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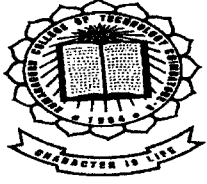
**STUDY ON LEVERAGING OF DEBT AT
STEEL AUTHORITY OF INDIA LIMITED,
SALEM STEEL PLANT, SALEM**

SUMMER PROJECT REPORT
Submitted to the
Faculty of Management Sciences, Anna University
in partial fulfillment of the requirement
for the award of degree of
MASTER OF BUSINESS ADMINISTRATION

by

S.NISHANTH
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October 2006
DEPARTMENT OF MANAGEMENT STUDIES
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATOTRE-641006



KCT Business School
Kumaraguru College of Technology
(An ISO 9001:2000 Certified Institution)
Coimbatore - 641006

BONAFIDE CERTIFICATE

Certified that this project titled "A Study on leveraging of debt" of Steel Authority of India Limited, Salem is the bonafide work of Mr. S.Nishanth (Reg no : 71205631035) , who carried this research under my supervision. Certified further , that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Prof. K. R. Ayyaswamy
Project Guide

Dr. S. Ganesan
Director

Evaluated and viva-voice conducted on.....10.11.06.....

Examiner I

Examiner II

DECLARATION

I, hereby declare that this project report entitled as “*A Study on leveraging of debt*” of Steel Authority of India Limited, Salem has been undertaken for academic purpose submitted to Anna University in partial fulfillment of the requirements for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Prof. K. R. Ayyaswamy during the academic year 2006 – 2007.

I, also declare hereby, that the information given in this report is correct to best of my knowledge and belief.



(S.Nishanth)

Place: Coimbatore

Date: 06/10/2006

STEEL AUTHORITY OF INDIA LIMITED

A Government of India Enterprise



Salem Steel Plant

Salem 636 013, Tamil Nadu, India

Phone : 0427-238 3021 Fax : 0427-238 2800

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Ref No TR-15(6)/510

November 01, 2006

CERTIFICATE

Certified that
Shri S. Nishanth
First Year MBA Student of
Kumaraguru College of Technology, Coimbatore
has done a Project on
**“A STUDY ON LEVERAGING OF DEBT AT
SAIL, SALEM STEEL PLANT, SALEM”**
in Finance Department
of Salem Steel Plant
from 01/07/2006 to 09/08/2006

R Ramani
Jr Manager(HRD)

ACKNOWLEDGEMENT

I thank sincerely Dr. Joseph. V. Thanikal, Principal, Kumaraguru College of Technology for providing this opportunity to carry out this project.

I wish to express my deep sense of gratitude for permitting me to do the project to Prof. S. Ganesan, Director, KCT Business School.

I owe my reverential gratitude to my faculty guide Prof. K. R. Ayyaswamy, professor, KCT Business School, for his valuable suggestion and constructive ideas at each stage of the project.

I owe my sincere thanks to Mr. K. Pandian, Sr. Manager (Marketing-Exports), Steel Authority of India Ltd., Salem for granting permission to do my project in the esteemed organization viz SAIL, Salem and also for the support, guidance and encouragement provided by him for the successful completion of my project.

ABSTRACT

This project is undertaken to study how leveraging of debt affects the company's financial performance. How the interest rate prevails on the financial performance of the organization? The data used are taken from annual reports of the company. The financial performance of the company is assessed with various parameters such as sales, net profit ,EPS and other standard financial ratios.

In analyzing the efficacy of the company's financial management, the company's interest burden is compared with the Prime Lending Rate (PLR) of State Bank of India(SBI) prevailing in the market during the period under study. This has been taken as a proxy for the cost of debt funds available in the economy. The company's interest rate is calculated by weighted average method.

The company could earn high profits in years,2003-04 and 2004-05 aggregating to Rs.9327 crore which had been used to retire some of the high cost debt. After retiring few of the debts, the weighted average cost of debts works out to 0.469% lesser than PLR+2% of SBI.

