A STUDY ON FINANCIAL EFFICENCY OF TATA STEEL COMPANY, HYDERABAD

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ABSTRACT

This study conducts a comprehensive financial analysis of Tata Steel Hyderabad, evaluating its financial performance, position, and prospects. The research examines key financial metrics, including liquidity, profitability, efficiency, and solvency, to identify trends, strengths, and weaknesses. The analysis provides insights into the company's financial health, informing strategic decisions and offering recommendations for improvement. The study's findings can aid stakeholders in understanding Tata Steel Hyderabad's financial stability and potential for growth.

Key Words: Financial efficiency, Liquidity, Profitability, Solvency and Financial Performance.

I. INTRODUCTION

Financial analysis is a fundamental aspect of business evaluation and decision-making. It refers to the process of examining and interpreting financial data to assess a company's performance, stability, and potential for future growth. By systematically analysing financial statements such as the balance sheet, income statement, and cash flow statement, analysts can gain a clear picture of a company's operations and financial condition.

The main aim of financial analysis is to support informed economic decisions by identifying trends, measuring performance, and comparing results over time or against industry benchmarks. Through techniques like ratio analysis, vertical and horizontal analysis, and cash flow analysis, financial analysts can evaluate profitability, operational efficiency, liquidity, solvency, and overall financial health.

Financial analysis serves a variety of stakeholders. For management, it provides insights necessary for strategic planning, budgeting, and performance improvement. For investors and shareholders, it helps in evaluating the return on investment and assessing financial risks. Creditors use financial analysis to determine the creditworthiness of a business, while regulatory bodies may rely on it to ensure financial transparency and compliance with

II. REVIEW OF LITERATURE

Beaver's (1966) "contention that standard financial ratios can predict the financial performance of firms, many subsequent studies have attempted to demonstrate the predictive value of various techniques for estimating actual business performance".

Altman (1981) "attempted to improve conventional ratio analysis by using multivariate analysis on a sample of manufacturing firms, 105 bankrupt firms and 2,058 non-bankrupt firms"

Singh. K.P (1981) "has found out that the size of the unit has the significant role in the capital structure of the cement industry. His study has revealed that the returns and profitability can be increased the firm size from small too big."

Ohlson (1980) "concluded from his research that firm size was directly related to firm financial performance with smaller firms more likely to fail than larger ones".

Zavgren (1985), "using a sample of 45 bankrupt and 45 non-bankrupt firms, identified seven variables that were used to predict the future financial performance of businesses".

Deakin (1972) "advanced the research of Beaver and Altman by including the fourteen important ratios identified by Beaver with the multivariate methodology of Altman. Using a sample of 32 failed and 32 non-failed firms, Deakin found that cash flow coverage to total debt was important for predicting bankruptcy."

Blum (1974) "also used a failed versus non failed model in his research for predicting bankruptcy of a firm. During the 1980s, the research emphasis in the area of ratio analysis turned to cash flow indicators. This largely single case study found that liquidity ratios and measures of cash flows from operations were the best predictors of the future success of a business".

NEED FOR THE STUDY

The financial analysis of the company is essential to assess its resource utilization and profitability. This study examines various financial metrics and applies ratio analysis to evaluate the efficiency of financial resources and managerial decision-making capabilities. By analysing five years of data, the research aims to draw conclusions and provide insights to stakeholders about the company's financial status, ultimately contributing to informed decision-making and strategic planning.

SCOPE OF THE STUDY

The scope of this study encompasses a comprehensive financial analysis of Tata Steel Ltd, including financial ratio analysis and comparative analysis, to evaluate the company's financial performance, position, and prospects, thereby providing valuable insights to stakeholders.

OBJECTIVES OF THE STUDY

(i) To evaluate the company's profitability or earning potential.

(ii) To assess the company's creditworthiness over the long and short terms.

(iii) To use turnover to calculate the company's liquidity condition.

(iv) To make recommendations to investors regarding the company's financial investment.

