

WORKING APPRAISAL OF PUBLIC AND PRIVATE SECTOR (TSL AND SAIL AS A CASE STUDY)

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ABSTRACT

In the present scenario the demand of steel is more than supply therefore, there is a need to discuss about steel industries. In this paper these two companies TSL and SAIL are taken as a case study to symbolise the working of these two sectors. From the year 2002-03 to 2006-07 working of both the companies are better than ever before. In most of the analysis part it seems that SAIL is working better than TSL with a huge growth percent deference. Some useful measures were taken by TSL like manpower reduction with increased productivity, profitability etc. should be taken care of by public sectors too. In the present scene steel industries are having a growth prospect.

Key Words: Profitability, TSL and SAIL, Ratios, efficiency, ESS

INTRODUCTION

STEEL AUTHORITY OF INDIA LIMITED (SAIL)

Steel Authority of India Limited (SAIL) is a public sector government company registered under the Indian Companies Act, 1956 and is an enterprise of the Government of India. There are five integrated steel plants at Bhilai (Chattisgarh), Rourkela (Orissa), Durgapur (West Bengal), Bokaro (Jharkhand) and Burnpur (West Bengal). It has three special and alloy steel plants viz. Alloy Steels Plant at Durgapur (West Bengal), Salem Steel Plant at Salem (Tamilnadu) and Visvesvaraya Iron & Steel Plant at Bhadravati (Karnataka). In addition, a Ferro Alloy producing plant Maharashtra Elektros melt Ltd. at Chandrapur, is a subsidiary company of SAIL. It also has a Research & Development Centre for Iron & Steel (RDCIS), Centre for Engineering & Technology (CET), SAIL Safety Organisation (SSO) and Management Training Institute (MTI) all located at Ranchi; Central Coal Supply Organisation (CCSO) at Dhanbad; Raw Materials Division (RMD), Environment Management Division (EMD) and Growth Division (GD) at Kolkata. The Central Marketing Organisation (CMO), with its head quarters at Kolkata, coordinates the country-wide marketing and distribution network.

TATA STEEL LTD.

Tata Iron and Steel Company is better known as TISCO, is a living monument in the vision and foresight of Jamshedjee Nauserwanjee TISCO was established at Sakchi. Jamshedji Tata has taken the initial steps to select a suitable site for the proposed steel mill, but he breathed his last in 1904 before the final site could be selected and the TISCO got registered in 1907. TISCO commenced its production on 27th of February 1908 at Sakchi, Jharkhand. The first blast furnace was blown on 2nd December 1911 and the 1st ingot rolled on 16 February 1912 in the presence of Governor of Bengal. The company was originally established for an installed capacity of 160,000 tones of pig iron, 100000 tones of ingot steel, 70000 tones of rail, beams and shapes and 20000 tones of bars, hoops and rods. Initially the company had 2000 workers and 175 specialists drawn from different countries. In 1951 it was targeted to increase the output up to 1MT tone. In 1956 it was permitted to increase its production by 2MT. After three phases of modernization production increased up to 3MT and total work force of around 73,000 in all its division. In fourth modernization company doubled its capacity of hot iron and trippled output of bars and rods in 2004-05

OBJECTIVES OF THE STUDY:

1. To make a comparative study between public Vs private sector
2. To check operational efficiency and strategic future of the firm
3. To offer suggestion for the betterment of the firm

SCOPE AND RESEARCH METHODOLOGY:

The study aims at analyzing operational efficiency of TISCO and SAIL over a period from 2002-03 to 2006-07. It is based on secondary sources of information. The secondary data has been collected from the published reports, annual statements, libraries and websites. The information has been classified, tabulated and presented subjected to various ratios to know the financial and operational status of TISCO and SAIL for better understanding and interpretation of resources.

DISCUSSION AND ANALYSIS**GROSS SALES:**

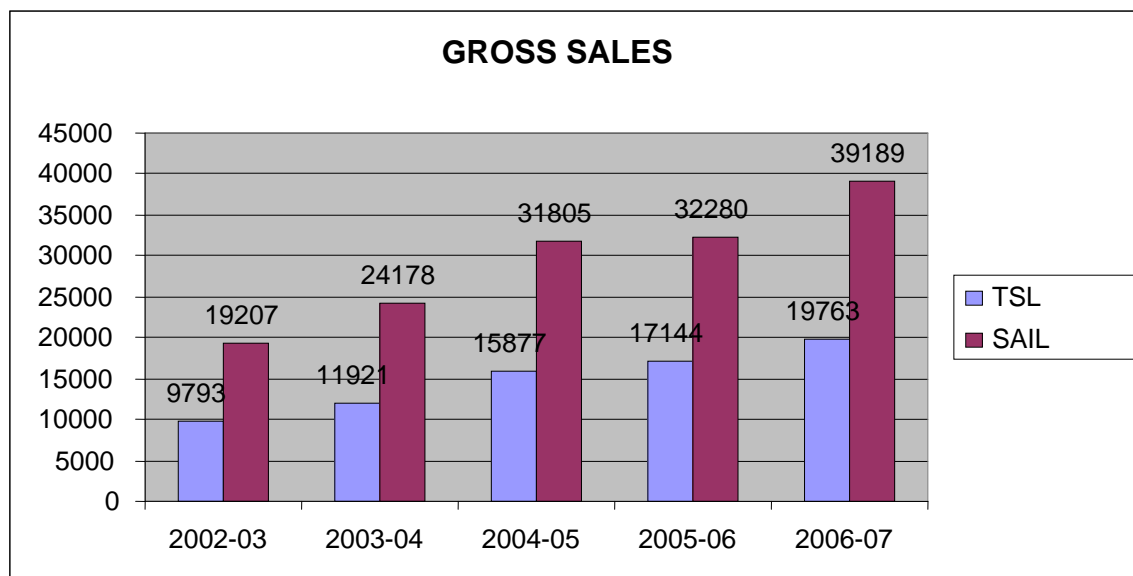
It determines the operational efficiency of the firm. If we take gross sales as the measurement of working symbol between public sector and private sector, as per **table-1** we will see SAIL has gone up from 19207 to 39189. This particular industry has grown up by 204.3% in 2006-07 taking as a base 2002-03. Whereas if talk about TSL that has gone up from 9793 to 19763. The growth rate of this company is 201.8 in 2006-07 taking as a base 2002-03. This trend is responding that SAIL is performing well it is because of the demand of steel has gone up in the subsequent years. The demand of steel is increasing, sales is increasing that means profitability is in future by comparing both of the companies as symbol of public and private sector we see that there is a slight deference between theses two. Being as a steel giant SAIL is working better than TSL as data refers but comparing from the unit by unit TSL is working better because its working only in single unit whereas SAIL is working with its all units Bhilai, Durgapur, Bokaro etc.

