"Liquidity Analysis: A Comparative Study of Selected Steel Companies In India"

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ABSTRACT:

Purpose of the study:

Main purpose for which study has been undertaken that to check and evaluate the liquidity position of selected steel companies in India and also to know the short term solvency of selected sample.

Research methodology:

This research is completely based on secondary nature and data has been collected from respective companies' annual financial report. Sample that has been selected for the study which are based on total asset of the company and also those sample are selected which are listed in NSE (NATIONAL STOCK EXCHANGE) as on 11 august 2023. Sample selection has been based on non-probability technique and also in non-probability technique researcher has used judgemental technique.

Conclusion/ findings of the study:

JSW steel has comparatively high current ratio, quick ratio and also high cash ratio. So researcher conclude that JSW steel has high liquidity capacity to pay off its current obligation of companies than TATA steel.

KEY WORDS- (Current ratio, Quick ratio, Cash ratio, TATA steel, JSW steel)

1. INTRODUCTION:

Liquidity means how company are used its liquid assets to meet their short term liabilities when it is due. In other terminology liquidity ratio indicates how companies are used its current assets in its best way to pay off its current liabilities of the companies. In liquidity, liquid assets are those assets which are as good as cash and which can easily converted in to cash without more efforts.

In crude steel manufacture India is 2nd largest producer of crude steel. in 2022 India is producing 118.20 million tonnes crude steel and as compared to 2021 steel industry has 17.9 percent growth rate in India.

2. REVIEW OF THE LITERATURE:

(**Megaladevi, 2018**) Has done paper on "A study on the impact of liquidity ratios on profitability of selected cement companies in India" Aim of the study was to analyse whether any relationship exist in these two variables or not of selected cement sample companies in India. Ten years' time period has been considered from 2008-2017. Data which were used were collected from respective annual reports of the company. This study was based on completely on secondary data. In descriptive statistics researcher has done mean, std error of mean, standard deviation, minimum and maximum. Final result of the study was current ratio and quick ratio has considerably relationship with return of Average equity and return on equity @ 5% LOS and has 1@ %LOS correlated with earning before depreciation interest and tax and with return on average capital employed.

(**Dipak & Girishchandra, 2020**) Paper has been presented on "A Study on Liquidity analysis of Uttar Gujarat Vij Company Limited (UGVCL). Main objective for done this study was to analyse the liquidity position of Uttar Gujarat Vij Company Limited. From different types of research researcher has used secondary data for analysis of the study and those data has been collected from respective annual reports of the company. Researcher has conducted study for the time period of 5 years from 2014-15 – 2018-19. Conclusion of the study was current ratio was not as good as liquidity ratio for checking liquidity ratio and absolute liquidity ratio was best compared to liquidity ratio.

(**Vani & Pooja, 2022**) Has done research on "A Study on Liquidity Analysis of Select Automobile Companies in India" main objective for done this study was to evaluate the liquidity and also solvency position of automobile sector. Mainly researcher collected data of fifteen years from financial statement of companies. Here research conduct one way ANOVA for analysis of the data. Conclusion and findings of the study were automobile industry has good liquidity position, in whole year company retain standard quick ratio, solvency position of automobile industry was also good and it could be checked from debt-equity ratio.

(**Manishaben, 2022**) Has done paper on "A study of liquidity of selected IT companies of India. Main purpose of the study was to made comparative study Liquidity ratios of IT companies in India and also check liquidity position also. Period of the study was 5 years from 2017- 2021. This paper was based on secondary data type and this data was derived from financial statement of IT companies in India. Researcher has done mean, standard deviation, and co-efficient of variation in descriptive research study. Researcher used ANOVA test for test statistics. Conclusion of the study was there was significant difference in the performance of selected IT companies. Infosys Company has very good position in liquidity. Overall all companies has good liquidity position.

