INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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FINANCIAL ANALYSIS OF TATA STEEL LTD- A CASE STUDY

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ABSTRACT

Ratio analysis has been a primary tool of conducting financial analysis of any company. Different ratios highlight overall financial position of a company. This research paper aims at analyzing the financial performance of Tata Steel Ltd using the framework of ratio analysis. The basic objective of this paper is to evaluate and judge the performance of Tata Steel during the research period. The reference period for the study is 10 years beginning from year 2001-02 to 2010-11.Data for the study has been taken from the annual report of Tata steel for the year 2010-11. The study reveals that Tata Steel performed well in terms of return available to all the investors measured as return on average capital employed. It also revealed that Tata steel offered a higher return to equity shareholders measured in terms of return on equity and earnings per share during the reference period .However, declining return on average net worth on year on year basis is a cause of concern for TSL. Besides, this it was also found that debt policy of the company is very conservative as it uses lower degree of risk to avoid financial risk and insolvency risk. Though, TSL is performing well at least in terms of book value measures as highlighted above, markets don't seem to be favoring the stock of TSL as it is offering lower premium on its share in terms of low P/E Ratio which also offers an opportunity to conduct further research

KEYWORDS
Ratio, Return, net worth, equity, earnings.

INTRODUCTION
Financial analysis is an important activity of evaluating financial soundness of the companies. Ratio analysis being a primary tool of financial analysis helps in assessing and evaluating financial health of the companies using various types of ratios. Financial ratio analysis can be broadly classified into different categories viz, liquidity ratio, turnover ratio, profitability ratio, leverage ratio and valuation ratio. Ratio analysis is primarily conducted using figures drawn from profit and loss account and balance sheet which are publicly available. Ratio analysis thus provides an overall picture of financial position of the companies to the investors, regulators, stakeholders and analysts who are directly or indirectly interested in the performance evaluation of companies.

PROBLEM STATEMENT
The basic problem which is to be investigated in this study is the financial soundness of Tata Steel over a period of years. It thus aims at measuring financial performance of Tata Steel using ration analysis. Different ratios viz, profitability ratio, valuation ratio, leverage ratio, and turnover ratios are calculated to evaluate overall financial performance of the Tata Steel.

RESEARCH OBJECTIVE
The basic objective of this research paper is to analyze the financial position of Tata Steel during the last 10 years using different ratios and comment on the progress made by Tata steel during the study period.

LITERATURE REVIEW
The need for reliable financial statement data and the importance of financial ratios for analysis and prediction is well established in the literature. Beginning with Beaver's (1966) contention that standard financial ratios can predict the financial performance of firms, many subsequent studies have attempted to demonstrate the predictive value of various techniques for estimating actual business performance.

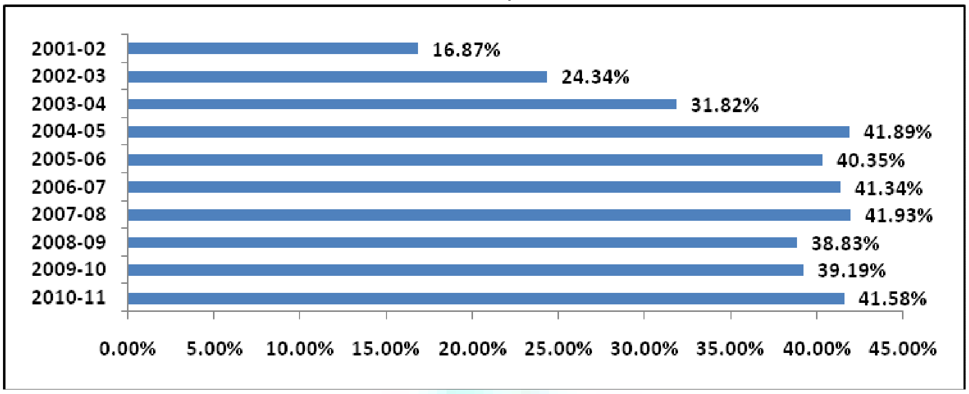
Altman (1981) attempted to improve conventional ratio analysis by using multivariate analysis on a sample of manufacturing firms, 105 bankrupt firms and 2,058 non bankrupt firms. Ohlson (1980) concluded from his research that firm size was directly related to firm financial performance with smaller firms more likely to fail than larger ones.

