THE STUDY OF THE IMPACT OF FINANCIAL PERFORMANCE ON THE MARKET VALUE OF TATA STEEL

VIJAY MARUTI SUKATE

G. E. Society's, R. N. C. Arts, J. D. B. Commerce & N. S. C. Science College
Nashik Road

Abstract:
The research paper primarily focuses on the financial performance and its impact on the share prices. To evaluate the result the financial performances and closing market value of Tata Steel Limited was taken into account. The indicators of financial performance used in this research are earnings per share, return on capital employed, return on assets and dividend payout ratio. The study shall cover the period starting from 2014 - 15 to 2020 - 21. The paper focuses on impact regression analysis was used to arrive at the final conclusion and for the testing of the hypothesis. In the said paper for the purpose of measuring market value of shares, the closing market value has been used. The closing market value is a dependent variable whereas earnings per share, return on capital employed, return on assets, dividend payout ratio are independent variables. Towards the conclusion of the research paper, it was empirically clear that the financial performance indicator does not have a significant impact on the closing market value.

INTRODUCTION:

Financial analysis is the process of examining a company's performances in the context of its industry and economic environment in order to arrive at a decision or recommendation. Often, the decision and recommendation addressed by financial analysts pertain to providing capital to companies, specifically, whether to invest in the company's debt or equity securities at what price. An investor in debt securities is concerned about the company's ability to pay interest and to repay the principal lent. An investor in equity securities is an owner with a residual interest in the company and is concerned about the company's ability to pay dividends and the likelihood that its share price will increase.

Overall, a central focus of financial analysis is evaluating the company's ability to earn a return on its capital that is at least equal to the cost of that capital. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The present research paper emphasizes on the trains in the financial performance of Tata Steel.

WORKING DEFINITIONS USED:

1)   Earnings per share, it is a tool used to assess the company's profitability on per share basis. It denotes the profit available for equity divided by total outstanding shares.
2)   Return on assets: it's a profitability ratio. It measures the relationship between net profit and assets employed to earn that quantum of profit. This profitability ratio measures theprofitability of the firm in terms of asset employed. The formula of return on assets employed is equal to net profit after tax but before interest upon average total assets.
3)   Earnings before interest and tax: the interest is added back to the profit just to imply that the capital employed incorporates in its ambit, the borrowed capital also.
4)   Return on capital employed: return on capital employed should always be higher than the rate at which the company borrows fund to finance its activities. Intangible assets that have no physical existence. For example, goodwill and trademarks should be included in the capital employed, but none of the fictitious assets such as deferred expenses should be included in capital employed. The return on capital employed can be calculated through the formula earnings before interest and taxes into (EBIT) upon capital employed,
5)   Stock prices: It shall be the closing value quoted on the stock exchange.

Mathematical formulas used:

Earnings per Share (EPS) = $\dfrac{\text{Net Profit Available for Equity Shares}}{\text{Number of Equity Shares Outstanding}}$

Return on Capital Employed (ROCE) = $\dfrac{\text{Earnings before Interest and Tax}}{\text{Capital employed}}$

Return on Assets (ROA) = $\dfrac{\text{Net Profit after Taxes}}{\text{Average total assets}}$

Dividend Payout ratio (DPR)= $\dfrac{\text{Dividend per Equity Shares}}{\text{Earnings per share}}$

REVIEW OF LITERATURE:

1)   Mr. Saksham Baveja - "A comparative Financial Analysis Between Dabur India, Godrej Consumer Products and the FMCG industry as a whole" - Research project submitted in Partial Fulfilment of the Requirement for the degree of B.com Honors. BHOPAL SCHOOL OF SOCIAL SCIENCES- through this research the researcher projects that a lot of emphasis is being given to the financial statements of the company. By all means the financial statements are a way of communicating a company's performance over a given period of time. The healthier the financial statements, the better are the prospects of raising capital in the market. These statements are sought after by the prospective investors to channelize their resources to make them more and more productive.

2)   Kenneth S. Bigel- Introduction to Financial Analysis - Open Touro New York – states in his book that the assets are under the ownership of the company. This includes inventory, plant, and equipment, among other items. Liabilities are what the company owes to others including suppliers and lenders. Equity is the value of what the owners have invested in the company. Highlighting the importance of equity holders and equity.

3)   Nidhin Raju- "A Study Of Working Capital Management Special Reference To Nagarjuna Herbal Concentrates Ltd, Alakode"- Project Report- the study states that, the working capital management of the firm is doing well, it helps the in the efficient working of the firm. In the era of liberalization, the efficient financial management will enable the company to face the competition from competitors.

4)   Arpita Naskar & Prasanta Guha- International Journal of Management (IJM) Volume 8, Issue 6, Nov–Dec 2017- established a relation between working capital management and profitability. Standard deviation technique was used to sustain their claims. In the end the study has concluded that all components of working capital namely Receivable days(RD), Payable days(PD), Inventory holding periods (ID), Current ratio (CR) and Quick ratio (QR), RD and ID have negative correlation with the profitability.

LIMITATIONS:

1)   The study is restricted to only one company Tata Steel Limited
2)   The study shall cover the period from 2014 – 15 to 2020 – 21 only.
3)   In the financial indicators only 4 Financial indicators are used vis earnings per share, return on capital employed, return on assets and dividend payout ratio.

