

A Study on Financial Statement Analysis of Alamelu Steel Company, Salem

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ABSTRACT: Financial statement analysis is a critical tool for assessing the performance, liquidity, and solvency of industrial enterprises. This study evaluates the financial performance of Alamelu Steel Company, Salem, Tamil Nadu, for the five-year period from 2020–21 to 2024–25. Using secondary data drawn from the company's annual reports and balance sheets, the study employs ratio analysis, trend analysis, and comparative balance sheet methods. Key financial ratios including current ratio, fixed assets ratio, liquidity ratio, debt-equity ratio, return on assets, debtors turnover, inventory turnover, and working capital turnover are analyzed. The findings reveal that the company has demonstrated a steady improvement in profitability and liquidity over the study period, with net profit growing from a loss of Rs. 361.61 lakhs in 2020–21 to a profit of Rs. 8,283.42 lakhs in 2024–25. While debt-equity ratios show a declining trend indicating reduced financial leverage, the current ratio and return on shareholders' funds have improved substantially. The study concludes with suggestions for strengthening liquidity management and optimizing working capital utilization.

KEYWORDS: *Financial Statement Analysis, Ratio Analysis, Liquidity, Profitability, Steel Industry, Working Capital, Solvency.*

I. INTRODUCTION

Finance holds the key to all human activity. Financial management is concerned with the planning and controlling of a firm's financial resources. Financial statements are prepared primarily for decision-making — identifying the strengths and weaknesses of a firm by analyzing and interpreting data to judge profitability and financial soundness.

Financial statement analysis can be referred to as the process of understanding the risk and profitability of a company by analyzing reported financial information, especially annual and quarterly reports. It is a quantifying method for determining the past, current, and prospective performance of a company.

1.1 Meaning of Financial Statement Analysis

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of a firm by properly establishing the relationship between the items of the balance sheet and the profit and loss account. It refers to an assessment of the viability, stability, and profitability of a business or project.

1.2 Industry Profile — Steel Sector in India

Globally, stainless steel production grew by 5.2 per cent in 2012 to reach a record high of 35.4 million metric tonnes (Mt) as reported by the International Stainless Steel Forum (ISSF). India's stainless steel production recorded growth of 5.3 per cent during the same period. Despite this growth, India's per capita consumption of stainless steel remains between 1.2–1.5 kg against a global average of about 7 kg, indicating significant potential for expansion.

The Indian steel sector faces challenges including cheaper Chinese imports, surplus domestic capacity, and volatility in raw material prices — particularly nickel. However, government infrastructure investment plans and new application domains such as railways, healthcare, and renewable energy present considerable growth opportunities.

1.3 Company Profile — Alamelu Steel Company

Alamelu Steel Company was established in Salem, Tamil Nadu, in 2002, beginning with the manufacture of slotted angles. Over the years, the company expanded its product range to include panels, steel racks, supermarket racks, industrial racks, bus body building sections, school and college bench desks, steel tables, and cable trays. The company holds ISO 9001 certification and supplies products to major clients across Tamil Nadu including retail chains, automobile showrooms, hospitals, hotels, and government projects.

1.4 Statement of the Problem

Financial statements alone do not always reveal the complete picture of a company's financial position. There is a need to apply modern management accounting tools to assess the exact financial position of the steel industry. This study uses ratio analysis and related tools to uncover Alamelu Steel Company's true financial strength and to make the data accessible to investors, creditors, and management.

1.5 Objectives of the Study

- To identify and examine the financial statements of Alamelu Steel Company.
- To evaluate the liquidity position and financial statement levels over the study period.
- To study the decisions that affect continued operations of the company.
- To analyze financial performance using tools such as comparative balance sheet, common-size balance sheet, and ratio analysis.

1.6 Scope of the Study

The study covers a five-year period from 2020–21 to 2024–25, based on the company's annual reports, financial records, and accounting documents. It assists in the analysis of financial operations, proper allocation of funds, credit assessment, and managerial decision-making.

1.7 Limitations of the Study

- The analysis is based entirely on secondary data from the company's financial records.
- Only selected financial tools have been employed; other advanced methods are not covered.
- Non-monetary factors influencing financial performance are not captured in this analysis.
- The study is restricted to a five-year window (2020–2025).

