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A Study of Working Capital Management Position of Steel Authority of India Limited

ORIGINAL ARTICLE

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Abstract

India's economic growth is strongly related to the development of its steel sector, which accounts for roughly 2% of the country's GDP. As of 2011, India's GDP growth rate was 7.2%, with steel consumption serving as an important indication of economic improvement. India is a global leader in the steel sector, with steel production increasing at a compounded annual growth rate (CAGR) of 8% between 2002-03 and 2006-07. Despite this expansion, the sector's financial performance has not been completely satisfying. This study investigates the working capital management of Steel Authority of India Limited (SAIL), one of India's largest steel producers. The study is primarily based on secondary data and spans three years (2020-2022). The studies demonstrate a close link between SAIL's company profitability and the working capital management component.

Key Words

Working capital management, Steel Authority of India Limited, GDP, Current Ratio, Corporate profitability.

Introduction

Is a Government-owned steel producer operating in New Delhi, India. It is controlled by the Ministry ofSteel, Government of India, and has an annual revenue of INR 68,452 crore (US$9.32 billion) in fiscal 2020-21. SAIL was created on January 24, 1973 and has 61,989 employees (as of May 1, 2022).With an annual production capacity of 16.30 million metric tonnes, SAIL is the world's 20th largest steel maker and India's largest. The company's hot metal manufacturing capacity will increase further, reaching 50 million tonnes per year by 2025 (VH Neware, 2022; R Sharma, 2021; K Dasani, 2024). SAIL owns and operates five integrated steel mills, namely Bhilai, Rourkela, Durgapur, Bokaro, and Burnpur (Asansol), as well as three special steel factories at Salem, Durgapur, and Bhadravathi.It also has a ferroalloy facility in Chandrapur. As part of its global goals, the company is undertaking a large growth and modernisation effort, which includes modernising and building new facilities, with a focus on cutting-edge green technology (A Pande, S Kumar 2021; VH Neware - 2022). According to a recent survey, SAIL is one of India's fastest growing public sector divisions. It also operates an R&D Centre for Iron and Steel (RDCIS) and an Engineering Centre in Ranchi, Jharkhand. The Indian steel sector makes a substantial contribution to the country's economic prosperity. (EPOFS REBAR-2012).The main contribution highlights steel's dominance in traditional industries

such as infrastructure and building, vehicles, transportation, and industrial applications. Although India's steel sector is expanding faster than many other emerging countries, the impact of the global economic slowdown may be felt in the slower rate of growth. With rising inflation and interest rates, the automobile and construction industries are projected to diminish domestic demand in the short run. Small enterprises are creating niche markets, such as sponge iron manufacturing. According to the World Steel Association, India became the world's fourth-largest steel producer in April 2017(Neware, 2022). The Indian steel industry is boosting its capacity through both greenfield and brownfield efforts. Small enterprises are creating niche markets, such as sponge iron manufacturing. According to the World Steel Association, India became the world's fourth-largest steel producer in April 2017(Neware, 2022). In 2015, India became the world's third largest steel production, and it is now on track to become the second largest behind China. Given India's low per capita steel consumption of 61 kg compared to the global average of 208 kg, there is tremendous room for expansion. In this study, the researcher focused on the working capital management of Government-owned SAIL (Sinha, M. H., & Gupta, A. 2014).

Research Methodolgy

As explanatory research, it is based on secondary data sources such as SAIL's official website and annual reports, numerous web articles, blogs (internet sources), and newspapers, among others. The readily available secondary data is extensively employed in research investigations.

Research Statement

The research statement is titled "A Study of Working Capital Management in Steel Authority of India Limited".

Objectives of The Study

The objectives are categorised as follows:

1. To study the liquidity position of the Steel Authority of India Limited.
2. To compare the financial performance and find the growth trend of the Steel Authority of India Limited.

