

CURRENT RATIO ANALYSIS OF MAJOR STEEL INDUSTRIES IN INDIA

Dr. Vineet Singh¹, Nand Kishor Bhardwaj²

¹Assistant Professor, Department of Commerce, Guru Ghasidas Vishwavidyalaya, Bilaspur, C.G., India

²Research Scholar, Department of Commerce, Guru Ghasidas Vishwavidyalaya, Bilaspur, C.G., India

ABSTRACT

Current ratio is an important liquidity ratio which measures ability of an enterprise to pay off its current liabilities in time. An ideal current ratio is considered to be 2:1 and is calculated by dividing total current assets with total current liabilities of a firm. Current ratio of more than 2:1 indicates two facts about a firm. Firstly, the firm will not face any difficulty in paying off its current liabilities and secondly, the firm's current assets are laying ideal which do not earn any return. Current ratio of less than 2:1 indicates the fact that a firm will face difficulty in paying off its current liabilities in time. This paper is an attempt to analyse current ratio of Tata Steel Ltd. and JSW Steel Ltd. from 2007-08 to 2016-17.

Keywords: Tata Steel Ltd., JSW Steel Ltd., Current Ratio.

INTRODUCTION

Current ratio is a significant liquidity ratio which enables a firm to know about its ability to repay current liabilities in time. The ratio is calculated by dividing current assets by current liabilities and hence portrays a clear picture of a firm's ability in repayment of its current liabilities in time or in near future. An ideal current ratio is considered to be 2:1, which divulge the fact that current assets are twice the current liabilities.

Indian steel industry started with the establishment of Tata Iron and Steel Company (TISCO) on 26th August in the year 1907. In 2005 the name of TISCO was changed to Tata Steel. Tata steel is the world's 6th largest steel company and enjoys experience of more than 100 years. With operations in 26 countries and commercial presence in over 50 countries, Tata Steel is the world's second most diversified steel producer. With an existing annual crude steel production capacity of 30 million tonnes per annum, Tata Steel is 11th largest steel player globally and employs 77,000 people.

Owned by JSW Group JSW Steel Ltd. is one of the India's leading integrated steel manufacturers with a capacity of 18 million tonnes per annum. The company has footprint in over 140 countries and is one of the fastest growing companies in India. Founded by Sajjan Jindal, JSW Group's steel manufacturing began in 1982. JSW Steel is a pioneer in using innovative technology and offers widest product portfolio in India.

OBJECTIVES OF THE STUDY

In order to analyse current ratio of Tata Steel Ltd. and JSW Steel Ltd. the following objectives have been framed:

- To compare current assets of Tata Steel Ltd. and JSW Steel Ltd. from 2007-08 to 2016-17.
- To compare current liabilities of Tata Steel Ltd. and JSW Steel Ltd. from 2007-08 to 2016-17.
- To calculate and compare current ratio of both the companies.

HYPOTHESIS OF THE STUDY

In addition to above mentioned objectives, the following hypothesis has also been integrated in the study:

- **H_0 :** There is no significant difference between current ratios of Tata Steel Ltd. and JSW Steel Ltd.
- **H_a :** There is a significant difference between current ratios of Tata Steel Ltd. and JSW Steel Ltd.

RESEARCH METHODOLOGY

The current study is mainly based on secondary data and focuses on ten years time period i.e. from 2007-08 to 2016-17. The relevant information in this regard has been collected from annual reports, articles, journals etc. and number of statistical tools such as t-test, average etc. have also been applied, in order to give a meaningful conclusion to the study.

ANALYSIS AND INTERPRETATION

Current assets and current liability figures of TATA Steel Ltd. and JSW Steel Ltd. has been examined with the help of table and graphical representation, followed by t-test.

Table 1.1: Current Assets (Tata Steel Ltd. and JSW Steel Ltd.)

