AN ANALYSIS OF PROFITABILITY POSITION OF TATA IRON AND STEEL LIMITED

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ABSTRACT

Analysis of profitability is very crucial in any business organisation. Profitability provides insight into a company's operational effectiveness. Superior performance is shown by higher profitability, although sub standard performance is indicated by lower profitability. Only secondary data were employed in the research to achieve its goals. The data was taken from the annual financial reports of Tata Iron And Steel Limited, which covered the years 2007–2008 through 2012–2013. Simple percentage analysis and ratios were employed in the current research to analyse the profitability statement. Tata Iron and Steel's (stand-alone) profitability is at a respectable level. The profitability position will still be better than it is now if it takes some action to generate internal sources.

Key Words: Performance, Profitability, Steel Industry, Percentage, Ratios.

INTRODUCTION

When considering environmental issues on a national and international scale, the iron and steel industry in India stands out as one of the most energy-intensive economic subsectors. The manufacturing sector may effectively integrate economic, environmental, and social development goals through increasing productivity via the use of more efficient and cleaner technology. Possible structural development options leading to a more sustainable development path may be identified via a historical review of productivity growth in India's industries nested in a larger analysis of structural composition and policy changes.

Profitability is the profit-earning capability, which is a significant aspect contributing to the survival of companies. The permanent life of the businesses relies on their profit-earning potential, which is also believed to be the key element determining their reputation. The borrowing capability of the company is also impacted by earnings. Thus, it is regarded the major determinant in defining the capital structure of the business. Profit consists of two words: profit and ability. Therefore, it is vital to discern between profit and profitability at this point. A company's profit is calculated by subtracting its expenses from its revenue, whereas the profitability of a business is assessed by the profit margin, which is the proportion of profit relative to sales.

REVIEW OF LITERATURE

Popat(2012) in his research We looked at the profitability ratios of a few firms in the Indian steel sector by comparing their profit-making potential. Profitability at TATA Steel was found to be higher than at any of the other firms considered, with JINDAL Steel coming in second. Profitability for both JSW and SAIL exhibited some variability during the research period, whereas that of UTTAM showed a downward tendency..

Pal (2012) also carried out a study on the financial performance of Indian steel companies for a period from 1991–92 to 2010–11 to examine the financial performance of the Indian steel companies and establish the linear relationship between liquidity, leverage, efficiency, and profitability of the selected companies. Fifteen financial ratios, including the liquidity ratio, solvency ratio, activity ratio, and profitability ratio, are subjected to multiple regression analyses. Based on his findings, he recommended that the firm prioritise initiatives to increase its liquidity, solvency, and general efficiency in order to maximise its profitability.

STATEMENT OF PROBLEM

Due to a lack of funding, the Indian steel industry is unable to make the necessary investments. By receiving funding from abroad, many PSUs were able to build steel mills that utilised integrated production lines. Low labour productivity, inefficient parameters like energy consumption, and poor infrastructure, including transport and electricity supply, are just some of the issues plaguing the steel industry. The steelmaking process is more labor-intensive, costly, and limited in output variety due to an absence of modern technological and capital inputs and inadequate infrastructure. Because of this, we have to start bringing in foreign steel that is of higher quality.

SCOPE OF THE STUDY

Financial performance analysis is confined to interpreting the numbers in JSW Steel Limited's financial statements to develop an opinion on the company's health and profitability. Information from yearly reports and other pertinent papers is used in the analysis. Knowing this information is useful in understanding the company's operations. Future strategies and policies for the firm may be based on the findings of this research. The report provides stakeholders with insight into the firm's liquidity. The investigation will help the firm make educated choices in light of the present circumstances. A better grasp of the company's financial health is enabled by this.

OBJECTIVES OF THE STUDY

Objectives are very important for any research. While analysing the research objectives are as follows:-

- To study the financial performance of Tata Iron and Steel Limited.
- To analyse the profitability position of Tata Iron and Steel Limited.
- To know the liquidity position of Tata Iron and Steel Limited.

