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## Review of cash flow statement of selected companies of steel industry (Tata Steel and Sail)

**Ahmed Mahdi Abdulkareem and Vasani Sureshbhai Vithalbhai**

### Abstract

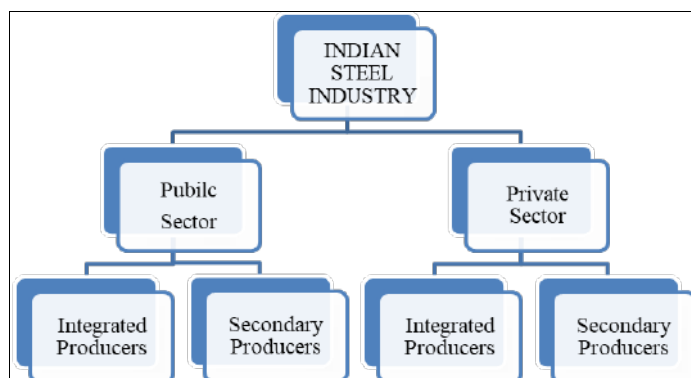
The main objective of this study is to assess the ability of the enterprise to generate cash and cash equivalents of the industry. It can use in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices. The researcher has set objectives are to know about cash flow, net assets difference, and liquidity of selected steel industries, to measure the cash inflow and outflow of the selected steel industries, and to evaluate and compare the cash position of industries. The researcher has selected two companies on the basis of the judgemental sampling method and the researcher has used for the data analysis like mean, trend analysis, and pair "t" test. The researcher has found out the review of the cash flow statement of TATA Steel and SAIL shows the cash inflow and cashes outflow of both the companies, which represents similar solvency and liquidity of both the companies. Thus, investors can invest in both companies because both companies have a sound cash position. So, it should be easy to identify the best investment option for investors. The cash flow statements of the selected two industries of steel sectors have been analyzed using different parameters. The selected steel industries are TATA Steel and Steel Authority of India Limited (SAIL). The comparative evaluation of the cash flow statement describes the various variables of cash inflows and outflows of cash of both the industries and the similarity in inflows and outflows of cash. There are 12 variables that were very similar and the data of both the industries were available for the study period. From the analysis, it is concluded that both industries have more similarities in the cash inflow and cash outflow of cash flow statement.

**Keywords:** Cash flow statement, judgemental, pair t-test, inflow, and outflow.

### 1. Introduction

The industry grew out of the necessity for stronger and more easily produced metals. Technological advances in steelmaking during the second half of the 19th century played a key role in creating modern economies hooked into rails, automobiles, girders, bridges, and a spread of other steel products.

This study aims to know the analyzed liquidity performance of TATA Steel and SAIL in India. These differing types of industries differ from one another in terms of operations, efficiency, productivity, profitability, and cash position. The most objective of this study is to spot the cash position of TATA Steel and SAIL from the income statement.



Sources: Self constructed

**Fig 1.1:** Types of steel industry

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## Review of Literature

Financial Accounting Standards Board (FASB) introduced Statement of monetary Accounting Standards No. 95 which is that the Statement of Cash Flows in November 1987. The need for FASB 95 regarding a full set of monetary statements classified income because of the fourth required budget (along with a record, income statement, and statement of retained earnings). This statement established standards for income reporting, and dated out the Accounting Principles Board (APB) Opinion No. 19, Reporting Changes in Financial Position. In March 1971, the APB Opinion No.19 gave chances to enterprises to report income information during a statement of changes during a financial position commonly called a funds statement. During that time, there was no formal or universally accepted definition to catalog each statement albeit the term “funds” wasn’t sufficiently defined (Alves *et al* 2008). Every single industry however had different funds constitution to others since the statement mentioned changes in funds. The term funds referred sometimes to cash for a couple of companies meanwhile some used cash and short-term investment and a couple of used quick asset, some used capital. The relevance and therefore the valuation of funds statement are recognized within most company but the shortage of consistency in format and focus from one firm to a different was liable for the most reason that the FASB obviously took up the matter and with extensive commentary from accountants and the other interested parties, adopted the standards espoused in FASB 95. It effectively happened in 1988 had not encouraged the use of the term “funds” because it had been stated with such tons (Alves *et al* 2008).

