A COMPARATIVE STUDY ON PROFITABILITY POSITIONS OF BAJAJ STEEL INDUSTRIES AND MANAKSIA STEELS

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Abstract: In India, Steel industry tracks the overall economic growth in the long term. Also, steel demand, being derived from other sectors like automobiles, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. The Indian steel sector enjoys advantages of domestic availability of raw materials and cheap labor. Iron ore is also available in abundant quantities. This provides major cost advantage to the domestic steel industry. India's comparatively low per capita steel consumption and expected growth in consumption due to growing infrastructure construction, automobile and railways sectors has offered scope for growth. National Mineral Development Corporation is expected to increase the iron ore production 75 million tonnes per annum (MTPA) until 2021 indicating new opportunities in the sector. Domestic players' investments in expanding and upgrading manufacturing facilities are expected to reduce reliance on imports. In addition, the entry of international players would provide benefits in terms of capital resources, technical know-how and more competitive industry dynamics. To make a comparative study on profitability positions of Bajaj Steel Industries and Manaksia Steels, profitability ratios is selected and statistical tools like mean and standard deviation have been used.

Key words: Steel industry, Steel prices, Financial performance, Ratios

I. Introduction

In India, Steel industry tracks the overall economic growth in the long term. Also, steel demand, being derived from other sectors like automobiles, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. The Indian steel sector enjoys advantages of domestic availability of raw materials and cheap labor. Iron ore is also available in abundant quantities. This provides major cost advantage to the domestic steel industry. The Indian steel industry is largely iron-based through the blast furnace (BF) or the direct reduced iron (DRI) route. Indian steel industry is highly consolidated. About 60% of the crude steel capacity is resident with integrated steel producers (ISP). But the changing ratio of hot metal to crude steel production indicates the increasing presence of secondary steel producers (non-integrated steel producers) manufacturing steel through scrap route, enhancing their dependence on imported raw material.

In FY17, crude steel production in India was 97.4 metric tonnes (MT), with the total crude steel production growing at a CAGR of 5.5% over the last 6 years. The steel sector contributes over 2% to the GDP of the nation and provides 20 lakh jobs in the country. During April-December 2017, crude steel and finished steel production in India stood at 75.5 MT and 79.3 MT respectively. Further, India was the only major steel consuming market globally, which saw a demand escalation. However, the country suffered from an unprecedented inflow of steel imports from China, Japan, South Korea, and Russia. South Korea and Japan benefitted due to the free trade agreement with India. The result was that the domestic industry was forced to take a series of price cuts, leading to a severe margin squeeze for domestic steel companies.

Steel prices are now increasingly aligning to global export prices as markets strike a balance between imports and domestic demand. China's waning demand and resultant rise in exports poses a risk to leveraging improving domestic demand in South Asia and Europe. Further, movement of currencies against the US dollar would also have a significant impact on the movement of global steel and raw material prices.Total finished steel production in India has increased at a CAGR of 8.4% during FY12–17, with country's steel production reaching to 111.3 million tonnes per annum (MTPA) in FY17. The country became the 2nd largest crude steel producer in 2017, as large public and private sector players strengthen steel production capacity in view of rising demand. Moreover, capacity has increased to 128.3 million tonnes (MT) in FY17, which is 5.2% more than FY16, while in the coming ten years the country is anticipated to produce 300 MT of steel.

India's comparatively low per capita steel consumption and expected growth in consumption due to growing infrastructure construction, automobile and railways sectors has offered scope for growth. National Mineral Development Corporation is expected to increase the iron ore production 75 million tonnes per annum (MTPA) until 2021 indicating new opportunities in the sector. Domestic players' investments in expanding and upgrading manufacturing facilities are expected to reduce reliance on imports. In addition, the entry of international players would provide benefits in terms of capital resources, technical know-how and more competitive industry dynamics.

I. OBJECTIVES

To study about the Bajaj steel industries and Manaksia steels.
To analyze the profitability positions of the selected companies.

