COMPARATIVE STUDY OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY OF JSW STEEL LTD AND TATA STEEL LTD

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ABSTRACT

Working capital management plays a vital role in the success of businesses because of its effect on profitability and liquidity. Assets and current liabilities working capital of the enterprise are important. Proper selection and management of working capital management policies can create competitive advantage. The purpose of this study is to examine working capital adequacy and its impact on profitability of the select steel companies in India; The study used secondary data collected from all the five listed steel manufacturing Companies in India covering the period from 2006-2015. As a part of study designed to analyze profitability and working capital management from financial reports. The present comparative study was mainly confined to JSW Steel Ltd., and Tata Steel Ltd. The companies are listed from Bombay Stock Exchange. Ratio analysis is used to analysis financial reports of the companies.

Keywords: Steel Company, working capital management, Bombay stock exchange, Ratio Analysis, profitability.

INTRODUCTION

The term working capital is commonly used for the capital required for day today of the business concern such as for purchasing raw material for meeting day today expenditure for salaries wages, rent rates etc. but there are much disagreement among various financial authorities as to exact meaning of the term working capital. No business can be started without adequate finance nor can it be developed. The success of every business depends upon adequate finance. The financial resource are always scarce and limited which needs proper planning and control in order to achieve the best result out of the complex situation of risk and uncertainty prevailing in the business world. Management of working capital has

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always been a fascinating subject from the academic point of view. In the world situation also, efficiency with which working capital is managed in a concern is of great significance for its overall growth or decline. The relative importance of working capital varies from industry to industry. A firm in the capital goods industry may have relatively a lower percentage of the total investment in the current asset than what has to be blocked up in the fixed assets. From that point of view working capital management assumes a grater importance in particular concern.

REVIEW OF LITERATURE

Vishanani and shah (2007) in their study the impact of working capital management policies on corporate performance of Indian consumer electronic industry by implemented simple correlation and regression models.

Sayeda Tahmina Quayyum (2011) in his study investigates the effects of working capital management efficiency as well as maintaining liquidity on the profitability of corporations. For this purpose, corporations enlisted with the cement industry of Dhaka Stock Exchange have been selected and the analysis covers a time period from year 2005 to 2009.This paper explain the necessity of firms optimizing their level of working capital management and maintaining enough liquidity as it affects the profitability. The result of this study clearly shows significant level of relationship between the profitability indices and various liquidity indices as well as working capital components.

Mohammad Morshedur Rahman (2011) in his study is designed to show the Profitability and Working Capital position of Textiles Industries, correlation between them and whether the profitability is affected by Working Capital Management .Ratio Analysis, Correlation Matrix and Regression Analysis have been used to show Profitability, Working Capital position, correlation between them and the impact of Working Capital on Profitability respectively. The study also brings to fore that Working Capital Management has a positive impact on Profitability.

Dr. Sarbapriya(2012) in her study investigate the relationship between working capital management components and the profitability of a sample of Indian manufacturing firms using a sample of 311 Indian manufacturing firms for a period of 14 years from 1996-97 to2009-10 and have studied the effect of different variables of working capital management including the average collection period, inventory turnover in days, average payment period,

cash conversion cycle and current ratio, debt ratio, size of the firm and financial assets to total assets ratio on the net operating profitability of Indian firms.

Daniel Mogaka Makori1(2013) in his anaysis the effect of working capital management on firm's profitability in Kenya for the period 2003 to 2012. For thispurpose, balanced panel data of five manufacturing and construction firms each which are listed on the Nairobi Securities Exchange (NSE) is used. Pearson's correlation and Ordinary Least Squares regression models were used to establish the relationship between working capital management and firm's profitability.

Madhvi.K (2014) in her study working capital management of paper mills analyzed by ratio analysis, needs the attention of the management to induce effective utilization of cash and bank balances.

STATEMENT OF THE PROBLEM

Steel industry is one of the leading industries in India, which leads to the development of the country. India is currently the world's fourth largest producer of crude steel and is expected to become the second largest producer by 2015. Steel industry derives its demand from other important sectors like infrastructure, aviation, engineering, construction, automobile, pipes and tubes etc. Thus its intense integration with other important industries makes it a strategic sector for the Governments as well.

