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A Study on Working Capital Management of Steel Companies in India

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ABSTRACT

Managing working capital efficiently is one of the most important financial management considerations in any steel manufacturing business. Working capital is an integral part of all financial management practices in steel industries. The management of liquid assets is called working capital. The management of current assets and liabilities should be carefully considered as working capital management plays an important role in a company's profitability and risk as well as its value. Optimal working capital levels are determined primarily by how you manage your current assets and liabilities. Continuous monitoring is required to maintain adequate levels of various working capital components. H. Cash receivables, inventories and payables, etc. in this study working capital management of 5 Indian steel companies are analyzed based on ratio analysis and trend analysis. From this study it is found that in terms of working capital management Kalyani steel is better followed by Tata steel and SAIL.

KEY WORDS: Cash position ratio, Current ratio, Working capital.

Introduction

Every business needs funds for two purposes: to start a business and to run its day-to-day operations. Long-term funding is required to purchase fixed assets such as factories and machinery, land, buildings, and furniture to create manufacturing facilities. An investment in these assets is permanently bound and represents a portion of the company's capital known as tied capital. Also, in the short term, funds are needed for purchasing raw materials and operating expenses such as personnel expenses. These funds are called working capital. Simply put, working capital refers to the portion of a company's capital needed to fund short-term or short-term assets such as cash, marketable securities, debtors, and inventory. Therefore, money invested in liquid assets rotates rapidly and is always converted into cash, which money flows out in exchange for other liquid assets. A company's network capital can be positive or negative. Hence, it is also called rotating capital or circulating capital. The working capital cycle concept is based on this working or working capital cycle of the company. The cycle begins with the purchase of raw materials and other resources and ends with the realization of cash through the sale of finished goods. The speed/time required to complete the cycle determines the required working capital. The longer the cycle time, the greater the working capital required.

Problem statement

A company's working capital situation influences its overall success. Therefore, it should be treated with caution as it is an indication of a company's performance and financial stability. Working capital management is important for businesses as it helps generate additional profits for stakeholders. Working capital management is an important aspect of financial management for the following reasons:

- Investment in working capital accounts for the majority of total investment.
- Working capital investments and current liabilities must be adjusted quickly to changes in sales.

The lifeblood and nerve center of a company is its working capital. The value of working capital cannot be overstated in any industry. Any business needs sufficient working capital to be profitable.

Maintaining an adequate level of working capital is very important. One of the most important aspects of corporate governance is working capital management. A company with sufficient liquidity can always take advantage of opportunities, whether it be to buy goods, fulfill a particular order, or wait for market conditions to improve.

Operating expenses associated with day-to-day business operations can be covered by working capital. Even the most successful entrepreneurs may need working capital financing due to unforeseen circumstances.

Working capital management is important for businesses as it helps generate additional profits for stakeholders. If managed improperly, allocating excess working capital can lead to management inefficiencies and diminish short-term investment benefits. However, if working capital is too low, the company will miss out on many lucrative investment opportunities or be unable to meet sudden liquidity needs, facing short-term liquidity problems that affect the company's creditworthiness.

Literature Review

Every commercial enterprise want running coins to cowl ongoing working prices and pressing obligations. Profitable running capital increases commercial enterprise revenue, and vice versa. Collection days need to be lower, payment days need to be higher, and the overall coins conversion cycle days need to be very low or terrible for effective running capital. Many academics have investigated running capital from various angles and settings.

The following ones were excellent sources of information for my study:

(Awalakki, 2020) has studied the efficiency of operating capital management an efficiency index is constructed and compared with organization's Profitability, and Return on Current Assets is used as proxy for measuring the corporations 'Profitability. The paper used statistical tools like correlation, and Regression model, with diagnostic tests for justification of accuracy of the model. The examine highlights that decided on corporations doesn't have significant Relationship with income of the corporations. There is enough evidence in existing financial literature that provides the importance of operating capital Management. Results of empirical analysis show that there is statistical evidence of a strong relationship between a organization's profitability and operating Capital management efficiency. An organization that faces lesser opposition usually makes a specialty of minimizing receivables to increase future possibilities of cash Flow.

(Azam, 2011) has achieved the Study to research the effect of working capital Management on firms' performance. The outcomes are received by the usage of Canonical Correlation Analysis for figuring out the connection between working capital control and firms' performance. The findings of his study show that working capital control has significant effect on firms' performance and it is concluded that manager s can increase value of shareholders and returns on assets by reducing their inventory size, cash conversion cycle and net trading cycle.

