# A Study on Financial Statement Analysis of Steel Authority of India

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**ABSTRACT:**
Financial statement analysis is the process of analyzing a financial statement for decision – making purposes. External stakeholders use it to understand the overall health of an organization and to evaluate financial performance and business value There are various methods and techniques used in analyzing financial statement such as comparative statements,trend analysis, common size statement, fund flow and cash flow analysis and ratio analysis

**Keywords:** Financial Statements, Accounting Ratio, Decisions, Financial Performance and Accounting Reports.

## INTRODUCTION

Financial statement analysis is the process of swotting and investigating the company's financial statements to make better economic consequences. It is used by a variety of stakeholders. To know whether the organization strategies is profitable or not, it is necessary to have an analysis of financial statements of the company.

In India, sector is the one of most economic and growing industry. The papers examine the profitability of [SAIL]. For the purpose various ratio of profitability are calculated and analyzed Finance is the life-line of all commercial activities. It is the master key, which provides access to all the sources being employed in manufacturing.. As a matter of fact, finance may be said to be the circulatory system of economic frame, making probable the needed co-operation among many units of activity. Finance is omni-present in every sphere of economic and business life.

Profitability is the ability to earn profit from all the activities of enterprises. It indicates the show well management of enterprises generates caring by using their sources at its disposal.. The investors want an adequate return their investments, workers want higher security for their interest and so on. Profit is the most useful measure of overall efficiency of the business.

The objective is to identify any weakness in the firm’s financial health that could lead to future problems and to determine strength that the firm might capitalize upon. The objective is to identify any weakness in the firm’s financial health that could lead to future problems and to determine strength that the firm might capitalize upon.

Financial Review is generally directed towards assessing the liquidity, stability and profitability of a concern which put together represents the financial efficiency of a concern. Financial performance in wider sense refers to the degree to which financial objectives have been accomplished and is an vital aspect of finance risk management. It’s the process of measuring the results of a firm’s policy and operations in monetary terms

## STATEMENT OF THE PROBLEM

Financial statement analysis is used to recongnize the trends and relationships between Financial statement items. Both internal management and external users (such as analysts, creditors, and investors) of the financial statements need to estimate a company's profitability, liquidity, and solvency. These methods include calculations and comparisons of the results to historical company data, competitors, or industry averages to determine the relative strength and performance of the company actuality examined.

## OBJECTIVES OF THE STUDY

- To understand the performance efficiency and managerial ability of Steel Authority of India (SAIL).
- To study the profitability and performance of Steel Authority of India (SAIL) with the help of significant ratios.

## LIMITATIONS OF STUDY

- This study is based on secondary data derived from published annual reports of Selected Telecom companies hence, its findings depends entirely on the accuracy of secondary data.
- There are many different approaches to analyze financial performance and experts will have different views for the different approach.

## RESEARCH METHODOLOGY

It is based on secondary Sources of data, which have been collected from official website of SAIL, and its annual reports, various web articles, internet, Various Website, magazines, journals and Newspaper etc.

## REVIEW OF LITERATURE

**Pal Shrabanti (2018)**,
conducted a study to investigate about the financial performance of selected companies. Liquidity has positive effect on profitability found by the study. It determined that due the unpredictability in world steel market.
**Krishnamurthi M. (2016).** investigated about the profitability of selected 07 large and medium capitalization steel companies in India. The collection of sample size was based on availability of data, continuous payment of dividend since last 3 financialyears and also listed in BSE and NSE.
**M.S. Mohankumar, Vasu V. & et.al (2016)**, has examined financial health of SAIL. The exploratory research design adopted. Research analysis was done by using Altman's 'Z' score correlation model from the year 2005 to 2015. The secondary data collected from annual reports of selected companies and website of moneycontrol.com. The result was that liquidity position of SAIL Company was below the traditional standards and profitability ratio show positive sign.

## RATIO ANALYSIS

Ratio analysis is a challenge to derive quantitative measure or guides concerning the financial health and profitability business enterprises.