Zavgren (1985), using a sample of 45 bankrupt and 45 non bankrupt firms, identified seven variables that were used to predict the future financial performance of businesses. Deakin (1972) advanced the research of Beaver and Altman by including the fourteen important ratios identified by Beaver with the multivariate methodology of Altman. Using a sample of 32 failed and 32 nonfailed firms, Deakin found that cash flow coverage to total debt was important for predicting bankruptcy. Blum (1974) also used a failed versus non failed model in his research for predicting bankruptcy of a firm.

During the 1980s, the research emphasis in the area of ratio analysis turned to cash flow indicators following the study of Largay and Stickney (1980) of the failure of W. T. Grant. This largely single case study found that liquidity ratios and measures of cash flows from operations were the best predictors of the future success of a business. However, the conclusions of this study were questioned by the findings of Casey and Bartzca (1984 and 1985). Using a sample of 30 bankrupt firms, with another thirty firms held out for validation, Casey and Bartzca found that standard accounting ratios were better for predicting firm failure than cash flow measures. Unfortunately, the sample assumptions were not tested and this study did not take into consideration firm size when reaching conclusions

METHODOLOGY
Research was done based on secondary data drawn from Tata steel's annual report for the year 2010-11. Financial ratios for last 10 years were taken from this annual report. Research is thus historical in nature as it relies on historical data.

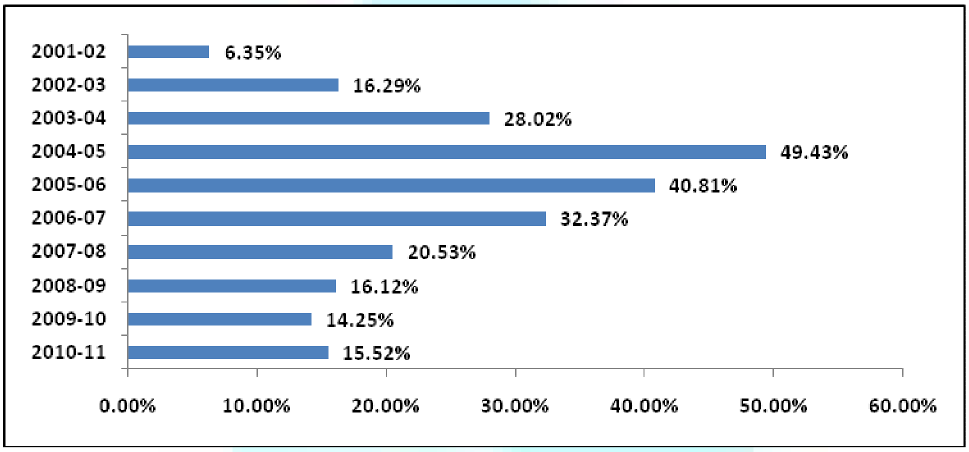
CHART -1: EBIDTA/TURNOVER



Source: Tata Steel Annual Report, year 2010-11

It is clearly shown form the chart-1 that EBITDA/turnover has increased from 16.87% in 2001-02 to 41.58% in 2010-11 which indicates significant jump in the earnings turn over. The average EBITDA/ turnover ratio works out to be 35.81% with a standard deviation of 10.67%.EBITDA turnover increased significantly during initial three years due to jump in the demand. In year 2008-09 EBITDA/ turn over slighthly decreased due to moderating demand an since then there has been erratic movement this ratio due to changing industry demand and rising input cots.

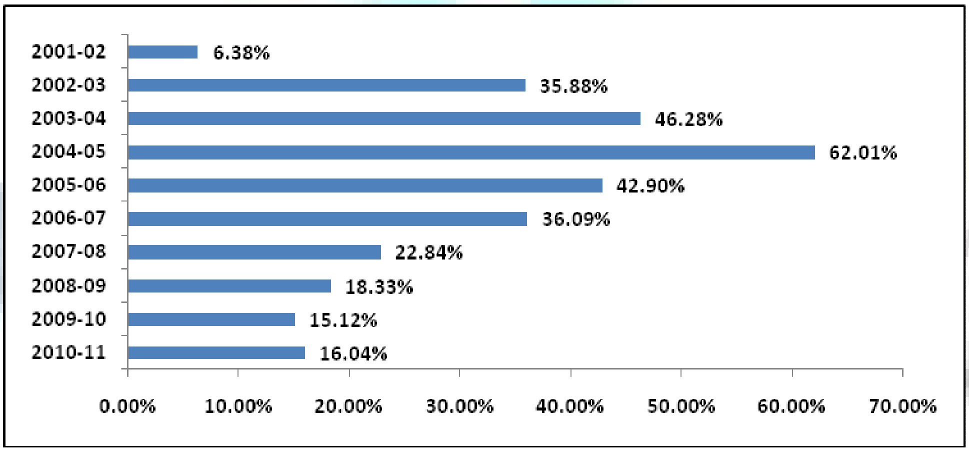
CHART -2: RETURN ON AVERAGE CAPITAL EMPLOYED



