

A Study on Comparison on Key Financial Parameters of Players Within an Industry with Similar Parameters in Nifty A Study of Steel Companies

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AN OVERVIEW OF STEEL SECTOR

Global Scenario

"In 2005 World Crude Steel output at 1129.4 million metric tons was 5.9% more than the previous year. (Source: IISI)
"China remained the world's largest Crude Steel producer in 2005 also (349.4 million metric tons) followed by Japan (112.47 million metric tons) and USA (93.89 million metric tons). India occupied the 8th position (38.08 million metric tons). (Source: IISI)

The International Iron & Steel Institute (IISI) in its forecast for 2006 has confirmed the trend of recent years of an increase in steel use in-line with general economic growth and with the fastest growth occurring in the countries with the highest GDP growth such as India and China. Apparent world-wide Steel Demand is forecast to grow to between 1,040 and 1,053 million tonnes in 2006 from a total of 972 million tonnes in 2004. This is a growth of 4-5% over the two year period. However, according to IISI, the cost of raw materials and energy would continue to represent a major challenge for the world steel industry.

Market Scenario

- After liberalization, there have been no shortages of iron and steel materials in the country.
- Apparent consumption of finished (carbon) steel increased from 14.84 Million Tones in 1991-92 to 43.471 million tones (Provisional) in 2006-07. During April-June, 2007, apparent consumption of finished (carbon) steel was 10.103 million tones (Provisionally estimated).
- Steel industry that was facing a recession for some time has staged a turnaround since the beginning of 2002.
- Efforts are being made to boost demand.
- China has been an important export destination for Indian steel.

Production

- Steel industry was delicensed and decontrolled in 1991 & 1992 respectively.
- Today, India is the 7th largest crude steel producer of steel in the world.
- In 2007-08(April-June 07), production of Finished (Carbon) Steel was 12.088 million tones (Prov).
- Production of Pig Iron in 2007-08(April-June'07) was 1.165 Million Tonnes (Prov).
- The share of Main Producers (i.e. SAIL, RINL and TSL) and secondary producers in the total production of Finished (Carbon) steel was 33% and 67% respectively during the period 2007-08 (April-June, 2007).
- Last 4 year's production of pig iron and finished (carbon) steel is given below:

(in million tones)					
Category	2003-04	2004-05	2005-06	2006-07 (Provisional)	2007-08(April-June'07) (Prov.estimated)
Pig Iron	3.764	3.228	4.695	4.960	1.165
Finished Carbon Steel	36.957	40.055	44.544	49.391	12.088

Source: Ministry of steel

Demand - Availability Projection

- Demand – Availability of iron and steel in the country is projected by Ministry of Steel annually.
- Gaps in Availability are met mostly through imports.
- Interface with consumers by way of a Steel Consumer Council exists, which is conducted on a regular basis.

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- Interface helps in redressing availability problems, complaints related to quality.

Pricing & Distribution

- Price regulation of iron & steel was abolished on 16.1.1992.
- Distribution controls on iron & steel removed except 5 priority sectors, viz. Defence, Railways, Small Scale Industries Corporations, Exporters of Engineering Goods and North Eastern Region.
- Allocation to priority sectors is made by Ministry of Steel.
- Government has no control over prices of iron & steel.
- Open market prices are generally on rise.
- Price increases of late have taken place mostly in long products than flat products.

OBJECTIVE OF THE STUDY:

To compare and analyze the financial parameters to bring out the real value in terms of these parameters as achieved by NIFTY on an average and steel industry.

Sub objectives:

1. To calculate and analyze the profitability parameter.
2. To calculate and analyze the coverage power of the companies.
3. To calculate and analyze the financial strength of the company on the basis of stability and liquidity ratios.

Hypothesis formulated for the study

H1: There is no significant difference between the key financial parameters of NIFTY
And All STEEL COMPANIES.

H2: There is no significant difference between the key financial parameters of NIFTY and
ABOVE AVERAGE STEEL COMPANIES

METHODOLOGY OF THE STUDY

To compare the key financial parameters of players within an industry with similar parameters in NIFTY, the exploratory and analytical research design is used for the calculation of ratios with the help of balance sheet and profit and loss account during Sept 2006 to March 2007 of the companies with the following parameters:

1. Interest Coverage Ratio
2. Debt- Equity Ratio
3. Return in Assets
4. Current Ratio
5. Price-Earning Ratio
6. Net Profit Ratio

Sample Design:

On judgmental basis (Non probability), the companies from steel sector and nifty have been selected for the study.

Size of Sample:

- 41 Companies of NIFTY have been taken for the study.
- 19 Steel Companies having the market capitalization of Rs. 1000 Crores.

