

ANALYSIS OF TATA STEEL ON DIFFERENT VALUATION METHOD

Dr. Harsh Maheshwari (Guide)

Shashwat

MBA Dual Specialization

Galgotias University

Abstract

This study evaluates the financial position of Tata Steel Company, which is one of the leading steel producing companies in the world. Secondary data from the company website for the financial years 2011-12 to 2015-16 were analysed using simple percentages and ratios. The study is empirical in nature, and the results and recommendations are presented at the end of the paper. The key terms used in this study include empirical, financial, percentage, ratios, and steel producing.

Key words: *Empirical, Financial, Percentage, Ratios, Steel Producing*

INTRODUCTION

The industry sector plays a vital role in the economy of any country, as it serves as its backbone. Industrial development is the key to economic growth, and the steel industry is no exception. In order to promote sustainable growth in steel, every new steel product should contain recycled steel. The growth of the steel industry is closely related to the country's GDP, as consumption of steel has a strong correlation with GDP growth.

Fundamental analysis is an important aspect of investing, which involves analysing the underlying forces that impact the economy, industry groups, and individual companies. At the company level, it involves examining financial data, management, business concepts, and competition, while at the industry level, it involves analysing supply and demand factors for the products offered. At the national level, fundamental

analysis focuses on economic data to evaluate current and future growth prospects. By combining economic, industry, and company analysis, fundamental analysis can provide insights into a stock's current fair value and its future value.

LITERATURE REVIEW

Kandasamy and M.P. Mahesh (2011) in their composition analysed the liquidity and profitability of SAIL. The study tested the liquidity and profitability through the Spearman's rank correlation analyses. They set up that the company maintains overall control; the liquidity and profitability positions and the company's ways espoused for liquidity means operation is satisfactory. **Kandasamy and M.P. Mahesh (2011)** in their composition analysed the fiscal health of SAIL through Z score analysis. The Z score analysis is used to prognosticate the commercial difficulties. The Z score model incorporates five weighted fiscal rates similar as the rate of working capital to total means, the rate of retained earnings to total means, EBIT to total means, request value of equity to total debt and net deals to net means. The profitability affected due to increase in all major rudiments of the Z- score. The cost element of the company increased but low overall borrowing strengthens the company to rally the resources while keeping the influence at managing position so it concludes that, the fiscal health shown by Z score analysis during that period reveals better operation of the solvency position of the company. **Sathish Kumar** study used only the secondary data to attain the objects of the study. The data take from 15 fiscal time periodic reports of Tata Steel Limited from 200001 to 2014- 15. To dissect the profitability statement were Simple Chance Analysis and rates are used in the present study. Profitability of Tata Steel (stand- alone) is at the perceptible position. Indeed also, if it takes some way by generating internal sources the profitability position will be increased further than the present study.

OBJECTIVE

The main objective of this study is to evaluate the financial position of Tata Steel Limited from various perspectives. The analysis is conducted using simple percentages and ratios to help the researcher make informed decisions about the company's financial position. The study focuses on analysing the financial statements, including the balance sheet and profitability components, to draw accurate conclusions and provide recommendations. By thoroughly examining the financial position of Tata Steel Limited, the study aims to provide valuable insights that can assist in making strategic decisions related to the company's financial management.

METHODOLOGY

This study relies solely on secondary data sources. Information pertaining to Tata Steel Limited was obtained from various sources including the company's official websites, Capital Line, annual reports, journals, books, and magazines. To conduct a detailed analysis of the financial statements of Tata Steel (Standalone), the case study method was employed. Financial position was assessed through the use of ratio analysis, percentage analysis, and ratio analysis. Additionally, statistical tools such as correlation were utilized to determine the relationship between financial statement components

ANALYSIS AND INTERPRETATION OF DATA

Table – 1: Trend Percentage of Balance Sheet of Tata Steel Limited (Standalone)

Particulars	2011 -12	2012 - 13	2013 – 14	2014 - 15	2015 - 16
Equity Share Capital	100.00	100.00	100.00	100.00	100.00
Reserves & Surplus	100.00	105.01	116.51	127.19	134.57
Secured Loans	100.00	102.88	105.01	107.57	110.10
Unsecured Loans	100.00	110.75	111.40	111.28	135.26
Net Block	100.00	218.85	213.49	222.14	223.72
Capital Work-in-progress	100.00	54.32	115.26	143.45	168.03
Investments	100.00	100.27	108.71	105.73	112.72
Current Assets, Loans & Advances	100.00	96.63	73.60	76.97	76.37
Current Liabilities & Provisions	100.00	104.43	119.57	114.73	109.37

*Note - Figures Shows in Percentage

Source: Computed from Secondary Data of Tata Steel Ltd.