TABLE -1

GROSS SALES				
Year	TSL	GROWTH%	SAIL	GROWTH%
2002-03	9793	100	19207	100
2003-04	11921	121.72	24178	125.88
2004-05	15877	162.12	31805	165.59
2005-06	17144	175.06	32280	168.06
2006-07	19763	201.8	39189	204.03

Source: Various annual reports of SAIL and TSL

FIGURE-1



EARNING PER SHARE:

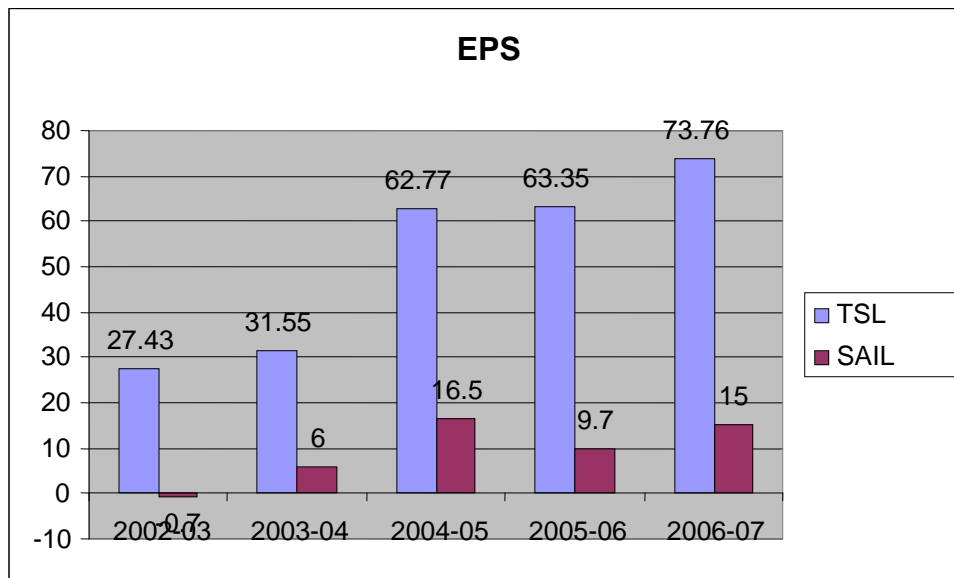
This measures the return per share receivable by equity/ordinary shareholders. If we discuss with the help of following **table -2** about TSL then we will see it has gone up from 27.43 to 73.76 in 2007 which is 268.9 in 2006-07 taking as a base 2009-03. whereas SAIL has gone up from -0.7 to 15 here we see that EPS value of TSL is more than SAIL therefore anybody would like to invest in TSL equity shares than SAIL's equity share. By the growth prospect TSL's share is better segment for the investment. Another thing is there the value of TSL's EPS is in growing trend whereas SAIL is in irretic trend holding company with ups and downs. It means the earning from Tata Steel is stable than SAIL this may cause easy availability of fund to the company. Here there is more certain future of TSL.

TABLE -2

Earning Per Share		
Year	TSL	SAIL
2002-03	27.43	-0.7
2003-04	31.55	6
2004-05	62.77	16.5
2005-06	63.35	9.7
2006-07	73.76	15

Source: Various annual reports of SAIL and TSL

FIGURE-2



NET WORTH PER SHARE:

