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Analysis of Working Capital on Steel Authority of India Ltd

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Abstract: ***Working Capital management involves managing the relationship between a firm's short term assets and its short terms liabilities. In other words working capital is the capital invested in different items of current assets needed for the business. viz, inventory, debtors, cash and other current assets such as loans & advances to third parties. Those current assets are essential for smooth business operations and proper utilization of fixed assets. Working Capital Management has its impact on liquidity as well as profitability. Working capital is the life blood and nerve center of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully without a working capital. It is traditionally opined that liquidity and profitability are inversely related. The purpose of this paper is to identify the impact of working capital management on profitability of steel authority of India Ltd. from financial year 2015-2019 and today's economy that helps us to Sustain in the future growth. The tools used in this study includes ratio analysis, and statement of change in W.C.***

Keywords: C.A., C.L., Working Capital Management, Current Ratio, Liquid Ratio

1. Introduction

Definition:
"The sum of the current asset is the working capital of a business." - J.S. Mill "Working capital is the amount of funds necessary to cover the cost of operating the enterprises". - Shubin

Concept of W.C.:
Working capital management is also one of the important parts of the financial management. Working capital is described as the capital which is not fixed but the more common uses of the working capital is to consider it as the difference between the book value of current assets and current liabilities.

Working Capital = C.A. - C.L.

Current assets - Current Assets are resources, which are in cash or will soon be converted into cash with the accounting year.

Current Liabilities - Current liabilities are commitments, which will soon require settlement with in the accounting year.

The objective behind working capital management is to ensure continuity in the operations of a firm and that is has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The basic theme of W.C. management is to provide adequate support for smooth the efficient functioning of day to day business operations by striking a trade between the three proportions of W.C. - They are liquidity, profitability and risk. The term working capital generally is used in two senses - G.w.c. and N.w.c. 'Gross working capital' which, denotes total current asset and 'net working capital' which denotes the excess of current assets over current liabilities, both the concepts have their own significance and relevance. In common parlance, w.c. is that part of capital. Which is in working or which is used to meet day to day expenses and on the basis of time the term w.c. is to generally used into two senses. -

Permanent Working Capital - It is also known as fixed working capital. It is the capital; the business concern must maintain certain amount of capital at minimum level at all times. The level of permanent capital depends upon the nature of the business. Permanent of fixed capital will not change irrespective of time or volume of sales.

Temporary Working Capital - It is also known as variable working capital. It is the amount of capital which is required to meet the seasonal demands and some special purposes. It can be further classified into seasonal working capital and special working capital. The capital required to meet the seasonal needs of the business concern is called as seasonal working capital. The capital required to meet the special exigencies such as launching of extensive marketing campaigns for conducting research etc. Permanent w.c. method is used in sail.

2. Introduction of the Study

Steel Authority of India limited (SAIL) is the largest steel-making company in India and one of the seven maharatna's of the country's central public sector enterprises. The government of India owns about 75% of SAIL's equity and retains voting control of the company. It headquarter is located at New Delhi, India.

SAIL operates and owns 5 integrated steel plants at Bhilai, Durgapur, Rourkela Bokaro, Burnpur (Asansol) and 3 special steel plants at Saleon, Durgapur and Bhadrawath. It also owns a ferro alloy plant at chandrapur. SAIL traces its origin to the Hindustan Steel Limited (HSL) which was set up on 19 January 1954.

Current Status

With an annual production of 16.30 million metric tons, SAIL is the 20th largest Steel Producer in the world and the 3rd largest in india. According to a recent survey. SAIL is one of India's fastest growing public sector units. 12000 metric tonnes of SAIL steel (more than 50 percent) used in construction of 182 meters tall. '**The statue of unity**', the world's tallest statue and SAIL also supplied 33,500 MT steel for lucknow-Agra express way. SAIL defence grade Steel used in Indian Navy's INS Kamorta the anti-submarine stealthcorvette.

Future Plan

The Hot metal production capacity of the company will further increase and is expected to reach a level of 50 million tonnes per annum by 2025.

3. Review of Literature

It was examined by Bose (2013) that the working capital management impacts on firms' profitability. It was found in the study that in the electric equipment sector source of the working capital management components widely vary. Kaur and Singh (2013) study examined that the efficiency and profitability can be managed through working capital management. Their findings were in support to the earlier studies that efficient management of working capital significantly impacts profitability. Also Kumar and Ramanan (2013) supported that there has been an impact of working capital management on profitability of manufacturing firms. They found a positive relationship between profitability and debtors' day and inventory days.

