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COMPARATIVE ANALYSIS OF TATA AND SAIL

Dr. A. M. Mohamed Sindhasha* A.Hidayathulla**
**HOD of Commerce &Business Administration, Jamal Mohamed College,Tiruchirappalli .*
***Ph.D Research Scholar (Part time) Jamal Mohamed College, Tiruchirappalli.*

Abstract
The Iron and Steel Industry in India is one of the most essential industries in India which boosts its industrial development. It has helped in generation of several subsidiaries and small scale industries and also supports the power, transport, fuel and communication industries in the country. Although India's steel industry is growing at a rate higher than a lot of the other developing countries, the effect of the worldwide economic slowdown can be felt in the dampened rate of growth. India occupies a central position in the global steel map, with the establishment of a number of steel companies and steel plants, regular modernization and up gradation of steel plants, improving energy efficiency and availability of raw materials. At present India occupies fourth position among all the top steel manufacturing countries of the globe. The effect of globalization on steel industries in different regions has not been uniform. Each region is unique in its own way in terms of raw materials availability, technology adopted, market conditions, trading policies, etc. Consequently, iron and steel industries have structured their business in such a way that best suits the needs and situations of the region. Two top Indian steel tycoons SAIL and Tata Steel had shown remarkable achievements in international arena in varieties of economic conditions. The secret of sustainable growth lies in how SAIL& Tata Steel faces the challenges and develops a business strategy for future growth and survival. Business strategy of both the companies differs as SAIL is under government control and Tata Steel belongs to most renowned business family of India i.e. Tata Group with a common goal towards business excellence. The present paper attempts to study the comparative efficiency levels of the TATA Steel Limited and Steel Authority of India (SAIL).

Keywords: Steel Industry, Liquidity, Profitability, Working Capital, TATA Steel, SAIL.

Introduction

Steel sector was dominated by the public sector during the pre-liberalization era, and large-scale capacity creation was reserved only for the public sector. Also, various controls such as capacity, pricing and import and export provided a protected market for the steel producers. In this environment, issues like productivity and efficiency were not given adequate importance. However, with the liberalization and opening up of the economy, steel makers are in a position to procure their inputs at competitive rates from overseas markets and also to sell their products abroad. It also led to greater access latest technologies and methods of operations in manufacturing. Coupled with the pressures of a competitive global market, increased the need for Indian Iron and Steel industry to enhance efficiency levels so as to become internationally competitive. Steel production is an energy intensive process. Issues such as energy conservation and energy efficiency are major concerns for the industry in view of the energy intensity of its operation. The international norm of energy consumption is 4.5-5.5 giga calories per tonne of crude steel. Even after making great efforts, Indian steel plants have been able to achieve energy consumption at the level of 6.5-7.0 giga calories only. Further, steps are needed to achieve lower energy consumption reduced green house gas emissions. At comparable capacities, labour productivity of SAIL and TISCO is 75 tonnes per man-year and 100 tonnes per man-year, respectively, whereas, for POSCO (Korea) and NIPPON (Japan) these values are 1,345 tonnes per man-year and 980 tonnes per man-year, respectively.

The steel industry in India features both public sector companies with strong incumbent footing as well as rapidly developing private enterprises. The government owned Steel Authority of India with its five integrated plants and three special and alloy plants is the biggest and most diverse in terms of production player. Rashhriya Ispat Nigam Limited is the corporate entity of Visakhapatnam Steel plant, the most modern and successful plant owned by the government. Although the public run enterprises are losing their dominating positions, they are for a quarter of the industry. The private sector's biggest players are Tata Steel Limited, part of Tata Steel Group- a truly global steel company and Jindal South West Limited.

Literature Review

Tata Steel was conferred as lower cost best steel producer by World Steel Dynamics (Business Standard, 2001) and (Tata, 2005). World Steel Dynamics has ranked SAIL second in its list of world-class steelmakers, giving the company the right exposure ahead of its globalization drive, its forthcoming public issue, size, expansion plan, adaptation of new technology and products, pricing power, raw material security, and labour and energy cost (Subhash,2010).

The WSD ranking is based on a score of 23 parameters that include size, expansion plan, adaptation of new technology and products, pricing power, raw material security, and labour and energy cost. Tata Steel made its debut in 2008 at 315th

position in Fortune 500 Global list. It had also been named as the company with highest revenue growth of over 353 per cent over the past year. Tata Steel recorded 17th fastest growth in profit among all the companies globally (Express India, 2008).