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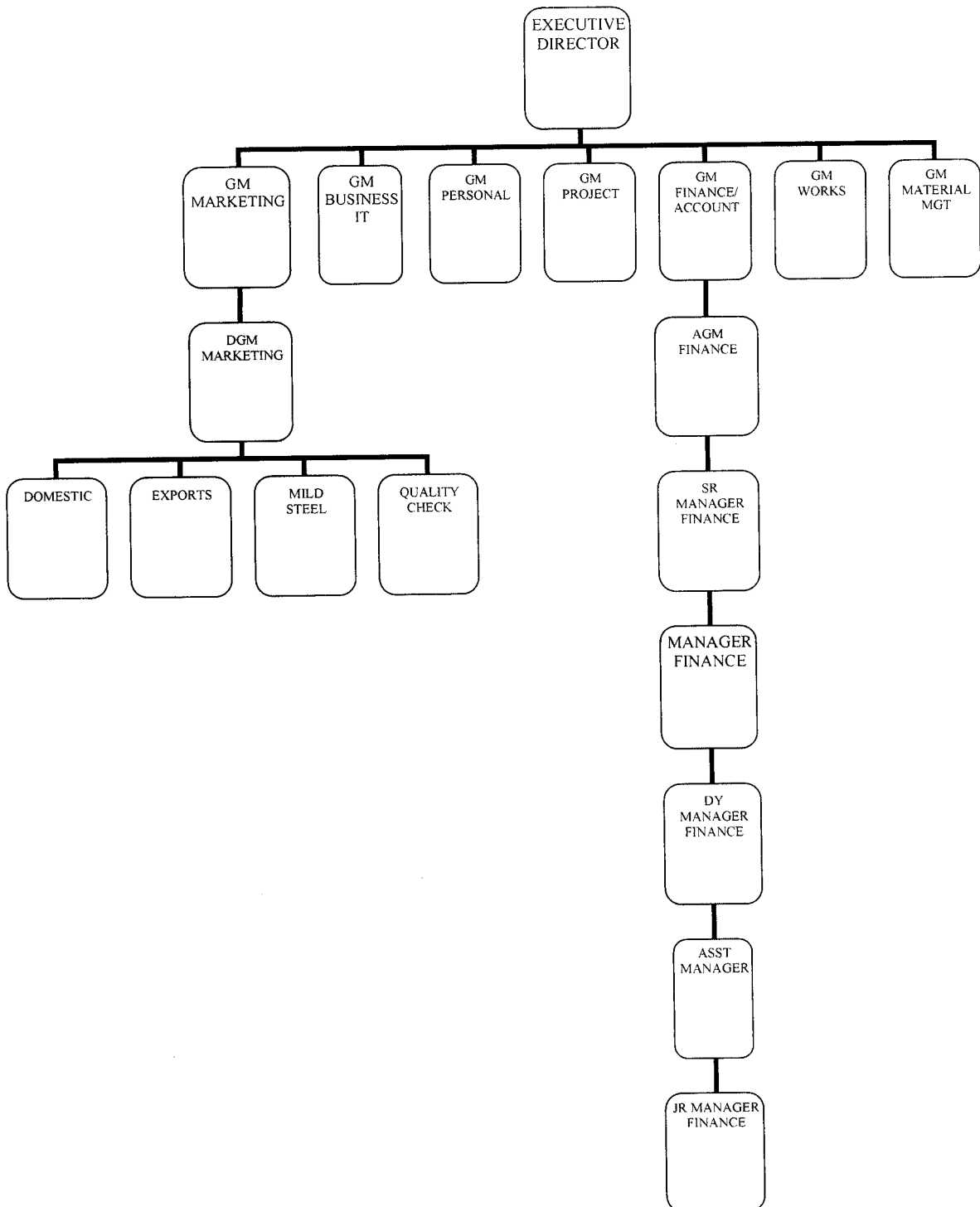
1 INTRODUCTION

1.1 COMPANY PROFILE

Steel Authority of India Limited (SAIL) is one of the leading steel-making company in India under government control. It is a fully integrated iron and steel maker, producing both basic and special steels for domestic industries viz construction, engineering, power, railways, automotive and defence industries and as well for export markets.

Ranked amongst the top ten public sector companies in India in terms of turnover, SAIL manufactures and sells a broad range of steel products, including hot and cold rolled sheets and coils, galvanised sheets, electrical sheets, structurals, 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. These plants' locations are close to domestic sources of raw materials, including the company's iron ore, limestone and dolomite mines.

SAIL's wide range of long and flat steel products are high in demand in the domestic as well as the international market. Marketing responsibility is carried out by SAIL's own Central Marketing Organisation (CMO) and the International Trade Division of the company. CMO encompasses a wide network of 38 branch offices and 47 stockyards located in major cities and towns throughout India. 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.

ORGANISATION STRUCTURE

JOINT VENTURE

SAIL has promoted joint ventures in different areas ranging from power plants to e-commerce. There are many subsidiary companies that offer raw materials, power, etc., for SAIL.

MANAGEMENT

Initially 'SAIL' was fully owned by Government of India. During post-liberalisation era since 1991 the Government of India disinvested about 14% of SAIL's equity and thus holding 86% of the shares with voting control. However, SAIL is one of the "Navratna" of public sector undertakings.

SALEM STEEL PLANT

Salem Steel Plant (SSP) is one of the constituent of SAIL, and a premier producer of international quality stainless steel in India. Commissioned in 1981, the Plant has a capacity to roll 1,86,000 tones of hot rolled carbon and stainless steel flat products and 70,000 tones of cold rolled stainless steel sheets and coils per annum. The Plant has gone beyond its designed capacity and successfully cold rolled value added 0.13 mm thick stainless steel. SSP can also supply hot rolled carbon steel in thicknesses of 1.5, 1.4 and 1.25 mm. Its products have become a household name 'Salem Stainless' in the domestic market and are widely exported; besides meeting the requirements of 100 per cent export oriented units and free-trade zones in India. In hot rolled special grade carbon steels, SSP has been recognized as a well-known manufacturer of boiler quality steel. The Plant is also supplying LPG grade IS 6240 steel

in sheet form. The entire Plant is certified for the ISO: 9001:2000 Quality Assurance and the ISO: 14001 Environmental Management Systems.

1.2 PROJECT METHODOLOGY:

The project is carried out to study the leveraging of debt in the company. The study also analyses the company's financial performance. The interest burden for the company is found by weighted average method. The calculated interest rate is compared with the Prime Lending Rate(PLR) of State Bank of India(SBI)+2%. The (PLR+2%) is taken as proxy to the interest rate prevailing in the economy. The difference between the actual paid up and the assumed rate of interest is calculated and the consequential profit or loss of the organization has been found. The loans have been classified into secured and unsecured loans. Further among both the secured and unsecured loans, redeemed and retired were grouped to find out the weighted average interest of debt. The detailed workings are shown in the subsequent pages.

To analyse the financial performance of the company, select ratios on financial performance have been calculated. The formulae used are:

➤ $\text{Weighted Average Interest on Debt} = \frac{\sum X_i Y_i}{\sum Y_i}$

Where X_i = Interest Rate of Debt. Y_i = Amount of Debt.

➤ $\text{Earnings per share (EPS)} = \frac{\text{Profit after Tax}}{\text{Number of Outstanding equity Shares}}$

➤ $\text{Debt – Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$

- **Current Ratio = Current Assets / Current liabilities**
- **Inventory Turnover Ratio = Sales / inventory**
- **Working Capital Turnover Ratio = Sales / Working Capital**
- **Capital Employed to Turnover Ratio = Sales / Capital Employee**
- **Price – Earning Ratio = Market Price of Shares / Earnings Per Share
(EPS)**

2 CONCEPTS OF DEBT LEVERAGING

2.1 SCOPE OF THE STUDY

The study on leveraging of debt provides an insight into prudent debt management by the company. It affects the profits of the organization. The weighted average cost of debt affects the financial performance of the organization. This has been studied for a period of 5 years.

