

# An Analysis of the Financial Performance of MSP Steel & Power Limited

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## ABSTRACT

This paper is regarding analysis of financial performance of MSP Steel & Power Limited. Accounting ratios are supportive to analyze the financial locus of a company. Financial analysis aids to evaluate the financial health of a firm. Accounting ratios are intended for a number of years which demonstrates the changes. Ratios are useful tools for various stakeholders like management, financiers, shareholders and creditors etc. In order to analyze the financial performance of MSP Steel & Power Limited, the accounting ratios are used. Secondary data is used from the Published Annual Reports of the company for the period of 2013-14 to 2017-18. The final result of the paper in accordance with the financial performance of MSP Steel & Power Limited shows that the financial performance of the company is poor after 2013-14 and directors should pay more attention to revive the company.

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## 1. Introduction

MSP Steel & Power Limited, a part of the MSP group, is a Kolkata-based steel manufacturer. The company is engaged in the production of iron and steel. The company has a diversified portfolio, including sponge iron, steel, power generation, rolling mills and ferro alloys. They are having their manufacturing unit at Raigarh in Chattisgarh. MSP Steel & Power Limited was incorporated on November 18, 1968 as Adhunik Rollers Private Limited. The name of the company was changed to MSP Steel & Power Private Limited on March 7, 2003. The company subsequently became a public company under the name of MSP Steel & Power Limited with effect from September 9, 2003. In June 2006, the company came out with the public issue of Rs 16 crore and in July 2006, the company shares get listed in Bombay Stock Exchange and National Stock Exchange. The main purpose of this research paper is to evaluate the overall financial performance of the company which will be useful for the stakeholders of the company to take future financial decisions. For the financial analysis of the firm, ratio analysis is the widely used tool. Ratio analysis is used to determine profitability, efficiency, liquidity, and solvency of the firm.

## 2. Literature Review

Frederick D.S. Choi et al (1983) Analyzing foreign financial statements: The use and misuse of International ratio analysis. The foreign companies often misused the measurement of financial risk and return. This paper used to explain the differences in the international accounting principles.

Burange and Shruti Yamini (2008) analyzed the performance of Indian Cement Industry – The competitive landscape. The experience of the boom on the account of overall growth of Indian Economy by the cement industry is because of the expanding investment and industrial activity in the cement sector.

Amalendu Bhunia (2010) took the analysis of pharmaceutical company's financial performance to understand how the management of finance played a crucial role in the

growth. For a period of twelve years the study was undertaken from 1997-98 to 2008-09.

S. Saigeetha and Dr. S. T. Surulivel (2017) studied the financial performance of the Bharat Heavy Electricals Limited for the period of five years from 2011-12 to 2015-16. The entire study is based on secondary data which is collected from the annual reports of the company. The main tool used for the financial analysis is Ratio Analysis.

P. Srinivasan (2018) studied financial appraisal of Vellore Cooperative Sugar Mills for the period of five years from 2013 to 2017. This study is mainly based on secondary data. In this study, financial ratio is used to measure the liquidity, profitability, solvency and efficiency of the mill.

## 3. Research Problem

The principal goal of a business undertaking is to make profits. Profit earning is considered important for the survival of the business. A business needs profits not only for its existence but also for growth and diversification. The investors want a satisfactory return on their investment as well as workers, creditors. And a business enterprise can discharge its responsibility to various segments of the society only through earning of profit. Financial performance is prepared to review the state of investment in a business and result achieved during a specific period, financial performance analyses are also of great importance to the financial lenders.

## 4. Objective of the Study

1. To evaluate the financial performance of MSP Steel & Power Limited.
2. To know the overall profitability position of MSP Steel & Power Limited.
3. To evaluate operational efficiency, liquidity, and solvency of the firm.
4. To study the short term and long term financial position of the firm.
5. To compare the balance sheet and income statements of the company.

- To make recommendations based on the analysis of financial statements.

## 5. The Scope of the Study

The study is entitled "An Analysis of the financial performance of MSP Steel & Power Limited". The main aim of this study is to analyze the financial performance of MSP Steel & Power Limited for a period of five years from 2013-14 to 2017-18. The study is based on the financial position of the firm by using Ratio Analysis. Financial statements help the management to analyze profitability, solvency, liquidity and efficiency etc. this analysis will give the exact picture of the company. These studies will also help the management to take managerial decisions. These studies help the management to understand the new possibilities. The study helps us to conduct research in financial areas and it also helps us for taking financial decisions in personal life.

