

“A Comparative Liquidity Analysis of Selected Steel Manufacturing Companies”

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Abstract: This study aimed to analyze and compare the liquidity position of major steel manufacturing companies of India. For that 4 Major steel manufacturing companies namely, TATA Steel, Steel Authority of India (SAIL), JSW Ltd and Jindal Steel Ltd were selected with the help of Non-Probability Sample technique (Judgmental Sampling). Period of Investigation was 5 years, Starting from 2019-20 to 2023-24. For analysis purpose various liquidity ratios were taken and analyzed with the statistical tool of ANOVA test. It was revealed that in most of aspects of Liquidity, Jindal Steel was better performer than other samples.

Key Words: Liquidity, TATA Steel Ltd., SAIL, JSW Steel Ltd, Jindal Steel Ltd

INTRODUCTION:

Liquidity is a very underestimated element of every business. Despite being very important aspect of a regular day to day business of a company, liquidity still ignored for a major portion of the time. Without liquidity, business cannot run their day-to-day functions flawlessly. A continuous watch on Liquidity is very much necessary because if it does not get enough supervision, it might lead to delayed payment, ruining the credibility & value of company and may be liquidation of company in worst possible case.

Hence, liquidity analysis is important for every company. Liquidity analysis of a company ensure that company has enough liquid or quick assets to pay or clear off short-term debt or payment. Which helps in also working capital management.

LITERATURE REVIEW:

(Anam, Hasan, Huda, Uddin, & Hossain, 2012) ^[1] In this article, researchers compared the liquidity analysis of Conventional Banking and Islamic Banks of Bangladesh. For that, they have used the data of these bank for the period of 5 years started from 2006-2010. It was revealed that Islamic banks were not as much efficient as the conventional banks. The module was failed to prove that Islamic banks were in higher profitable situation than conventional ones.

(Qin & Pastory, 2012) ^[4] This study focused on the banking liquidity of Tanzania. The investigative period was 10 years starting from 2000-2009. As a sample three national commercial banks of Tanzania were chosen namely, National Bank of Commerce (NBC), CRDB, National Bank of Micro Finance Bank (NBFB). From the financial information, ANOVA test- A large sample size statistical test was used to get output from it. It was unveiled that National Bank of Commerce (NBC) was having strongest liquidity position than rest of banks.

(Tomczak, 2014) ^[5] This paper unveils the liquidity position of bankrupt manufacturing companies. For that purpose, data was used from 2007 to 2012 for 5 years. It was revealed that those units that were closed were struggling through profitability crisis. Which was initially started as liquidity crunch and as negligence towards this liquidity problem that led them to out of business.

(Meena & Dhar, 2016) ^[2] This study throws light on liquidity position of various banks situated in India. For that, researchers took nine banks as a sample, 3 banks from Private Sector, 3 banks from Public Sector and 3 banks from foreign sector. To analysis purpose, they took the liquidity ratios of all the banks. It was found out

that all the banks were in a good condition in the case of liquidity and all the banks are having a very good short-term asset-liability situation.

(Panigrahi, Raul, & Gijare, 2017) ^[3] This paper was testifying the liquidity situation of pharmaceutical companies of India. For that purpose, 5 top pharmaceutical companies namely Ajanta Pharma, Lyka Labs, Biocon Ltd, IPCA Labs and Torrent Pharma. The data is taken starting from 2012 to 2016. After applying ANOVA test, it was revealed that Biocon ltd is having strongest position among all.

OBJECTIVE OF STUDY:

- To compare and analyze the liquidity position of selected companies

METHOD:

• Sample and Sample Selection

All the samples are chosen with the help of Non-Probability method – Judgmental Sampling. For the selection of the company as a sample installed manufacturing capacity is used as base.

Company	Installed Capacity (per annum)
TATA Steel Ltd	28 M.M.T.
Steel Authority of India Ltd (SAIL)	24 M.M.T.
JSW Ltd	5 M.M.T.
Jindal Steel Ltd	1.8 M.M.T.