Data Collection:

The Data has been collected with the help of Internet, Books, Journals, and Business Newspapers.

The Statistical Tools used in the study:

- Average
- One Way ANOVA

Table 1: Ratio Chart of Nifty Companies

Name of Company	Date	Interest Coverage	Debt-Equity	Return on Assets (%)	Current Ratio	Price Earning	Net profit (%)
ABB	2006/12	52.8	0.0012	42.04	1.12	49.83	7.93
ACC	2006/12	22.3	0.2500	43.18	0.62	10.34	21.49
Ambuja Cement	2006/12	17.17	0.2470	49.6	0.72	10.41	24.14
Bharti Airtel	2007/03	17.28	0.4640	43.66	0.173	27.3	22.52

Name of Company	Date	Interest Coverage	Debt-Equity	Return on Assets (%)	Current Ratio	Price Earning	Net profit (%)
BHEL	2007/03	87.3	0.0100	39.93	1.336	38.13	13.9
BPCL	2007/03	7.048	1.0500	17.61	0.929	7.59	1.86
Cipla	2007/03	73.4	0.0380	24.46	3.205	24.91	18.75
Dr.Reddys	2007/03	27.12	0.0750	28.22	2.311	16.84	31.1
GAIL	2007/03	0.117	0.1170	23.45	1.007	16.1	14.88
Glaxosmithkline	2006/12	1146.39	0.0046	39.95	1.3	17.48	15
Grasim	2007/03	20.71	0.4730	25.92	0.799	12.98	17.76
HCL	2007/06	58.17	0.0014	27.03	0.815	15.9	29.23
HDFC	2007/03	1.53	10.3000	8.98	0.19	35.82	26.72
Hero Honda	2007/03	91.55	0.0668	45.61	0.551	17.66	8.66
Hindalco	2007/03	15.79	0.5930	20.7	1.52	9.92	14
HUL	2006/12	203.92	0.0260	64.57	0.642	25.99	12.74
Idea Cellular	2007/03	2.67	1.9500	22.78	0.924	45.52	11.49
ITC	2007/03	245.39	0.0190	37.81	1.315	25.08	21.92
Larsen & Turbo	2007/03	7.06	0.3600	26.03	1.136	53.9	7.59
Mahindra & Mahindra	2007/03	73.61	0.4600	21.89	0.932	15.22	10.76
Maruti Suzuki	2007/03	61.77	0.0920	30.14	0.688	13.31	10.54
Reliance	2007/03	12.185	0.4350	22.2	0.67	17.51	10.69
Reliance Energy	2007/03	3.97	0.6270	3.27	0.995	33.52	13.93
DLF	2007/03	2.74	10.3600	8.87	1.462	0	36.83
Reliance Communication	2007/03	8.56	0.7097	15.7	0.147	37.49	18.88
SAIL	2007/03	29.245	0.2414	44.87	1.16	11.74	18.06
NTPC	2007/03	5.33	0.5173	13.7	0.832	20.19	21.03
Tata Steel	2007/03	25.69	0.6840	29.12	0.537	10.38	24.19
Unitech	2007/03	7.95	3.1050	29.15	0.0681	35.81	40.28
Satyam	2007/03	5.49	0.0023	26.36	3.756	15.89	22.85
Ranbaxy	2007/03	8.5	1.3520	11.4	2.025	26.96	9.13
Tata Power	2007/03	4.2	0.6135	72	2.369	31.02	14.16
ONGC	2007/03	7.54	0.2430	36.17	0.293	12.9	27.48
Sterlite India	2007/03	5.99	0.6300	14.97	1.958	59.96	6.63
Suzlon	2007/03	11.76	0.3060	25.68	3.11	29.18	19.72
Tata Motors	2007/03	6.834	0.5835	23.77	0.548	12.12	7.17
Wipro	2007/03	442.13	0.0255	34.06	1.55	20.85	20.76
TCS	2007/03	121.69	0.0062	53.04	1.786	19.45	25.14
SEIMENS	2007/09	76.49	0.0010	39.51	1.09	32.38	7.71
Sun Pharma	2007/03	73.78	0.4360	1.55	1.96	27.85	37.82
Zee Entertainment	2007/03	14.08	0.1312	9.89	1.198	39.51	19.15
NALCO	2007/03	71.8	0.0000	48.25	0.438	17.44	39.31
AVERAGE		75.691643	0.8954	29.692619	1.19488	23.8662	18.66429

