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WORKING CAPITAL MANAGEMENT IN TATA STEEL LIMITED

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ABSTRACT

Working capital management refers to the administration of all components of working capital-cash, marketable securities, debtors and stock and creditors. Working capital is one of the powerful measurements of the financial position. The words of H. G. Guthmann clearly explain the importance of working capital. “Working Capital is the life-blood and nerve centre of the business. The goal of working capital management is to manage the firm’s current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. In several units there is adequate working capital but the mismanagement of working capital increases the costs and reduces the rate of return. The efficient management of working capital minimizes the cost and can do much more for the success of the business.

KEYWORDS: Working Capital Management, Current Assets, Current Liabilities, Current Ratio, Quick Ratio, Profitability, Steel Industry

INTRODUCTION

Steel is by far the most important, multi-functional and most adaptable of materials. The development of mankind would have been impossible but for steel. The backbone of developed economies was laid on the strength and inherent uses of steel. The Role of Iron and Steel Industry in India GDP is very important for the development of the country. In India the visionary Shri Jamshedji Tata set up the first Iron and Steel manufacturing unit called Tata Iron and Steel Company, at Jamshedpur in Jharkhand. Iron and steel are among the most important components required for the infrastructure development in the country.

Tata steel Group established in 1907 as Asia's first integrated private sector steel company, Tata Steel Group is among the top-ten global steel companies with an annual crude steel capacity of over 29 million tones per annum. It is now the world's second-most geographically-diversified steel producer, with operations in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of Rs. 1, 48,614 crores in FY 14, has over 80,000 employees across five continents and is a Fortune 500 company.

The Tata Steel Group’s vision is to be the world’s steel industry benchmark in “Value Creation” and “Corporate Citizenship” through the excellence of its people, its innovative approach and overall conduct. Underpinning this vision is a performance culture committed to aspiration targets, safety and social responsibility, continuous improvement, openness and transparency.

REVIEW OF THE LITERATURE

Many researchers have studied working capital from different views and in different environments. The following study was very interesting and useful for our research:

Abdul Raheman* and Mohamed Nasr(2004) In this paper made an attempt to examine the Working Capital Management And Profitability – Case Of 94 Pakistani Firms selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004, Found that there is a significant negative relationship between liquidity and profitability. That there is a significant positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

K. Madhavi studied "Working Capital Management of Paper Mills" during the period from 2002-2003 to 2010-2011 with the help of accounting tools and statistical techniques. From the study analyze that, the management of Andhra Pradesh Paper Mills Ltd (APPML) must initiate necessary steps to utilize its idle cash and bank balances in attractive investments or to pay back in short term liabilities.(current ratio).The low quick ratio may also have liquidity position, if it has fast moving inventories and is more satisfactory in Seshasayee Paper Boards Ltd (SSPBL) with APPML. Cash ratio is not satisfactory in APPML as compared to SSPBL and it needs the attention of the management to induce effective utilization of cash and bank balances.

B Bagchi and B Khamrui (2010) In this study, Selected a sample of 10 FMCG (Fast Moving Consumer Goods) companies in India from CMIE database covering a period of 10 years from 2000–01 to 2009–10. Profitability has been measured in terms of return on assets (ROA).Cash conversion cycle (CCC), interest coverage ratio, age of inventory, age of creditors, age of debtors and debt-equity ratio have been used as explanatory variables. Pearson's correlation and pooled ordinary least squares regression analysis are used in the study. The study results confirm that there is a strong negative relationship between variables of the working capital management and profitability of the firm. As the CCC increases, profitability of the firm decreases, and managers can create a positive value for the shareholders by reducing the CCC to a possible minimum level. There is also a stumpy negative relationship between debt used by the firm and its profitability.

Mr. N.Suresh Babu and Prof. G.V.Chalam (2014) Suggest that managers can create value for their shareholders by reducing the number of day's accounts receivable and increasing the account payment period and inventories to a reasonable maximum and also suggests that managers of these firms should spend more time to manage cash conversion cycle of their firms and make strategies of efficient management of working capital.

Daniel Mogaka Makori1and Ambrose Jagongo (2013) Concluded that the management of a firm can create value for their shareholders by reducing the number of day's accounts receivable. The management can also create value for their shareholders by increasing their inventories to a reasonable level. Firms can also take long to pay their creditors in as far as they do not strain their relationships with these creditors. Firms are capable of gaining sustainable competitive advantage by means of effective and efficient utilization of the resources of the organization through a careful reduction of the cash conversion cycle to its minimum. In so doing, the profitability of the firms is expected to increase.

OBJECTIVES OF THE STUDY

- To Study the efficiency of the organization through ratios.
- To recommend ways and means to improve present condition.
- To analyze overall performance of the company.
- To study the profitability, liquidity, solvency position of the organization.

