FINANCIAL PERFORMANCE ANALYSIS OF TATA STEEL LTD.

Research Project Submitted in Partial Fulfillment of the Requirements for the Degree of

BCOM Honours

by

Gagandeep singh salooja

to the

DEPARTMENT OF COMMERCE

BHOPAL SCHOOL OF SOCIAL SCIENCES

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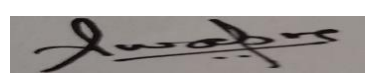
Submitted by

Gagandeep singh salooja

Guided by



Dr Swapna Pillai

CERTIFICATE

It is certified that the work contained in the project report titled “Financial performance analysis of Tata steel ltd,,” by “Gagandeep singh salooja,” has been carried out under my/our supervision and that this work has not been submitted elsewhere for a degree*

Signature of Supervisor: …………….

Name: **Dr Swapna Pillai**

Department: Commerce

Bhopal School of Social Sciences

April, 2021

DECLARATION

I hereby declare that this project report entitled “Financial performance analysis of Tata steel ltd.“ was carried out by me for the degree of BCOM Honours under the guidance and supervision of Dr Swapna Pillai, Associate Professor of Department of Commerce, BSSS College. The interpretations put forth are based on my reading and understanding of the original texts and they are not published anywhere in any form. The other books, articles and websites, which I have made use of are acknowledged at the respective place in the text. This research report is not submitted for any other degree or diploma in any other University.

Place: Bhopal

Name of the Student: Gagandeep singh salooja

Class & Section: BCOM Honours

CHAPTER-1

INTRODUCTION

1.1 Rationale of the study

Analysis of financial statement is a systematic process of critical evaluation of the financial information given in financial statement so that these information may be understood properly. For the purpose of analysis individual items are studied, their relationship with other relevant figures is establish and the data are sometime re-arranged to have better understanding of the information with the help of various tools for the purpose.

According to Berverd Needles " Financial statement analysis comprises all the technique employed by user of financial statement to show important relationship in the financial statement".

In short it is a technique of X- raying the financial position and the performance of the enterprise.

"The analysis and interpretation of financial statement are an attempt to determine the significance and meaning of financial statement data so that the forecast may be made of the *prospects for future earning, ability to pay interest and debts maturities and profitability of a sound dividend policy". – kennedy and mullar*

ADVANTAGE OF FINANCIAL STATEMENT ANALYSIS

The advantages of financial statement analysis are listed below:

- The most important benefit if financial statement analysis is that it provides an idea to the investors about deciding on investing their funds in a particular company.

- Another advantage of financial statement analysis is that regulatory authorities like IASB can ensure the company following the required accounting standards.

- Financial statement analysis is helpful to the government agencies in analyzing the taxation owed to the firm.

- Above all, the company is able to analyze its own performance over a specific time period.

LIMITATION OF FINANCIAL STATEMENT ANALYSIS

- Financial Statements Are Derived from Historical Costs - Transactions are initially recorded at their cost. This is a concern when reviewing the balance sheet, where the values of assets and liabilities may change over time. Some items, such as marketable securities, are altered to match changes in their market values, but other items, such as fixed assets, do not change. Thus, the balance sheet could be misleading if a large part of the amount presented is based on historical costs.

- Financial Statements Only Cover a Specific Period of Time - A user of financial statements can gain an incorrect view of the financial results or cash flows of a business by only looking at one reporting period. Any one period may vary from the normal operating results of a business, perhaps due to a sudden spike in sales or seasonality effects. It is better to view a large number of consecutive financial statements to gain a better view of ongoing results.

- Financial Statements Could be Wrong Due to Fraud- The management team of a company may deliberately skew the results presented. This situation can arise when there is undue pressure to report excellent results, such as when a bonus plan calls for payouts only if the reported sales level increases. One might suspect the presence of this issue when the reported results spike to a level exceeding the industry norm, or well above a company's historical trend line of reported results.

- Financial Statements Do Not Cover Non-Financial Issues-The financial statements do not address non-financial issues, such as the environmental attentiveness of a company's operations, or how well it works with the local community. A business reporting excellent financial results might be a failure in these other areas.

- Financial Statements May Not Have Been Verified- If the financial statements have not been audited, this means that no one has examined the accounting policies, practices, and controls of the issuer to ensure that it has created accurate financial statements. An audit opinion that accompanies the financial statements is evidence of such a review.

- Financial Statements Have No Predictive Value- The information in a set of financial statements provides information about either historical results or the financial status of a business as of a specific date. The statements do not necessarily provide any value in predicting what will happen in the future. For example, a business could report excellent results in one month, and no sales at all in the next month, because a contract on which it was relying has ended.

Methods or tools or technique of financial statement analysis

Ratio analysis – Ratio analysis is a technique of analysis, comparison and interpretation of financial statement. It is a process through which various ratio are calculated and on that basis conclusions are drawn which become the base of managerial decision.

Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability. This type of analysis is particularly useful to analysts outside of a business, since their primary source of information about an organization is its financial statements.

Importance of ratio analysis

1. Financial Statement Analysis- Understanding financial statements are important for stakeholders of the company. Ratio analysis helps in understanding the comparison of these numbers; furthermore, it helps in estimating numbers from income statements and balance sheets for the future. For e.g. Equity shareholder looks into the P/E ratio, the Dividend payout ratio, etc. while creditors observe Debt to Equity ratio, Gross margin ratio, Debt to asset ratio, etc.

2. Efficiency of Company-Ratio analysis is important in understanding the company's ability to generate profit. Return on Asset, Returns on Equity tell us how much profit the company is able to generate over assets of the firm and equity investments in the firm, while gross margin and operating margin ratios tell us the company's ability to generate profit from sales and operating efficiency.

3. Planning and Forecasting- From a Management and investor point of view, ratio analysis helps to understand and estimate the company's future financials and operations. Ratios formed from past financial statement analysis helps in estimating future financials, budgeting, and planning for the future operations of the company.

4. Identifying Risk and Taking Corrective Actions- The company operates under various business, market, operations related risks. Ratio analysis helps in understanding these risks and helps management to prepare and take necessary actions. Leverage ratios help in performing sensitivity analysis of various factors affecting the company's profitability like sales, cost, debt. Financial leverage ratios like Interest Coverage ratio and Debt Coverage ratio tell how much the company is dependent on external capital sources and the company's ability to repay debt.

5. Peers Comparison- Investor, as well as the company's management, makes a comparison with Competitors Company to understand efficiency, profitability and market share. Ratio analysis is helpful for companies to perform SWOT (Strengths, Weakness, Opportunities, and Threats)

analysis in the market. It also tells whether the company is able to perform growth or not over a period from past financials and whether the company's financial position is improving or not.

6. Financial Solvency- The company's ability to pay short-term debt is determined by liquidity. Current Ratio, Acid-test ratio tells us whether a company is able to pay its short-term obligation within a year. The company continuously runs analysis on past financial statements to understand and prepare for payment of short-term obligations.

7. Decision Making- Ratios provide important information on the operational efficiency of the company, and the utilization of resources by the company. It helps management to forecast and planning for future, new goals, concentrate on the different markets, etc.

Types of Ratio

Liquidity ratios – liquidity refers to the ability of a concern to meet its current obligations as and when they become due. Liquidity ratios measures the short term solvency of a business and for this purpose following ratio can be computed:

a) Current ratio = current ratio is a most widely used ratio to judge short term financial position or solvency of a firm. it can be defined as relationship between current assets and current liabilities. current ratio of 2 : 1 is considered as satisfactory.