The Indian steel sector enjoys advantages of domestic availability of raw materials and cheap labour. Iron ore is also available in abundant quantities, though the recent mining restrictions have put a strain on its availability. This abundance has been providing a major cost advantage to the domestic steel industry.

Each and every industry has strength as well as weakness. Every management of the industry is desirous to know their financial strength to make best of available resources to the maximum extent and able to sort out its weakness to initiate and adopt suitable corrective actions to improve its industrial operations. The management can adopt various techniques to identify their financial evaluation and performance.

Working capital is the amount of fund necessary to cover the cost of operating the enterprise. Working capital refers to the excess of current assets over the current liabilities. The management of working capital is, there fore concerned with the problem the arise in administering of both current assets and current liabilities. In other words working capital management involves deciding upon , the amount and composition of current assess amount

how to finance their assess. Working capital is the centre of business. Adequate amount of working capital is very much essential smooth running business and the most important parts the efficient management of working capital in right time. Management of working capital is differing from industry to industry and firm to firm.

By keeping the above points in the mind the study has analyzed comparative working capital performance of JSW steel ltd and TATA steel ltd at micro level to examine and evaluate its current financial position in terms of solvency, liquidity , efficiency and profitability by adopting ratio analysis.

PROFILE OF THE SAMPLE COMPANIES

JSW STEEL LTD

JSW Steel Ltd. is an Indian steel company owned by the JSW Group based in Mumbai, Maharashtra, India. JSW Steel, after merger of ISPAT steel, has become India's second largest private sector steel company with an installed capacity of 14.3 MTPA. As part of the US $18 billion O. P. Jindal Group, JSW Group has diversified interests in steel, energy, minerals and mining, infrastructure, cement and information technology. JSW's history can be traced back to 1982, when the Jindal Group acquired Piramal Steel Limited, which operated a mini steel mill at Tarapur in Maharashtra and renamed it as Jindal Iron and Steel Company (JISCO). The Group set up its first steel plant in 1982 at Vasind near Mumbai. Soon after, it acquired Piramal Steel Ltd., which operated a mini steel mill at Tarapur in Maharashtra. The Jindals, who had wide experience in the steel industry, renamed it as Jindal Iron and Steel Co. Ltd. (JISCO). Jindal Vijayanagar Steel Ltd. (JVSL) was set up in 1994, with its plant located at Toranagallu in the Bellary-Hospet area of Karnataka, the heart of the high-grade iron ore belt and spread over 3,700 acres (15 km2) of land. It is just 340 kilometres (210 mi) from Bangalore, and is well connected with both the Goa and Chennai Port. In 2005, JISCO and JVSL merged to form JSW Steel Ltd.

JSW Steel has also formed a joint venture for setting up a steel plant in Georgia. The Company has also tied up with JFE Steel Corp, Japan for manufacturing the high grade automotive steel. The Company has also acquired mining assets in Republic of Chile, United States and Mozambique.

TATA STEEL LTD

Tata Steel Limited (formerly Tata Iron and Steel Company Limited (TISCO)) is an Indian multinational steel-making company headquartered in Mumbai, Maharashtra, India,

and a subsidiary of the Tata Group. It was the11th largest steel producing company in the world in 2013, with an annual crude steel capacity of 25.3 million tonnes, and the second largest steel company in India (measured by domestic production) with an annual capacity of 9.7 million tonnes after SAIL.

Tata Steel has manufacturing operations in 26 countries, including Australia, China, India, the Netherlands, Singapore, Thailand and the United Kingdom, and employs around 80,500 people. Its largest plant is located in Jamshedpur, Jharkhand. In 2007 Tata Steel acquired the UK-based steel maker Corus which was the largest international acquisition by an Indian company until that date. 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 as per Brand Finance.