## Need /Importance of the Study

- To assess the ability of an enterprise to generate cash and cash equivalents of industry.
- It can use in checking the accuracy and performance of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.
- It provides an extended view of the financial inflows and outflows by including both capital and revenue flows.

## Problem of the Study

After going through existing literature in the library and deep discussion with the guide researcher has selected the topic. This topic has been selected after considering the availability of the time, information, tools and techniques and other related sources and cash flow statement included in the financial statement of the companies, Therefore, the statement of the problem for

## Objectives of the Study

- To know about cash flow, net assets difference, and liquidity of selected steel industries.
- To measure the cash inflow and outflow of the selected steel industries.
- To evaluate and compare the cash position of industries.

## Hypothesis of the Study

For the purpose of the study researcher framed two hypotheses viz. Null Hypothesis and Alternative Hypothesis. Both hypotheses are tested with the help of statistical techniques, the statement of the hypothesis areas under.....

## Null Hypothesis (H0)

- There is no significant difference in profit before tax of selected companies during the period of study.
- There is no significant difference in the finance costs of selected companies during the period of study.
- There is no significant difference in trade payable and other liabilities of selected companies during the period of study.
- There is no significant difference in the purchase of fixed assets of selected companies during the period of study.
- There is no significant difference in proceeding from the sale of fixed assets of selected companies among the period of study.
- There is no significant difference in interest received by selected companies during the period of study.
- There is no significant difference in the dividend received of selected companies during the period of study.
- There is no significant difference in proceeding from borrowings of selected companies among the period of study.
- There is no significant difference in interest and finance charges paid by selected companies during the period of study.
- There is no significant difference in opening cash & cash equivalents of selected companies during the period of study.
- There is no significant difference in closing cash & cash equivalents of selected companies during the period of study.

## Methodology for the data analysis and interpretation

For the study researcher has used secondary data as a source of information and tools for the study are mean, trend analysis and pair “t” test. Data are collected by the researcher on the basis of non-probability method in which judgemental method.

## Data Analysis and Interpretation

### Tata Steel Company

#### 1. Cash flow from Operating Activity

As per the analysis the amount of operating activities of the cash flow statement of TATA STEEL for the study period of 2013-14 to 2017-18. The Profit before Tax of the company in the year 2014 is 9713.50 which is higher as compared to other years. The adjustments which are included or excluded from the profit before tax have been affected the net cash flow from operating activities. Depreciation and amortization expenses are higher in the year 2018 which is 3727.46 than other years. Profit / Loss on sale of assets and Profit/ Loss on sale of investment is added or subtracted (Profit is deducted and Loss is added). Finance costs are included which is higher in the year 2018 with the amount of 2810.62. Dividend Tax is excluded from

the cash generation from operating. It is 2447.24, 2053.28, 1244.10, 1540.87, 2502.51 in the years 2014, 2015, 2016, 2017 and 2018 respectively. Overall activity has generated a net cash flow of 12432.80, 4851.89, 7567.68, 11166.64, and 11791.45 in the respective year 2014-2018. The net cash flow used in operating is higher in the year 2014 than other others.

## 2. Cash flow from Investment activity

As per the analysis, the Financing activities include transactions and events whereby resources are obtained from or paid to owners (equity financing) and creditors (debt financing). Dividend payments, for example, fit this definition. The receipt of dividends and interest and the payment of interest are classified under operating activities simply because they are reported as a part of income on the income statement. The receipt or payment of the principal amount borrowed or repaid (but not the interest) is considered a financing activity. Other activities that impact the long-term liabilities and equity of the company are also listed in the financing activities section of the cash flow statement.