METHODOLOGY

The methodology adopted for the present study regarding source of data, sample size, period of study, data analysis and research tools & techniques. Source of the data is mainly based on the secondary data. They were collected from company annual reports, journals, magazines and newspapers. Sample Size of this study data collected for five years of Tata steel industries. Research tools and techniques are used ratio analysis in the year period of the study 2010-2011to 2014-2015.

SCOPE OF THE STUDY

This is an attempt to have a micro level imperial analysis in the financial progress and performance of Tata Steel Limited. The findings and suggestions throw light on the guidelines for future policy formulation and implementation for the effective functioning of Steel industries in other districts of the state and the country also. Every effort has been made to conclude relevantly and suggest for the best performance in the most adoptable way, keeping in view the market and production levels.

LIMITTATIONS OF THE STUDY

This study is based on only secondary data; the essential limitations of the secondary data would have affected the study. Ratios are computed on the basis of financial statements of the Industry. Hence, future performance of the manufacturing units not reflected. The financial statements are subject to window dressing. It will affect the results in the process of analysis. The absolute figures may prove decorative as ratio analysis is primarily quantitative analysis and not qualitative analysis. Many people may interpret the results in different ways as ratio is not an end by itself.

Ratio Analysis

Ratio Analysis is a powerful tool of financial analysis. It is used as a device to analyze and interpret the financial health of a firm. Analysis of financial statements with the aid of ratios helps the management in decision making and control.

The use of ratio analysis is not confined to financial managers only. Different parties are not confined to financial managers only. Different parties are interested in knowing the financial position of a firm for different purposes. Ratio analysis is used by creditors, banks, financial institutions investors and shareholders. It helps them in making decision regarding the granting of credit and making investments in the firm. Thus, ratio analysis is of immense use and has wide application.

Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio also known as working capital ratio is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm. It calculated by dividing the total of current assets by total of the current liabilities.

Current Ratio = Current Assets/Current Liabilities or Current Assets: Current Liabilities

The statistical data relating to calculation of current ratio was computed through the financial statements referred in their respective annual reports of Tata Steel Limited for the study period from 2010-11 to 2014-15 are depicted in the below table.

Table 1: Components of Current Assets of Tata Steel Limited (Rs. In Crore)

Years	2014-15	2013-14	2012-13	2011-12	2010-11
Current Investments	1000.08	2343.24	434.00	1204.17	
Inventories	8042.00	6007.81	5257.94	4858.99	3237.58
Trade receivables	491.46	770.81	796.92	904.08	428.03
Cash and Bank balances	478.59	961.16	2218.11	3946.99	4141.54
Short term Loans and advances	1781.77	1299.20	2207.83	1828.09	15688.97
Other Current assets	55.27	182.38	615.80	122.18	716.18
Total	11849.17	11564.6	11530.60	12864.50	24212.30

* Source: Annual Reports

Table 2: Components of Current Liabilities of Tata Steel Limited (Rs. In Crore)

Years	2014-2015	2013-14	2012-13	2011-12	2010-11
Short – term borrowings	34.88	43.69	70.94	65.62	
Trade payables	5801.98	8263.61	6369.91	5973.23	
Other current liabilities	9111.52	8671.67	8503.54	8798.55	7447.83
Short term provisions	1675.41	1902.81	1544.26	2066.24	3547
Total	16623.79	1888.78	16488.65	16903.64	10995.81

*Source: Annual report

Table 3: Current Assets and Current Liabilities of Tata Steel Limited (Rs. In Crore)

Year	Current Assets	Current Liability	Current Ratio
2014-15	11849.17	16623.79	0.71:1
2013-14	11564.6	18881.78	0.61:1
2012-13	11530.60	16488.65	0.70:1
2011-12	12864.50	16903.64	0.76:1
2010-11	24212.30	10995.81	2.20:1

*Source: Annual report

As a conventional rule, a current ratio of 2:1 is considered satisfactory. This rule of thumb should not blindly be followed because, low current ratio indicates that the unit may not be having sufficient funds to pay off liabilities or it may be trading beyond its capacity. Higher current ratio may not be favorable because of slow moving stocks, stocks may pile up due to poor sale, debt collection may not be satisfactory, cash and bank balances may be lying idle because of insufficient investment opportunities. This ratio is below the accepted standard norm in Tata Steel limited in the entire study period, excepting 2010-11. It clearly indicates, the normal general accepted solvency to meet their current obligations in time is not satisfactory during 2011-2014. The management of Tata Steel limited must initiate necessary steps to utilize its idle cash and bank balances in attractive investments or to pay back its short term liabilities.

Quick Ratio or Liquid Ratio

Quick ratio is also called Acid-test ratio because it is the acid test of a concern`s financial soundness. It is the relationship between quick assets and quick liabilities. Quick assets are those assets which are readily converted into cash. They include cash and bank balances, bills receivable, debtors, short term investments. Quick liabilities include creditors, bills payable, outstanding expenses.