2.2. OBJECTIVE OF THE STUDY

The main objective of the project is to study whether the organization is effectively leveraging its debt funds against its cost vis-à-vis the interest rate prevailing in the economy during the period under study.

2.3 LIMITATIONS OF THE STUDY

- Data from the annual reports of five years were considered for calculation of interest burden. The actual disaggregation of interest on the debt could not be done for want of data.
- Only the Prime Lending Rate(PLR) of State Bank of India(SBI) is taken as a proxy for the market interest rate in the economy. It is assumed(PLR+2)% as the rate at which the company could borrow from the market as and when it needed debt funds.

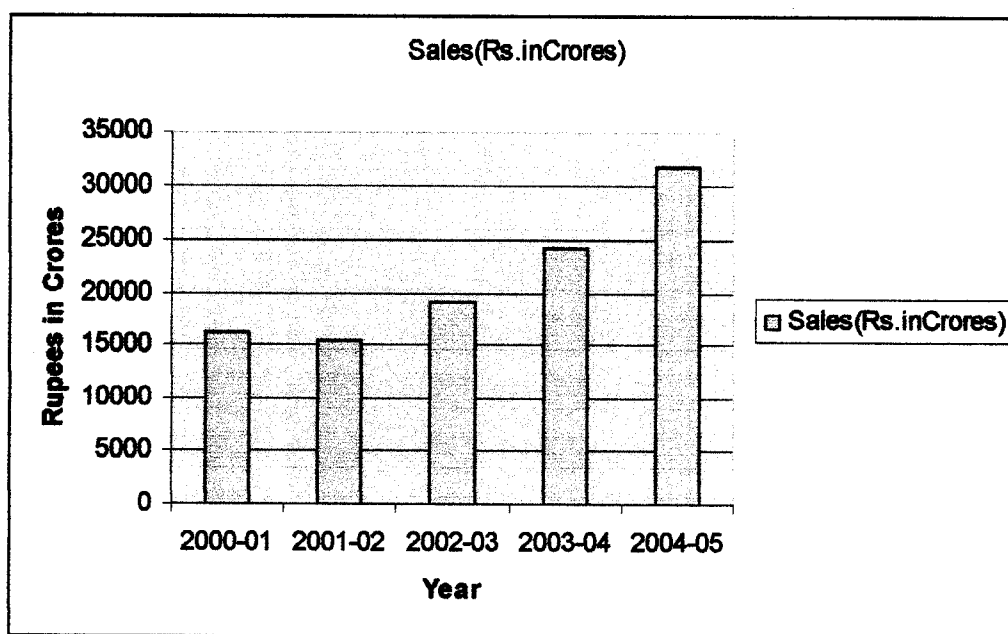
3 ANALYSIS AND INTERPRETATION

3.1.1 Sales for the year 2000-01 to 2004-05

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Sales(Rupees in crores)	16233	15502	19207	24178	31800
Percentage Growth(%)		-4.5	23.9	25.88	31.52

From the table, it is observed that sales had been increasing continuously with growth rates for the year 2002-03 to 2004-05 from 23.9 to 31.52% even though the sales dropped during the year 2001-02. The sales data is presented in a bar diagram as under:

3.1.1 Sales from the year 2001 – 2005

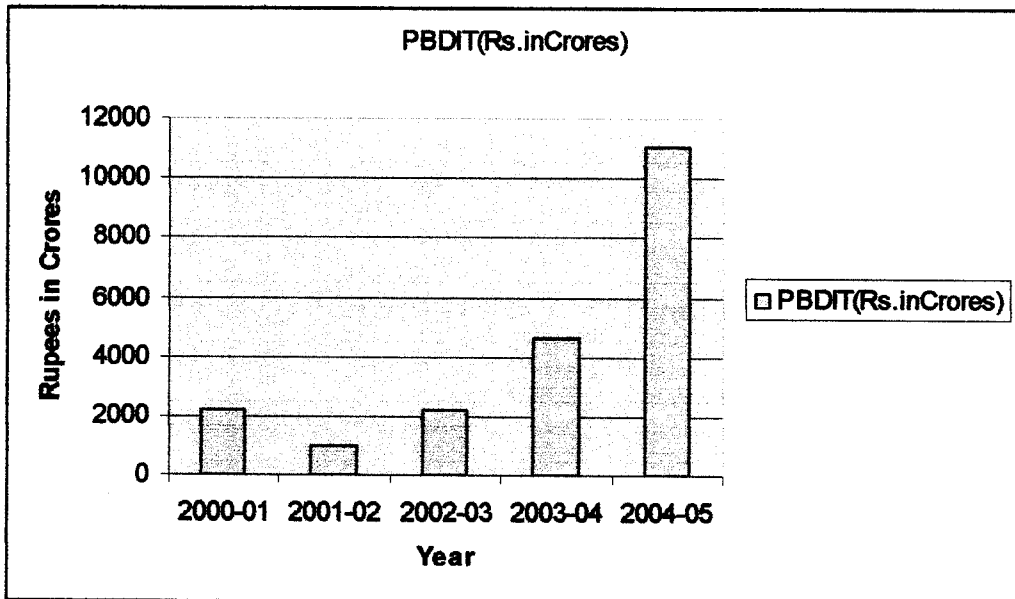


3.1. 2. Profit before depreciation, interest and Tax from 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
PBDIT(Rs. In Crores)	2167	1011	2165	4652	11097
Percentage Growth(%)		-53.35	114.14	114.87	138.54

From the above table, it can be seen that the PBDIT is drastically increasing during the year 2004 – 2005.