(Munta sir, 2007) have achieved the take a look at to degree the effect of overall working capital policies on the profitability firms. The primary and secondary records turned into used for the motive of take a look at. The effects in their take a look at indicated that forth e overall performance of the industry, working capital management played a vital role and there existed a positive relationship between current assets management and performance of firms.

(Sumaira Tufail, 2013) has mentioned in her look at that Working Capital result be taken into consideration as supply of life for a monetary frame and control of running capital is regarded as one of them essential part of business control. Results of her look at indicates that aggressiveness of running capital control policies is negatively associated with profitability. Moreover, liquidity and length of the company have fantastic relation profitability while debt to equity ratio is negatively correlation with profitability.

(Pandey, 2008) have made an try to look at the running capital components and the effect of WCM on profitability Hindalco industries limited for period from1990to2007.Results of the look at have shown that modern ratio, liquid ratio, receivable turnover ratio and running capital to total property ratio have a statistically widespread effect at the profitability of Hindalco Industries limited. Singh has located that t the length of stock at once outcomes on running capital control. He has suggested that stock is the most important component of running capital and desires careful attention.

Singh and Pandey (2008) have suggested that for the successful running of any business organization, onstant and modern property play essential roles, and the control of running capital is essential as it has a direct effect of profitability and liquidity (Afza*, 2009)have made an try to investigate the traditional dating among operating capital management policies and a firm's profitability for a pattern of 204 non-economic companies indexed on Karachi Stock Exchange(KSE) for the duration 1998-2005. The take a look at famous a few significant variations amongst numerous operating capital wishes and economic policies across different industries. Moreover, regression result t has also discovered a bad dating among the profitability of companies and diploma of aggressiveness of operating capital investment and operating capital economic policies.

(Janakiraman, 2009) have discovered a bad dating among profits earlier than hobby and tax (EBIT) and the CCC. The take a look at famous that operational EBIT dictates how to manipulate the operating capital of a firm. Further, it's miles discovered that decrease gross EBIT is related to an growth within side the account payable days. Thus, the take a look at concludes via way of means of pronouncing that much less profitable companies wait longer to pay their bills, taking gain of credit score duration granted via way of means of supplier.

The fantastic dating among common receivable days and a firm's EBIT suggests that much less profitable companies pursue a decrease of the account receivable days to lessen their coins returned within side the CCC. (Nazir, 2009)have used inner and outside elements to discover the determinants of working capital requirement of a firm.

Internal elements wherein running cycle, running coins flow, leverage, size, ROA, Tobin's q and increase with enterprise dummy and level of monetary hobby has outside macroeconomics elements.

Significance of the study

The running Capital control has significantly affected Every enterprise due to the fact each enterprise intends to maximize their shareholders really well worth through several monetary control techniques, this goal of enterprise enterprise will be achieved only when it earns affordable profits from its operations.

As profits are relying upon the quantity of income, those income might not end result an instant conversion of inventory into cash.

The enterprise enterprises, therefore, should preserve affordable running capital for clean strolling of its day-to-day operations.

This short-term financing decision should be accurately match between profitability and liquidity. Any mismatch in powerful control of current assets and current stabilities would not only end result negative impact of profitability and firm's boom however also monetary misery in addition to bankrupt of enterprise entity.

As a huge production industry, running capital control within side the steel industry includes a huge part of the company's overall assets. The optimum running capital ensures the success of the enterprise, while its in efficient control will lead to the downfall of the company.

Objectives of the study

The main objectives of the study are:

- To study the financial position of the selected steel companies.
- To review the profitability position of the Indian select steel companies.
- To compare the financial performance and find the growth trend of the steel companies.
- To make necessary suggestions and recommendations.

Scope of the study

The examine is completely carried out for Indian metal Companies for 5 financial years i.e. (2017 to 2021). The trends indicated might also additionally differ from yr to yr as the sample of investments, borrowings etc. The examine will become greater meaningful most effective if it covers an extended duration of tenor greater years which is past the scope of this project work.

Research Design

Research layout is the association of situations for collection and analysis of detain away that targets to combine relevance to the studies purpose with economy in procedure. It constitutes the blueprint for the collection, measurement and analysis of data. This studies is analytical in nature which examine the monetary ratios for drawing conclusion.

