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Financial Performance of RINL Using Financial Ratios and Comparison with TATA, SAIL and JSW

Kommu U. K.S. Alekhya, K. Simhachalam Naidu, Tippana Lochana
MVGR College of Engineering (A)

ABSTRACT:

This paper gives a financial overview of RINL, Visakhapatnam through financial ratios. Visakhapatnam steel plant is one of the most modern steel plant in the country. The manpower in the capacity of producing 3.0 million tones of saleable steel. Ratio analysis is one of technique used to measure the financial position of the company in the four main aspects liquidity, solvency, turnover and profitability. The main objective of this paper is to interpret the financial performance of RINL, Visakhapatnam. Also, RINL's financial performance compared to its peers TATA, JSW and SAIL can be understood.

KEY WORDS : RINL, TATA, SAIL, JSW, liquidity, solvency, turnover and profitability.

INTRODUCTION:

Ratio analysis is used to evaluate relationships among financial statement items. The ratios are used to identify trends over time for one organization or to compare two or more organizations at one point in time. Ratio analysis focuses on three key aspects of a business: liquidity, profitability, and solvency. Ratio Analysis is an important tool for any business organization. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas where performance has improved or deteriorated over time.

Importance of Ratio Analysis:

Forecasting and Planning:

The trend in costs, sales, profits and other facts can be known by computing ratios of relevant accounting figures of last few years. This trend analysis with the help of ratios may be useful for forecasting and planning future business activities.

Budgeting:

Budget is an estimate of future activities on the basis of past experience. Accounting ratios help to estimate budgeted figures. For example, sales budget may be prepared with the help of analysis of past sales.

Measurement of Operating Efficiency:

Ratio analysis indicates the degree of efficiency in the management and utilization of its assets. Different activity ratios indicate the operational efficiency. In fact, solvency of a firm depends upon the sales revenues generated by utilizing its assets.

Indication of Liquidity Position:

Ratio analysis helps to assess the liquidity position i.e., short-term debt paying ability of a firm. Liquidity ratios indicate the ability of the firm to pay and help in credit analysis by banks, creditors and other suppliers of short-term loans.

Indication of Long-term Solvency Position:

Ratio analysis is also used to assess the long-term debt-paying capacity of a firm. Long-term solvency position of a borrower is a prime concern to the long-term creditors, security analysts and the present and potential owners of a business. It is measured by the leverage/capital structure and profitability ratios which indicate the earning power and operating efficiency. Ratio analysis shows the strength and weakness of a firm in this respect.

Indication of Overall Profitability:

The management is always concerned with the overall profitability of the firm. They want to know whether the firm has the ability to meet its short-term as well as long-term obligations to its creditors, to ensure a reasonable return to its owners and secure optimum utilization of the assets of the firm. This is possible if all the ratios are considered together.

REVIEW OF LITERATURE:

Idrish Allad(2015), Dr. Mahendra H. Maisuria(2015):

Ratio analysis is one of the tools of Financial Statement Analysis, and means either :Calculation of Ratios related reported figures bear to each other, under identical heads in financial statements of the same firm in different periods of time to identify and analyse trends in performance of that firm, or calculation of Ratios related reported figures bear to each other, under identical heads in financial statements of the different firms (usually in same industry), or against an industry standard, in the same time period(s)and/ or in different periods, to identify and analyse how the firm is performing comparatively. Financial Statements mean the Balance Sheet, Income Statement, Statement of Retained Earnings and the Cash Flow Statement. Every ratio should be used in conjunction with a related ratio or ratios to draw a meaningful overall conclusion concerning a particular performance factor. Ratio Analysis is useful for analyzing trends in performance both internally and with reference to industry, assessing performance and liquidity, budgetary Control and managerial decision making.

R. Sasikala (2015), Dr. K.P. Balakrishnan (2015):

Financial analysis is a powerful mechanism which helps in understanding financial position of the companies. Financial ratios are mathematical assessments of financial statements accounts. These relationships between the financial statements accounts help investors; creditors and internal company management recognize how well a business is developing in financial terms. The financial performance of TATA steel and SAIL steel companies are evaluated by: Liquidity Ratios , activity ratio ,profitability ratio.It can be observed from the article that the liquidity and activity ratios of SAIL are more satisfactory compared to TATA steel and profitability ratio of TATA steel is more satisfactory compared to SAIL.

Ljiljana Lucic(2014):

The common practice used today to understand the business's financial position is from the financial statements and based on that the analysis is done in different aspects of the financial state: liquidity, solvency, coverage, efficiency, leverage. Financial ratios are used as the analysis for both executives in companies, and bankers, in determining the creditworthiness of potential borrowers, and analysts and institutions on securities markets for financial instruments risk assessment.However, the real benefit of these data is limited due to the absence of benchmark size with which data can be compared with others in the economic branch or the economy as a whole, so their usefulness is reduced only to compare their own operations between the current and previous periods.

