

**“CAPITAL STRUCTURE ANALYSIS IN STEEL AUTHORITY
OF INDIA LIMITED”****DR. SANJEEV KUMAR DHABHAI****Department of Business Administration University of Rajasthan****Corresponding Email: skdhabhai@gmail.com****ABSTRACT**

This study arose out of the need to establish the presence of accountability of the Steel Authority of India Limited capital structure analysis. In this paper an attempt has been made to analyze the capital structure of SAIL during the period 2016-2020 to understand the factors affecting the capital structure decisions of the company and to know the impact of the capital structure decisions. Company's profitability and performance. Researchers tried to evaluate the composition of capital structure, capital structure planning and patterns of capital structure in SAIL and the advantages and disadvantages associated with higher and lower levels of debt which has been observed during the period of the study.

Most of the public enterprises in India are either not earning good profits or suffering losses. The root cause is improper capital structure planning. In the present study an effort has been made to analyze the capital structure of leading public enterprises in India so as to suggest the necessary improvements in it and take remedial measures.

Keywords: Capital, Structure, SAIL

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INTRODUCTION

The term capital structure is a compound of two words capital and structure. The word capital is viewed from different angles. According to economist capital refers to those assets which are used in the production of goods and services. To the firm the capital is represented by the stock of assets. To the society, capital is

restricted to those assets which produce goods and services. Accountants use the term capital in the sense of proprietary equity. In fact there are two approaches of capital viz.

- (i) The fund approach and
- (ii) The assets approach. The fund

approach means that the capital of a concern uses the total funds that have been employed for its running. It recognizes these separate entity of a company and considers capital from liabilities side of the

- (iii) Balance sheet. The assets approach implies that capital invested in fixed assets and current assets from the capital of a concern.

The term structure is used in the science of engineering. "It connotes the arrangement of various parts of a building. In case of construction of a building and other construction. There are some standard proportions in which various elements are integrated together."¹ Hence capital structure relates to the proportion of various sources of funds used to finance the company's capital requirements.

According to Schwartzman and Ball. "The following three components constitute the basic capital structure of a corporation:

- (a) Long-term debt,
- (b) Preferential shares, and
- (c) Common share holder equity.

Walker has stated that "Many business finance writers define the term include

only long-term debt and total share holder's investment other define capital structure to include all items on the credit side of the balance sheet, that is, both short-term and long-term funds are included."⁶ He further stated that, "Capital structure includes not only long-term obligations and equity capital but also short-term obligation."⁷ Archer and D. Ambrosi defined the term "capital structure" as "the total of all liabilities and ownership claims. The sum of which is usually the credit side of the balance sheet." Schall and Hale stated that "the capital structure refers to the proportion of different types of financing used by the firm."⁹ In the words of Weston and Brigham, "Capital structure is the permanent financing of the firm represented by long term debt. Preferred stock and net worth but excluding all short-term credit."¹⁰ Capital structure is defined as the amount of permanent short-term debt, long term debt, preferred stock and common stock used to finance a firm. In equation form, the capital structure may be represented as follows:
$$\text{Capital Structure} = \text{Long term debt} + \text{Net Worth or} = \text{Total Assets} - \text{Current Liabilities}$$

On the basis of above views mentioned above, it may be concluded that capital structure is the mix-up of owner's fund and borrowed funds. The owner's fund includes the share capital and free reserves and surplus and the borrowed funds includes the debentures or bonds and long-term borrowing provided by various financial institutions.

Sources of Capital Structure

There are two basic sources of capital structure viz equity share capital, preference shares capital, retained earnings and long-term borrowings. These sources may be internal or external or both. In the words of Gitman, "All the items on the right side of the firm's balance sheet excluding the current liabilities are sources of capital."

- **Equity Shares**

Equity shares represent ownership capital. This provides the fundamental and basic source for financing the business. The equity share holders of a company are its residual owners; collectively they own the company and assume the ultimate risk associated with ownership.

The cost of equity capital is considered to be the highest amongst all the sources of finance as they bear the entire risk of business. The income remaining after

paying the claims of all other investors belongs to the equity shareholders. The following are advantages of using equity share capital.

- (1) It provides of using a permanent capital base and is available for use as long as the company survives.
- (2) The equity capital broadens the company's financial base thus its borrowing limits. Providers of loan capital will generally lend in proportion to the company's equity capital. By issuing equity shares the company increases its financial flexibility. It can borrow when it is in need of additional fund.

- **Preference Shares**

It is possible to classify preference shares as either equity or borrowed capital since they have characteristics of both. The preference shares are similar to equity shares in the following ways:

- (i) Preference shares are also ownership capital thus dividend payable only out of distributable profits.
- (ii) Dividend on preference shares is not tax deductible payment.

Objectives of the study:

The following are the objectives of the study of "Capital Structure Analysis in steel Authority of India Limited":-

- To study the trend in production, import, export and consumption of total finished steel.

The Present Study

Public enterprises play an important role in the Indian economy. Most of the public enterprises is engaged in the industries involving huge investment. Therefore, the public enterprises have to plan their investment policy, so as to maximize public welfare. The planning of investment largely depends on capital structure planning. Therefore; the planning of capital structure determines the long-term financial soundness as well as the profitability of public enterprises.

Most of the public enterprises in India are either not earning good profits or suffering losses. The root cause is improper capital structure planning. In the present study an effort has been made to analysis the capital structure of leading public enterprises in India so as to suggest the necessary improvements in it and take remedial measures.