Source: Tata Steel Annual Report, year 2010-11

Return on average capital employed increased from 6.35% in 2001-02 to 15.52 in 2010-11 showing impressive growth in the returns earned on deployed capital. Average of return on capital employed worked out to be 23.97% with the standard deviation of 13.45% . In the year 2004-05 company posted almost one and half fold increase in its return on average capital employed indicating the efficient deployment of its fized assets. However since then, return has been declining consistently which is a worrying factor for the company. One of the reasons that could be attributed for this deterioration in return on average capital employed is acquisition of Chorus by TSL and its cascading effect on the financials of the company. As the acquisition was done using high degree of leverage it adversely affected the return on average capital employed in the company. However in the last fiscal year i.e. 2010-11 the return has improved marginally.

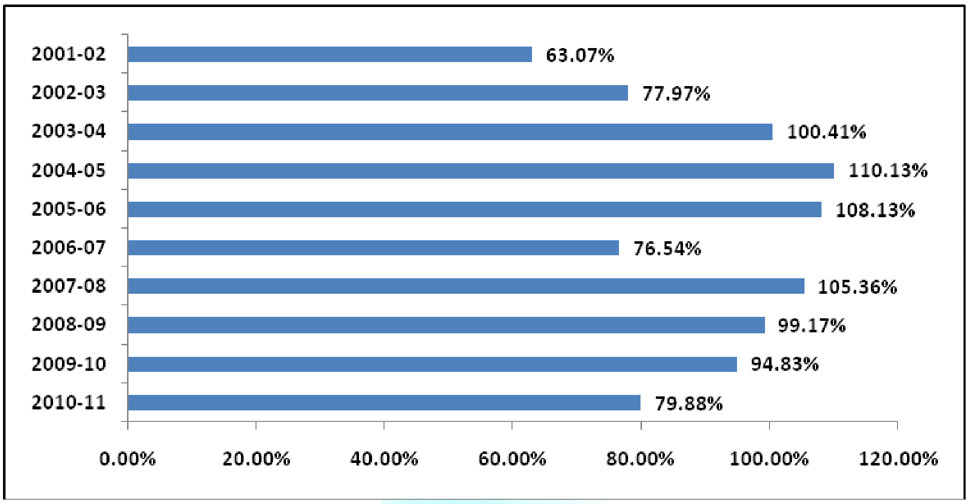
CHART - 3: RETURN ON AVERAGE NET WORTH



Source: Tata Steel Annual Report, Year 2010-11

Return on average net worth has witnessed two and half fold jump over a period 2001-11 with an average of 30.19% and standard deviation of 17.29%. Higher return on net worth indicates that TSL generated higher earnings for its shareholder showing efficient utilization of equity resources. However, return on average networh showed significant fluctuations over the period. In the year 2002-03 return increased from 6.38% to 35.88% where as it decreased to 42.09% in year 2005-06 from 62.01% in the year 2004-05. Since then, it has been declining consistently which indicates that TSL found it difficult to maintain higher return on net worth with the passage of time and could not manage the declining return giving a bad signal to shareholders when it comes to meeting their expectations.

