

# A Study on Financial Analysis of Steel Trading Company: A Case Study on Kalyani Steel

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**Abstract**—Financial statements provide summarized view of the financial position as well as operation of the company. Therefore, now a day it becomes necessary to all the companies to know as well as to show the financial soundness i.e. position and operation of Company to their stakeholders. It is also necessary for every company to know their financial position to take corresponding actions. In this report we will study financial position of Kalyani Steels Limited, by using the Annual Reports & Financial Statements of the firm. The Financial analysis of this report will show the Strengths and weakness of the Kalyani Steels Limited. Financial analysis will help the company to take required decision. In this project the researcher is using “Ratio Analysis” as a tool of financial analysis. Thus, we can say that, Financial Analysis is a starting point of planning new strategies before using any sophisticated forecasting and planning.

**Index Terms**—financial analysis, steel trading

## I. INTRODUCTION

Financial analysis is the process of identifying the financial strength and weakness of the firm and establishing relationship between the items of balance sheet and profit & loss account. Financial ratio analysis is the calculation and comparison of ratios, which are derived from the information in the company’s financial statements. The information in the statement is used by

- Trade Creditors: To identify firms ability to meet their claims i.e. Liquidity position of the company.
- Investor: To know about the present and future profitability of company and its financial structure.
- Management: In every aspect of the financial analysis, it is the management’s responsibility to maintain sound financial condition in the company.

Ratio Analysis:

The term “Ratio” refers to the quantitative and numerical relationship between two variables. This relationship can be exposed as

- Fractions
- Percentage
- Proportion of numbers.

Ratio analysis is generally defined as the systematic use of the ratio to interpret the financial statement. So that the strengths and weakness of a firm, historical performance and current financial position of the firm can be determined. Ratio reflects a quantitative relationship which helps to form a

quantitative judgement.

Interpretation of the ratios:

The interpretation of the ratio is very important factor. The inherent limitations of ratio analysis should be kept in mind while interpreting ratios. The impact of factors such as change in accounting policies, price level changes, window dressing etc.

## II. OBJECTIVE OF THE STUDY

1. To study various ratios to determine the relationship of different factors which have impact on the financial position and operation of the company.
2. To analyze the performance of the company by using ratios to measure the efficiency of the company.
3. To understand the liquidity, profitability and efficiency of the company during the study period.
4. To evaluate and analyze the various facts of financial performance of the company.
5. To make intra-firm comparisons between the ratios during different periods.

## III. DATA ANALYSIS AND INTERPRETATION

### A. Liquidity Ratio

#### 1) Current Ratio

The current ratio is a one of the popular financial ratio which is used to test a company's liquidity by deriving the proportion of current assets to cover current liabilities.

Formula: Current ratio = Current assets / Current liabilities

TABLE I  
CURRENT RATIO

Year	Current ratio
2013-14	1.5
2014-15	1.76
2015-16	1.35
2016-17	1.61

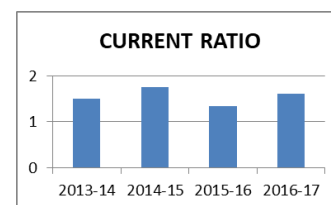


Fig. 1. Current ratio

2) *Networking capital*

Working capital is a measure of both a short term financial health and company’s efficiency. The working capital ratio indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative W/C (working capital). While anything over 2 means that the company is not utilizing excess assets. Most believe that a ratio between 1.2 and 2.0 is good for the firm.

Formula: Net working capital = Current assets (CA) – current liabilities (CL).

TABLE II  
NET WORKING CAPITAL

Year	Net Working Capital
2013-14	1,875,905,185
2014-15	2,351,525,897
2015-16	92,946,684
2016-17	2,808,094,220

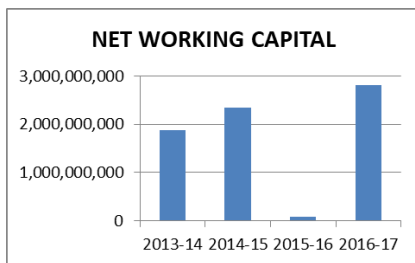


Fig. 2. Net working capital

*Interpretation:*

Working capital is used to determine the availability of a company’s liquid assets by subtracting its current liabilities. In the beginning of 2013-14 the net working capital started rising and as the current ratio is more than 1 therefore the net working capital is positive in the year 2013-14. A major increase took place in 2016 – 2017. In 2015-16 net working capital is decreased due to decreased in cash at bank. But in 2016-17 cash at bank and current investment is increased compare to previous year. Therefore, the liquidity of the company has increased in the current financial year.

1) *Quick Ratio*

The quick ratio which is also known as quick assets ratio or the acid-test ratio is a liquidity indicator that further refines the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities.