Working Capital Management

Defined as current assets minus current liabilities, is a business tool that helps organisations maximise current assets and maintain sufficient cash flow to satisfy short-term goals and responsibilities. Businesses can free up cash from their balance sheets by successfully managing working capital. As a result, they may be able to minimise their reliance on external borrowing, grow their operations, fund mergers and acquisitions, or engage in research and development. Working cash is critical to the health of every firm, but efficiently managing it requires a delicate balance. Companies must have enough cash on hand to pay both planned and unplanned expenses, as well as make the greatest use of the funds available. This is accomplished by the appropriate management of accounts payable, receivable, inventory, and cash.

Current Ratio

Current Ratio = Current Assets / Current Liabilities

The current ratio assesses an organization's capacity to pay its expenses in the short term. It is a commonly used metric of a company's short-term liquidity. Analysts use the ratio to decide whether to invest in or lend to a business.

Liquid Ratio

Liquid Ratio = Liquid Assets / Liquid Liabilities

A liquidity ratio is a financial metric that assesses a company's ability to meet short-term credit commitments. The indicator analyses whether a company's current (liquid) assets can pay its current liabilities.

Fixed Assets Ratio

Fixed Assets Ratio = Fixed Assets / Proprietary fund

Fixed Assets Ratio is a sort of solvency ratio (long-term solvency) calculated by dividing a company's total fixed assets (net) by its long-term funds. It indicates the quantity of fixed assets financed by each unit of long-term funding.

Current Assets to Proprietory Fund Ratio

Current Assets to Proprietary fund ratio = Current ratio / Proprietary fund

The ratio is determined by dividing the total current assets by the shareholders' wealth**.**

Fixed Assets to Long Term Liabilities

Fixed assets can be divided by long-term liabilities.

The fixed-assets-to-long-term-liabilities ratio measures a company's solvency. Long-term obligations are frequently secured by fixed assets, which is why creditors are interested in this ratio. This ratio is determined by dividing the value of fixed assets by the amount of long-term debt.

Debtor Turnover Ratio

Debtor turnover ratio = Debtors + Bill Receivable / Credit sales * Working days of year

Accounts Receivable Turnover ratio is often referred to as debtor turnover ratio. This illustrates how many times average debtors have been turned into cash in a given year. This is also known as the efficiency ratio, and it measures the company's ability to collect revenue.

Debtor Velocity Ratio

Debtor Velocity ratio = Net Credit Sales / Debtors + Bills Receivable

Debtors velocity refers to the number of times debtors are turned over in a year. In general, the larger the value of debtor turnover, the more efficient debtor/sales management or the debtors' liquidity.

Working Capital Ratio

The working capital ratio is calculated as Current Assets / Current Liabilities.

Stock to Current Assets Ratio

The current ratio is a popular method for investors to evaluate the health of a stock's balance sheet. The current ratio measures a company's capacity to pay its current commitments and obligations due within a year. The current ratio is defined as a company's current assets divided by its current liabilities

Data Analysis

Data evaluation is the process of examining each component of the given data using logical and diagnostic reasoning. When conducting a study, various steps must be completed, and this type of analysis is just one of them. To arrive at a result or conclusion, data from various sources is assembled, evaluated, and analysed.

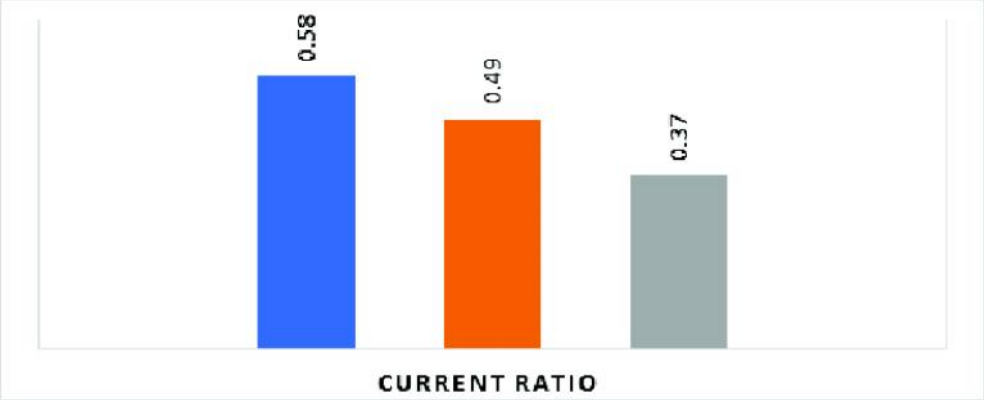
Table 1: Analysis of Working Capital Management Position of SAIL