II. ABOUT THE COMPANIES

Bajaj Steel Industries Ltd: It is counted among the reputed manufacturers, exporters and suppliers of cotton processing equipment, fully automatic ginning plant, cotton bale wire ties, double roller ginning machine spare parts, electrical panels, gear blanks, head spigot, steel reels, turbine housings, winder cam, windmill shafts, manifold blocks, hydraulic power pack assembly, hot air humidification system, oil refinery chimney, prefabricated building, prefabricated steel trusses, steel diesel tanks, waste handling system, humidification system lint slide, fire detector, single screw conveyor, cotton pressing machine etc.The company is also the leading service providers for fabrication services that includes steel pipeline fabrication and storage equipment fabrication.

Manaksia steels: Manaksia is a multi-division and multi-location conglomerate. It possesses 17 manufacturing plants in India and 4 abroad; two in Nigeria, one in Ghana and one in Georgia. The Group was promoted by Sri Basant Kumar Agrawal and Sri Suresh Kumar Agrawal. It is headquartered in Kolkata, India. Shares of one of the Company of the Group presently, Manaksia Ltd. are listed on the Bombay Stock Exchange and the National Stock Exchange.Under a scheme of demerger four divisions of Manaksia (the “Transferor Company”) viz. Steel Division, Packaging Division, Coated Metal & Mosquito Coil Division and Aluminium Division have demerger into the Four Transferee Companies viz. Manaksia Steels Limited, Manaksia Industries Limited, Manaksia Coated Metals & Industries Limited and Manaksia Aluminium Company Limited respectively vide an Order of the Hon’ble Calcutta High Court with filing of the Certified Copy of Order with the Registrar of Companies, West Bengal on 23rd November, 2014. These Four Transferee Companies will soon be listed on the Bombay Stock Exchange and the National Stock Exchange.

III. REVIEW OF LITERATURE

Harshad R. Tandel (2013) Analyzed that the Financial Analysis of selected Plastic Manufacturing Industrial Units of Gujarat for the period 2000-01 to 2009-10. The main objective of this study was to analysis and evaluate the financial performance of selected companies in particular and the plastic industry in general with the help of composited such ratios like Profitability, Activity, Liquidity and solvency. He judge the financial performance with the help of Trend Analysis and Analysis of Variance. He can concluded that the liquidity and profitability performance was not good, but in terms of activity and solvency performance of industry was satisfactory.

Hajihassani (2012) A Comparison of Financial Performance in Cement Sector in Iran. This study exhibited comparison of financial performance for the period study 2006 to 2009. It can be analyzed comparison of financial performance of selected cement companies by using various financial ratios and measures of cement companies working in Iran. Financial ratios are divided into three categories In this concludes that the performance of cement companies on the basis of profitability ratios different than on the basis of liquidity ratio and leverage ratio.

IV. METHODOLOGY OF THE STUDY

The study used only the secondary data to attain the objectives of the study. The data has been taken from the annual reports of the company, which is available in the company website and capital line database. This study has confined to Bajaj steel industries and Manaksia steels. To analyze the profitability statement profitability ratios are used in the present study.

a) Period of the study

The study covers 5 financial years from 2012 – 2013 to 2016 – 2017.

b) Tools used

Mean
Standard Deviation

V. ANALYSIS AND DISCUSSIONS

Table no: 1 Table showing the operating profit margin (%)

Year	Bajaj steel industries	Manaksia steels
2012 - 2013	5.09	0.00
2013 – 2014	7.44	8.84
2014 – 2015	6.17	4.61
2015 – 2016	4.38	5.87

2016 - 2017	0.10	7.41
Mean	**4.63**	**5.34**
SD	**2.49**	**3.02**

Source: Annual reports

Operating Profit Margin is profitability or performance, ratio used to calculate the percentage of profit a company produces from its operations, prior to subtracting taxes and interest charges. It is calculated by dividing the operating profit by total revenue and expressed as a percentage. It is often used as a metric for benchmarking one company against similar companies within the same industry. Therefore, a company's operating margin is usually seen as a superior indicator of the strength of a company's management team, as compared to gross or net profit margin. It is clear from the analysis that Bajaj steel industries operating profit margin showed fluctuations and Manaksia steels showed an increasing trend.