   Current Ratio= current assets / current liabilities

b) Liquid Ratio = it is also called as Quick ratio or Acid test ratio, measures the ability of business to pay its short term liabilities by having assets that are readily converted into cash. These assets are namely cash, marketable securities and account receivables.

Liquid Ratio= current asset–inventory–prepaid expenses /current liabilities

c) *Absolute liquid Ratio=* This ratio is also known as super quick ratio and establishes relationship between absolute liquid assets and liquid liabilities. The ideal level of absolute liquid ratio is 0.5 : 1 .

Absolute liquid ratio= cash and bank balance/current liabilities

d) Cash ratio = the cash ratio is a measures of the liquidity of a firm, namely the ratio of the total assets and cash equivalents.

Cash ratio= cash and bank balance/ current assets

Solvency Ratio

Solvency ratio - this ratio examines whether the total realizable amount from all assets of a firm is enough to pay all of its external liability or not. In this context this ratio shows the relationship between total assets and external liabilities of the firm.

Solvency means ability of a firm to pay its liability on due date. Solvency is tested on the basis of the ability of the concern to pay its long term liability at due time. The ratios to be used for this purpose are called as ‘ ratio of financial position’ or stability ratio. The main ratio of this category are as follows;

a) Debt equity Ratio- this ratio reflects the long term financial position of a firm and is calculated in the form of relationship between external equities or outsider’s funds and internal equities or shareholders fund. Debt equity ratio may also be called as ‘ratio long term debt to shareholders funs’.

   Debt Equity Ratio= long term debts/ shareholder funds
   Or debt/equity

b) Proprietary ratio- This ratio indicates the relationship between proprietors fund and total assets. Greater is the proprietor funds better is the position of the creditor.

Proprietary ratio=proprietary funds or shareholders funds/Total assets

- **Profitability ratio** - Profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. This ratio represents the final result of the company.

  The main category of this ratio are :

a) Gross profit ratio- This ratio measures the marginal profit of the company. This ratio is also used to measure the segment revenue. A high ratio represents the greater profit margin and it's good for the company.

   Gross profit ratio = Gross Profit /Sales × 100

   Gross Profit= Sales + Closing Stock – opening stock – Purchases – Direct Expenses

b) Net profit ratio - This ratio measures the overall profitability of company considering all direct as well as indirect cost. A high ratio represents a positive return in the company and better the company is.

   Net profit ratio = Net Profit / Sales × 100

   Net Profit = Gross Profit + Indirect Income – Indirect Expenses

c) Return on equity - This ratio measures Profitability of equity fund invested the company. It also measures how profitably owner's funds have been utilized to generate company's revenues. A high ratio represents better the company is.

Return on equity =Profit after Tax/ Net worth x 100

Where, Net worth = Equity share capital, and Reserve and Surplus

d) Return on capital employed- Return on capital employed (ROCE) is a financial ratio that can be used in assessing a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use.

Return on capital employed (ROCE) = net profit before interest and tax / capital employed X 100

e) Operating profit ratio - Operating profit ratio establishes a relationship between operating Profit earned and net revenue generated from operations (net sales). operating profit ratio is a type of profitability ratio which is expressed as a percentage.

Operating profit ratio = operating profit / net sales X 100

1.2 INTRODUCTION TO THE INDUSTRY

INTRODUCTION OF STEEL INDUSTY IN INDIA

India was the world's second-largest steel producer with production standing at 111.2 million tons (MT) in 2019. The growth in the Indian steel sector has been driven by domestic availability of raw materials such as iron ore and cost-effective labor. Consequently, the steel sector has been a major contributor to India's manufacturing output.

The Indian steel industry is modern with state-of-the-art steel mills. It has always strived for continuous modernisation of older plants and up-gradation to higher energy efficiency levels.

Indian steel industry is classified into three categories - major producers, main producers and secondary producers.

Market Size

India’s finished steel consumption grew at a CAGR of 5.2% during FY16-FY20 to reach 100 MT. India’s crude steel and finished steel production increased to 108.5 MT and 101.03 MT in FY20P, respectively.

Between April 2020 and November 2020, India’s cumulative production of crude steel was 62.01 MT and finished steel was 55.68 MT.

Export and import of finished steel stood at 8.24 MT and 6.69 MT, respectively, in FY20P.

Export and import of finished steel stood at 7.70 MT and 2.70 MT, respectively, between April 2020 and November 2020.

INVESTMENT

Steel industry and its associated mining and metallurgy sectors have seen major investments and developments in the recent past.

According to the data released by Department for Promotion of Industry and Internal Trade (DPIIT), the Indian metallurgical industries attracted Foreign Direct Investment (FDI) to the tune of US$ 14.24 billion in the period April 2000-September 2020.

Some of the major investments in the Indian steel industry are as follows:

- In a move towards becoming self-reliant, Indian steel companies have started boosting steel production capacity. To this end, SAIL announced doubling of its at 5 of its steel plants capacity in September 2020.
- In March 2020, Arcelor Mittal Nippon Steel India (AM/NS) acquired Bhander Power plant in Hazira, Gujarat from Edelweiss Asset Reconstruction Company.
- In February 2020, GFG Alliance acquired Adhunik Metaliks and its arm Zion Steel for Rs. 425 crore (US$ 60.81 million), marking its entry into the Indian steel market.
- For FY20, JSW Steel set a target of supplying around 1.5 lakhs tons of TMT Rebars to metro rail projects across the country.
- In December 2019, Arcelor Mittal completed the acquisition of Essar Steel at Rs. 42,000 cr(US$ 6.01 billion) and formed a joint venture with Nippon Steel Corporation.

- JSW Steel has planned a US$ 4.14 billion capital expenditure programme to increase its overall steel output capacity from 18 million tons to 23 million tons by 2020.
- Ministry of Steel plans to invest US$ 70 million in the eastern region of the country through accelerated development of the sector.
- The production capacity of SAIL is expected to increase from 13 MTPA to 50 MTPA in 2025 with total investment of US$ 24.88 billion.
- Tata Steel has decided to increase the capacity of its Kalinganagar integrated steel plant from 3 million tons to 8 million tons at an investment of US$ 3.64 billion.

Government Initiatives

Some of the other recent Government initiatives in this sector are as follows:

- In December 2020, the Minister for Petroleum & Natural Gas and Steel, Mr. Dharmendra Pradhan, has appealed to the scientific community to Innovate for India (I4I) and create competitive advantages to make India 'Aatmanirbhar'.
- In September 2020, the Ministry of Steel prepared a draft framework policy for development of steel clusters in the country.
- On October 1, 2020, Directorate General of Foreign Trade (DGFT) announced that steel manufacturers in the country can avail duty drawback benefits on steel supplied through their service centres, distributors, dealers and stock yards.
- Government introduced Steel Scrap Recycling Policy to reduce import.
- An export duty of 30% has been levied on iron ore^ (lumps and fines) to ensure supply to domestic steel industry.
- Government of India's focus on infrastructure and restarting road projects is aiding the demand for steel. Also, further likely acceleration in rural economy and infrastructure is expected to lead to growth in demand for steel.
- The Union Cabinet, Government of India approved the National Steel Policy (NSP) 2017, as it intend to create a globally competitive steel industry in India. NSP 2017 envisage 300 million tonnes (MT) steel-making capacity and 160 kgs per capita steel consumption by 2030-31.

- The Ministry of Steel is facilitating setting up of an industry driven Steel Research and Technology Mission of India (SRTMI) in association with the public and private sector steel companies to spearhead research and development activities in the iron and steel industry at an initial corpus of Rs. 200 crore (US$ 30 million).
- The Government of India raised import duty on most steel items twice, each time by 2.5% and imposed measures including anti-dumping and safeguard duties on iron and steel items.

