e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
https://doi.org/10.31033/ijemr.12.3.17

The Lockdown Effect on the Profitability Position of Tata Steels Ltd India

R V Harisha Kumar[1] and Dr. John Benedict[2]
[1]Student, Department of Commerce, Loyola College, Chennai, INDIA
[2]Assistant Professor Department of Commerce, Loyola College, Chennai, INDIA

[1]Corresponding Author: 19uco327@loyolacollege.edu

ABSTRACT

Tata steels in second largest steel industry in India followed by SAIL. This study is to analyze impact of pandemic in Tata steels ltd. The scope of this study is to find the profitability and solvency position of Tata steels ltd, in the period from 2016-17 to 2020-21. The company faced a little impact of the pandemic in some aspects. The company's debt is higher than the equity of the company. The overall liquidity and the cash circulation in the company is to be increased to run the company in an uninterrupted manner.

Keywords-- Liquidity, Profitability, Working Capital, Financial Performance

I. INTRODUCTION

Tata steels limited is an Indian-multinational steel manufacturing company, while it headquarters at Mumbai. It is one of the leading steel producing companies in the world. It is also the second largest steel manufacturer in India. Tata steel operates in 26 countries with the main operations in India. It has been recognized as a great place to work in 2022 and it was the fifth time for the company to receive this award. Tata steel primarily serves customers in the automotive, construction, consumer goods, engineering packing lifting and excavating, energy and power, aerospace, shipbuilding, rail and defense and security sector.

The whole world went through the lockdown due to the pandemic faced from 2019 and till now. It had indefinite changes every field. And the manufacturing industries also affected by it. This study is to find the effects of the pandemic and lockdown in the profitability of Tata steels ltd. It helps to analyze its performance in lockdown with the use of financial ratios.

II. OBJECTIVE OF STUDY

The main objective of this study is to analyze financial position and the profitability of the company in the selected period of five years.

III. LITERATURE REVIEW

Dr. Biswanth sukul, 2016, a comparative financial analysis of Tata steel and SAIL. This is the analysis between a public and a private steel manufacturing company. This study is done for a period of five years from 2010-11 to 2014-15. It tells about the liquidity, solvency, profitability, and overall management efficiency.(Sukul, 2016)

Dr. Vineeth Singh and Nand Kishore Baradwaj. 2018, Cash ratio analysis of Indian steel industries. Cash ratio is the important tool to measure the liquidity of the company. The main scope of this report is to evaluate and compare the cash ratio of two leading steel manufacturing companies in India namely Tata steel ltd and JSW steels ltd.(Bhardwaj, 2018)

Ritesh Patel and Kalpesh Prajapati, 2012, A comparative study on the working capital management of selected steel companies of India. This study is mainly focused on the comparative position of steel companies in the view of their working capital management with the help of various analysis. It also tells about the structure of the working capital of the company.(Of et al., 2012)

Dr. Pramod Kumar Patjoshi, 2016, Liquidity management and financial performance A case study of Tata steels ltd. The main focus of this study is to analyze the liquidity position of the company. In this report it says that the profitability of the company came down throughout the study period. This study is done for the period of ten years from 2006-07 to 2015-16.(Pramod, 2016)

Rooh Ollah Arab, Sayed Saadat Masoumi and Azadeh Barati, 2015, Financial performance of steel industry in India. This study is to scrutinize the financial performance of identified units in the steel industry in India by analyzing the liquidity, solvency, activity and profitability positions of the companies. For analyzing the data this study took the five main leading steel industries in India. This report also used a new tools called ANOVA, a test analysis tool.(Arab et al., 2015)

Mahesh M Barad, 2010, A Study of thee liquidity management of India Steel Industry. This study is to scrutinize analysis on the of the liquidity performance of

e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
https://doi.org/10.31033/ijemr.12.3.17

the steel industry in India. Finance is a like blood in our body so long as blood-circulate properly in the body; we feel healthy and have capacity to work.(Barad, 2010)

Arinam Banerjee, Anupam De, 2014, Determinants of Corporate Financial Performance Relating to Capital Structure Decisions in Indian Iron and Steel Industry: An Empirical Study. This study is basically undertaken so as to investigate the independent variables on which the dependent variable, i.e., the profitability depends upon for the firms belonging to the Indian iron and steel industry.(Arinam Banerjee, 2014)

IV. RESEARCH METHODOLOGY

Research Design

This research is done by evaluating the company's profitability, solvency and capital positions with the help of necessary ratios. The data collected and formed and put together in tabular or in a graphical representation to analyze and interpret the data. It is easy to interpret when five years of data are present in the same table.

