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# Financial Inclusion: Ratio Analysis and Stability of the Company

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***ABSTRACT***
*The purpose of this paper is to apply the framework of ratio analysis to the study of Tata Steel Limited's financial inclusion. The fundamental purpose of the article is to assess and appraise the inclusion of Tata Steel during the research period. To estimate the business' efficiency, the analyst attempts to measure the firm's solvency, liquidity, profitability, and other indicators using a rational and normal approach. The data take from 5 financial year annual reports of Tata Steel Limited from 2016-17 to 2019-20. To analyze the profitability statement were Simple Percentage Analysis and Ratios are used in the present study. Profitability of Tata Steel (stand-alone) is at the appreciable level. Even then, if it takes some steps by generating internal sources the profitability position will be increased more than the present level.*

***Keywords:*** *ratios, financial inclusion, profitability, internal source, development, vision*

## I. INTRODUCTION

Multiple sectors of the economy are essential to a country's progress. Due to steel's vital role in the development of infrastructure and the economy as a whole, the steel sector is frequently used as a barometer of economic health. A nation's level of socioeconomic development can be roughly estimated by looking at its per capita usage of steel.

Due to its central role in the Indian economy, manufacturing has historically increased alongside the country's GDP. When it comes to global steel output, India ranks fourth. The steel industry in India benefits from the low cost and wide availability of indigenous labour. In addition to its main headquarters in India, Tata Steel also has a number of overseas branches and partnerships.

### 1.1 Statement of Problem

The purpose of analyzing a company's financial inclusion is to get insight into the health and success of a business by analysing its financial statements. Analyzing past, present, and future financial inclusion with the use of financial inclusion analysis is a useful tool. Specifically, the study's goal is to analyses TATA STEEL LTD's, activity, and profitability to address the company's highlighted financial analysis concern.

### 1.2 Research Aims

- To gain insight into the company's financial standing.
- To evaluate the firm's cash flow.
- It is important to evaluate the company's liquidity and debt-equity ratio.

## II. REVIEW OF LITERATURE

The annual report provides an in-depth account of the company's operations throughout the previous calendar year. The purpose of annual reports is to disseminate information about the company's operations and financial standing to shareholders and other stakeholders. The works in question could be classified as grey literature. Grey literature refers to the many different types of documents created by various levels of government, academia, business, and industry in print and electronic formats that are sufficiently protected by intellectual property rights to be collected and preserved by library holdings or institutional repositories. Companies are obligated to prepare and disclose annual reports in the majority of legal systems, with many also mandating that the report be filed at the stock exchange if the company is publicly traded. Using accounting ratios and analysis is a crucial part of any investigation into a company's financial health. It's the method of measuring economic success that's most commonly employed. The first tool for analyzing and understanding financial statements was the ratio.

## III. INDUSTRY PROFILE AND COMPANY PROFILE

Some of India's most vital economic sectors are associated with the production of iron and steel. India ranked third worldwide in raw steel production from 2014 to 2016. As of this year, India has surpassed China as the world's largest producer of steel and iron. Total finished steel production was 82.68 million metric tonnes, while raw iron output was 9.7 million metric tons. Iron ore is used in the manufacture of nearly all of India's iron and steel. The Indian Ministry of Steel is responsible for formulating policy regarding the production, pricing, distribution, import, and export of iron and steel, ferroalloys, and refractories, as well as coordinating the growth and development of the public and private sectors of the iron and steel industry and the development of input industries relating to iron ore, manganese ore, chrome ore, refractories, etc. The Steel Authority of India is the primary distributor of steel for most government agencies (SAIL). In 1991 and 1992, licences and government oversight were removed from India's steel sector.

