A Study of Working Capital of Selected Steel Companies of India

*Anil Kumar,
Ph.D. Research Scholar, School of Commerce and Management, Om Sterling Global University, Hisar, Haryana.

**Dr. Anjali Arya,
Assistant Professor, School of Commerce and Management, Om Sterling Global University, Hisar, Haryana

Abstract:- Many a times the question has been raised whether the working capital enhances and improves the profitability of the business. Working Capital has always been a question on the impact on profitability of Companies. This paper aims to find the impact of usage of working capital on the selected steel companies of India and to compare these companies. Secondary data has been used for the Study. The descriptive tools and ANOVA has been used in the study. The findings of the study that the capacity of a company to access its working capital has a significant role in its overall efficiency.

Keywords:- *Operating Profit, Working Capital, Investment Decisions.*

I. INTRODUCTION

Every business unit requires investment of two forms of capital i.e., Fixed and Working. The fixed capital is required for establishment of a business, whereas working capital is required to utilize these acquired fixed assets. It is imperative to use both types of capital for the smooth conduct of the business enterprise. Many a times the question has been raised whether the working capital enhances and improves the profitability of the business. There has always been a situation of dilemma about the potential impact of working capital over the profitability of corporate units. The researchers have been divided into two different thoughts while addressing this issue. One thought supports the concept of irrelevance where working capital is not assumed as a determinant of enhancing the profitability of the business where it is believed that profitability largely depends upon the fixed capital representing the long-run rather than short-run oriented working capital. The fixed capital is invested in different projects underlying various streams of cash flows and analyzed extensively based on Capital Budgeting techniques, so the entire profitability is dependent over the fixed capital instead of working capital which is a nominal part of total capital invested in the firm. In fact, some researchers believe working capital to be a negative determinant for the profitability of the business due to its idle nature. However, the second thought highly supports the relevancy concept and assumes that working capital has its significant impact on the profitability of the firm. The argument in favor of this thought lies with the keeping of working capital to maintain production and creation of sales which ultimately improves the profitability of the business. The inadequate level of working capital may reduce the optimum utilization of fixed assets and in turn makes these fixed assets in-operative. Hence this argument strongly exhibits the role of working capital in enhancing the profitability of the business. On the basis of above discussion, it can be said that the controversy between the two schools of thoughts in terms of relevance and irrelevance of working capital while enhancing the profitability does exist which requires further understanding of the concept on the part of academicians and researchers.

II. REVIEW OF LITERATURE

Kafeel et al. (2020) attempted to examine the influence of working capital management on Cement Industry's profitability performance over a long period duration from 2007 to 2018 in Pakistan. The findings of the study proved that inventory conversion period and payable deferral period have an optimistic association with return on asset, on the other side; the cash conversion cycle has a negative effect on return on assets, whereas receivable collection period is positive but statistically unimportant. The study further suggested that collecting payments from customers earlier helps in improving the cash conversion cycles.

Rafathunnisa (2021) attempted to explore the association between the financial performance in t terms of organizational profitability and working capital by using a sample of 15 US trading companies for the duration of 2015 to 2019. The findings of the study reported a negative association between the profitability and average collection period as it implies that the lower collection period would lead to higher profitability of the business. The study reported high level of significant positive association among average payment period and profitability that suggests that the longer period taken for making payment would lead to higher profit-making opportunities. Lastly, the study confirmed the inverse relationship between cash conversion cycle to profitability of the firms.

Yousaf et al. (2021) attempted to examine the impact of chief attribute of working capital management (day's sales outstanding, day's inventory outstanding, day's payable outstanding, and cash conversion cycle) over the financial profitability of the Czech firms. The sample contains 332 firms including 20 certified firms from the European Foundation for Quality Management Model. By applying two regression models i.e. pooled regression and maximum likelihood estimation the finding of the study revealed that all these above explanatory components bear a negative influence on the profitability of the firms however the firms certified by EFQM reported a positive influence over the firm's profitability. The study further reported that the quality

ISSN No:-2456-2165

certificate from EFQM Model declines the firm's profitability.

Anton and Nucu (2021) conducted a study to find out the association between the working capital management and the profitability of firms by taking a sample 719 listed Polish firms during 2007 to 2016 by using a quantitative approach and panel data technique. The findings of the study reported an inverted U-shape association among these two. The study reported a positive impact of working capital management over the profitability up to a point known as break-even point and then afterwards the association was found to be negative beyond this break-even point. The study concluded with a non-linear interrelation among working capital management and the financial performance of firms in Poland.