Sampling Design

The sample Design is steel Companies and

The following five companies is selected for the analysis:

1. SAIL
2. Tata steel
3. Kalyani steel
4. Lloyds
5. JSW steel

The sample has been selected by two stage sampling method. For selecting the first stage sample, convenient sampling method is used, whereas for selecting the second stage sample proportional stratified sampling will used.

- Have taken these all five companies on the basis of Market Capitalization.
- The necessary Data will be collected for period of five years from 2017 to 2021.

Data Collection Method

Secondary Data

Main source of secondary data was Annual report of the selected steel companies, standard text books, relevant journals, reports, magazines and steel companies' websites.

TOOLS USED FOR THE ANALYSIS:

The following tools were adapted to analysis the working capital management.

- Ratio analysis concerned to working capital
- Trend analysis of the ratios

Financial Ratios Such As:

1. Current ratio
2. Cash position ratio
3. Quick ratio
4. Working capital turnover ratios

Current Ratio :

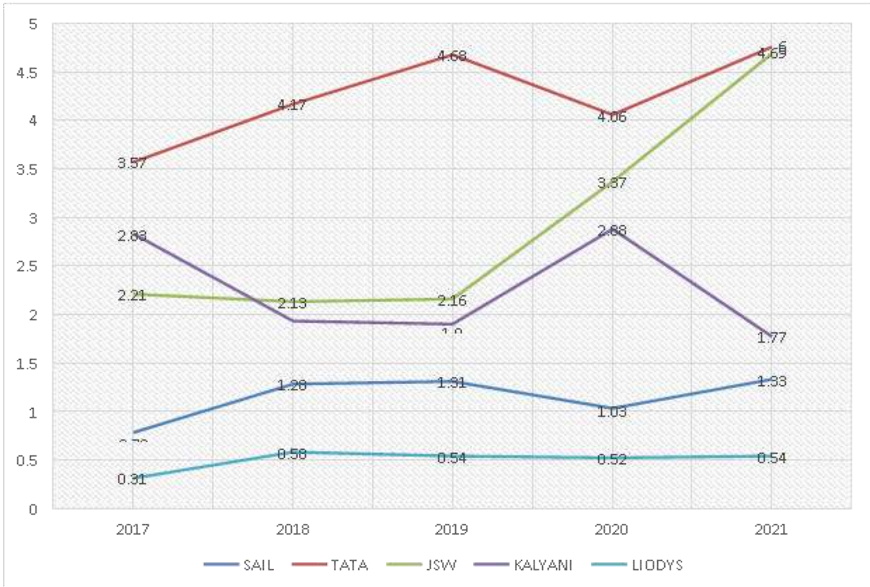
Current ratio = (Cash + Marketable Securities + Receivables + Inventory)/ Current Liabilities

Table no : 1.1 current ratio for selected steel companies

Company/year	SAIL	TATA	JSW	KALYANI	LIODYS
2017	0.78	3.57	2.21	2.83	0.31
2018	1.28	4.17	2.13	1.93	0.58
2019	1.31	4.68	2.16	1.9	0.54
2020	1.03	4.06	3.37	2.88	0.52
2021	1.33	4.76	4.69	1.77	0.54

Source: www.moneycontrol.com.

Chart no 1.1 : (current ratio)



Source: From the above table.

Interpretation: The above table shows that the current ratio of selected steel company, highest value of 4.76 was observed to current ratio of TATA and lowest value of 0.31 for current ratio of Lloyds and other selected steel companies are maintaining moderate levels in current ratio, sail 0.78, kalyani 1.9, jsw 2.13, respectively. And highest variability of 2.88 was observed in current ratio of jsw steel, which value a higher degree of variability and lowest variability of 0.31 was observed in current ratio of TATA, which a lower degree of variability. The current ratio of TATA 4.69 was the highest with 4.68 TATA and the lowest variability of 0.31 in the current ratio of Lloyds.