Year	Current Assets (Tata Steel Ltd.) Rs. in Crores	Current Assets (JSW Steel Ltd.) Rs. in Crores
2007-08	3613.70	3086.54
2008-09	10285.09	4631.64
2009-10	12246.69	5559.52
2010-11	24212.30	10188.37
2011-12	12864.50	14346.61
2012-13	11530.60	14322.34
2013-14	11564.60	14998.81
2014-15	11849.17	19023.96
2015-16	14421.49	13698.80
2016-17	20097.43	17784.83
Average	13268.56	11764.14

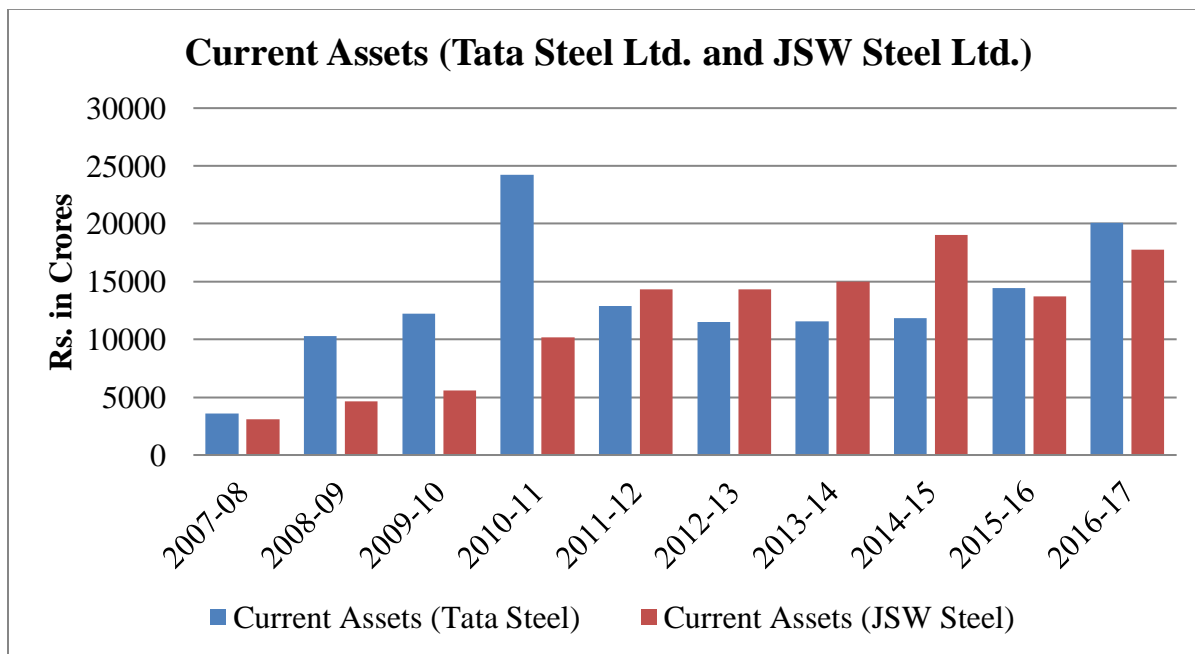


Figure 1.1: Current Assets (Tata Steel Ltd. and JSW Steel Ltd.)

Current assets position of Tata Steel Ltd. and JSW Steel Ltd. from 2007-08 to 2016-17 is revealed by above table and figure. Current assets of Tata Steel Ltd. and JSW Steel Ltd. stood at an average of Rs. 13268.56 crores and Rs. 11764.14 crores respectively. In 2007-08 current assets of Tata Steel Ltd. stood at Rs. 3613.70 crores which increased to Rs. 24212.30 crores in 2010-11 and finally stood at Rs. 20097.43 crores in 2016-17. Similarly, in 2007-08 current assets of JSW Steel Ltd. stood at Rs. 3086.54 crores which increased to Rs. 10188.36 crores in 2010-11 and finally stood at Rs. 17784.83 crores in 2016-17. Current assets of Tata Steel Ltd. and JSW Steel Ltd. were highest in 2010-11 and 2014-15 respectively.

Table 1.2: Current Liabilities (Tata Steel Ltd. and JSW Steel Ltd.)

