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A STUDY ON PROFITABILITY AND CAPITAL STRUCTURE ANALYSIS OF STEEL AUTHORITY OF INDIA LIMITED

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ABSTRACT

This study examines the relationship between capital structure and the profitability of SAIL for the period from 2011-2012 to 2015-2016. Capital structure plays a vital role in making decisions about the profitability of the firm. Current ratio is in declined level, Debt – equity ratio is less than its standard norm, Gross profit ratio is very high than its standard norm, Ratio of reserves to equity share capital has been increased, Net Income Approach during the study period the value of the firm and overall cost of capital is in fluctuation trend. Net Operating Income Approach as per the analysis there is no much difference in the value of the firm and there is fluctuation in the equity capitalization rate.

KEYWORDS: *Capital, Fluctuation, Income, Period, Profitability, Analysis.*

1.1 INTRODUCTION:

Finance is nothing but an exchange of available resources. Finance is not restricted only to the exchange and/or management of money. A barter trading system is also a type of finance. Thus, we can say, Finance is an art of managing various available resources like money, assets, investments, securities, etc. At present, we cannot imagine a world without Finance. In other words, Finance is the soul of our economic activities. To perform any economic activity, we need certain resources, which are to be pooled in terms of money (i.e. in the form of currency notes, other valuables, etc.). Finance is a prerequisite for obtaining physical resources, which are needed to perform productive activities and carrying business operations such as sales, pay compensations, reserve for contingencies (unascertained liabilities) and so on. Hence, Finance has now become an organic function and inseparable part of our day-to-day lives. Today, it has become a word which we often encounter on our daily basis

1.2 OBJECTIVES OF THE STUDY

- To trace out the history and profile of the company.
- To analyze the liquidity and solvency position of the company.
- To evaluate the profitability of the company.
- To study the capital structure analysis of the firm.
- To offer findings and suggestions.

1.3 STATEMENT OF THE PROBLEM

Finance is the life blood of any business institution and is the root cause for the development of the institutions. In the steel industries, finance plays a vital role in the performance, functions and progress of the company and the efficiency of the various factors. Hence, to know the development of the steel industry, the study of financial performance of the industry is needed and it is must for the purpose of future development.

The financial performance of any business can be analyzed with the help of profits earned as well as the other factors responsible for such performance. The study of such factors responsible for good or poor performance will be useful to any business.

This study will provide tools for analysis and also conducted to find out the answers for the following questions.

- Is the company in a position to meet its current obligations?
- Is the company efficient in the management of its assets?
- Is the profitability of the concern satisfactory to survive and grow over a long period of time?
- Will the concern be able to meet its long term obligations?

1.4 METHODOLOGY

Nature of Data: The secondary data was mainly used for the study

Source of Data: The audited annual report of the company have been used as the source of this study and it's collected through the company's published annual reports and through website.

Period of Study: The study concerned with financial aspects of the Steel Authority of India Limited and period of study consists of five years from 2010-2011 to 2014-2015.

Tools Used: The researcher has analyzed the financial statements of Steel Authority of India Limited with help of: **Ratio AnalysisAnalysis made:** Capital Structure Analysis.

1.5 AREA AND PERIOD OF THE STUDY

The study concerned with financial aspects of the Steel Authority of India Limited. The study period consists of five years i.e. from 2010-2011 to 2014-2015.

1.6 LIMITATIONS OF THE STUDY

• A correct decision regarding the financial efficiency of SAIL ltd is based on the ratio calculated and it depends upon the accuracy of the financial statements.

• The study covers the periods from 2010-2015. The changes that took place before and after this period were not taken into consideration.

• The scope of the study is limited to a select firm.

• The external factors that affected the financial performance of the company have not been given much importance.

