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Working Capital Management of TATA Steel Limited

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Abstract:
The current study focuses on Tata Steel Limited's working capital management. The primary goal is to execute a liquidity analysis on the company. Working capital management ensures that a business functions smoothly by keeping an eye on and making the most use of its current assets and liabilities. The liquidity analysis assists firm stakeholders in evaluating the company's liquidity status. The study is based on secondary data taken from the company's annual report. We analyzed the data using financial ratio analysis tools. The optimal amount of liquidity may reduce costs while contributing more to the success of a company.

Keywords: Working capital management, liquidity, Tata Steel Limited, Current Ratio, Quick Ratio, Cash Ratio, Net Working capital Ratio.

Introduction:
Over the last ten to twelve year, steel industry of India has grown dramatically. Since 2008, production has increased by 75% while domestic steel consumption has increased by over 80%. Steel production capacity has increased by over 80% steel production capacity has increased simultaneously and has mostly developed organically. Whit an output of 125.32 MT of crude steel and 129.29 MT of completed steel production in FY23.India is the second- largest producer of crude steel in the world. India is expected to produce 123-127 MT of steel in FY24, an increase in 4-7%.
The first integrated private steel corporation in Asia, TATA Steel was founded in India in 1907.Today steel is thriving on across continent. The company is one of the few steel operations that have complete integration, from the mining process to the manufacturing and marketing of the final product. With personnel spread around five continents, it currently operates in 26 countries and has a commercial presence in over 50 nations. The company’s operations for raw material are dispersed throughout Canada, which aids in its ability to produce steel on its own. With a crude steel capacity of 34 million tons per year MTPA in FY22, TATA Steel is currently the second most globally diverse steel company in the world. TATA Steel is the producer of steel with the lowest cost.
The research’s primary focus is on Tata Steel Limited's working capital management. Liquidity evaluation is the key objective of the research. The goal of managing working capital is to ensure that a firm runs consistently by keeping an eye on and making the best use of its current assets and obligations. Business processes enable organizations to maximize cash flow and make efficient use of their current assets. Every firm requires working capital to be functioning properly, and holding a better working capital position may enhance the efficiency of an organization's operations. Due to its close proximity to

a company's everyday operations, an evaluation of liquidity is vital for both internal and external examination. The ability of a business to pay its immediate debts on the day they become due is referred to as liquidity. A company can only satisfy its short-term obligations if it possesses sufficient liquid assets. Realizing sums from current, floating, or circulating assets fulfills the short-term obligations. If current liabilities are covered by current assets, the state of liquidity will be appropriate.

Literature review:

S and Shanti (2015), this paper investigates on working capital management with special reference to steel authority of India Ltd. Salem. The regression and‘t test are used to analyze the relationship between the inventory and current assets, sales and working capital. They found that major part of liquidity depends upon the inventory. According to this paper net working capital purely depends on current assets and the quick ratio is reveals that liquidity position of the company is satisfactory.

Ganeshan and Dev (2019, a paper on working capital management of TATA Steel Limited. The period of 2010-11 to 2014-15. The study based on secondary source of data. They used ratio analysis research tools. The conclusion of this study is well organized management of working capital minimizes the cost and does more for the success of the business. The conclusion of the study is the Lower fixed assets ratio of Tata Steel Limited is satisfactory. But, Cash ratio is lower than the standard and not hopeful 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 adequate working capital. The Working Capital turnover ratio is not satisfactory.

Lakshmi, B. Nandana,R. Krishika and K. Meenakshi (2021),the main objective of the study is to study the need of working capital requirement in an organization and to suggestion to improve the working capital performance of the company. They used secondary data for the study and tools used in the research are schedule of change in working capital. The company has a huge market reputation which is very evident with its high scale value but the company has a poor working capital management is not a positive sign of a good financial performance of the company. The company has to work towards improved capital management to increase its profits during the coming years by maintaining a positive working capital which follows an increasing trend.

Rahimi and Prabhakar (2022) discussed the working capital management with special reference to BHEL, Visakhapatnam. The study shows the BHEL COMPANY did not have an ideal working capital ratio over the last five year and most of the time being negative and faced to the problem and respective managers must address this issue and maintain a good working capital ratio for the company’s future. They suggest for effective inventory management and ABC analysis should be used.

Mahalakshmi and Sreehari(2022),the purpose of the study was to examine the effect of working capital management on a firm’s profitability. In this study they include five year data from 2007 to 2011 of RIL LTD. They found that there is a significant positive relationship between average collection period, inventory conversion period and the firm’s size with the firm profitability. Study also shows the significance inverse relationship between debt ratio (leverage) and firm’s profitability.

Dhanabhakayam M. & Bharanidevi K.(2018),study the working capital management of Infosys LTD .The various components for measuring the working. Capital management includes the Current ratio and Quick ratio on the Net profitability position of the Indian companies.

Objective:

- To study the working capital management of TATA Steel Limited by analyzing the liquidity position of the company during 2013-2023.