Road ahead

The National Steel Policy, 2017 envisage 300 million tons of production capacity by 2030-31. The per capita consumption of steel has increased from 57.6 kg to 74.1 kg during the last five years. The government has a fixed objective of increasing rural consumption of steel from the current 19.6 kg/per capita to 38 kg/per capita by 2030-31.

As per Indian Steel Association (ISA), steel demand will grow by 7.2% in 2019-20 and 2020-21.

Huge scope for growth is offered by India's comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors.

1.3 INTRODUCTION TO THE COMPANY

COMPANY PROFILE

Tata Steel Limited is an Indian multinational steel-making company based in Jamshedpur, Jharkhand and is headquartered in Mumbai, Maharashtra, India. It is a subsidiary of the Tata Group.

Formerly known as Tata Iron and Steel Company Limited (TISCO), Tata Steel is among the top steel producing companies in the world with an annual crude steel capacity of 34 million tons per annum. It is one of the world's most geographically-diversified steel producers, with operations and commercial presence across the world. The group (excluding SEA operations) recorded a consolidated turnover of US$19.7 billion in the financial year ending 31 March 2020. It is the second largest steel company in India (measured by domestic production) with an annual capacity of 13 million tons after SAIL.

Tata Steel operates in 26 countries with key operations in India, Netherlands and United Kingdom, and employs around 80,500 people. Its largest plant (10 MTPA capacity) is located in Jamshedpur, Jharkhand. In 2007, Tata Steel acquired the UK-based steel maker Corus. 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 according to Brand Finance.

In July 2019 Tata Steel Kalinganagar (TSK) was included in the list of the World Economic Forum's (WEF's) Global Lighthouse Network, showing leadership in applying Fourth Industrial Revolution technologies to drive financial and operational impact.

Tata Steel is headquartered in Mumbai, Maharashtra, India and has its marketing headquarters at the Tata Centre in Kolkata, West Bengal. It has a presence in around 50 countries with manufacturing operations in 26 countries including: India, Malaysia, Vietnam, Thailand, UAE, Ivory Coast, Mozambique, South Africa, Australia, United Kingdom, The Netherlands, France and Canada.

Tata Steel primarily serves customers in the automotive, construction, consumer goods, engineering, packaging, lifting and excavating, energy and power, aerospace, shipbuilding, rail and defence and security sectors.

Tata Iron and Steel Company (TISCO) was founded by Jamsetji Tata and established by Dorabji Tata on 26 August 1907. TISCO started pig iron production in 1911 and began producing steel in 1912 as a branch of Jamsetji's Tata Group. The first steel ingot was manufactured on 16 February 1912. During the First World War (1914-1918), the company made rapid progress. 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, and a further 20,000 in the neighbouring coal mines. In 1971 and 1979, there were unsuccessful attempts to nationalise the company. In 1990, the company began to expand, and established its subsidiary, Tata Inc., in New York. The company changed its name from TISCO to Tata Steel Ltd. in 2005.

Tata Steel on Thursday, 12 February 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 the value of the transactions.

In September 2017, ThyssenKrupp of Germany and Tata Steel announced plans to combine their European steel-making businesses. The deal will structure the European assets as Thyssenkrupp Tata Steel, an equal joint venture. The announcement estimated that the company would be Europe's second-largest steelmaker, and listed future headquarters in Amsterdam.

HERITAGE

Jamsetji Nusserwanji Tata (1839 – 1904)

The foundation of what would grow to become the Tata group was laid in 1868 by Jamsetji Nusserwanji Tata – then a 29-year-old who had learned the ropes of business while working in his father's banking firm – when he established a trading company in Bombay.

A visionary entrepreneur, an avowed nationalist and a committed philanthropist, Jamsetji Tata helped pave the path to industrialization in India by seeding pioneering businesses in sectors such as steel, energy, textiles and hospitality.

Ratan Tata (1937)

The beginning of the 1990s ushered in plenty of change in Indian business. Economic reforms opened up many sectors, signalling increased competition and the arrival of foreign companies. JRD Tata's death, in 1993, symbolised the end of an era in more ways than one.

Ratan Tata, who took over as chairman in 1991, guided the Tata group in a fast-changing business environment where old rules did not apply and new realities were taking hold. Mr Tata retired as Chairman of Tata Sons on December 28, 2012.

Natarajan Chandrasekaran (1963)

Natarajan Chandrasekaran is Chairman of the board of Tata Sons, the holding company and promoter of more than 100 Tata operating companies with aggregate annual revenues of more than US $100 billion. He joined the board of Tata Sons in October 2016 and was appointed Chairman in January 2017.

Chandra also chairs the boards of several group operating companies, including Tata Steel, Tata Motors, Tata Power, Indian Hotels and Tata Consultancy Services (TCS)—of which he was chief executive from 2009-17.

His appointment as chairman followed a 30-year business career at TCS, which he joined from university. Chandra rose through the ranks at TCS to become CEO and managing director of the leading global IT solutions and consulting firm.

Mission Statement: Consistent with the vision and values of the founder Jamsetji Tata, Tata Steel strives to strengthen India's industrial base through effective utilization of staff and materials. The means envisaged to achieve this are best technology and high productivity, consistent with modern management practices.

Tata Steel recognizes that while honesty and integrity are essential ingredients of a strong and stable enterprise, profitability provides the main spark for economic activity.

Overall, the Company seeks to scale the heights of excellence in all it does in an atmosphere free from fear, and thereby reaffirms its faith in democratic values.

1.4 JUSTIFICATION OF THE TOPIC

This research project is about the study of financial performance of Tata steel ltd. The project is done for the practical knowledge and academic compulsion purpose. For the study I have taken the five year (2016-2020) financial data of Tata steel ltd. I have use different type of ratios to evaluate and analyze the financial performance of Tata steel ltd.

CHAPTER - 2

REVIEW OF LITRATURE

The literature review is a written overview of major writings and other sources on selected topic. Sources covered in the review may include scholarly journals, articles, books, government reports, web sites etc.

2.1 International Reviews

DeVancy (1993) conducted a study to measure the changes of status in the families of United States of America by using financial ratios selected from different categories for a period of four years ranging from 1983 to 1986. This study used the financial ratios as indicators of progress to answer the question whether the households were able to improve their financial status during the study period.

Gallizo and Salvador (2003) also carried out a study on financial ratios of U.S manufacturing firms for a period of eight years since 1993 to 2000 to understand the behavior and adjustment process of the same. A proper balance between sales and assets generally specify that the assets are managed and utilized well towards the sales generation. The main aim of the company is to maximize its profit and profitability ratios helps to measure overall performance and efficiency of the firm.

Peeler J. Patsula (2006), he define that a sound business analysis tells others a lot about good sense and understanding of the difficulties that a company will face. We have to make sure that people know exactly how we arrived to the final financial positions. We have to show the calculation but we have to avoid anything that is too mathematical. A business performance analysis indicates the further growth and the expansion. It gives a physiological advantage to the employees and also a planning advantage.

Susan Ward (2008), emphasis that financial analysis using ratios between key values help investors cope with the massive amount of numbers in company financial statements. For example, they can compute the percentage of net profit a company is generating on the funds it has deployed. All other things remaining the same, a company that earns a higher percentage of profit compared to other companies is a better investment option.