Data Collection

Data which is used to analyze, is the annual report of Tata steels limited India. The annual reports are collected from www.bseindia.com for the period from 2016-17 to 2020-21.

Tools Used

The tools used to analyze the data are profitability, solvency and liquidity ratios.

V. ANALYSIS AND INTERPRETATION

Inventory Turnover Ratio

The inventory turnover ratio is a ratio showing, how many times a company has sold and replaced the inventory during a given period. It is calculated by dividing net sales by average inventory. Its ideal ratio is above 5.

Table 1: (Inventory Turnover Ratio)

Inventory turnover ratio	2016-17	2017-18	2018-19	2019-20	2020-21
Net sales/Avg.inventory	₹ 5.24	₹ 4.67	₹ 5.26	₹ 4.75	₹ 4.86

Source: computed data

The inventory turnover of Tata steels is good compared with the ideal ratio. In 2016-17 the ratio is good which was a pre-lockdown, and the ratio raised high in 2018-19 and again came down during the lockdown period.

Debt Equity Ratio

Debt equity ratio is the relation between the company's total debt with the total equity. Debt equity ratio shows the percentage of company financing that comes from creditors and investors. It is calculated by dividing total debt by total equity. The ideal ratio is 0.5 to 1.5.

Table 2: (Debt Equity Ratio)

Debt Equity Ratio	2016-17	2017-18	2018-19	2019-20	2020-21
Total Debt/Total Equity	1.91	1.14	1.38	0.50	0.27