OBJECTIVES:

1)   To study the computation the values of earnings per share, written on capital employed and written on assets and dividend payout ratio of Tata Steel Limited.
2)   To study the impact of earnings per share, return on capital employed, return on assets on the closing market value of Tata Steel Limited.

HYPOTHESIS:

Hypothesis Number	Status	Title
H1_0	Null	Earnings per share has an impact on closing market value
H1_1	Alternate	Earnings per share has no impact on closing market value

H2_0	Null	Return on Capital Employed has an impact on closing market value
H2_1	Alternate	Return on Capital Employed has no impact on closing market value
H3_0	Null	Return on Assets has an impact on closing market value
H3_1	Alternate	Return on Assets has no impact on closing market value
H4_0	Null	Dividend payout ratio has an impact on closing market value
H4_1	Alternate	Dividend payout ratio has no impact on closing market value

DATA COLLECTION:

The data collection was carried out by using secondary data only. The annual reports of Tata Steel were used for the period 2014 – 15 to 2020 – 21.

Table 1: TATA STEEL Ratio Chart

YEAR	CMV	EPS	ROCE	ROA	DPR
2014-15	332.25	66.29	0.11	0.06	0.14
2015-16	312.45	9.84	0.04	0.01	0.97
2016-17	481.2	35.46	0.09	0.03	0.34
2017-18	591.85	34.63	0.1	0.04	0.33
2018-19	503.25	87.48	0.17	0.08	0.17
2019-20	301.45	56.01	0.08	0.05	0.17
2020-21	722.95	113	0.17	0.09	0.22

The above table shows the closing market values of TATA steel taken in account as on the thirty first march of every year. Theclosing market value is an Dependent variable the earning per share (EPS) is the profit earned by the equity shareholders per share. Earnings per share is an independent variable. Written on capital employed (ROCE) is the profit before interest and tax earned by the company over its owned and debt fund. ROCE is an independent variable. Return on Assets is the profit generated over the assets deployed in the organization. Return on assets (ROA) is an independent variable. Dividend payout ratio is also taken to be an independent variable.

HYPOTHESIS TESTING:

For the purpose of hypothesis testing regression analysis is used as a statistical tool. The results of the same can be produced as follows:

Impact of earning per share on closing market value:

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.555508
R Square	0.308589
Adjusted R Square	0.170307
Standard Error	144.9713
Observations	7

ANOVA

	df	*SS*	*MS*	*F*	*Significanc*

				e F	
Regression	1	46900.69	46900.69	2.231593	0.195441
Residual	5	105083.4	21016.69		
Total	6	151984.1			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	318.1927	111.7167	2.84821	0.035899	31.01576	605.3697	31.01576	605.3697
EPS	2.528	1.69227	1.493852	0.195441	-1.82212	6.878117	-1.82212	6.878117

Impact of earning per share on closing market value P value is 0.1954> 5 %.........(Equation 1)
Similarly,
Impact of return on capital employed on closing market value P value is 0.08> 5 %.......... (Equation 2)
Impact of return on assets on closing market value P value is 0.2015 > 5 %.......... (Equation 3)
Impact of return on dividend payout ratio value P value is 0.5288> 5 %.......... (Equation 4)
Hence,

Hypothesis Number	Status	Title	Equation Number	Accepted / Rejected
H1_0	Null	Earnings per share has an impact on closing market value	Equation 1	Rejected
H1_1	Alternate	Earnings per share has no impact on closing market value	Equation 1	Accepted
H2_0	Null	Return on Capital Employed has an impact on closing market value	Equation 2	Rejected
H2_1	Alternate	Return on Capital Employed has no impact on closing market value	Equation 2	Accepted
H3_0	Null	Return on Assets has an impact on closing market value	Equation 3	Rejected
H3_1	Alternate	Return on Assets has no impact on closing market value	Equation 3	Accepted
H4_0	Null	Dividend payout ratio has an impact on closing market value	Equation 4	Rejected
H4_1	Alternate	Dividend payout ratio has no impact on closing market value	Equation 4	Accepted

CONCLUSION:
It is aptly clear that financial standard of performances viz. the earnings per share, return on capital employed, return on assets and the dividend per share, has no impact on the market price. Market prices are

driven by the operating market forces. At most instance it is the supply and demand mechanism which is the key to fix the market price of share.

BIBLIOGRAPHY:
1. Nidhin Raju- "A Study Of Working Capital Management Special Reference To Nagarjuna Herbal Concentrates Ltd, Alakode"- Project Report - https://macfast.org/wp-content/uploads/2022/03/190031000674.pdf
2. Mr. Saksham Baveja - "A comparative Financial Analysis Between Dabur India, Godrej Consumer Products and the FMCG industry as a whole" - Research project submitted in Partial Fulfilment of the Requirement for the degree of B.com Honors. BHOPAL SCHOOLOFSOCIALSCIENCES-https://bsssbhopal.edu.in/uploads/naac/criteria_1/students_projects/234%20Saksham %20Baveja.pdf
3. Annual report of TATA Steel - https://www.tatasteel.com/investors/integrated reportannual-report/
4. Arpita Naskar&Prasanta Guha- International Journal of Management (IJM) Volume 8, Issue 6, Nov–Dec 2017, pp. 152–162, Article ID: IJM_08_06_016