RESEARCH METHODOLOGY

Research methodology refers to the study of the process of conducting studies. The term "research methodology" is often used interchangeably with "research methods" or "research procedures," but it actually refers to a broader concept that takes into account the reasoning behind a study's particular set of research methods and techniques and provides an explanation of why those methods were chosen. Only secondary sources were used for this analysis. All of this data originated from the annual reports of Tata Iron & Steel. The scope of this study was determined by reviewing the literature on profitability. This information was gathered from secondary sources including libraries and the internet that covered topics linked to financial success.

ANALYSIS AND INTERPRETATION

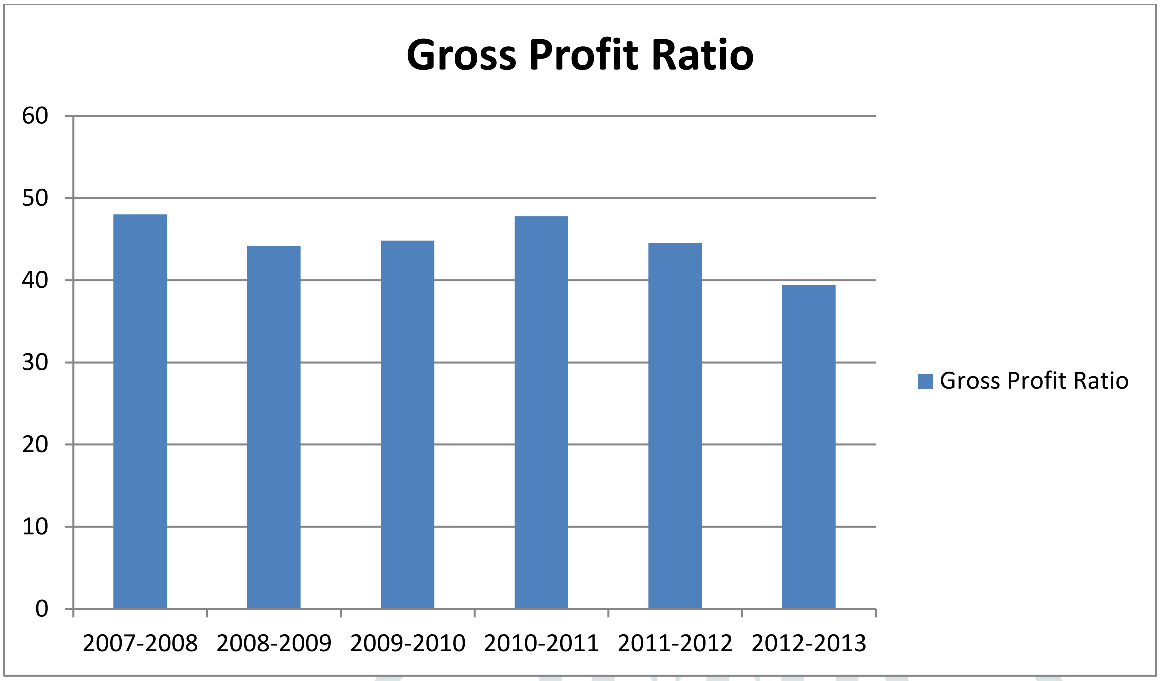
The underlying principle on which these ratios are built is the belief that a business unit should generate a sufficient profit on each rupee of sales. If sales are not profitable enough, the business will struggle to cover its running costs, and the owners will see no return on their investment. The ratio of operational expenditures to revenue is indicative of the cost of sales as a percentage of revenue. Cost of sales includes not only the direct cost of items sold, but also indirect costs like administration, selling, and distribution costs, which are proportional to sales and provide insight into how effectively management is able to keep operational expenditures in check relative to sales. When the ratio is low, things are looking good, but when it's high, things aren't looking so well since there won't be as much money left over after paying expenses to put toward things like dividends and savings.