Working Capital Management	YEAR		
	2020	**2021**	**2022**
Current Ratio	0.58	0.49	0.37
Liquid Ratio	0.36	2.07	7.82
Fixed Assets Ratio	1.62	1.71	1.73
Current Assets to Proprietary fund ratio	0.08	0.78	0.95
Fixed Assets to long term liabilities	1.18	0.85	0.75
Debtor turnover ratio	0.40	0.1	0.14

Debtor Velocity ratio	21.84	9.70	6.99
Working Capital ratio	0.66	1.15	0.57
Inventory to working capital ratio	0.25	0.29	0.39
Stock to current asset ratio	0.28	0.49	0.05

*(**Source:** Centre for Monitoring Indian Economy- CMIE,Financial Data of SAIL from Moneycontrol.com, Annual Report SAIL)*

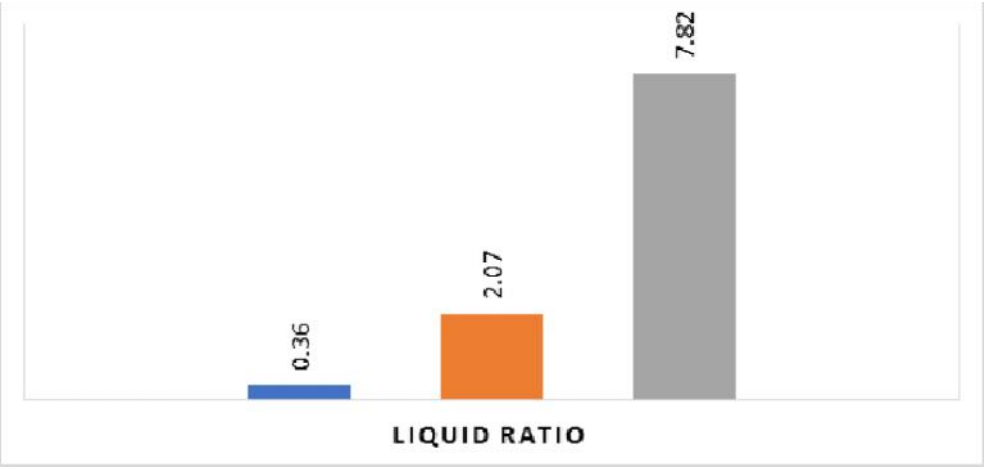
Figure 1: Analysis of Current Ratio



Interpretation

Analysing the financial performance of Steel Authority of India reveals that the company's current ratio has improved from 2020 to 2022. This ratio was 0.37 in 2020, rising to 0.49 in 2021 and 0.58 in 2022. This improvement indicates that the company's present assets are improving, and it is becoming more capable of meeting its existing obligations. This is a favourable sign, indicating that the company's financial situation is improving.