Upreti and Venkata (2021) admitted that working capital has an important role to play in the survival of an organization. Their study was aimed at examining the working capital management policies adopted by the institutional schools of Nepal situated at central development region during the financial year 2008-09 to 2017-18. The responses were collected from sample schools by the use of structured questionnaire and the findings of the study revealed that the Nepalese institutional schools face working capital management crunch and they lack some sort of orientation along with in capability of developing highly effective and efficient working capital management.

III. OBJECTIVES OF THE STUDY

The objectives of the study are as follows:
1. To study the concept of Working Capital.
2. To know the issues related to Working Capital.
3. To know the Working Capital requirements of the Steel Industry.
4. To examine whether the requirements of Working Capital is uniform among selected Companies.

IV. RESEARCH METHODOLOGY

For the present study, we have used the secondary data to collect the necessary information from the relevant websites. Ten companies from steel industry for the ten years has been selected as the sample of the study. Statistical tools such as Graphical Analysis, Descriptive Analysis and ANOVA are used for the analysis.

➢ *Formulation of Null-hypothesis*

The null hypothesis has been formulated as: -

H_0: There is no significant difference in the working capital of selected steel companies.

V. RESULTS AND DISCUSSIONS

➢ *Average Working Capital of Steel Companies*

Table 1.1: Steel Company's Average Working Capital

Company	Working Capital (Rs.) (in 000')
Jindal steel & Power Ltd	49825.63
Tata Steel Ltd	-7889.62
Usha Martin Ltd.	-645.35
Mukund Ltd	15671.05
Kamdhenu Ltd	1391.49
Tata Metaliks Ltd	855.33
Kirlosker Ferrous Industries Ltd	781.32
Srikalahasthi Pipes Ltd	3112.28
Kalyani Steel Ltd	3135.20
Sunflag Iron & Steel Ltd	4412.35
Total Average or Grand Mean	**6899.34**

Source: Secondary Data

ISSN No:-2456-2165

Fig. 1: Steel Company's Average Working Capital

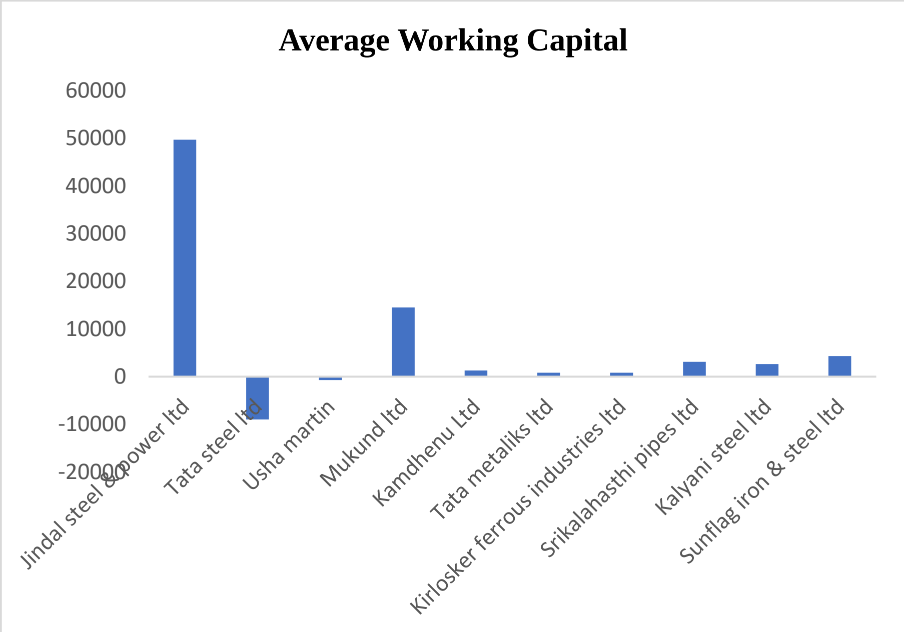

Table 1.1 and Fig 1 depicts that the Average Working Capital requirement for the steel businesses is Rs 6899.34 which is considerably high and which is largely depends upon the Size of the Business and various business strategies adopted by the Company.