TABLE II  
QUICK RATIO

Year	Quick Ratio
2013-14	1.04
2014-15	1.2579
2015-16	1.0815
2016-17	1.3230

*Interpretation:*

Quick ratio is also known as an acid-test ratio or quick assets ratio. It is an indicator for a company that can pay immediate short-term liabilities. The quick ratio measures a company’s

ability to meet its short-term obligations with its most liquid assets for a specific duration. The higher quick ratios improve the company’s liquidity position. As we see from the year 2013-14 & 2015-16 there is a decrease in quick ratio and it increased in 2016-17. The company’s quick ratio is not stable so company needs to pay attention to avoid further decrease.

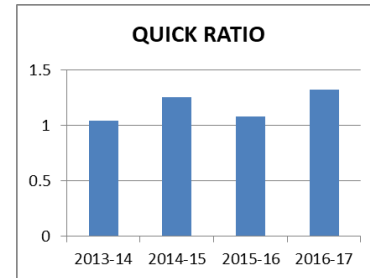


Fig. 3. Quick ratio

B. *Profitability Ratio*

1) *Gross Profit Margin Ratio*

Gross profit (G.P.) is the difference between sales and the manufacturing cost of goods sold. And gross profit is compared with the sales. Gross profit margin ratio reflects the efficiency with the help of which management produces each unit of product. This ratio indicates the average spread between the cost of goods sold (COGS) and the sales revenue.

It is calculated as follows:

$$\text{Gross profit ratio} = \frac{\text{gross profit}}{\text{net sales}} * 100$$

TABLE III  
GROSS PROFIT RATIO

Year	Gross Profit Ratio
2013-14	11.24
2014-15	13.22
2015-16	13.88
2016-17	14.96

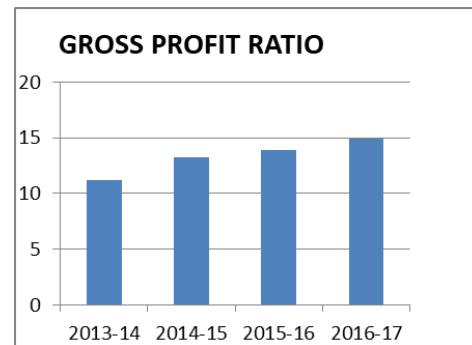


Fig. 4. Gross profit ratio

*Interpretation:*

A high gross profit ratio is sign of goods management and implies that the firm is able to produce the goods at relatively lower cost. A low gross profit margin reflects higher cost of goods sold. In case of kalyani steel the gross profit of a company is increasing every year compare to COGS so company is having good Gross Profit Ratio which means company is producing units more efficiently.

2) *Net Profit Margin Ratio*

This ratio is also known as net margin. Net margin measures the relationship between net profit and sales of a firm. This ratio indicates company's capacity to withstand adverse economic conditions.

$$\text{Net profit ratio} = \frac{\text{Net Profit}}{\text{net sales}} * 100$$

TABLE III  
GROSS PROFIT RATIO

Year	Net Profit Ratio
2013-14	1.59
2014-15	2.03
2015-16	2.27
2016-17	3.16

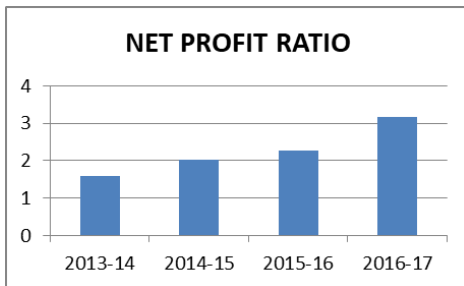


Fig. 5. Net profit ratio

*Interpretation:*

Net profit margin is an indicator of how efficient a company is and how appropriately it controls its costs. Higher the margin is more effective for the company to convert its revenue into the actual profit. Net profit margin is mostly used to compare company's results over a period of time.

From above chart and table Net Profit Margin Ratio of company is increasing as increase in net profit from year 2013-14 to 2016-17 which results in better financial efficiency of organization.

3) *Return on Investment*

This ratio is also called as ROI. This ratio measures a return on the owner's or shareholders' total investment in the firm. This ratio is the relationship between net profit after interest and taxes and the owner's investment. Usually this is calculated in percentage.

This ratio, thus can be calculated as:

$$\text{Return on investment (ROI)} = \frac{\text{PAT}}{\text{Shareholders Fund}}$$

TABLE IV  
RETURN ON INVESTMENT

Year	Return on Investment
2013-14	0.1472
2014-15	0.1752
2015-16	0.1926
2016-17	0.2091

*Interpretation:*

To interpret the ROI percent results, collect appropriate, comparative data such as trend (time series) or industry data on ROI. The business owner can look at the company's ROI across time and also at industry data to see where the company's return

on investment ratio lies. The higher return on investment ratio means the more efficiently the company is using its asset base to generate sales. The net income of Kalyani steels is increasing every year which results into increase in ROI of company. From above table and bar graph, the ROI of a company is goes on increasing which is good sign for Kalyani Steels.