3.1. 2. Profit before depreciation, interest and Tax from 2001 – 2005

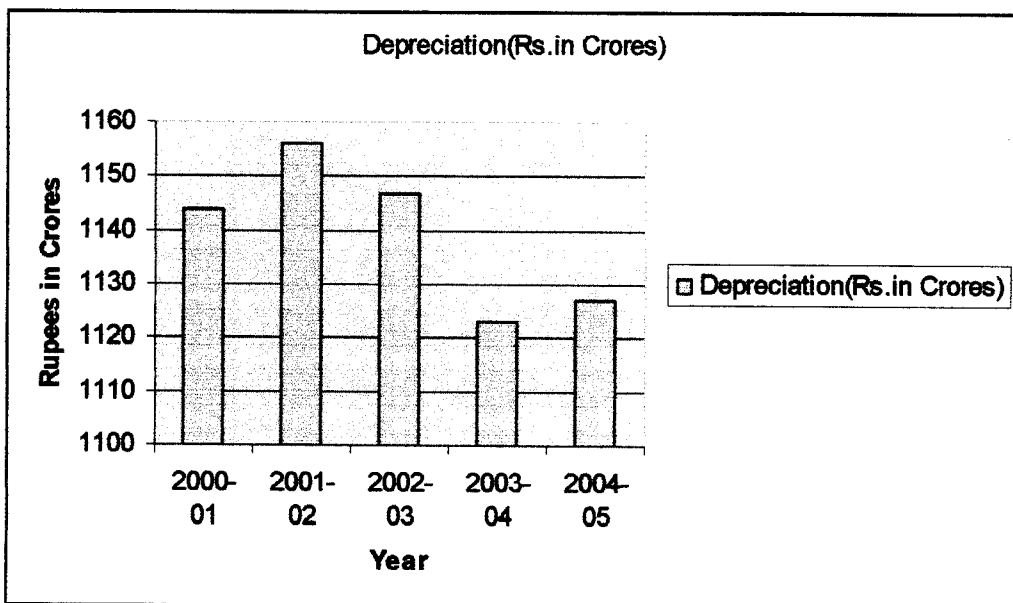


3.1.3 Depreciation from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Depreciation(Rs. In Crores)	1144	1156	1147	1123	1127
Percentage(%)		1.05	-0.77	-2.09	0.36

From the table, it is clear that depreciation has not followed a regular pattern but has gradually decreased.

3.1.3 Depreciation from the year 2001 – 2005

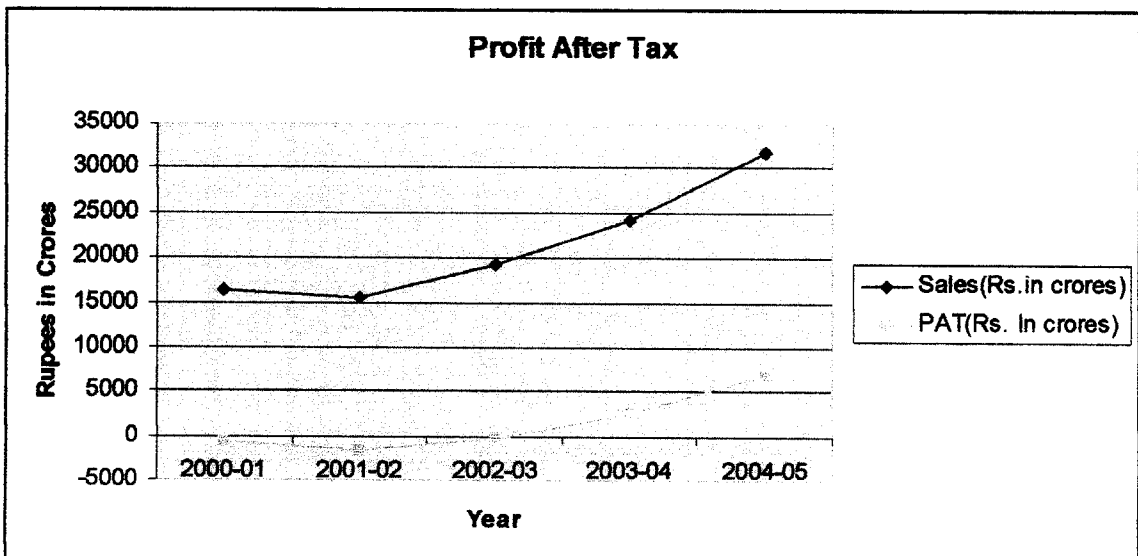


3.1.4 Profit after tax from the year 2001 - 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Sales(Rupees in crores)	16233	15502	19207	24178	31800
PAT(Rs.in Crores)	-729	-1707	-304	2512	6817

From the table, it is clear that the PAT has attained a negative high and then increased to a great extent during the year 2004 – 2005.

