

## FINANCIAL PERFORMANCE ANALYSIS IN RASHTRIYA ISPAT NIGAM LIMITED, VISAKHAPATNAM

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### ABSTRACT:

A Financial analysis is an organized collection of data according to logical and constant accounting standards and procedures. The main objective of the paper is to convey an understanding of some financial aspects of a business firm pertaining to Vizag Steel Plant. It results out the position at a moment of time as in the case of a balance sheet. Financial statements for a number of years are reviewed and analysed. It gives an analysis of management considerable insight into different levels and areas of strength and weakness. The statistical data is collected in realtime and analysis is done basing on the assumptions.

### I. INTRODUCTION:

For the development of any modern economy, Steel is one of the pivotal elements and considered to be the cornerstone of human sophistication and civilized status. In assessment of socioeconomic growth and the living principles and the eminence of the nation, the per capita consumption of steel is believed to be significant indicator. In the liberalization of the industrial sector, steel industry has been in front position which has made quick progress since then. The industry has stimulated up in value chain as the output has increased and exports have risen subsequently to a greater amalgamation with the world economy.

Simultaneously, new challenges were being confronted by the steel industry. The demand also has not enhanced to notable levels. The acid test of the steel industry would be to overcome these difficulties and remain internationally competing. Taking the importance of steel into account, incorporated steel industries by using foreign collaboration were set up in the public zone in post-independence era. The expansion and complete performance of any organization depends on certain factors like manufacture, selling, human resources and monetary performance of organization. The financial accomplishment of the organization replicate strength, weakness, opportunity and threat of the group with respect to profits received, investments, sales comprehension, earnings, investment returns, and net worth of capital.

Finance plays very crucial role in any organization which involves money affairs like supervising or regulating the public money. The province of finance is not only procuring and organizing funds for the commerce organization but also includes planning, forecasting of cash flow, both receipts and payments, raising the funds, allocation of funds and financial control.

Systematic management of fiscal property and a planned examination of financial results are rudiments for the success of a business enterprise. Financial declaration are the bedrocks for decision formulation by administration as well as all other stakeholders implicated in firm's affairs.

Financial administration involves planning, organizing, directing and controlling the pecuniary activities of an venture. It is mainly related to increasing funds in the most productive and remunerative manner. These funds need to be used profitably for constructively planning future operations, controlling existing performance and forthcoming expansions via financial accounting, cost accounting, budgeting, statistics and other means; and finally, for the survival and attracting of new capital, attaining the essential rate of investment returns, is mandatory.

The financial executive must observe that the funds are procured in a way where risk, price and manage contemplation are accordingly stabilized and thereby the optimal discharge of the funds in a given situation. The financial executive approximates the total specifications of funds, both in the less and long period. He also evaluates financial position of company through working out the return on capital, debt-equity ratio and outlay of capital from each source etc...,and finally collates the capital structure with that of the similar companies.

## II. FINANCIAL PERFORMANCE:

This analysis particularly helps in specific short & long term predictions and conjecture of the firm's growth and development. Financial analysis plays an essential role in evaluating and analyzing the financial statement to secure the better perceptive of firm's position.

### Three Major Steps in the Analysis of Financial Statements:

- Firstly, the whole financial data is restructured by breaking down into independent component sand congregated into few primary elements based on their similarities and affinities. Hence there is a complete remarking of balance sheet and all accounts are totally different from their original shape.
- Significant affinity among the independent components of P&L account is established by applying aids of financial analysis such as ratio analysis, trend analysis and comparative balance sheet.
- Finally the concluding result of aids for financial analysis is evaluated.

### Need for the Study:

Inspite of need for essentiality where everything has been done in conformity with the grades standardized by the governments, the main motto of any firm is to accelerate the affluence of the profits that depend on rewarding sales activity. To initiate sales, investment of sufficient funds in current assets is required. Hence need of current assets should be reiterated, as the trade do not transform into cash immediately but involve a cycle of operations, namely operating.

Rashtriya Ispat Nigam limited is a multi-product steel-manufacturing unit with different cycle time for every product. The product target of a particular year decides the amount of resources required by each department in a large organization. For a core level understanding of this, a comprehensive mastery and analyzing the factors that affects them is a must. **Visakhapatnam Steel Plant** has developed from a loss to profit making company. Our study is all about examining and analyzing how this has been possible for a company whose figures were blueprinted to negative show finally ended with high positive.

