FINANCIAL PERFORMANCE ON PROFITABILITY, LIQUIDITY, SOLVENCY AND MANAGEMENT COVERAGE RATIOS OF VEDANTA LIMITED

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Abstract: Steel industries play an important role in society. The steel industry's significance for our prosperity and welfare cannot be emphasized enough. The steel industries products also play a crucial role in the development of the sustainable society (one that ensures the health and vitality of human life and nature). Steel plays a vital role in accelerating growth and development of a nation. It is used as a basic material in the manufacture of metal products, electrical machinery, transport equipment, textile, etc. and thus considered to be the backbone of the human civilization. It is a product of large and technologically advanced industry having strong forward and backward linkages in terms of material flow and income generation. An in-depth study on Vedanta Limited's financial performance was studied with profitability, liquidity, solvency and management coverage ratios for a period of five years from 2013 – 2014 to 2017 – 2018 with mean average.

Key words: Steel industry, financial performance and ratios

I. INTRODUCTION

Steel industries play an important role in society. The steel industry's significance for our prosperity and welfare cannot be emphasized enough. The steel industries products also play a crucial role in the development of the sustainable society (one that ensures the health and vitality of human life and nature). Steel plays a vital role in accelerating growth and development of a nation. It is used as a basic material in the manufacture of metal products, electrical machinery, transport equipment, textile, etc. and thus considered to be the backbone of the human civilization. It is a product of large and technologically advanced industry having strong forward and backward linkages in terms of material flow and income generation. In other words, the production and per capita consumption of steel is a major contributor to a country's gross domestic product "and an indicator of its industrial and economic strength. Iron ore, manganese ore and chrome ore are the critical raw material inputs for the steel industry. Their timely and assured availability in adequate quantity and quality, on long term basis, is a pre requisite for the rapid and orderly growth of the sector.

II. OBJECTIVES

a. To study the profile of Vedanta limited.
b. To analyze the profitability, liquidity and solvency position of the company.
c. To analyze the financial ability of the company to meet its debt obligations by using management coverage ratios.

III. ABOUT THE COMPANIES

Vedanta Limited, formerly known as Sesa Sterlite/Sesa Goa Limited, a Vedanta Group company is one of the world's largest global diversified natural resource majors, with operations across zinc-lead-silver, oil & gas, iron ore, copper, aluminum and commercial power. For more than five decades, it has been engaged in exploration, mining and processing of iron ore. The company was founded in 1954, as Scambi Economici SA Goa. Since then, it has grown to be one among the top low-cost producers of iron ore in the world. During 1991–1995, it diversified into the manufacture of pig iron and metallurgical coke. It has also developed indigenous and environment-friendly technology for producing high quality metallurgical coke.

In 2007, it became a majority-owned subsidiary of Vedanta Resources Plc, listed on the London Stock Exchange, when Vedanta acquired 51% controlling stake from Mitsui & Co., Ltd. In June 2009, Sesa Goa Limited acquired VS Dempo & Co. Private Limited (now Sesa Resources Limited) along with its fully owned subsidiary Dempo Mining Corporation (now Vedanta Limited) and 50% equity in Goa Maritime Private Limited. In 2010, Vedanta acquired the zinc assets of British miner Anglo American plc.

In 2011 Vedanta Resources bought 58.5% controlling stake in Cairn India, India's largest private sector oil &Gas Company. In 2015, Sterlite Industries and Sesa Goa announced their merger and finally merged into a single entity in August, 2015.In 2015, Sesa Sterlite changed its name to Vedanta Limited. On April 11, 2017, Cairn India merged with Vedanta Limited to consolidate its position as one of the largest diversified natural resources companies in the world. In 2018 Vedanta Limited acquired control of Electrosteels Limited. Electro steel Steels had been constructing an integrated steel plant at Siyaljori in Jharkhand. Vedanta Limited’s operations are based predominantly in Goa, Odisha, Rajasthan, Chhattisgarh, Tamil Nadu, Karnataka, Punjab Gujarat and Andhra Pradesh, while offices are based across various locations in India. Mr. Navin Agarwal is the chairman of Vedanta Limited.

IV. REVIEW OF LITERATURE

Sharma, Vinod Kumar in 1990, has observed in his doctoral research work, “The performance of state trading in mineral and metals in India with reference to an appraisal of working of the Minerals and Metals Trading Corporation of India Ltd. and its subsidiaries”. The author has described the overall performance of State Trading Corporation. The mineral and Metals sector has crucial importance for any economy as the availability of mineral resources in the world finite. The economic development of a nation depends on the availability and utilization of mineral resources. India has a rich variety of minerals and the Government has sole ownership of these resources. There are a number of Government trading companies engaged in the business of minerals, metals, agro based products and other allied goods at international as well as national level. State Trading Corporation (STC) of India Ltd. and Minerals and Metals Trading Corporation (MMTC) of India Ltd. involved in the business of minerals, metals, agro products and other allied products.