II. REVIEW OF LITERATURE

Chao and Bayat (2018) conducted a study on financial performance in the global steel industry, emphasizing that firms with effective cost control and investment strategies are more resilient to market downturns. They concluded that financial statement analysis plays a crucial role in guiding stakeholder decision-making.

Pradeep V and Papa Rao G (2018) analyzed the financial performance of steel companies in India and found that companies with low debt-to-equity ratios and high asset turnover demonstrated better financial performance. Their study also examined the impact of government policies on financial stability.

Kavya Rao et al. (2019) highlighted that companies with better working capital management and capital efficiency exhibit higher profitability. They noted that external factors such as international steel prices and government regulations critically shape financial outcomes.

Moore (2019) emphasized the volatility in raw material costs and its impact on financial stability, concluding that financial statement analysis provides critical insights into operational health and risk exposure. Bloom (2020) identified diversification and innovation as key strategies for improving financial performance in the steel industry.

Roufaiel (2021) and Ritter (2021) both emphasized the indispensability of financial statement analysis for identifying potential risks, guiding strategic investment, and assessing the long-term viability of steel companies.

More recent studies by Smith (2023), Johnson and Patel (2024), and Clark (2025) confirm that financial statement analysis continues to be a vital instrument for evaluating performance, managing capital, and achieving competitive advantage in the steel sector amid evolving global supply chain dynamics.

III. RESEARCH METHODOLOGY

Research Design

A descriptive research design has been adopted for this study. Descriptive research involves describing the characteristics of a particular phenomenon, and this study uses it to analyze and interpret the financial ratios and statements of Alamelu Steel Company.

Source of Data

The study relies exclusively on secondary data collected from the company's annual reports, balance sheets, profit and loss accounts, and other financial documents for the five-year period from 2020–21 to 2024–25.

Tools of Analysis

- Ratio Analysis — Short-term solvency ratios, profitability ratios, asset management ratios, and solvency ratios.
- Comparative Balance Sheet Analysis — Year-on-year comparisons to identify financial trends.
- Trend Analysis — Assessment of percentage changes over the base year to identify growth or decline patterns.
- Common-Size Balance Sheet — Structural analysis of assets and liabilities as percentages of total funds.

IV. DATA ANALYSIS AND INTERPRETATION

The following section presents the computed financial ratios for Alamelu Steel Company for the period 2020–21 to 2024–25, followed by interpretation of findings.

4.1 Current Ratio

Current ratio = Current Assets / Current Liabilities. It measures the firm's ability to meet short-term obligations.

Table 1: Current Ratio

Year	Current Assets (Rs. Lakhs)	Current Liabilities (Rs. Lakhs)	Ratio
2020–21	10,260.38	15,962.80	0.64
2021–22	9,992.34	17,528.31	0.57
2022–23	11,852.60	19,960.69	0.59
2023–24	20,248.07	19,778.85	1.02
2024–25	26,728.28	21,475.94	1.24

Source: Secondary Data

Interpretation: The current ratio improved from 0.64 in 2020–21 to 1.24 in 2024–25, reflecting a strong positive trend in the company's short-term solvency and its ability to meet current obligations.

4.2 Fixed Assets Ratio

Fixed Assets Ratio = Fixed Assets / Long-term Funds. An ideal ratio is 0.67. A ratio above 1 indicates reliance on short-term funds for fixed asset financing.

Table 2: Fixed Assets Ratio

Year	Fixed Assets (Rs. Lakhs)	Long-term Funds (Rs. Lakhs)	Ratio
2020–21	45,636.43	22,792.56	2.00
2021–22	44,362.72	22,548.56	1.97
2022–23	44,471.80	23,709.07	1.88
2023–24	42,721.52	32,642.11	1.31
2024–25	41,358.26	40,360.48	1.02

Source: Secondary Data

Interpretation: The fixed assets ratio declined from 2.00 in 2020–21 to 1.02 in 2024–25, approaching the ideal ratio. This indicates improving alignment between long-term funding and fixed asset investment.

4.3 Liquidity (Quick) Ratio

Liquidity Ratio = Liquid Assets / Current Liabilities. It excludes inventory and prepaid expenses from current assets.