Kruti A. Patel (2015) studied on impact of working capital management on profitability of Indian Oil Corporation. The study was based on secondary data and study period was 2009-10 to 2013-14. Pearson correlation, descriptive statistic and INM SPSS were applied as research methodology. The results show that there is significant negative correlation between working capital management and net profit and it also indicates that there is negative relationship between liquidity and profitability.

Poonam Gautam Sharma and Preet Kaur (2015) examine the impact of working capital management on profitability of Bharti Airtel Telecom Company. The study period was 2007-08 to 2014-15 and statistical and econometric tools were used for study. The results reveal that there is significant negative relationship between liquidity and profitability of the company and it also reveals that quick ratio, inventory turnover ratio, debtors turnover ratio of company shows satisfactory performance and current ratio of company was found not satisfactory.

4. Research Methodology

Secondary Data - The study is based on secondary data. Which were collected from the published annual reports of SAIL and ministry of Steel, journals, books, newspaper, other publications, various websites etc.

Period of study - The research study covers a period of five years i.e. from financial year 2015-16 to 2019-20.

Data Analysis

Year March → ↓ Ratio	2015	2016	2017	2018	2019
Current Ratio	0.83	0.63	0.55	0.68	0.78
Quick Ratio	0.31	0.25	0.21	0.29	0.31
Stock to Ratio	2.58	2.66	2.83	3.39	3.44
Debt Equity	0.65	0.84	1.08	1.18	1.09

Source: Annual Reports of SAIL

The Current Ratio (CR) reflects in the corporate ability to meet its current obligations. It gives the idea about the short term solvency. The standards norm for CR is 2:1 the above table reveals that the CR has been decrease from 0.83 in 2015 to 0.78 in 2019. The CR is not equal to standard norm during the study period. Which indicates that there may be a little bit problems in meeting the short term obligation if the quality of C.A. is not so good. The liquid ratio reflects the corporate ability to meet short term obligation from liquid assets. It is the ratio between liquid assets (CA-Inventory) and current liabilities. The standard norms for LR is 1:1, the above table reveals the decreasing trends in liquid ratio. But it increasing from 0.29 in 2018 to 0.31 in 2019 and the inventory turnover ratio reflects the efficiency with which the inventory is utilized which means how effectively inventory is converted in sales. A very high or very low inventory turnover is unfavourable for the company because it indicates low or high investment in inventory respectively. The Inventory further of SAIL continuously increases in the study period. The debt Equity Ratio reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. Table reveals that debt equity ratio increases continuously during the study period. Which is good for creditors but not good for shareholders.

Statement of Change in W.C.

Particulars	**2015**	**2016**	**Increase (+)**	**Decrease (-)**
Current Assets				
Stock	17736.37	14679.53		3056.84
Trade Receivables	3192.00	3143.00		48.51
Cash and Cash Equivalents	2305.24	297.96		2007.51
Short term loan and advances	3056.33	64.09		2992.24
Other C.A.	2192.35	6013.58	3821.23	
Total Current Assets (a)	**28482.29**	**24198.65**		
current Liabilities				
Short terms Borrowings	14195.16	15574.86		1379.70
Trade payables	3606.38	4002.71		396.33
other C.L.	14016.53	16464.66		2448.13
Short terms provision	2638.71	2642.65		3.94
Total C.L. (b)	**34456.78**	**38684.88**	**3821.23**	**12333.20**
Net working capital (a)-(b)	(5974.49)	(14486.23)		
Decrease in W.C.		8511.74	8511.97	
	(5974.49)	(5974.49)	12333.20	12333.20

Particulars	2016	2017	Increase (+)	Decrease (-)
Current Assets				
Stock	14679.53	15711.35	1031.82	
Trade Receivables	3143.49	2921.69		221.80
Cash and Cash Equivalents	297.96	289.09		8.87
Short term loan and advances	64.09	61.47		2.62
Other C.A.	6013.58	6561.82	548.24	
Total Current Assets (a)	**24198.65**	**25545.42**		
Current Liabilities				
Short terms Borrowings	15574.86	19813.04		4238.18
Trade payables	4002.71	5219.20		1216.49
other C.L.	16464.66	18377.40		1912.74
Short terms provision	2642.65	2914.77		272.12
Total C.L. (b)	**38684.88**	**46324.40**	**1580.06**	**7872.82**
Net working capital (a)-(b)	(14486.23)	(20778.99)		
Decrease in W.C.		6292.76	6292.76	
	(14486.23)	(14486.23)	7872.82	7872.82

Source: Annual Reports of SAIL

The above table reveals that the Current liabilities of SAIL is higher than its current assess. The current assets for SAIL has been decrease between 2015 to 2016 and after that form f.y. 2016 to 2019. It continuously increasing. The current lia. for SAIL has been increase between 2015 to 2017, therefore as we can see the w.c. of SAIL is decrease in these years (2015-2017).