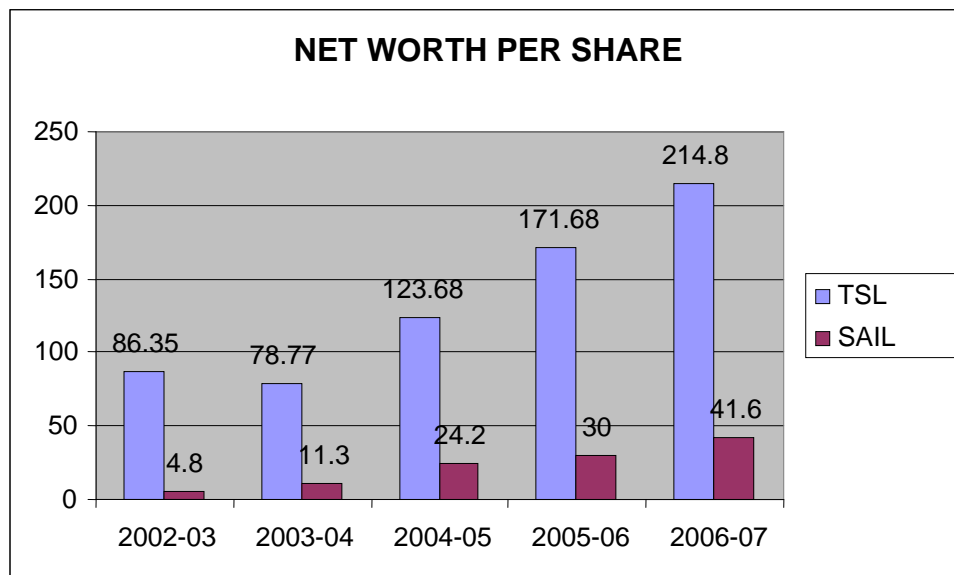
It indicates the increase in its assets. On the basis of **table-3** which is prepared with the help of various annual reports of SAIL and TSL It represents net worth per share 86.35 in TSL which reached to 214.8 in 2006-07 with a growth percent of 248.75 %. If we discuss about SAIL we find 4.8 in 2002-03 to 41.6 in 2006-07 which shows that its growth percent is 866.66% here from the analysis we see that SAIL's growth rate is better than TSL. It shows that the intrinsic value of the firm is more. It is all units' assets value and investment to the company. Government investment is more in such units.

TABLE-3

Net Worth Per Share				
Year	TSL	GROWTH%	SAIL	GROWTH%
2002-03	86.35	100	4.8	100
2003-04	78.77	91.22	11.3	235.41
2004-05	123.68	143.23	24.2	504.16
2005-06	171.68	198.81	30	625
2006-07	214.8	248.75	41.6	866.66

Source: Various annual reports of SAIL and TSL

FIGURE-3



PROFIT AFTER TAX:

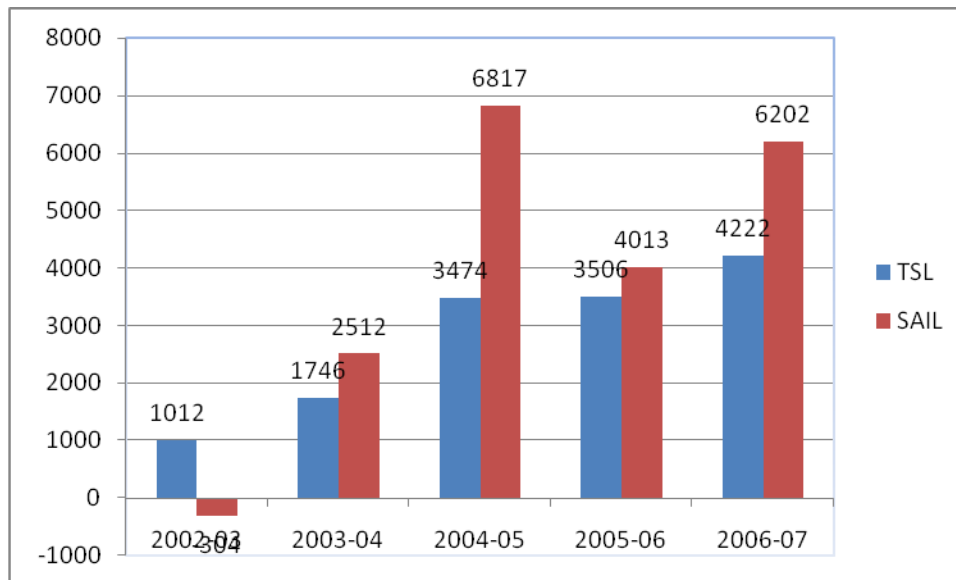
After analyzing net worth per share profit after tax is very important tool to measure strength of the industry or well-being .we find out from the following table-4 TSL has started from 1012 in 2002-03 and touched by 4222 in 2006-07. But SAIL has an iritic trend started from -304 in 2002-03 and reached to the highest 6817 in 2004-05 and declined to 4013 in 2005-06 but still growing in 2006-07by reaching to 6202. Here, we see that TSL's Profit is increasing continuously where as SAIL's profit is increasing and decreasing. It is due to disinvestment policy of the government which has affected it adversely. Otherwise SAIL,s performance is good by calculating growth trend.

TABLE -4

Profit After Tax		
Year	TSL	SAIL
2002-03	1012	-304
2003-04	1746	2512
2004-05	3474	6817
2005-06	3506	4013
2006-07	4222	6202

Source: Various annual reports of SAIL and TSL

FIGURE-4
Profit After Tax



EBDITA/SALES:

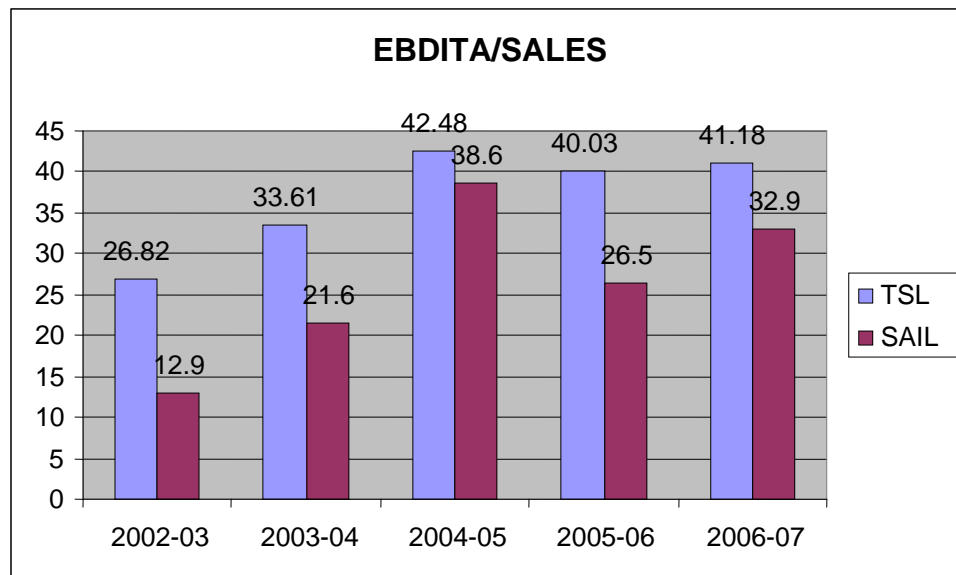
If we closely look upon the statistics of SAIL and TSL we will see there growth trend except the year 2005-06 as represented in **table-5**. TSL has reached to the 41.18 in 2006-07 from 26.82 in 2002-03. If we consider SAIL it has gone upto 32.9 from 12.9 in 2006-07 from 2002-03. Growth percentage of TSL and SAIL are 153.54 and 255.03.in 2006-07.with the help of following we can say that strength of TSL efficiency is better than SAIL and we look at growth percentage then we will find out that SAIL's Performance is better than TSL it is due to heavy deduction made by TSL in respect of dividend, interest and heavy tax imposed by the government. The scene of SAIL is quite different than TSL because of being as a government undertaking it has some relaxations. It has turned SAIL to grow better than TSL.

TABLE -5

EBDITA/SALES				
Year	TSL	GROWTH%	SAIL	GROWTH%
2002-03	26.82	100	12.9	100
2003-04	33.61	125.31	21.6	167.44
2004-05	42.48	158.38	38.6	299.22
2005-06	40.03	149.25	26.5	205.42
2006-07	41.18	153.54	32.9	255.03

Source: Various annual reports of SAIL and TSL

FIGURE-5



EBDIT/CAPITAL EMPLOYED:

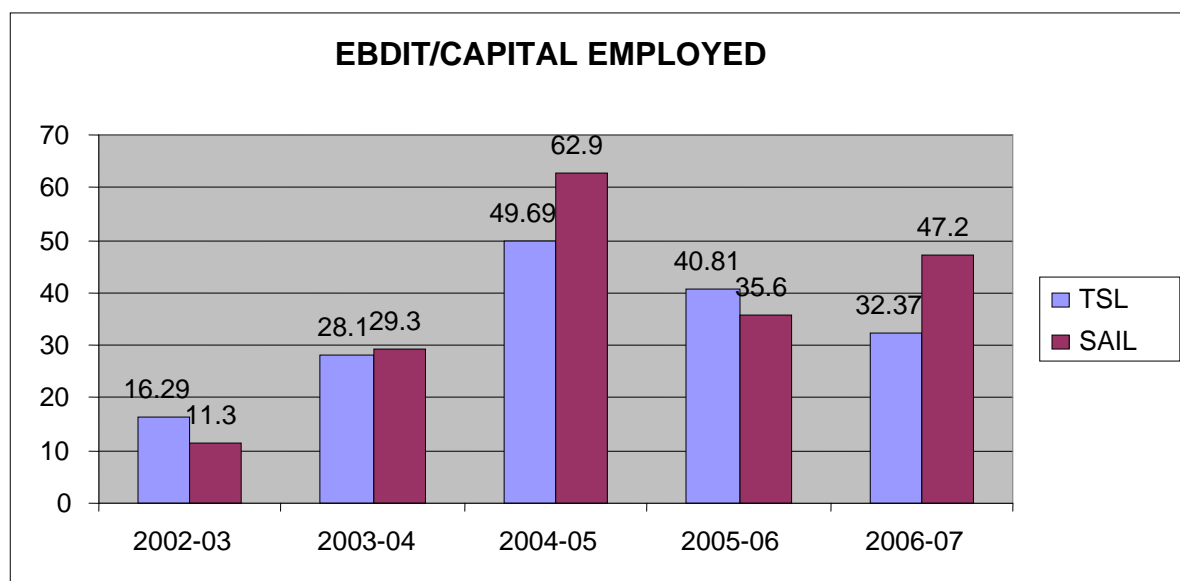
The following table 6 shows that there is TSL's trend is declining after 2004-05 but SAIL is rising after only a downfall in 2005-06. The TSL's percent has gone from 16.29 in 2002-03 to 32.3 in 2006-07 which is 198.71% from 2002-03. SAIL was 11.3 in 2002-03 and 47.2 in 2006-07. Growth percentage of SAIL was 417.69%. As under shown figure we can say that the investment in SAIL is more than TSL. It shows that the value of SAIL is more than TSL. Its production is more, sales are more and then profitability will also be more than TSL. Being as government sector it is expected to grow more. Expectation of public and government is more with SAIL

TABLE -6

EBDIT/CAPITAL EMPLOYED				
Year	TSL	GROWTH%	SAIL	GROWTH%
2002-03	16.29	100	11.3	100
2003-04	28.1	172.49	29.3	259.29
2004-05	49.69	305.03	62.9	556.63
2005-06	40.81	250.52	35.6	315.04
2006-07	32.37	198.71	47.2	417.69