Cash Position Ratio

Cash ratio = (Cash + Marketable Securities) / Current Liabilities

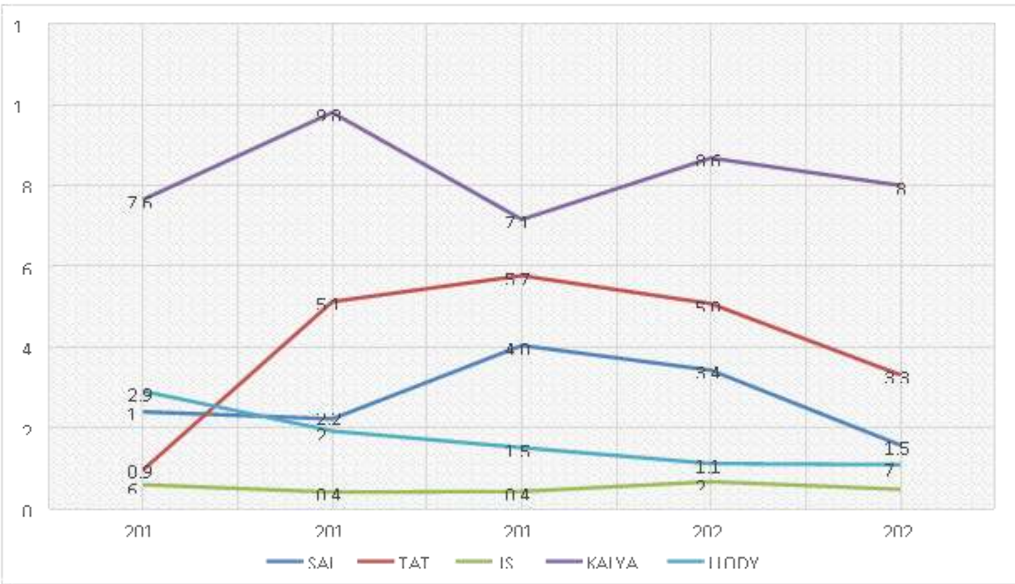
Table no 1.2 cash position ratio for selected steel companies

(AMOUNT IN CRORE)

Company/year	SAIL	TATA	JSW	KALYANI	LIODYS
2017	2.4	0.96	0.59	7.65	2.91
2018	2.22	5.13	0.41	9.81	1.92
2019	4.04	5.77	0.43	7.16	1.51
2020	3.43	5.08	0.67	8.68	1.12
2021	1.57	3.31	0.48	8	1.09

Source: www.moneycontrol.com.

Table no : 1.2 (Cash Position Ratio)



Source: From the above table.

Interpretation: The above Table shows that the values to Cash position ratio of selected steel the highest value of 9.81 was observed to cash position ratio of kalyani and lowest value of 0.41 for cash position ratio of jsw and other selected steel companies are maintaining middle level TATA 5.77, SAIL 4.04, Lloyds, respectively. Highest variability of 9.81 was observed in cash position ratio of jsw steel, which value, a higher degree of variability and the lower of 0.41 was observed Tata steel.

Quick ratio

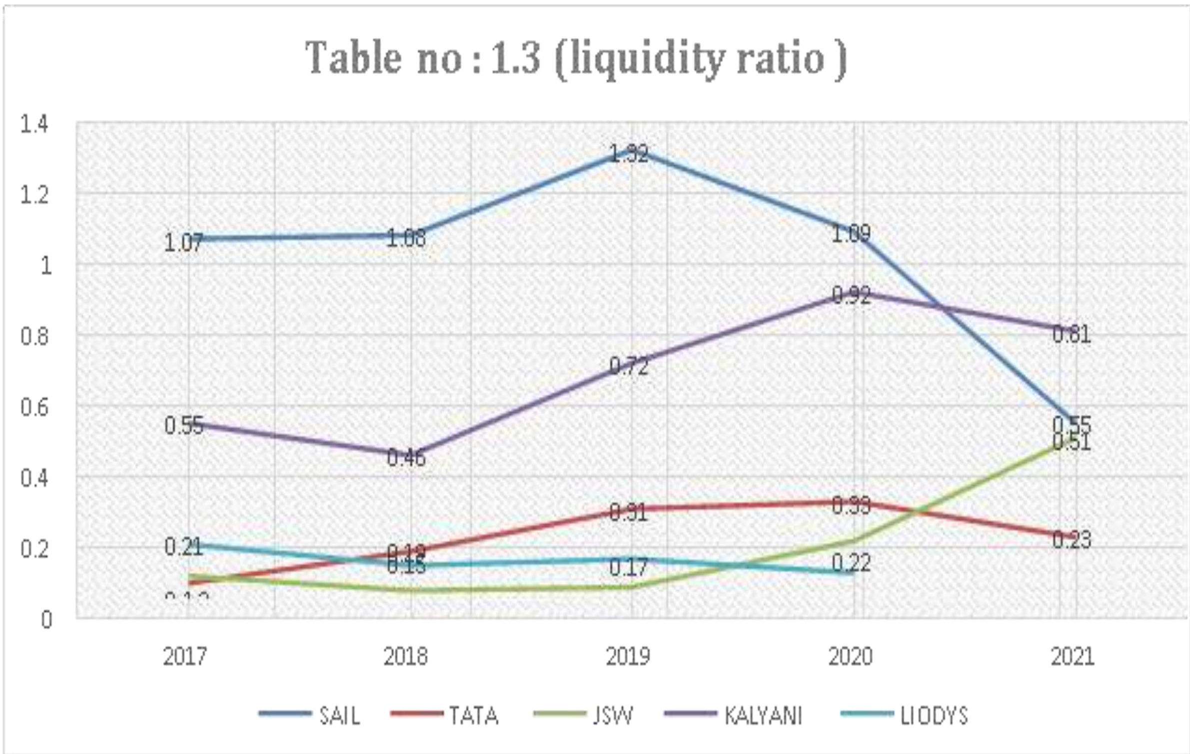
Quick Ratio = (Cash + Accounts Receivables + Marketable Securities) / Current Liabilities