Table no: 2 Table showing the profit before interest and tax margin (%)

Year	**Bajaj steel industries**	**Manaksia steels**
2012 - 2013	2.98	0.00
2013 – 2014	5.21	7.76
2014 – 2015	2.43	2.34
2015 – 2016	0.41	3.27
2016 - 2017	-3.68	5.12
Mean	**1.47**	**3.69**
SD	**2.99**	**2.61**

Source: Annual reports

EBIT Margin is the ratio of Earnings before Interest and Taxes to net revenue - earned. It is a measure of a company's profitability on sales over a specific time period. This indicator gives information on a company's earnings ability. Increase in EBIT is mainly due to growth of net revenue, good cost control and strong productivity, decrease in EBIT margin largely results from reduction in revenue and higher operating costs. EBIT margin is most useful when compared against other companies in the same industry. The higher EBIT margin reflects the more efficient cost management or the more profitable business. If no positive EBIT margin can be generated over a longer period, then the company should rethink the business model. This margin can be used as relative indicator for international, cross-industry comparisons. EBIT margin, however, varies greatly between industries, as factors both net revenue and EBIT directly impact on the EBIT margin. The highest of 5.21% was recorded during 2013 – 2014 for Bajaj steel industries and 7.76% was recorded for Manaksia steels.

Table no: 3 Table showing the gross profit margin (%)

Year	**Bajaj steel industries**	**Manaksia steels**
2012 - 2013	3.01	0.00
2013 – 2014	5.27	7.94
2014 – 2015	2.46	2.39
2015 – 2016	0.42	3.28
2016 - 2017	-3.75	5.14
Mean	**1.48**	**3.75**
SD	**3.03**	**2.66**

Source: Annual reports

Gross profit margin is a profitability ratio that calculates the percentage of sales that exceed the cost of goods sold. In other words, it measures how efficiently a company uses its materials and labor to produce and sell products profitably. The gross profit ratio is important because it shows management and investors how profitable the core business activities are without taking into consideration the indirect costs. In other words, it shows how efficiently a company can produce and sell its products. This gives investors a key insight into how healthy the company actually is. During 2013 – 2014 the gross profit margin of Bajaj steel industries was 5.27% and Manaksia steel was 7.94%.

Table no: 4 Table showing the net profit margin (%)

Year	**Bajaj steel industries**	**Manaksia steels**
2012 - 2013	1.49	0.00
2013 – 2014	3.01	4.95
2014 – 2015	0.60	2.48
2015 – 2016	-0.66	1.72
2016 - 2017	-4.41	2.68
Mean	**0.01**	**2.36**
SD	**2.51**	**1.60**

Source: Annual reports

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue. Net profit margin is often used to compare companies within the same industry, in a process known as "margin analysis." Net profit margin is a percentage of sales, not an absolute number, so it can be extremely useful to compare net profit margins among a group of companies to see which are most effective at converting sales into profits. Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders. From the analysis it was found that Bajaj steel industries net profit margin is not satisfactory and Manaksia steels are comparatively good.

Table no: 5 Table showing the return on capital employed (%)

Year	Bajaj steel industries	Manaksia steels
2012 - 2013	10.89	0.00
2013 – 2014	18.95	8.12
2014 – 2015	8.09	7.35
2015 – 2016	4.00	5.08
2016 - 2017	-2.82	8.51
Mean	**7.82**	**5.81**
SD	**7.22**	**3.13**

Source: Annual reports

Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. ROCE is a long-term profitability ratio because it shows how effectively assets are performing while taking into consideration long-term financing. This is why ROCE is a more useful ratio than return on equity to evaluate the longevity of a company. Obviously, a higher ratio would be more favorable because it means that more amounts of profits are generated by each amount of capital employed. It was very clear from the analysis that during 2013 – 2014 the highest of 18.95% has been recorded and showed a favorable result for Bajaj steel industries and during the year 2016 – 2017 the highest of 8.51% has been recorded and showed favorable results for Manaksia steels.