Verma (2006) evaluated working capital management in Iron and Steel Industry by taking a sample of selected units in both private and public sectors over the period 1978-79 to 1985-86. Sample included in his study are TISCO in private sector and IISCO in public sector. He used the techniques of ratio analysis, growth indices and simple linear regression for analysis purpose. The study revealed that private sector had certainly an edge over the public sector in respect of management of working capital. Simple regression revealed that working capital and sales are functionally related concepts. The study further revealed that all the firms in the industry had made excessive use of bank borrowings to meet their working capital requirement.

Bardia (1988) in his work on "Working Capital Management of Iron & Steel industry in India" analyzed the Iron & steel industry practices in working capital management and examined management performance in this segment of financial management. He explained that inventory occupied a major share in the current assets of the iron and steel industry. The analysis of sundry debtors shows that its absolute figure continuously moved to rise. Besides this, he pointed out that the proportion of debtors considered doubtful was much higher and commented that this is due to inefficient management of receivables and slackness in collection efforts. He also examined that the liquidity position of such industry is poor. Finally he concluded that the levels of inventories must be reduced to a reasonable extent and also a strict control over inventories has to be introduced so as to improve the liquidity and profitability position. Further he suggested that the industry should centralize the administration of cash and establish a standard optimum cash balances.

Objectives of the Study

The main objectives of the present study are:

1. To compare the liquidity position of TATA Steel Ltd. and SAIL
2. To study the relationship that exists between liquidity and profitability of both the companies
3. To give necessary suggestions and recommendations for the improvement of the liquidity position of both the companies.

Research Methodology Used

The entire data used for the present study have been obtained from the secondary sources. The period of study is from 2004 to 2013. The secondary data sources are : 1) SAIL and Tata Steel Annual Reports 2) Reports of department of public enterprise, Ministry of Steel, Planning Commission, government of India 3) National Steel Policy 2005 4) Data published by the Steel Exporters Forum (SEF), World Steel Association 5) IE (I) Journal - MM 6) Reports by Joint Plant Committee empowered by the Ministry of Steel / Government of India to collect data on the Indian iron and steel industry.

The various sources from where data collected are annual reports of the selected steel Companies, internet websites, journals and magazines issued by the Department of Mines and Ministry of Steel & Mines-Govt. of India, other journals and magazines issued by different other agencies. Depending upon the nature of the study ratio analysis an important accounting technique is used for analysis purpose. In addition to it different statistical techniques like arithmetic mean, standard deviation and coefficient of variation have been used.

Tata Steel Limited

Tata Steel Limited (formerly Tata Iron and Steel Company Limited (TISCO)) is an Indian multinational steel-making company headquartered in Mumbai, Maharashtra, India, and a subsidiary of the Tata Group. It was the 11th largest steel producing company in the world in 2013, with an annual crude steel capacity of 25.3 million tonnes, and the second largest steel company in India (measured by domestic production) with an annual capacity of 9.7 million tonnes after SAIL. Tata Steel group (the 'company') declared its consolidated financial results for the second quarter (Q2 FY16) ended September 30, 2015. The group recorded consolidated turnover of Rs.29,305 crores and profit after tax of Rs1,529 crores for the quarter ended September 30, 2015. For the half year ended September 30, 2015, the group recorded consolidated turnover of Rs.59,605 crores and profit after tax of Rs.2,292 crores. Tata Steel has manufacturing operations in 26 countries, including Australia, China, India, the Netherlands, Singapore, Thailand and the United Kingdom, and employs around 80,500 people. Its largest plant is located in Jamshedpur, Jharkhand. In 2007 Tata Steel acquired the UK-based steel maker Corus which was the largest international acquisition by an Indian company till that date. It was ranked 486th in the 2014 Fortune Global 500 ranking of the world's biggest corporations. It was the seventh most valuable Indian brand of 2013 as per Brand Finance.