Achrekar Sachin Vilas Vijaya (2013):

A definite conclusion can be drawn by establishing quantitative relationship between two or more items of financial statements. External parties such as investors, shareholders, creditors etc. require information about the financial soundness or weakness of the firm/ company/enterprise . Ratio analysis is used by all these parties including management to evaluate the performance of the concern. With the help of these ratios, the liquidity position, long-term solvency, operating efficiency or profitability and efficiency of a concern can be evaluated. Ratio analysis is one of the tools of financial analysis where ratios are used as a yardstick for evaluating the financial condition and performance of a firm. Analysis and interpretation of various accounting ratio gives a financial analyst a better understanding of the financial condition and performance of the firm than only through financial statements.

Manish Roy Tirkey (2013), Mustafa Osamah(2013):

Ratio analysis is such a significant technique for financial analysis. It indicates relation of two mathematical expressions and the relationship between two or more things. Financial ratio is a ratio of selected values on an enterprise's financial statement. Financial ratios are used by managers within a firm, by current and potential stockholders of a firm, and by a firm‘s creditor. Financial analysts use financial ratios to compare the strengths and weaknesses in various companies. From the analysis in the article it can understood that: Liquidity can be properly balanced only when the company can manage current assets and current liabilities properly i.e. balancing. A lower turnover indicates low liquidity. Investment in fixed assets should be properly managed for revenue generation.

Elijah Adeyinka Adedeji (2014):

Ratio analysis has served as a veritable means of monitoring, measuring and improving performance in an organization. The purpose of preparing the financial statements of a company is to convey information on the overall performance and the state of affairs of such an organization to all interested parties. Besides, users of these financial statements in such a way as to reveal the financial strengths and weaknesses of such an organization in order to form an opinion as regard its going-concern. However, ratio analysis is one of the ways through which the financial statements could be interpreted. Ratios are effective tool of management in providing information and data needed in planning and determining the efficiency of management for a particular period. Ratios are also used to establish a relationship and trends in the financial statements. Ratio analysis is required for management control decisions, investment decisions and credit control purposes. Profitability ratios are useful to the management of a company. They are used to determine the profitability of a company and the efficiency in the utilization of the resources of a company.

Maja Andrijasevic (2014), Vesna Pasic (2014):

Ratio analysis, due to its simplicity, has, for a long time, been one of the most frequently used methods of financial analysis. Being one of the simplest techniques, ratio analysis is most frequently the first step in the analysis of financial condition and earning capacity of a company providing the basic information on the state of liquidity, solvency, the structure of assets and their resources, management efficiency and the degree of success. Basic purpose of ratio numbers is to enable evaluation of financial condition of a company, as well as, the trend of changes in the financial condition of a company. Financial analysts use financial ratios to determine financial health of a company – its financial condition and its profitability. Though ratio analysis has its limitations for analyzing progress of the company especially in terms of liquidity, profitability , turnover and solvency ratios are used in a wide manner.

Dr. Shrabanti Pal(2012):

India is the fourth largest steel producer in the world after China, Japan and USA. Indian steel industry is contributing around 2 percent to Gross Domestic Product (GDP) and its weight in the Index of Industrial Production (IIP) is 6.2 percent. The public sector company Steel Authority of India is holding the highest market share followed by Tata Steel Limited, JSW Steel Limited, Essar Steel Limited, JSW Ispat and Steel Limited, Rastriya Ispat Nigam Limited, Jindal Steel and Power Limited, Bhushan Steel Limited, Llyods Steel Industries Limited and National Steel and Agro Industries Limited. From the study it can be understood that RINL must take care in fixed assets management. Fixed assets must put in use more effectively and efficiently to generate more sales for the company and hence increase the profitability. Therefore, RINL must pay attention towards their fixed assets management. Sales is not only the main determinant for the profit maximization overall profitability depends on the other financial indicators like liquidity, profitability, activity and financial leverage. Therefore, the companies should concentrate to improve the overall liquidity, solvency and efficiency to enhance the profitability to the maximum otherwise the profitability of the companies will be affected in other way.

Akhilesh Shukla (2014):

India is among the top producers of all forms of steel in the world. Availability of low cost of human resource and preference of abundant referrers make India competitive in the global set up. Finance is needed for day to day operation. Profitability is the profit earning capacity which is a crucial factor contributing for the survival of the firms. Iron and Steel Industry is an indispensable part of an economy and backbone of industrial development of any country. Increase in operating expenses is the main reason for reduction in gross profit and net profit of both the companies, which might be because of leading to high raw material cost, labor cost, cost of technology and start-up new plants and other sales as well as administrative expenses.