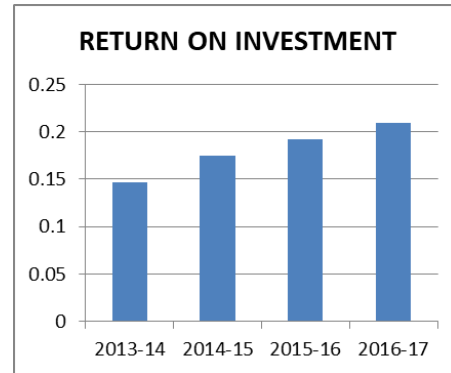


Fig. 6. Return on Investment

C. *Turnover Ratio*

1) *Inventory Turnover Ratio*

Inventory turnover is a ratio showing how many times a company's inventory is sold and replaced over a period of time.

$$\text{Inventory turnover ratio} = \frac{\text{COGS}}{\text{Avg. Inventory}}$$

TABLE V  
INVENTORY T/O RATIO

Year	Inventory T/O Ratio
2013-14	17.3563
2014-15	21.2639
2015-16	30.7852
2016-17	33.3656

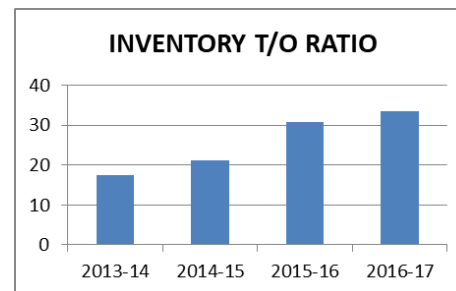


Fig. 7. Inventory T/O ratio

*Interpretation:*

Inventory turnover ratio measures how fast the inventory get converted into the cash or accounts receivable. If the turnover number is more than the company's position is said to be good and vice versa. In 2013-14 it was 17.35 times in 2014-15 it was 21.26 times in 2015-16 it was 30.78 and in 2016-17 it was 33.56. Here the turnover is increasing over the time due to increase in sale (i.e. 13,979,261,984 in 2013 to 17,215,329,148 in 2017). It shows a positive impact on Kalyani Steels management efficiency.

2) *Asset Turnover Ratio*

$$\text{Asset turnover ratio} = \frac{\text{Sales}}{\text{Total Asset}}$$

TABLE VI  
ASSET T/O RATIO

Year	Asset T/O Ratio
2013-14	1.07798
2014-15	1.13077
2015-16	0.93988
2016-17	1.0101

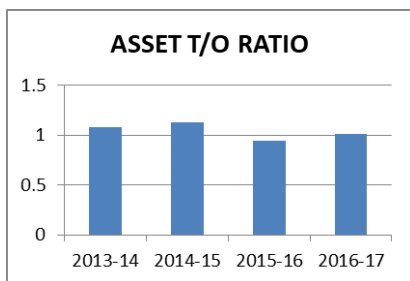


Fig. 8. Asset T/O ratio

*Interpretation:*

From above table and bar graph, the Asset T/O Ratio during 2014-15 is maximum while it is minimum in 2015-16. The goes on decreasing compare to first two years, it means company is not generating more revenue per rupee of asset.

3) *Debtors Conversion Period*

It is the period, on average, that a firm takes to collect the money owed to it by its trade debtors.

$$\text{Creditor Days} = \frac{\text{Trade Payables}}{\text{Cost of Sales}} \times 365$$

TABLE VII  
ASSET T/O RATIO

Year	Debtors Conversion Period
2013-14	71.138
2014-15	0.2872
2015-16	9.01
2016-17	44.47

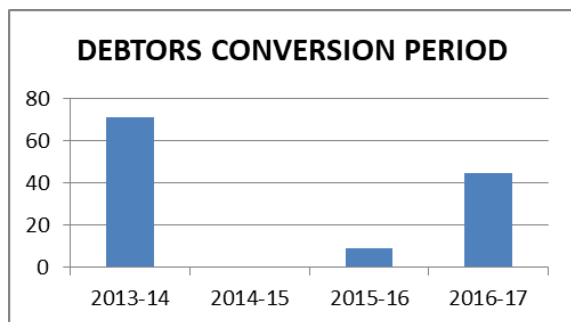


Fig. 9. Debtor's conversion period

*Interpretation:*

The ratios indicate the debtor's collection. In 2013-14 it was 71.138, 2014-15 it was 0.2872 & but in the year 2015-16 it was increased to 9.01, & in 2016-17 it further increased to 44.47 days. This increasing trend is not good for the company.