III. RESEARCH METHODOLOGY AND DATA SOURCE

Research Methodology:

This study on the financial analysis of Tata Steel Ltd employs a research methodology that involves the collection and analysis of secondary data. The research design is descriptive and analytical in nature.

Data Source

The study relies on secondary data collected from.

- Books: Relevant financial management and analysis texts.
- Journals: Academic and industry journals focused on finance, accounting, and business management.
- Company reports: Annual reports and financial statements of Tata Steel Ltd.
- Online databases: Financial databases and websites providing relevant data and information.

Research Tools

The study utilizes the following tools for data analysis and presentation:

- Bar charts: To visualize and compare financial ratios and trends.
- Tables: To present financial data and ratios in a clear and concise manner.
- Line charts: To illustrate trends and patterns in financial performance over time.

Period of Study

The study covers a period of five years, from March 2020 to March 2024, to provide a comprehensive analysis of Tata Steel Ltd.'s financial perform.

LIMITATIONS OF THE STUDY:

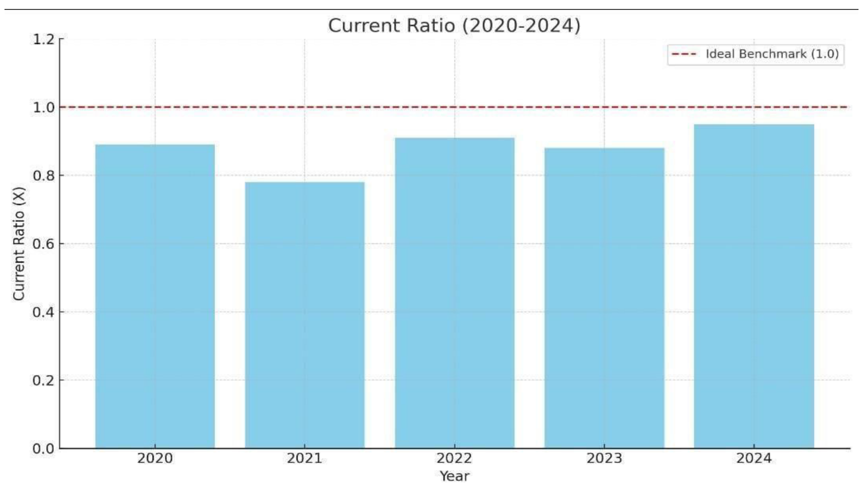
- Just one business
- The steel industry cannot be represented by a single business.
- The outside world has an impact.
- On the basis of past data
- Impact of the pandemic on this industry
- Different formulas may get different results.

IV. DATA ANALYSIS AND INTERPRETATION

Current Ratio (X)

Table-1:

Year	Current Ratio (X)
2020	0.89
2021	0.78
2022	0.91
2023	0.88
2024	0.95

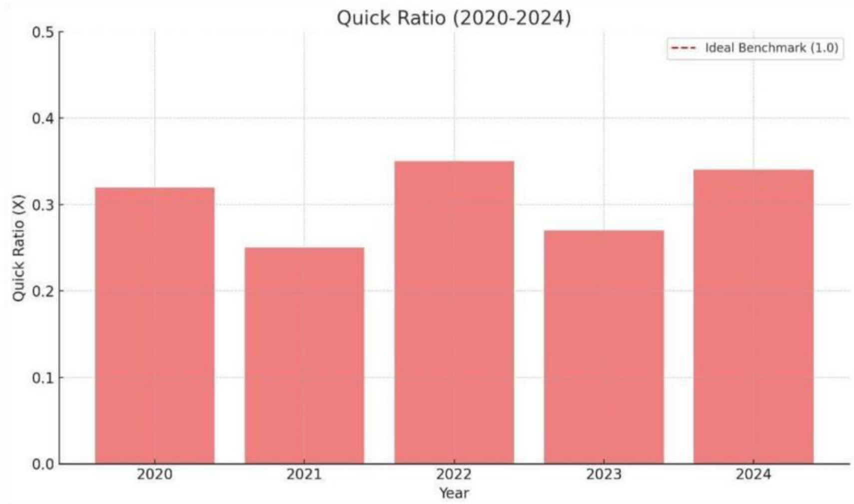


From 2020 to 2024, the current ratio stayed below the ideal 1.0, indicating weak short-term liquidity. It was lowest in 2021 at 0.78 but improved gradually to 0.95 in 2024, showing signs of better financial management.

