

CASH MANAGEMENT IN STEEL INDUSTRY: WITH SPECIAL REFERENCE TO SAIL AND TATA STEEL

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ABSTRACT

Cash is the life blood of a business firm; it is needed to acquire supplies, resources, equipment and other assets used in generating the product and services provided by the firm. More fundamentally, cash is the medium of exchange which allows management to carry on the various activities of the business firm from day to day. Without cash or at least access to it, bankruptcy becomes a grim possibility. Cash management refers to management of cash balance and bank balance and also includes the short term deposit. The cash is obviously the most important current assets, as it is the most liquid and can be used to make immediate payments. Insufficiency of cash at any stage may prevent a firm from discharging its liabilities or force it to sell its other assets immediately. On the other hand, extreme liquidity may take the firm to make uneconomic investments. Therefore cash management is very essential for every business.

KEYWORDS: *Cash Management, Supplies, Resources, Equipment, Bankruptcy, Investments.*

Introduction

Cash plays a vital role in the entire economic life of a business. Cash is the basic component of input required to make payment to its suppliers, to meet day to day operating expenses of a firm. Thus it is the cash which keeps a business going and every business enterprise has to hold necessary cash for its existence [1]. Therefore, it is essential for a business to maintain adequate balance of cash. In a true sense, cash is the focal point of fund flow of a business and it is generally referred to as the "life blood of a business enterprise".[2]

Management of Cash

Cash management refers to management of cash balance and the bank balance and also includes the short terms deposits. The cash is obviously the most important current assets, as it is the most liquid and can be used to make immediate payments. Cash management can be defined as- "Having the right money in the right place at the right time to meet government's most obligations in the most cost-effective way".[3] Cash management is function of a financial executive concerning planning, raising, controlling and optimizing cash resources in a business enterprise. Therefore, cash management consists, basically, of having a sufficient amount of cash yet maintaining a balance of the lowest figure adequate to meet obligation. Thus, management of cash may be defined as "an art or capacity for maneuverability of optimum utilization of cash resources of a firm with a view to maximizing profits without endangering its liquidity or reputation [4]. Thus management of cash means development and application of tools and techniques to:

- Ensure sufficient cash to meet currently maturing obligation on due date
- Control cash flow to maximize the availability of cash by accelerating cash inflow and regulating cash out flow.
- Put the surplus cash to productive use.

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A business firm should have an adequate amount of cash all the time to meet the requirement of the business because both surplus and shortage of cash situations are undesirable from the point of view of profitability and liquidity. Inadequate cash may danger of a firm into a state of technical insolvency and even leads to its liquidation “[5]. Thus, the management of cash is very essential for every business. Good cash management has a double benefit: it can help you to avoid the debilitating downside of cash crises; and it can grant you a commercial edge in all transactions. For example, companies able to aggressively manage their inventory may require less working capital and be able to extend more competitive credit terms than their rivals.[6]

Company Profile

- **Steel Authority of India**

Steel Authority of India Limited (SAIL) is the leading steel-making company in India. It is a fully integrated iron and steel maker, producing both basic and special steels for domestic construction, engineering, power, railway, automotive and defense industries and for sale in export markets. SAIL is also among the five Maharatnas of the country's Central Public Sector Enterprises. SAIL manufactures and sells a broad range of steel products, including hot and cold rolled sheets and coils, galvanized sheets, electrical sheets, structural, railway products, plates, bars and rods, stainless steel and other alloy steels. SAIL produces iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India and situated close to domestic sources of raw materials, including the Company's iron ore, limestone and dolomite mines. The company has the distinction of being India's second largest producer of iron ore and of having the country's second largest mines network. This gives SAIL a competitive edge in terms of captive availability of iron ore, limestone, and dolomite which are inputs for steel making.

SAIL's International Trade Division (ITD), in New Delhi- an ISO 9001:2000 accredited unit of CMO, undertakes exports of Mild Steel products and Pig Iron from SAIL's five integrated steel plants.

With technical and managerial expertise and know-how in steel making gained over four decades, SAIL's Consultancy Division (SAILCON) at New Delhi offers services and consultancy to clients world-wide.