Year	Current Liabilities (Tata Steel Ltd.) Rs. in Crores	Current Liabilities (JSW Steel Ltd.) Rs. in Crores
2007-08	6768.78	4102.37
2008-09	8974.05	7557.21
2009-10	8999.61	7621.89
2010-11	10995.81	10064.73
2011-12	16903.64	17437.82
2012-13	16488.65	15559.92
2013-14	18881.78	20671.60
2014-15	16623.79	20411.44
2015-16	21087.99	21733.76
2016-17	23056.33	26079.74
Average	14878.04	15124.05

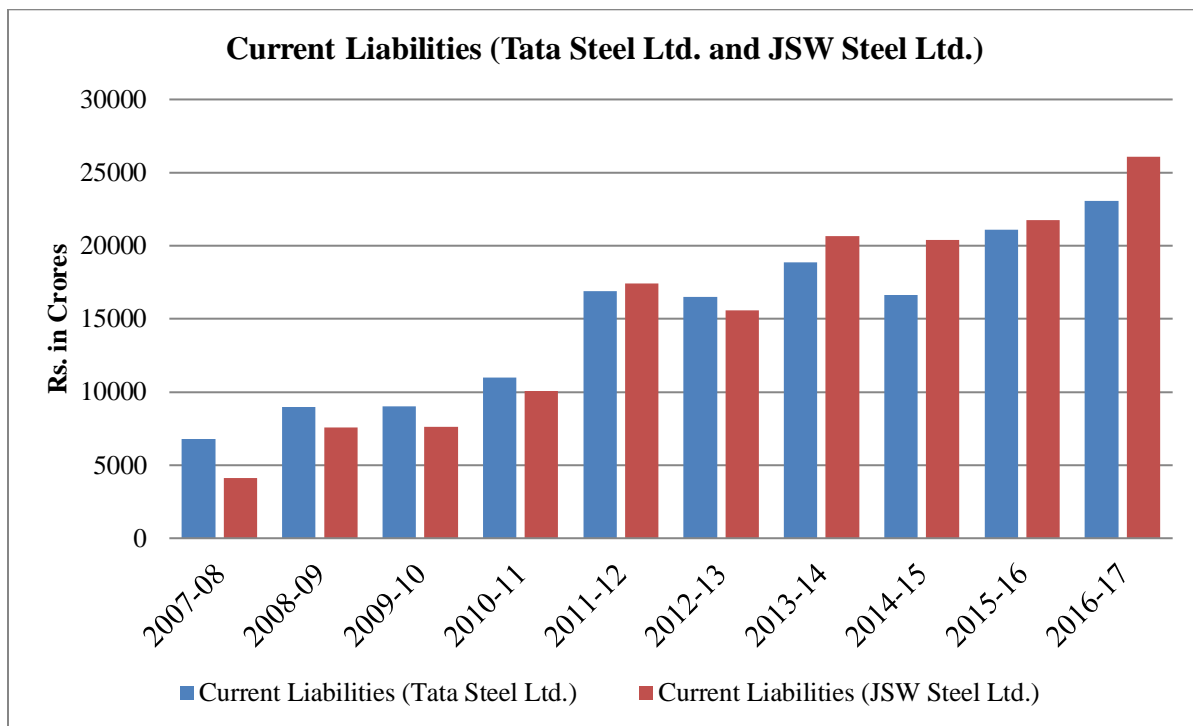


Figure 1.2: Current Liabilities (Tata Steel Ltd. and JSW Steel Ltd.)

Current Liabilities position of Tata Steel Ltd. and JSW Steel Ltd. from 2007-08 to 2016-17 is revealed by table 1.2 and figure 1.2. Current Liabilities of Tata Steel Ltd. and JSW Steel Ltd. stood at an average of Rs. 14878.04 crores and Rs. 15124.05 crores respectively. In 2007-08 Current Liabilities of Tata Steel Ltd. stood at Rs. 6768.78 crores which increased to Rs. 23056.33 crores in 2016-17. Similarly, in 2007-08 Current Liabilities of JSW Steel Ltd. stood at Rs. 4102.37 crores which increased to Rs. 26079.74 crores in 2016-17. During the study period Current Liabilities of Tata Steel Ltd. as well as JSW Steel Ltd. were highest in 2016-17 and lowest in 2007-08.

Table 1.3: Current Ratio (Tata Steel Ltd.)