Table 1 illustrates the trend percentage of various components of Tata Steel Limited's balance sheet. Notably, there were no changes to the equity share capital of the company during the study period. The company's reserve and surplus exhibited an increasing trend, indicating that the company chose to retain more profits to enhance shareholders' funds instead of issuing new shares. The percentage ranged from 105.01% in 2012 to 132.96% in 2016. The proportion of secured and unsecured loans in the company increased over time. The company's net block (assets) showed an increasing trend, with a double-time increase compared to the base year. Investments, current assets, and loans and advances exhibited fluctuating trends. The net current assets available as working capital were highest in 2013-14, at 729.99%,

and lowest in 2012-13, at 207.96%. Overall, the company's fund raising and fund utilization were satisfactory, although improvements to the financial and asset's structure components could be made

Table – 2: Balance Sheet Ratios of Tata Steel Limited (Standalone)

Particulars	2011 -12	2012 - 13	2013 – 14	2014 - 15	2015 - 16
Debt-Equity Ratio	0.45	0.47	0.43	0.39	0.44
Proprietary Ratio	0.55	0.54	0.55	0.58	0.57
Capital Turnover Ratio	0.44	0.47	0.48	0.45	0.38
Total Assets Turnover Ratio	0.35	0.37	0.38	0.36	0.31
Fixed Assets Turnover Ratio	0.55	0.51	0.53	0.53	0.47
Current Assets Turnover Ratio	1.84	2.14	3.07	2.94	2.71
Working Capital Turnover Ratio	-0.04	-0.08	-0.24	-0.21	-0.20

Source: Computed from annual Report of the Company

Table 2 reveals that Tata Steel Limited's debt-equity ratio displayed a fluctuating trend. The company's total debt to total equity ratio was 0.47 in 2012-13 and 0.39 in 2014-15, indicating that the company had 47% and 39% of debt in equity funds, respectively. The proprietary ratio, which measures the proportion of total tangible assets to total shareholder funds, averaged 56% for the company and showed an increasing trend. A higher proprietary ratio suggests that the company is performing well in this regard and experiencing growth.

The capital turnover ratio is a measure of a company's operational efficiency and effectiveness, where a higher ratio indicates higher profit and a lower ratio indicates lower profit. In this study, the capital turnover ratio ranged from 0.48 times in 2013-14 to 0.38 times in 2015-16. The total assets turnover ratio and fixed assets turnover ratio showed a fluctuating trend over the study period. The ratio of total assets (current and fixed) to net sales ranged from 0.38 times in 2013-14 to 0.31 times in 2015-16. The company had a high utilization of fixed assets compared to total assets, but low utilization due to the use of current assets

Current asset turnover ratio indicated that the efficiency of the employment of the current assets. Current asset turnover ratio ranges from 1.84 in 2011-12 to 3.07 in 2013-14. It fluctuates during the study period. There is limited investment in current assets so it reflected in ratios. Working capital turnover ratio also measures the efficiency of the employment of the working capital. It indicates the number of times of the working capital is turned over in the course of a year. During the study period, the working capital investment is very low in the company so that the working capital turnover ratio shows negatively

fluctuating trend from -0.04 to -0.24 in 2011-12 and 2013-14 respectively. Therefore, the company has an inefficient in working capital management.

The study found that the increasing trend of company’s sources of fund such as secure and unsecured amount of loans and reserves & surplus which resulted in increasing the application of fund component such as fixed assets of the company.

Table – 3: Tend Percentage of Profitability Statement of Tata Steel Limited (Standalone)

Particulars	2011 -12	2012 - 13	2013 - 14	2014 - 15	2015 - 16
Operating Income	100.00	112.57	122.92	123.14	112.60
Expenses					
Material Consumed	100.00	123.93	128.77	143.93	136.74
Manufacturing Expenses	100.00	126.13	139.30	135.89	144.77
Personnel Expenses	100.00	118.42	120.54	151.02	141.93
Administrative Expenses	100.00	116.64	130.01	137.20	137.46
Operating Profit	100.00	96.44	111.10	86.76	62.51
Other Recurring Income	100.00	101.76	88.86	65.74	438.92
Adjusted PBDIT	100.00	96.82	109.51	85.26	89.37
Financial Expenses	100.00	97.47	94.55	102.62	75.84
Depreciation	100.00	142.46	167.50	173.49	167.89
Adjusted PBT	100.00	91.06	105.45	70.81	82.48
Tax Charges	100.00	87.75	104.44	65.48	38.77
Adjusted PAT	100.00	92.76	105.96	73.53	104.82
Non-Recurring Items	100.00	-132.00	-27.74	370.02	-309.69
Reported Net Profit	100.00	75.61	95.76	96.16	73.19
Retained Earnings	100.00	114.71	137.26	158.29	171.93

*Note - Figures Shows in Percentage

Source: Computed from Secondary Data of Tata Steel Ltd.