SAIL has a well-equipped Research and Development Centre for Iron and Steel (RDCIS) at Ranchi which helps to produce quality steel and develop new technologies for the steel industry. Besides, SAIL has its own in-house Centre for Engineering and Technology (CET), Management Training Institute (MTI) and Safety Organisation at Ranchi. Our captive mines are under the control of the Raw Materials Division in Kolkata. The Environment Management Division and Growth Division of SAIL operate from their headquarters in Kolkata. Almost all our plants and major units are ISO Certified.[7]

- **Tata Steel**

Established in 1907, Tata Steel is among the top ten global steel companies with an annual crude steel capacity of over 28 million tons per annum (MTPA). It is now one of the world's most geographically-diversified steel producers, with operations in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of US\$ 22.8 billion in FY '10, has over 80,000 employees across five continents and is a Fortune 500 company. Tata Steel's vision is to be the world's steel industry benchmark through the excellence of its people, its innovative approach and overall conduct. Underpinning this vision is a performance culture committed to aspiration targets, safety and social responsibility, continuous improvement, openness and transparency. Tata Steel's larger production facilities include those in India, the UK, the Netherlands, Thailand, Singapore, China and Australia. Operating companies within the Group include Tata Steel Limited (India), Tata Steel Europe Limited (formerly Corus), NatSteel, and Tata Steel Thailand (formerly Millennium Steel).[8]

Objective of the Study

The following are main objective of the study:

- To assess the management of cash in both the selected company
- To analyze the short term solvency
- To observe the liquidity position and area of weakness. If any:

Methodology of the study

- Period of the study

The study covers a period of 9 years from year 2008 to 2016.

- **Nature of data used**

The study is based on secondary data. The data is obtained from the published annual reports of SAIL and Tata Steel starting from the year 2008 to 2016 available on company website.

Limitations of the study

- The study is limited to 9 years (2008 to 2016) performance of the company
- The data is used in the study have been taken from published annual reports available on company website.

Ratio and its Interpretation

Cash management of both the company, SAIL and Tata Steel analyzed by ratio analysis technique. We have used some important ratio for analyzed the position of cash management in both steel companies. In this light we have calculate the following ratio:

- **Cash to Current Assets Ratio**

The proportion of cash to current assets directly affects the profitability of a concern. The lower the ratio, the greater the profitability of the concern. A downward trend in this ratio over a period of times indicates a tighter control of cash whereas; an upward trend reveals a slack control over cash resources.[9] It is calculated as:

$$\text{Cash to current assets ratio} = \frac{\text{Total cash}}{\text{Current assets}} \times 100$$

- **Cash to Sales Ratio**

This is one of the most important ratios to be applied for controlling cash. An analysis of cash to sales ratio will provide a deep insight into the cash balance held by the unit selected for this study. Lower cash to sales ratio indicates that effective utilization of cash resources whereas increasing trend in the ratio shows that the firm has failed to utilize its cash funds profitably. It is calculated as:

$$\text{Cash to sales ratio} = \frac{\text{Total cash}}{\text{Total sales}} \times 100$$

- **Current Ratio**

Current ratio is measure of general liquidity and is most widely used to make the analysis of short term liquidity of the company. A relatively high current ratio is an indication that the firm had liquidity and has the ability to pay the current obligation as and when they become due.[10] the standard norm for current ratio is 2:1. It is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- **Quick Ratio**

Quick ratio or liquid ratio is a more rigorous test of liquidity than current ratio. A high liquidity ratio is and indication that the company has liquidity and ability to meet its current liabilities in time but a low liquidity ratio represent that liquidity position of company is not good. [11]. Standard norm used for quick ratio is 1:1. It is calculated as:

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current Liabilities}}$$

- **Absolute Quick Ratio or Cash Ratio**

Another measure of liquidity is the "Absolute Liquidity Ratio". This ratio is the refinement over the quick or acid test ratio. The opinion of some authorities the absolute liquidity ratio should also be calculated together with current ratio and quick ratio so as to exclude receivable and inventory from the current assets and find out the absolute liquidity assets.[12] It is calculated as:

$$\text{Absolute quick ratio} = \frac{\text{Absolute quick assets}}{\text{Current liabilities}}$$

- **Cash Turnover Ratio**

The ratio explains the speed with which cash is turned over. The higher the turnover, the less the cash balance required for any given level of sales: and other things remaining constant, it implies greater efficiency. It is calculated as:

$$\text{Cash turnover ratio} = \frac{\text{Total sales}}{\text{Total cash}}$$

- **Daily Cash Payment Ratio**

This ratio is useful to find out payment capacity of per day whether the company is able to make daily payment or not. A business unit should compare its own past records of cash balance and competitors in the industry to hold cash balances. Management need not hold huge amount in reservoirs if production cycle is running smoothly.[13] It is calculated as:

$$\text{Daily cash payment ratio} = \frac{\text{Days in year}}{\text{Cash turnover ratio}} \quad \text{or} \quad \frac{\text{Cash and bank balance}}{\text{Average daily cash payment}}$$