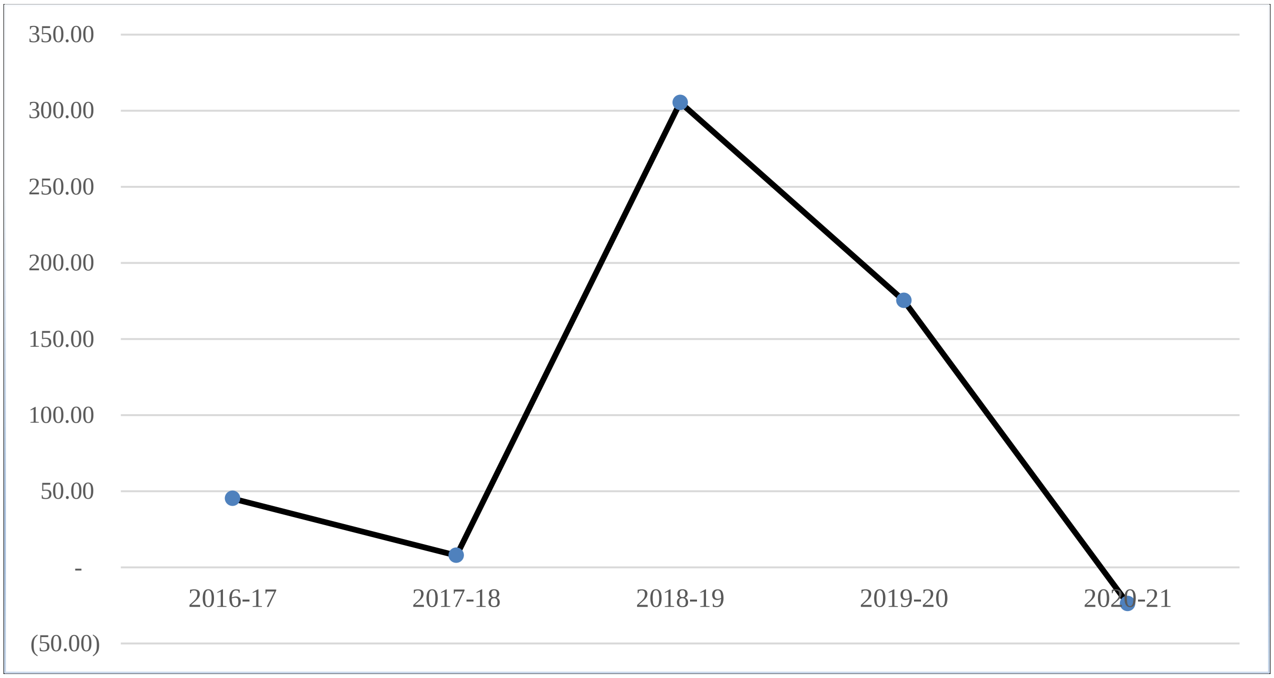
Source: Computed Data

The debt equity ratio of Tata steel is good before pandemic but it started decreasing after the impact of covid pandemic.

Working Capital Turnover Ratio

Working capital turnover ratio is the ratio the used to measure the revenue of the firm that forms the working capital. It can be calculated by dividing total sales by working capital.

e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
https://doi.org/10.31033/ijemr.12.3.17



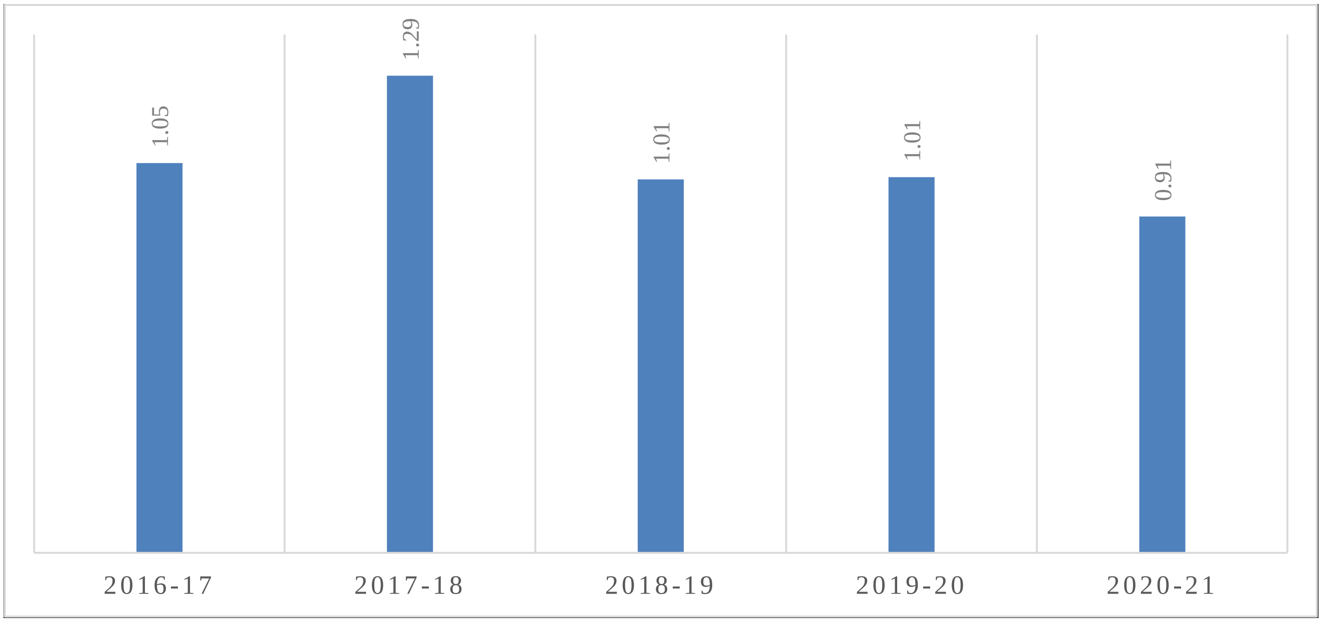
Source computed data

Graph 1: (Working Capital Turnover Ratio)

The working capital turnover ratio of Tata steels is good at the beginning of the given period and peaked in the time of 2018-19 and then started decreasing from 2019-20 and went to a negative point in 2020-21. Remaining in negative will lead the company to bankrupt soon.

Current Ratio

Current ratio is a liquidity ratio which helps to measure the ability of the company to pay current liabilities with the available current assets. It is calculated by dividing total current assets by total current liability. The ideal ratio for this is 1.2 to 2.