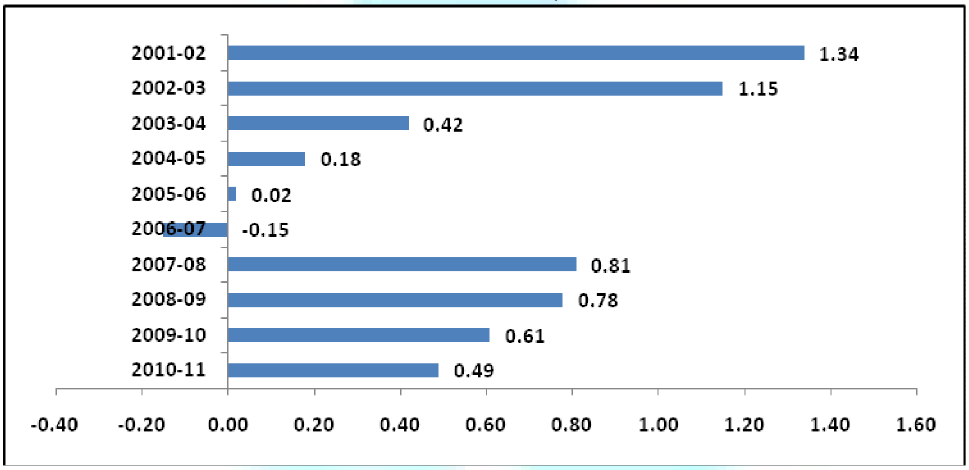
CHART – 4: ASSET TURNOVER



Source: Tata Steel Annual Report, Year 2010-11

Chart -4 depicts that asset turnover has significant changes over a period of time. On an average it remained 91.55% with a standard deviation of 16.04%. Figure of asset turn over indicates that company sales are very volatile as there has been a significant variation in the turnover ratios over a period of time. In the year 2003-04 TSL.

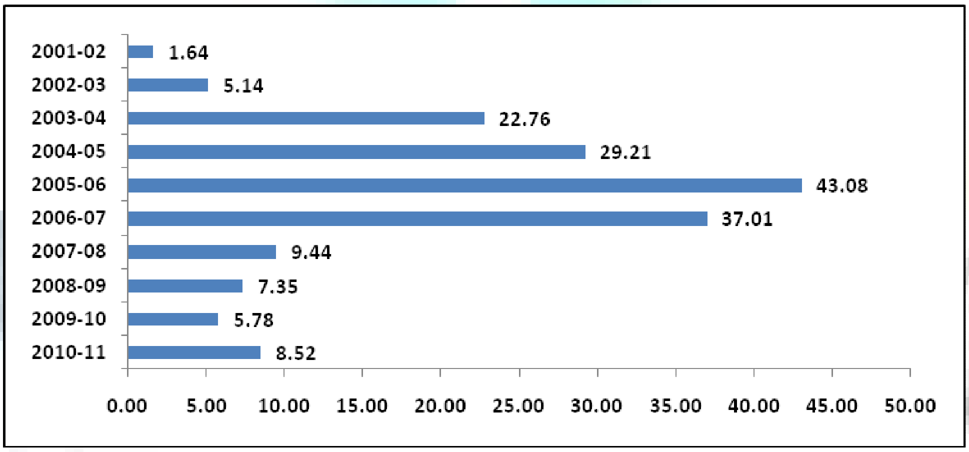
CHART – 5: NET DEBT TO EQUITY RATIO



Source: Tata Steel Annual Report, Year 2010-11

As shown in chart-5 net debt to equity ratio of Tata Steel decreased significantly from 1.34 in year 2000-01 to .49 for the year 2010-11 indicating lower degree of financial leverage and hence less financial risk. On average net debt to equity ratio remained 0.565 with a standard deviation of 0.48.

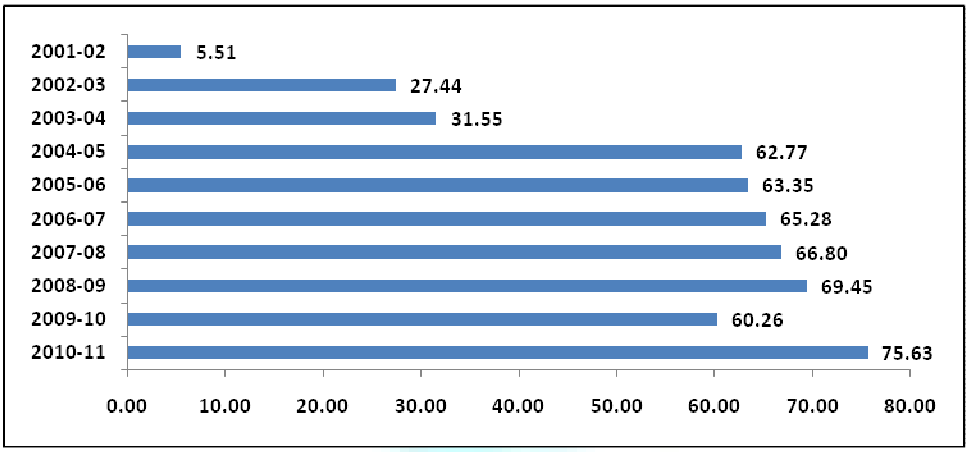
CHART - 6: INTEREST COVER RATIO



Source: Tata Steel Annual Report, Year 2010-11

Interest cover ratio has increased significantly from 1.64 to 8.52 witnessing a quantum jump of five times indicating robust earnings to cover the fixed interest obligations. Average interest cover ratio worked out to be 16.99 with a standard deviation of 14.86.This ratio thus indicates that Tata Steel is in comfortable position in meeting its debt obligations and may not face any insolvency risk as it has favorable high interest cover ratio.