Interpretation of Analysis of the Study

- **Size of Cash**

Size of cash in SAIL in year 2008 (Table 1) was 667.43 crore and reached at 18288.53 crore in 2016 whereas in Tata steel, it was 239.23 crore and reached at 1590.60 crore in the year 2016. Overall increment in SAIL is 2731.145 percent whereas it is 664.88 percent in Tata steel. Cash was maximum in SAIL was 18228.53 crore in 2016 and minimum 416.37 crore in 2009 whereas it was maximum 1590.60 crore in Tata Steel in 2016 and minimum 219.20 crore in 2009. On an average it was 6393.18 crore in SAIL whereas it was 1261.60 crore in Tata steel.

- **Cash to Current Assets Ratio**

The position of cash to current ratio in SAIL (Table 2), on an average it was 30.70 times whereas it was 12.95 times in Tata steel. It was minimum 5.84 in 2009 and maximum 52.82 times in SAIL whereas in Tata steel, it was minimum 1.26 in 2015 and maximum 56.06 in 2014. It was above the average in the year 5 years (2012 to 2016) in SAIL whereas it was only two year above the average (2014 and 2016).

- **Cash to Sales Ratio**

For SAIL (Table 3), cash to sales ratio was 4.11 times in 2008 and reached at 37.44 times in the year 2016. It was maximum 37.44 times and minimum 2.69 times with an average 16.93 whereas in Tata steel, it was 3.08 times in 2008 and stooped at 6.54 times with an average 7.65 times during the study period. It was maximum 43.76 and minimum 1.70 times. It was above the average in five year (2012 to 2016) for SAIL whereas it was overall below the average except 2014 in Tata steel.

- **Current Ratio**

Current ratio for SAIL (Table 4) was always below the standard norm of 2:1 except 2016. On an average it was 1.43 times. It was maximum 2.02 times and minimum 0.92. In Tata steel, the position of current assets was also below standard norm except two year (2014 and 2015). It was maximum 5.46 and minimum 1.02 times with an average of 1.87 times.

- **Quick Ratio**

The position of quick ratio in SAIL (Table 5) was below the standard norm of 1:1 during the study period except three year (2014, 2015 and 2016). It stands with an average of 0.90 times with the maximum ratio of 1.47 and minimum ratio of 0.46 times. Whereas the current ratio for Tata steel was above only 4 out of 9 years (2008, 2009, 2014 and 2015). It was maximum 5.10 and minimum 0.54 times with the mean of 1.43 times.

- **Absolute Quick Ratio**

Absolute quick ratio for SAIL (Table 6) was above the standard norm of 0.5:1 in 5 out of 9 years (2012 to 2016). On an average it was 0.5 times. It was maximum 1.06 times and minimum 0.06. In Tata steel, the position of current assets was always below standard norm except one year (2014). It was maximum 1.41 and minimum 0.06 times with an average of 0.25 times.

- **Cash Turnover Ratio**

Cash turnover ratio in SAIL (Table 7) was 24.32 times in 2008 and decreased at 2.67 times in 2016. On an average, it was 13.72 times. It was maximum 37.23 and minimum 2.67 times in SAIL whereas in the Tata Steel, it was also decreased from 32.44 in 2008 to 15.29 times in 2016 with an average of 33.82 times. It was maximum 58.77 and minimum 2.29 times. It was above the average in only for three years (2008 2009 and 2010) for SAIL whereas it was above the average in 5 years (2009, 2010, 2011, 2012 and 2013) for Tata steel.

- **Daily Cash Payment Ratio**

For SAIL (Table 8) it was 15 times in 2008 and reached up speedily at 136.70 times in 2016 with an average of 61.80 times. It was maximum 136.70 and minimum 9.80 times. It was below the average

only for 4 years (2008 to 2011) whereas in Tata steel, it was 11.25 in 2008 and gone up to 23.87 times in 2016 with an average of 27.87 times. It was maximum 159.39 and minimum 6.21 times. It was always below the average except 2014.