Source computed data

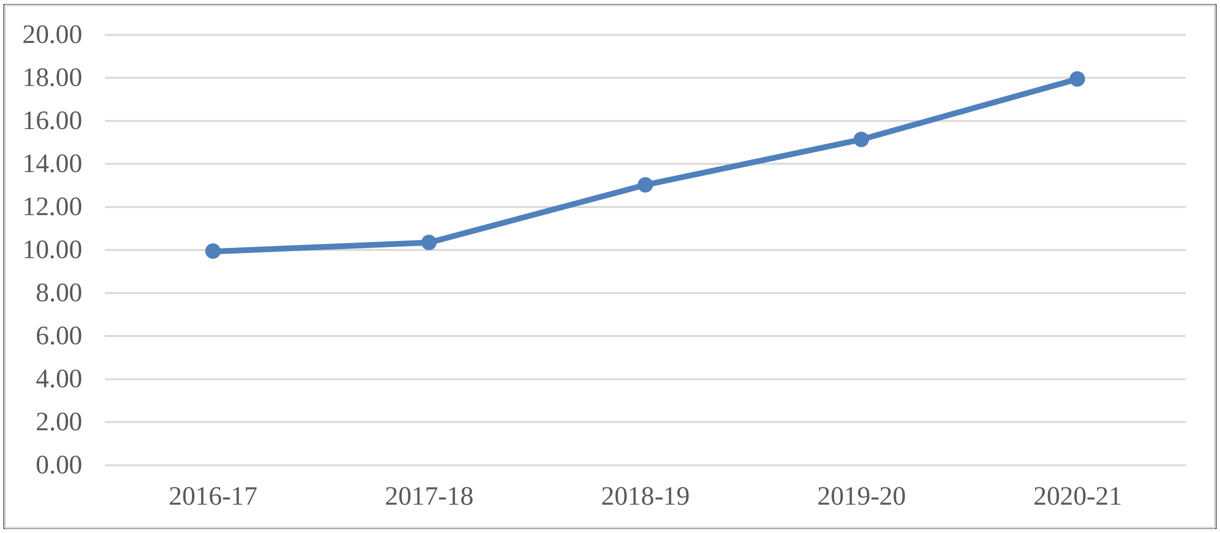
Figure 1: (Current Ratio)

e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
https://doi.org/10.31033/ijemr.12.3.17

The current ratio of Tata Steel ltd is comparatively good in the year of 2017-18 and the growth of the current ratio is affected by the covid circumstances and went below the ideal ratio from the year of 2018-19. The current ratio of the company must be increased, it shows the liquidity of the company.

Receivable Turnover Ratio

Receivable turnover ratio is used to measure the efficiency of the company's ability to collect the dues from the debtors. It is calculated by dividing credit sales by average receivables. The ideal ratio is above 7.5.