Here in this project, an attempt is made by a financial statement for revealing financial performance of the company.

### Aims and Objectives:

- Analyzing the financial stand of the company.
- financial stability study and overall accomplishment of the firm.
- Understanding the potential of the firm to meet its current commitments.
- Studying the overall operation efficiency and performance of the firm.
- Measures for enhancing the quality of financial performance in RINL.

### Primary Data:

Primary data is data used by the researcher; the investigator acquires the data rely upon his requirements.

## Secondary Data

The secondary data is collected from information which is utilized by others. It is not direct information. This information is already collected and analyzed by others and that information is used by others. Various reports are used as sources reveal the processed data about steel plants.

The secondary data:

- Company's annual report
- Company's website
- Inter office memos(IOM)
- Monthly working results
- Financial handbook

**Liquidity Ratio:**  $\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$

TABLE 1 Shows Year wise Current Ratio (inCrores)

Year	Current Assets	Current Liabilities	Ratios
2014-2015	9977.75	10184.67	0.98
2015-2016	8400.66	10211.56	0.82
2016-2017	9637.46	15059.38	0.64
2017-2018	8499.17	16328.91	0.52
2018-2019	6776.88	13400.2	0.51
2019-2020	7832.38	16836.82	0.47

## Interpretation:

Basing on observations ratio of VSP is high compared with ideal ratio till 2018-2019. But it is below ratio for the year 2019-2020 onwards. As the rapid proportion during the period of study is higher than that of the ideal ratio till 2018-2019, position was very good but it is not satisfactory from the year 2019-2020.

## Absolute Liquid/Cash Ratio

Absolute Liquid/cash ratio:  $\frac{\text{Absolute Assets}}{\text{Current Liabilities}}$

TABLE 2 Showing Yearwise Absolute Liquid Ratio (in Crores)

Year	Current Assets	Current Liabilities	Ratios
2014-2015	1625.02	10184.67	0.16
2015-2016	175.89	10211.56	0.02
2016-2017	63.94	15059.38	0.004
2017-2018	45.56	16328.91	0.002
2018-2019	53.9	13400.2	0.004
2019-2020	51.9	16836.82	0.003

**Interpretation:** Ideal Ratio 0.5:1

Absolute proportion has decreased drastically for 2019-2020 year. It enjoyed a high liquidity position till 2014-2015 as the ratio was above ideal ratio.

## Liquid Ratio:

Liquid Ratio= $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

TABLE 3. SHOWING ON LIQUID RATIO (in Crores)

Year	LiquidAssets	Current Liabilities	Ratios
2014-2015	6149.15	10184.67	0.6
2015-2016	4537.62	10211.56	0.44
2016-2017	4457.95	15059.38	0.30
2017-2018	4898.673	16328.91	0.3
2018-2019	2680.4	13400.2	0.2
2019-2020	1683.682	16836.82	0.1

**Interpretation:** The liquid ratio in the year2016-2017 is 0.2

It has slightly decreased in 2018.

**Gross Profit Ratio:**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit (PBIT)}}{\text{Sales}} \times 100$$

TABLE 4. Shown In Gross Profit Ratio (inCrores)

Year	Gross Profit	Sales	Ratios
2014-2015	886	12110.69	9.8
2015-2016	887	12028.33	7.37
2016-2017	538	9314.36	5.78
2017-2018	-11248	12270.58	-91.6
2018-2019	-263.89	12706.31	-2.07
2019-2020	346.19	16618.4	2.08

It is increasing from 2017-2018.

Sales are in an increasing trend but the profit ratio is decreasing. It is due to decreased cost of production. The main attributable reason for the declining profit is the overall global meltdown.

**Net Profit Ratio**

$$\text{Net profit ratio} = \text{Net Profit(after tax)}/\text{Sales} \times 100$$

TABLE 5. Showing Yearwise Net Profitratio (inCrores)

Years	NetProfit	Sales	Ratios
2014-2015	353	12110.69	2.91
2015-2016	366	12028.33	3.04
2016-2017	62	9314.36	0.67
2017-2018	1421	12270.58	11.58
2018-2019	1263.16	12706.31	9.94
2019-2020	-1369.01	16618.4	-8.24

**Interpretation:**

Net profit is in decline from 2018-19in comparison with2017-18.

Due to adverse marketing conditions, the company is able to earn net-loss.