Research methodology:

A ten-year period of data, from 2013 to 2023, has been amassed for an analysis of the Tata Steel Limited's working capital management. For the purpose of this study, secondary data has been used. Data is obtained from the company's annual report, which is able to access on the official website of the company. Apply ratio analysis tools for analysis of data and interpretation. Computation of ratios relies on information obtained from the company's annual report.

Total current asset during the year 2013-14 to 2022-23

Assets that can be quickly turned into cash within a year are incorporated in current assets. Inventory, short-term investments, and accounts receivable, among others.

Table 1: component of current assets of Tata steel limited (Rs. In Crore)

- **Source: Annual Reports.**

Current Assets	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Investment	2343.24	1000.08	4320.17	5309.81	14640.37	477.47	3235.16	6404.46	96.11	2050.40
Inventories	6007.81	8042.00	7083.81	10236.85	11023.41	11255.34	10716.66	8603.79	19942.94	20795.56
Trade Receivable	770.81	491.46	632.80	2006.52	1875.63	1363.04	1016.73	3863.31	3280.30	3351.72
Cash & Bank	961.16	478.59	1014.67	970.31	4697.74	718.11	1226.88	1671.71	2855.29	1077.33
Short Term Loan And Advance	1299.20	1781.77	1243.48	27.14	74.13	55.92	1607.32	1555.95	2368.01	3191.26
Other Current Assets	1299.20	55.27	126.56	1225.48	1822.94	2209.98	1715.92	854.99	1339.08	2640.13
Derivative Assets	–	–	–	6.26	30.07	14.96	209.96	66.93	89.54	82.21
Other Financial Assets	–	–	–	315.06	480.62	940.76	940.76	351.54	718.30	2640.13
Total	12681.42	11849.17	14421.49	20110.40	34643.91	17035.58	19959.03	23372.68	31289.57	33949.52

Total current liabilities during the year 2013-14 to 2022-23

Any short-term financial obligation that is due within a year or during a normal company cycle constitutes a current liability. Current liabilities are typically settled using current assets, which are assets that are used up within one year.

Table 2: component of current liabilities of Tata steel limited (Rs. In Crore)

- **Source: Annual Reports.**

Current liabilities	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Short term borrowing	43.69	34.88	5261.02	3239.67	669.88	8.09	7857.27		11984.66	7298.12
Trade payable	8263.61	5801.98	7706.13	10717.44	11242.75	10970.56	10600.96	10638.59	21091.14	18082.40
Other current liabilities	8671.67	9111.52	6115.81	3543.80	5857.06	6365.59	5875.95	8013.00	12502.93	11725.76
Short term provision	1902.81	1675.41	2005.03	700.60	735.28	778.23	663.86	1074.43	1082.42	1080.94
Derivate liabilities	–	–	–	270.17	16.41	139.57	81.69	69.39	81.48	65.58
Other financial liabilities	–	–	–	4062.35	6541.40	6872.35	5401.55	5274.11	5137.54	5806.15
Retirement benefit obligation	–	–	–	56.58	90.50	102.12	106.61	116.10	114.99	109.51
Income tax liabilities	–	–	–	465.72	454.06	358.14	277.26	4093.26	1079.69	1714.98
Deferred income	–	–	–	–	–	–	6.15	34.44	67.84	9.81
Lease liabilities	–	–	–	–	–	–	–	–	522.14	544.05
Total	18881.78	16623.79	21087.99	23056.33	25607.34	25593.15	30871.30	29313.32	53664.83	46437.30

Current ratio analysis:-

A current ratio illustrates the way current liabilities and assets are related. This liquidity ratio reflects an organization's ability to settle short-term debt within a year. A highly high ratio suggests that the management of the organization may not be making efficient use of its financial resources.

Current Ratio = Current Asses / Current Liabilities

Table 3: Current Ratio of Tata Steel Limited (Rs. In crore)

Source: Annual Reports.

Year	Current Assets	Current Liabilities	Current Ratio
2013-14	11564.60	18881.78	0.612
2014-15	11849.17	16623.79	0.712
2015-16	14421.49	21087.99	0.683
2016-17	20097.43	23056.33	0.871
2017-18	34643.91	25607.34	1.352

2018-19	17035.58	25593.65	0.665
2019-20	19959.03	30871.30	0.646
2020-21	23372.68	29313.32	0.797
2021-22	31289.57	53664.83	0.583
2022-23	33949.52	46437.30	0.731

INTERPRETATIONS

The current ratio for Tata Steel Limited from 2013 to 2023 is shown in the above table. A commonly appropriate current ratio is 2:1 indicates that current assets ought to satisfy current liabilities two times over, however data analysis shows that current liabilities dominate current assets. The organization lacks the cash on hand to settle its immediate debt. Only in the 2017–18 fiscal years, with a value of 1.352:1, are current assets approximately equivalent to current liabilities. The table unequivocally shows that, in 2013–2023, their overall solvency of satisfying their current obligation on time is not adequate.