Table no: 6 Table showing the return on net worth (%)

Year	Bajaj steel industries	Manaksia steels
2012 - 2013	6.98	0.00
2013 – 2014	17.01	7.85
2014 – 2015	2.78	5.51
2015 – 2016	-2.67	3.24
2016 - 2017	-15.17	5.53
Mean	**1.78**	**4.42**
SD	**10.64**	**2.65**

Source: Annual reports

Return on Net worth is a ratio developed from the perspective of the investor and not the company. By looking at this, the investor sees if entire net profit was passed on to him, how much return he would be getting. It explains about the efficiency of the shareholders' capital for generation of profit. A high return on net worth percentage is indicative of the prudent use of shareholders' money while a low percentage indicates less efficient deployment of equity resources. It was found from the study that the highest of 17.01% has been recorded for Bajaj steel industries during the year 2013 – 2014. After that it showed negative remarks. In Manaksia steels it showed the highest of 7.85% during the year 2013 – 2014 and recorded a prudent use of shareholders money at a satisfied level.

Table no: 7 Table showing the return on long term funds (%)

Year	Bajaj steel industries	Manaksia steels
2012 - 2013	**19.14**	**-42.57**
2013 – 2014	**24.56**	**16.28**
2014 – 2015	**11.66**	**9.56**
2015 – 2016	**5.46**	**6.86**
2016 - 2017	**-4.09**	**11.53**
Mean	**11.34**	**0.33**
SD	**10.08**	**21.67**

Source: Annual reports

A long term fund is a type of fund that takes long positions in investments typically from a specific market segment. These funds often use several alternative investing techniques. Long term funds typically seek to enhance the returns from investing in a specific market segment by actively taking long positions in securities. Long term funds use varying active management techniques to determine portfolio holdings. They may also use leverage and derivatives by which it can increase the risks of the funds as well as the fund's potential total return. From the analysis it was found that during the year 2013 – 2014 the highest of 24.56% has been recorded in Bajaj steel industries and 16.28% has been recorded in Manaksia steels.

VII. FINDINGS AND RECOMMEDATIONS

Findings:

- Bajaj steel industries operating profit margin showed fluctuations and Manaksia steels showed an increasing trend.
- The highest of 5.21% was recorded during 2013 – 2014 for Bajaj steel industries and 7.76% was recorded for Manaksia steels for the profit before interest and tax margin.
- During 2013 – 2014 the gross profit margin of Bajaj steel industries was 5.27% and Manaksia steel was 7.94%.

- From the analysis it was found that Bajaj steel industries net profit margin is not satisfactory and Manaksia steels are comparatively good.
- It was very clear from the analysis that during 2013 – 2014 the highest of 18.95% has been recorded and showed a favorable result for Bajaj steel industries and during the year 2016 – 2017 the highest of 8.51% has been recorded and showed favorable results for Manaksia steels.
- It was found from the study that the highest of 17.01% has been recorded for Bajaj steel industries during the year 2013 – 2014. After that it showed negative remarks. In Manaksia steels it showed the highest of 7.85% during the year 2013 – 2014 and recorded a prudent use of shareholders money at a satisfied level.
- From the analysis it was found that during the year 2013 – 2014 the highest of 24.56% has been recorded in Bajaj steel industries and 16.28% has been recorded in Manaksia steels.

Recommendations:

A company's operating margin is usually seen as a superior indicator of the strength of a company's management team and suggested to both the companies to continue with the same performance.

Since Bajaj steel industries net profit margin is not satisfactory some effective steps should be taken to convert revenue into profits.

VI. REFERENCE

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