Financial Efficiency And Effectiveness: An Empirical Analysis Of Steel Exchange India Limited.

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ABSTRACT

One of the primary forces behind industrialization has been the use of metals. Steel has traditionally occupied a top spot among metals. Steel production and consumption are frequently seen as measures of a country's economic development because it is both a raw material and an intermediary product. Therefore, it would not be an exaggeration to argue that the steel sector has always been at the forefront of industrial progress and that it is the foundation of any economy. The Indian steel industry is classified into three categories - major producers, main producers, and secondary producers. India is the world's second-largest producer of crude steel, with an output of 125.32 MT of crude steel and finished steel production of 121.29 MT in FY23.India's domestic steel demand is estimated to grow by 9-10% in FY25 as per ICRA. India's steel production is estimated to grow 4-7% to 123-127 MT in FY24.The growth in the Indian steel sector has been driven by the domestic availability of raw materials such as iron ore and cost-effective labour. Consequently, the steel sector has been a major contributor to India's manufacturing output. The Indian steel industry is modern, with state-of-the-art steel mills. It has always strived for continuous modernisation of older plants and up-gradation to higher energy efficiency levels. According to a Deloitte report the demand for steel in India is projected to grow significantly over the next decade, with annual growth rates expected to range from 5% to 7.3%.

Keywords: Financial Performance, Steel Exchange India Limited, Financial Ratios, Correlation.

INTRODUCTION

Business is mainly concerned with the financial activities. In order to ascertain the financial status of the business every enterprise prepares certain statements, known as financial statements. Financial statements are mainly prepared for decision making purposes. But the information as is provided in the financial statements is not adequately helpful in drawing a meaningful conclusion. Thus, an effective analysis and interpretation of financial statements is required. Analysis means establishing a meaningful relationship between various items of the two financial statements with each other in such a way that a conclusion is drawn. By financial statements we mean two statements: (i) Profit and loss Account or Income Statement (ii) Balance Sheet or Position Statement These are prepared at the end of a given period of time. They are the indicators of profitability and financial soundness of the business concern. Financial statement analysis is an exceptionally powerful tool for a variety of users of financial statements, each having different objectives in learning about the financial circumstances of the entity.

OBJECTIVES OF THE STUDY

➢ To study the profitability of Steel Exchange India Limited.
➢ To analyze the long term solvency of Steel Exchange India Limited.

PERIOD OF THE STUDY

The stud y period covers from 2019 - 20 to 2023 - 24

SOURCES OF DATA

The study mainly used secondary data which have been collected from annual reports of the company.

TOOLS

Several Accounting and Statistical tools were used for analysis and interpretation of financial statement of the company. They are

Accounting Tools:

➢ Liquidity ratio
➢ Solvency ratio
➢ Profitability ratio
➢ Activity ratio

Statistical Tools:

Correlation Analysis.

REVIEW OF LITERATURE

DR. A. MICHAEL JOHN AND A. PUGAZH NAAVARASI (2022), studied top 5 textile industries from 2016-17 to 2020-2021 suggested the companies vary from other in terms of growth and efficiency. They concluded that the Page industries limited was having higher growth rate compared to other firms.

DR.R. JAYANTHI AND LATHA LAVANYA (2020), made a research on financial performance analysis of textile companies in TamilNadu with reference to Coimbatore - a study. The main objective of the study was comparative analysis of their financial soundness and performance. Their research suggested with net profit was in a declining trend for all the selected textile companies

DR. L. NITHYA AND DIVYA DHARSHINI (2019), in their study main objective was to analyze the growth of top five textile industries in India and the study found that there was a significant difference in financial performance of all textile industries in terms of growth rate, trend analysis, efficiency position.

DATA ANALYSIS AND INTERPRETATION

TABLE 1
CURRENT RATIO

YEAR	RATIO
2023 - 24	2.08
2022 - 23	1.2
2021 - 22	1.43
2020 - 21	1.46
2019 - 20	0.65

Source: Author's calculation from Annual report of the company.

The standard norms of the current ratio is 2:1. During the year 2019-2020 the firm achieves the lowest current ratio of .65 and in the year 2023-2024 was highest with 2.08. The current ratio satisfied the standard norms during the study period.

TABLE 2
LIQUID RATIO

YEAR	RATIO
2023 - 24	0.96
2022 - 23	0.46
2021 - 22	0.58
2020 - 21	0.59
2019 - 20	0.11

Source: Author's calculation from Annual report of the company.

The above table indicates that liquid ratio is lowest during the year of 2019-2020 with the ratio of 0.11 and highest during the year 2023-2024. It showed the fluctuating trend during the study period.

TABLE 3
NET PROFIT RATIO

YEAR	RATIO
2023 - 24	0.99
2022 - 23	-4.23
2021 - 22	10.59
2020 - 21	15.57
2019 - 20	8.23

Source: Author's calculation from Annual report of the company.

The table 3 indicates that the year 2022-2023 net profit ratio of Steel Exchange India Limited was -4.23% which is the lowest and highest 15.57 % during the year 2020-21.

TABLE 4
INVENTORY TURNOVER RATIO

YEAR	RATIO
2023 - 24	2.69
2022 - 23	3.47
2021 - 22	3.45
2020 - 21	4.64
2019 - 20	1.35

Source: Author's calculation from Annual report of the company.