Quick ratio = Quick Assets/Quick Liabilities

Quick Assets = Current assets- (Stock +Prepaid expenses)

Quick Liabilities = Current Liabilities –Bank Overdraft.

A quick ratio of 1:1 is considered satisfactory. The quick ratio supplements current ratio.

Table 4: Quick Assets and Current Liabilities of Tata Steel Limited (Rs. In Crore)

Year	Quick Assets	Current Liabilities	Quick Ratio
2014-15	3807.17	16623.79	0.23
2013-14	5556.79	18881.78	0.29
2012-13	6272.66	16488.65	0.38
2011-12	8005.51	16903.64	0.47
2010-11	20974.72	10995.81	1.91

*Source: Annual report

A quick ratio of 1:1 is considered to represent a satisfactory current financial condition. A quick ratio of 1:1 does not necessarily mean satisfactory liquidity position, if all debtors cannot be realized and cash is needed immediately to meet current obligations. A low quick ratio does not necessarily mean a bad liquidity position as inventories are not an absolutely non-liquid. It is observed from the above data the quick ratio is less than the accepted norm from 2011-12 to 2014-15, whereas it is just above the standard in 2010-11.Quick ratio is very poor so it will increase their liquidity position, it will help to meet day to day expenses.

Cash Ratio (Absolute Liquid Ratio)

Cash is the most liquid asset. The relationship between cash including cash at bank and short term marketable securities with current liabilities is examined to know the immediate solvency. Although receivables, debtors and bills receivable are generally more liquid than inventories, yet there may be doubts regarding their realization into cash immediately or in given time. The formula to calculate the cash ratio is as under.

Cash Ratio = Cash* + Marketable Securities / Current Liabilities.

* Cash means, cash in hand and cash at bank.

Table 5: Cash & Bank Balance and Current Liabilities of Tata Steel Limited (Rs. In Crore)

Year	Cash/Bank Balance	Current Liabilities	Cash Ratio
2014-15	478.59	16623.79	0.029
2013-14	961.16	18881.78	0.051
2012-13	2218.11	16488.65	0.135
2011-12	3946.99	16903.64	0.233
2010-11	4141.54	10995.81	0.377

*Source: Annual report

The ideal cash ratio is 1:2 or 0.5 or 50 percent. This ratio is less than the standard and not encouraging for the entire study period i.e. 2010-11 to 2014-15.

Working Capital Turnover Ratio

This ratio indicates whether or not working capital has been effectively utilized in making sales. It can be calculated by Net sales/Net Working capital

Table 6: Current Assets, Current Liabilities and Net working Capital of Tata Steel Limited

Year	Current Assets	Current Liability	Net Working Capital	Working Capital Turnover Ratio
2014-15	11849.17	16623.79	-4774.62	-8.87
2013-14	11564.6	18881.78	-7317.18	-5.81
2012-13	11530.6	16488.65	-4958.05	-7.89
2011-12	12864.5	16903.64	-4039.14	-8.62
2010-11	24212.3	10995.81	13216.49	2.28

*Source: Annual report

Working Capital turnover ratio is not satisfactory. Additional funds raised are invested in fixed asset instead of providing necessary working capital. The company may not be in a position to meet its obligations in time.

Fixed Asset Turnover Ratio

This ratio indicates the extent to which the investment in fixed assets contributed towards sales. These ratio calculated by Net sales/Net fixed Assets

Table 7: Net Sales and Net Fixed Assets of Tata Steel Limited

Year	Net sales	Net Fixed Assets	Fixed Assets Turnover Ratio
2014-15	42367.78	103827.95	0.408057561
2013-14	42498.67	99475.81	0.427226177
2013-12	39101.47	90372.08	0.432672016
2011-12	34819.19	83326.56	0.417864244
2010-11	30187.02	71438.7	0.422558361

*Source: Annual report

Fixed asset of a company are not held for sale but use in the business for a long span of time. Therefore a lower fixed asset turnover ratio is better. Tata Steel limited maintain lower ratio. Lower fixed assets ratio is satisfactory.

CONCLUSIONS

The Lower fixed assets ratio of Tata Steel Limited is satisfactory. But, Cash ratio is less than the standard and not encouraging for the entire study period i.e. 2010-11 to 2014-15. Though the additional funds raised are invested in fixed assets instead of providing necessary working capital, the Working Capital turnover ratio is not satisfactory. Accordingly, the management may resort to effective utilization of cash and bank balances in attractive investments or to pay back in short term liabilities (current ratio).

DIRECTION FOR FUTURE RESEARCH

The present study is limited to the extent of a single company. Hence, further research may be conducted to reflect the overall view of working capital management in the Indian Steel industry.

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