On 16 February 2012 Tata Steel completed 100 years of steel making in India. Tata Iron and Steel Company was established by Dorabji Tata on 25 August 1907, as part of his father Jamsetji's Tata Group. By 1939 it operated the largest steel plant in the British Empire. The company launched a major modernization and expansion program in 1951. Later in 1958, the program was upgraded to 2 Million metric tonnes per annum (MTPA) project. By 1970, the company employed around 40,000 people at Jamshedpur, with a further 20,000 in the neighbouring coal mines. In 1971 and 1979, there were unsuccessful attempts to nationalise the company. In 1990, it started expansion plan and established its subsidiary Tata Inc. in New York. The company changed its name from TISCO to Tata Steel in 2005. Tata Steel on 12th Feb 2015 announced buying three strip product services centres in Sweden, Finland and Norway from SSAB to strengthen its offering in Nordic region. The company, however, did not disclose value of the transactions. Tata Steel was awarded the '2015 World's Most Ethical Company' award under the Metals category by the Ethisphere Institute. This was the third time Tata Steel won this award.

Steel Authority Of India Ltd (SAIL)

A public sector undertaking (PSUs), SAIL is India's largest steel company with 13.5 million tons of hot metal capacity and a market share of 30 per cent in 2008. It is carrying out modernization and expansion of its integrated steel plants at Bhilai, Bokaro, Rourkela, Durgapur and Burnpur and special steel plant at Salem. In 2009-2010, the company achieved an overall capacity utilization of 108 per cent. In the current phase, the crude steel capacity is being enhanced from 12.8 to 21.4 million tonnes. The company has a high level of vertical integration and it is self-sufficient in iron ore. It produces both basic and special steel products for different uses as well as for exports. The company's main steel products include flat products, structurals, rail products, etc. SAIL has five steel plants, three alloy steel plants and three power plant joint venture companies and research and development. It also has a subsidiary company. The company has competitive advantage because of its vertically integrated operations, helping it achieve benefits from economies of scale.

SAIL produced 3.72 million tonnes (MT) of crude steel in Q4 which was 10% higher as compared to 3.38 MT over the corresponding period last year (CPLY). The profit After Tax in Q4 FY15 was Rs 334 crores against Rs 453 crores CPLY. At a time when the market conditions were challenging, SAIL has maintained its output and braved the headwinds by improved production, better techno-economic parameters and strategic policy initiatives. In FY'15, SAIL achieved the highest ever concast production at 10.34 MT with a growth of 6% over the previous best of 9.8 MT achieved last year. The coke rate and specific energy consumption also recorded best ever figures at 504 kg/thm and 6.52 Gcal/tcs respectively in FY'15. The PAT for FY'15 stood at Rs 2,093 crores as against Rs 2,616 crores corresponding period last year (CPLY). SAIL's gross turnover for FY'15 was Rs 50,627 crores compared to Rs 51,866 in FY'14. The net-worth of the company as on 31.03.2015 was Rs 43,505 crores as against Rs 42,666 crores on 31.03.2014. SAIL achieved a higher EBIDTA of 15% in FY'15 y-o-y excluding the exceptional item from M/s Vale during the previous financial year on account of arbitration award in favor SAIL. SAIL after completion of its modernization and expansion programme in Rourkela Steel Plant and IISCO Steel Plant started their integrated operations. During FY 2014-15, projects worth around Rs 10,000 crores were operationalized which includes the state-of-the-art 4160 cubic meter Blast Furnace Kalyani at IISCO steel plant.

Liquidity Position of Tata and SAIL

The Indian steel manufacturing industry has played a key role in putting India on the global map. Steel Authority of India Limited (SAIL) is one of the Maharatna public sector undertaking (PSU) under Ministry of Steel. The Government of India owns about 86% of SAIL's equity and retains voting control of the Company. However, SAIL, by virtue of its 'Maharatna' status, enjoys significant operational and financial autonomy. Tata Steel is one of the leading global steel producers having a vision of producing 50 MTPAby 2015. The Government of India has accorded the status of 'Navratna' and 'Maharatna' to Steel Authority of India (SAIL) through a memorandum nd DPE O.M. No. DPE/11(2)/97-Fin. dated 22 July, 1997 and No. 22 (1) / 2009-GM-GL-101 dated 19 May 2010 respectively. A Navaratna company can invest up to R.s 1,000 crores without government approvals whereas, a maharatna company can invest up to Rs. 5000 crores (DPE, 1997). After the melt down of global economic crises (1998 – 2003), SAIL & Tata Steel made a massive plan for business expansion. The only limitation of SAIL was an investment up to maximum Rs.1000. crores. Government of India announced National Steel Policy 2005 where domestic production and consumption of 100 MTPA of steel was targeted by 2019-2020. This was also one of the motivation behind the growth strategic decision taken by SAIL& Tata Steel.