## 6. Limitation of the Study

- The study is based on historical data, so it cannot be reliable.
- The study has been carried out for the period of five years and it is not sufficient enough to analyze the entire aspect of the company.
- The result of the study cannot be generalized for other organizations and we cannot predict the future financial position of the company based on the study.
- Change in the book keeping procedures by a firm may often mislead the financial analysis. The change in the price level is not considered.

## 7. Data Collection

This research paper is based on secondary data. The data includes profit and loss a/c, balance sheets and financial statements of the Company for a period of five years from April 2013 to March 2018 which are published in Annual Reports of MSP Steel & Power Limited. Secondary data for this study has been collected from the annual reports of the company, newspapers, articles and research papers, magazines, books, periodicals and different websites such as www.moneycontrol.com and company's official websites.

## 8. Research Methodology

This research follows the analytical and descriptive research design which is based on the quantitative data that is already collected by someone for different purposes. In view of the objectives of the study listed above, exploratory research design has also been adopted. Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information, and it makes use of secondary data. For the purpose of an effective result of the research, entire study of MSP Steel & Power Limited is based on secondary data Sources. The data for this study (for a period of five years from April 2013 to March 2018) has been collected from the annual reports published by the company. For the analysis of collected secondary data, different financial ratios have been used to arrive at conclusion in a scientific way. Following Financial Ratios has been used for the analysis

of profitability, liquidity, efficiency, and solvency of the company:

### 1. Profitability Ratios:

- Operating Profit Margin (OPM)
- Net Profit Margin (NPM)
- Return on Assets (ROA)
- Return on Equity (ROE)

### 2. Liquidity Ratios:

- Current Ratio (CR)
- Quick Ratio (QR)

### 3. Activity Ratios:

- Stock Turnover Ratio (STR)
- Working Capital Turnover Ratio (WCTR)
- Debtors Turnover Ratio (DTR)
- Creditors Turnover Ratio (CTR)
- Total Asset Turnover Ratio (TATR)

### 4. Solvency Ratios:

- Net Worth to Total Asset Ratio (NWTAR)
- Debt to Asset Ratio (DAR)
- Debt to Capitalization Ratio (DCR)
- Debt to Equity Ratio (DER)
- Fixed Asset to Net Worth Ratio (FANWR)

## 9. Data Analysis and Interpretation

### 9.1. Profitability Ratios:

Profitability ratios measure a company's ability to earn a profit relative to its sales revenue, operating costs, balance sheet assets, and shareholders' equity. These financial metrics can also show how well companies use their existing assets to generate profit and value for owners and shareholders. Following Profitability ratios has been calculated by author through the use of secondary data and expresses in term of percentage:

**Operating Profit Margin (OPM)** = Operating Profit ÷ Net Sales X 100

**Net Profit Margin (NPM)** = Net Profit ÷ Net Sales X 100

**Return on Assets (ROA)** = Net profit ÷ total Assets X 100

**Return on Equity (ROE)** = Net profit ÷ Shareholder's Equity X 100

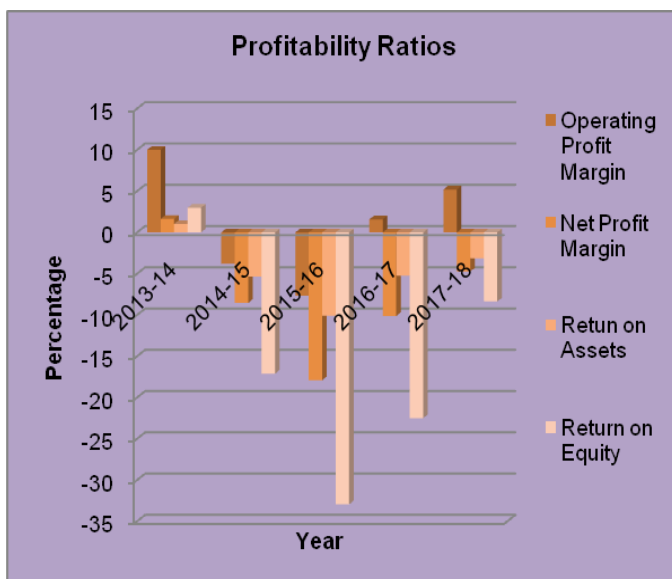
Calculation of the above ratios has mentioned in below Table 1:

**Table-1**  
**Profitability Ratios of MSP Steel & Power Ltd (In %)**

Year	Operating Profit Margin	Net Profit Margin	Return on Assets	Return on Equity
2013-14	10.01	1.63	1.03	2.99
2014-15	-3.78	-8.54	-5.35	-17.10
2015-16	-7.65	-17.90	-10.10	-32.94
2016-17	1.58	-10.13	-5.23	-22.51
2017-18	5.20	-4.73	-3.15	-8.37

Source: Authors' calculation based on secondary data

For more understanding of the profitability ratios of the company during the study period, above Table 1 shown below in the graph:



**Inference**

Above Table and Graph has clearly indicated the overall profitability of the firm during the period of five years. The Operating Profit Margin of the company is highest in the year 2013-14 with the value of (10.01%) and lowest in the year 2015-16 with the value of (-7.65%). At the same time, Net Profit Margin of the company ranges between (-17.90) to (1.63%). The Return on Assets of the firm is highest in the year 2013-14 with the value of (1.03%) and lowest in the year 2015-16 with the value of (-10.10%). On the other side, the highest Return on Equity of the firm is estimated with (2.99%) in the year 2013-14 and the lowest Return on Equity (-32.94%) is recorded in the year 2015-16.

**9.2. Liquidity Ratios:**

A liquidity ratio is a type of financial ratio used to determine a company's ability to pay its short-term debt obligations. The metric helps determine if a company can use its current, or liquid, assets to cover its current liabilities. Following Liquidity ratios has been calculated by author through the use of secondary data:

**Current Ratio (CR)** = Current Assets ÷ Current Liabilities

**Quick Ratio (QR)** = Quick Assets ÷ Current liabilities

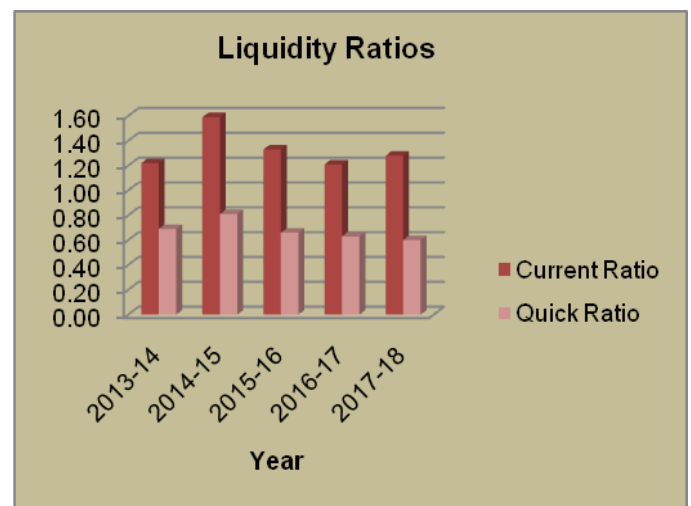
Calculation of the above ratios has mentioned in below Table 2:

**Table-2**  
**Liquidity Ratios of MSP Steel & Power Ltd**

Year	Current Ratio	Quick Ratio
2013-14	1.12	0.69
2014-15	1.59	0.81
2015-16	1.33	0.66
2016-17	1.21	0.63
2017-18	1.28	0.60

Source: Authors' calculation based on secondary data

For easy understanding of the liquidity ratios of the company during the study period, above Table 2 shown below in the graph:



**Inference**

Above Table and Graph has clearly indicated the overall liquidity of the firm during the period of five years. The Current Ratio of the firm is highest in the year 2014-15 with the value of (1.59) and lowest in the year 2013-14 with the value of (1.12). On the other side, the highest Quick Ratio of the firm is estimated with (0.81) in the year 2014-15 and the lowest Quick Ratio (0.60) is recorded in the year 2017-18.

The current ratio and quick Ratio of the firm are fluctuating during the period April 2013 to March 2018. The ideal current ratio is 2: 1. The current ratio of the firm ranges between (1.12) to (1.28), it reveals little bit good liquidity position of the company. Higher Current Ratio means higher short term liquidity comfort level. A Current Ratio below 1 reveals that the company may not be able to meet its obligations in the short run. And on the other hand, Ratio of 1:1 is held to be the ideal quick ratio indicating that the business has in its possession

enough assets which may be immediately liquidated for paying off the current liabilities. If it is less than 1, the low quick ratio will not allow the company to pay off its current liabilities outstanding in the short term entirely. However, if the ratio is higher than 1, the company retains such liquid assets to discharge its current liabilities immediately. The quick ratio of the firm ranges between (0.60) to (0.81), it indicates the verse liquidity position of the firm.