Quick Ratio:

Table-2:

Year	Quick Ratio (X)
2020	0.32
2021	0.25
2022	0.35
2023	0.27
2024	0.34[APPROX]



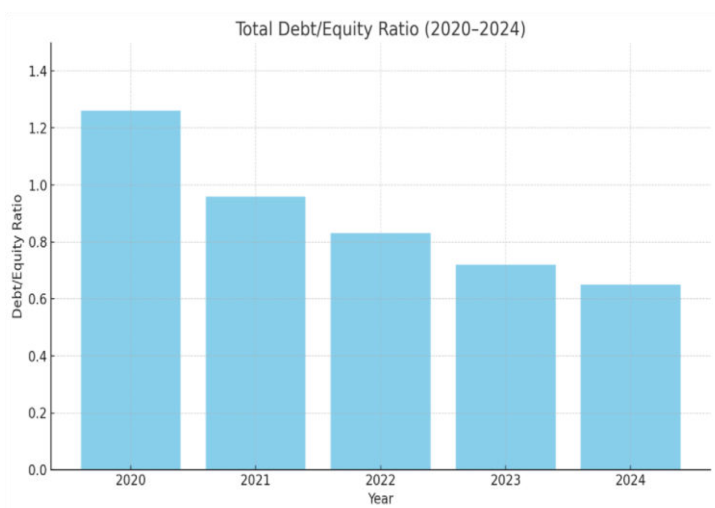
Interpretation:

The quick ratio remained well below the ideal 1.0 from 2020 to 2024, indicating poor short-term liquidity without relying on inventory. Although there was slight improvement in 2022 and 2024, the company may struggle to meet immediate liabilities with its most liquid assets.

Total Debt/Equity:

Table-3:

C	Total Debt/Equity
2020	1.26
2021	0.96
2022	0.83
2023	0.72
2024	0.65



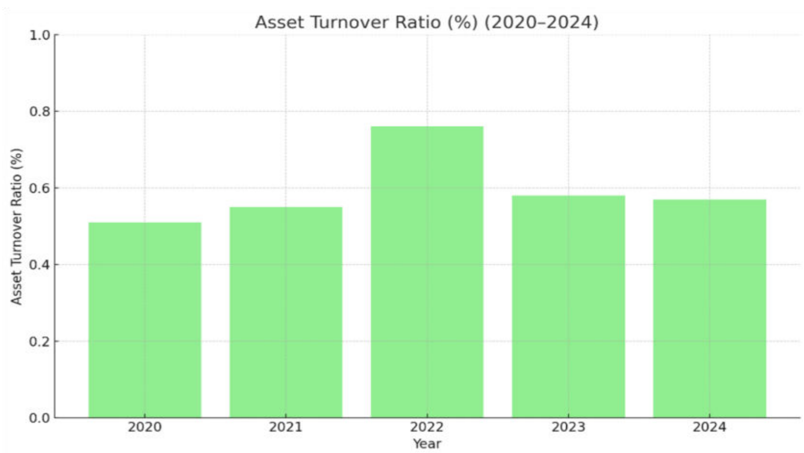
Interpretation:

The Total Debt/Equity (D/E) ratio has shown a consistent downward trend from 1.26 in 2020 to 0.65 in 2024. This indicates that the company has gradually reduced its reliance on borrowed funds and improved its equity position over time. A lower D/E ratio generally suggests a stronger financial structure, as the company is less burdened by debt obligations. This reduction enhances financial stability and reduces risk for investors and lenders, reflecting prudent financial management and possibly higher retained earnings or equity infusion.