### 3.1 Steel Production in India: A Brief History

India's steel industry may be traced back to 1874, when the Bengal Iron Works in Kulti, close to Asansol (West Bengal), began producing iron. With the start of TISCO's commercial steel manufacturing in 1913, the modern steel industry was born. The following year, in 1918, the British company Burn and Co. established IISCO, which continued to exclusively produce pig iron up until 1937. Following this, in 1923 Mysore Iron and Steel Works and in 1937 Steel Corporation of Bengal emerged as two further major steel 14 producers. However, the British Raj's Indian iron and steel sector was hampered by the Great War, a drop in steel prices in the early 20s, and government protectionist measures.

Nevertheless, the iron and steel sector in India has kept moving forward at a strong pace. Late in the 1920s, the British government enacted a tariff regime to protect domestic steel production and exports to India. British authorities effectively excluded the local newcomers from the Indian market by dividing the market 70:30 between TISCO and British companies. By 1939, 75% of the steel used in the Indian empire (modern-day India, Pakistan, Sri Lanka, Bangladesh, and Burma) was manufactured by TISCO.

Due to a price increase in iron and steel in the late 1930s as a result of European rearmament, India began exporting more pig iron. At the same time, the Mysore Iron and Steel Works (founded in 1923 by the Maharaja of Mysore to produce pig iron) and the Steel Corporation of Bengal (founded in 1937 as a subsidiary of IISCO) came into existence to compete with TISCO. In 1953, however, IISCO absorbed the Steel Corporation of Bengal once more. Due to the British participation in WWII, the aforementioned three businesses have seen an increase in profits. Results increased from 1 MT annually in 1939 to an average of 1.4 MT during 1940–1945.

### 3.2 The Bright Future of India's Steel Sector

India's steel sector has expanded rapidly during the past decade or two due to strong demand from the country's consumers. While domestic steel demand has increased by almost 80% since 2008, production has increased by 75%. The capacity for producing steel has grown at the same rate, and the expansion has been natural. The Indian government has always been a strong advocate for the steel sector, and in 2017 they unveiled the National Steel Policy, which plans for the industry's continued expansion in India until 2030–31. Here are its main tenets:

- Steel production is projected to reach 300 million metric tonnes annually by 2030–31.
- At 85% capacity utilisation, crude steel production is forecasted to hit 225 million metric tonnes by 2030–31.
- Assuming a 10% yield loss in the transformation from crude steel to finished steel, or a 90% conversion ratio, the production of finished steel is expected to reach 230 million t.
- By 2030–31, it is anticipated that consumption will rise to 206 million metric tonnes, helped along by 24 million metric tonnes in net exports.
- Therefore, it is predicted that annual steel consumption will increase to 160 kg per person.
- It is planned to invest an additional 10 lakh crore.

The National Steel Strategy of 2017 is a long-term plan for the Indian government, but it still places an emphasis on the country's promising steel sector.

The joint plant committee reports that India produced 110.9 million metric tonnes of crude steel in 2018–2019.

It is estimated that a CAGR of roughly 7.2% is required for crude steel output to reach 255 million metric tonnes by 2030–31.

This is easily attainable given that in 2018–19, crude steel production climbed by 7.6%. Hence, the growth potential that the government has laid out in the National Steel Policy of 2017 is in line with the industry’s growth trajectory.

**3.3 Company Profile**

Dorabji Tata, Jamshedji's son, established the Tata Iron and Steel Company on August 26, 1907, as a subsidiary of Jamshedji Tata's Jamshedji Tata Group. The plant had grown to become the largest steelworks in the British Empire by 1939. In 1951, the corporation began a comprehensive plan to update and grow. By the year 1970, the company had employed over 40,000 people in Jamshedpur and a further 20,000 in the nearby coal mines, thanks to an upgrade to the programme in 1958 that increased its capacity to 2 million metric tonnes per year (MTPA). There were two failed attempts at nationalising the corporation, in 1971 and 1979. In 1990, as part of its expansion strategy, it set up shop in New York as a wholly owned subsidiary called Tata Inc.