Year	Current Assets (Rs. in Crores)	Current Liabilities (Rs. in Crores)	Current Ratio
2007-08	3613.70	6768.78	0.53
2008-09	10285.09	8974.05	1.15
2009-10	12246.69	8999.61	1.36
2010-11	24212.30	10995.81	2.20
2011-12	12864.50	16903.64	0.76
2012-13	11530.60	16488.65	0.70
2013-14	11564.60	18881.78	0.61
2014-15	11849.17	16623.79	0.71
2015-16	14421.49	21087.99	0.68
2016-17	20097.43	23056.33	0.87
Average	13268.56	14878.04	0.96

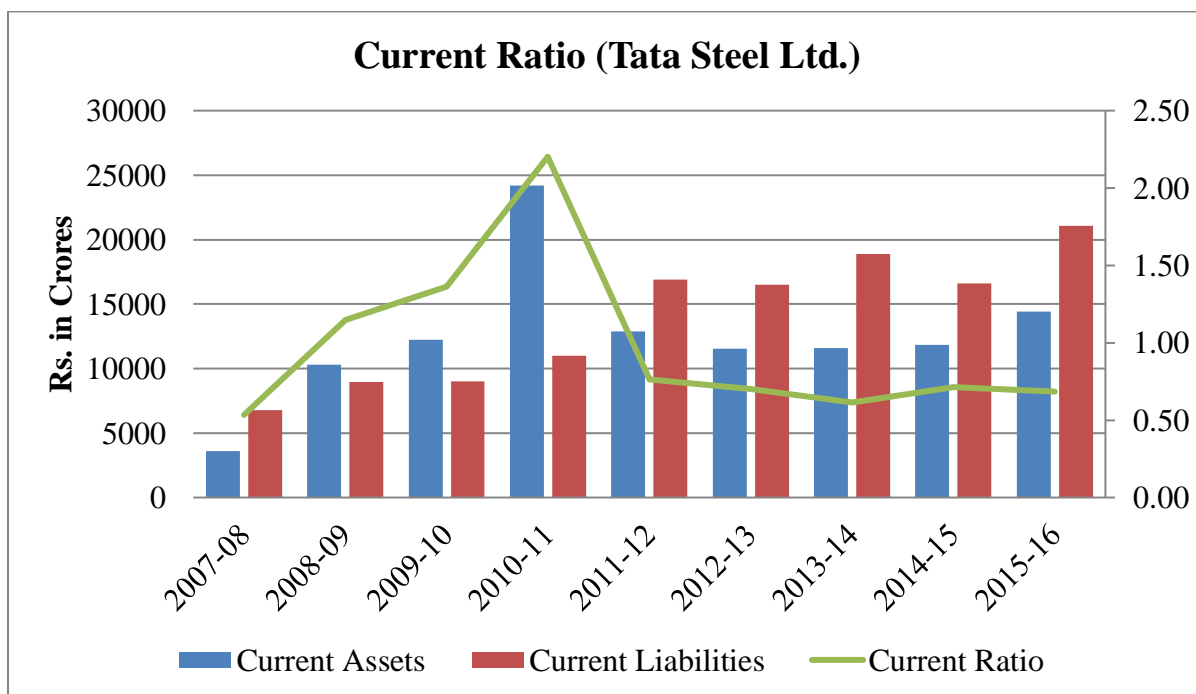


Figure 1.3: Current Ratio (Tata Steel Ltd.)

The above table reveals current asset, current liabilities and current ratio of Tata Steel Ltd. from 2007-08 to 2016-17. Current ratio of Tata Steel Ltd. has shown an increasing trend from 2007-08 to 2010-11 and a decreasing trend thereafter till 2013-14. Current ratio of Tata Steel Ltd. shows mixed trend of increasing and decreasing during the study period. Current ratio of Tata Steel Ltd. was highest in 2010-11 at 2.20:1 and lowest in 2007-08 at 0.53:1. In the last year of study period i.e. 2016-17 current ratio stood at 0.87:1. Current ratio of Tata Steel Ltd. stood at an average of 0.96:1 during the study period

Table 1.4: Current Ratio (JSW Steel Ltd.)

Year	Current Assets (Rs. in Crores)	Current Liabilities (Rs. in Crores)	Current Ratio
2007-08	3086.54	4102.37	0.75
2008-09	4631.64	7557.21	0.61
2009-10	5559.52	7621.89	0.73
2010-11	10188.37	10064.73	1.01
2011-12	14346.61	17437.82	0.82
2012-13	14322.34	15559.92	0.92
2013-14	14998.81	20671.60	0.73
2014-15	19023.96	20411.44	0.93
2015-16	13698.80	21733.76	0.63
2016-17	17784.83	26079.74	0.68
Average	11764.14	15124.05	0.78