Tools Used in the Present Study

In the present study the accounting tools of capital structure analysis as well as the statistical and operation research techniques have been applied to analyze the capital structure of selected public

enterprises in India. The accounting tools include common-size and trend analysis, ratio analysis, value added analysis, human and social accounting while operation research and statistical techniques include index numbers, correlation, regression, chi-square test, etc. Wherever possible effort has been made to depict statistical information through graphs and diagrams.

Research Design and Methodology

For the present study annual reports for the years from 2016 to 2020 of the Steel Authority of India Limited, The registered offices of the company included in the study were also visited. The data contained in the published annual reports were classified, tabulated and analysis. Conclusions have been drawn and wherever possible suggestions have been given. Certain suggestions have also been made with a view to bringing about improvements in the situation.

In the present study, the following public sector company has been taken up:

- **The Steel Authority of India Limited (SAIL)**

SAIL traces its origin to the Hindustan Steel Limited (HSL) which was set up on 19 January 1954. It was initially designed to manage only one plant that was coming up at Rourkela.

For Bhilai and Durgapur Steel Plants, the preliminary work was done by the Iron and Steel Ministry from April 1957, the supervision and control of these two steel plants were also transferred to Hindustan Steel. There glistered office was originally in New Delhi. It moved to Calcuttain July1956, and ultimatelyto Ranchi in December 1959.

A new steel company, Bokaro Steel Limited (Bokaro Steel Plant), was incorporated on 29January 1964 to construct and operate the steel plant at Bokaro. The 1 MT phases of Bhilaiand Rourkela Steel Plants were completed by the end of December 1961. The 1 MT phase of Durgapur Steel Plant was completed in January 1962 after commissioning of the Wheel and Axle plant. The crude steel production of HSL went up from 1.58 MT (1959–60) to 1.6 MT.The second phase of the Bhilai Steel Plan was completed in Sept. 1967after commissioning of the Wire Rod Mill. The last unit of the 1.8 MT phase of Rourkela – theTandem Mill–was commissioned in February1968,and the1.6 MT stage of Durgapur SteelPlant was completed in August 1969 after commissioning of the

Furnace in SMS. Thus, with the completion of the 2.5 MT stage at Bhilai, 1.8 MT at Rourkela, and 1.6 MT at Durgapur, the total crude steel production capacity of HSL were raised to 3.7 MT in 1968–69 and subsequently to 4 MT in 1972–73. IISCO was taken over as a subsidiary in 1978 and latermergedin 2006.

HoldingCompany

The Ministry of Steel and Mines drafted a policy statement to evolve a new model for managing the industry. The policy statement was presented to the Parliament on 2 December1972. On this basis, the concept of creating a holding company to manage inputs and outputsunder one roof was mooted. This led to the formation of The Steel Authority of India Ltd.Th ecompany, incorporatedon 24 January1973 with an authorized capital of ₹2,000 crore (US\$270 million), was made responsible for managing five integrated steel plants at Bhilai, Bokaro, Durgapur, Rourkela and Burnpur, the Alloy Steel Plant and the Salem SteelPlant.In1978 SAILwas restructured as anoperating company.

Major Units



Bokaro Steel Plant at Bokaro



SAIL Integrated Steel Plants

- 01.Rourkela Steel Plant (RSP) in Odisha set up with German collaboration (The first integrated steel plant in the Public Sector in India, 1959).
- 02.Bhilai Steel Plant (BSP) in Chhattisgarh set up with Soviet collaboration (1959).
- 03.Durgapur Steel Plant (DSP) at Durgapur, West Bengal set up with British collaboration (1965).
- 04.Bokaro Steel Plant (BSL) in Jharkhand (1965) set up with Soviet collaboration (The Plant is hailed as the country's first Swadeshi steel plant, built with maximum indigenous content in terms

of equipment, material and know-how).

- 05.IISCO Steel Plant (ISP) at Burnpur in Asansol, West Bengal (Plant equipped with Largest Blast Furnace of country, Modernized in 2015 with investment of 16000 crore which will yield total production of 2.9 Million Ton annually).

The steel Authority of India Limited Production, Consumption & Growth of Steel

(Alloy + Non-Alloy) (2016 to 2020)

Year	Production (Million Tonne)	Import (Million Tonne)	Export(Million Tonne)	Consumption
2016	116.952	8.430	5.902	83.642
2017	124.690	7.828	10.871	88.679
2018	108.646	7.295	6.692	96.737
2019	104.062	7.440	8.205	102.622
2020	91.435	4.463	10.150	88.535

Analysis & Interpretation:

The production as well as cost of production of SAIL registered a rising trend throughout the period of study e. from 2016 to 2020 The index number of value of production was 2016 in 116.952 and import in 8.430, export on 5.902 and total consumption 83.642 and steel production in 2017 in 124.690 and import in 7.828, export on 10.871 and total consumption 88.679 & steel production in 2018 in 108.646 and import in 7.295 export on 6.692 and total consumption

96.737. Steel production in 2019 in 104.062 & import in 7.440 export on 8.205 and total consumption 102.622. Steel production in 2020 in 91.435 and import in 4.463 export on 10.150 and total consumption 88.535. Therefore on the basis of analysis, it can be said that highest production of this thing was in 2017 and the highest consumption was in 2019.

Summary of Findings & conclusion

- After analysis of the financial statements of Steel Authority of India Limited (SAIL), it is the assumption that one can frame a company is that the production, import, export and use by the company is the result of that Unbalanced finance mix. Conclusions are given below-

- **High input cost**

- Lower sales realization on iron and steel products
- Higher amount of depreciation
- Lower productivity and adverse product mix
- Losses due to mergers and acquisitions

Therefore to avoid damage to the sail it will be necessary to do the right and proper quantity and import and export in the right ways.

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