## PROPRIETARY RATIO

The Proprietary Ratio is used to estimate the accuracy of the capital structure of a company. It is

computed by dividing the Stockholders equity by total assets.
SHAREHOLDERS FUNDS PROPRIETARY RATIO =
TOTALASSETS

**Table.1 Proprietary Ratio of Sail**

| YEAR | SHAREHOLDERS FUND | TOTAL ASSETS | PROPRIETARY RATIO |
|---|---|---|---|
| 2018 | 35713.67 | 114189.80 | 0.312 |
| 2019 | 38151.57 | 116437.73 | 0.327 |
| 2020 | 39777.38 | 125097.81 | 0.317 |
| 2021 | 43494.88 | 115732.43 | 0.375 |
| 2022 | 52017.14 | 117741.14 | 0.441 |
| **MINIMUM** | | | **0.312** |
| **MAXIMUM** | | | **0.441** |
| **AVERAGE** | | | **0.354** |

**INTERPRETATION**

The company's proprietary ratio ranged from a low of 0.312 in 2018 to a high of 0.441in 2022, with an average of 0.354 over the five-year period. This indicates that the company has relied more on debt financing than shareholder funding on average, with the highest level of shareholder funding in 2022. Overall, the company's proprietary ratio has fluctuated over the five-year period, with a trend of increasing shareholder funding from 2018 to 2022.

**INTEREST COVERAGE RATIO**

The interest coverage ratio is used to regulate whether the company is able to pay interest on the remaining debt obligations. It is calculated by dividing the company's EBIT (Earnings before interest and taxes) by the interest payment due on debts for the accountingperiod.

EBIT
Interest Coverage Ratio =
Interest on long term debt

**Table. 2 Interest Coverage Ratio of Sail**

| YEAR | EBIT | INTEREST ON LONG TERM DEBT | INTERESTCOVERAGE RATIO |
|---|---|---|---|
| 2018 | 5184 | 3006.72 | 0.58 |
| 2019 | 10283 | 18406.57 | 1.79 |
| 2020 | 11199 | 20494.17 | 1.83 |
| 2021 | 13740 | 39296.4 | 2.86 |
| 2022 | 22364 | 213799.84 | 9.56 |
| **MINIMUM** | | | **0.58** |
| **MAXIMUM** | | | **9.56** |
| **AVERAGE** | | | **3.324** |

**INTERPRETATION**

Overall, the data suggests that the company's ability to pay its interest expenses has significantly improved over the years, especially from 2018 to 2021, although there was a significant increase in 2022 due to a considerable increase in the interest on long-term debt. Ahigh interest coverage ratio generally indicates that the company is generating enough earningsto cover its interest expenses.

**PROFITABILITY RATIOS**

**OPERATING PROFIT RATIO**

Operating profit is Earnings before interest and taxes (EBIT) and net sales can also be defined as the revenue that is earned from the operations. Operating profit ratio is one type of profitability ratio and is therefore statedin the form of a percentage.

$$\text{OPERATING PROFIT RATIO} = \frac{\text{OPERATING PROFIT}}{\text{NET SALES}} \times 100$$

**Table. 3 Operating Profit ratio of SAIL**

| YEAR | OPERATING PROFIT | NET SALES | OPERATING PROFIT RATIO |
|---|---|---|---|
| 2018 | 4708 | 56893 | 8.2 |
| 2019 | 9807 | 66267 | 14.7 |
| 2020 | 10264 | 61025 | 16.8 |
| 2021 | 12776 | 68452 | 18.6 |
| 2022 | 21363 | 102805 | 20.7 |
| **MINIMUM** | | | **8.2** |
| **MAXIMUM** | | | **20.7** |
| **AVERAGE** | | | **15.8** |

**INTERPRETATION**

The company's operating profit ratio ranged from a low of 8.2% in 2018 to a high of 20.7% in 2022, with an average of 15.8% over the five-year period. This indicates that the company has been able to improve its profitability over time, with the highest operating profitratio in 2022.

**NET PROFIT RATIO**

Net profit margin ratio depicts the relationship between the net profit after taxes and net sales taking place in a business. It is a profitability ratio stated inthe form of percentages.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

**Table. 4 Net Profit Ratio of Sail**

| YEAR | NET PROFIT | NET SALES | NET PROFIT RATIO |
|---|---|---|---|
| 2018 | (482) | 56893 | -0.84 |
| 2019 | 2179 | 66267 | 3.2 |
| 2020 | 2022 | 61025 | 3.3 |
| 2021 | 3850 | 68452 | 5.6 |
| 2022 | 12015 | 102805 | 11.6 |
| **MINIMUM** | | | **-0.84** |
| **MAXIMUM** | | | **11.6** |

| | |
|---|---|
| **AVERAGE** | **4.572** |

**INTERPRETATION**

The company's net profit ratio ranged from a low of -0.84% in 2018 to a high of 11.6%in 2022, with an average of 4.572% over the five-year period. This indicates that the companyhas been able to improve its profitability over time, with the highest net profit ratio in 2022. Overall, the company's net profit ratio has consistently increased over the five-year period, witha trend of improving profitability. This may be due to various factors, such as cost-cutting measures, increased productivity, or higher sales prices.

