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FINANCIAL PERFORMANCE OF SALEM STEEL PLANT, SALEM

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Abstract: *The article entitled Financial Performance of Salem Steel Salem analyzes the Financial Performance of the Steel Authority of India Ltd. Finance is very important for any business. Finance is a life blood for any organization. The main objective of the study is to analyze the Financial Performance of the Salem Steel Plant. The research is based on the following methodology. Analytical research design is the research design adopted in this study. Secondary data was obtained from various records of the Salem Steel Plant.. The collected data is analyzed by using Ratio Analysis, Statement of changes in Working Capital, The analysis reveals that there is a fluxion in the gross profit and net profit during the study period. The study helps to identify the financial position of the company. Optimum utilization of working capital can be planned so as to result in sound financial position of the company.*

Keywords: *Salem Steel Plant, Financial Performance and Ratio Analysis.*

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INTRODUCTION ABOUT THE STUDY

Finance is regarded as the lifeblood of a business enterprise. In general, finance may be defined as a provision of money at the time it is wanted. "Business finance can broadly be defined as the activity concerned with planning, raising, controlling and administering of the funds used in the business".

DEFINITION

According to Solomon, financial management is concerned with the efficient use of an important economic resource, namely, capital funds.

According to Philippauts, "Financial Management is concerned with the management decisions the result in the acquisitions and financing of long term and short term credits for the firm. As such it deals with the situations that require selection of a specific asset as well as the problem of size and growth of an enterprise. The analysis of this decision is based on the expected inflows and outflows of funds and their effects upon managerial objectives.

CONCEPT OF FINANCIAL STATEMENT

Financial statement, also called financial report, refers to such statements as it contains financial information of the enterprise. They are over all general purpose entities statement as they report financial position and operation results of an enterprise business at the end of account period. As a matter of fact, these statements reflect the total of the summary of the books of account.

FINANCIAL PERFORMANCE ANALYSIS

The financial statement provides the basic data for financial performance analysis.

Basic limitation of the traditional financial statement comprising the balance sheet and the profit and loss account is that they do not give all the information regarding the financial operations of a firm. Nevertheless, they provide some useful information to the extent the balance sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners equity, and so on. The profit and loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the incurred during the year. Thus, the financial statements provide a summarized view of the financial position and operations of a firm. Therefore, much can be learnt about a firm from a careful examination of its financial statements as invaluable documents / performance reports. The analysis of financial statements is, thus, an important aid to financial analysis.

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The first task of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation, and evaluation.

NATURE OF FINANCIAL STATEMENTS

According to the American Institute of Certified Public Accountancy Financial Statements reflect a combination of recorded in the financial are not depicted in the financial statements, however material they might be, for example, fixed assets are shown at cost irrespective of their market or replacement price since such price is not recorded in the books.

LIMITATIONS OF FINANCIAL STATEMENT

Financial statements are prepared with the object of presenting a periodical review or report on the progress by the management and deal with the 1) status of the investments in the business and 2) results achieved during the period under the review.

OBJECTIVES OF THE STUDY

- To study and analyze the existing financial performance of the company.
- To study and identify the financial position of the company.

LIMITATIONS OF THE STUDY

- The study is mainly depends upon the secondary data.
- The Financial data cannot be estimated accurately for the future period.

CURRENT RATIO

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is known as capital ratio. Is a measure of general liquidity and is mostwidely used to make the analysis of short – term financial position.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