Dr. S.J. Parmar conducted a study on, “Profitability Analysis of Cement Industry in Gujarat State”, in the year 1998 for the period from 1998-89 to 1994-95. He had made an attempt to analyze financial strength, liquidity, profitability, cost and sales trend and social welfare trend by using various ratios analysis, common size analysis and value added analysis. He made several suggestions for the improvement of profitability of industry. In his analysis, he indicates various reasons for higher cost, low profitability, and inefficient use of internal resources.

V. METHODOLOGY OF THE STUDY

The study used only the secondary data to attain the objectives. The data has been taken from the annual reports of the company, which is available in the company websites. This study has confined to Vedanta Limited only. Various ratios are used to analyze the profitability, liquidity, solvency and management positions of the company.

a) **Period of the study:** The study covers 5 financial years from 2013 – 2014 to 2017 – 2018.

b) **Tools used: Mean**

VI. ANALYSIS AND DISCUSSIONS

I. PROFITABILITY RATIOS

Table no: 1 Table showing PBIT Margin

YEAR	PBIT MARGIN
2013 - 2014	2.65
2014 – 2015	10.48
2015 – 2016	3.41
2016 - 2017	7.90
2017 - 2018	7.79
MEAN	6.4

PBIT 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 PBIT margin is mainly due to growth of net revenue, good cost control and strong productivity, decrease in PBIT margin largely results from reduction in revenue and higher operating costs. The higher PBIT margin reflects the more efficient cost management or the more profitable business. If no positive PBIT margin can be generated over a longer period, then the company should rethink the business model. It was found that the PBIT margin was good and highest (10.48) during 2014 – 2015 and lowest (2.65) during 2013 – 2014.

Table no: 2 Table showing GP Margin

YEAR	GROSS PROFIT MARGIN
2013 - 2014	2.82

2014 – 2015	11.12
2015 – 2016	4.40
2016 - 2017	9.99
2017 - 2018	8.45
MEAN	7.3

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 labour to produce and sell products profitably. This gives investors a key insight into how healthy the company actually is. It was observed that the GP margin was good and highest (11.12) during 2014 – 2015 and lower (2.82) during 2013 – 2014.

Table no: 3 Table showing NP Margin

YEAR	NET PROFIT MARGIN
2013 - 2014	3.77
2014 – 2015	5.92
2015 – 2016	-34.92
2016 - 2017	30.19
2017 - 2018	15.93
MEAN	4.1

Net profit margin is the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales. The net profit margin is intended to be a measure of the overall success of a business. A high net profit margin indicates that a business is pricing its products correctly and is exercising good cost control. It is useful for comparing the results of businesses within the same industry, since they are all subject to the same business environment and customer base, and may have approximately the same cost structures. It was recorded highest (15.93) during 2017 – 2018 and a negative NP margin (-34.19) during 2015 – 2016 may be due to economic downturns, unfortunate ventures and expansion expenditures.

II. LIQUIDITY AND SOLVENCY RATIOS.

Table no: 4 Table showing current ratio

YEAR	CURRENT RATIO
2013 - 2014	0.59
2014 – 2015	0.46
2015 – 2016	0.33
2016 - 2017	0.41
2017 - 2018	0.43
MEAN	0.4

The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the next year. This means that a company has a limited amount of time in order to raise the funds to pay for these liabilities. Current assets like cash, cash equivalents, and marketable securities can easily be converted into cash in the short term. This means that companies with larger amounts of current assets will more easily be able to pay off current liabilities when they become due without having to sell off long-term, revenue generating assets. It was observed that the highest (0.59) during 2013 – 2014 and lowest of (0.33) during 2015 – 2016. A current ratio less than one indicate that the company might have problems meeting short-term financial obligations.

Table no: 5 Table showing quick ratio

YEAR	QUICK RATIO
2013 - 2014	0.94
2014 – 2015	0.74
2015 – 2016	0.27
2016 - 2017	0.38
2017 - 2018	0.45
MEAN	0.5

It is vital that a company have enough cash on hand to meet accounts payable, interest expenses and other bills when they become due. The higher the ratio, the more financially secure a company is in the short term. A common rule of thumb is that companies with a quick ratio of greater than 1.0 are sufficiently able to meet their short-term liabilities. In general, low or decreasing quick ratios generally suggest that a company is over-leveraged, struggling to maintain or grow sales, paying bills too quickly or collecting receivables too slowly. On the other hand, a high or increasing quick ratio generally indicates that a company is experiencing solid top-line growth, quickly converting receivables into cash, and easily able to cover its financial obligations. Such companies often have faster inventory turnover and cash conversion cycles. . It was observed that the highest (0.94) during 2013 – 2014 and lowest of

(0.33) during 2015 – 2016. A company with a quick ratio of less than 1 cannot currently fully pay back its current liabilities.