The above table shows that the inventory turnover ratio of Steel Exchange India Limited. The ratio decreases from 1.35 in 2019-20 to 2.69 in the year 2023-24. The declining inventory turnover ratio indicates the inefficient inventory management.

TABLE 5
DEBT EQUITY RATIO

YEAR	RATIO
2023 - 24	0.84
2022 - 23	0.81
2021 - 22	1.25
2020 - 21	5.07
2019 - 20	-11.1

Source: Author's calculation from Annual report of the company.

The table 5 indicates that the debt equity ratio was lowest in the year 2019-20 with -11.1 and the highest ratio was recorded in the year 2021-22 with 1.25.

TABLE 6
RETURN ON NETWORTH RATIO

YEAR	RATIO
2023 - 24	2.4
2022 - 23	-19.97
2021 - 22	41.16
2020 - 21	171.98
2019 - 20	-84.72

Source: Author's calculation from Annual report of the company.

The table 6 indicates that the return on net worth ratio was lowest in the year 2022-23 with -19.97 and the highest ratio was recorded in the year 2020-21 with 171.98.

CORRELATION ANALYSIS:

KARL PEARSON CO-EFFICIENT OF CORRELATION

Karl Pearson's co efficient of correlation is a mathematical method applied to measure level of relationship between two related variables. The coefficient of correlation is expressed by "r". Pearson (*r*) correlation is the most widely used correlation statistic to measure the degree of the relationship between linearly related variables. Formula for calculating the co-efficient of correlation is as follows:

$$R = \frac{\sum x\, y}{N\, \sigma x\, \sigma y}$$

Where

x= deviation of x series from its arithmetic mean

y= deviation of y series from its arithmetic mean

n= Number of pairs of observations

σx= SD of x series

σy= SD of y series

Correlation shows the strength of a relationship between two variables and is expressed numerically by the correlation coefficient. The correlation coefficient's values range between -1.0 and 1.0

Hypothesis H0:

There is no significant correlation between the dependent variable (Net Profit Ratio) and independent variables.

TABLE 7

CORRELATION BETWEEN NETPROFIT RATIO AND CURRENT RATIO

Correlations

		NPR	CR
NPR	Pearson Correlation	1	-.141
	Sig. (2-tailed)		.821
	N	5	5
CR	Pearson Correlation	-.141	1
	Sig. (2-tailed)	.821	
	N	5	5

Source: Author's calculation from Annual report of the company.

The table 7 shows that there is a positive correlation between net profit ratio and current ratio.

TABLE 8

CORRELATION BETWEEN NETPROFIT RATIO AND QUICK RATIO

Correlations

		NPR	LR
NPR	Pearson Correlation	1	-.165
	Sig. (2-tailed)		.791
	N	5	5
LR	Pearson Correlation	-.165	1
	Sig. (2-tailed)	.791	
	N	5	5

Source: Author's calculation from Annual report of the company.

The table 8 shows that there is a negative correlation between net profit ratio and Quick ratio.

TABLE 9

CORRELATION BETWEEN NETPROFIT RATIO AND DEBT EQUITY RATIO

Correlations

		NPR	DER
NPR	Pearson Correlation	1	.092
	Sig. (2-tailed)		.883
	N	5	5
DER	Pearson Correlation	.092	1
	Sig. (2-tailed)	.883	
	N	5	5

Source: Author's calculation from Annual report of the company.

The table 9 shows that there is a positive correlation between net profit ratio and debt equity ratio.

TABLE 10
CORRELATION BETWEEN NETPROFIT RATIO AND RETURN ON NETWORTH RATIO

Correlations

		NPR	RNW
NPR	Pearson Correlation	1	.604
	Sig. (2-tailed)		.280
	N	5	5
RNW	Pearson Correlation	.604	1
	Sig. (2-tailed)	.280	
	N	5	5

Source: Author's calculation from Annual report of the company.

The table 10 shows that there is a positive correlation between net profit ratio and return on net worth ratio.

TABLE 11
CORRELATION BETWEEN NETPROFIT RATIO AND INVENTORY TURNOVER RATIO

Correlations

		NPR	ITR
NPR	Pearson Correlation	1	.281
	Sig. (2-tailed)		.647
	N	5	5
ITR	Pearson Correlation	.281	1
	Sig. (2-tailed)	.647	
	N	5	5

Source: Author's calculation from Annual report of the company.

The table 11 shows that there is a positive correlation between net profit ratio and inventory turnover ratio.

SUGGESTIONS

➢ The company should probably consider the use of the fund to invest other opportunities to get a profit rather than over investing on assets that have failed to produce revenue growth.

➢ The inventory can be managed efficiently by improving demand forecast, eliminating products that have less turnover and efficient use of the resources which will help in increasing the inventory turnover.

➢ The firm must focus on the efficient use of its existing total assets to improve its performance regarding its profit earning capacity.

CONCLUSION

This study on financial performance of Steel Exchange India Limited was undertaken for the period of 2019-2020 to 2023- 2024 using various financial ratios like liquidity, profitability, solvency and activity. From the analysis it is concluded that the company is maintaining a good liquidity and profitability position. Though the company has a good growth in the liquidity and profitability they must focus on improving their solvency and turnover positions. The company should follow the above stated suggestions to stabilize the financial position for their future growth.

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