Asset Turnover Ratio:

Table-4:

Year	Asset Turnover Ratio (%)
2020	0.51
2021	0.55
2022	0.76
2023	0.58
2024	0.57



Interpretation:

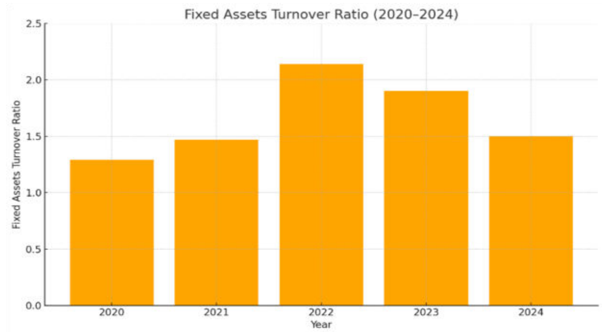
The Asset Turnover Ratio increased from 0.51 in 2020 to a peak of 0.76 in 2022, indicating improved efficiency in utilizing assets to generate revenue during that period. However, the ratio slightly declined in the following years to 0.58 in 2023 and 0.57 in 2024. This suggests that while asset utilization improved initially, it slightly weakened later, possibly due to increased assets without a proportionate rise in sales or operational inefficiencies. Maintaining a higher asset turnover is generally positive, as it reflects better productivity and revenue generation from existing assets.

Fixed Assets Turnover Ratio

Table-5:

Year	Fixed Assets Turnover Ratio
2020	1.29
2021	1.47
2022	2.14

2023	1.90
2024	1.50



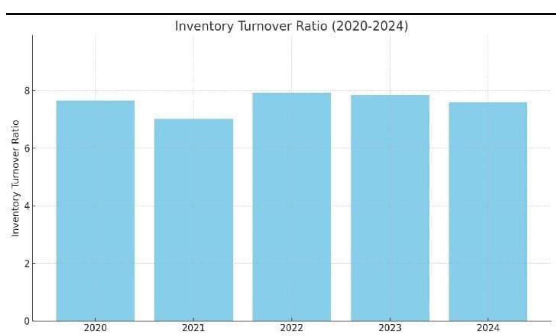
Interpretation:

The Fixed Assets Turnover Ratio improved from 1.29 in 2020 to a high of 2.14 in 2022, reflecting greater efficiency in utilizing fixed assets to generate revenue during that time. However, the ratio declined to 1.90 in 2023 and further to 1.50 in 2024. This suggests that while asset usage was highly effective in 2022, there may have been underutilization or increased investment in fixed assets in the following years without a matching rise in revenue. A higher ratio generally indicates better performance in managing fixed assets productively.

Inventory Turnover Ratio

Table-6:

Year	Inventory Turnover Ratio
2020	7.65
2021	7.02
2022	7.92
2023	7.85
2024	7.58



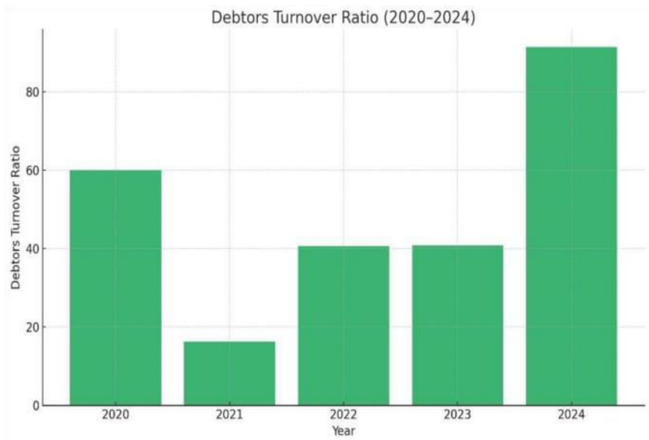
Interpretation:

Tata Steel's inventory turnover peaked at 2.90× in FY23, indicating faster movement of stock. It slightly declined to 2.37× in FY24, still showing efficient inventory management despite a softer market.