3.1.4 Profit after tax from the year 2001 – 2005

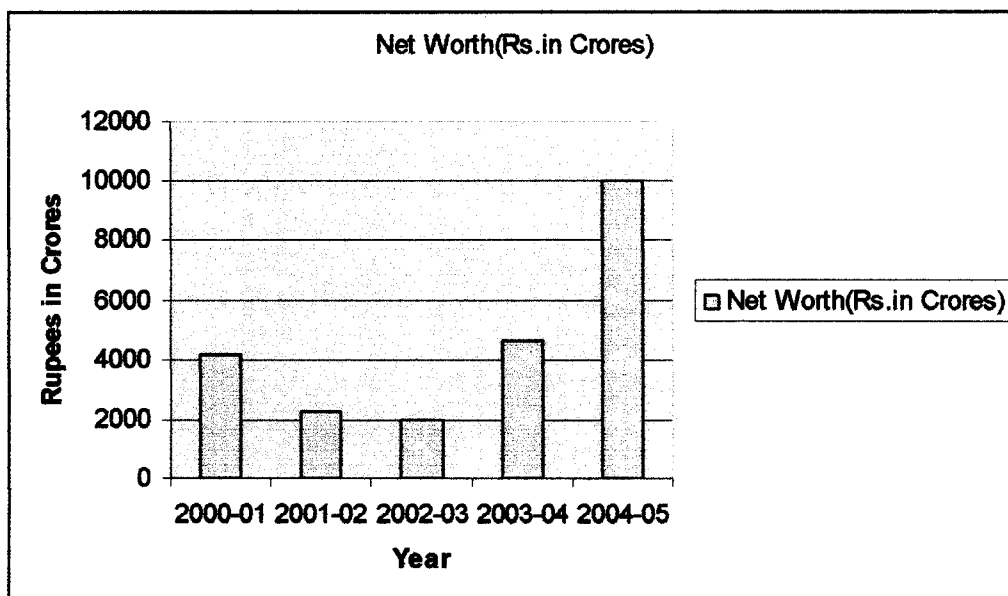


3.1.5 Net Worth from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Net Worth(Rs.in Crores)	4163	2252	1989	4659	10011
Percentage Growth(%)		-45.90	-11.68	134.24	114.87

From the table, it is clear that the Net Worth of the company has decreased and then increased over the analysis period.

3.1.5 Net Worth from the year 2001 – 2005

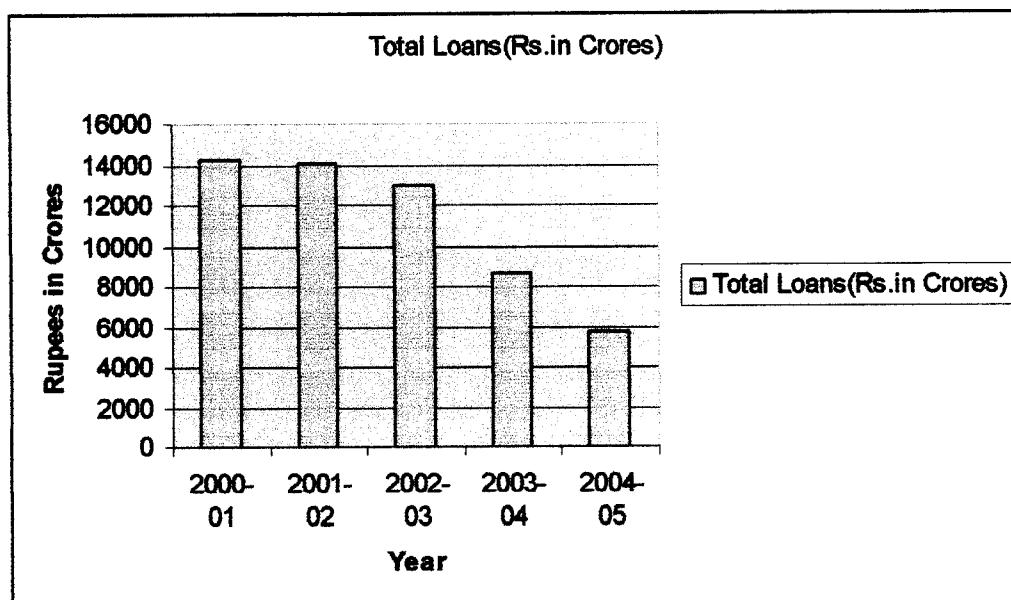


3.1.6 Total Loans from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Total Loans(Rs.in Crores)	14251	14019	12928	8690	5770

From the table, it can be seen that the Total Loans of the company is continuously decreasing from the level of Rs. 14251 crore to Rs. 5770 crore. This represents the company's efforts to either redeem or retire the debts.

3.1.6 Total Loans from the year 2001 – 2005

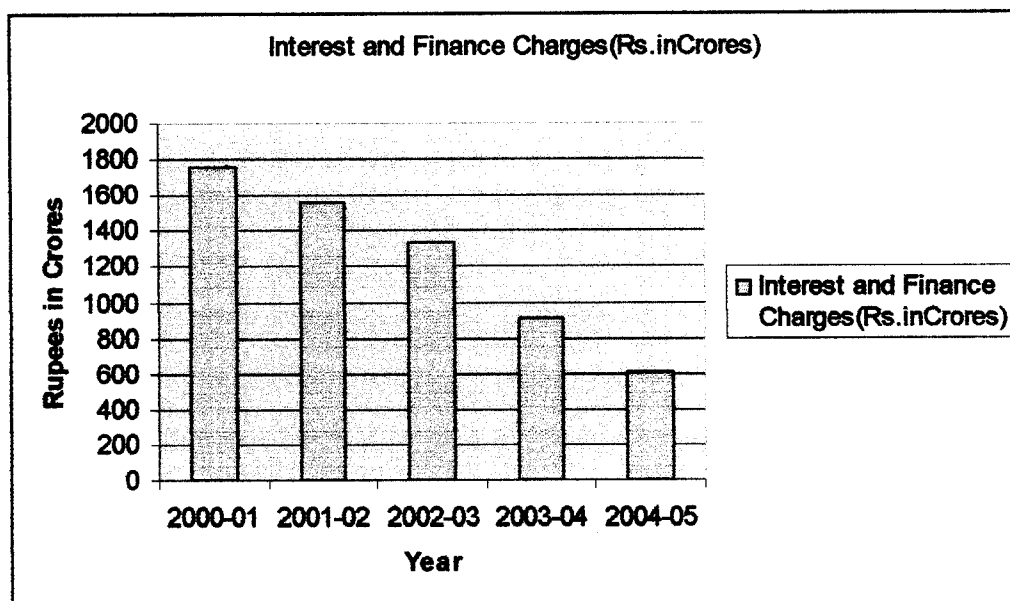


3.1.7 Interest and Finance Charges from 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Interest and Finance Charges(Rs.in Crores)	1752	1562	1334	901	605