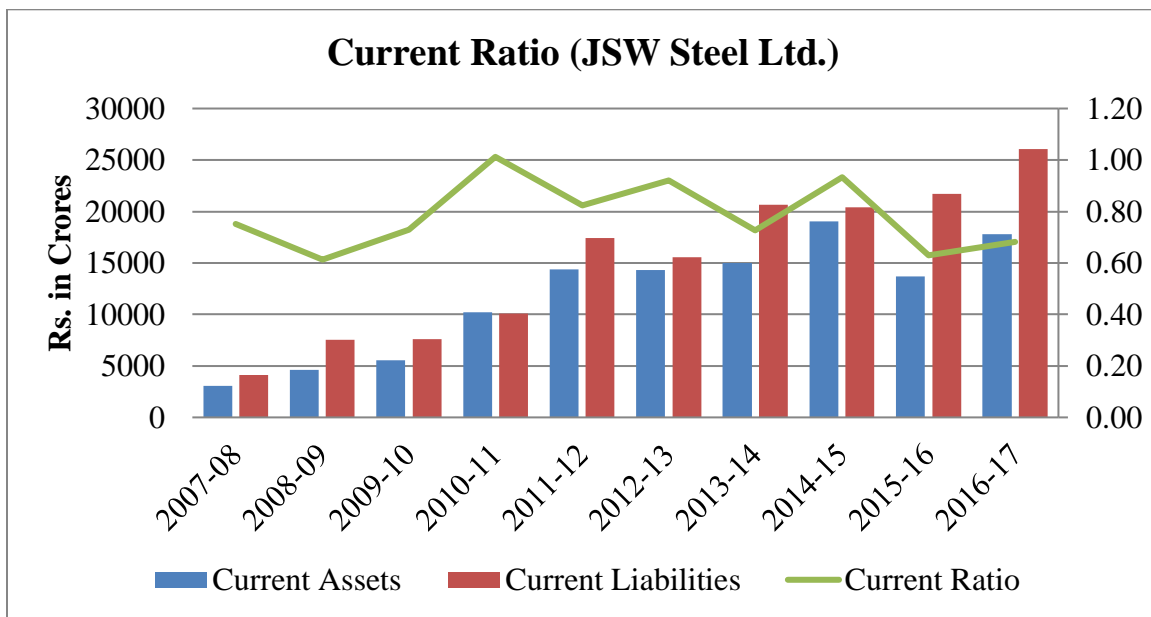


Figure 1.4: Current Ratio (JSW Steel Ltd.)

Table 1.4 and figure 1.4 exposes current assets, current liabilities and current ratio position of JSW Steel Ltd. from 2007-08 to 2016-17. Current ratio of JSW Steel Ltd. has shown a mixed trend of increase and decrease during the study period and stood highest in 2010-11 at 1.01:1. The lowest figure of current ratio was observed in 2008-09 when the ratio stood at 0.61:1. Current assets, current liabilities and current ratio of JSW Steel Ltd. stood at an average of Rs. 11764.14 crores, Rs. 15124.05 and 0.78:1 respectively during the study period.

Table 1.5: Current Ratio (Tata Steel Ltd. and JSW Steel Ltd.)

Years	Current Ratio (Tata Steel Ltd.)	Current Ratio (JSW Steel Ltd.)
2007-08	0.53	0.75
2008-09	1.15	0.61
2009-10	1.36	0.73
2010-11	2.20	1.01
2011-12	0.76	0.82
2012-13	0.70	0.92
2013-14	0.61	0.73
2014-15	0.71	0.93
2015-16	0.68	0.63
2016-17	0.87	0.68
Average	0.96	0.78