Debtors Turnover Ratio

Table-7:

Year	Debtors Turnover Ratio
2020	60.0
2021	16.3
2022	40.6
2023	40.8
2024	91.3



Interpretation:

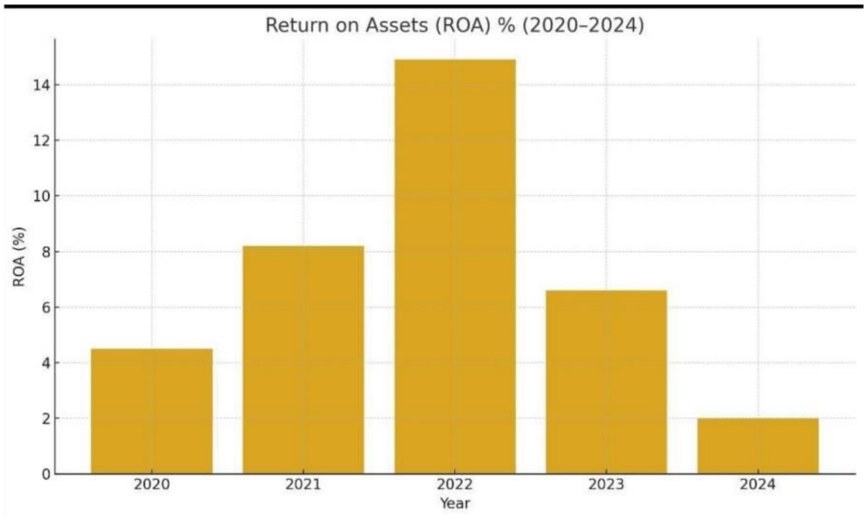
The debtor's turnover ratio fluctuated significantly from 2020 to 2024. It dropped sharply in 2021 to 16.3, indicating slower collection, but improved steadily afterward, peaking at 91.3 in 2024. This suggests a strong recovery in credit management and faster receivables collection.

Return On Assets:

Table-8:

Year	Return On Assets (%)
2020	4.5
2021	8.2
2022	14.9
2023	6.6
2024	2.0

Graph-8



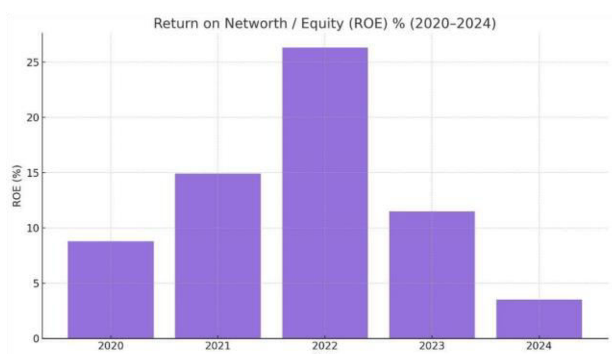
Interpretation:

Return on Assets (ROA) peaked at 14.9% in 2022, indicating strong asset efficiency, but declined sharply to 2.0% by 2024. This suggests the company's ability to generate profit from assets has weakened in recent years.

Return on Networth / Equity:

Table-9:

Year	Return on Networth / Equity (%)
2020	8.8
2021	14.9
2022	26.3
2023	11.5
2024	3.5

