SAIL			
YEAR	**ABSOLUTELIQUID ASSETS (Cash + Marketable securities)**	**CURRENT LIABILITIES**	**CASH RATIO**
2017-18	**94.0**	**43418.66**	**0.002**
2018-19	**65.58**	**41,617.21**	**0.001**
2019-20	**190.54**	**44,964.84**	**0.004**
2020-21	**468.40**	**45061.50**	**0.01**
2021-22	**59.76**	**39317.73**	**0.001**

SOURCE – ANNUAL REPORT

INTERPRETATION:

The Absolute liquid ratio of company (SAIL) has decreased drastically for the year 2017-18 to 2018-19. It is not satisfactory f rom the year 2020-21 to current year 2021-22. Ideal Ratio is 0.5:1

That's why year's 2019-21 is approximately equal to ideal ratio.

TABLE-:6

TABLE SHOW YEAR WISE CALCULATION OF LIQUID/CASH RATIO FOR TATA STEEL

ABSOLUTE LIQUID/CASH RATIO FOR TATA STEEL			
YEAR	**ABSOLUTELIQUID ASSETS (Cash + Marketable securities)**	**CURRENT LIABILITIES**	**QUICK RATIO**
2017-18	**7783.50**	**55,661.30**	**0.13**
2018-19	**2975.53**	**59,608.01**	**0.04**
2019-20	**7541.96**	**60,312.58**	**0.12**
2020-21	**5532.08**	**70,867.13**	**0.78**
2021-22	**15604.68**	**90,396.89**	**0.17**

SOURCE – ANNUAL REPORT

INTERPRETATION:

The Absolute liquid ratio of company (TATA STEEL) has decreased drastically for the year 2017-18 to 2018-19. Again decrease from the year 2020-21 to year 2021-22. It is not Satisfactory f or the year 2018-19 to Current year 2021-22. Ideal ratio is 0.5:1. That's why Year's 2020-21 is higher than ideal ratio.

TABLE 7: LIQUIDITY RATIOS OF SAIL

Particulars/Year	**2021-22**	**2020-21**	**2019-20**	**2018-19**	**2017-18**	**Average**
Cash and cash equivalents	59.76	468.40	190.54	65.58	94.0	175.65
Bank balance	588.77	212.12	254.48	222.11	251.55	305.80
Other financial Assets	1340.51	1477.32	2189.25	2787.64	2116.21	1982.18
Loan	43.10	36.42	49.67	54.04	63.92	49.43
Quick assets**	9090.43	15459.84	17261.99	12871.25	12707.88	13478.27
Other current Assets	2322.16	4926.74	5733.32	5870.83	5639.78	4898.56
Inventories	19569.31	15072.04	23836.27	19510.33	17024.30	95012.25
% of inventories in Total current assets	68.28%	49.88%	57.99%	60.25%	57.25%	5.8.73%
Total Current Assets	28659.74	30531.88	41098.26	32381.58	29732.18	32480.72
Total Current Liabilities	39317.73	45061.50	44964.84	41617.21	43418.66	33872.811
Current ratio	0.72	0.67	0.91	0.77	0.68	0.75
Quick ratio	0.23	0.34	0.38	0.30	0.29	0.31

SOURCE- ANNUAL REPORT

ANALYSIS OF LIQUIDITY RATIOS OF SAIL-

The total current assets and total current liabilities of SAIL are presented in the Table 11, along with the calculated liquidity ratios. The idle current ratio for the organizations is 2:1. For government organizations, it can be 1:1. SAIL is a large organization in size and also in terms of investment made in the company. SAIL has global presence, with enormous number of employees working in it.

Various components of Total current assets and Total current liabilities and calculated liquidity ratios are presented in Table 11. Looking at the Table 11, it can be observed that the inventories are as

high in total current assets and on average inventories form 58.73% of the total current assets. Thumb rule says that the inventory should stay at 50% of total current assets otherwise liquidity of the company is affected adversely. Here inventories is more than 50%, it's sign of better liquidity.

Looking at the balance sheet and profit and loss account of SAIL, the company can be treated as equivalent to Government Company, as far as the liquidity ratios are concerned. So, the idle current ratio for SAIL would be considered as 1:1. Similarly, the idle quick ratio is 1:1 respectively. For government organizations, the idle quick ratio is 0.5:1 respectively.

The highest current ratio is 0.91, in the year 2019-20 and lowest is 0.67, in the year 2020-21. The average current ratio during the period of study is 0.75, and average quick ratio is 0.31 during the period of study. Highest quick ratio is 0.38 in the year 2019-20 and lowest is 0.23, in the year 2021-22. It depicts that the proportion of quick assets is less, in total current assets.

Total current liabilities are even more than total current assets during the year 2017-18 to 2021-22. This shows aggressiveness in balancing current liabilities and current assets. In the year 2022, both cash and total current assets are decreasing but during the year 2021, cash is increasing while total current assets are decreasing. Again during the year 2019 cash is decreasing and total current assets are increasing. The increase is not proportionate for both cash and current assets, in the year 2020.