**Return on Investment Ratio**

Return on Investment Ratio=  $\frac{\text{NetProfit (after tax)}}{\text{share holder funds}}$

TABLE 6: SHOWN ON RETURN ON INVESTMENT RATIO (in Crores)

Year	Profit After Tax	Share holder Funds	Ratios
2014-2015	353	12477.32	0.02
2015-2016	366.45	12140.74	0.03
2016-2017	62.38	11593.93	0.005
2017-2018	-1421	4890	-0.29
2018-2019	-1263	4890	-0.26
2019-2020	-1369	4890	-0.28

**Interpretation:**

Highest return on investment was recorded in 2014-15.

Basing on observation it is stated that the ROI is fluctuating from year to year.

Surplus and Reserve funds are diverted to expansion activities.

**Stock Turn over Ratio:**

Stock Turnover Ratio =  $\frac{\text{Sales}}{\text{Stock}}$

TABLE 7: SHOWN ON STOCK TURNOVER RATIO (in Crores)

Year	Sales	Stock	Ratios
2014-2015	12110.69	3828.6	3.16
2015-2016	12028.33	3863.04	3.11
2016-2017	9314.36	5179.51	1.80
2017-2018	12270.58	3908	3.14
2018-2019	12706.31	4766.85	2.67
2019-2020	16618.4	5628.67	2.95

**Interpretation:**

- The Inventory Turnover Ratio during the year 2018-19 was 2.95
- less stock turnover ratio in the year 2015-2016
- Higher ratio reveals that plant is not able to meet the customers demand properly.

**Debtors Turnover Ratio:**

Debtor Turnover Ratio=  $\frac{\text{Net credit annual sales}}{\text{Debtors}} / \text{Average trade debtor}$

TABLE 8: SHOWING YEAR WISE DEBTORS TURN OVER RATIO (in Crores)

Year	Sales	Debtors	Ratios
2014-2015	12110.69	1009.65	11.99
2015-2016	12028.33	803.65	14.97
2016-2017	9314.36	1035.43	9.00
2017-2018	12270.58	977.81	12.55
2018-2019	12706.31	878.8	14.46
2019-2020	16618.4	995.98	16.69

### Interpretation:

- The debtor turnover ratio for the year 2018-19 is 16.69
- It can be concluded that the management is efficient in converting the debtors into cash.

### Findings:

- Due to logistics issues and non availability of rails and congestion in railway tracks material movement badly hits the production schedule. RINL logistics costs are very less compared to other companies and even for rationalizing both export and import due to shore based location.
- Excess amounts of loans are taken on the account of expansion; due to this reason huge amounts of loans and interest are paid.
- RINL invested heavily on 6.3 MTPA and 7.3 MTPA. Despite all major capacity programmes completed production levels required are not achieved.
- RINL-VSP Very weak in project implementation that causes damage to company's potential, several projects of present and previous year continued.

### Suggestions:

1. After the comprehensive study of the overall management performance of the Visakhapatnam steel plant, we find some favorable & adverse impacts on the organization's profitability. Therefore I would like to recommend some suggestions, which may be useful to maximize the profits.
2. RINL should focus more on project implementation very seriously and any time when any project is taken up, milestones should be freeze very well in advance, rather than changing design, equipment and parameters required and subsequent changes should be avoided.
3. All other projects are initiated and are yet to be taken up should be completed in time along without cost overrun to get the benefits to the company based on the projects Detailed Project Report and should get IRR as envisaged in the respective DPRs.
4. Proper logistics and material are immediate requirement of the plant can be met such as limestone and iron ore. These things can be brought by conveyor, for that separate conveyor should establish so that material can reach in time and also brought by sea route from Odisha.
5. The Company should focus on coastal transport to reduce the freight costs on the market locations which are located far away from the Steel Plant.
6. Company has abundant land which should be utilized optimally by establishing Solar Power Plants where the costs of Solar Panel and interest costs have come down compared to earlier two to three years levels by reducing the dependency of power from APDCL. Since the Solar Power cost is lesser than generation as well as imported power costs.

### III. CONCLUSION

Financial statements is a powerful mechanism which helps in ascertaining the strengths and weaknesses in the operations and financial positions of an organization. Currently imports are being handled from Gangavaram Port but exports are not being handled from GPL despite being reduced logistic costs. The company should take immediate steps to start exports from Gangavaram Port itself.

### Bibliography:

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