INTERPRETATION:

LIQUIDITY POSITION OF RINL:

Current Ratio:

Table 1. The following table represents the current ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	0.49	0.76	0.68	0.55
2015-16	0.63	0.77	0.61	0.62
2014-15	0.64	0.88	0.93	0.82
2013-14	0.82	0.62	0.72	0.94
2012-13	0.98	0.88	0.92	1.2

(Source : CMIE Prowess IQ)

Quick Ratio:

Table 2. The following table represents the quick ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	0.13	0.42	0.32	0.21
2015-16	0.34	0.37	0.30	0.24
2014-15	0.29	0.22	0.51	0.31
2013-14	0.44	0.29	0.42	0.41
2012-13	0.60	0.38	0.61	0.51

(Source : CMIE Prowess IQ)

Interpretation:

The current ratio is a popular financial ratio which is used to test the company's overall liquidity position , by deriving the proportion of current assets to cover the current liability. The main reason for using this ratio is to ascertain whether the company's short term assets (cash, receivables, inventory) a readily available to pay off its short term liabilities like (bills payables, current portion of the term date, and any other taxes). From the above table it can be understood that the current ratio is decreasing year by year i.e 0.98 (in 2012-13) to 0.49 (in 2016-17) ; the major reasons for this are increase in inventories, receivables, decrease in cash and bank balances and increase in short term borrowings. Generally the benchmark ratio for the current assets to current liabilities is 2:1. This is considered as the ideal ratio; but in the case of RINL current liabilities are more than current assets which means that the company is unable to meet its current obligations when they become due. So it is not able to maintain the ideal ratio of 2:1.

From the above table it can be observed that the company's quick ratio is decreasing year by year i.e. 0.60 (in 2012-13) to 0.13 (in 2016-17). The reason for this is increase in quick liabilities (especially sundry creditors) and decrease in quick assets (especially sundry debtors). Ideally the quick ratio to be maintained is 1:1, but in case of RINL it could not maintain the ideal ratio because of increase in trade payables and poor receivables management. One of the main reason for poor liquidity of RINL is poor receivables management; compared to its peers TATA, JSW and SAIL, so this aspect should be taken into consideration for better liquidity of RINL.

SOLVENCY POSITION OF RINL:

Debt to Equity Ratio:

Table 3. The following table represents the debt equity ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	0.68	0.44	1.27	1.15
2015-16	0.38	0.50	1.53	0.85
2014-15	0.06	0.40	1.11	0.69
2013-14	0.09	0.41	1.10	0.59
2012-13	0.10	0.44	0.82	0.53

(Source : CMIE Prowess IQ)

Proprietary Ratio:

Table 4. The following table represents the proprietary ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	0.29	0.46	0.29	0.33
2015-16	0.38	0.46	0.27	0.39
2014-15	0.44	0.59	0.34	0.43
2013-14	0.49	0.57	0.35	0.46
2012-13	0.50	0.56	0.36	0.48

(Source : CMIE Prowess IQ)

Interpretation:

Generally, debt equity ratio suggest the claims of creditors and owner over the assets of the company. Suppose the ratio come to be 1:3 indicates that for every three rupees of equity, the firm has raised a rupee by long-term debt. In the other word, the claims of shareholders on the assets are three times the claims of debenture holders. The debt equity ratio shows the best growth of company leverage. From the above analysis it can be observed that the debt to equity ratio has increased 0.10 (in year 2013) to 0.68(in year 2017); this is mainly due to increase in long term borrowings. There is a thin line of decrease in shareholder's funds; however the main reason for the fluctuations in debt to equity ratio is mainly due to long term borrowings.

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Ideally the Debt to Equity ratio of 1:1 is acceptable . However RINL could not maintain proper debt equity ratio because long-terms loans are higher than its share holder's funds. So the claims of debenture holders are higher than the share holders on assets. This indicates negative sign for RINL. JSW is able to maintain good ratio which indicates a healthy position for it.

The proprietary shows the extent to which shareholders own the business and thus indicates the financial strength of the business. Proprietary ratio of RINL, in year 2013 is 0.50 and decreased to 0.29 in the year 2017. It is due to increase in current assets. The greater the long term stability of the company and consequently greater protection to creditors. But here in the case of RINL, the proprietary ratio indicates the long term stability position is low. TATA is having a good proprietary ratio compared to other three RINL, SAIL and JSW which shows that it is able to take advantage of trading on equity.