Table no 1.3 : Quick **Ratio for selected steel companies**

(AMOUNT IN CRORE)

Company/year	SAIL	TATA	JSW	KALYANI	LIODYS
2017	1.07	0.1	0.12	0.55	0.21
2018	1.08	0.19	0.08	0.46	0.15
2019	1.32	0.31	0.09	0.72	0.17
2020	1.09	0.33	0.22	0.92	0.13
2021	0.55	0.23	0.51	0.81	0.09

Source: www.moneycontrol.com.



Source: From The above table.

Interpretation: The above Table shows that the values to Cash position ratio of selected steel the highest value of 1.32 was observed to cash position ratio of SAIL and lowest value of 0.0.8 for cash position ratio of SAIL and other selected steel companies are maintaining middle level KAYANI 0.92, TATA 0.33, LLOYDS 0.21, respectively. Highest variability of 1.32 was observed in cash position ratio of SAIL steel, which value, a higher degree of variability and the lower of 0.08 was observed JSW steel.

Table no: 1:3 (Liquidity Ratio)

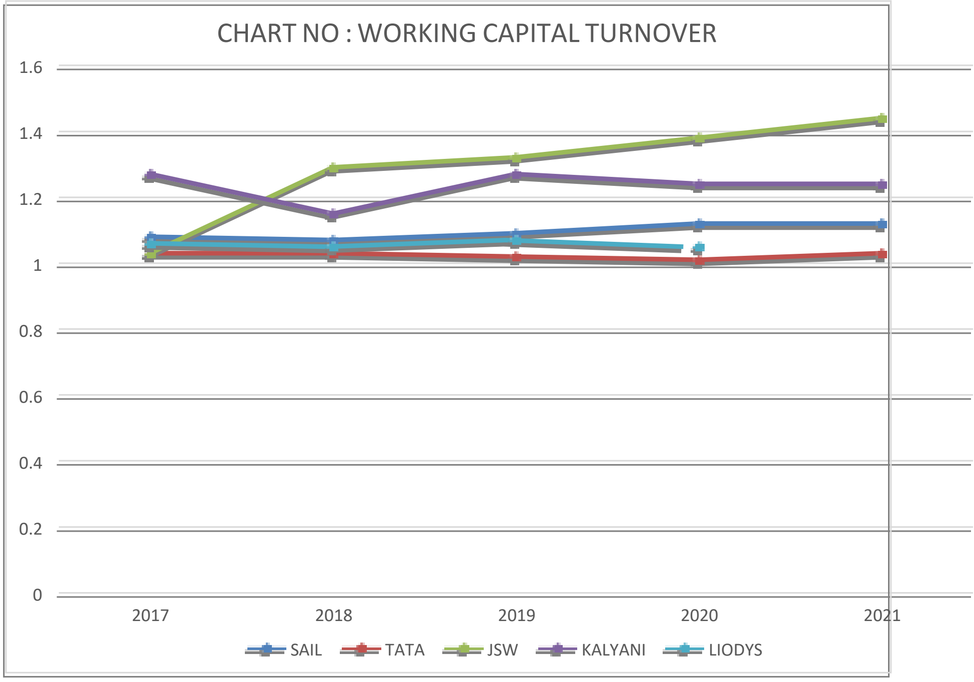
Working Capital Turnover Ratio

TABLE NO: 1.5 Turnover Ratio for Select Steel Companies

(AMOUNT IN CRORE)