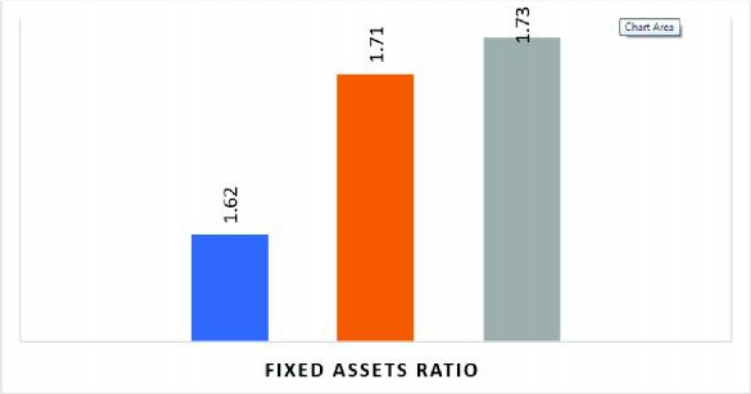
Figure 2: Analysis of Liquid Ratio



Interpretation

Analysing the Steel Authority of India's Liquidity Ratio reveals that the company's liquidity position has deteriorated between 2020 and 2022. The liquidity ratio was 7.82 in 2020, reduced to 2.07 in 2021, and dropped to 0.361 in 2022. This decline indicates that the company's liquidity situation has weakened and it is becoming less able to meet its short-term obligations. This is a concerning sign, indicating that the corporation should take action to strengthen its cash situation.

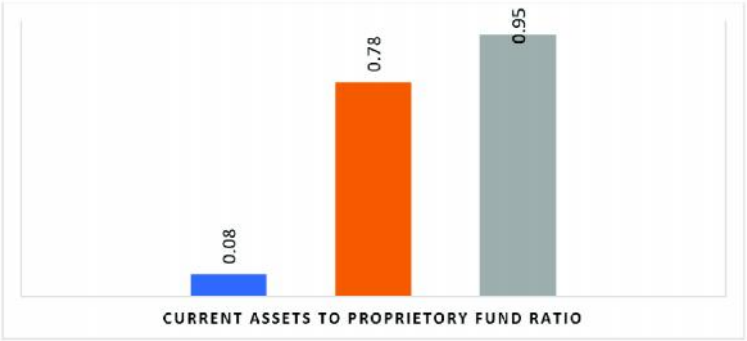
Figure 3: Analysis of Fixed Assets Ratio



Interpretation

After analysing the Fixed Assets Ratio of Steel Authority of India, it was discovered that the company's Fixed Assets Ratio decreased significantly from 2020 to 2022. The Fixed Assets Ratio was 1.73 in 2020, grew to 1.71 in 2021, and decreased to 1.62 in 2022. This reduction indicates that the company's fixed asset position has deteriorated marginally, although it remains acceptable. This demonstrates that the organisation is capable of managing its fixed assets and utilising the resources required to run its operation sustainably.

Figure 4: Analysis of Current Assets to Proprietary fund ratio



Interpretation

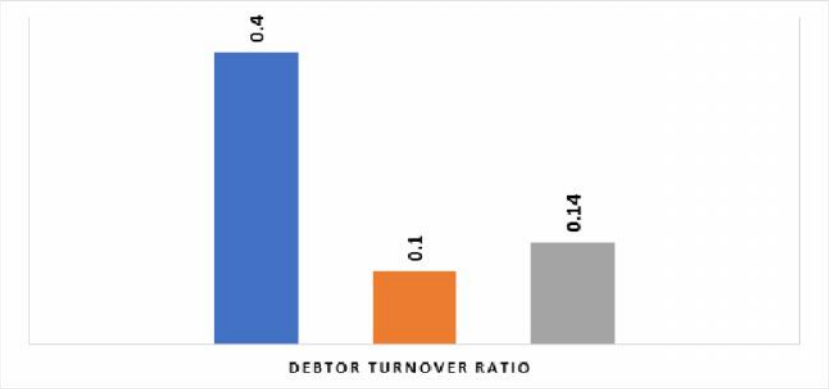
The Steel Authority of India's Current Assets to Proprietory Fund Ratio has decreased marginally from 2020 to 2022, according to an analysis. The ratio was 0.95 in 2020, fell to 0.78 in 2021, and finally reached 0.80 in 2022. This fall shows that the company's current assets position has decreased slightly, but it remains acceptable. This demonstrates that the company can manage its current assets and is allocating the resources needed to continue its operation sustainably.