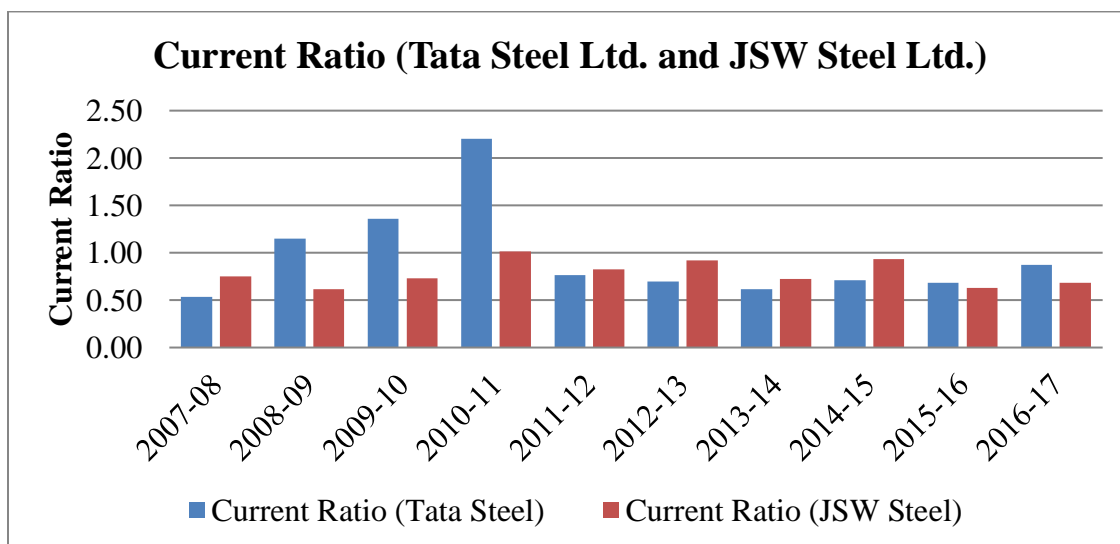


Figure 1.5: Current Ratio (Tata Steel Ltd. and JSW Steel Ltd.)

The above table describes current ratio of Tata Steel Ltd. and JSW Steel Ltd. from 2007-08 to 2016-17. Current ratios of Tata Steel Ltd. and JSW Steel Ltd. shows mixed trend of increase and decrease during the study period. Current ratio of Tata Steel Ltd. and JSW Steel Ltd. was highest in 2010-11 at 2.20:1 and 1.10:1 respectively during the study period. Current ratio of Tata Steel Ltd. was lowest in 2007-08 at 0.53:1 whereas, current ratio of JSW Steel Ltd. was lowest in the

year 2008-09 at 0.61:1. Current ratio of Tata Steel Ltd. and JSW Steel Ltd. stood at an average of 0.96:1 and 0.78:1 respectively during the study period.

Hypothesis Testing on Current Ratio (TATA Steel Ltd. & JSW Steel Ltd.)

H₀: There is no significant difference between current ratios of Tata Steel Ltd. & JSW Steel Ltd.

H_a: There is a significant difference between current ratios Tata Steel Ltd. & JSW Steel Ltd.

Table 1.6: t-Test: Two-Sample Assuming Equal Variances

t-Test: Two-Sample Assuming Equal Variances		
	Current Ratio (TATA Steel Ltd.)	Current Ratio (JSW Steel Ltd.)
Mean	0.957	0.781
Variance	0.25529	0.01821
Observations	10	10
Pooled Variance	0.13675	
Hypothesized Mean Difference	0	
df	18	
t Stat	1.064226	
P(T<=t) one-tail	0.150648	
t Critical one-tail	1.734064	
P(T<=t) two-tail	0.301295	
t Critical two-tail	2.100922	

Since the calculated value of t-two tail at 5% level of significance is less than table value of t, alternate hypothesis is rejected and null hypothesis is accepted. Hence, it can be concluded that there is no significant difference between, current ratio of TATA Steel Ltd. and JSW Steel Ltd.

CONCLUSION

Current ratio of TATA Steel Ltd. and JSW Steel Ltd. stood at an average of 0.96:1 and 0.78:1 during the study period. On the basis of above study, it can be concluded that both the companies under study are maintaining lesser amount of current assets than required to pay off its current liabilities. Maintaining lower amount of current assets reveals the fact that, both the companies are investing their ideal current assets, in order to earn some return in the form of interest. In addition, the hypothesis testing in the above study also divulges the fact that, there is no significant difference between, current ratio of TATA Steel Ltd. and JSW Steel Ltd.

REFERENCES

1. <http://www.tatasteel.com/corporate/our-organisation/company-profile/>
2. <http://www.jsw.in/steel/about-us>
3. <http://www.tatasteel.com/investors/integrated-reportannual-report/>
4. <http://www.jsw.in/investors/investor-relations-steel>
5. 3. Shashi K. Gupta, R.K. Sharma (2005); Financial Management, Kalyani Publishers, ISBN – 81-272-1062-5.
6. 4. S.P. Gupta (2005); Statistical Methods, Sultan Chand & Sons, 2005.