The effectiveness of the company's production or trade activities may be gauged by looking at the company's gross profit ratio. A high ratio is better than a low ratio as it shows undesirable tendencies in the form of reductions in selling prices that do not go along with a corresponding fall in the cost of products or an increase in the cost of production. This metric quantifies the profit-making potential of sales in terms of the rupee. When sales are efficient, the cost of sales is minimal, leading to a healthy net profit. The company's return on investment (ROI) may be improved if it increases the effectiveness of its sales efforts. Owners and potential investors may learn a lot about the company's financial health from this ratio.

Table 1Gross Profit Ratio

Year	Gross Profit	Net Sales	Gross Profit Ratio
2007-2008	10655.08	22191.80	48.01
2008-2009	11859.46	26843.73	44.18
2009-2010	11998.74	26757.80	44.84
2010-2011	15248.00	31902.14	47.80
2011-2012	16493.60	37005.71	44.57
2012-2013	16688.95	42317.14	39.44

Courtesy: Annual Reports

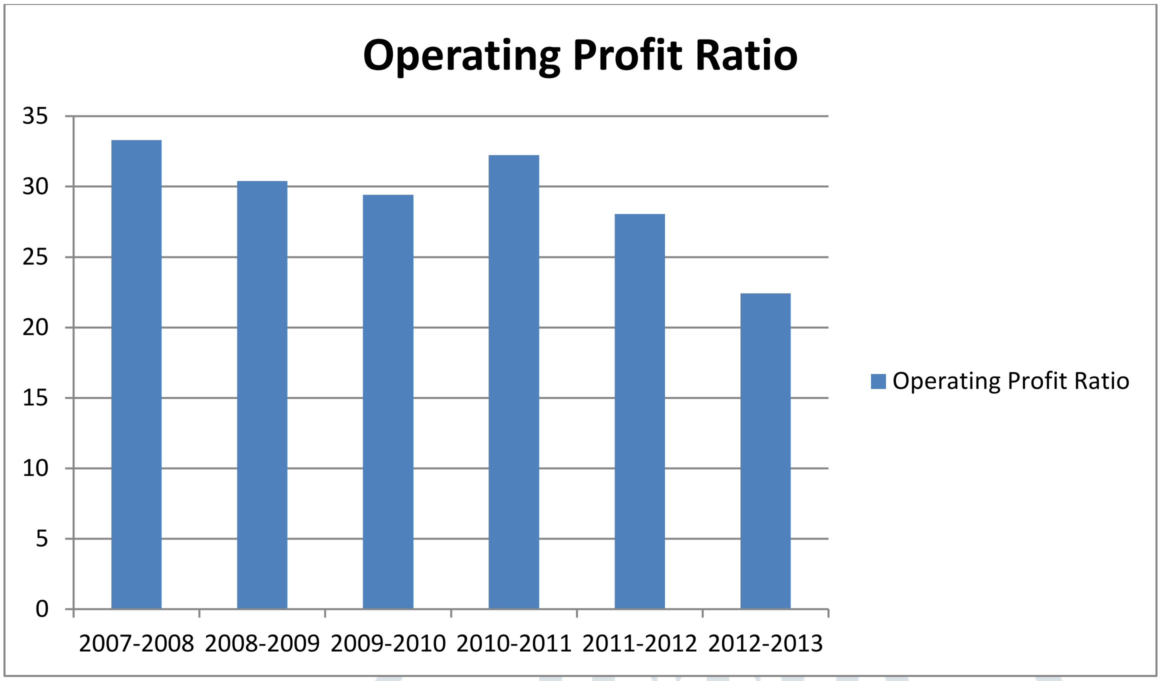


Reviewing the data, we see that the gross profit margin was 48.01 percent in 2007–08 and 44.18 percent in 2008–09. It rose to 44.84 percent the following year, and then to 47.80 percent in 2010-11, resulting in a massive profit for TISCO Limited. Over the next two years, gross profit falls to $44.57 and then $39.44 in 2011-12 and 2012-13, respectively. On average, the company receives 40% of its income from customers outside of the country. When looking at the period between 2007-08 and 2012-13, it indicates that the company has been profitable.