From the table, it can be seen that the Interest and Finance Charges of the company was continuously decreasing Rs. 1752 crore to Rs. 605 crore. This is done to the action taken by the company on reducing the debt as explained in the previous table No. 3.1.6

3.1.7 Interest and Finance Charges from 2001 – 2005

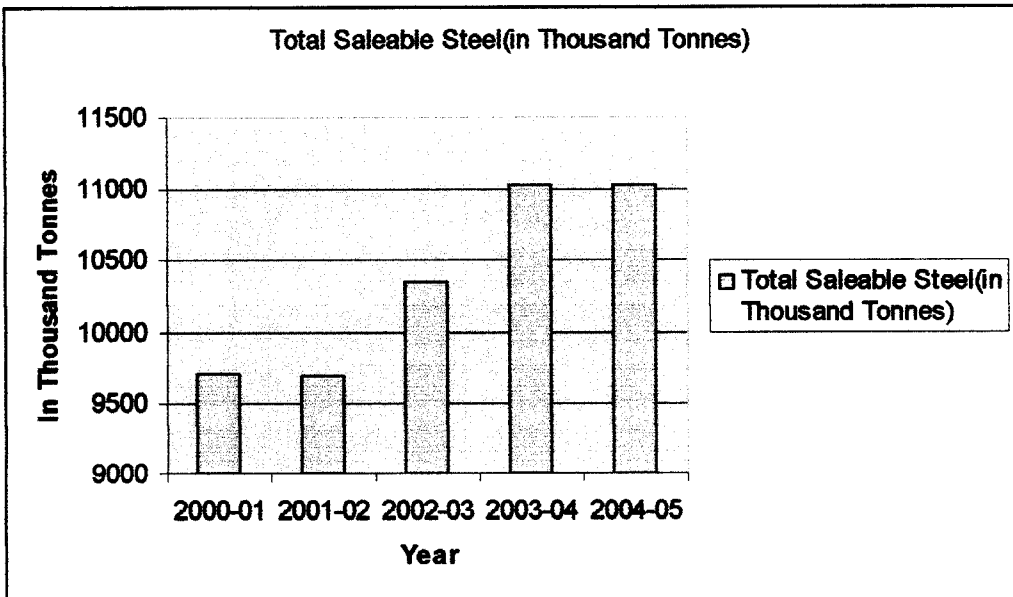


3.1.8 Total Saleable Steel Production for the year 2000-01 to 2004-05

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Total Saleable Steel(in Thousand Tonnes)	9703	9697	10352	11026	11030
Percentage Growth(%)		-0.0618	6.75	6.51	0.036

From the table, it can be seen that the Production had dropped in the year 2001-02 compared to 2000-01, and thereafter it grew at about 6.5% during 2002-03 and 2003-04 and dropped to 0.036%. This phenomena of lower production did reflect on total sales. This may be due to higher price realization of sale of goods.

3.1.8 Total Saleable Steel from the year 2001 – 2005



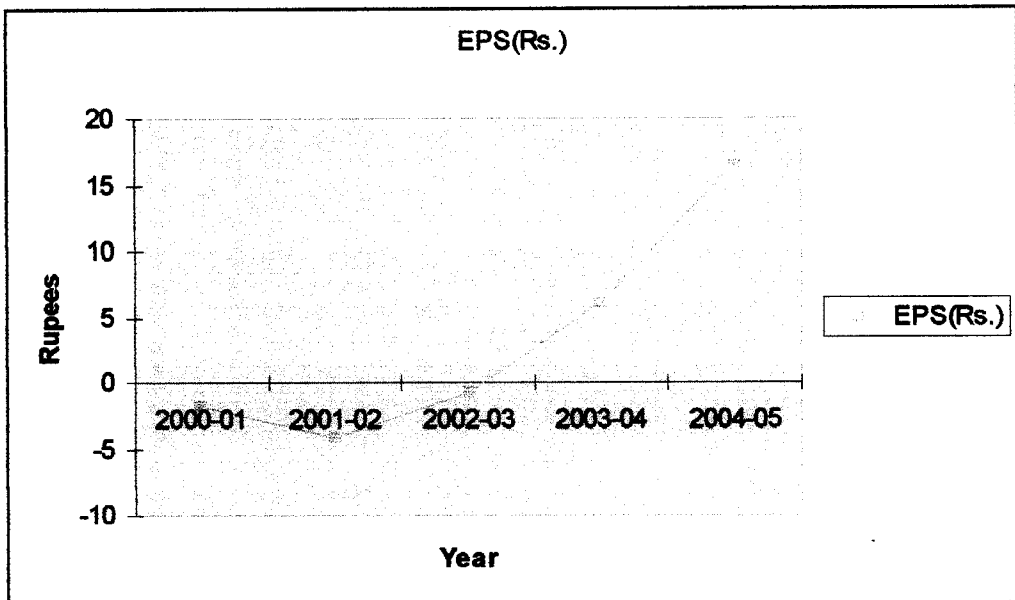
KEY RATIOS

3.1.9 Earnings per Share for the year 2000-01 to 2004-2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
EPS(Rs.)	-1.76	-4.13	-0.74	6.08	16.5

From the table, it is clear that the EPS of the company has attained the positive point only from the year 2003 – 2004 during the analysis.