(Kirti, Sushma, & Vijay, 2020) Has made research paper on "liquidity analysis: a comparative study of selected real estate companies in India" main purpose of the present study was to check and evaluate the liquidity position and short term solvency position of real-estate companies. 5 years data has been taken for analysis and reached some conclusion in which 5 years from 2013-14 to 2017-18. The present research paper was completely based on secondary data and which was collected from respective annual reports of companies. Here in statistical tools and techniques researcher has used (T-test, average, standard deviation, co-efficient of variation.) findings of the study was liquidity of both the companies was very fluctuating during the study period.

3. RESEARCH METHODOLOGY:

3.1 OBJECTIVES OF THE STUDY HYPOTHESIS OF THE STUDY:

To evaluate the liquidity position of selected steel companies in India

To know short term solvency of selected steel companies in India

Give suggestion to selected sample companies

3.2 HYPOTHESES OF THE STUDY:

$H_0 =$ There is no significant difference in current ratios among selected steel companies in India during the study period.

$H_0 =$ There is no significant difference in quick ratios among selected steel companies in India during the study period.

$H_0 =$ There is no significant difference in cash ratios among selected steel companies in India during the study period.

3.3 PERIOD OF THE STUDY:

Period of the study has been considered in the study were 5 years from 2018-19 to 2022-23

3.4 SCOPE OF THE STUDY:

For the study Scope of the study is mainly divided in to two parts, functional scope and geographical scope respectively.

- **Functional scope of the study:**

Functional scope of the study is "comparative study of liquidity analysis of selected steel companies in India.

- **Geographical scope of the study:**

In this study those companies have been selected which were listed in NSE stock exchange and it manufacture steel in whole geographical area in India, so here whole India is considered as geographical scope of the study

3.5 SELECTION OF SAMPLES:

Sample of the study have been selected based on total asset of Sample Company. Here those sample are selected which were listed in NSE (National stock exchange) on the date 11 august 2023. In this study top two companies which manufacture steel are selected which has highest total asset are selected as a sample of the study.

For the selection of sample **NON-PROBABAILITY TECHNIQUE** has been used and specifically in non-probability technique researcher has used judgemental technique has been selected.

3.6 DATA COLLECTION:

This paper has been completely based on secondary data, and the data has been collected by researcher from annual financial reports of respective companies, money control, and also from respective company's website.
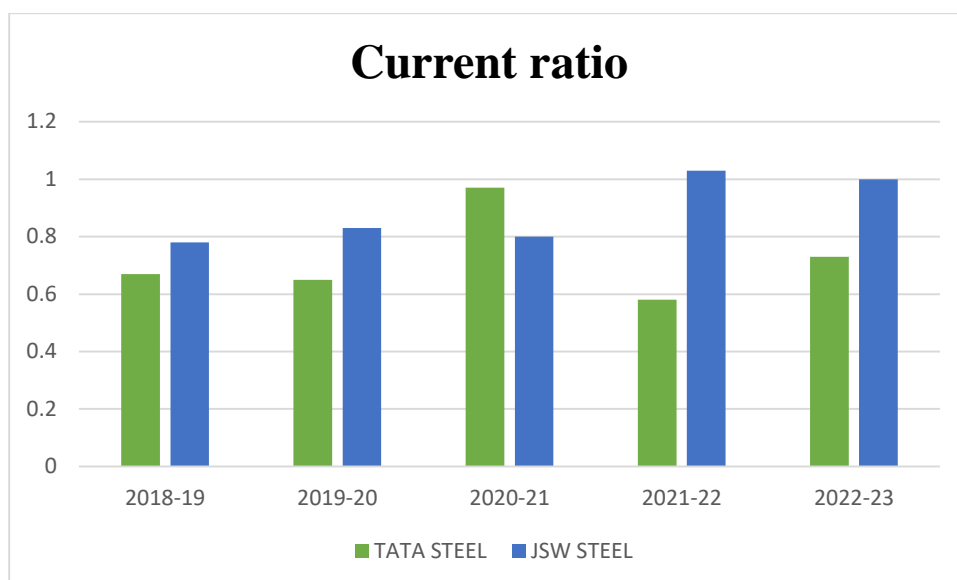
4. **DATA ANALYSIS AND INTERPRETATION:**