Ahmed and Ahmed (2014) conducted a study to analyze the effect of mergers upon financial performance of manufacturing industries in Pakistan. Twelve manufacturing companies were selected for the study which had involved in the process of merger during 2000-2009. Three years data before merger and three years data after merger were used to test the significance of study. Paired sample t-test was applied on accounting ratios. The study revealed that overall financial performance of acquiring manufacturing corporations were insignificantly improved after the merger. The liquidity, profitability and capital position of the selected companies were insignificantly improved and the efficiency deteriorated after the merger. Finally, it was concluded that merger impacted on different industries of manufacturing sector differently.

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2.2 National Reviews

Rooh Ollah Arab, Seyed Saadat Masoumi and Azadeh Barati (2015) examined the financial performance of identified units in the steel industry in India in terms of financial ratios such as Liquidity, Solvency, Activity and Profitability position. For this study , Tata Steel Ltd., Jindal Steel & Power Ltd., J S W Steel Ltd., Bhushan Steel Ltd. and Steel Authority of India Ltd. are selected for this study. The study evaluated the impact of selected variables on the financial performance of identified units in the steel industry, ANOVA-Test analysis is used.

Ramaratnam and Jayaraman (2010) used financial ratios in terms of liquidity, profitability, variability and sustainability to measure the financial performance of Indian steel industry for a period of five years from 2005 to 2010. Their study reveals that the critical situation faced by the Indian steel industry is due to over capacity and demand slowdown resulting in price cuts.

A study has been conducted by Pal (2011) on the Indian steel companies for a period of ten years range between 2000-01 and 2009-10 to measure the profitability of the selected companies which is of major importance to the internal and external stakeholders to determine the earning capacity together with the credibility of the companies to sustain in the competition for a long run.

Tiwari (2013) examined working capital management efficiency in Indian cement industry. They found that though some of the sample firms had successfully improved efficiency during these years, the existence of a very high degree of inconsistency in this matter clearly pointed out the need for adopting sound working capital management policies by these firms. It was suggested that the firms under study should have taken necessary steps in order to improve their efficiency.

Acharya (2013) compared the liquidity position of TATA Steel Ltd. and SAIL and studied the relationship that exists between liquidity and profitability of both the companies. The purpose of the study was to investigate the liquidity management efficiency and profitability position of selected steel companies. Therefore, an attempt was made to investigate the liquidity position and its impact on the profitability of Tata Steel Ltd. and Steel Authority of India Ltd for a period of ten years ranging from 2004 to 2013. Various accounting ratios were analyzed with the help of statistical techniques, such as multiple correlations, multiple regression analysis and t-test. Through the analysis of the data, it was found that liquidity position had positive impact on the profitability of the selected firms.

Comparing profit earning capacity of selected Steel companies in India, Popat (2012) analyzed profitability ratios of selected companies in Indian steel industry. Findings of that study indicated that TATA steel's profitability was better than other selected companies while JINDAL steel's profitability was next to TATA steel. It was also found that JSW and SAIL showed fluctuation in their profitability while UTTAM had a decreasing trend in the profitability during the period of study.

Prakash and Natarajan (2014) conducted a study on financial performance of Salem Steel Authority of India Ltd. The analysis revealed that there is a fluxion in the gross profit and net profit during the study period. The study helps to identify the financial position of the company. Optimum utilization of working capital can be planned so as to result in sound financial position of the company.

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Dr.C.Balakrishnan (2016) observed that financial performance of any organization is influenced by several factors like capital structure, cost, revenue and the consequential profit margin. The study can be analyzed with many aspects like financial facts, financial ratios, financial health, financial strength and utilization of assets, etc. The study revealed that financial performance can be influenced by the operational and financial efficiency of the steel industry, which are related to cost and the revenue aspects. The study analyzed the performance of steel industry in India on the parameters such as profitability, utilization of assets, growth of performance, financial strength and capital structure. The study also attempted to identify the nature of relationship between the various aspects of financial performance.

Dalvadi & Tagariaya (2019), studied shareholders returns of selected Infrastructure companies in India during the period from 2013-14 to 2017- 18 through ratio analysis. The statistical tools used for analysis are mean, standard deviation, one way Anova test etc. They found that there is no significant difference in the performance of the selected Infrastructure companies in India in terms of shareholders return and financial performance during the study period. They also stated that the performance of DLF limited, Reliance Infrastructure limited and L & T limited have better compared to IRB Infrastructure Developers Limited and Nagarjuna Construction Company limited.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 OBJECTIVES OF THE STUDY

- To know the financial position of Tata steel.
- To bring out the results of financial strength and weakness of industry through Ratio analysis.
- To know the correct picture of financial operation of the industry in terms of liquidity and solvency.

3.2 RESEARCH HYPOTHESIS

A **research hypothesis** is a statement of expectation or prediction that will be tested by **research**.

- Null Hypothesis- The Financial performance of Tata steel is satisfactory.
- Alternative hypothesis- The Financial performance of Tata steel is dissatisfactory.

3.3 SCOPE OF THE STUDY

- The scope of the study is limited to collecting financial data published in the annual reports of the company every year.

- The ratio analysis is done to suggest the possible solutions. The study is carried out for 5 years data of Tata steel (2015-16 to 2019-20).

- This study is confined to Tata steel only.

3.4 RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem .It may be understood as a science of studying how research is done scientifically . So the research methodology not only talks about the research methods but also consider the logic behind the method used in context of the research study.

Research design

Descriptive research used in this study because it will ensure the minimization of bias and maximization of reliability of data collected . The researcher had to use fact and information already available through financial statements of earlier years and analyse these to make critical evaluation of available material. Hence by making the type of research conducted to be both Descriptive and Analytical in nature.

Data collection

a) Primary data

Primary data is data originated for the first time by the researcher through direct efforts and experience, specifically for the purpose of addressing his research problem. Also known as the first hand or raw data. The data can be collected through various methods like surveys, observations , physical testing, mailed questionnaires personal interviews, telephone interviews, case studies etc.

b) Secondary data

Secondary data implies second hand information which is already collected and recorded by any person other than a user for a purpose, not relating to the current research problem. It is the readily available form of data collected from various sources like censuses, government publication, internal records of the organizations , reports books ,journal articles, websites and so on.

Sources of data

The required data for the study are basically secondary in nature and the data are collected from the audited reports of the company. The sources of data are from the annual reports of the company from the year 2015-2016 to 2019-2020.

Methods of data analysis

The data collected were classified and tabulated for analysis. The analytical tool used in this study.

The study employs the following analytical tools:

- Graph
- Ratio analysis

3.5 LIMITATION OF THE STUDY

The study is based on secondary data, obtained from the publish report and as its finding depends entirely on the accuracy of such data.