Table 2: Ratio Chart of Steel Companies

Name of Company	Date	Mkt. Capitalization	Interest Coverage	Debt-Equity	Return on Assets (%)	Current Ratio	Price Earning	Net profit (%)
Bhushan Steel	2007/03	3414.72	5.33	2.66	14.09	1.41	8.66	8.71
Ispat Industries	2007/03	3844.58	0.95	2.82	14.2	0.91	54.5	-0.12
Jai Corporation	2007/03	9819.18	16.42	0.21	4.96	3.7	84.6	27
Shree Precoated	2007/03	1786.66	4.57	1.58	32.6	1.58	10.08	12.7
SAIL	2007/03	80852.6	29.24	0.24	44.87	1.16	11.74	18.1
Tata Steel	2007/03	48340.3	25.69	0.68	29.12	0.54	10.38	24.2
JSW Steel	2007/03	14679.2	5.707	0.74	28.85	0.44	8.78	15
Jindal Stainless	2007/03	1987.33	4.53	1.87	20.7	0.79	8.06	7.35

Name of Company	Date	Mkt. Capitalization	Interest Coverage	Debt-Equity	Return on Assets (%)	Current Ratio	Price Earning	Net profit (%)
Usha Martin	2007/03	1647.84	2.75	1.03	18.6	0.92	13.09	7.22
Southern Iron	2007/03	1309.91	1.97	6.53	7.62	0.47	16.92	7.97
Kalyani Steel	2007/03	1135.2	20.14	0.17	27.6	0.83	12.65	9.89
Jindal Steel	2007/03	29592.9	6.44	1.4	23.4	0.83	28.58	20
Jai Balaji	2007/03	1976.6	3.72	2.71	16.8	2.55	24.73	5.77
Monnet Ispat	2007/03	1920.99	7.2	1.75	11.1	1.25	12.11	21.2
Adhunik Metalik	2007/03	1149.51	3.87	1.75	16.5	1.32	14.37	10.5
Welspun Gujarat	2007/03	5766.05	2.36	2.31	19.32	1.02	20	5.32
Jindal Saw	2007/03	3293.58	2.94	1.33	16.9	1.81	3.84	12.9
Mah seamless	2007/03	1989.04	101.76	0.12	33.1	4.27	8.9	16.8
PSL	2007/03	1332.58	2.53	1.99	16	1.66	16.78	4.35
AVERAGE			13.0588	1.6784	20.859	1.44526	19.4089	12.4
			16.42	2.66	32.6	3.7	54.5	27
			29.24	2.82	44.87	1.58	84.6	12.7
			25.69	1.87	29.12	2.55	28.58	18.1
			20.14	6.53	28.85	1.81	24.73	24.2
			101.76	2.71	27.6	4.27	20	15
				1.75	23.4	1.66	16.78	20
				1.75	33.1			21.2
				2.31				12.9
				1.99				16.8
AVERAGE			38.65	2.71	31.363	2.595	38.1983	18.7

Analysis of different steel companies on a different parameter

After calculating the selected ratio of NIFTY companies and selected steel companies, we have calculated the Average of all the ratios of all nifty companies and Steel Companies because the average will be the best representative of all the Nifty and Steel companies. With the help of that data, we prepared the following Table.

Table 3: Combine Ratio Chart Of Nifty & Steel Companies

Ratio	Nifty	All Steel Companies	Above average steel Companies
Interest Coverage	75.69	13.05	38.65
Debt Equity	0.89	1.67	2.71
Return On Asset (%)	29.69	20.85	31.36
Current Ratio	1.94	1.44	2.59
P/E Ratio	23.86	19.4	38.19
Net Profit Ratio	18.66	12.36	18.65

Inference:

- Interest Coverage ratio in Steel Industry is considerably lower than the average achieved by growth companies as represented by NIFTY. The position is better in respect of the above average companies but still way behind NIFTY.
- Debt Equity Ratio of the steel companies is quite less as compared to NIFTY. Therefore we can say that Debt-Equity condition is not good enough for steel companies.
- Return On Assets of Steel Companies is considerably lower than the nifty companies. But the condition of the above average companies is quite better and comparable with NIFTY.
- The current Ratio of steel companies is comparable with NIFTY growth companies. But the performance of the above average companies is contributing a lot.
- The P/E ratio of steel companies is lower than nifty. But P/E ratio of the above average companies is quite good.
- Net Profit Ratio of steel Companies is lower than NIFTY. But the performance of above average steel companies is quite same as compared to NIFTY growth companies.