TURNOVER POSITION OF RINL:

Inventory Turnover ratio:

Table 5. The following table represents the inventory turnover ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	2.59	6.13	7.10	2.88
2015-16	2.02	5.63	4.72	2.44
2014-15	2.07	6.6	6.13	2.74
2013-14	3.12	8.29	7.68	2.95
2012-13	3.34	8.47	7.09	2.95

(Source : CMIE Prowess IQ)

Debtors Turnover ratio:

Table 6. The following table represents the debtors turnover ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	12.13	33.92	17.54	346.27
2015-16	9.06	38.98	15.95	278.34
2014-15	10.13	73.90	21.36	10.42
2013-14	13.26	59.63	21.82	9.32
2012-13	16.85	50.42	22.49	9.50

(Source : CMIE Prowess IQ)

Interpretation:

Inventory turnover ratio represents the speed with which the inventory is converted into sales. Maintaining optimum level of inventory is very important for any company. That means inventory should neither be piled up nor be in shortage. If we observe the table the ratio decreased from 3.34 (in the year 2012-13) to 2.59 (in the year 2015-16) as the sales have decreased and inventory got piled up and it again increased in the following year to 2.80 (in the year 2016-17) as the sales increased in the year 2016-17. The higher the inventory ratio indicates high turnover and low inventory turnover ratio indicates low turnover i,e low sales and excess inventory. In the case of RINL the inventory turnover ratio decreased from 2012-13 to 2015-16 due to low turnover and again increased in the following year 2016-17 due to increase in sales. TATA is maintaining a good inventory turnover ratio compared to RINL, SAIL and JSW. This indicates there is no piling up of inventory like in case of RINL.

Generally the value of debtor's turnover the more efficient is the management of debtors. In the year 2013 the ratio is 16.85 and the next year 2014 the ratio is 13.26 it due to reason that decrease in the sales. Likewise the following years also debtors' turnover ratio has fluctuating over the period. By this it can be understood that there is no proper receivables management at RINL which is also effecting the working capital of RINL which is completely in negative. The negative working capital indicates poor liquidity. Currently SAIL is having good debtors management which is very important for any company for a very good liquidity (working capital management).

PROFITABILITY POSITION OF RINL:

Gross Profit Ratio: (%)

Table 7. The following table represents the gross profit ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	(0.08)	22.44	20.20	1.53
2015-16	(0.11)	18.25	15.58	(7.90)
2014-15	0.05	18.24	19.56	12.40
2013-14	0.07	20.77	19.72	12.80
2012-13	0.07	18.27	17.82	12.30

(Source : CMIE Prowess IQ)

Net Profit Ratio: (%)

Table 8. The following table represents the net profit ratio of RINL and it's selected peers:

Year	RINL	TATA	JSW	SAIL
2016-17	(0.11)	6.46	6.28	(6.00)
2015-16	(0.17)	2.23	(9.66)	(10.29)
2014-15	0.007	13.80	4.77	4.60
2013-14	0.03	13.71	2.99	5.60
2012-13	0.02	11.80	5.08	4.90

(Source : CMIE Prowess IQ)

Interpretation:

From the above table it can be observed that the gross profit of the company is decreasing year by year i.e from 0.07 (in the year 2012-13) to (0.08) (in the year 2016-17). The reason for the loss is decrease in sales and increase in employee benefits and operating expenses. The ideal gross profit percentage of 50 percent is generally acceptable. However RINL could not maintain the ideal gross profit percentage due to low turnover and increased expenses. Apart from this the worldwide demand for steel also came down which had a huge impact on the turnover (which had a huge impact on gross profit).

From the above table it is very clear that in the year 2013 the net profit ratio was 0.02. Though there is an increase in the next year to 0.3 but it declined in the following year and is into losses; due the various reasons like low production, operating loss and low sales. By the overall five year analysis we can observe that RINL is not earning good profits.

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There has been heavy increase in finance costs due to heavy long term borrowing which had a huge impact on the net profit. From the above analysis it can be understood that TATA is having very good profitability position compared to RINL, SAIL and JSW. RINL in order to maintain good profitability should reduce the long term borrowings to reduce finance charges on it.

CONCLUSION:

From the above analysis, it can be understood that the liquidity position of TATA in the current year i.e 2016-17 is high compared to RINL, SAIL, and JSW. One of the main reason for poor liquidity of RINL is poor receivables management. The leverage position i.e the debt to equity ratio is high for JSW compared to the other three which implies it needs to reduce borrowings to cut down interest on borrowings in future; so that it's profits are not reduced by increase in finance costs and TATA is leading in terms of proprietary ratio which implies greater security for creditors and also indicates good financial position of the company. In terms of inventory turnover JSW is leading with highest inventory turnover ratio in the current which implies optimum utilization of inventory; SAIL is having good receivables management when compared to RINL, TATA and JSW in the current year 2016-17. TATA is having more profits compared to RINL, SAIL and JSW. The main reason for decrease in RINL's profits is increase in finance costs due to increase in long term borrowings. Apart from this the worldwide demand for steel also came down which had a huge impact on the turnover which had a huge impact on gross profit.

The poor management of receivables and increase in long term borrowings had a huge impact on both short term and long term solvency of RINL which should be taken care in future for good financial performance of RINL.

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