CHAPTER- 4

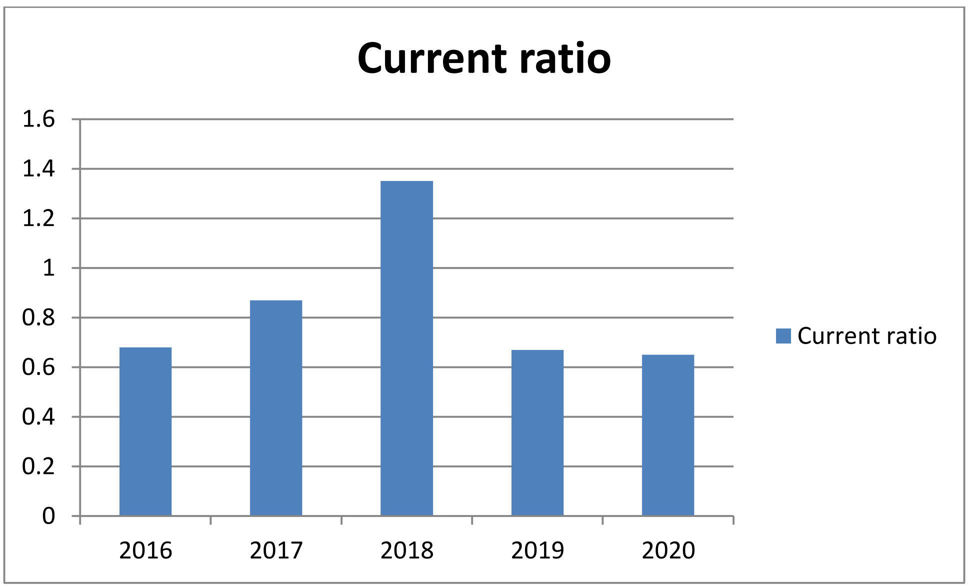
4.1 Data representation and interpretation

Liquid ratios

1. **current ratio = current asset/current liabilities**

(Rs crore)

Year	Current assets	Current liabilities	Current ratio
2016	14421.49	21087.99	0.68
2017	20110.40	23056.33	0.87
2018	34643.91	25607.34	1.35
2019	17035.58	25593.65	0.67
2020	20009.19	30871.30	0.65



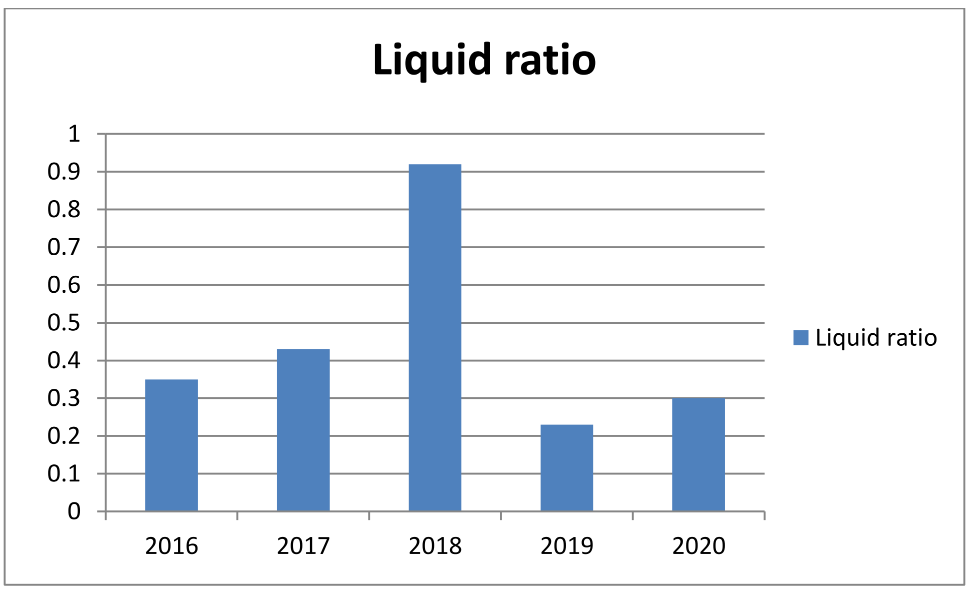
Current ratio compares current assets with current liabilities and tell us whether the current assets are enough to settle current liabilities. It is inferred from the table that the higher current ratio of Tata steel is 1.35 in the year 2018 and the lower was 0.65 in the year 2020. The ratio of 1.2 to 2 or above is usually considered safe. Tata steel is in poor condition to pay back its debts. Hence the current ratio of Tata steel is dissatisfactory.

LIQUID RATIO

Liquid ratio= current assets- inventory- prepaid expenses/current liabilities

(Rs crore)

Year	Liquid assets	Current liabilities	Liquid ratio
2016	7337.68	21087.99	0.35
2017	9873.55	23056.33	0.43
2018	23620.5	25607.34	0.92
2019	5780.24	25593.65	0.23
2020	9292.53	30871.30	0.30



Ratio of 1.1 is said to be the ideal quick ratio. Indicating that company has in its possession enough assets which may be immediately liquidated for paying off the current liabilities. The table shows that the highest liquid ratio of Tata steel is 0.92 in the year 2018 that is not more than the ideal ratio. Hence the liquid ratio of the company is dissatisfactory.

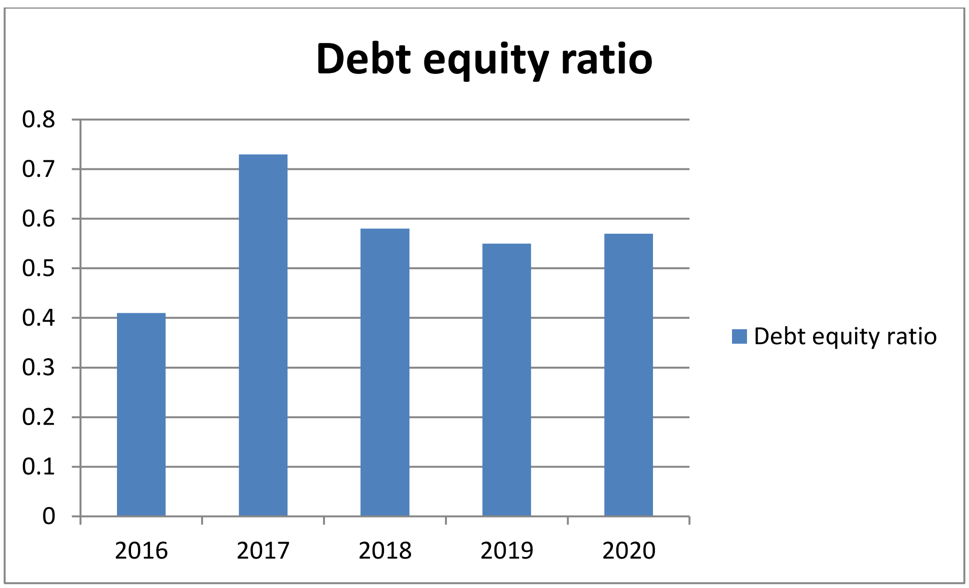
LONG TERM FINANCIAL POSITION RATIO OR SOLVENCY RATIO

DEBT EQUITY RATIO

Debt equity ratio = long term borrowing (Debt) / shareholder funds

(Rs crore)

Year	debt	Shareholders fund	Debt equity ratio
2016	29368.44	70476.72	0.41
2017	36475.07	49659.00	0.73
2018	35717.16	61514.82	0.58
2019	39175.00	70454.71	0.55
2020	42683.14	74563.12	0.57