• Period of the study

The study period includes 5 years of investigation from 2019-20 to 2023-24.

• Hypotheses of the study

H₀ = There is no notable discrepancy in Current Ratio of Selected companies during the period of investigation.

H₀ = There is no notable discrepancy in Quick Ratio of Selected companies during the period of investigation.

H₀ = There is no notable discrepancy in Inventory Turn-over Ratio of Selected companies during the period of investigation.

• Tools for Liquidity analysis

For the purpose of analyzing the liquidity position of the selected companies, Primary liquidity ratios are used. These ratios are as followed (I) Current Ratio, (II) Quick Ratio and (III) Inventory Turn-over Ratio.

• ANOVA

Here, to find any major discrepancy ANOVA (Analysis of Variance) test is used. This test is used with 5 % level of significance.

ANALYSIS & INTERPRETATION :

Table No. 1 Current Ratio				(in X (times))
Year	TATA Steel Ltd.	SAIL Ltd.	JSW Ltd	Jindal Steel Ltd
2019-20	0.95	0.91	0.83	0.69
2020-21	0.85	0.78	0.83	1.05
2021-22	1.02	0.85	1.14	1.17
2022-23	0.89	0.86	0.97	1.00
2023-24	0.72	0.90	0.98	1.11

(Source: www.moneycontrol.com)

Analysis:

Current Ratio shows the quantitative figures of current asset in comparison to current liabilities. Generally, it shows the quantum of current asset to settle off the current liabilities. So, it means higher the ratio is good for company.

The magnitude of current ratio of TATA steel ltd was 0.95 times in 2019-20 which was reduced to 0.85 in very next year (2020-21). After that it shows a good recovery and stand on 1.08 times in 2021-22 but again downfall struck the ratio at 0.89 and 0.72 times in 2022-23 and 2023-24 respectively.

SAIL ltd also stood on 0.91 in 2019-20 then it got down to 0.78 times in 2020-21. After that due to a good recovery, it reached to 0.85, 0.86 and 0.90 in 2021-22, 2022-23 and 2023-24 respectively.

JSW Ltd also has same situation. It was at 0.83 times in 2019-20 and maintained this in next year too. In 2021-22, it was raised to 1.14 times and in 2022-23, it was down to 0.97 and recovered to 0.98 in 2023-24.

Jindal Steel was perhaps most promising Current ratio with initial standing on 0.69 times in 2019-20. Which was improved to 1.05 times and 1.17 times in 2020-21 and 2021-22 respectively. Then it got down to 1.00 times in 2022-23 then it was revised to 1.11 times in 2023-24.

Table No. 2 Quick Ratio

Year	TATA Steel Ltd.	SAIL Ltd.	JSW Ltd	Jindal Steel Ltd
2019-20	0.45	0.38	0.52	0.41
2020-21	0.38	0.36	0.50	0.75
2021-22	0.48	0.24	0.55	0.85
2022-23	0.33	0.21	0.50	0.62
2023-24	0.22	0.29	0.40	0.67

(Source: www.moneycontrol.com)

Analysis:

Quick ratio is also renown as Acid test ratio. This ratio measure company's capacity to pay off short term liability (more liquid than current) with short term assets. It means the higher the ratio better for company.

TATA Seel was at 0.45 times in 2019-20. After which it was downed to 0.38 times in 2020-21. Then again it fluctuates up to 0.48 in 2021-22 and down to 0.33 times in 2022-23. At last, it was again sunk to 0.22 times in 2023-24.

SAIL was its highest in 2019-20 with 0.38 times then it started to falling down to 0.36 then 0.24 and 0.21 in 2020-21, 2021-22 and 2022-23 respectively. At last, it shows a sign of recovery with 0.29 times in 2023-24.