4.1 CURRENT RATIO:

Table 1
Current Ratio of selected steel companies in India
(From 2018-19 to 2022-23)

YEAR	TATA STEEL	JSW STEEL
2018-19	0.67	0.78
2019-20	0.65	0.83
2020-21	0.97	0.80
2021-22	0.58	1.03
2022-23	0.73	1.00
AVERAGE	0.72	0.888

Source: (Annual reports and accounts of selected sample companies)

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Current ratio of sample are shown in above table. Current ratio means how current assets are used in proper way to to mitigate the current liabilities of the sample companies. Ideal current ratio is 2:1. Means if current assets are 2 or more than 2 then sample companies has ability to meet the current obligation which will arise in future.

$$\textbf{Current ratio} = \frac{\textbf{current assets}}{\textbf{current liabilities}}$$

TATA STEEL: current ratio in 2018-19 is 0.67 Means Company has 100 rupees of current obligation, and for mitigate this obligation company has only 67 rupees of current assets so company has 33 rupees less available against current obligation. This ratio is increased in the year 2020-21 that 0.97, while current ratio is decreased in the year 2019-20, 2021-22, 2022-23 that 0.65, 0.58 and 0.73 respectively.

JSW STEEL: comparatively JSW steel has higher current ratio than TATA steel. In the first three year company has less current assets than its current obligation. In the year first three year 2018-19, 2019-20 and 2020-21 has lowest current ratio that 0.78, 0.83, and 0.80 respectively, while in the year 2021-22, 2020-23 has highest current ratio of 1.03 and 1.00 means company has 103 rupees and 100 rupees of current assets against its current liabilities. Average current ratio of TATA Company has 0.72 while in JSW steel has current ratio of 0.888 means average ratio of JSW steel has greater than TATA steel.

QUICK RATIO:

Table 2
Current Ratio of selected steel companies in India
(From 2018-19 to 2022-23)

YEAR	TATA STEEL	JSW STEEL
2018-19	0.23	0.49
2019-20	0.30	0.55
2020-21	0.55	0.51
2021-22	0.21	0.57
2022-23	0.28	0.60
AVERAGE	0.314	0.544

Source: (Annual reports and accounts of selected sample companies)
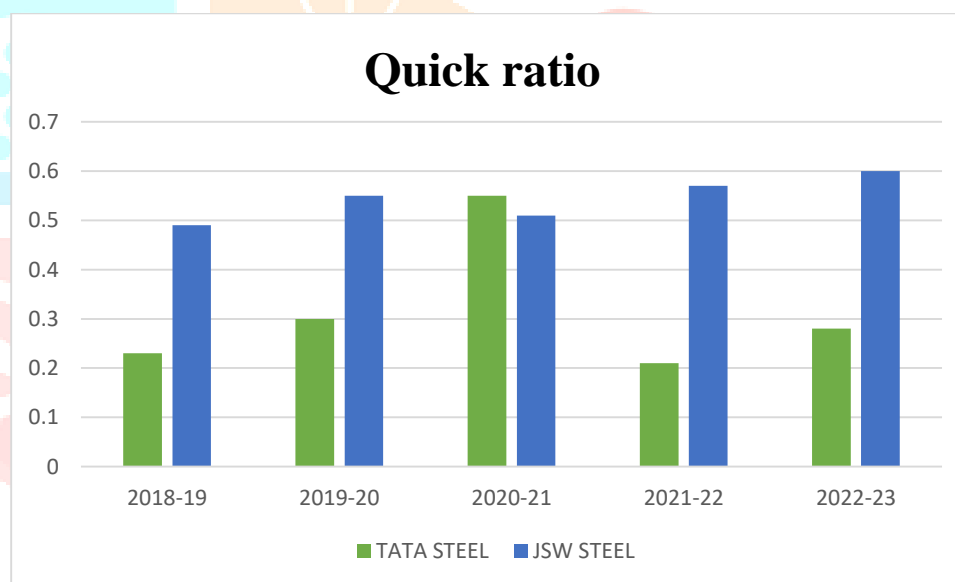
Source: (Annual reports and accounts of selected sample companies)