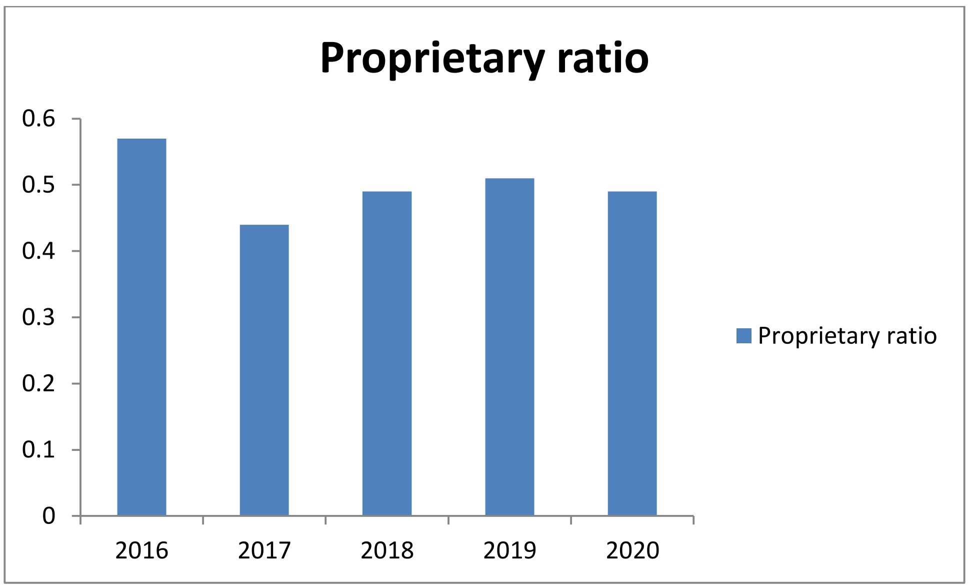
The debt equity ratio is a financial ratio indicating the relative proportion of shareholders equity and debt used to finance a company assets. Debt to equity ratio greater than 1 indicate the company may be overleveraged. In all the years debt equity ratio of a company is less than 1. Hence the company is good in maintaining its debt position.

PROPRIETARY RATI0

Proprietary ratio = shareholder funds / total assets

(Rs crore)

year	Shareholders fund	Total assets	Proprietary ratio
2016	70476.72	123208.15	0.57
2017	49659.00	111465.41	0.44
2018	61514.82	125114.34	0.49
2019	70454.71	137498.36	0.51
2020	74563.12	150392.56	0.49



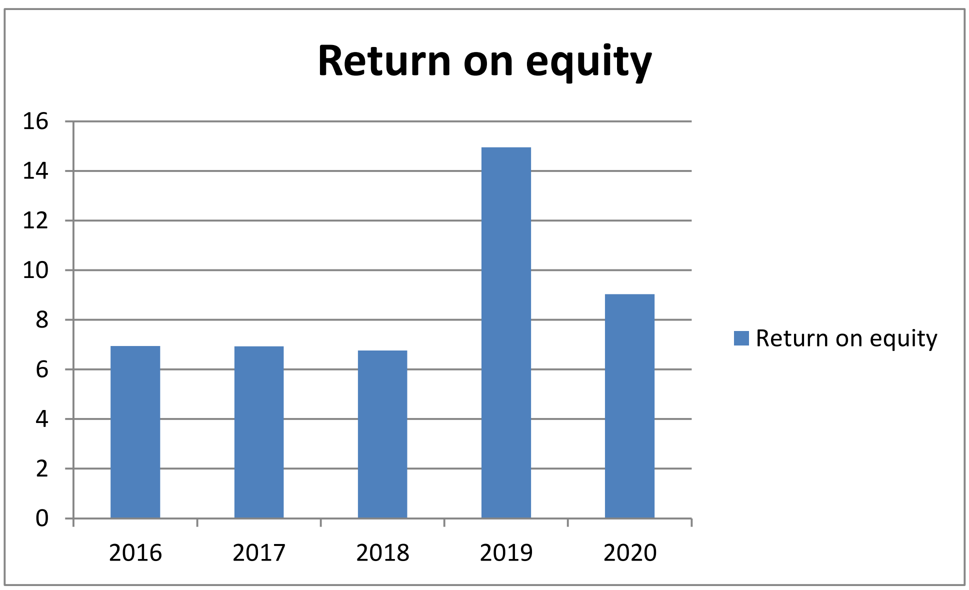
The high proprietary ratio indicates that a company has a sufficient amount of equity to support the function of business. The ideal value of the proprietary ratio is depend on the risk appetite of the investors . If investor agree to take large amount of risk than a lower proprietary ratio is preferred. It is inferred from the table that the proprietary ratio of Tata steel is higher in the year 2016 (0.57) and lower in the year 2017 (0.44). Hence proprietary ratio of the company is satisfactory.

RETURN ON EQUITY

Return on equity = net profit after tax and preference dividend/ (share capital+ reserve and surplus) X 100

(Rs crore)

Year	Net profit after tax and preference dividend	Share capital + reserve and surplus	Return on equity
2016	4900.95	70476.72	6.95
2017	3444.55	49659.00	6.93
2018	4169.55	61514.82	6.77
2019	10533.19	70454.71	14.95
2020	6743.80	74563.12	9.04



The return on equity signifies how good the company is in generating returns on the investment it received from his shareholders. It is inferred from the table that the return on equity of Tata steel is higher in the year 2019 (14.95%) and the lower in 2018 that was (6.77%).

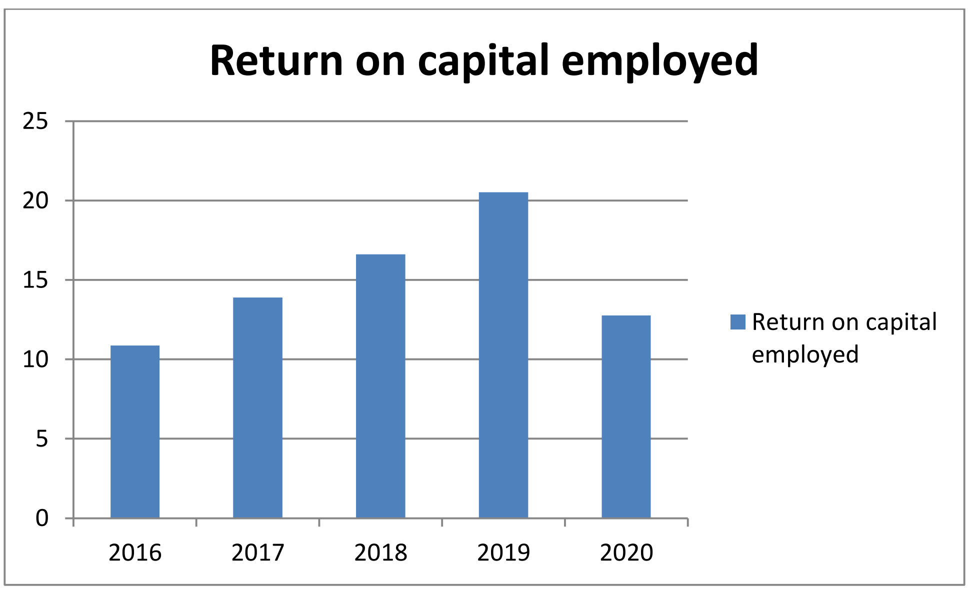
Return on capital employed

Return on capital employed= net profit before interest and tax / capital employed X 100

Capital employed= total assets – current liabilities

(Rs crore)

Year	Net profit before interest and tax	Capital employed	Return on capital employed
2016	11102.45	102120.16	10.87
2017	12290.41	88409.08	13.90
2018	16542.62	99507	16.62
2019	22968.02	111904.71	20.52
2020	15265.69	119521.26	12.77



Return on capital employed measures the efficiency with which investment made by the shareholders. It is inferred from the table that the return on capital employed is higher in the year 2019 (20.52%) and lower in the year 2016 (10.87%).