Table No. 2 Operating Profit Ratio

Year	Operating Profit	Net Sales	Operating Profit Ratio
2007-2008	7388.93	22191.80	33.30
2008-2009	8160.03	26843.73	30.40
2009-2010	7868.91	26757.80	29.41
2010-2011	10286.67	31902.14	32.24
2011-2012	10385.99	37005.71	28.06
2012-2013	9485.86	42317.14	22.42

Courtesy: Annual Reports

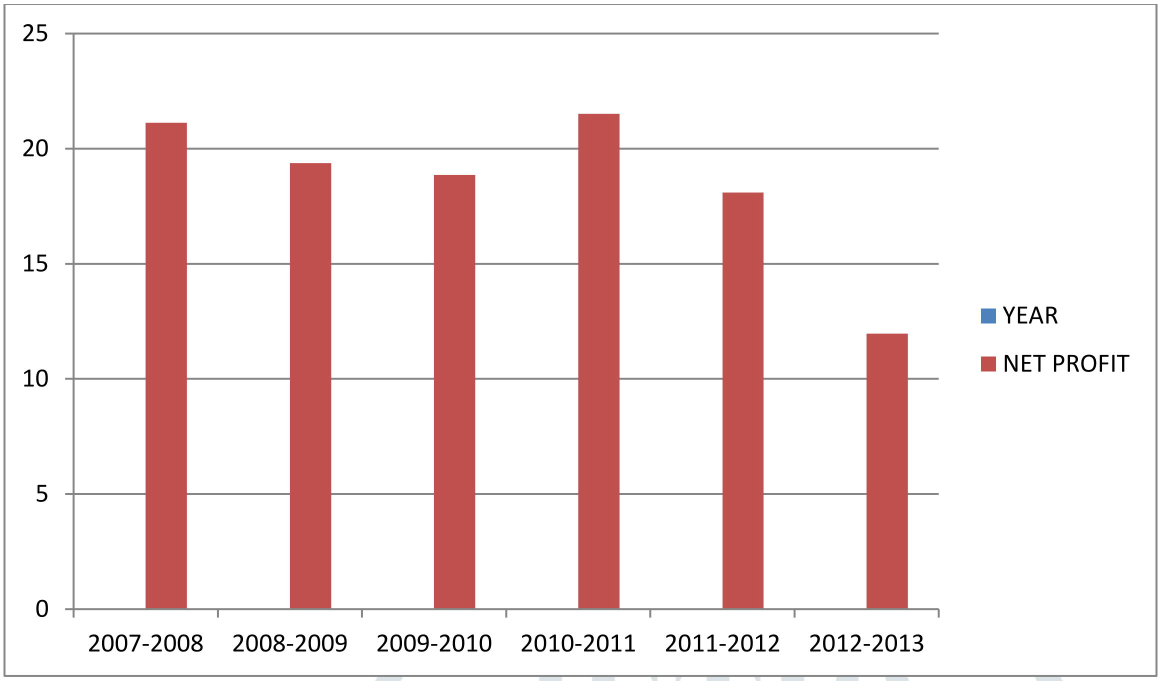


According to the data shown above, the company's operational profit fell from 33.30 percent in 2007-08 to 30.40 percent in 2008-09. The rate dropped to 29.41 percent once again in 2009–10, but then climbed to 32.24 percent the following year. With the coming of 2011-12 and 2012-13, it will drop to 28.06% and 22.42%, respectively. TISCO Limited, the top performer in terms of operating profit, with an average operating profit margin of around 28%.