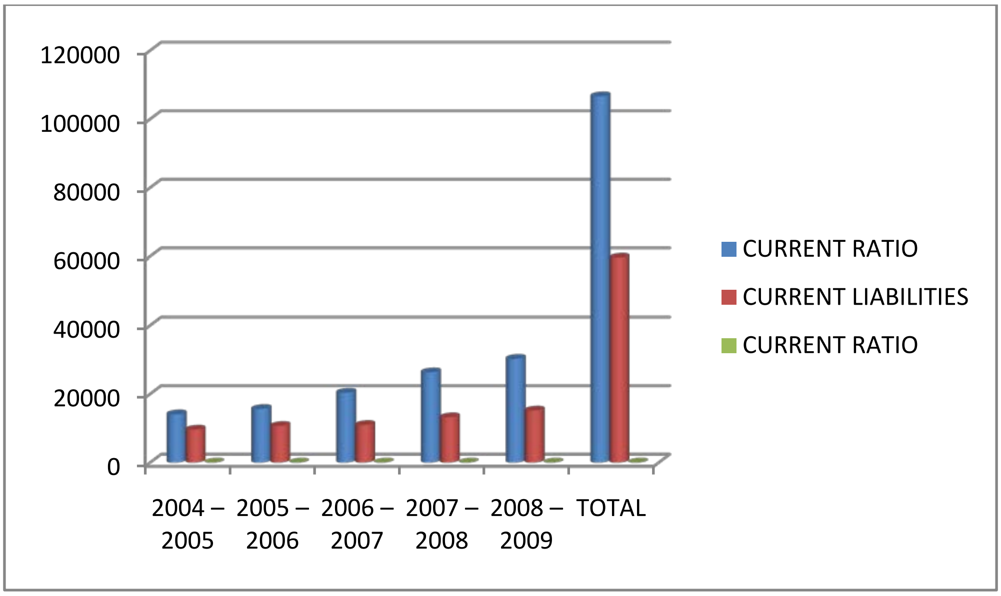
Table-1 Showing the position of current ratio Rs in Crores

YEAR	CURRENT RATIO	CURRENT LIABILITIES	CURRENT RATIO
2004 – 2005	14067.34	9607.72	1.318
2005 – 2006	15630.38	10675.24	1.464
2006 – 2007	20378.62	10948.98	1.861
2007 – 2008	26317.62	13198.75	1.993
2008 – 2009	30265.26	15178.56	2.291

Source: Annual Report from Salem Steel Plant

The above table shows that the current ratio is 1.318 in the year 2004 & 2005, 1.464 in the year of 2005 & 2006, increase in current ratio of 1.861 in the year of 2006 & 2007, 1.993 in the year of 2007 & 2008 From the above it is observed that the highest current ratio is 2.291 occurred in the year 2009 and lowest current ratio is 1.318 in the year 2005. During the study period the overall average current ratio is 1.785. The company has managed current assets and also current liability in a better manner.

CHART-1 CURRENT RATIO



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QUICK RATIO

Quick ratio also known as acid test or liquid ratio established a relationship between quick (or) liquid assets and liquid liabilities. An asset is said to be liquid if it can be converted in to cash with in a short period without loss of value. The other liquid assets are bills receivables such debtors, marketable securities and temporary investments.

$$\text{Quick ratio} = \frac{\text{Quick assets} - (\text{stock})}{\text{Current liabilities} - (\text{bank overdraft})}$$

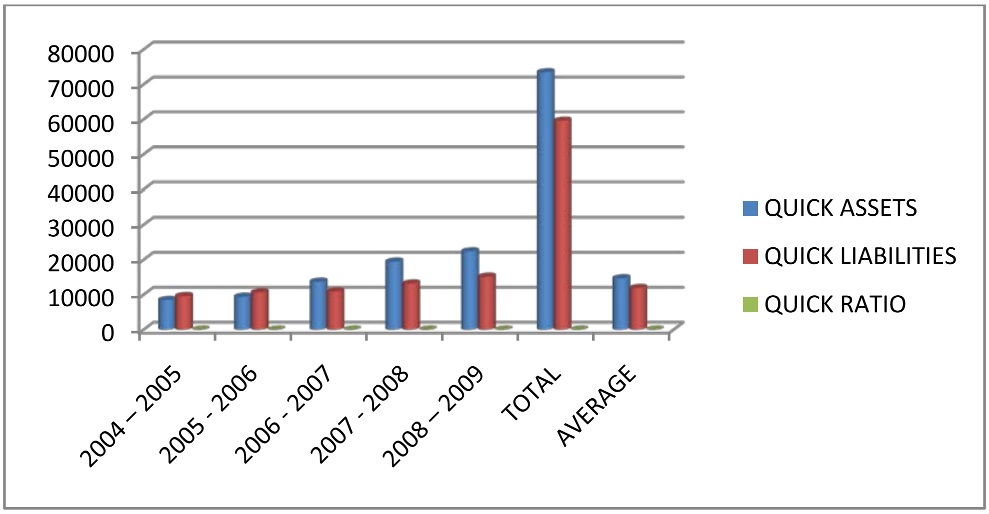
TABLE-2 Showing the position of quick ratio Rs in crores