Bank balance has shown increase during the years 2018, 2019, 2020 of study, but decrease during the year 2021, 2022. Discussing about other financial assets, it can be observed that these increase in the year 2019 in comparison to the year 2018 but decrease continuously from year 2020 to 2022.

Loan component of current assets has remained below Rs 100 crore, during all five years of the study. The loan amount is included in quick current assets as it may take time to recover loan amount, similar to debtors. Overall, the movement of total current assets has not been steady in any direction. Up to three year (from 2018 to 2020), total current assets are increasing and in F.Y 2021 these are showing decrease comparison to F.Y 2020. Finally in Current Year (2022) total current assets increase comparison to F.Y 2021.

The decrease and increase is though not very significant except for the year 2020, where the increase is 26.91% over the assets of the year 2019. If the organization's liquidity ratios are near to idle, then it gives an impression to the creditors and others that the organization is in a comfortable position to timely discharge its current liabilities.

TABLE 8: LIQUIDITY RATIOS OF TATA STEEL

Particulars/Year	2021-22	2020-21	2019-20	2018-19	2017-18	Average
Cash and cash equivalents	15604.68	5532.08	7541.96	2975.53	7783.50	7887.55
Bank balance	294.25	250.10	512.76	365.84	154.35	315.46
Other financial Assets	2011.62	1480.10	446.42	1248.56	599.71	1157.282
Loan	5.84	5.59	215.68	239.70	256.48	99.236
Quick assets**	43431.68	26835.99	24840.55	23192.62	39443.65	31548.89
Other current Assets	3568.82	2153.44	3177.69	3529.70	3108.98	3107.72
Inventories	48824.39	33276.38	31068.72	31656.10	28331.04	34631.32
% of inventories in Total current assets	52.92%	55.35%	55.56%	57.71%	41.80%	52.66

Total Current Assets	92256.07	60112.37	55909.27	54848.72	67774.69	52760.22
Total Current Liabilities	90396.89	70867.13	60312.58	59608.01	55661.30	67369.18
Current ratio	1.02	0.84	0.92	0.92	1.21	0.98
Quick ratio	0.48	0.37	0.41	0.38	0.70	0.46

SOURCE- ANNUAL REPORT

ANALYSIS OF LIQUIDITY RATIOS OF TATA STEEL-

The total current assets and total current liabilities of TATA STEEL are presented in the Table 11, along with the calculated liquidity ratios. The idle current ratio for the organizations is 2:1. TATA STEEL is a large organization in size and also in terms of investment made in the company. TATA STEEL has global presence, with enormous number of employees working in it.

Various components of Total current assets and Total current liabilities and calculated liquidity ratios are presented in Table 11. Looking at the Table 11, it can be observed that the inventories are as high in total current assets and on average inventories form 52.66% of the total current assets. Thumb rule says that the inventory should stay at 50% of total current assets otherwise liquidity of the company is affected adversely. Here inventories is more than 50%, it's sign of better liquidity.

The ideal current ratio for TATA STEEL would be considered as 2:1. Similarly, the idle quick ratio is 1:1 respectively. The highest current ratio is 1.21, in the year 2017-18 and lowest is 0.84, in the year 2020-21. The average current ratio during the period of study is 0.98, and average quick ratio is 0.46 during the period of study. Highest quick ratio is 0.70 in the year 2017-18 and lowest is 0.37, in the year 2021-22. It depicts that the proportion of quick assets is less, in total current assets.

Total current liabilities are even more than total current assets during the year 2018-19 to 2019-20, to 2020-21. This shows aggressiveness in balancing current liabilities and current assets. In the year 2019-20 and 2021-22 , both cash and total current assets are increasing but during the year 2021 comparison to 2020, cash is decreasing while total current assets are increasing. Again during the year 2018-19 both cash and total current assets are decreasing.

Bank balance has shown increase during the years 2018, 2019, 2020 of study, but decrease during the year 2021,again increase in 2022. Discussing about other financial assets, it can be observed that these increase in the year 2019 in comparison to the year 2018 but decrease in 2019-20,again increase continuously from year 2020-21 to 2021-22.

Loan component of current assets has remained above Rs 200 crore, during the years 2018,2019,2020 and very low in current year 2021 ,2022 is 5.59 cr and 5.84 cr respectively of the study. The loan amount is included in quick current assets as it may take time to recover loan amount, similar to debtors. Overall, the movement of total current assets has not been steady in any direction. Up to three year (from 2019 to 2022), total current assets are increasing and in F.Y 2019 these are showing decrease comparison to F.Y 2018. Finally in Current Year (2022) total current assets increase comparison to F.Y 2021.

The decrease and increase is though not very significant except for the year 2022, where the increase is 53.47% over the assets of the year 2021. If the organization's liquidity ratios are near to idle, then it gives an impression to the creditors and others that the organization is in a comfortable position to timely discharge its current liabilities.