JSW Ltd started of decently with 0.52 times in 2019-20. Which was sunk to 0.50 times in 2020-21. Then it got its own highest to 0.55 times in 2021-22 and it was down to 0.50 times and even lowered to 0.40 times in 2022-23 and 2023-24 respectively.

Jindal Steel was having much more dominant position compared to other samples. It was 0.41 times in 2019-20. It was raised to 0.75 times and 0.85 times in 2020-21 and 2021-22 respectively. It was down to 0.62 times in 2022-23 but got revived in 2023-24 with 0.67 times.

Table No. 3 Inventory Turn-over Ratio

Year	TATA Steel Ltd.	SAIL Ltd.	JSW Ltd	Jindal Steel Ltd
2019-20	4.79	2.59	5.32	5.80
2020-21	0.95	3.53	5.60	6.56
2021-22	1.85	1.96	2.92	2.93
2022-23	1.97	2.20	2.83	3.55
2023-24	1.59	1.70	2.64	3.05

(Source : www.moneycontrol.com)

Analysis:

Inventory ratio suggest that how much efficiently company exhaust the entire stock and have to replenish it during the period. It means higher the ratio positive situation of company.

TATA steel started off decently with 4.79 times in 2019-20. Which was drastically reduced to 0.95 times in 2020-21. Then it got revived to 1.85 times and increased further to 1.97 times in 2021-22 and 2022-23 respectively. Then it got down to 1.59 in 2023-24.

SAIL Ltd was at 2.59 times in 2019-20, after which it reached to its highest which was 3.53 times in 2020-21. In 2021-22, it was down to 1.96 times and it went up to 2.20 times in 2022-23 and in 2023-24, it again decreased to 1.70 times.

JSW Ltd was at 5.32 times in 2019-20. Then it reached to its highest with 5.60 times in 2020-21. In 2021-22, it was down to 2.92 times and again lowered to 2.83 times and again reduced to 2.64 times in 2023-24.

Jindal Steel Ltd was at 5.80 times in 2019-20. Which was raised to 6.56 times in 2020-21. It got major downfall in 2021-22 when it reached to 2.93 times then it was at 3.55 times in 2022-23. It was again down to 3.05 times in 2023-24.

RESULT:

No.	Ratio	Calculated Value	Table Value	Result
1	Current Ratio	1.258	3.238	H₀ is ACCEPTED
2	Quick Ratio	10.883	3.238	H₀ is FAILED TO ACCEPT
3	Inventory Turn-over Ratio	2.957	3.238	H₀ is ACCEPTED

Analysis:

It is clear from the table that calculated value for the current ratio as 1.258, which is lower than 3.238- critical value at 5 % level of significance. So, it suggests that null hypothesis should be accepted that There is no notable discrepancy in Current Ratio of Selected companies during the period of investigation.

For the Quick ratio, at the 5 % level of significance, table value was 3.238 and calculated value for the same was 10.883. it means table value is lessor than calculated value. It means, null hypothesis was failed to accept. This implied that There is a notable discrepancy in Quick Ratio of Selected companies during the period of investigation.

With the 5 % level of significance, the calculated of Inventory Turn-over ratio is 2.957 and at the same time critical value for the same was 3.238. it implies that table value is more than calculated value and null hypothesis is accepted that There is no notable discrepancy in Inventory Turn-over Ratio of Selected companies during the period of investigation.

FINDINGS :

- In the context of Current ratio, Jindal steel was outperforming all other competitors. On an average Jindal steel was highest and SAIL was at lowest.
- Quick ratio is also showing the same trend where Jindal steel again performed well than all other samples and it was on top with highest and SAIL was at bottom.
- In Inventory Turn-over ratio, Jindal steel was again better than rest of sample but the worst performance given by TATA Steel during the period of investigation.
- So, in overall situation, Liquidity position of Jindal Steel Limited was better and ahead than rest of samples and SAIL has weakest liquidity position compared to other samples.

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