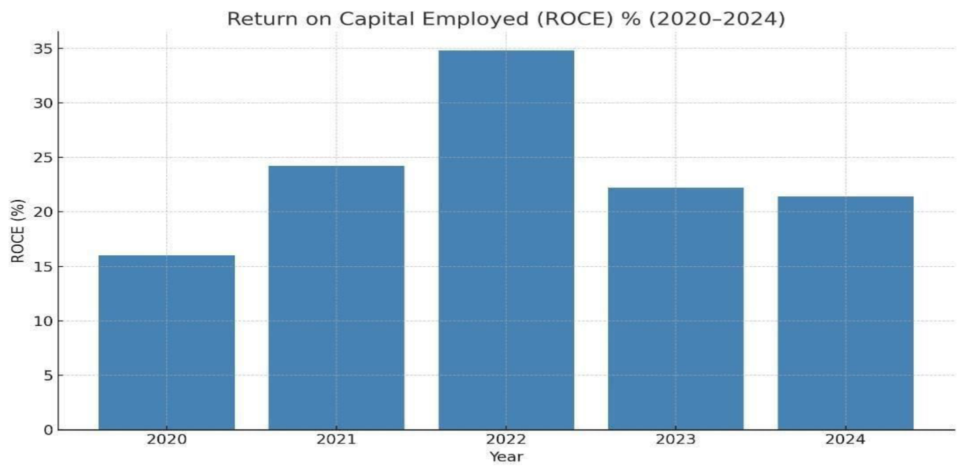


Interpretation:

Return on Equity (ROE) reached a high of 26.3% in 2022, reflecting strong profitability, but declined to 3.5% by 2024. This drop indicates reduced returns for shareholders and weakening financial performance.

ROCE:
Table-10:

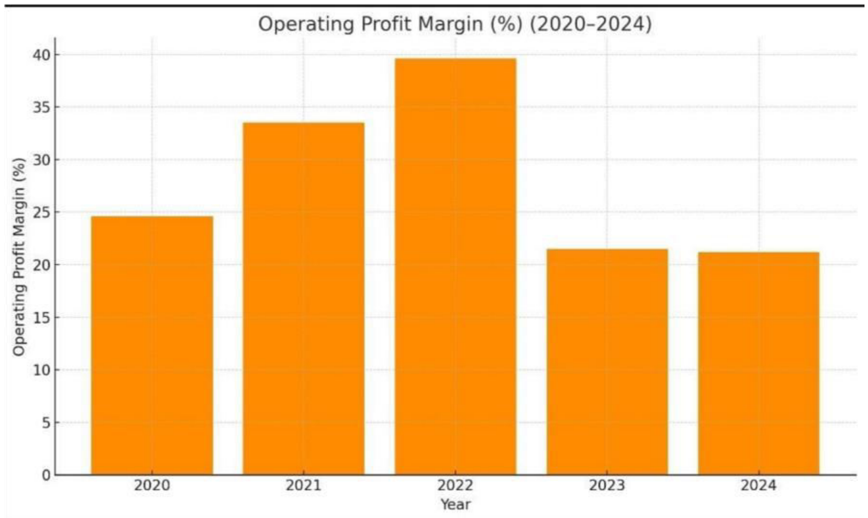
Year	ROCE (%)
2020	16.0
2021	24.2
2022	34.8
2023	22.2
2024	21.4



Interpretation:
ROCE improved significantly from 2020 to a peak of 34.8% in 2022, showing efficient use of capital. However, it declined slightly in the following years, ending at 21.4% in 2024, indicating reduced but still strong capital efficiency.

Operating Profit Margin:
Table-11:

Year	Operating Profit Margin (%)
2020	24.6
2021	33.5
2022	39.6
2023	21.5
2024	21.2



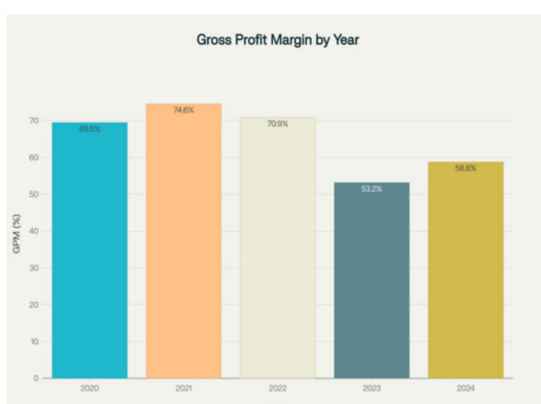
Interpretation:

Operating Profit Margin rose sharply to 39.6% in 2022, indicating strong cost control and profitability, but declined significantly afterward, dropping to 21.2% in 2024. This suggests increased operating costs or reduced efficiency in recent years.