Source: Various annual reports of SAIL and TSL

FIGURE-6



MANPOWER DISTRIBUTION:

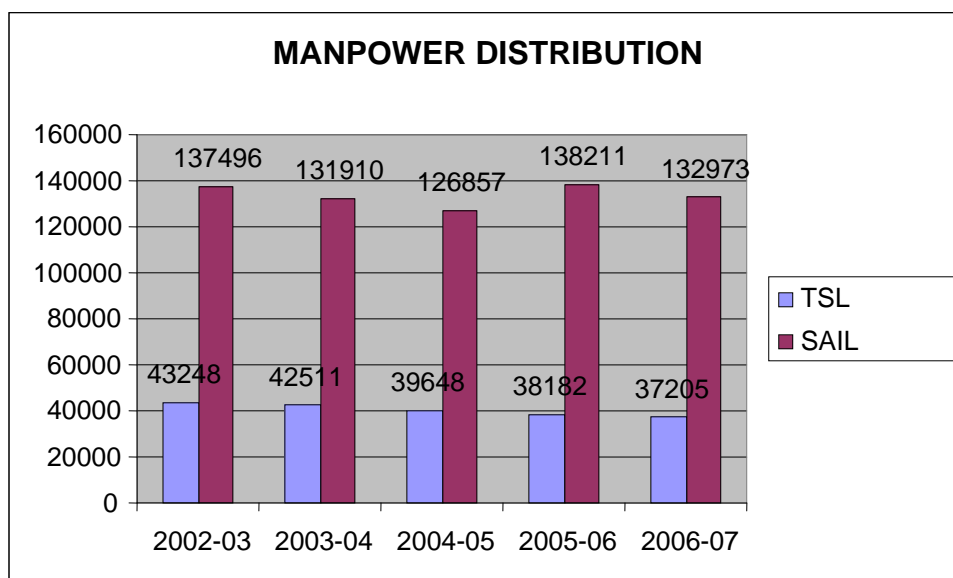
Manpower is the most important factor for the optimum utilization of resources. In the present scenario reservoir of skilled manpower is a tough job. From the following **tabe-7** we can see that TSL has reduced its manpower from 43248 in 2002-03 to 37205 in 2006-07. This is having a downward trend. Whereas SAIL is having and irretic trend and has varied from 137496 in 2002-03 to 132973 in 2006-07. Reduction in manpower with increased profitability of TSL shows that managerial efficiency of TSL. In this case SAIL is not taking much interest in this regard this will have more burden over firm as overhead charges of SAIL will definitely more than TSL. It will affect labour turnover ratio too. These all has happened due to inducement of ESS and VRS with more benefit by TSL. Therefore it is advised to the SAIL to adopt such schemes to be benefited more.

TABLE -7

MANPOWER DISTRIBUTION		
Year	TSL	SAIL
2002-03	43248	137496
2003-04	42511	131910
2004-05	39648	126857
2005-06	38182	138211
2006-07	37205	132973

Source: Various annual reports of SAIL and TSL

FIGURE-7



CRUDE STEEL PRODUCTION:

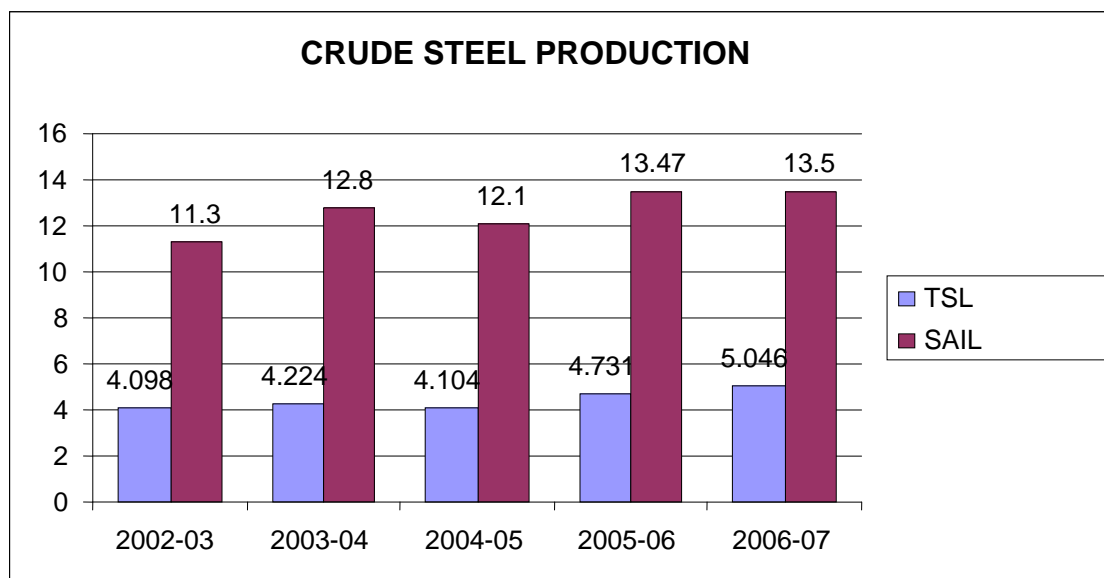
By taking crude steel production as a comparative study we find out from the **table-8** TSL has increased its production from 4.098 MT in 2002-03 to 5.048 MT in 2006-07 whereas SAIL is increasing its crude steel production from 11.3 MT in 2002-03 to 13.5 MT in 2006-07. If we look at growth percentage then we find out that TSL has gone upto 119.46 in 2006-07 whereas SAIL has remarked its growth upto 123.13% in 2006-07 from 2002-03 taking as base. Here we see that TSL is lesser grown by production of crude steel than SAIL but per man ingot tone of TSL is more than SAIL it is due to heavy cost of HR maintenance born by SAIL. Thus we can say that the position of TSL is better with growing future with profitability.