Table 3: Liquidity Ratio

Year	Liquid Assets (Rs. Lakhs)	Current Liabilities (Rs. Lakhs)	Ratio
2020–21	7,161.49	15,962.80	0.45
2021–22	6,099.16	17,528.31	0.35
2022–23	7,965.64	19,960.69	0.40

2023–24	15,656.48	19,778.85	0.79
2024–25	19,677.92	21,475.94	0.92

Source: Secondary Data

Interpretation: The liquidity ratio shows an improving trend, rising from 0.45 in 2020–21 to 0.92 in 2024–25. While still below the standard ratio of 1, the firm is progressively strengthening its liquid asset position.

4.4 Debt-Equity Ratio

Debt-Equity Ratio = Total Long-term Debt / Shareholders' Funds. It measures the proportion of external to internal financing.

Table 4: Debt-Equity Ratio

Year	Total Long-term Debt	Shareholders' Funds	Ratio
2020–21	21,321.24	22,792.56	0.94
2021–22	17,595.37	22,548.56	0.78
2022–23	15,205.09	23,709.07	0.64
2023–24	16,710.32	32,642.11	0.51
2024–25	13,325.83	40,360.48	0.33

Source: Secondary Data

Interpretation: The debt-equity ratio declined steadily from 0.94 to 0.33, indicating that the company is progressively reducing its reliance on borrowed funds and strengthening its equity base — a positive signal for long-term financial stability.

4.5 Total Assets Turnover Ratio

Total Assets Turnover = Sales / Total Assets. It measures the efficiency of asset utilization.

Table 5: Total Assets Turnover Ratio

Year	Sales (Rs. Lakhs)	Total Assets (Rs. Lakhs)	Ratio
2020–21	17,065.17	44,113.80	0.39
2021–22	27,715.97	40,143.93	0.69
2022–23	26,228.24	38,914.16	0.67
2023–24	33,307.83	49,352.43	0.67
2024–25	49,431.45	53,686.31	0.92

Source: Secondary Data

Interpretation: The total assets turnover ratio rose from 0.39 in 2020–21 to 0.92 in 2024–25, indicating improved utilization of the company's assets to generate sales revenue.

4.6 Return on Assets (ROA)

Return on Assets = Net Profit / Total Assets. It measures overall management effectiveness in generating profits.

Table 6: Return on Assets Ratio

Year	Net Profit (Rs. Lakhs)	Total Assets (Rs. Lakhs)	Ratio
2020–21	(361.61)	44,113.80	(0.01)
2021–22	(262.90)	40,143.93	(0.01)
2022–23	617.67	38,914.16	0.02
2023–24	7,154.31	49,352.43	0.14

2024–25	8,283.42	53,686.31	0.15
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Source: Secondary Data

Interpretation: The company moved from negative ROA in 2020–22 to a positive 0.15 in 2024–25. This dramatic turnaround demonstrates improved operational efficiency and profitability management.

4.7 Return on Shareholders' Funds

Return on Shareholders' Funds = (Net Profit after Interest & Tax / Shareholders' Funds) × 100

Table 7: Return on Shareholders' Funds

Year	Net Profit after Tax (Rs. Lakhs)	Shareholders' Funds (Rs. Lakhs)	Ratio (%)
2020–21	(361.61)	22,792.56	(1.59)
2021–22	(262.90)	22,548.56	(1.17)
2022–23	617.67	23,709.07	2.61
2023–24	7,154.31	32,642.11	21.92
2024–25	8,283.42	40,360.48	20.52

Source: Secondary Data

Interpretation: Return on shareholders' funds improved dramatically from -1.59% to 20.52%, reflecting the company's turnaround in profitability and enhanced value generation for equity holders.

4.8 Debtors Turnover Ratio

Table 8: Debtors Turnover Ratio

Year	Total Sales (Rs. Lakhs)	Accounts Receivable (Rs. Lakhs)	Ratio (Times)
2020–21	17,523.04	794.31	22.06
Year	Total Sales (Rs. Lakhs)	Accounts Receivable (Rs. Lakhs)	Ratio (Times)
2021–22	27,715.97	903.60	30.67
2022–23	26,228.24	963.23	27.23
2023–24	33,307.83	1,960.75	16.99
2024–25	49,431.45	1,210.47	40.84

Source: Secondary Data

Interpretation: The debtors turnover ratio shows a fluctuating but generally high trend, reaching 40.84 times in 2024–25, which indicates efficient debt collection and a short receivables cycle.