**9.3. Activity Ratios:**

Activity ratios are used to determine the efficiency of the organization in utilizing its assets for generating cash and revenue. It is used to check the level of investment made on an asset and the revenue that it is generating. For this reason, the activity ratio is also known as the efficiency ratio or the more popular turnover ratio. The role of activity ratio or turnover ratio is in the evaluation of the efficiency of a business by careful analysis of the inventories, fixed assets and accounts receivables. It not just expresses a business’s financial health but also indicates the utilization of the balance sheet components. Following Activity ratios has been calculated by author through the use of secondary data and expressed in term of times:

- Stock Turnover Ratio (STR)** = Cost of Goods Sold ÷ Average Stock
- Working Capital Turnover Ratio (WCTR)** = Total Net Sales ÷ Average Working Capital
- Debtor Turnover Ratio (DTR)** = Total Net Sales ÷ Average Account Receivables
- Creditor Turnover Ratio (CTR)** = Total Net Purchase ÷ Average Account Payables
- Total Asset Turnover Ratio (TATR)** = Total Net Sales ÷ Average Total Assets

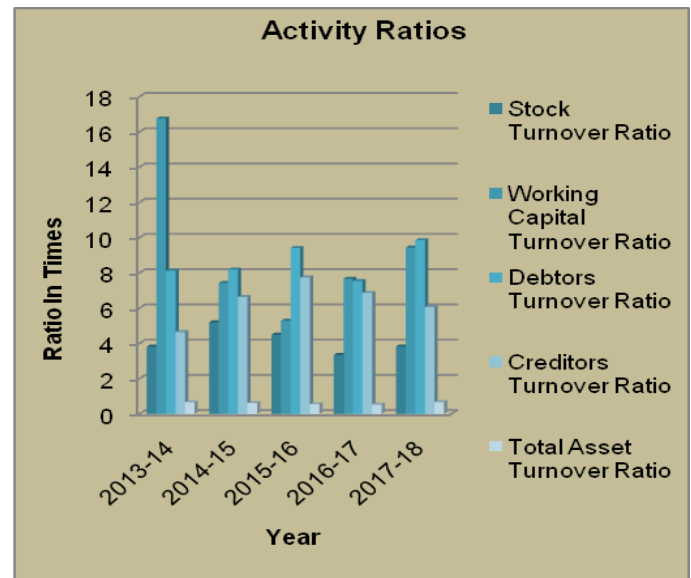
Calculation of the above ratios has mentioned in below Table 3:

**Table-3**  
**Activity Ratios of MSP Steel & Power Ltd (in Times)**

Year	STR	WCTR	DTR	CTR	TATR
2013-14	3.81	16.75	8.12	4.63	0.65
2014-15	5.19	7.42	8.19	6.63	0.61
2015-16	4.49	5.28	9.41	7.74	0.54
2016-17	3.34	7.66	7.53	6.86	0.52
2017-18	3.82	9.43	9.85	6.05	0.66

Source: Authors’ calculation based on secondary data

For clear understanding of the activity ratios of the company during the study period, above Table 3 shown below in the graph:



**Inference**

Above Table and Graph has clearly indicated the efficiency of a business by careful analysis of the inventories, fixed assets, working capital, accounts receivables and account payables. The Stock Turnover Ratio of the company ranges between (5.19) to (3.34) during the study tenure. Further, the Working Capital Turnover ratio of the firm is highest in the year 2013-14 with the value of (16.75) and lowest in the year 2015-16 with the value of (5.28). The highest Debtors Turnover Ratio of the firm is estimated with (9.85) in the year 2017-18 and the lowest ratio (7.53) is recorded in the year 2016-17. On the other hand, the highest Creditors Turnover Ratio is (7.74) in the year 2015-16 and lowest ratio is (4.63) in the year 2013-14. The Total Assets Turnover Ratio of the firm is highest in the year 2013-14 with the value of (0.65) and lowest in the year (0.52) in the year 2016-17. Overall comparison of the Activity ratios mentioned above, all the ratios show fluctuating trends during the study tenure of five years.