## 3. Cash flow from financial activity

As per the analysis, the amount of the cash flows from financing activity of TATA Steel for the study period of the year 2013-14 to 2017-18. It is highly affected by the proceeds from borrowings and repayment of borrowing in the study period. The proceeds from borrowings are 5325.46, 7121.04, 8893.35, 2906.18, and 2343.84 in the years 2014-2018 which is an inflow of cash. It is higher in the year 2016. Repayment of borrowings shows the outflow of the cash. It is higher in the year 2016 with the amount of 7754.55 which is higher than in other years. The net cash flow from financing activity shows the cash outflow in the year 2014, 2015, 2016, 2017 (higher outflow) but in the years 2018, the company has an inflow of cash from financing activity. The opening cash and cash equivalents are higher in the year 2014 with the amount of 2139.93, while the closing cash and cash equivalent of the company are higher in the year 2018 with the amount of 4588.89.

## Sail Company LTD

### 1. Cash flow from Operating Activity

As per calculation the amount of cash flows from operating activity of SAIL for the years 2013-14 to 2017-18. The company is having a profit before tax of 3224.55 and 2358.91 for the years 2014 and 2015 but in the years 2016, 2017, 2018 there is a loss of amount 7007.50, 4850.86, 758.94 respectively. The adjustments which are included or excluded from the profit before tax have been affected the net cash flow from operating activities. The depreciation

and amortization expenses of the company are increasing every year. It is highest in the year 2018 with the amount of 3064.92. the operating cash flow before working capital changes is 4430.29, 5151.18, -2384.87, 362.97, and 5002.76 during the study period. There is an increase in inventory in the years 2014 and 2016 with the amount 807.39 and 2406.21, in the other years of the study period it is decreasing. The net cash flow from operating activity of SAIL for the study period is 5883.09, 2744.12, 3799.71, 2125.03, and 6157.81, which is higher in the year 2018 as compared to other years of the study period.

### 2. Cash flow from Investment activity

From the calculation the amount of cash flows from investing activity of SAIL for the years 2013-14 to 2017-18. The purchase of fixed assets of the company for the years 2014 to 2018 is 8871.46, 6326.72, 6651.82, 5425.18, and 6757.49. It is higher in the year 2014 so the company has purchased more fixed assets in 2014 than in other years of the study period. The proceeds from the sale of fixed assets are higher in the year 2016 as compared to other years with the amount of 158.99 which shows the cash inflow. Fixed deposits are decreased with the amount 932.08, 495.84, and 1998.24 in the years 2014, 2015, and 2016 but in the years 2017 and 2018 it has been increased with the amount of 2.64 and 6.45. Interest received is higher in the year 2014 which is 589.63. And also dividend received is higher in 2014 with the amount of 124.91 as compared to other years of the study period.

### 3. Cash flow from financial activity

From the calculation the amount of cash flows from financing activity of SAIL for the study period of 2013-14 to 2017-18. Proceed from borrowings is more in the year 2018 which shows the amount 10689.68 as compared to other years. Interest and finances charge paid to show the outflow of the cash which is amounted to 929.2, 1421.08, 2300.45, 2527.82, and 2851.54 during the study period of 2014 to 2018. There is net cash flow from the financing activity is higher in the year 2017 with a cash flow of 3302.13 than other years of study.

## Major Findings

From the whole analysis of comparison, the result can be concluded in the finding. The overall analysis of the comparative evaluation of TATA Steel and SAIL can identify the liquidity and solvency of the companies as compared with each other. The differences in cash inflow and cash outflow of both industries have been analyzed. The trend analysis and paired t-test have been applied to get the effective result of the study.

**Table 1.1:** Particular Variable Results

No.	Variables	Calcutaed Value	Table Value	Accepted/Rejected
1.	Profit before tax	2.5988	2.13	Ho is Rejected
2.	Depreciation and amortization expenses	-0.302	2.13	Ho is Accepted
3.	Finance costs	-3.88	2.13	Ho is Accepted
4.	Trade payables and other liabilities	-1.65	2.13	Ho is Accepted
5.	Purchase of fixed assets	0.074	2.13	Ho is Accepted
6.	Proceed from sale of fixed assets	0.916	2.13	Ho is Accepted
7.	Interest received	3.575	2.13	Ho is Rejected

8.	Dividend received	-0.805	2.13	Ho is Accepted
9.	Proceed from borrowings	0.0237	2.13	Ho is Accepted
10.	Interest and finance charges paid	-3.495	2.13	Ho is Accepted
11.	Opening cash & cash equivalents	-4.88	2.13	Ho is Accepted
12.	Closing cash & cash equivalents	0.503	2.13	Ho is Accepted

Sources: as per calculation by the researcher

The cash inflows and cash outflows in the cash flow statement are segmented into cash flow from operations, investing, and financing. These details provide insight into the liquidity and solvency, as well the entity's ability to meet future needs for capital growth.