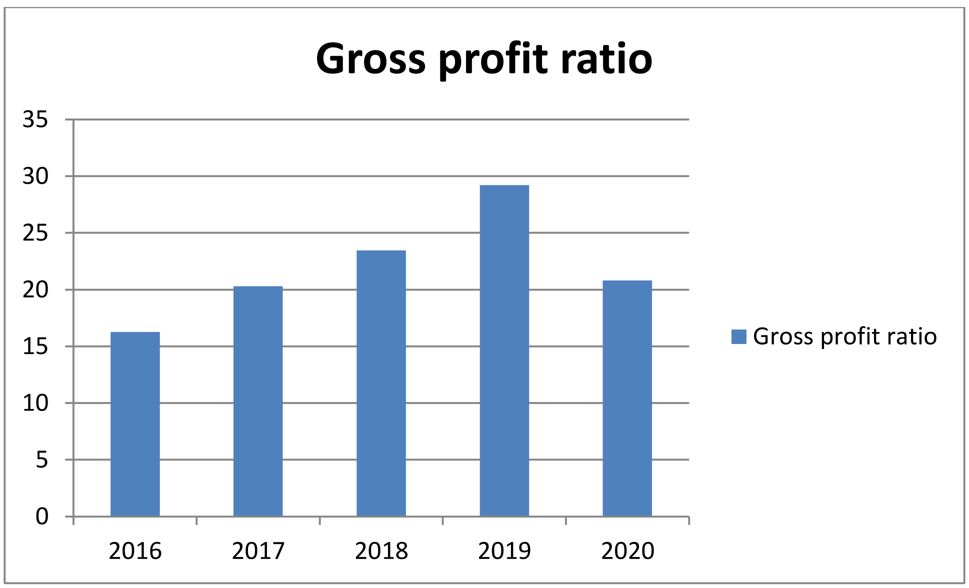
PROFITABILITY RATIOS

GROSS PROFIT RATIO

Gross profit ratio = (gross profit/net sales) x 100

(Rs crore)

year	Gross profit	Net sales	Gross profit ratio
2016	6154.90	37814.69	16.27
2017	9601.86	47296.99	20.30
2018	13732.00	58550.68	23.45
2019	20144.44	68923.15	29.22
2020	12234.68	58815.57	20.80



Gross profit ratio measures the relationship of gross profit and net sales. Higher ratio is better. The higher ratio indicates an increase in the selling price of the goods sold without any corresponding increase in the cost of goods sold.

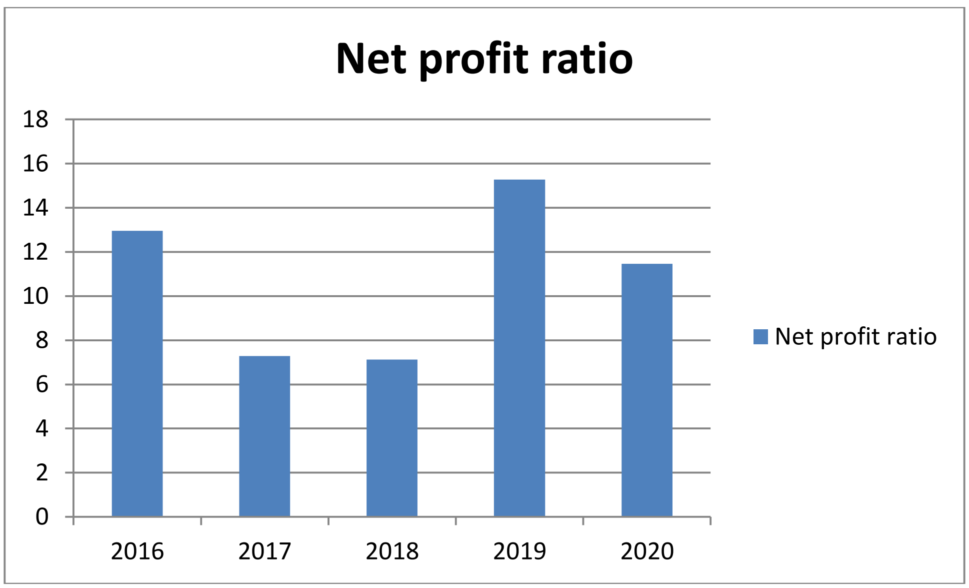
For the last 4 year, the gross profit ratio of Tata steel has been grown upwards consistently but in the year 2020 it decreases. Overall It indicate that the gross profit ratio is increased over a period of time. It shows the good progress of the company. It is inferred from the table that the gross profit ratio is higher in the year 2019 (29.22%) and lower in the year 2016 (16.27%).

NET PROFIT RATIO

Net profit ratio = (net profit / net sales) x 100

(Rs crore)

year	Net profit	Net sales	Net profit ratio
2016	4900.95	37814.69	12.96
2017	3444.55	47296.99	7.28
2018	4169.55	58550.68	7.12
2019	10533.19	68923.15	15.28
2020	6743.80	58815.57	11.46



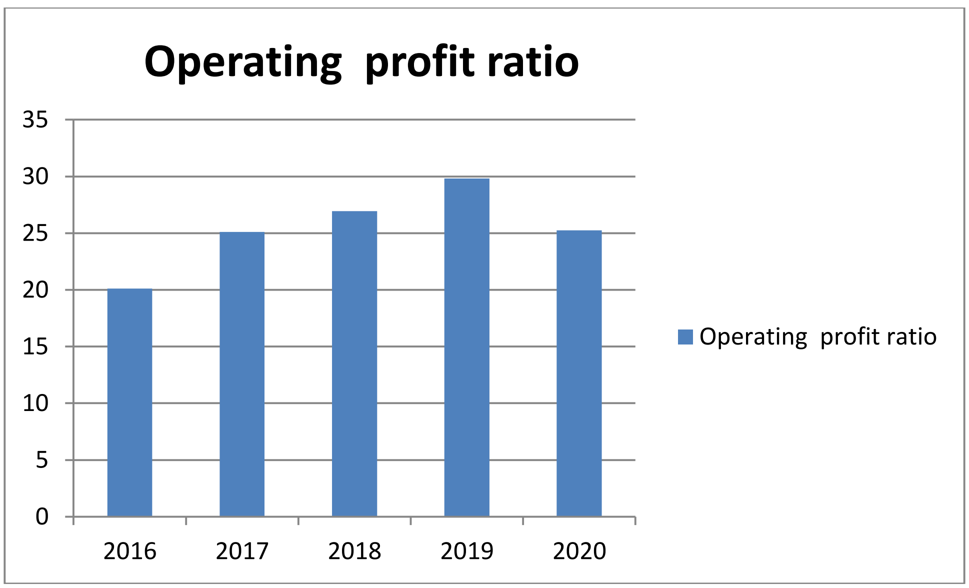
Net profit ratio shows the relationship between net profit and net sales. Higher the ratio indicates that operational efficiency of the concern. It can be observed from table that the net profit ratio of Tata steel shows that there is decrease in the net profit margin from the year 2017 to 2018 as compared to 2016.The higher net profit ratio was observed in the year 2019 that was 15.28% and the lower in the year 2018 (7.12%) .

OPERATING PROFIT RATIO

Operating profit ratio = (operating profit / net sales) x 100

(Rs crore)

year	Operating profit	Net sales	Operating profit ratio
2016	7611.79	37814.69	20.12
2017	11875.95	47296.99	25.10
2018	15778.96	58550.68	26.94
2019	20562.94	68923.15	29.83
2020	14861.57	58815.57	25.26



This ratio is used to measure the operational efficiency of the management . It is inferred from the table that From the last 4 year, the operating profit ratio of the company has been grown upwards consistently but in the year 2020 it decreases.

The highest operating ratio was observed in the year 2019 (29.83%) and lowest is observed in the year 2016 (20.12%).