Table no: 6 Table showing debt equity ratio

YEAR	DEBT EQUITY RATIO
2013 - 2014	1.00
2014 – 2015	1.02
2015 – 2016	0.39
2016 - 2017	0.46
2017 - 2018	0.42
MEAN	0.6

The debt to equity ratio is a financial, liquidity ratio that compares a company's total debt to total equity. The debt to equity ratio shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).Each industry has different debt to equity ratio benchmarks, as some industries tend to use more debt financing than others. A debt ratio of .5 means that there are half as many liabilities as there is equity. A debt to equity ratio of 1 would mean that investors and creditors have an equal stake in the business assets. A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered more risky to creditors and investors than companies with a lower ratio. It was observed that the highest (1.02) during 2014 – 2015 and lowest of (0.39) during 2015 – 2016. If it is smaller than 1, assets are primarily financed through equity.

III. MANAGEMENT COVERAGE RATIOS

Table no. 7 Table showing inventory turnover ratio

YEAR	INVENTORY TURNOVER RATIOS
2013 - 2014	5.30
2014 – 2015	6.31
2015 – 2016	6.89
2016 - 2017	6.96
2017 - 2018	5.64
MEAN	6.2

The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period. This ratio is important because total turnover depends on two main components of performance. The first component is stock purchasing. If larger amounts of inventory are purchased during the year, the company will have to sell greater amounts of inventory to improve its turnover. If the company can't sell these greater amounts of inventory, it will incur storage costs and other holding costs. Inventory turnover is a measure of how efficiently a company can control its merchandise, so it is important to have a high turn. This shows the company does not overspend by buying too much inventory and wastes resources by storing non-salable inventory. It also shows that the company can effectively sell the inventory it buys. Inventory is one of the biggest assets a retailer reports on its balance sheet. If this inventory can't be sold, it is worthless to the company. This measurement shows how easily a company can turn its inventory into cash. Creditors are particularly interested in this because inventory is often put up as collateral for loans. Banks want to know that this inventory will be easy to sell. It was recorded highest (6.96) during 2016 – 2017 and lowest of (5.30) during 2013 – 2014. The company's high turnover ratio implied either strong sales or large discounts.

Table no. 8 Table showing fixed assets turnover ratio

YEAR	FIXED ASSETS TURNOVER RATIO
2013 - 2014	0.98
2014 – 2015	1.10
2015 – 2016	0.52
2016 - 2017	0.52
2017 - 2018	0.62
MEAN	0.7

The fixed-asset turnover ratio is, in general, used by analysts to measure operating performance. It is a ratio of net sales to fixed assets. This ratio specifically measures a company's ability to generate net sales from fixed-asset investments, namely property, plant and equipment (PP&E), net of depreciation. In general, a higher fixed-asset turnover ratio indicates that a company has more effectively utilized investment in fixed assets to generate revenue. It recorded highest of (1.10) during 2014 – 2015 and lowest of (0.52) during 2015 – 2016). When the business is underperforming in sales and has a relative amount of fixed assets invested, the FAT ratio may be low. A declining ratio may also suggest that the company is over-investing in its fixed assets.

VII. FINDINGS AND RECOMMEDATIONS

Findings:

- The overall PBIT margin was good mainly due to growth of net revenue, good cost control and strong productivity.
- The increased gross profit margins are a good thing, but they don't tell the whole story of the company's health or the prospects for continued growth.
- A negative NP margin (-34.19) during 2015 – 2016 may be due to economic downturns, unfortunate ventures and expansion expenditures.
- A current ratio less than one indicate that the company might have problems meeting short-term financial obligations.
- A company with a quick ratio of less than 1 cannot currently fully pay back its current liabilities.
- It was found that the debt equity ratio was less than 1 for most of the years. So assets may be primarily financed through equity.
- The company's high turnover ratio implied either strong sales or large discounts.
- A declining ratio may also suggest that the company is over-investing in its fixed assets.

Recommendations:

- The company should concentrate on raw material cost, labor cost and disruptive new technologies to have a positive net profit margin.
- The company should also raise its current assets to meet its short term financial obligations.
- The company can adopt faster conversion cycle of debtors and pay off its unproductive assets.

VII. REFERENCE

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