3.1.9 Earnings per Share from the year 2001 - 2005

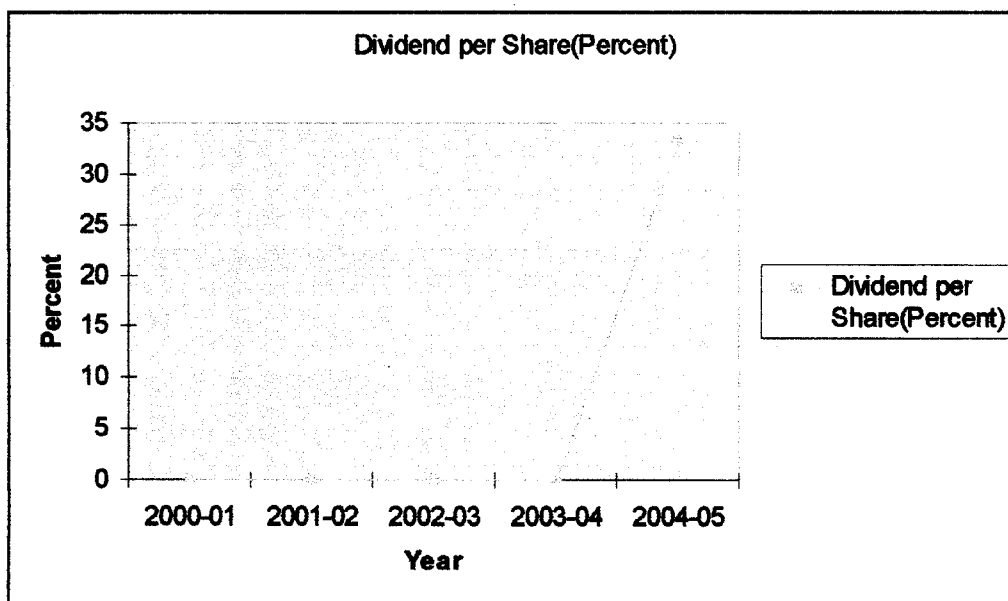


3.1.10 Dividend per share (Percent) from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Dividend per Share(percent)	0	0	0	0	33

As the company either did not earn or earned very small PAT the company has not declared dividend for the years 2000-01 to 2003-04. But for the year 2004-05 the company declared a dividend of 33% for its paid up capital.

3.1.10 Dividend per share (Percent) from the year 2001 – 2005

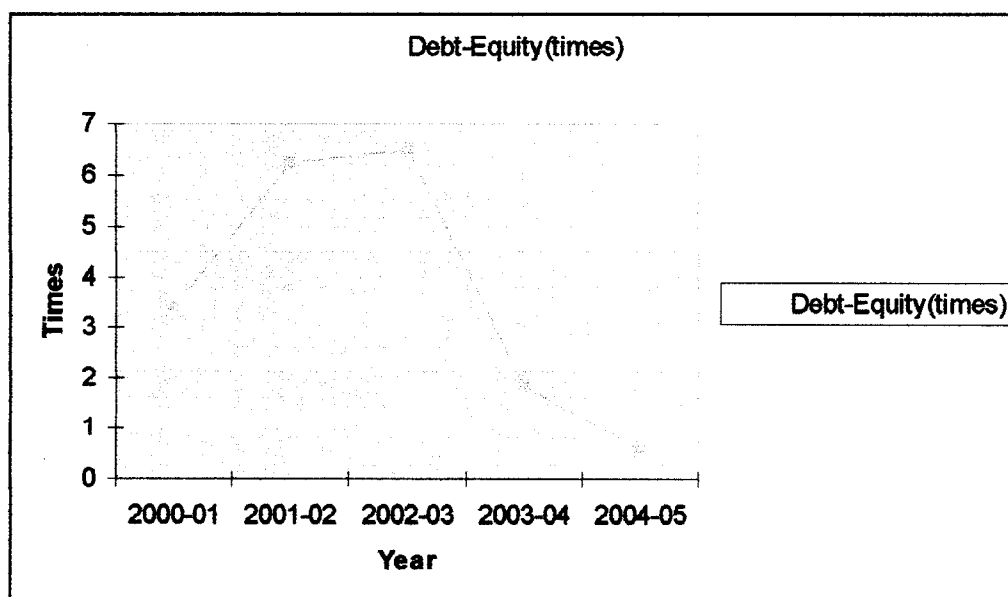


3.1.11 Debt – Equity Ratio from the 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Debt-Equity(times)	3.42	6.23	6.5	1.87	0.58

From the table, it can be seen that the Debt Equity ratio of the Company has decreased significantly during the year 2004 – 2005. This happened because of the repayment of loans and retirement of high cost debt.

3.1.11 Debt – Equity Ratio from the 2001 – 2005

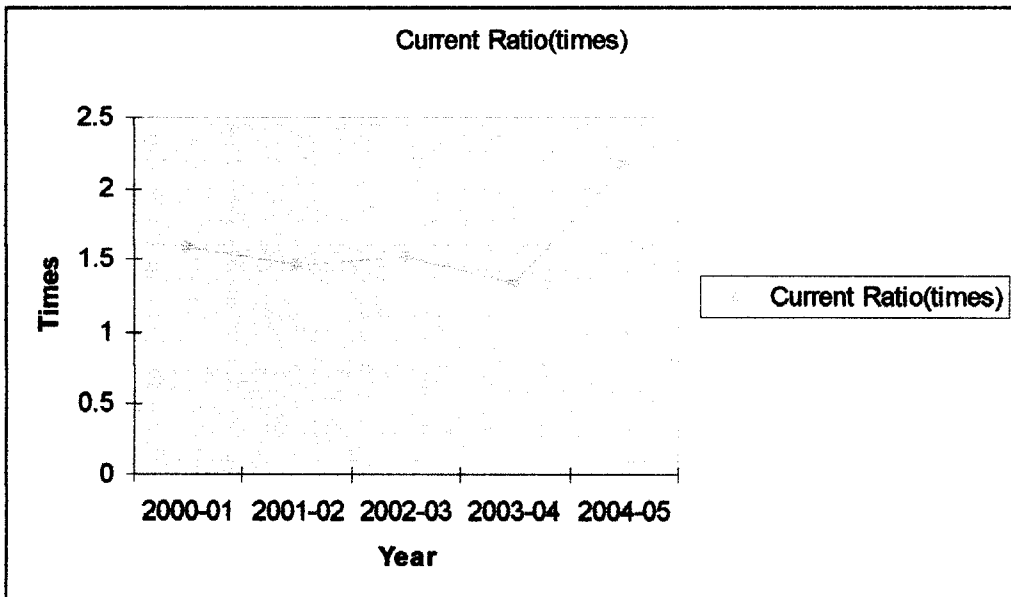


3.1.12 Current Ratio for the year 2000-01 to 2004-05

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Current Ratio(times)	1.59	1.47	1.52	1.34	2.15