In order to analyse the liquidity position, the important ratios used are current ratio, Quick ratio, Inventory Turnover ratio, Debtor Turnover ratio, average Collection Period, Net Profit ratios etc.

Table 1: Ratio Analysis of Tata Steel Limited

Year	C.R.	L.R.	D.T.R.	A.C.P.	I.T.R.	N.P.M.
2004	0.66	0.39	13.29	27.0880	8.73	16.0
2005	0.69	0.33	23.5	15.3191	7.82	23.72
2006	0.71	0.3	26.99	13.3383	7.08	22.78
2007	1.69	1.37	29.81	12.0765	7.69	23.53
2008	3.81	3.52	33.45	10.7623	10.84	23.43
2009	0.91	0.57	41.29	8.7188	9.36	21.09
2010	1.12	0.76	46.58	7.7286	10.9	19.96
2011	1.53	1.31	68.46	5.258	7.44	22.94
2012	0.93	0.69	51.1	7.0450	6.98	19.23
2013	0.86	0.61	44.91	8.0160	7.27	12.94
Avg.	1.291	0.985	37.938	11.53506	8.411	20.562
S.D.	0.951554	0.965	15.85141	6.278015	1.491855	3.63477
CV(%)	73.707	97.98	41.78	54.42561	17.7369	17.6771

Source: Published Annual Reports of Tata Steel

(C.R.-Current Ratio, L.R.-Liquidity Ratio, D.T.R.-Debtors Turnover Ratio, A.C.P.-Average Collection Period, I.T.R.-Inventory Turnover Ratio, N.P.M.-Net Profit Margin)

Table 2: Ratio Analysis of Steel Authority of India

Year	C.R.	L.R.	D.T.R.	A.C.P.	I.T.R.	N.P.M.
2004	0.7	0.57	13.5	26.6667	7.15	11.39
2005	1.13	0.77	16.61	21.6737	6.96	23.19
2006	1.17	0.73	14.88	24.1935	4.68	13.79
2007	1.52	1.01	16.36	22.0049	5.36	17.38
2008	1.68	1.23	14.9	24.1611	8.62	18.16
2009	1.61	1.24	14.43	24.9480	5.86	13.4
2010	1.60	1.53	12.46	28.8925	6.02	15.73
2011	1.21	1.35	11.13	32.3450	5.13	11.03
2012	1.22	0.82	10.39	34.6487	3.37	7.67
2013	1.01	0.68	9.71	37.0751	2.79	4.76
Avg.	1.285	0.993	13.437	27.66091	5.594	13.65
S.D.	0.312881	0.32	2.433014	5.388988	1.751509	5.33789
CV(%)	24.348	32.8731	18.107	19.4823	31.3104	39.1054

Source: Published Annual Reports of SAIL

Interpretation of Data

Current ratio is an important ratio used for judging the short term financial position of a business enterprise. Current liabilities and provisions are those liabilities that are payable within an accounting year. The generally accepted norm for current ratio is 2:1 which indicates a better liquidity position of the business. The current ratio of Tata Steel Ltd. during the period of the study is satisfactory as its average is 1.291 which is slightly higher than average current ratio of SAIL i.e., 1.285. Coefficient of variation of current ratio of Tata Steel Ltd. during the study period is 73.707 % and coefficient of variation of SAIL is 24.348 %.During the study period the co-efficient of variation of current ratio of Tata Steel is higher than that of SAIL which indicates that less efficient management of working capital.

Quick ratio is a commonly used device to judge the short term financial position of a firm. The generally accepted norm for quick ratio is 1:1 which indicates a better liquidity position of the business. During the period of study the quick ratio of TSL is satisfactory as its average are 0.986 which is slightly less than the average quick ratio of SAIL i.e. 0.993. Coefficient of

variation of quick ratio of Tata Steel during the period of study is 97.98 % and that of SAIL is 32.8731.The high coefficient of variation of Tata Steel Ltd. during the period of study implies that there is high variation in the quick ratio of the company which indicates that liquidity management policy of Tata Steel Ltd. is not stable as compared to SAIL.

The liquidity position of a firm to a great extent depends upon the quality of its debtors. To judge the quality or liquidity of debtors' two ratios are usually calculated: Debtors turnover ratio and Average Collection period.