**9.4. Solvency Ratios:**

Solvency ratios are a key component of the financial analysis which helps in determining whether a company has sufficient cash flow to manage the debt obligations that are due. Solvency ratios are also known as leverage ratios. It is believed that if a company has a low solvency ratio, it is more at the risk of not being able to fulfil its debt obligation and is likely to default in debt repayment. Solvency ratios are used by prospective business lenders to determine the solvency state of a business. Companies that have a higher solvency ratio are deemed more likely to meet the debt obligations while companies with a lower solvency ratio are more likely to pose a risk for the banks and creditors. Solvency ratios vary with the type of industry.

Solvency ratios should not be confused with liquidity ratios. They are totally different. Liquidity ratios determine the capability of a business to manage its short-term liabilities while the solvency ratios are used to measure a company’s ability to pay long-term debts. Following solvency ratios has been calculated by author through the use of secondary data and expressed in percentage term:

- Net Worth to Total Asset Ratio (NWTAR)** = Net Worth ÷ Total Assets X 100
- Debt to Asset Ratio (DAR)** = Total Debt ÷ Total Assets X 100
- Debt to Capitalization Ratio (DCR)** = Total Debt ÷ (Total Debt + Total Shareholder's Equity) X 100
- Debt to Equity Ratio (DER)** = Total Liabilities ÷ Total Shareholders' Equity X 100
- Fixed Asset to Net Worth Ratio (FANWR)** = Total Fixed Assets ÷ Net Worth X 100

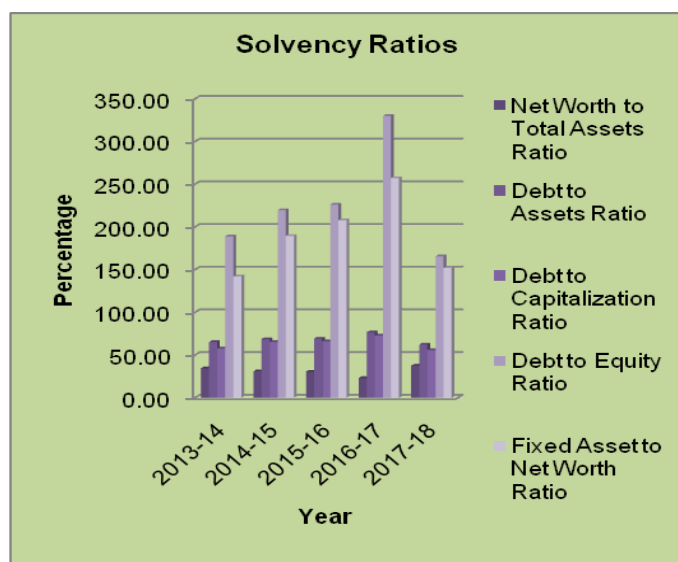
Calculation of the above ratios has mentioned in below Table 4:

**Table-4**  
**Solvency Ratios of MSP Steel & Power Ltd (In %)**

Year	NWTAR	DAR	DCR	DER	FANWR
2013-14	34.60	65.40	57.72	188.98	142.21
2014-15	31.27	68.73	65.29	219.78	189.50
2015-16	30.65	69.35	66.29	226.27	207.94
2016-17	23.26	76.74	73.00	329.98	257.24
2017-18	37.63	62.37	55.84	165.73	152.14

Source: Authors' calculation based on secondary data

For clear understanding of the solvency ratios of the company during the study period, above Table 4 shown below in the graph:



**Inference**

Above Table and Graph has clearly determined the solvency state of a company. The range of Net Worth to Total

Asset Ratio of the firm is (23.26%) to (37.63%) during the study. The Debt to Assets Ratio, Debt to Capitalization and Debt to Equity Ratio of the firm is highest in the year 2016-17 with the value of (76.74%), (73.00%), and (329.98%) respectively. On the other side, Debt to Assets Ratio, Debt to Capitalization and Debt to Equity Ratio of the firm is lowest in the year 2017-18 with the value of (62.37%), (55.84%) and (165.73%). The highest Fixed Asset to Net worth Ratio of the firm is estimated with (257.24%) in the year 2016-17 and the lowest Ratio (142.21%) is recorded in the year 2013-14. As per the author's calculation, the overall solvency locus of the company is not so good.