YEAR	QUICK ASSETS	QUICK LIABILITIES	QUICK RATIO
2004 – 2005	8478.69	9607.72	0.72
2005 - 2006	9420.77	10675.24	0.88
2006 - 2007	13727.15	10948.98	1.25
2007 - 2008	19460.39	13198.75	1.47
2008 – 2009	22379.45	15178.56	1.69

Source: Annual Report from Salem Steel Plant

The above table shows that the quick ratio of Salem Steel Plant for the study period. From the above it is observed that the highest liability ratio is 1.69 occurred in the year 2009, and lowest liquidity ratio is 0.72 occurred in the year 2005. The overall average liquidity ratio is 1.202 during study period. The high liquidity ratio is signal of obligation of Salem Steel plant to pay its short – term obligations which are satisfactory for the Salem Steel Plant.

CHART-2 QUICK RATIO



Gross Profit Ratio

Gross profit ratio measures the relationship of gross profit to net sales and is usually represented as a percentage.

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

The gross profit ratio indicates the extent to which selling prices of goods per unit may decline without resulting in loss on operations of a firm. As the gross profit is found by deducting cost of goods sold from the net sales, higher the gross ratio better the result.

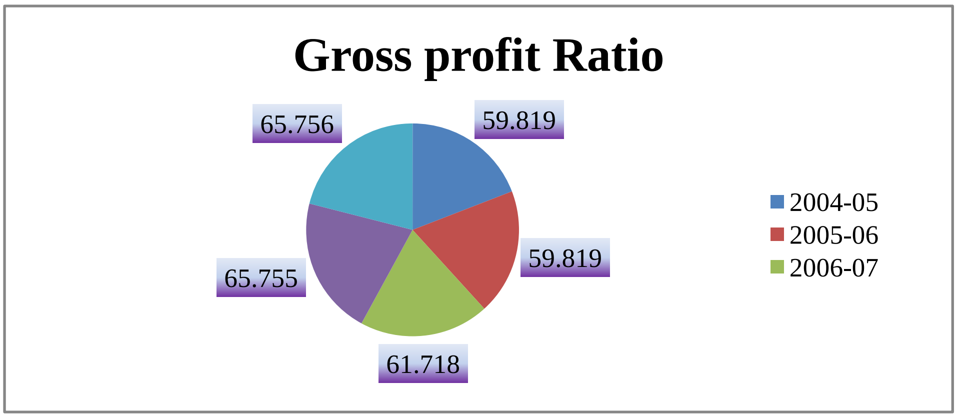
Table-3 Showing the position of Gross Profit Ratio Rs in Crores

Year	Gross profit	Net Sales	Gross Profit Ratio
2004 – 2005	14999.11	25074	59.819
2005 – 2006	16665.68	27860	59.819
2006 – 2007	20937.24	33923	61.719
2007 – 2008	25978.86	39508	65.755
2008 – 2009	29875.68	45434	65.756

Source: Annual Report From Salem Steel Plant.

The above the table show that the G.P ratio is 59.819in the year of 2004-2005, and again same in the year of 2005-2006 and increased to 61.719 during the year 2005-2006and increase to 65.755 in the year of 2007-2008 and 65.755 there is no change in the previous year. It indicates the efficiency of production or trading operation. A high gross profit ratio is good management as it implies the cost production is relatively low.