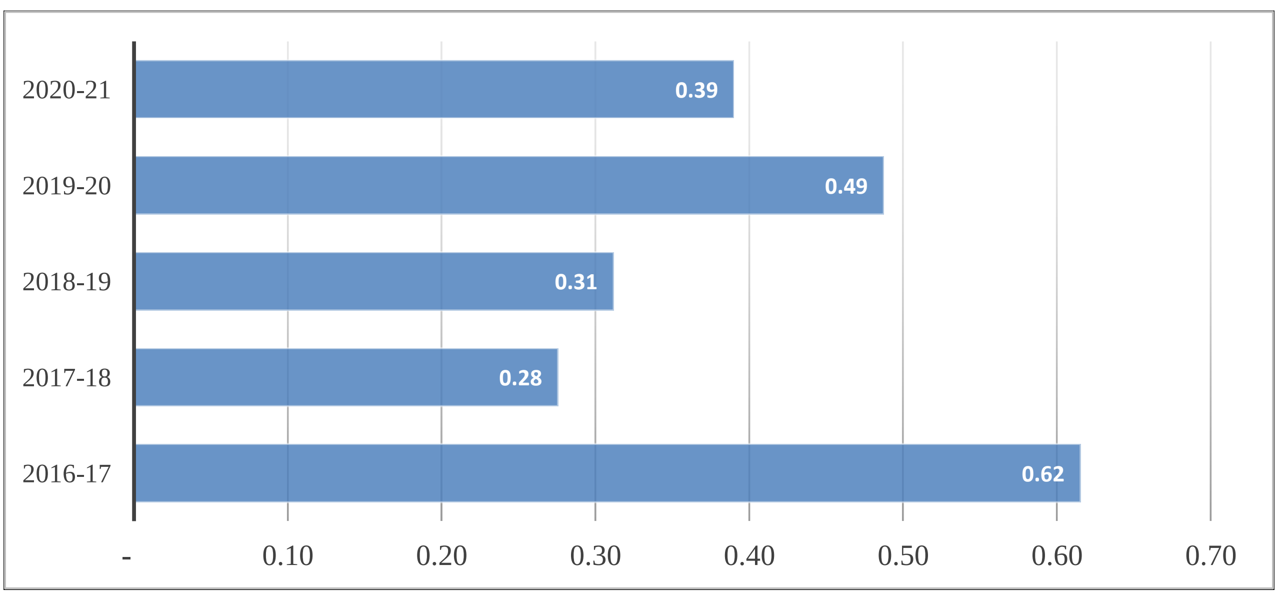
Source Computed Data

Graph 2: (Receivable Turnover Ratio)

The ratio of Tata steels shows that the receivable turnover ratio is good throughout the period and this indicates the company's consistency in receiving the payment from debtors.

Payable Turnover Ratio

Payable turnover ratio is a ratio which is used to find the suppliers. It is calculated by dividing credit purchases by average payables. The ideal ratio is not a fixed, it changes according to the data.



Source Computed Data

Figure 2: (Payable Turnover Ratio)

e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
https://doi.org/10.31033/ijemr.12.3.17

The payable turnover ratio is good at the beginning of the period, and slowly reducing till the year of 2018-19. During the pandemic period, it shows the consistency of the company to pay its credit is high.

VI. SCOPE OF FURTHER STUDY

The main focus area of this study is on the company's profitability and solvency perspective, the further study on this company can be done in the pre and post pandemic change in the profitability, solvency and liquidity analysis.

VII. CONCLUSION

In this report, the study is based on the profitability and solvency position of Tata steels ltd, in the period from 2016-17 to 2020-21. In this study some financial tools were used namely profitability ratios and solvency ratios to analyze the annual report of the company. In the analysis the company's the receivable turnover ratio is in the progressive manner. The payable turnover ratio is also good when compared with the years in the period. Current ratio of the company is comparatively good in the year of 2027-18, and had a sudden decrease from the year 2018-19. This indicates a sudden fall in the liquidity in the company. The working capital of the company drastically increased. It shows the low cash circulation in the company. Debt equity ratio needs to be in a same line, because it shows the company's debt and equity relationships. The overall profitability and solvency position of the company is good. And the company need to focus more on the liquidity and working capital of the company.

REFERENCES

[1] Arab, R. O., Masoumi, S. S. & Barati, A. (2015). Financial performance of the steel industry in India: A critical analysis. *Middle-East Journal of Scientific Research*, *23*(6), 1085–1090. https://doi.org/10.5829/idosi.mejsr.2015.23.06.22197

[2] Arinam Banerjee, A. De. (2014). Determinants of the corporate Financiaal Perormance Relating to Capital structure Decisionsin Indian Iron ans Steel industry. *Sage Journals*.

[3] Barad, M. M. (2010). A study of liquidity management of indian steel industry. *Etheses*, *8*. Available at: https://etheses.saurashtrauniversity.edu/77/.

[4] Bhardwaj, N. K. (2018). *Cash ratio analysis of Indian steel industries : A case study of TATA steel*. *08*(05), 1–7.

[5] A. J., Study, A. C., Working, O. N., Management, C., Selected, O. F. & Companies, S. (2012). *Ajrbem : a Comparative Study on Working Capital Management*. *2*(7).

[6] Pramod, K. P. (2016). *Liquidity management and financial performance a case study of tata steel*. *2*(1), 11–28.

[7] Sukul, B. (2016). A comparative financial analysis of tata steel ltd. and SAIL. *IOSR Journal of Economics and Finance*, *7*(6), 1–5. https://doi.org/10.9790/5933-0706040105

[8] https://www.tatasteel.com/.

[9] https://www.bseindia.com/.