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A Comparative Study Of Financial Performance of JSPL And SAIL

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Abstract

This research paper is conducted purely based on secondary data obtained through website of the specified private and public industry. By using the ratio analysis tool we can analyze the performance of both the steel industries 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 2014-2019 of both 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 Jindal Steel & Power Ltd. (JSPL) is much better than the SAIL.

Key words: *Balance sheet, Companies, Ratio analysis, Steel Companies*

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 per cent 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 (WSA).

India is currently the world's 2nd largest producer of crude steel in January-December, 2019, producing 111.245 Million Tones (MT) (provisional) crude steel with growth rate 1.8% over the corresponding period last year (CPLY).

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.

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

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.

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.

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 have 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.

OBJECTIVES OF THE STUDY

The present study “A comparative study of Financial Performance of Jindal Steel & Power Ltd. (JSPL) and SAIL” Has been designed to achieve the following objectives:

1. To study the financial performance of Jindal Steel & Power Ltd. (JSPL) and SAIL.
2. To compare the financial performance of Jindal Steel & Power Ltd. (JSPL) and SAIL.

SCOPE OF THE STUDY

The present study is confined to the two leading units in steel industry namely SAIL and Jindal Steel & Power Ltd.(JSPL) The study covers a period of five years from 2014-15 to 2018-19. This period is enough to cover both the short and medium terms fluctuations and to set reliability.

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.

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.

1. 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.
2. 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.
3. The financial performance covering a large period say 20 years or 30 years can give a much clear picture of management practices of financial performance. Our study covering a period of 5 years can touch only a part of the problem.

RESEARCH METHODOLOGY

In this present study, an attempt has been made to evaluate and compare the financial performance of SAIL and Jindal Steel & Power Ltd. (JSPL) 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 five years 2014-15 to 2018-19. Ratio analysis was applied to analyze the performance of these companies.

FOLLOWING RATIOS ARE USED FOR THIS STUDY

1. Current Ratio.
2. Quick Ratio.
3. Inventory Turnover Ratio.
4. Fixed Assets Turnover Ratio.
5. Gross Profit Ratio.
6. Debt Equity Ratio.
7. Return on Capital Employed.

DATA ANALYSIS

Current Ratio

Current ratio may be defined as the relationship between quick or liquid asset and current liabilities. This is a measure of general liquidity & is most widely used to make analysis of short-turn financial position or liquidity of firm. It is calculated by dividing the total current assets by total current liabilities.

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

Table – 1

Year	JSPL	SAIL
2014-15	.88:1	**.83:1**
2015-16	.57:1	**.58:1**
2016-17	.61:1	**.55:1**
2017-18	.62:1	**.68:1**
2018-19	**.58:1**	**.78:1**

Quick Ratio

Quick ratio establishes relationship between quick or liquid assets and current liabilities. It is also known as acid test ratio. An asset is said to be liquid if it can be converted into case within short period of time without loss of value. The prepaid expenses and stock were excluded.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liability}}$$

Table – 2

Year	JSPL	SAIL
2014-15	.77:1	**.31:1**
2015-16	.42:1	**.18:1**
2016-17	.56:1	**.21:1**
2017-18	.56:1	**.29:1**
2018-19	**.34:1**	**.31:1**

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.

$$\text{Inventory Turnover ratio} = \frac{\text{Cost of Revenue from operation}}{\text{Average inventory}}$$

Table – 3

Year	JSPL	SAIL
2014-15	4.26 time	**1.15 time**
2015-16	1.96 time	**1.20 time**
2016-17	10.13 time	**1.92 time**
2017-18	10.95 time	**1.97 time**
2018-19	**4.32 time**	**1.81 time**

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.

$$\text{Fixed assets turnover ratio} = \frac{\text{Net Sales / Revenue from operations}}{\text{Fixed assets (Net)}}$$

Table – 4

Year	JSPL	SAIL
2014-15	.49 time	**1.32 time**
2015-16	.46 time	**.92 time**
2016-17	.37 time	**1.02 time**
2017-18	.38 time	**1.03 time**
2018-19	**.63 time**	**1.12 time**