Table No. 3 Net Profit Ratio

Year	Net Profit	Net Sales	Net Profit Ratio
2007-2008	4687.03	22191.80	21.12
2008-2009	5201.74	26843.73	19.38
2009-2010	5046.80	26757.80	18.86
2010-2011	6865.69	31902.14	21.52
2011-2012	6696.42	37005.71	18.10
2012-2013	5062.97	42317.14	11.96

Courtesy: Annual reports

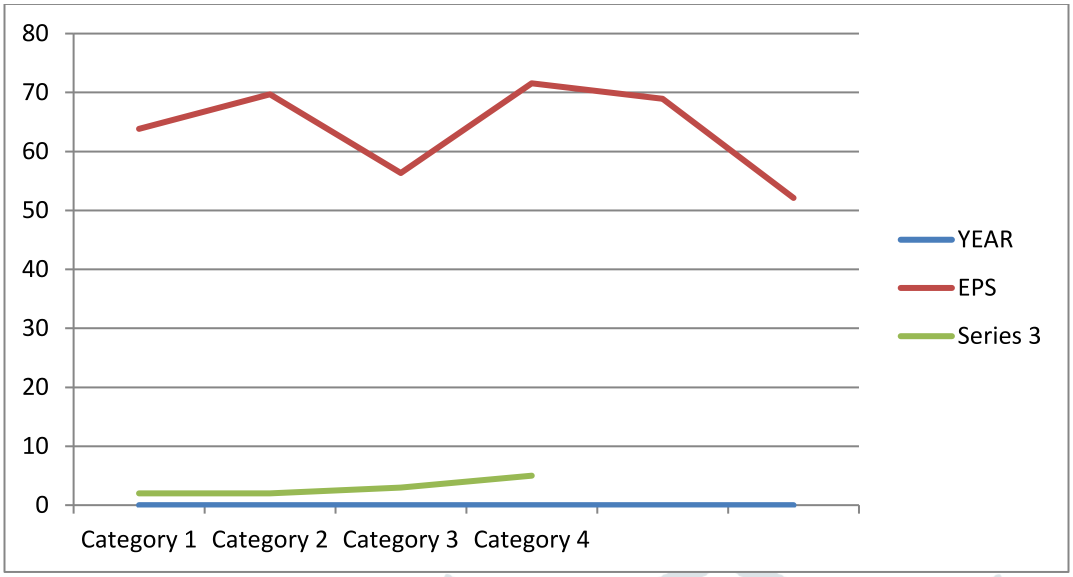


Examining the data in the table, we see that the business had a 21.12% profit in 2007-08. In 2008-2009, the company's net profit was 19.38%, down from 20.36% the year before. It dropped to 18.86% in 2009-10. In the 2010-2011 fiscal year, it rose to a record high of 21.52%. Gradually dropping to 18.10% in 2011–12, it then plunged to 11.96% in 2012–13. It demonstrates that the firm is capable of making money and that, on average, it made around 15% in profit within the time period analysed.

Table No.4 Earning Per Share

Year	Net Profit	No of Equity Shares(in crores)	Earning per Share
2007-2008	4687.03	730.78	63.83
2008-2009	5201.74	730.79	69.68
2009-2010	5046.80	887.41	56.35
2010-2011	6865.69	959.41	71.56
2011-2012	6696.42	971.41	68.94
2012-2013	5062.97	971.41	52.12

Courtesy : Annual reports



According to the table, the company had a profit of 21.12% in 2007-08. The company's net profit dropped from 20.36% to 19.38% in 2008-2009. In 2009-2010, it fell even more, to 18.86%. As of the 2010-2011 fiscal year, it has reached a new all-time high of 21.52%. It started at 18.10% in 2010–11 and dropped to 11.96% in 2011–12. It shows the firm is profitable, with an average profit of around 15% for the time period considered.

CONCLUSION

Tata Steel Limited's Indian division is a major producer of ferrochrome and steel wires in India and a supplier of chrome ore to companies across the world. The construction, automotive, and general engineering sectors in India are among the company's primary customer bases. Tata Steel's prices are consistently lower than the competition, both globally and generally. Tata Steel (by itself) is very profitable. Nevertheless, if it takes action to produce internal sources, it will strengthen its profitability position and liquidity much more than it has so far.

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