**RETURN ON CAPITAL EMPLOYED**

Return on Capital Employed (ROCE) is to a financial ratio that can be used to assess a company's profitability and capital efficiency. ROCE is one of numerous profitability ratios financial executives, stakeholders, and probable investors may use when examining a company for investment

**EBIT**

**RETURN ON CAPITAL EMPLOYED** = $\frac{\phantom{X}}{\textbf{CAPITAL EMPLOYED}}$

**Table. 5 Return on Capital Employed ratio of SAIL**

| YEAR | EBIT | CAPITAL EMPLOYED | ROCE |
|---|---|---|---|
| 2018 | -759 | 64182 | 0.012 |
| 2019 | 3338 | 69977 | 0.048 |
| 2020 | 3171 | 87871 | 0.036 |
| 2021 | 6879 | 73668 | 0.09 |
| 2022 | 16039 | 63013 | 0.255 |
| **MINIMUM** | | | **0.09** |
| **MAXIMUM** | | | **0.255** |
| **AVERAGE** | | | **0.0882** |

**INTERPRETATION**

The minimum ROCE in the table is 0.09, which occurred in 2021. The maximum ROCEis 0.255, which occurred in 2022. The average ROCE for the period 2018-2022 is 0.0882. Overall, the data suggests that the company's efficiency and profitability of capital investments have significantly improved over the years, with a substantial increase in 2022. A higher ROCE generally indicates that a company is generating more profits from its capital investments, which can be seen as a positive signal to investors.

**RETURN ON ASSETS**

Corporate management, analysts, and investors can use ROA to determine how efficiently a company uses its assets to generate aprofit.

NET PROFIT RETURN ON ASSETS =

TOTAL ASSETS

**Table 6 Return on Assets ratio of SAIL**

| YEAR | NET PROFIT | TOTAL ASSETS | RETURN ON ASSETS |
|---|---|---|---|
| 2018 | -482 | 114189.80 | -0.42 |
| 2019 | 2179 | 116437.73 | 1.87 |

| | | | |
|---|---|---|---|
| 2020 | 2022 | 125097.81 | 16.1 |
| 2021 | 3850 | 115732.43 | 3.3 |
| 2022 | 12015 | 117741.14 | 10.2 |
| **MINIMUM** | | | **-0.42** |
| **MAXIMUM** | | | **16.1** |
| **AVERAGE** | | | **6.21** |

**INTERPRETATION**

The minimum ROA in the table is -0.42, which occurred in 2018. The maximum ROA is 16.1, which occurred in 2020. The average ROA for the period 2018-2022 is 6.21. Overall, the data suggests that the company's profitability in relation to its total assets has significantly improved over the years, with a substantial increase in 2020. A higher ROA mostly indicates that a company is making more profits from its assets. It is important to note that the ROA can vary significantly between different industries and companies.

## SUGGESTIONS

1. Current ratio of SAIL is low it should increase its current ratio so it can meet its short term obligations smoothly.
2. The company should maintain a sound short-term debt paying capacity infuture because the use of more amount of external funds may lead to short-term insolvency.
3. All operational and related activities should be performed efficiently and effectively
4. The liquidity position of the company suggests that it doesn’t have enough liquid assets to cover its short-term liabilities, so the company should look over this.
5. A high ratio of debt- equity indicates a risky business where there are more creditors of the firm than there are investors.
6. Gross profit margin ratio imitates a higher competence of core operations, i.e., it covers the operating expenses, fixed costs, dividends, depreciation and also provided that net incomes to the business.
7. The company should probably consider the use of the fund to invest other opportunities to get a profit.
8. It is advisable to increase quick assets to maintain a standard ratio.
9. Company must try to use working capital effectively for generating sales.

## CONCLUSION

Efficiency of any organization can be judged its profitability. Profitability of the firm is extremely partial by internal and external variables. i.e., size of organizations, analyses the liquidity, solvency, profitability and efficiency of the firm. From the study of financial performance, it can be concluded that SAIL has satisfactory positionin its operating profit but the firm needs to improve its liquidity and solvency. If the firm continues to perform with more efficiency and determination, it can achieve greater success in near future.

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