Debt equity ratio

Debt to equity ratio is a long term solvency ratio that indicates the soundness of long-term financial policies of the company. It shows the relation between the portion of assets provided by the stockholders and the portion of assets provided by creditors. It is calculated by dividing total liabilities by stockholder's equity. Debt to equity ratio is also known as “external-internal equity ratio.

$$Debt\ equity\ ratio = \frac{Total\ long\ term\ debt}{Shareholder's\ Funds}$$

Table – 5

Year	JSPL	SAIL
2014-15	2.69:1	**1.28 :1**
2015-16	2.98:1	**1.50:1**
2016-17	1.76:1	**1.96:1**
2017-18	1.64:1	**2.20:1**
2018-19	**1.56:1**	**2.05:1**

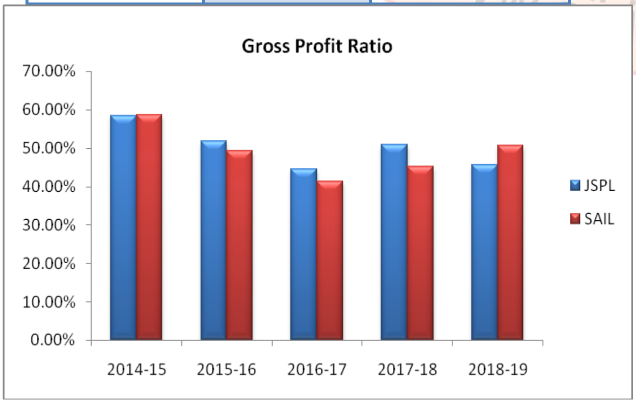
Gross Profit Ratio

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 revenue from operations.. The following formula/equation is used to compute gross profit ratio:

$$\frac{Gross\ Profit}{Net\ Revenue\ from Operation} \times 100$$

Table – 6

Year	JSPL	SAIL
2014-15	58.34%	**58.68%**
2015-16	51.82%	**49.36%**
2016-17	44.63%	**41.24%**
2017-18	50.83%	**45.25%**
2018-19	**45.6%**	**50.78%**



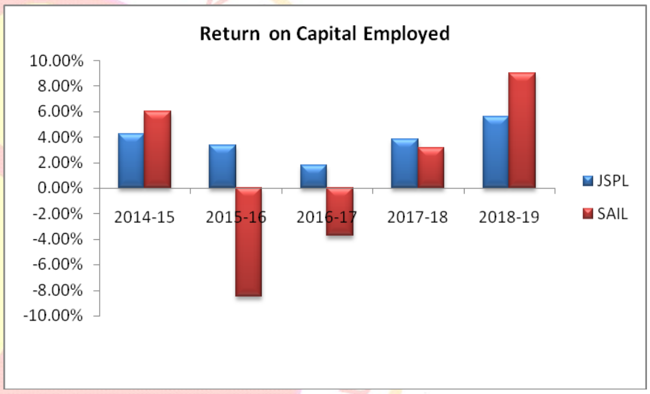
Return on Capital Employed

Ratio Return on capital employed ratio is computed by dividing the net income before interest and tax by capital employed. It measures the success of a business in generating satisfactory profit on capital invested. The ratio is expressed in percentage.

$$Return\ on\ Capital\ Employed\ Ratio = \frac{Net\ income\ before\ interest\ and\ tax}{Capital\ employed} \times 100$$

Table – 7

Year	JSPL	SAIL
2014-15	4.28%	**6.01%**
2015-16	3.39%	**-8.51%**
2016-17	1.81%	**-3.73%**
2017-18	3.86%	**3.18%**
2018-19	**5.60%**	**9.02%**



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. Jindal Steel & Power Ltd. (JSPL) and SAIL while analyzing the financial performance of the selected units, it can be concluded that JSW Steel Ltd. is performing good in terms of Quick assets, better inventory management, Gross Profit Ratio and return on capital employed when compared with SAIL. These factors plays 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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