**10. Findings and Suggestions**

**10.1. Profitability Ratios:**

- **Operating Profit Margin** of the company is to be found at a lower level and it shows inefficiency of the firm. The firm must try to maintain this ratio at a high level, need to increase operating income by net sales or increase operating efficiency and also reduce the external funds.
- **Net Profit Margin** of the company is also to be found at the lower level and negative. Obviously, the higher the ratio the better is the profitability. Hence, try to sustain this ratio at a higher level because this ratio reflects the operating efficiency and performance of the company
- **Return on assets** ratio is also negative. Ratio must be maintained at a higher level because it's beneficial for the company.
- **Return on equity** is to be found at a lower level means the company has to be invested in funds in an unprofitable manner. So management should make improvements in the investment policy for the profitable use of the available funds.

**10.2. Liquidity Ratios:**

- **The current ratio** was very close to the ratio's standards of 2:1 in all the five year. But for the purpose reaching at the standard level, the company needs to increase the current assets or by decreasing current liabilities.
- **The quick ratio** is found very low in the comparison of ideal ratio. Ratio of 1:1 is held to be the ideal quick ratio. So that the firm must keep the proper level of bank balance, cash at hand, and short-term investment in current assets.

**10.3. Activity Ratios:**

- **Stock turnover ratio** of the company is maintained at the medium level during the five year. A company should have to increase operating efficiency. Therefore, the company can maintain a stock turnover ratio at a higher level as it is desirable for the company. To maintain a higher ratio, management of the company can decide a good purchasing policy
- **Working Capital Turnover Ratio** of the company is to be found at the higher level. It indicates firm use up the working capital more times per year, which suggests that money is flowing in and out of your small business smoothly and management is being extremely efficient in using a firm's short-term assets and liabilities to support sales. For maintenance of the ratio, companies should start getting paid faster by offering

discounts to clients to reward their prompt payment and make a good policy for inventory forecasts.

- **Debtors Turnover Ratio** of the firm is to be found at the higher level. To continuously maintain this ratio, companies should increase the efficiency of the collections from debtors and rewarding debtors who have a history of timely payments will ensure timely or earlier payments by those debtors going forward.
- **Creditor Turnover Ratio** of the firm is to be found at the medium level during the five year. Managing accounts payable cycles are essential to manage cash and improve relationships with creditors. Working with a respected payment processing provider can reduce the turnover rate considerably and it also helps in improvement of the ratio.
- **Total Asset Turnover Ratio** is very low during the tenure of five years. So companies should improve asset-turnover ratio by increasing sales, using assets more efficiently and should find new ways to collect payments of sales more quickly.

#### 10.4. Solvency Ratios:

- **Net worth to Total Asset Ratio** is below 50% during the five years. Ratio of less than 50% means that the company holds more liabilities than it does equity. A high level of liabilities is a concern to lenders. Investors like to see a high ratio because more available funds means more opportunities for growth and expansion and to pay dividends to investors. Companies with a high ratio will enjoy lower interest rates on loans and potentially higher stock prices. So that company should review their assets and liabilities and take a step to increase the ratio.
- **Debt to Asset Ratio** of the company is to be found at higher level during the five year and a higher debt to total asset ratio is very unfavorable for a company. The Company can focus heavily on increasing sales but without any increase in overhead expenses. The increase in sales can be used to reduce the debt and improve the debt to total asset ratio. Also the company can issue new or additional shares to increase its cash flow.
- **Debt to Capitalization Ratio** of the firm is too high during the study period so that company should take steps to reduce and improve their Debt to Capitalization ratio. Among the strategies that can be employed are increasing profitability, increasing sales revenue, better management of inventory, and restructuring of debt.

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**'With the help of these suggestions the company tries to improve their financial Performance'.**

#### 11. Conclusion

Present study is conducted to evaluate the financial performance of MSP Steel & Power Limited, for the period of five years ranging from March 2013 to April 2018. It helps to explore the strength and weakness of the company. Examination and explanation of financial statements show that the present financial position of MSP Steel & Power Limited has improved quite a lot from the previous years. The central focus of the study was to conduct an evaluative study of the financial state of the firm by using ratio analysis of the past five years of the company's financial statements. Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, solvency, efficiency of operations, and profitability. The study of financial performance of the MSP Steel & Power Limited will be useful for investors, shareholders, creditors, finance companies, banks, and management of the firm to make future decisions. We can conclude by saying that ratio analysis is a popular tool used by investors and internal stakeholders alike and it helps in making strategic decisions by the management and the investment decisions by the investing community. And also the study concluded that company overall financial performance is not so good.