Above table shows quick ratio which indicate liquidity position of selected sample companies. Ideal quick ratio is 1:1. Means if company has 100 rupees of current liability then against which company should have 100 rupees of current asset to for current obligation.

$$\text{Quick assets} = \frac{\text{quick assets}}{\text{current liabilities}}$$

TATA STEEL: In TATA steel quick ratio has been increased contiguously in the year 2018-19,2019-20 and in the year 2020-21 as 0.23, 0.30 and 0.55 respectively, but in the year 2021-22 and in 2022-23 quick ratio has been decreased from 0.21 to 0.28. In TATA steel has highest quick ratio of 0.55 in 2020-21 and has lowest quick ratio in the year 2021-22. Average quick ratio of TATA steel has 0.314 which is very low.

JSW STEEL: IN JSW steel company has highest quick ratio in the year 2022-23 which is 0.60, means company has 60 rupees of quick assets if company has obligation of 100. In the year 2018-19 ha lowest quick ratio of 0.49 which indicate company has 49 rupees of quick asset to pay obligation of rupees 100. In the year 2019-20, 2020-21, and in the year 2021-22 ha quick ratio of 0.55, 0.51 and 0.57 respectively.

CASH RATIO:

Table 3
Current Ratio of selected steel companies in India
(From 2018-19 to 2022-23)

YEAR	TATA STEEL	JSW STEEL
2018-19	0.03	0.16
2019-20	0.04	0.32
2020-21	0.08	0.32
2021-22	0.05	0.34
2022-23	0.02	0.38
AVERAGE	0.044	0.304

Source: (Annual reports and accounts of selected sample companies)

Source: (Annual reports and accounts of selected sample companies)

Above table shows cash ratio from the year 1018-19 to 2022-23 which indicate cash ratio position of selected sample companies. Cash ratio shows how much Company has cash in hand and cash at bank to pay current obligation.

$$\text{Cash ratio} = \frac{\text{cash assets}}{\text{current liabilities}}$$

TATA STEEL: TATA steel company has very less cash ratio as compared to JSW steel company. In the year 2018-19 company has cash ratio 0.03 and was increased in the year 2019-20 is only about to 0.04, but if researcher check in the year 2020-21 then cash ratio is 0.08 means as compared to previous year current year has double cash ratio. In the year 2021-22 was also decreased and reach at 0.05 and in year 2022-23 was also decreased up to 0.02. TATA steel company has very lowest cash ratio in the year 2022-23 and highest cash ratio in the year 2020-21. Average cash ratio of TATA steel has 0.044.

JSW STEEL: JSW steel has is increasing way in the first two years 2018-19 and 2019-20 as 0.16 and 0.32 respectively, and in the year 2020-21 cash ratio of the company has constant to 0.32. In the year 2021-22 it was increased to only 0.43 but in the year 2022-23 cash ratio of JSW steel has increased and reach to 0.38. Average cash ratio of JSW steel has 0.304 has increased than TATA steel company.

5. CONCLUSION/ FINDINGS OF THE STUDY:

- Average Current ratio of TATA steel is 0.72 which is less than average current ratio of JSW steel has 0.88 that means JSW steel has highest current ratio than TATA steel, so researcher can conclude that JSW steel has more current assets to pay their current obligation of company.

- Average Quick ratio of TATA steel is 0.314 which is less than average Quick ratio of JSW steel has 0.544 that means JSW steel has highest Quick ratio than TATA steel, so researcher can conclude that JSW steel has more Quick assets to pay their current obligation of company.

- Average Cash ratio of TATA steel is 0.044 which is less than average current ratio of JSW steel has 0.34 that means JSW steel has highest cash ratio than TATA steel, so researcher can conclude that JSW steel has more cash assets to pay their current obligation of company.

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