Figure 5: Analysis of Fixed Assets to long term liabilities

Interpretation

After analysing Steel Authority of India's Fixed Assets to Long-Term Liabilities ratio, it was discovered that the company's Fixed Assets to Long-Term Liabilities ratio decreased significantly between 2020 and 2022. The ratio was 1.18 in 2020, then dropped to 0.85 in 2021 and 0.75 in 2022. This reduction implies that the company's fixed asset position has deteriorated marginally, although it remains acceptable. This demonstrates that the company is capable of managing its fixed assets and allocating the resources required to meet its long-term responsibilities.

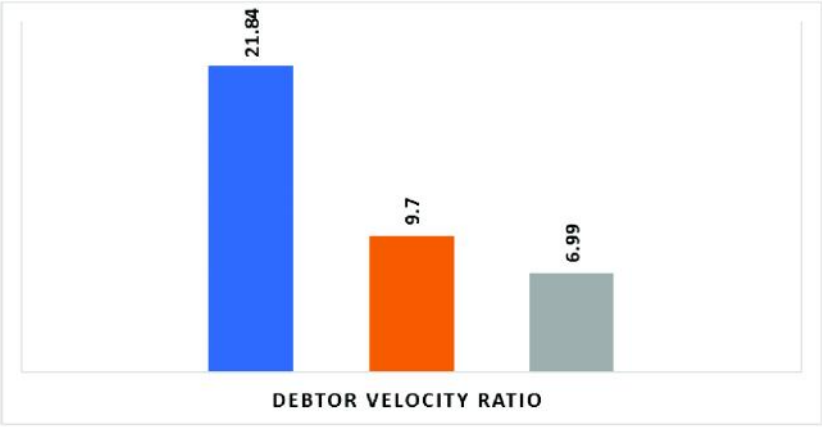
Figure 6: Analysis of Debtor Turnover Ratio



Interpretation

The Steel Authority of India's Debtor Turnover Ratio has decreased from 2020 to 2022, according to an analysis of the company's data. This ratio was 0.14 in 2020, rose to 0.10 in 2021, and dropped to 0.046 in 2022. This decline indicates that the company's debitor situation has deteriorated, and it is taking longer to recover its debitors. This is a warning sign, indicating that the company's debitor recovery process needs to be improved.

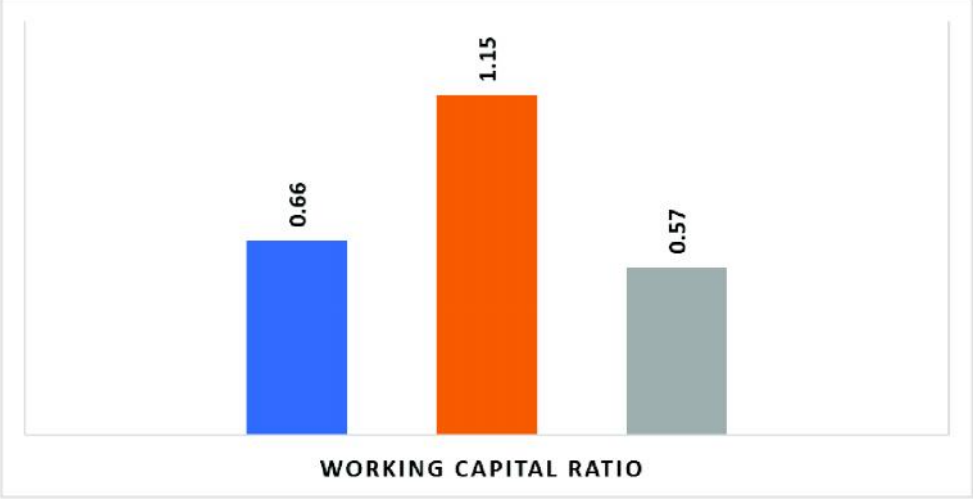
Figure 7: Analysis of Debtor Velocity Ratio



Interpretation

The Steel Authority of India's Debtor Velocity Ratio grew from 2020 to 2022, according to an analysis of the company's data. This ratio was 6.99 in 2020, grew to 9.70 in 2021, and hit 21.84 in 2022. This increase demonstrates that the company's debitor recovery rate has improved, and the company is recovering money from its debtors more swiftly. This is a favourable sign, indicating that the company's financial situation is improving.