TABLE -8

CRUDE STEEL PRODUCTION		
Year	TSL	SAIL
2002-03	4.098	11.3
2003-04	4.224	12.8
2004-05	4.104	12.1
2005-06	4.731	13.47
2006-07	5.046	13.5

Source: Various annual reports of SAIL and TSL

FIGURE-8



NET DEBT:

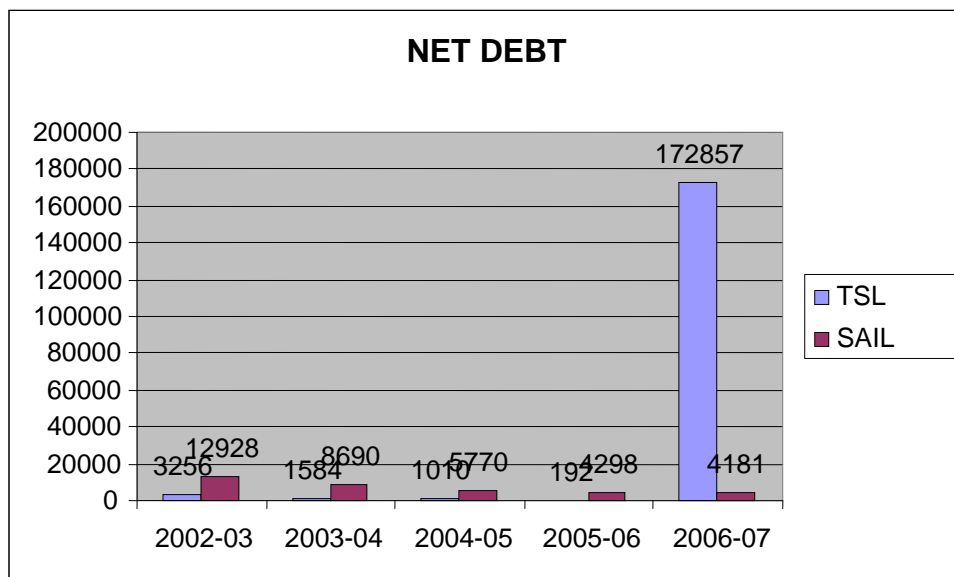
Net debt shows the efficiency of the firm that how the company is managing its fund, how much obligation is to be made. From the following table-9 we can see that TSL was having downtrend till 2005-06. but it has increased dramatically from 3256 in 2002-03 to 172857 in 2006-07. In case SAIL we see it is also having a downtrend and reached from 12928 in 2002-03 to 4181 in 2006-07. By calculating its growth it seems that TSL has gone up in 2006-07 upto 5308.87% whereas SAIL has reduced its debt upto 32.34%. TSL's debt has grown due to acquisition of Corus, for this TSL borrowed from various sources that is why it has gone up. Increase in debt is not better for any firm. Here the growth of TSL will be reduced in the future. Corus investment is a measure step of TATA group whereas SAIL is not making any new investment. Till 05-06 there was less debt of TSL than SAIL here we see that SAIL has also reduced its cost but finally we see the rate is less than TSL. Here I will suggest to TSL not to take much risk and take care of funds or rely more and more upon equity funds.

TABLE -9

Source: Various annual reports of SAIL and TSL

NET DEBT		
Year	TSL	SAIL
2002-03	3256	12928
2003-04	1584	8690
2004-05	1010	5770
2005-06	192	4298
2006-07	172857	4181

FIGURE-9



EQUITY:

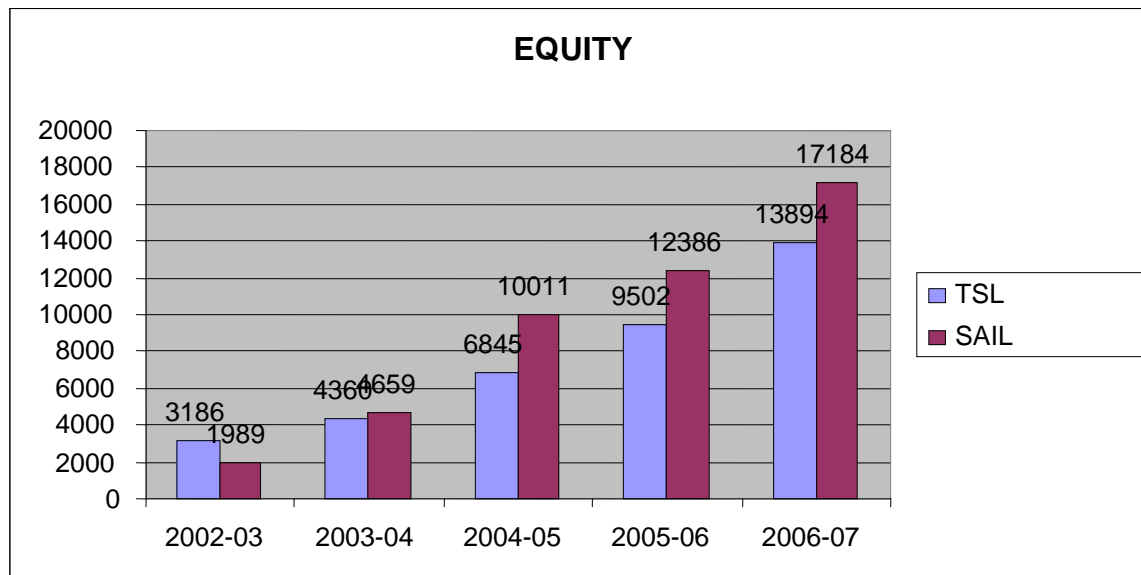
It shows the efficiency of the firm that how the company is managing its fund, how much company is being independent with optimum utilization of resources.. From the **table-10** we can see that TSL was having an increasing trend till 2005-06. It has increased smoothly from 3186 in 2002-03 to 13894 in 2006-07. In case SAIL we see it has also reached from 1989 in 2002-03 to 17184 in 2006-07. By calculating its growth it seems that TSL has gone up in 2006-07 upto 436% whereas SAIL has reduced its debt upto 863%. Here the growth rate and position of SAIL is better than TSL. Both of the companies are playing well in the market. Equity shareholder of both the companies would gain more and more year by year.