When TISCO was acquired by Tata Steel in 2005, the company changed its name. To better serve customers in the Nordic region, Tata Steel 16 announced on February 12 that it had acquired SSAB's three strip product service centres in Sweden, Finland, and Norway. However, the value of these deals was not disclosed by the corporation. Tata Steel Limited, formerly known as Tata Iron and Steel Corporation Limited (TISCO), and a subsidiary of the Tata Group, is an Indian multinational steel-making company with headquarters in Mumbai, Maharashtra, India. It is the second largest steel firm in India (in terms of domestic production), with an annual capacity of 13 million metric tonnes behind SAIL, and one of the top steel producing companies internationally, with annual crude steel deliveries of 27.5 million metric tonnes (in FY17). Tata Steel has production activities in 26 countries, including Australia, China, India, the Netherlands, Singapore, Thailand, and the United Kingdom, and employs over 80,500 people. Jamshedpur, Jharkhand, is home to its largest factory. With the acquisition of Corus in 2007, Tata Steel expanded its presence within the United Kingdom. According to Fortune magazine's annual ranking of the world's largest companies, it came in at number 486 in 2014. Brand Finance ranked it as the eighth most valuable Indian brand of 2013.

**Operations**

The Tata Centre in Kolkata, West Bengal houses the marketing headquarters for Tata Steel, which has its main office in Mumbai, Maharashtra, India. Around 50 nations are represented by it, and 26 of those have manufacturing operations, including India, Malaysia, Vietnam, Thailand, the United Arab Emirates, Ivory Coast, Mozambique, South Africa, Australia, the United Kingdom, the Netherlands, France, and Canada.

Customers of Tata Steel are largely found in the automotive, building, consumer products, engineering, packaging, lifting and excavating, energy and power, aerospace, shipbuilding, rail, and defence and security industries.

**Vision**

We want to set the bar for value development and corporate responsibility across the entire steel industry.

**Mission**

Tata Steel works to build India's industrial foundation by efficiently utilising its workforce and resources, in keeping with the vision and ideals of its founder, Jamshedji Tata. Modern management techniques and high productivity with cutting-edge technology are the methods envisioned to accomplish this. Tata Steel understands that while morality and decency are crucial components of a robust and secure business, profitability acts as the primary catalyst for economic activity. Overall, the business strives to achieve the pinnacles of excellence in whatever it does in a fearless environment, reinforcing its belief in democratic ideals in the process.

## IV. DATA ANALYSIS

To analyses data simply means to examine all of the information gathered for the study. The study data consist of financial information. Therefore, financial analysis is another name for analysis. Simplifying the numbers that appear in financial accounts is what is meant by "financial analysis." Financial statement analysis is the method used to evaluate a company's financial health and profitability. Performing a financial analysis entails not only quantitative analysis but also qualitative interpretation. The definition of "interpretation" is to provide an explanation of the meaning of something. When referring to financial analysis, "interpretation" refers to providing an explanation of the data and its significance. This analysis of financial data makes use of ratios. Financial statement analysis isn't complete without using ratios. In the world of finance, this method is the gold standard. When it comes to analyzing and understanding financial data, ratio analysis was likely the first tool to be developed. Ratio analysis reveals the quantitative connection between two numbers. In this case, researchers chose to focus on Tata Steel Ltd. The website of Tata Steel Limited is mined for secondary information. The necessary information had been gathered from the company's annual report over the past five years, covering the period from 2016–17 to 2019–20. In this case, the sample was chosen via a random, systematic process. Ratio analysis was used for the analysis in the present study. Different financial ratios like liquidity, solvency, activity, and profitability were analyzed. A company's liquidity ratio can be one of three types: current, quick, or super quick. Debt-to-equity, leverage, and ownership all contribute to a company's "solvency ratio." Activity ratios consist of the inventory turnover rate, the working capital turnover rate, and the fixed asset turnover rate. The term "profitability ratio" refers to the sum of a company's "gross profit," "operating profit," "net profit," "return on investment," and "shareholders' equity."