The table above shows that the income from operations of the company had an increasing trend, except for a decrease in 2015-16 compared to the base year 2011-12. The highest growth was observed in 2014-15. Material consumption, manufacturing expenses, personnel expenses, and administrative expenses showed fluctuations in line with the company's operations. Notably, in 2015-16, even though the company's

operations were lower compared to the previous year, administrative expenses remained unchanged. The operating income of the company was in poor condition, as it did not increase according to the income from operations but instead showed high fluctuations.

It is important to note that in financial analysis, fluctuations or changes in certain financial ratios or components of financial statements should be analysed and interpreted within the context of the company's overall performance and external factors that may have affected it. It is also crucial to consider non-financial qualitative data such as the company's management, industry trends, and macroeconomic conditions in order to have a comprehensive understanding of the company's financial position and performance.

Table – 4: Profitability Ratios of Tata Steel Limited (Standalone)

Particulars	2011 -12	2012 - 13	2013 – 14	2014 - 15	2015 - 16
Cost of Goods Sold Ratio	34.44	38.03	36.58	39.87	42.24
Administrative Expenses Ratio	22.58	23.40	23.88	25.16	27.57
Personal Expenses Ratio	8.98	9.45	8.81	11.01	11.32
Gross Profit Ratio	65.56	61.97	63.42	60.13	57.76
Operating Ratio	66.00	70.87	69.27	76.05	81.13
Operating Profit Ratio	34.00	29.13	30.73	23.95	18.87
Net Profit Ratio	19.73	13.25	15.37	15.41	12.83
Return on Capital Employed	15.12	13.72	14.69	10.78	7.11
Return on Shareholders' Fund	12.73	9.17	10.49	9.66	6.95
Return on Total Assets	6.96	4.97	5.77	5.57	3.98

Source: Computed based on Secondary Data of Tata Steel Limited.

Table 4 presents various ratios to evaluate the profitability performance of the company. The cost of goods sold ratio indicates the amount spent by the company on purchasing raw materials and related expenses, which shows an increasing trend except for the year 2013-14. The administrative and personal expenses ratios also show an increasing trend according to the company's performance. The gross profit ratio, also known as the gross margin ratio, is significant in measuring the business's earnings capacity and profitability. It shows a highly fluctuating trend based on the company's material cost, with high material costs resulting in a decrease in gross profit margin. The ratio ranges from 60.13% to 65.56%.

The operating ratio reflects the company's ability to operate its business. The higher the operating ratio, the lower the operating profit, and vice versa. The company's operating ratio ranges from 66% to

81.13%. The net profit ratio, or net profit to sales ratio, is an indicator of management's ability to operate the business successfully. However, this ratio has highly fluctuated due to the increased cost of non-operational expenses. The net profit ratio ranges from 12.83% to 19.73%. The return on capital employed, also known as return on investment, is an essential measure of the percentage of return on capital invested in the business. Unfortunately, it indicates a decreasing trend, and the firm's efficiency in earning a return on assets is not satisfactory, ranging from 15.12% to 7.11%. The return on shareholders' fund and return on total assets has also shown a decreasing trend and is not satisfactory.

CONCLUSION AND SUGGESTION

Tata Steel Limited is a globally recognized steel manufacturing company, ranked 11th among the top steel companies in the world, with subsidiaries and joint ventures across the globe. The high proprietary ratio indicates that the company is growing well in this aspect. However, the utilization of assets, especially fixed assets, is high compared to total assets, but it is low due to the usage of current assets. The fluctuation in the current asset turnover ratio during the study period indicates limited investment in current assets. The company's working capital turnover ratio is negatively fluctuating, indicating inefficient working capital management.

The operating income of the company is in a very poor condition, and it has not increased according to the operating income, but instead, it has highly fluctuated. The reported profit of the company has shown a gradual increasing trend, except for the financial year 205-16 as 73.19 per cent. The cost of goods sold ratio has increased, reflecting the amount spent by the company on purchasing raw materials and related expenses, except for the year 2013-14. The high cost of materials resulted in a decrease in the gross profit margin of the company, which ranges from 60.13 per cent to 65.56 per cent. The net profit ratio has highly fluctuated due to increased non-operational expenses, ranging from 12.83 per cent to 19.73 per cent. Return on capital employed, return on shareholders' fund, and return on total assets have decreased and are not at a satisfactory level. It is recommended that the company minimize the loan amount used to purchase assets, as it highly affects the company's profitability by paying high interest costs. Due to the large payment of interest costs, the company's reported profit to shareholders is minimal, and the company's non-operational items sometimes help increase the final profit and strengthen the financial position. Therefore, the company should take necessary steps to minimize non-operational expenses to further grow.

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