Chart-3 Showing the Position of Gross Profit Ratio



NET PROFIT RATIO

Net profit ratio establishes a relationship between net profit and sales and sales and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm.

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

This ratio indicates the firm's capacity to face adverse economic conditions such as price competition, low demand etc. higher the ratio the better the profitability.

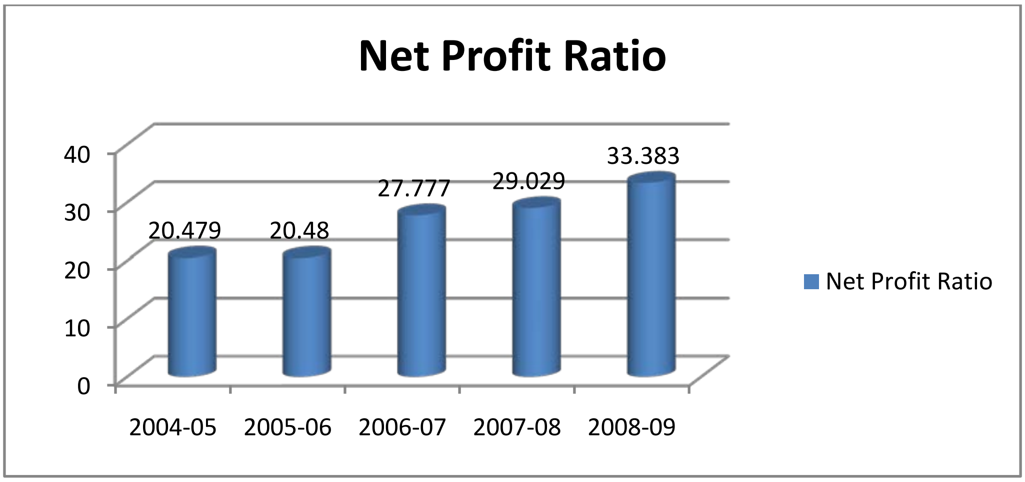
Table-4 Showing the position of Net Profit Ratio Rs in Cores

Year	Profit before tax	Net sales	Net profit Ratio
2004 – 2005	5135	25074	20.479
2005 – 2006	5706	27860	20.480
2006 – 2007	9423	33923	27.777
2007 – 2008	11469	39509	29.029
2008 – 2009	13189	45435	33.383

Source: Annual Report From Salem Steel Plant.

The above table shows the net profit ratio is 20.479 in the year of 2004-2005, and again same in the year of 2005-2006, increased to 27.777 in the year of 2006-2007, again increase to 29.029 in the year of 2007-2008, and increased to 33.383 in the year 2008-2009

Chart -4 Showing the position of Net Profit Ratio



FINDINGS

- ❖ The current ratio indicates the extent to which short term creditors are safe in the terms of liquidity of the current asset however a current ratio of 2:1 is considered generally satisfactory as per the study the current ratio is increased during the study period is in the ratio 2.291.

- The quick ratio of 1:1 is considered satisfactory, the quick ratio is increased during the study period and the ratio is 1.69.
- The company gross profit ratio is increased during the study period and the ratio is 65.756%.
- The highest net profit ratio of occurred in the year, and the lowest net profit ratio of occurred in the year 20.479%. The overall average net profit ratio during the study period is 33.383%. It depict that the efficiency is maintained in sales value and operating profit of the company.

SUGGESTIONS

The company may increase the performance by reducing the borrowed capital, so that the interest an finance charges will be less.The company may increase the sales if it attempts to move in report market.

CONCLUSION

The study was conducted based on the analysis of financial performance in steel authority of India Ltd, Salem. Tools used such as ratio analysis, the firm has a healthy condition of finance for long term short term financial position of the company can be rated as satisfactory

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