OBJECTIVE OF THE STUDY

To compare and analysis the short term solvency position of the JSW steel ltd and TATA steel ltd

SOURCE OF THE DATA

The data collected for the study where mainly from the secondary sources. Journals, books and websites have been referred to have an overview about the companies, published annual reports comprising the profit and loss account and balance sheet.

SAMPLING METHOD

The study is based on convenience sampling method

PERIOD OF THE STUDY

The study was done for a period of ten years from 2005-06 to 2014-15.

DATA ANALYSIS

Ratio analysis was used to identify the working capital management of two sample steel companies.

Current Ratio

Current ratio is the most widely used of all analytical devices based on the balance sheet. It establishes the relationship between total current assets and current liabilities. It is the barometer of general measure of liquidity and state of trading. A current ratio of 2:1 is considered ideal as a rule of thumb.

The following formula is used to calculate current ratio:

Current ratio = current Assets / current liabilities.

Table 1 : Current Assets and Current liabilities of JSW Steel Ltd and TATA Steel Ltd 2005-2015(Rs in lakhs)

Year	JSW Steel Ltd			TATA Steel Ltd		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2005-06	1,209.19	2,668.89	0.453:1	3,002.50	4,552.39	0.660:1
2006-07	1,422.47	3,340.60	0.426:1	3,411.12	6,349.24	0.537:1
2007-08	2,092.33	5,054.69	0.414:1	3,613.46	6,842.26	0.528:1
2008-09	2,657.47	9,115.34	0.292:1	4,580.03	8,965.76	0.511:1
2009-10	3,266.42	9,415.28	0.347:1	4,012.88	8,699.34	0.461:1
2010-11	6,863.86	13,205.18	0.520:1	8,516.56	12,037.59	0.707:1
2011-12	9,419.72	19,461.78	0.484:1	9,710.06	15,958.34	0.608:1
2012-13	8,063.09	17,792.63	0.453:1	8,272.97	17,098.06	0.484:1
2013-14	8,881.03	18,782.13	0.473:1	7,739.78	19,957.78	0.388:1
2014-15	12,406.63	22,996.19	0.540:1	9,012.05	18,251.65	0.494:1

Source: Annual Reports

Interpretation

The table 1 inferred that, the two company's current ratio is not satisfactory. Because the rule of thumb in current ratio is 2:1. This ratio is below the accepted standard norm both JSW and TATA in the entire study period.

Quick Ratio

It is a refinement of the current ratio and a second testing device for the working capital position. It is concerned with the relationship between liquid assets and liquid liabilities. A quick ratio of 1:1 is usually considered to be ideal. The following formula is used:

Quick ratio = Quick Assets / Quick Liabilities.

Table 2: Quick Assets and Current liabilities of JSW Steel Ltd and TATA Steel Ltd 2005-2015(Rs in lakhs)

Year	JSW Steel Ltd			TATA Steel Ltd		
	Quick Assets	Current Liabilities	Ratio	Quick Assets	Current Liabilities	Ratio
2005-06	284.96	2,668.89	0.107:1	827.75	4,552.39	0.182:1
2006-07	411.12	3,340.60	0.123:1	1078.14	6,349.24	0.170:1
2007-08	543.17	5,054.69	0.107:1	1008.48	6,842.26	0.147:1
2008-09	606.05	9,115.34	0.066:1	1099.56	8,965.76	0.123:1
2009-10	680.65	9,415.28	0.072:1	935.13	8,699.34	0.107:1
2010-11	2725.45	13,205.18	0.206:1	4562.8	12,037.59	0.379:1
2011-12	4240.64	19,461.78	0.218:1	4851.07	15,958.34	0.304:1
2012-13	3263.99	17,792.63	0.183:1	3015.03	17,098.06	0.176:1
2013-14	2684.46	18,782.13	0.143:1	1731.97	19,957.78	0.087:1
2014-15	3821.89	22,996.19	0.166:1	970.05	18,251.65	0.053:1

Source: Annual Reports

Interpretation

The table 2 inferred that, the two company's Quick ratio is not satisfactory. Because the rule of thumb in Quick ratio is 1:1 . This ratio is below the accepted standard norm both JSW and TATA in the entire study period.