Particulars	2017	2018	Increase (+)	Decrease (-)
Current Assets				
Inventories	15711.35	16996.67	1285.32	
Trade Receivables	2921.69	3869.94	948.25	
Cash and Cash Equivalents	289.09	254.06		35.03
Short term loan and advances	61.47	63.41	1.94	
other C.A.	6561.82	8454.12	1892.30	
Total C.A. (a)	25545.42	29638.20		
Current liabilities				
Short terms borrowings	19813.04	12244.32	7568.72	
Trade payable	5219.20	7540.50		2321.30
Other C.L.	18377.40	21312.62		2935.22
Short terms provision	2914.77	2304.18	610.59	
Total C.L. (b)	46324.41	43401.62	12307.12	5291.55
Net w.c. (a-b)	(20778.99)	(13763.42)		
Increase in W.C.	7015.57			7015.57
	(13763.42)	(13763.42)	12307.12	12307.12

Particulars	2018	2019	Increase (+)	Decrease (-)
Current Assets				
Inventories	16996.67	19441.80	2445.13	
Trade Receivables	3869.94	4495.05	625.11	
Cash and Cash Equivalents	254.06	219.42		34.64
Short term loan and advances	63.41	53.24		10.17
other C.A.	8454.12	8039.76		414.36
Total C.A. (a)	**29638.20**	**32249.27**		
Current liabilities				
Short terms borrowings	12244.32	10631.22	1613.10	
Trade payable	7540.50	7257.99	282.51	
Other C.L.	21312.62	21399.48		86.86
Short terms provision	2304.18	2308.77		4.59
Total C.L. (b)	**43401.62**	**41597.46**	**4965.85**	**550.62**
Net W.C. (a-b)	(13763.42)	(9348.19)		
Increase in W.C.	4415.33			4415.23
	(9348.19)	(9348.19)	4965.85	4965.85

Source: Annual Reports of SAIL

The above table reveals that the current assets is less than its current liabilities. But the current assets increasing continuously from the f.y. 2017 to 2019 and c.l. is decreasing continuously during this period. So therefore we can see the change in w.c. In this period of study we can see the change positively in SAIL's w.c. Here the w.c. is increase.

Year	Net Sales	Net Working Cap.	Ratio
2019	66976.31	9348.19	-7.16
2018	57558.46	13763.42	-4.18
2017	44452.41	20778.99	-2.14
2016	39051.88	14486.23	-2.69
2015	45710.78	5974.49	-7.65

Source: Computed

The working capital turnover ratio indicated the velocity of the utilization of net w.c. the above table reveals the net working capital ratio of SAIL. The net working capital ratio is highest in the year 2017 (-2.14) and the lowest in the year 2015 (-7.65). The very high net working capital ratio indicates over trading and very low of N.W. C.R. indicates under trading.

5. Conclusion

Working capital is vital for the day to day operations of a company. Such as procuring raw materials, payment of wages, salaries and overheads, and making sure that production matches demand, among other key objectives. That is why companies are contently looking for ways to improve their working capital position. Shortage of w.c. may lead to lack of liquidity as well as loss of production and sales.

To maintain the solvency of the business and continue production, it is necessary that adequate funds be available to pay the bill for material, labour, selling and administrative expenses and other cost of doing business. The prompt payment or bills, to suppliers of materials ensures a continued supply the raw materials and established credit for the future or for reasonable operations.

From the study under taken it is clear that the various components of working capital are interrelated. An increase in one component will decrease the amount of other leading to maintain the level of working capital. It goes with the findings of Sharma and Kumar (2011) who found a positive relationship between profitability and number of days account receivables. The firm can invest more in the productive purpose and focus on the credit sales of the company which in turn increases the profitability of the company. The investment in the liquid assets of the firm also has a positive impact on the profitability of the firm.

In this study it is clear that the overall position of the w.c. of SAIL is satisfactory, but there is a need for improvement in inventory. From the beginning stage of the company the w.c. is not satisfactory. But now it has growing trend and also SAIL has negative w.c.. So SAIL need to utilized their current assets properly and should have maintain the level of w.c. I would like to suggest the simplest formula for improving the w.c. position is to collect receivables early and slow down the payables. This is of course, easier said then done. Many companies often find the reverse happing and run short on cash. Hence, SAIL has to constantly monitor its cash flow. There should be enough funds for meeting short terms debts, but that should not comes at the cost or losing return on investment (ROI) in assets.

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