**4.1 Liquidity Ratio**

Current ratio $= \frac{Current\ asset}{current\ liability}$

**Table** 4.1

| Year | Current asset | Current liability | Ratio |
|---|---|---|---|
| 2016-17 | 50935.03 | 50341.05 | 1.01:1 |
| 2017-18 | 67877.16 | 55661.41 | 1.22:1 |
| 2018-19 | 58990.98 | 61034.13 | 0.96:1 |
| 2019-20 | 58732.72 | 61660.91 | 0.95:1 |

**Source:** Computed from Secondary data, Annual reports of Tata Steel Limited

Table 4.1 shows that the company in question does not meet the target ratio. The current ratio has varied from 2016–17 to 2018–19.

**4.2 Proprietary Ratio**

profitability$= \frac{Shareholders\ fund}{Total\ asset}$

**Table** 4.2

| Year | Shareholder fund | Total asset | Ratio |
|---|---|---|---|
| 2016-17 | 35544.31 | 173333.24 | 0.20:1 |
| 2017-18 | 58595.60 | 209757.94 | 0.28:1 |
| 2018-19 | 66650.08 | 233582.39 | 0.29:1 |
| 2019-20 | 71301.30 | 250419.45 | 0.28:1 |

**Source:** Computed from Secondary data, Annual reports of Tata Steel Limited

The best profitability ratio is often 0.5:1 or more (or 50% or greater). A lower ratio shows how heavily reliant the company is on creditors for working capital. Low proprietary ratios indicate a poor financial position.

**4.3 Solvency Ratio**

Solvency ratio $= \frac{Total\ asset}{Total\ dept}$

**Table** 4.3

| Year | Total asset | Total dept | Ratio |
|---|---|---|---|
| 2016-17 | 173333.24 | 82350.37 | 2.10 |
| 2017-18 | 209757.94 | 88674.08 | 2.36 |
| 2018-19 | 233582.39 | 91144.81 | 2.56 |
| 2019-20 | 250419.45 | 113289.95 | 2.21 |

**Source:** Computed from Secondary data, Annual reports of Tata Steel Limited

A solvency ratio of 1:1 is typically regarded as desirable. It is obvious that a leverage ratio above average indicates more solvencies. Assets being sufficiently greater than liabilities show a corporation is solvent.

**4.4 Activity Ratio**

Stock turnover ratio $= \frac{Cost\ of\ goods\ sold}{Inventory}$

or

=net sale/inventory

**Table** 4.4

| Year | Net sales | Inventory | Ratio |
|---|---|---|---|
| 2016-17 | 24803.82 | 24803.82 | 4.53 |
| 2017-18 | 28331.04 | 28331.04 | 4.66 |
| 2018-19 | 31656.10 | 31656.10 | 4.98 |
| 2019-20 | 31068.72 | 31068.72 | 4.50 |

**Source:** Computed from Secondary data, Annual reports of Tata Steel Limited

An ideal stock turnover ratio is typically thought to be 8 times. The stock turnover ratio is consistently lower than the average, as seen in Table 4.4. It indicates that business inventory management or policy is not improving.

## V. CONCLUSION

The study focuses mostly on the evaluation of financial inclusion and stability of the company. The research is done to evaluate the profitability of the company and liquidity solvency based on the research. The financial inclusion of Tata Steel Ltd. can be said to have operational profit, but the company still needs to make improvements. Its solvency and liquidity. If the business keeps up its current inclusion, with efficiency and tenacity, it can succeed more successfully in the near future. The analysis of the firm's financial inclusion and soundness is the study's primary focus. The analysis of the firm's profitability and liquidity solvency is the goal of the study. Tata Steel Ltd. has a good operating profit position, but the company needs to increase its liquidity and solvency, according to the study of financial inclusion. If the company keeps working harder and more effectively, it will soon experience greater success.

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