Conclusion

- Rapid growth in size of cash has been noticed in. SAIL in comparison of Tata steel during the study period.
- More investment in cash in SAIL in comparison to Tata Steel.
- On an average, SAIL, the percentage of cash to current assets is more than Tata Steel. which is show the strong position of liquidity in Public sector co.
- In the Tata Steel. The percentage of cash to sales is lower then SAIL which is indication of the Tata Steel used its cash resources very effectively in comparison of SAIL.
- About the current ratio and quick ratio, poor condition observed both company because current ratio and quick ratio of both company is below the standard norm in maximum year of the study. But on an average Tata Steel is better than SAIL.
- The position of Absolute quick ratio is also same as current and quick ratio. But here, the average show that SAIL is more liquid in comparison of Tata Steel.
- The turnover of cash is more speed in Tata Steel in comparison of SAIL. Which is indicating batter management and utilization of cash in Tata Steel..
- Daily cash payments ration shows that SAIL have more amounts of cash for daily cash payment.

On the basis of the above analysis and the position short term liquidity and the utilization of cash, the management of Cash of Tata Steel is batter than SAIL

Suggestion

- Management of both the company should try to increase their liquid assets and decreased current liabilities so that the company can easily meet out the current obligation. At present the current liabilities or short term liabilities are not secured.
- The management of SAIL try to improve its turnover of cash
- Tata Steel kept little amount of cash for daily cash payment therefore it is try to increase his cash balance.

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Appendix: Tables**Table 1: Size of Cash (Rs. in crore)**

Year	Sail	Tata steel
2008	667.43	239.23
2009	416.37 Mn	219.20 Mn
2010	535.16	373.12
2011	2017.16	250.74
2012	6132.12	246.72
2013	6172.64	288.39
2014	9609.83	7681.35
2015	13759.44	465.04
2016	18228.53 Mx	1590.60 Mx
Average	6393.18	1261.60

Table 2: Cash to Current Assets Ratio (in times)

Year	Sail	Tata steel
2008	7.97	7.42
2009	5.84 Mn	7.08
2010	7.32	10.23
2011	24.60	6.14
2012	42.78	6.04
2013	35.51	6.81
2014	47.16	56.06 Mx
2015	52.28	1.26 Mn
2016	52.82 Mx	15.47
Average	30.70	12.95

Table 3: Cash to Sales Ratio (In Times)

Year	Sail	Tata steel
2008	4.11	3.08
2009	2.69 Mn	2.88
2010	3.18	4.28
2011	9.47	2.34
2012	21.63	1.70 Mn
2013	19.12	1.90
2014	24.52	43.76 Mx
2015	30.20	2.36
2016	37.44 Mx	6.54
Average	16.93	7.65

Table 4: Current Ratio (In Times)

Year	Sail	Tata steel
2008	1.23	1.55
2009	1.05	1.54
2010	1.00	1.36
2011	0.92 Mn	1.02 Mn
2012	1.41	1.10
2013	1.40	1.11
2014	1.86	2.51
2015	1.99	5.46 Mx
2016	2.02 Mx	1.15
Average	1.43	1.87

Table 5: Quick Ratio (In Times)

Year	Sail	Tata steel
2008	0.57	1.10
2009	0.46 Mn	1.03
2010	0.49	0.93
2011	0.57	0.71
2012	0.99	0.60
2013	0.90	0.54 Mn
2014	1.26	2.08
2015	1.47 Mx	5.10 Mx
2016	1.42	0.76
Average	0.90	1.43

Table 6: Absolute Quick Ratio (In Times)

Year	Sail	Tata steel
2008	0.10	0.11
2009	0.06 Mn	0.11
2010	0.07	0.14
2011	0.23	0.06 Mn
2012	0.60	0.07
2013	0.50	0.08
2014	0.88	1.41 Mx
2015	1.04	0.07
2016	1.06 Mx	0.18
Average	0.50	0.25

Table 7: Cash Turnover Ratio (In Times)

Year	Sail	Tata steel
2008	24.32	32.44
2009	37.23 Mx	34.71
2010	31.46	23.37
2011	10.56	42.68
2012	4.62	58.77 Mx
2013	5.23	52.50
2014	4.08	2.29 Mn
2015	3.31	42.35
2016	2.67 Mn	15.29
Average	13.72	33.82

Table 8: Daily Cash Payment Ratio (In Times)

Year	Sail	Tata steel
2008	15.00	11.25
2009	9.80 Mn	10.52
2010	11.60	15.62
2011	34.56	8.55
2012	79.00	6.21 Mn
2013	69.79	6.95
2014	89.46	159.39 Mx
2015	110.27	8.62
2016	136.70 Mx	23.87
Average	61.80	27.87