CHAPTER- 5
RESULTS AND DISCUSSION

5.1 MAJORS FINDING

- The higher current ratio of the Tata steel is 1.35 in the year 2018 and the lower was 0.65 in the year 2020.
- Higher liquid ratio of Tata steel is 0.92 in the year 2018 and lower was 0.23 in the year 2019 and It was 0.30 in the year 2020.
- The Gross profit ratio of Tata steel has been grown upwards consistently from 2016 to 2019. It was high in 2019 (29.22%) and low in 2016 (16.27%) and 20.80% in the year 2020.
- The Net profit of Tata steel shows that there is decrease in the net profit margin in the year 2017 (7.28%) and 2018 (7.12%) as compared to 2016 (12.96%) it was high in the year 2019 (15.28%) and low in the year 2018 (7.12%) It was 11.46% in the year 2020.
- The operating profit ratio of Tata steel Tata steel has been grown upwards consistently from 2016 to 2019. It was high in 2019 (29.83%) and low in 2016 (20.12%) and 25.26% in the year 2020.
- Return on equity of Tata steel is high in the year 2019 (14.95%) and was low in 2018 (6.77%) and 9.04% in the year 2020.
- Return on capital employed of Tata steel is high in the year 2019 (20.52%) and was low in 2016 (10.87%) and 12.77% in the year 2020.
- Debt equity ratio of Tata steel is low in the last five years and it was 0.57 in the year 2020. Lower debt equity ratio shows a good performance of a company.
- The proprietary ratio of Tata steel is higher in the year 2016 (0.57) and lower in the year 2017 (0.44) and 0.49 in the year 2020.

5.2 DISCUSSION AND SUGGESTION

From the findings and analysis of Tata steel ltd for the last five year we can conclude some suggestions for company so that the company can be more efficient to generate profit.

- Current ratio of Tata steel ltd is low it should increase its current ratio where it can meet it short term obligation smoothly.
- The company should be maintaining a sound short-term debts paying capacity in future because the use of more amount of external funds may lead to short-term insolvency.
- Liquid ratio of Tata steel ltd is low. So I suggest that a company maintain proper liquid funds.
- All operational and related activities should be performed efficiently and effectively.
- Tata steel ltd has sound solvency position but the Company has to avail on the benefit of trading on equity.
- The government intervention in promoting ‘Make in India’ in public procurement has resulted in Indian companies garnering over Rs 50 billion in projects.
- For the very existence and growth, every company has to earn adequate profit. As regards profitability, the company witnessed a fluctuating trend throughout the study period, which is not desirable from the management of the company. To keep the shareholders‟ happy and reliable the rate of return to the equity shareholders should be consistent in the years to come.

5.3 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 analyze the financial performance of TATA STEEL LTD. While analyzing the financial performance it can be concluded that TATA Steel is performing good in terms of Quick assets, better inventory management, management of fixed assets, gross profit, return on capital employed and dividend payout ratio. These factors plays important role in forming company 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 satisfaction. Lastly the policy adopted by government of India under National steel policy (2017) and policy on preference to domestically manufactured iron and steel products is expected to provide the much necessary momentum to the iron and steel sector of the country.

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ANNEXURE

TATA STEEL LTD

BALANCE SHEET OF TATA STEEL (in Rs. Cr.)	MAR 20	MAR 19	MAR 18	MAR 17	MAR 16
	12 mths	12 mths	12 mths	12 mths	12 mths
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	1,146.13	1,146.12	1,146.12	971.41	971.41
TOTAL SHARE CAPITAL	**1,146.13**	**1,146.12**	**1,146.12**	**971.41**	**971.41**
Reserves and Surplus	73,416.99	69,308.59	60,368.70	48,687.59	69,505.31
TOTAL RESERVES AND SURPLUS	**73,416.99**	**69,308.59**	**60,368.70**	**48,687.59**	**69,505.31**
TOTAL SHAREHOLDERS FUNDS	**74,563.12**	**70,454.71**	**61,514.82**	**49,659.00**	**70,476.72**
NON-CURRENT LIABILITIES					
Long Term Borrowings	31,381.96	26,651.19	24,568.95	24,694.37	23,457.77
Deferred Tax Liabilities [Net]	5,862.28	7,807.00	6,259.09	6,111.27	2,179.83
Other Long Term Liabilities	3,325.34	2,798.63	2,927.91	3,644.69	842.66
Long Term Provisions	2,113.56	1,918.18	1,961.21	2,024.74	2,888.18
TOTAL NON-CURRENT LIABILITIES	**42,683.14**	**39,175.00**	**35,717.16**	**36,475.07**	**29,368.44**
CURRENT LIABILITIES					
Short Term Borrowings	7,857.27	8.09	669.88	3,239.67	5,261.02
Trade Payables	10,600.96	10,969.56	11,242.75	10,717.44	7,706.13
Other Current Liabilities	11,749.21	13,837.77	12,959.43	8,398.62	6,115.81
Short Term Provisions	663.86	778.23	735.28	700.60	2,005.03
TOTAL CURRENT LIABILITIES	**30,871.30**	**25,593.65**	**25,607.34**	**23,056.33**	**21,087.99**
TOTAL CAPITAL AND LIABILITIES	**150,392.56**	**137,498.36**	**125,114.34**	**111,465.41**	**123,208.15**

ASSETS					
NON-CURRENT ASSETS					
Tangible Assets	70,505.66	70,416.82	70,942.90	71,778.97	24,901.24
Intangible Assets	727.72	805.20	786.18	788.18	527.35
Capital Work-In-Progress	8,070.41	5,686.02	5,641.50	6,125.35	26,982.37
Other Assets	0.00	0.00	0.00	0.00	0.00
FIXED ASSETS	**79,480.43**	**77,018.31**	**77,402.35**	**78,731.11**	**52,410.96**
Non-Current Investments	46,860.91	38,929.25	9,636.56	8,355.90	52,360.42
Deferred Tax Assets [Net]	0.00	0.00	0.00	0.00	0.00
Long Term Loans And Advances	199.26	231.16	213.50	211.97	3,787.88
Other Non-Current Assets	3,842.77	4,284.06	3,218.02	4,056.03	227.40
TOTAL NON-CURRENT ASSETS	**130,383.37**	**120,462.78**	**90,470.43**	**91,355.01**	**108,786.66**
CURRENT ASSETS					
Current Investments	3,235.16	477.47	14,640.37	5,309.81	4,320.17
Inventories	10,716.66	11,255.34	11,023.41	10,236.85	7,083.81
Trade Receivables	1,016.73	1,363.04	1,875.63	2,006.52	632.80
Cash And Cash Equivalents	1,226.87	718.11	4,696.74	970.31	1,014.67
Short Term Loans And Advances	1,607.32	55.92	74.13	27.14	1,243.48
Other Current Assets	2,206.45	3,165.70	2,333.63	1,559.77	126.56
TOTAL CURRENT ASSETS	**20,009.19**	**17,035.58**	**34,643.91**	**20,110.40**	**14,421.49**
TOTAL ASSETS	**150,392.56**	**137,498.36**	**125,114.34**	**111,465.41**	**123,208.15**

ANNUAL REPORT

Annual results in brief

(Rs crore)

	Mar ' 20	Mar ' 19	Mar ' 18	Mar ' 17	Mar ' 16
Sales	60,435.97	70,610.92	59,160.79	47,993.02	38,268.67
Operating profit	14,861.57	20,562.94	15,778.96	11,875.95	7,611.79
Interest	3,031.01	2,823.58	2,810.62	2,688.55	1,848.05
Gross profit	12,234.68	20,144.44	13,732.00	9,601.86	6,154.90
EPS (Rs)	58.84	91.90	36.38	35.46	9.84