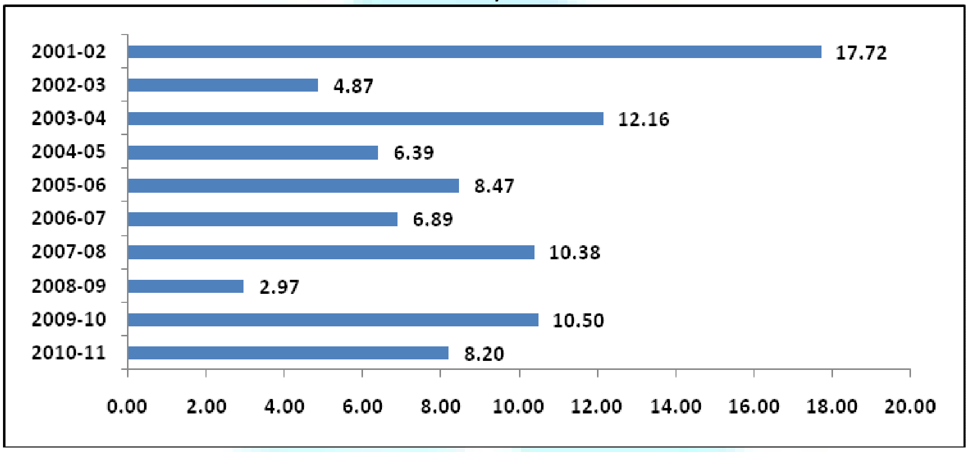
CHART – 7: EARNINGS PER SHARE (BASIC)



Source: Tata Steel Annual Report, Year 2010-11

Chart-7 depicts that earnings per share has increased by almost fifteen times over the period 2001-2011 indicating the earnings capacity of the Tata steel measured against number of equity shares outstanding. Looking at this figure it quite clear that Tata Steel has consistently performed well to magnify the earnings for its shareholders.

CHART - 8 P/E RATIO



Source: Tata Steel Annual Report, Year 2010-11

P/E ratio of Tata steel has reduced significantly from 17.72 in 2001-02 to 8.20 in 2010-11 indicating that market is not ready to pay pre=high price for each rupee earned by Tata Steel. Declining P/E ratio thus indicates that market is not so bullish about the company's performance and may not be paying high price to acquire its stock.

DISCUSSION

HIGHER EBITDA/ TURNOVER

Tata Steel Ltd (henceforth referred to as TSL) has been able to generate higher EBITDA turnover which implies that company is generating higher earnings before the deduction of any financial charges which in turn indicates operating efficiently of the TSL. Analysts and investors will consider higher EBITDA turnover as a signal of operating efficiency of the company. This ratio indicates the extent to which TSL has generated earnings before meeting fixed obligations like interest and taxes and thus allow inter firm comparison within the industry. Looking at the trend of EBITDA /turnover it can be said that TSL has been performing consistently in terms of generating pre tax earnings.

DECLINING RETURN ON AVERAGE CAPITAL EMPLOYED

Declining return on average capital employed is a cause of concern for TSL. Since 2005-06 TSL has registered consistent declining return which raise question about the efficient deployment of capital and is ability to earn higher returns. TSL need to fine tune the deployment of resources to come out of this declining trajectory. In the last fiscal year TSL did manage to improve its return marginally but it is not sufficient to arrest the declining trend giving negative signals to the investors and stakeholders.

DECLINING RETURN ON AVERAGE NETWORTH

TSL's return on average networth has witnessed significant erosion as evidenced by the figures of different years. Declining return on average networth implies that TSL has not been able to earn higher return for its shareholder thus giving a negative signal to the shareholder. This also implies that shareholders may start thinking about alternative investment opportunities if the trend does not reverse and TSL could not get out of this trap of declining return on average networth. TSL may not be able to derive the benefit of trading on equity if it has not been able to generate higher return on networth.