1.7 REVIEW OF LITERATURE

Aitken ETStudied "Financial Analysis and Price Discovery", the bank\ brokerage firm has top-rated financial analysts and high Wall Street search ranking for their research was significantly related to that firm's contribution to price discovery of the process by which information is incorporated into the stock prices. This study related to cross-sectional characteristics of the quality of brokerage research, the asymmetric information environment and order flow volume to a microstructure measure of price discovery developed by Granger and Gonzalo. It measured analysis research quality with an industry-specific ranking by institutional investors, with an opinion survey of trading desk personnel and with the number of top three analysts across all industries employed by the bank/ brokerage firm.

Keshwara, R. V. He has submitted his doctoral research work, ? A Study of Financial Performance of Aluminum Industry in India, in Saurashtra University, Rajkot. The study indicates the analysis of financial performance of aluminum industry in India, which are mainly engaged in production of Aluminum Products, This study is aimed at exploring the financial performance of aluminum industry in India.

Prasanta PaulReported that Financial Performance Evaluation – A Comparative Study of Some Selected NBFCs. In this study, five listed NBFCs have been considered for analyzing comparative financial performance. Different statistical tools like, Arithmetic mean, Standard Deviation, Coefficient of Variance, Correlation and Analysis of Variance have been used extensively. Arithmetic Mean (AM) is an ideal measure of central tendency, which is rigidly defined, easy to calculate, based on all observations and affected least by fluctuations of sampling has been applied in this study. It has been used to get a stable average and it is easy to understand the results of the study. It conclude that the selected companies differ significantly in terms of their financial performance indicators from one to another, may be for the different services they provide. There are no significant differences in the last five years in the management of financial performance of each selected NBFCs, except marginal deviation in some cases in the year 2006-07 may be for the effect of general recession in that period.

Neha MittalStudies the determination of capital structure choice of the selected Indian industries.The main objective is to investigate whether and to what extent the main structure theories can explain the capital structure choice of Indian firms. It has applied multiple regression models on the selected industries by taking data for the period 2001-2008. It examines the relevance of capital structure in selected Indian industries based on a regression analysis and data study. It concludes that the main variables determining capital structure of industries in India are agency cost, assets structure, non-debt tax shield and size. The coefficients of these variables are significant at one per cent and five per cent levels.

ZalaVirambhai S Write in his doctoral research on ? A Study of Productivity and Financial Efficiency of Textile Industry of India thesis PhD, Saurashtra University, indicated the productivity and financial efficiency of selected textile industry of India period from studying the productivity and financial efficiency of textile industries in India, seven (7) leading companies of textile industry having a large plant have been selected. The period covered under the study extends over six years from 2002-03 to 2007-08. Adopting various techniques such as ratio analysis trend analysis has made analysis of selected units.

1.8ANALYSIS AND INTERPRETATION

1.8.1 GROSS PROFIT RATIO

This ratio indicates the efficiency of trading activities. The relationship of gross profit to sales is known as gross profit ratio. The standard norm is 25% to 30%. It will be calculated by the formula:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} * 100$$

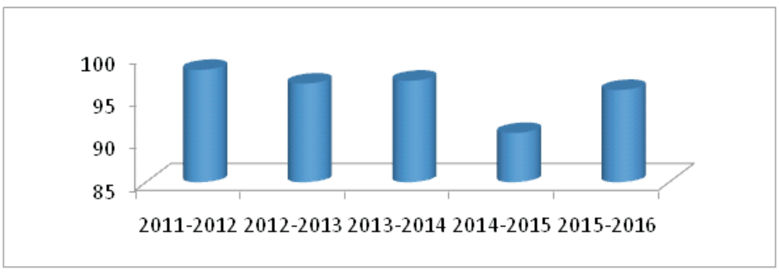
Gross Profit = Net sales – Cost of goods sold

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

Gross Profit Ratio
Table 1.8.1

Year	Gross Profit	Sales	Ratio
2011-2012	42108.32	42814.39	98.35
2012-2013	45130.61	46658.16	96.72
2013-2014	43761.87	45087.24	97.06
2014-2015	43520.81	47901.69	90.85
2015-2016	44098.7	45951.95	95.96