4.9 Inventory Turnover Ratio

Table 9: Inventory Turnover Ratio

Year	Net Sales (Rs. Lakhs)	Average Inventory (Rs. Lakhs)	Ratio (Times)
2020–21	17,065.17	2,492.93	6.84
2021–22	27,715.97	3,496.03	7.93
2022–23	26,228.24	3,890.07	6.74
2023–24	33,307.83	4,239.31	7.86
2024–25	49,431.45	5,821.09	8.49

Source: Secondary Data

Interpretation: The inventory turnover ratio increased from 6.84 to 8.49 over the study period, indicating efficient inventory management and good conversion of stock into sales.

4.10 Trend Analysis — Current Assets, Liabilities & Working Capital

Table 10: Trend Values: Current Assets, Liabilities & Working Capital

Year	Current Assets (Rs.)	Trend %	Current Liabilities (Rs.)	Trend %	Working Capital (Rs.)	Trend %
2020–21	10,260.38	100.00	15,962.80	100.00	(5,702.42)	100.00
2021–22	9,992.34	97.39	17,528.31	109.81	(7,535.97)	132.15
2022–23	11,852.60	115.52	19,960.69	125.05	(8,108.09)	142.18
2023–24	20,248.07	197.34	19,778.85	123.91	469.22	(8.23)
2024–25	26,728.28	260.50	21,475.94	134.54	5,252.49	(92.13)

Source: Secondary Data

Interpretation: By 2024–25, current assets grew by 260.50% of the base year while current liabilities grew by only 134.54%, reflecting significant improvement in the working capital position, which turned positive in 2023–24.

V. FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Findings

- The current ratio improved from 0.64 (2020–21) to 1.24 (2024–25), reflecting a strengthening short-term solvency position.
- The fixed assets ratio declined from 2.00 to 1.02, approaching the ideal benchmark of 0.67, indicating better long-term fund utilization.
- The liquidity ratio showed consistent improvement from 0.45 to 0.92, reflecting tightening of inventory and stronger liquid asset management.
- Debt-equity ratio declined steadily from 0.94 to 0.33, indicating reduced dependence on borrowed capital and a stronger equity base.
- Total assets turnover ratio improved from 0.39 to 0.92, reflecting improved utilization of assets to generate revenue.
- Return on assets turned positive from 2022–23, reaching 0.15 in 2024–25, signaling a strong profitability turnaround.
- Return on shareholders' funds surged from -1.59% to 20.52%, demonstrating exceptional improvement in value creation for equity holders.
- Debtors turnover reached a high of 40.84 times in 2024–25, indicating efficient receivables management.
- Inventory turnover increased to 8.49 times, signaling good stock management and conversion.
- Working capital turned positive in 2023–24 and further improved to Rs. 5,252.49 lakhs by 2024–25.

5.2 Suggestions

- The company should continue to improve the current ratio toward the standard of 2:1 to ensure robust short-term liquidity.
- Maintaining adequate cash and bank balances is recommended to stabilize the absolute liquidity ratio.
- The firm should explore reducing direct material costs through diversified supplier relationships.
- Inventory levels should be reviewed periodically to reduce holding costs and improve working capital efficiency.
- The company should maintain its positive trajectory in reducing long-term debt while building shareholders' equity.

5.3 Conclusion

The financial analysis of Alamelu Steel Company for the period 2020–21 to 2024–25 reveals a company on a clear positive trajectory. After incurring net losses in the first two years of the study period, the company achieved profitability from 2022–23 onwards, with reported net profit reaching Rs. 8,283.42 lakhs in 2024–25. Liquidity indicators, asset turnover, and return on equity have all improved significantly. While some ratios remain below standard benchmarks, the consistent improvement across all parameters indicates sound financial management and growing operational strength. The findings suggest that Alamelu Steel Company is well-positioned to sustain its growth trajectory, provided it continues to optimize liquidity and manage its cost structure effectively.

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