Gross Profit Margin:

Table-12:

Year	Gross Profit Margin
2020	69.5
2021	74.6
2022	70.9
2023	53.2
2024	58.8



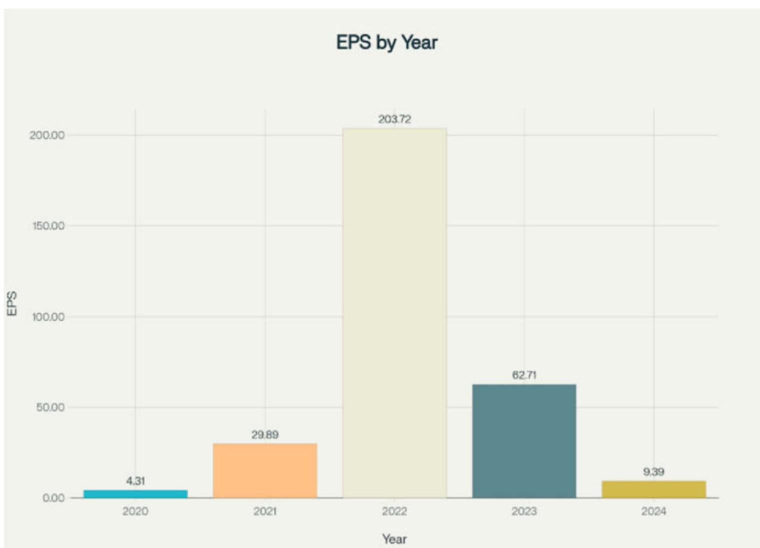
Interpretation:

The gross profit margin remained strong and relatively stable between 2020 and 2022, peaking in 2021. However, in 2023, there was a significant decline, indicating increased costs of goods sold or pricing pressures that reduced profitability at the gross margin level. The partial recovery in 2024 suggests some improvement in cost management or pricing power, but the margin remains well below the earlier years, reflecting ongoing challenges in maintaining high profitability.

EPS:

Table-13:

Year	EPS
2020	4.31
2021	29.89
2022	203.72
2023	62.71
2024	9.39



Interpretation:

The EPS shows a dramatic rise from 2020 to 2022, indicating strong profitability growth during this period. However, after 2022, there is a steep decline in EPS, suggesting a reduction in earnings or profitability challenges in 2023 and 2024. This volatility could be due to various factors such as market conditions, company performance, or one -time events affecting earnings.

V. FINDINGS

- Current and quick ratios indicate weak short-term liquidity, potentially impacting the company's ability to meet immediate liabilities.
- Total Debt/Equity ratio shows a consistent decline, indicating reduced reliance on borrowed funds and improved financial stability.
- Asset Turnover Ratio and Fixed Assets Turnover Ratio suggest fluctuations in asset utilization efficiency, with potential for improvement.

- Inventory Turnover Ratio indicates relatively efficient inventory management.
- Debtors Turnover Ratio shows significant improvement, indicating faster receivables collection.
- Return on Assets (ROA), Return on Equity (ROE), and Operating Profit Margin indicate a decline in profitability, potentially due to increased costs or reduced efficiency.

VI. SUGGESTIONS

a) Improve Liquidity: Focus on improving current and quick ratios by optimizing working capital management.
b) Optimize Asset Utilization: Enhance asset utilization efficiency by streamlining operations and investing in productive assets.
c) Maintain Debt Discipline: Continue reducing debt and maintaining a healthy debt-equity balance.
d) Cost Control: Implement effective cost control measures to improve profitability.
e) Monitor Receivables: Continue to focus on efficient credit management to maintain a high debtors turnover ratio.

VII. CONCLUSION

Tata Steel Ltd.'s financial performance indicates strengths in debt management and inventory turnover, but weaknesses in liquidity and profitability. To improve financial health, the company should focus on optimizing asset utilization, maintaining debt discipline, and implementing effective cost control measures. By addressing these areas, Tata Steel Ltd can enhance its financial stability and profitability.

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