The average **debtor turnover ratio** of Tata Steel Ltd. which amounts to37.938 times in a year, whereas that of SAIL is 13.437 times which is less than average debtors turnover ratio of Tata Steel Ltd. during the period of study. Coefficient of variation of Tata Steel Ltd. is 41.78 and that of SAIL is 18.107 %. The high coefficient of variation of Tata Steel implies less efficient management of debtors as compared to SAIL. The **average collection period** of Tata Steel Ltd during the period of study fluctuates between 27.0880 days (year 2002) to 8.0160 days (year 2013) with an average of 11.53506 days. It indicates a very satisfactory and good position because collection period of debtors is gradually reduced from the year 2002 to 2011. The average collection period of SAIL fluctuates between 26.6667 days (year 2002) to 37.0751 days (year 2013) with an average of 27.66091 days. It implies that during the relevant period of study the credit policy of Tata Steel Ltd is better than that of SAIL, where as a high coefficient of variation of average collection period of Tata Steel Ltd indicates that credit policy of SAIL is more stable as compared to the credit policy of Tata Steel Ltd.

Inventory turnover ratio is a measure which indicates the efficiency at which the inventory of the firm is managed and the number of times the inventory has been converted into sales during one accounting year. Higher inventory turnover ratios are considered a positive indicator of effective inventory management. However, a very high inventory turnover ratio does not always mean an efficient management of stock. It sometimes may indicate inadequate inventory level, which may result in continuous production stoppages and a major decline in sales figure. The average inventory turnover ratio of SAIL during the period of study is 5.594 in a year which is less than that of Tata Steel which is 8.411 per year. The coefficient of variation of Tata Steel Ltd. is 17.7369 % during the study period which is less than that of SAIL which amounts to 31.3104 %. It indicates that inventory management system of Tata Steel Ltd. is better than that of SAIL during the period of study.

The **net profit margin** is a measure of overall efficiency of a firm, which establishes a relationship between the profit after tax and sales. A higher net profit margin means that a company is more efficient at converting sales into actual profit. The net profit margin ratio is calculated by dividing profit after tax by sales. During the period of study the net profit margin of Tata Steel fluctuates between 16 % (year 2004) and 22.94% (year 2011) and then after decreases to 12.94% in the year 2013 with an average of 20.562% and coefficient of variation of 17.6771 %. Net profit margin of SAIL during the period of study fluctuates between 11.39 %(year 2004) to 11.03 % (year 2011) with an average of 13.65% and coefficient of variation of 39.1054%. During the period of study the coefficient of variation in net profit margin of SAIL is very high as compared to that of Tata Steel.

Concluding Remarks With Suggestions

Every organization whether public or private irrespective of its size and nature of business needs adequate amount of working capital. The efficient working capital management is most crucial factor in maintaining survival, liquidity, solvency and profitability of any business organization. Liquidity management is of crucial importance in the overall financial management decision of a business unit. Study shows the overall performance of selected steel companies has been quite satisfactory during the study period with certain variations like inspite of all adverse economic conditions and competition. Tata Steel Ltd is able to show impressive profits and posting good EBIT margin while SAIL is fetching highest average return on capital employed. It is also concluded that the SAIL a public sector undertaking is better off than private sector companies as regard liquidity. SAIL strength is its broad product mix, efficient use of resources and captive source of raw material whereas Tata Steel strength is it Brand value and captive source of raw material. Both the companies are having opportunities to show its global presence. The biggest weakness with SAIL is government control whereas attrition rate with Tata Steel.

Basic competitive strategy of SAIL & Tata Steel is broad differentiation and low cost provider. SAIL's complementary business strategies are in the form of small joint ventures, Brownfield projects, alliances, mergers of the subsidiary companies and acquisitions whereas Tata Steel opted for big acquisition like Corus, Millenium Steel and Greenfield projects. In functional area strategy, SAIL is expertise over production and marketing whereas Tata Steel for production, human resource and its strong R & D base. To make its European operations more competitive, Tata Steel is hastening the speed of its functional strategy programme "Weathering the Storm" and "Fit for the Future". SAIL had lost its market-leadership as it had failed to modernize and add capacity at a time when others were doing so. From the above discussion, it may be seen that steel industry in India needs to identify ways of improving efficiency to thrive in an environment of intense competition

among domestic and foreign steel producers. Efficiency would be one of the most important factors for the survival and growth of the industry in the long run.

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