Quick ratio or acid test ratio analysis:-

The quick ratio serves as a measure for a company's short-term liquidity context and its capacity to pay short-term debt with its assets that are most readily available. A different acronym for it is the acid test ratio. A quick test aimed for obtaining an outcome quickly is colloquially referred to as an "acid test."Contrary to the current ratio, it is thought to be a more conservative metric. There is a relation between quick assets and current liabilities. The most liquid current assets that are readily convertible into cash are known to be quick assets

Quick Ratio = Quick Assets – Current Liabilities

Quick Assets=Current Assets – (Inventory +Prepaid Expenses)

Table 4: Quick Assets and Quick Ratio of Tata Steel Limited (Rs. In crore)

Source: Annual Reports.

Year	Quick Assets	Current Liabilities	Quick Ratio
2013-14	5556.79	18881.78	0.294
2014-15	3807.17	16623.79	0.229
2015-16	7337.68	21087.99	0.347
2016-17	9860.58	23056.33	0.427
2017-18	23620.5	25607.34	0.922
2018-19	5780.24	25593.65	0.225
2019-20	9242.37	30871.30	0.299
2020-21	14768.89	29313.32	0.503
2021-22	11346.63	53664.83	0.211
2022-23	13153.96	46437.30	0.283

INTERPRETATIONS

A quick ratio of 1:1 is regarded satisfactory. A company having a quick ratio less than one may be struggling to entirely pay off its current liabilities in the short term, instead a company having a quick ratio greater than one can entirely pay off its current liabilities. The greater the ratio results, better the company's liquidity and financial health. The lower the ratio results the greater the probability that the company might have trouble repaying its debts. The above table illustrates that the quick ratio is less than the ideal value from 2013-14 to 2022-23.It demonstrates inadequate oversight of quick assets, that will improve their liquidity position and play a role company perform their day-to-day needs.

Cash ratio or absolute liquidity ratio:-

The cash ratio assesses the company's absolute liquidity. This ratio addresses solely the firm's absolute liquidity. The cash ratio is determined by adding a company's total cash reserve, which includes cash at the bank and short-term marketable securities, and dividing it by its current liabilities. Since the cash ratio only considers a company's most liquid assets, it is more circumspect than other liquidity ratios.

Cash Ratio =Cash+ Marketable Securities / Current Liabilities
Cash=Cash in hand and cash at bank

Table 5: Cash Ratio of Tata Steel Limited (Rs. In crore)

Source: Annual Reports

Year	Cash & bank balance	Current Liabilities	Cash Ratio
2013-14	961.16	18881.78	0.050
2014-15	478.59	16623.79	0.028
2015-16	1014.67	21087.99	0.048
2016-17	970.31	23056.33	0.042
2017-18	4697.74	25607.34	0.183
2018-19	718.11	25593.65	0.028
2019-20	1226.88	30871.30	0.039
2020-21	1671.71	29313.32	0.057
2021-22	2855.29	53664.83	0.053
2022-23	1077.33	46437.30	0.023

INTERPRETATIONS

The satisfactory cash ratio is 1:2.The following table illustrates that this ratio is below standard norm during the study period, which runs from 2013-14 to 2022-23. The organization's highest cash ratio was 0.183:1 in 2017-18, which is also lower than the standard limits.

Net working capital ratio:-

Net working capital is defined as the difference between a company's current assets and current liabilities. The surplus of current assets reflects positive net working capital, that indicates that the organization have enough current assets to cover its current liabilities and obligations within a year.

Net Working Capital=Current Assets* – Current Liabilities*

Current Assets= include all current assets show in balance sheet

Current Liabilities= include all current liabilities shown in balance sheet

Table 6: Net Working Capital of TATA Steel Limited (Rs. In crore)

Source: Annual Reports

Year	Current Assets	Current Liabilities	Net Working Capital Ratio
2013-14	11564.60	18881.78	(7317.18)
2014-15	11849.17	16623.79	(4774.62)
2015-16	14421.49	21087.99	(6666.5)
2016-17	20097.43	23056.33	(2958.9)
2017-18	34643.91	25607.34	9036.57
2018-19	17035.58	25593.65	(8558.07)
2019-20	19959.03	30871.30	(10912.27)
2020-21	23372.68	29313.32	(5940.64)
2021-22	31289.57	53664.83	(22375.26)
2022-23	33949.52	46437.30	(12487.78)

INTERPRETATIONS

The above table illustrates the net working capital ratio throughout the ten-year period 2013-14 to 2022-23.Tata Steel Limited's working capital is quite low. The net working capital ratio has been negative for several years. Only in the fiscal year 2017-18 was the company's net working capital observed to be positive. This year, current assets exceed current liabilities. The negative value of the net working capital ratio indicates that the company cannot maintain its present assets and liabilities.

Conclusion:

The study demonstrates that Tata Steel Limited did not have an optimal liquidity position. They have insufficient funds to meet their current obligations. The company's current, quick, and cash ratios are all below satisfactory thresholds. The company's net working capital ratio is often negative. As a result, management must handle this issue in order to sustain the company's liquidity position in the future and ensure that existing assets are used effectively to pay back short-term obligations on time.

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