TABLE -10

EQUITY		
Year	TSL	SAIL
2002-03	3186	1989
2003-04	4360	4659
2004-05	6845	10011
2005-06	9502	12386
2006-07	13894	17184

Source: Various annual reports of SAIL and TSL

FIGURE-10



PRODUCTION:

Table-11 concludes world's crude steel production has reached its peak at 1244 MT in 2006, recording about 6.58 times increase in the production just within a period of half century. The average annual growth in production during the 50's and 60's was around 6%, it was reduced to 1.6 percent and 0.1 percent during 70's and 80's respectively. The average annual growth rate during 1995 was reversed and stood at -0.5 percent. However, this fall has again been set off during 1995-2000, and 2005-06 by the increasing trend of 2.3 and 9.00 percent respectively.

TABLE -11
LOWEST COST PRODUCING COMPANIES OF THE WORLD

Ranking	2001	2002	2003	2004	2005	2006
1	Tata Steel	Posco	Posco	Posco	Tata Steel	Tata Steel
2	Usnior	Nucor	Bao Steel	Severstal	Posco	Posco
3	Posco	Tata Steel	Tata Steel	Bao Steel	Severstal	Bao Steel
4	Gerdau	Gerdau	Nucor	Tata Steel	Bao Steel	Severstal
5	Nucor	Bao Steel	Gerdau	Blue Scope	Mittal	Nucor
No. of steel makers considered for WSD ranking	12	13	20	21	23	22

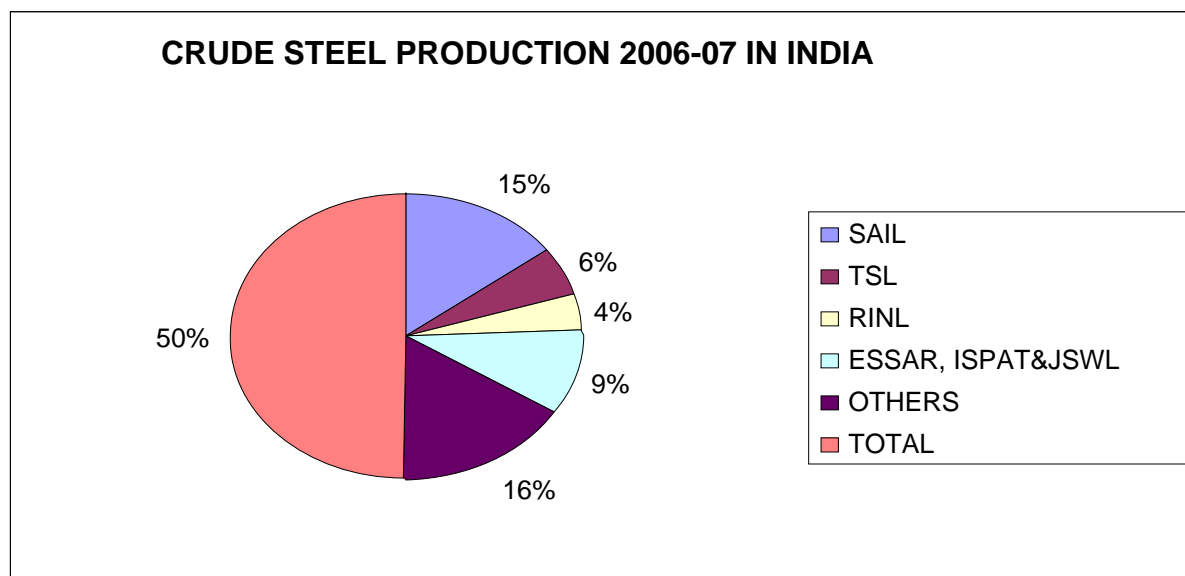
N.B. Position five has two companies Nucor, USA and Arcelor

Source: World Steel Dynamics

TISCO India's largest private sector steel enterprise has occupied 6th position among the largest steel producing companies of the world in 2006-07, where its position was 54 during the last year. The top slots have been occupied by established steel makers of developed world like Arcelor, LML group, Nippon Steel, Posco etc.. The above figure is showing the redistribution of global pattern of steel production in 2006.

From the following chart we can see that SAIL is producing alone 15% of total crude steel production in India where as TISCO is producing 6% which is two and half percent less than SAIL. It also depicts that RINL is producing 4% and ESSAR, ISPAT & JSWL is producing 9% with others share is 16%.