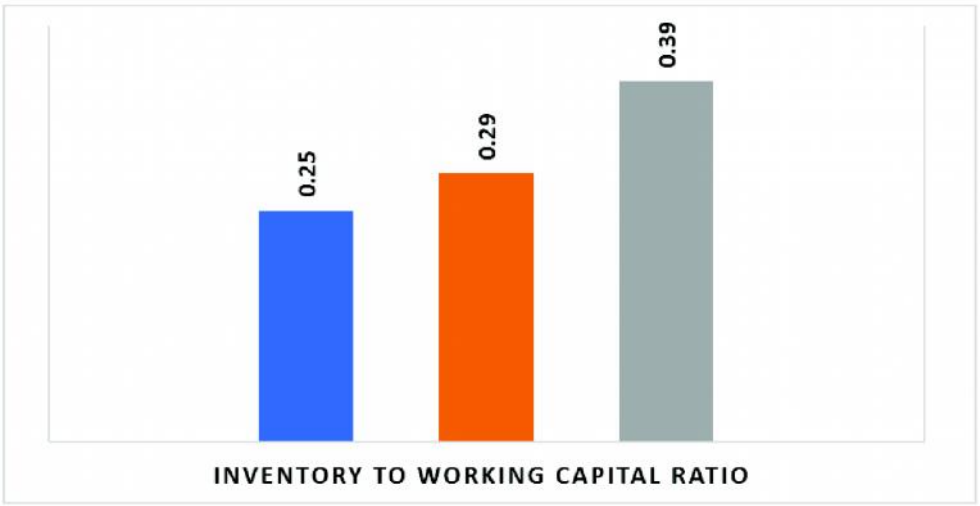
Figure 8: Analysis of Working Capital Ratio



Interpretation

Analysis of the Steel Authority of India's working capital ratio reveals that the company's working capital ratio changed between 2020 and 2022. The ratio was 0.57 in 2020, rose to 1.15 in 2021, and declined to 0.66 in 2022. This shift indicates that the company's working capital situation has changed, but the ratio remains acceptable in the year 2022. This indicates that the corporation should exercise caution while managing its working capital.

Figure 9: Analysis of Inventory to Working Capital Ratio



Interpretation

Analysing the inventory to working capital ratio of Steel Authority of India reveals that the company's inventory to working capital ratio has decreased from 2020 to 2022. The ratio was 0.34 in 2020, grew to 0.29 in 2021, and decreased to 0.25 in 2022. This drop indicates that the company's inventory situation has improved and that it is making better use of its working capital. This is a favourable sign, indicating that the company's financial situation is improving.

Figure 10: Analysis of Stock to Current Asset Ratio

Interpretation

The Steel Authority of India's stock to current asset ratio has decreased from 2020 to 2022, according to an analysis. The ratio was 0.5 in 2020, grew to 0.49 in 2021, and decreased to 0.28 in 2022. This reduction indicates that the company's stock position has improved and that it is making better use of its current assets. This is a favourable sign, indicating that the company's financial situation is improving.

Conclusion

When the Steel Authority of India (SAIL)'s financial performance is examined, it is discovered that the company's balance ratios are below standard and do not bode well. According to studies, extra funds are used to invest in fixed assets rather than supplying working capital, resulting in a Low working capital turnover ratio.

Profitability ratios can be used to assess corporate profitability. Most analysts favour ROCE/ROI and ROTA. Many factors affect organisational profitability, including working capital management (WCM). Studies demonstrate a strong link between SAIL's company profitability and the working capital management component.

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