Absolute Liquidity Ratio or Cash Position Ratio

This ratio establishes a relation between absolute liquid assets to current liabilities (or) Quick liabilities. The ideal absolute liquid ratio is 1:2. The following formula is used:

Absolute liquidity ratio = Absolute Liquid Assets / Current Liabilities (or) Quick Liabilities

Table 3: Cash and Bank Balance and Current liabilities of JSW Steel Ltd and TATA Steel Ltd 2005-2015 (Rs in lakhs)

Year	JSW Steel Ltd			TATA Steel Ltd		
	Cash and Bank Balance	Current Liabilities	Ratio	Cash and Bank Balance	Current Liabilities	Ratio
2005-06	55.77	2,668.89	0.021:2	288.35	4,552.39	0.063:2
2006-07	165.96	3,340.60	0.050:2	446.51	6,349.24	0.070:2

2007-08	205.78	5,054.69	0.041:2	465.00	6,842.26	0.068:2
2008-09	207.91	9,115.34	0.023:2	463.58	8,965.76	0.052:2
2009-10	117.40	9,415.28	0.012:2	500.30	8,699.34	0.058:2
2010-11	1,886.80	13,205.18	0.143:2	4,138.78	12,037.59	0.344:2
2011-12	2,956.02	19,461.78	0.152:2	3,946.99	15,958.34	0.247:2
2012-13	1,401.79	17,792.63	0.079:2	2,218.11	17,098.06	0.130:2
2013-14	465.72	18,782.13	0.025:2	961.16	19,957.78	0.048:2
2014-15	1,795.06	22,996.19	0.078:2	478.59	18,251.65	0.026:2

Source: Annual Reports

Interpretation

The table 3 inferred that, the two company's Absolute liquidity ratio is not satisfactory. Because the rule of thumb in Absolute liquidity ratio is 1:2. This ratio is below the accepted standard norm both JSW and TATA in the entire study period.

Net working capital ratio

Working capital is very much required sufficiently for any organization for effective functioning of its operation successfully.

Table 4: Net Working Capital and Net Assets of JSW Steel Ltd and TATA Steel Ltd 2005-2015 (Rs in lakhs)

Year	JSW Steel			TATA Steel		
	Net Working Capital	Net Assets	Ratio	Net Working Capital	Net Assets	Ratio
2005-06	1459.7	8,452.27	0.173:1	1549.89	12,271.45	0.126:1
2006-07	1918.13	9,767.08	0.196:1	2938.12	23,741.48	0.124:1
2007-08	2962.36	15,223.78	0.195:1	3228.8	45,322.42	0.071:1
2008-09	6457.87	19,231.88	0.336:1	4385.73	56,650.78	0.077:1
2009-10	6148.86	21,291.44	0.289:1	4686.46	62,407.95	0.075:1
2010-11	6341.32	27,972.60	0.227:1	3521.03	73,092.81	0.048:1
2011-12	10042.06	30,799.71	0.326:1	6248.28	76,315.18	0.082:1
2012-13	9729.54	36,481.16	0.267:1	8825.09	81,121.19	0.109:1
2013-14	9901.1	49,259.16	0.201:1	12218	87,274.77	0.140:1
2014-15	10589.56	51,485.83	0.206:1	9239.6	92,874.14	0.099:1

Source: Annual Reports

Interpretation

The table 4 inferred that, the net working capital ratio in JSW was increasing trend during 2005-06 to 2008-09 and after 2008-09 decreasing trend except in the year 2011-12. The net working capital ratio in TATA was continuously decreasing trend during 2005-06 to 2010-11 except in the year 2011-12 to 2013-14.High net working capital ratio is not a good sign.

CONCLUSION

From the above study analysis that, the management of two companies likes JSW and TATA must initiate necessary steps to improve short term solvency position. Both the companies utilize its idle cash and bank balance and reduce their current liabilities. Because current liabilities are excess than current assets, it is not good for the manufacturing concern.

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