4) *Inventory Conversion Period*

The inventory conversion period is the time required to get materials for a product, to manufacture it and to sell it. The inventory conversion period is essentially the time period during which a company must invest cash while it converts all materials into a sale.

TABLE VIII  
INVENTORY CONVERSION PERIOD

Year	Inventory Conversion Period	Days
2013-14	0.05761	21.027
2014-15	0.04702	17.22
2015-16	0.03248	11.8552
2016-17	0.0299	10.9135

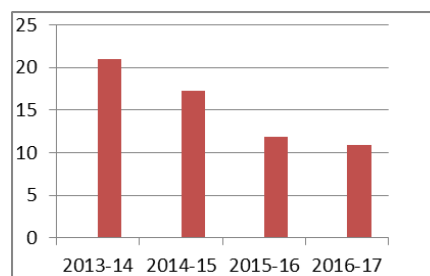


Fig. 10. Inventory conversion period

*Interpretation:*

1. Less inventory conversion period is better because more rapidly we will convert our inventory into sales, there will be less chance of obsolescence and paying of over-stocking cost.
2. Inventory conversion period is the part of cash conversion cycle. If this period is high then it will increase the time to convert inventory into the cash. It means there is more liquidity risk in such an inventory.

Here the inventory conversion period goes on decreasing which is good sign for the company as they can convert their inventory into sales which reduces the liquidity risk.

D. *Dividend Ratio*

1) *Earnings per share*

Earnings per share (EPS) are the portion of a company's overall profit allocated to each outstanding share of a common stock. Earnings per share indicate the company's profitability.

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No. of Shares Outstanding}}$$

TABLE IX  
EARNINGS PER SHARE

Year	Earnings Per Share
2013-14	13.42
2014-15	19.02
2015-16	26.02
2016-17	35.72

*Interpretation:*

Earnings per share are most frequently present in financial statements and is a very reliable figure for investors to take decision. It is useful for existing and upcoming equity

shareholders for predicting the share value in future. A high EPS is a sign of strong financial position, better earnings and therefore a reliable company to invest in. The EPS for several years indicates the overall growth pattern of the company. It also helps in comparison of figures of different companies in the same sector. The PAT of Kalyani steel is increasing every year so the companies EPS is goes on increasing every year from 13.42 to 35.72 so, we can say that the company is in good position and investors can invest for good return.

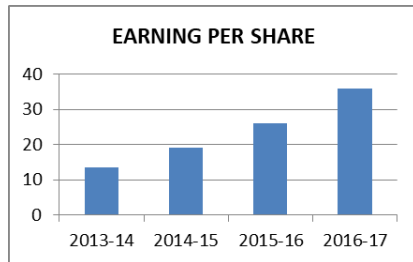


Fig. 11. Earnings per Share

#### IV. FINDINGS

- The company is maintaining current ratio above 1 and more, which indicates the ability of the firm to meet its current obligations. It shows that the company is in strong position to management manage working funds.
- The net profit and gross profit of the company is increasing during the study period. Hence the organization is having good control on all areas of expenses.
- The inventory T/O ratio is in increasing form so the company is at good position to convert its inventory into cash at faster rate.
- EPS and dividend paid is increasing every year so that investor can think about investment for good return.
- The company seems to be piling up its inventory position which has resulted in higher sales during the four year period. From year 2013, the ROI of a company is goes on increasing which is good sign for Kalyani Steels.
- Inventory conversion period goes on decreasing so company as they can convert their inventory into sales fastly which reduces the liquidity risk.

#### V. SUGGESTIONS

- To meet its current obligations easily. Or the company can

decrease its liabilities to meet the standard ratio.

- Cash maintained by the company should be increased so that the cash position ratio is kept to the standard i.e. 2:1. The standard can be achieved either by increasing cash maintained or by decreasing the current liabilities.
- The company has to maintain its fixed assets less so that to avoid large funds tie up in the fixed assets.

#### VI. CONCLUSION

The company's overall position is at a good position during the study period. Particularly the current year's position is well due to raise in the profit level from the previous year. It is better for the organization to diversify the funds into the different sectors in the current market scenario.

The analysis of the company was undertaken with the help of ratios, which are important tools. After having all the ratios and analyzing the financial data of company we can conclude that the company's position is stable in maintaining its present position in its business strategies. The business environment of the Kalyani Steel is reasonably good. The company track record is always oriented towards profitable growth and with strong fundamentals. The EPS of Kalyani Steel is increasing year by year, with this increasing trend, company is also giving more dividends to stockholders which shows better operating efficiency of company and wealth. The intrafirm comparison becomes easy with the help of ratio analysis. With the help of intrafirm comparison the researcher have found out the overall growth of company and the areas of improvement.

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