Analysis through testing the hypothesis using one way ANOVA:

· Test on Nifty And All Steel Companies

Table 4: Combine Ratio Chart of Nifty & Steel Companies

Ratio	Nifty	All Steel Companies	Above average steel Companies
Interest Coverage	75.69	13.05	38.65
Debt Equity	0.89	1.67	2.71
Return On Asset (%)	29.69	20.85	31.36
Current Ratio	1.94	1.44	2.59
P/E Ratio	23.86	19.4	38.19
Net Profit Ratio	18.66	12.36	18.65

Testing of the following Hypotheses:

H_0 : There is no significant difference between the key financial parameters of NIFTY and All STEEL COMPANIES.

H_a : There is significant difference between the key financial parameters of NIFTY and All STEEL COMPANIES

Table 5: ANOVA ratio of Nifty and Steel Companies

	SUM OF SQUARES	DF SQUARE	MEAN	F	SIG.
Between Groups	559.787	1	559.787	1.366	.270
Within Groups	4096.733	10	409.673		
Total	4656.519	11			

Tabulated value: 4.96 at 1, 10 degree of freedom.

Inference:

Calculated value of F ratio (1.366) is less than the Tabulated value (4.96). Therefore the Null Hypotheses is true which means there is no significant difference between the NIFTY and Steel Companies on the basis of Key financial Parameters.

• Test on Nifty and Above Average Steel Companies

Table 6: Combine Ratio Chart of Nifty & Steel Companies

Ratio	Nifty	All Steel Companies	Above average steel Companies
Interest Coverage	75.69	13.05	38.65
Debt Equity	0.89	1.67	2.71
Return On Asset (%)	29.69	20.85	31.36
Current Ratio	1.94	1.44	2.59
P/E Ratio	23.86	19.4	38.19
Net Profit Ratio	18.66	12.36	18.65

Testing of the following Hypotheses:

H_0 : There is no significant difference between the key financial parameters of NIFTY and ABOVE AVERAGE STEEL COMPANIES

H_a : There is significant difference between the key financial parameters of NIFTY and ABOVE AVERAGE STEEL COMPANIES.

Table 7: ANOVA ratio of Nifty and Above Average Steel Companies

	Sum of Squares	DF	Mean Square	F	Sig.
Between Groups	28.768	1	28.768	.056	.818
Within Groups	5132.953	10	513.295		
Total	5161.721	11			

Tabulated value: 4.96 at 1, 10 degree of freedom.

Inference:

Calculated value (0.056) is less than the Tabulated value (4.96) Therefore, the Null Hypotheses is accepted which means there is no significant difference between the NIFTY and All Steel Companies on the basis of key financial parameters.

MAJOR FINDINGS

On the basis of the analysis of the data collected with the help of the Statistical tools, following are the findings of the study.

- The Interest coverage ratio of Nifty is quite greater than Steel Companies and the Above Average Steel Companies.
- The Debt-Equity ratio for Nifty is quite less than the Steel Companies and the above average Steel Companies.
- Return on Assets of the Nifty and Above Average Steel Companies is quite good but for all Steel Companies it is less than them.
- The current ratio for Nifty is quite good and the position of the Above Average Steel Companies is Comparative. But performance of All Steel Companies is little less.
- P/E ratio of the Above Average Steel companies is very good. But the Nifty companies and the All Steel Companies are still Behind.
- The Net Profit Ratio of the Above Average Steel Companies and Nifty Companies is quite comparative, but for all Steel companies is little less.
- The findings from the ANOVA Test is that there are no significant differences between the Nifty and Steel companies and Null Hypotheses is Accepted.

CONCLUSION

In this study after analyzing the key financial parameters of the steel companies with the Nifty companies by using the statistical tools average and ANOVA, we came to the following conclusions:

- The performance of All the Steel Companies is not comparative with the Nifty. There are much differences in the performances of the Nifty and steel companies on the whole.
- The performance of the Above Average Steel Companies is Quite Comparative with the Nifty.
- The Net Profit Ratio, P/E Ratio, Current Ratio, Return on Asset Ratio are showing the good picture. But the Interest Coverage Ratio and the Debt Ratio of the Above Average Companies are showing the adverse situation.
- The Contribution of the Steel Companies is very less in the growth companies. So we can say that the growth of the Nifty Companies is due to the various other sectors.

RECOMMENDATION

On the basis of studying the above given conclusions, we are suggesting some recommendations so that the steel companies can improve their performance and contribute more towards the steel companies. Following are some of the suggestions.

- The Above Average Companies should work on their interest coverage ratio and Debt-Equity ratio because they are not according to the Nifty's Performance.
- The Steel Industry on the whole is contributing very less towards the growth companies. So the need to improve their position on the basis of all the key financial parameters.

Companies should work to improve their Stability and coverage positions.

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