FIGURE-11



Indian steel Industry registered a strong growth in steel consumption driven by strong growth in all steel consuming sectors viz. automotive (13.6%), capital goods (18.3%) , construction (10.7%), consumer non-durables (10.5%)and consumer durables (9.1%) etc. during the fiscal year 2006-07, India's apparent steel consumption grew by 11.7% to 43.8 million tones. The flat products and long products consumption grew by 11.5% and 12.3% respectively. Domestic steel consumption grew by 11.1% to 49.4 million tones. Steel exports grew by 6.1% to 4.7 million tones and steel imports increased by 6.4% to 4.1 million tones.

Driven by the continued growth in developing and emerging economies, global growth is likely to remain robust. World GDP is expected to grow by 3.4 % in 2007. China and India are expected to continue its march towards high growth, though controlling inflationary pressures may be a challenge for the Indian government.

The International Iron and Steel Institute (IISI) forecasts global steel consumption to grow by 5.9% in 2007 and 6.1% in 2008, driven by strong demand from Asia, Africa and South America. The apparent steel demand is likely to increase by 65 million tones in 2007 and 72 million in 2008. China is expected to remain the market with steel demand likely to increase by 13% (46 million tones) in 2007, which represents 71% of global steel consumption growth in 2007.

The Indian steel industry is now believed to be at an inflexion point. It is poised of a demand growth of 10% in FY 2007-08. Demand for flat products and a long product is expected to grow by 12% and 9% respectively.

Rise in personal disposable incomes and easy access to funds from bank has led to new housing projects in last 3-5 years. The Automotive sector also grew at a significant rate of over 15% due to easy availability of consumer finance, excise duty reduction and higher disposable income with house holds. Recent increase in interest rates is likely to dampen this sentiment somewhat, but the growth rate is likely to remain robust.

The company infrastructure in India constituted under the chairmanship of Prime Minister in August 2004 planned for an expenditure of approximately Rs. 1450000 crores (USD 320 billion) in the eleventh five year plan(2007-12) on irrigation, urban infrastructure, power, roads, railways, ports, airports, telecom projects etc. This may lead to increased steel consumption in foreseeable future. India's steel consumption is expected to increase to 65 million tones by FY 2009-10 and over 125 million tones by FY 2014-15.

DEMAND AND GROWTH OF STEEL OF STEEL INDUSTRY IN INDIA:

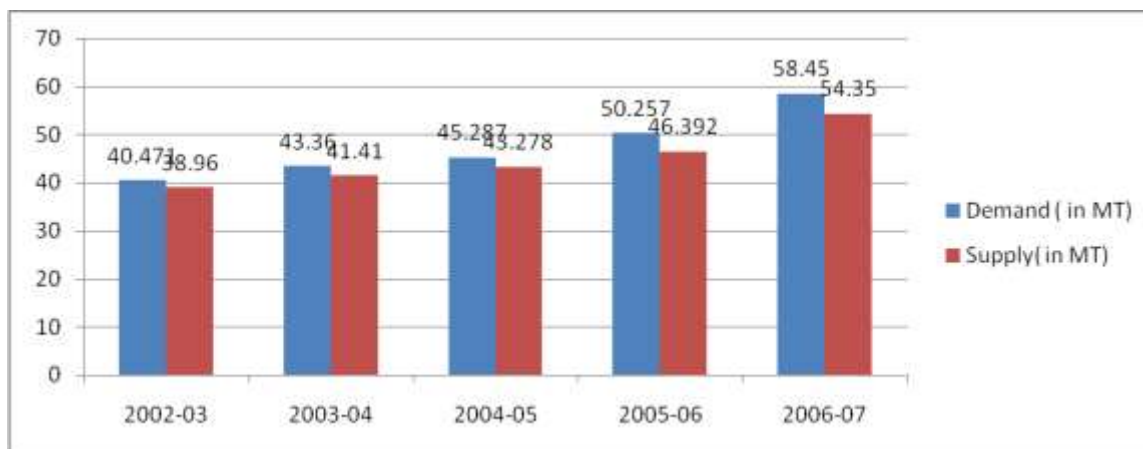
In the following **figure -12** we see that we are not satisfying the total demand of steel from the beginning. After all demand has grown up to 144.42 and supply has gone upto with only 139.5%. Demand of steel in 2002-03 was 40.47MT which has reached to the 58.45MT in 2006-07 where as supply was 38.96MT in 2002-03 and 54.35MT in 2006-07. This is all about our demand and supply of Indian steel industry here we need to improve our production capacity.

TABLE-12

DEMAND AND SUPPLY OF STEEL

Year	Demand (in MT)	Supply(in MT)
2002-03	40.471	38.96
2003-04	43.36	41.41
2004-05	45.287	43.278
2005-06	50.257	46.392
2006-07	58.45	54.35

FIGURE-12

DEMAND AND SUPPLY OF STEEL**CONCLUSION:**

From the above discussion we find out that both of the companies are running well SAIL can improve its position by reducing its manpower, or optimum utilization of resources. It can invest in the new venture because its equity share is having a high growth with a slight debt burden. It can issue debentures to take the advantage of low interest payment, where TSL is advised not to invest more because of its debt burden made during the time of acquisition of Corus so they have to wait certainly TSL will gain more by increasing its operating profit. TSL is the lowest cost producing company in the world its future strategy to achieve the target 50 by 2015 will be achieved. It is advised to both of the companies to increase there share in the market because Indian steel market supply is less than production. Production can be increased by modernizing its plant capacity and quality. Indian market is having growth prospect in the near future so it would be fruitful to both of them.

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