1. The profit before tax of both the companies is different due to the loss in SAIL in the last three years of the study period. So, the profit before tax of TATA Steel shows the profit earning company during the study period. There is a vast difference between the profits of both companies.
2. Depreciation and amortization expenses are similar in both the companies because it is noncash expenses and it will be added to the net income. Therefore, there is no significant difference in depreciation and amortization expenses.
3. For the cash requirement finance costs should be needed for both the companies are similar because the cost the company should pay for the interest, loans, and other charges, etc. are not different. So, the finance cost is not different in both companies.
4. The trade payables and other liabilities are paid by the companies may be different in amount but there is no significant difference in trade payables and other liabilities of the selected companies because the company has more cash to keep in its business.
5. For production every company needs to purchase fixed assets which are an outflow of cash. During the study period, TATA Steel and SAIL have no difference in the purchase of fixed assets. So, the purchases of fixed assets are similar in both samples of the study.
6. The proceeds from the sale of fixed assets are similar in both the companies because there is no difference in the sale of fixed assets of the selected industries, which shows the cash inflow by the sale.
7. Interest received in TATA Steel is higher than the SAIL so there is a difference in the interest received which indicates the higher amount invested by TATA Steel which gives the higher interest than the amount invested by SAIL. The higher investment shows a higher cash outflow.
8. There is no vast difference in the dividend received between TATA Steel and SAIL. The company has invested in shares of another company. So, the former company has the dividend received. Tata Steel has invested more shares in another company than SAIL but there is no significant difference between TATA Steel and SAIL.
9. The proceeds from the borrowings of both companies are similar because there is no significant difference between TATA Steel and SAIL.
10. The interest and finance charges paid by TATA Steel are less than SAIL. But there is no significant difference between TATA Steel and SAIL in the payment of interest and finance charges.

11. The opening cash and cash equivalents indicate the cash on hand, which last year's closing cash was. There is no more significant difference between TATA Steel and SAIL during the study period. There are more opening cash and cash equivalents in SAIL as compared to TATA Steel.
12. The closing cash and cash equivalents are similar in TATA Steel and SAIL. So, it is concluded that both the companies are a similar closing balance of cash. There is no difference in closing cash and cash equivalents of both the companies.

### Conclusion

The review of the cash flow statement of TATA Steel and SAIL shows the cash inflow and cash outflow of both companies, which represent similar solvency and liquidity of both the companies. Thus, investors can invest in both companies because both companies have a sound cash position. So, it should be easy to identify the best investment option for investors. The cash flow statements of the selected two industries of steel sectors have been analyzed using different parameters. The selected steel industries are TATA Steel and Steel Authority of India Limited (SAIL). The comparative evaluation of the cash flow statement describes the various variables of cash inflows and outflows of cash of both the industries and the similarity in inflows and outflows of cash. There are 12 variables that were very similar and the data of both the industries were available for the study period. From the analysis, it is concluded that both industries have more similarities in the cash inflow and cash outflow of cash flow statement. But in the profit, there is more difference due to the loss in SAIL for the last three years of the study period. And there is a vast difference in the interest received of both the industries because there is a decreasing trend in SAIL which shows a huge difference between both the industries TATA Steel and SAIL. But the other variables are having similarities in cash inflows and outflows.

### Limitations of the Study

1. The study is limited to only five years period.
2. The study is restricted to only two samples from the population. So, the sample size is small.
3. The study is mainly based on secondary data taken from published report and money control. The reliability and finding are contingent upon the published in the annual report.

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