Gross Profit Ratio
Chart 1.8.1



1.8.2 NET PROFIT RATIO

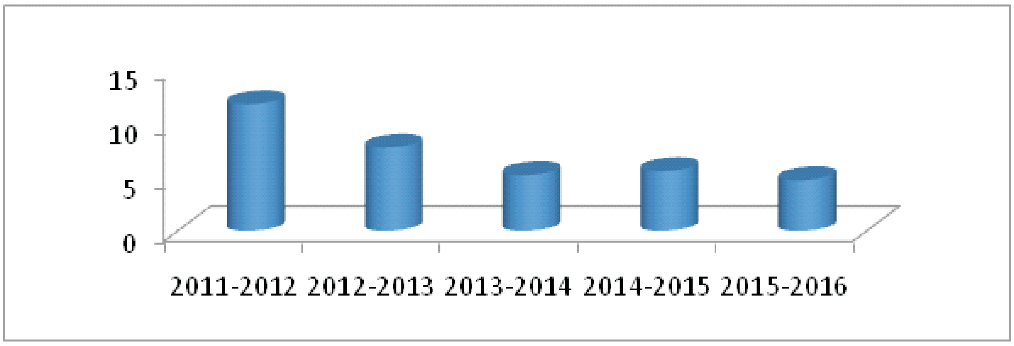
This ratio determines the overall efficiency of the business. The relationship of net profit to sales is known as net profit ratio. Its standard norm is 12%. It will be calculated by:

$$\text{Net profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \ast 100$$

Net Profit Ratio
Table 1.8. 2

Year	Net Profit	Sales	Ratio
2011-2012	5017.29	42814.39	11.71
2012-2013	3592.95	46658.16	7.70
2013-2014	2329.40	45087.24	5.16
2014-2015	2651.52	47901.69	5.53
2015-2016	2158.02	45951.95	4.69

Net Profit Ratio
Chart 1.8.2



1.9 CAPITAL STRUCTURE

Capital structure refers to the mix of sources from where the long term funds required in a firm may be raised that is the proportion of equity capital, preference capital, debentures and other sources of funds in the total amount of capital which a firm may raise for establishing its business. Capital structure is also referred as the degree of debts in the financing or capital structure, the value of a firm can be influenced. The approaches of capital structure are:

1.9.1 Net Income Approach
1.9.2 Net Operating Income Approach

1.9.1 NET INCOME APPROACH FOR THE YEAR 2015-2016

	EBIT	-	2463.97
(-)	Interest	-	2172.8
	Profit available to shareholder's		291.17

$$\text{Market value of firm (S)} = \frac{\text{Profit available to share holders}}{\text{Equity Capitalization rate}}$$

$$\frac{291.17}{.0849} = 3429.56$$

	Market value of firm	-	3429.56
(+)	Market value of debt (D)	-	10352.00
	Total market value of firm (v)		13781.56

$$\text{Overall cost of capital} = \frac{EBIT}{V} * 100$$

$$\frac{2463.97}{13781.56} * 100 = 17.87\%$$

1.9.2 NET OPERATING INCOME APPROACH FOR THE YEAR 2015-2016

$$\text{Market value of the firm} = \frac{EBIT}{\text{Overall cost of capital}}$$

$$= \frac{2463.97}{0.1787} = 13788.30$$

Market value of Equity = Market value of firm (-) Market value of Debt
= 13788.30 (-) 10352.00 = 3436.3