(Company/year)	SAIL	TATA	JSW	KALYANI	LIODYS
2017	1.08	1.03	1.03	1.27	1.06
2018	1.07	1.03	1.029	1.15	1.05
2019	1.09	1.02	1.032	1.27	1.07
2020	1.12	1.01	1.038	1.24	1.05
2021	1.12	1.03	1.044	1.24	1.03

Source: www.moneycontrol.com.



Source: From the above table.

Interpretation: The above Table shows that the values to working capital turnover ratio of selected steel the highest value of 1.27 was observed to working capital turnover ratio of KALYANI and lowest value of 1.02 for working capital turnover ratio of TATA steel and other selected steel companies are maintaining middle level SAIL 1.12, LIOYDS 1.06, JSW 1.044, respectively. Highest variability of 1.27 was observed in working capital turnover ratio of KALYANI steel, which value, a higher degree of variability and the lower of 1.02 was observed TATA steel.

LIMITATIONS OF THE STUDY

- This study mainly depends on the secondary data i.e., balance sheet of selected steel companies (Tata Steel, Lloyds Steel, Steel Authority of India (Sail), Jsw Steel, Kalyani Steel)
- For this study only four ratios are considered here.

Results and Discussions

Findings

1. From current ratio analysis it is observed that Tata steel has very high current ratio in the range of around 4:1, JSW steel has maintained the benchmark ratio of 2:1, it is not exact but nearly to that, Liodys Steel has very lowest in all five steel companies.
2. From cash position ratio it if found that Kalyani steel is best among five steel companies following Tata steel, SAIL, Lloyds and JSW steel respectively.
3. From Quick ratio it is found that SAIL is best among five steel companies followed by Kalyani steel, Tata steel, Lloyds and JSW steel.
4. From Working Capital turnover ratio it is found that JSW steel is best among five steel companies followed by Kalyani steel, SAIL, TATA steel and Lloyds respectively.
5. So overall from this study it is found that Kalyani steel is better followed by Tata steel and SAIL.

Conclusions

Working capital management is on the right track, with close cooperation with finance, technology and other executives who are enthusiastically participating in achieving good results in achieving harmony in the company's working environment. After analyzing various data related to theoretically established selected steel companies in India, working capital and profitability were determined by better utilization of resources, reduction of costs and quality of product management functions. It turns out that it depends more or less on the . On customer service and manpower and goodwill and market share. Not only in terms of investment, but also from the investor's point of view, it is worth increasing production capacity and using advanced technology to reduce production and labour costs in order to increase profitability. These programs will help increase the profitability of certain Indian steel companies in the future. If management and governments don't take it seriously, it could lead to unemployment and sick companies. From this study it concluded that in terms of few ratios Kalyani steel is better followed by Tata steel and SAIL.

Suggestions

- SAIL can reduce both direct and indirect costs. Because the effective and efficient performance of a business can be measured by working capital and profitability.
- TATA Steel Company is able to maintain its market share and credibility due to fierce competition and the arrival of new entrants into the steel industry, as well as increasing input costs. Note that financial performance is better compared to the sample.
- JSW can focus on maximizing the use of available resources. This is because although it receives a large amount of financial support, it does not generate high profits compared to TATA. However, TATA has the lowest financial status compared to his JSW, but can make more or make a bigger profit.
- KALYANI and LIOYDS have achieved the fastest growth rate in the last 5 years compared to SAIL, TATA and JSW, and also focus on increasing profitability with the help of growth rate. JSW profit growth is small when expense growth is rising As such, we are focused on reducing expenses such as direct and indirect expenses.

Directions for future Research

- Flourishing working of a business organization fixed and current assets play a crucial role as organization commonly invests in these options
- The study becomes more meaningful only if it covers a longer period of ten or more years which is beyond the scope of this dissertation work.

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