➢ *Analysis of Working Capital through Descriptive Statistics*

Table 1.2: Descriptive Statistics

Company	N	Sum	Mean	Variance
Jindal Steel & Power Ltd	10	486159.5	49822.77	427523254.78
Tata Steel Ltd	10	-61714.8	-8222.33	1193246827.81
Usha Martin Ltd.	10	-5116.3	-531.82	13712944.11
Mukund Ltd.	10	124124.3	14501.29	15128352.62
Kamdhenu Ltd	10	13735.6	1290.74	124814.77
Tata Metaliks Ltd	10	8913.3	841.41	791471.61
Kirlosker Ferrous Industries Ltd	10	8123.4	849.51	225791.26
Srikalahasthi Pipes Ltd	10	31062.5	3113.24	1271927.30
Kalyani Steel Ltd	10	25527.5	2734.03	258101.82
Sunflag Iron & Steel Ltd	10	44319.2	4415.39	711050.21
Total		**675134.2**	**68814.23**	**1652994536.29**

Table 1.2 and Fig 1. describes the results of a study of working capital on an average (Mean) basis. The data shows that Jindal Steel & Power Ltd has the highest working capital, at **Rs.486159.5** while Tata Steel Ltd has the lowest, at **Rs. -61714.8.** When it comes to Jindal steel and Power Ltd and other steel firms, it can be determined that it has more current assets than liabilities, which indicates a high level of efficiency in the company's ability to turn its working capital into sales. A company's working capital can be positive or negative based on the company's cash policy and other current Assets. For example, Usha Martin and Tata Steel Limited both have negative working capital. Current liabilities or payables are more than current assets or receivable if the ratio is in the negative range. It means that companies don't have to use their own money and wants to borrow from banks to run their day-to-day operations. Negative Working Capital is beneficial since it allows for a higher return on capital and equity.

➢ *Testing of Hypothesis through ANOVA*

In order to examine the differences in working capital between chosen steel businesses, additional research has been carried out. ANOVA has been used to evaluate the formulated hypothesis.

H₀1: *There is no significant difference in the working capital of selected steel companies.*

Using an ANOVA test, we will be able to determine whether the working capital ratios of various steel companies differed significantly.

Table 4.3: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	24182501360.31	9	2686944595.59	15.17	.000
Within Groups	16850263912.76	90	17187225487.92		
Total	40138613850.08	99			

VI. FINDINGS

The ANOVA test findings shown in the table above reveal that there is a significant difference in the Working Capital Turnover Ratio of selected sector (F 15.17, df 9, p 0.00). Thus, we infer that there is a considerable disparity in the performance of chosen steel companies.

VII. CONCLUSIONS

Managing working capital is an important part of financial management and is very essential for smooth operation of the firm and consequently, the growth. The management of Company's Current Assets and Current Liabilities are known as Company's Working Capital Management, which is vital to its success as the heart to a human body. For fixed assets, it works as lubricant. However, while its efficient provision might assure a company's success, whereas its ineffective administration may result in both, the financial losses and the eventual demise of what otherwise appears to be a promising enterprise. The capacity of a company to access its working capital has a significant role in its overall efficiency. A company's return and risk can be improved by analyzing the impact of its fixed and current assets. Based on the following considerations, the current assets involve a risk-return trade-off to keep liquidity and profitability at appropriate levels. The extensive holding of current assets, particularly cash, enhances liquidity but at the same time reduces the profitability. Only short-term fluctuations in sales can affect present assets. As a result, the company's ability to manage its current assets is enhanced. It is through the management of assets that a company's market reputation in terms of its business and economic conditions can be improved.

REFERENCES

[1]. Anton, S.G., and Nucu, A.E.A (2021) "The Impact of Working Capital Management on Firm Profitability: Empirical Evidence from the Polish Listed Firms". *Journal of Risk and Financial Management*, Vol. 14(9), pp. 1-14.

[2]. Kafeel, Ali, J., Ud Din, M., Waris, A., Tahir, M., & Khan, S. (2020). "Working Capital Management and Firms' Profitability: Dynamic Panel Data Analysis of Manufactured Firms". *Journal of Financial Risk Management*, Vol. 9, pp. 494-517.

[3]. Rafathunnisa, S. (2021). "Impact of Working Capital Management on Profitability: A Case Study of Trading Companies", *Accounting and Finance Innovations*, Vol. 3, pp. 18-29.

[4]. Upreti, D. and Venkata, V. (2021). "Working Capital Management Strategies in Nepalese Institutional Schools". *Open Journal of Business and Management*, Vol. 9, pp. 2522-2529.

[5]. Yousaf, M., Bris, P., and Haider, I. (2021). "Working Capital Management and Firm's Profitability: Evidence from Czech Certified Firms from the EFQM Excellence Model", *Cogent Economics & Finance*, Vol. 9(1), pp. 1-16.