Earnings available to equity share holder = EBIT (-) Interest
= 2463.97 (-) 2172.8
= 291.17

$$\text{Equity capitalization rate} = \frac{\text{Earnings available to equity share holders}}{\text{Market value of equity}}$$

$$= \frac{291.17}{5000} * 100 = 5.82\%$$

1.10 FINDINGS

The followings are the findings of the study

- Current ratio is high in the year 2011-2012 and during the years 2012-2013, 2013-2014, 2014-2015, 2015-2016 it has been declined than the standard norm.
- Liquid ratio is high than its standard norm in 2011-2012 and the ratio has been decreased during the year 2012-2013, 2013-2014, 2014-2015, 2015-2016.
- Absolute liquid ratio is at very high level in 2011-2012 in the year 2012-2013 and 2013-2014 it is high than standard norm during the year 2014-2015 and 2015-2016 it is low than the standard norm.

- Debt – equity ratio is less than its standard norm during the study period.
- Proprietory ratio is high than its standard norm in 2011-2012and 2012-2013 and the ratio has been declined during the year 2013-2014, 2014-2015, 2015-2016 and their ratios were near to the standard norm.
- Capital gearing ratio is high in 2011-2012 and it has been decreased in the years 2012-2013, 2013-2014, 2014-2015, and 2015-2016.
- Gross profit ratio is very high than its standard norm during the study period.
- Net profit ratio is near to standard level during the year 2011-2012 and it has been decreased in the year 2012-2013, 2013-2014, 2014-2015, 2015-2016.
- Operating ratio is very low during the year 2011-2012 and in the years of 2012-2013, 2013-2014, and 2014-2015, 2015-2016 the ratio has been increased but they have not reached their standard norm.
- Operating profit ratio is high during the year 2011-2012 and it has been decreased to a low level in the years of 2012-2013, 2013-2014, 2014-2015, and s2015-2016.
- Return on total assets is very low during the study period.
- Return on capital employed is low in all the 5 years but during the years of 2014-2015, 2015-2016 the ratio has been remained constant.
- Interest coverage ratio is very high during the year of 2011-2012 and the ratios has been gradually decreased during the years of 2012-2013, 2013-2014, 2014-2015, 2015-2016.
- Fixed assets to shareholder's fund is low in the year 2011-2012 and it has been increased in the years 2012-2013, 2013-2014, 2014-2015, 2015-2016.
- Ratio of reserves to equity share capital has been increased in all the study years.
- Net Income Approach during the study period the value of the firm and overall cost of capital is in fluctuation trend.
- Net Operating Income Approach as per the analysis there is no much difference in the value of the firm and there is fluctuation in the equity capitalization rate.

1.11 SUGGESTIONS

The profitability and capital structure of SAIL is at satisfactory level, with the available data in the annual report, given during the study period. From the study, the following are the suggestion made by the researcher on the basis of findings:

- The company could appropriately use the current assets and liabilities so as to ensure the efficiency.
- The cash balance level of the company when compared to the current liabilities is minimum and the management may improve the cash balance to optimum level to meet the contingencies.
- The management should take proper decision regarding the shareholders fund and the long term debt.
- It has been suggested that the company can reduce their expenses in order to increase their profitability.

1.12 CONCLUSION

The study was undertaken to analyze the profitability and capital structure analysis of STEEL AUTHORITY OF INDIA LIMITED. From the study, it can be concluded that the company's overall financial and capital structure was satisfactory.The industry is paying the corporate tax in reducing their debt to equity shares they lead to reduction in EPS. The researcher has found that the company suffers from certain weakness and has given some suggestions to overcome it.The research and findings were practical and logical. The results of the research may be useful for company's future policy decision and prospective long-term planning, which is the essential element for every manufacturing concern. The efficiency of the company needs to be increased by implementing further new business policies in favor of the company. The management must pay attention to ensure prompt recovery of dues from trade debtors and cost reduction. The management should also focus its activities towards improving in the profit making of the company. The firm has to take some concentration on operating profit ratio in which they are in low level. This study helps the management to maintain the Net Income Approach in a stable level and the equity capitalization rate. If the suggestions are implemented, the company can increase its profitability and overall performance.

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