INCREASING ASSET TURNOVER

TSL is comfortably placed as regards with asset turnover. Asset turnover has increased significantly in the initial few years of the study. It rose to highest level of 110.03% in the year 2004-05. Since then it has been moderating and has remained around 80% in the year 2010-11. On an average TSL has managed gerate stable turnover.

BALANCED FINANCIAL LEVERAGE

TSL has maintained balanced financial leverage as evidenced in the debt equity ratio. In the initial years, it did have high degree of leverage as the debt equity ratio was more than one. But since then it has reduced its debt exposure and maintained a balanced debt equity ratio at the end of year 2010-11 with debt ratio of 0.49. This implies that TSL has reduced its financial risk drastically be reducing is degree of financial leverage. This balanced financial leverage will help TSL to use leverage in future as and when required to magnify the earnings for shareholders.

VOLATILE INTEREST COVER RATIO

Interest cover ratio of TSL witnessed a severe volatility as it witnessed whopping jump in the initial few years followed by a drastic fall in the subsequent years. This volatility in interest cover ratio is a cause of concern as it creditors will see be quite ken to se interest cover ratio either increasing or remaining stable. The volatility of interest cover ratio gives a negative signal to the creditors regarding the debt paying capacity of the company which needs to be investigated and addressed immediately.

INCREASING EARNINGS PER SHARE

In terms of gerating higher earnings per share TSL has performed really well as evidenced by increasing earnings per share on year on year basis. A higher earnings per share indicates that TSL has earned more money per share giving a positive signal to the market regarding the earning capacity of the company. Looking at the trend of earnings per share it can be concluded that TSL has performed exceedingly well while generating higher return per share.

VOLATILE PRICE EARNINGS RATIO

Price earnings ratio of TSL remained highly volatile. It decreased form 17.72 in year 2001-02 to 8.2 in 2010-11 showing almost a reduction of fifty percent. This implies that markets do not seem to be ready for paying higher price for each rupee earned by TSL. It also implies that investors are very cautious about buying and holding shares of TSL given as reflected in the volatile price earning ratio.

KEY FINDINGS

Return on average capital employed of TSL increased by two and half fold generating more return for all the categories of investors. It also implies that TSL has managed to deploy its resources fairly well in order to generate higher return on the deployed resources over the reference period. TSL also did exceedingly well in maximizing return available to its equity shareholders as its return on average net worth increased from 6.38% in 2001-02 to 16.04 %in 2010-11. But the return on average net worth has decreased on year on year basis triggering a cause of concern for TSL. Higher return on average net worth indicates that TSL is performing well in terms of the expectations of shareholder as. As far as leverage ratios are concerned. TSL is placed in a very safe position as it has high interest coverage ratio and less debt equity ratio. TSL has managed to reduce its debt equity ratio from 1.34 in 2001-02 to .49 in 2010-11 indicating lower degree of financial leverage and less financial risk. This also implies that TSL has reserved its capacity of borrowing money in future and can benefit from trading on equity. Besides this, TSL's interest coverage ratio of 8.52 also indicates that it is in comfortable position when it comes to meeting its debt obligations. Higher interest coverage ratio also implies that TSL will find it easy to raise more fund from the market in future as it is consistently generating higher income to cover its interest expenses. TSL also witnessed a quantum jump in its earnings per share for the reference period. Its earning per share increased almost fifteen times form 5.51 in 2001-02 to 75.63 in 2010-11. Thus TSL managed to earn higher returns to its shareholders. P/E ratio of TSL has decreased from 17.72% to 8.20% indicating lower premium offered by shareholders in relation to earnings of TSL. It seems that investors are bearish about the fundamentals of TSL and may not be wiling to pay high premium for each rupee earned by TSL when it comes to buying a stock of TSL.

CONCLUSION

TSL has performed well almost on all the parameters. This study reveals that TSL has managed to earn consistently higher returns on its net worth and capital employed. Although, return on average net worth in the year 2010-11 was almost two and half fold than that of 2001-02 it decreased markedly on year on year basis which is a worrying factor for TSL. Low debt equity ratio of TSL also signals low risk and avoidance of insolvency risk. With high interest coverage ratio, TSL would be in a position to meet its debt obligations easily and can avoid the possibility of facing liquidity risk. Though TSL is performing well at least in terms of book value measures as highlighted above, markets don't seem to be favoring the stock of TSL as it is offering lower premium on its share in terms of low P/E Ratio which also offers an opportunity to conduct further research.

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