WORKING CAPITAL TURNOVER RATIO:

Working capital turnover ratio is used to know the capital required to make sales easier. It represents how many times it rotates in a year. Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year. This ratio measures the efficiency with which the working capital is

being used by a firm. A higher ratio indicates efficient utilization of working capital and low ratio indicates otherwise. But a very high working capital turnover ratio is not a good situation for any firm and hence care must be taken while interpreting the ratio. Making of comparative and Trend Analysis can at best use this ratio for different firms in the same industry and for various periods. This can be calculated as follows:

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Working Capital}}$$

Working capital turnover ratio is used to know the capital required to make sales easier. It represents how many times it rotates in a year

TABLE-9: TABLE SHOW YEAR WISE CALCULATION OF WORKING CAPITAL TURN OVER RATIO FOR SAIL

WORKING CAPITALTURN OVER FOR SAIL			
YEAR	SALES	WORKING CAPITAL	RATIO'S
2021-22	68452.34	(10470.19)	-6.53
2020-21	102805.13	(14529.62)	-7.07
2019-20	61025.00	(3866.58)	-15.78
2018-19	66267.00	(9235.63)	-7.17
2017-18	56893.00	(13686.48)	-4.15

SOURCE- ANNUAL REPORT

INTERPRETATION:

From the above table shown a working capital turnover ratio of the company(SAIL) is depicted over the years. The working capital turnover ratio of 2018-19 is -7.07 is the average when compared to other years. High in 2019-20 at -15.78, but as there is negative working capital turnover ratio is not satisfactory.

The working capital turnover ratio during the year 2017-18 is -4.15 times and in 2018-19 it is -7.17 It shows that negative indication.

The higher working capital ratio indicates that the efficient utilization of working capital.

The working capital of the company is not sufficient to the company it is negative but it is not permanently negative. Due to expansion of the company the income is allocated to the production of steel continuously.

TABLE-10: TABLE SHOW YEAR WISE CALCULATION OF WORKING CAPITAL TURN OVER RATIO FOR TATA STEEL

WORKING CAPITALTURN OVER RATIO FOR TATA STEEL			
YEAR	SALES	WORKING CAPITAL	RATIO'S
2021-22	129021.35	1859.18	69.39
2020-21	64869.00	(10754.76)	-6.03
2019-20	60435.97	(4403.31)	-13.72
2018-19	706109.00	(4759.29)	- 148.36
2017-18	605194.00	12113.39	49.96

SOURCE- ANNUAL REPORT

INTERPRETATION:

From the above table shown a working capital turnover ratio of the company (TATA STEEL) is depicted over the years. The working capital turnover ratio of 2017-18 is 49.96, high in 2021-22 at 69.39; the higher working capital ratio indicates that the efficient utilization of working capital since there is positive working capital turnover ratio that is satisfactory.

The working capital turnover ratio during the year 2020-21 is -6.03 times and in 2019-20 is -13.72 and 2018-19 is -148.36. It shows negative indication that means unsatisfactory.

The working capital of the company is not sufficient to the company it is negative but it is not permanently negative. Due to expansion of the company the income is allocated to the production of steel continuously.

CURRENT ASSETS TURNOVER RATIO:

Current Assets Turnover Ratio indicates that the current assets are turned over in the form of sales more number of times. A high current assets turnover ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current assets. Higher the current ratio better will be the situation.

Current assets turnover ratio is an activity ratio measuring firm's ability of generating sales through its current assets (cash, inventory, accounts receivable, etc.). It can be calculated by dividing the firm's net sales by its average current assets, and it shows the number of turns made by the current assets of the enterprise.

The values may vary between businesses and industries, and the normative value is absent. However, higher current asset turnover comparing to competitors would indicate a high intensity of the current assets usage. The increasing trend of this ratio is a good sign because this means that the company is working on the consistent improvement of its policies in inventory, accounts receivable, cash and other current assets management.

CONCLUSION-

The Tata Steel Plant has been dedicated to nation in 1907 and SAIL has been established in 1954.Both are major steel plants in the Asia and having much more capital investment .We know that the SAIL and Tata Steel Plant as a large organisation might have long gestation period. Ratio analysis is a competent tool to analyze the financial position of the company. This study reveals the financial soundness of the company in terms of current assets and current liabilities. This study has presented a broader picture of the financial position of the company. Financial Analysis plays a very important role in providing the facts and figures for the decision makers. In the same ratios, will act analysis kit in the hands of financial analysis. Company's position is currently good and the utilization of all the available funds, must be efficient to acquire good position in the industry. Now a day's financial analysis in very huge in consideration for decision making in deciding what to do and what not to do are required to analyze the data as per their requirements. It will be good competitors for other companies in the steel industry after the expansion. Based on the analysis and interpretation I tried to give my findings & suggestions for the organization as per my best knowledge. Finally, thesis work really helps me in knowing the practical things of the corporate world. Really, I enjoyed this thesis work in its real spirit.

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