From the table, it is seen that the Current Ratio has almost remained constant but for the year 2004 – 2005. This is because of decrease in liabilities which includes loans also.

3.1.12 Current Ratio from the year 2001 – 2005

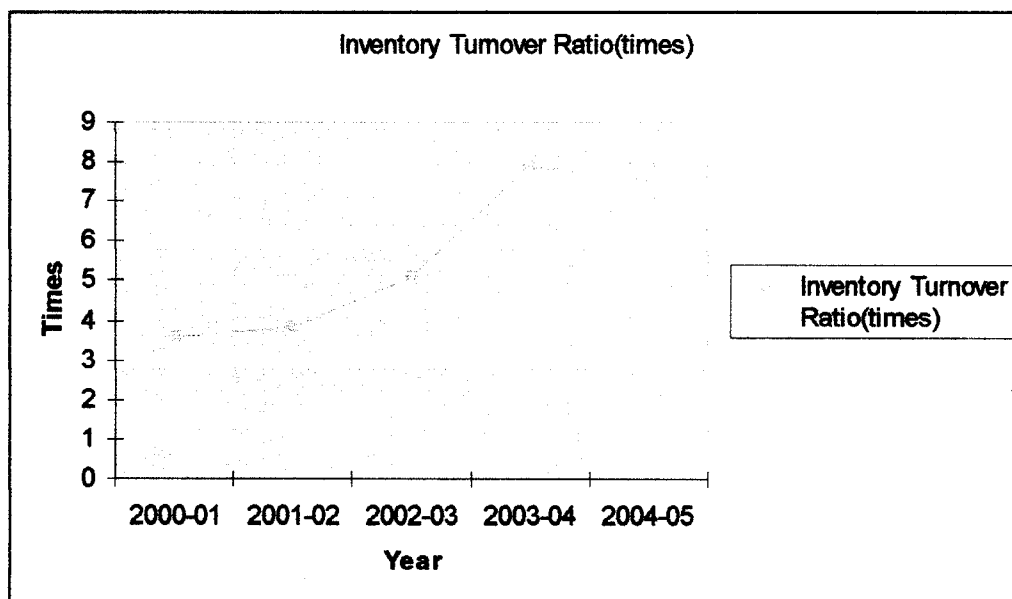


3.1.13 Inventory Turnover Ratio from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Inventory turnover ratio(times)	3.59	3.84	5.13	7.91	7.53

From the table, it is seen that the Inventory Turnover Ratio has gradually increased from 3.59 to 7.91 and marginally decreased during the year 2004 – 2005(7.53%).

3.1.13 Inventory Turnover Ratio from the year 2001 – 2005

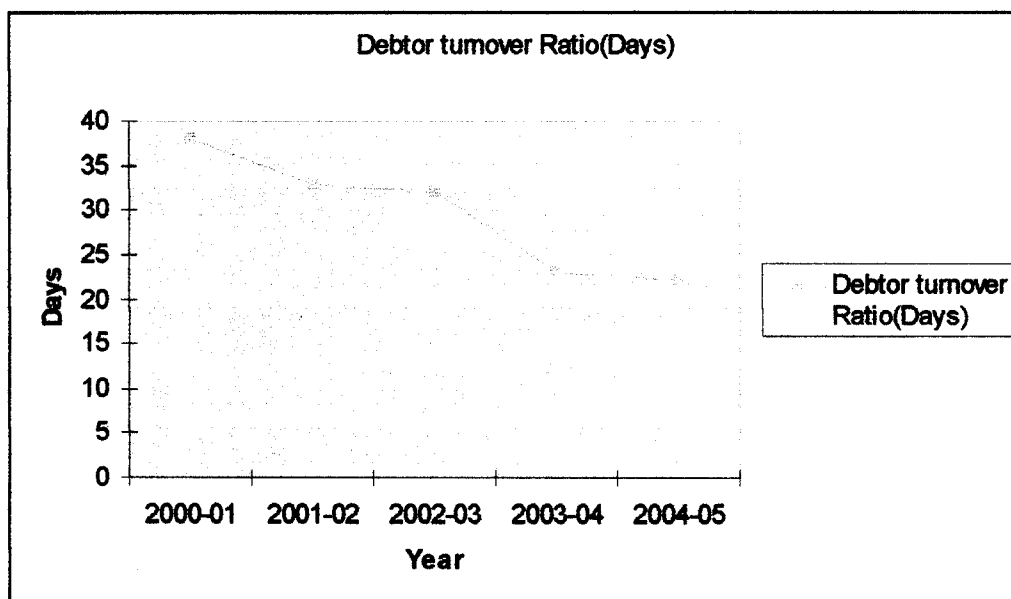


3.1.14 Debtors Turnover Ratio from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Debtors turnover ratio(days)	38	33	32	23	22

From the table, it can be seen that the Debtors Turnover Ratio is continuously decreasing from 38 to 22 over the period of study.

3.1.14 Debtors Turnover Ratio from the year 2001 – 2005

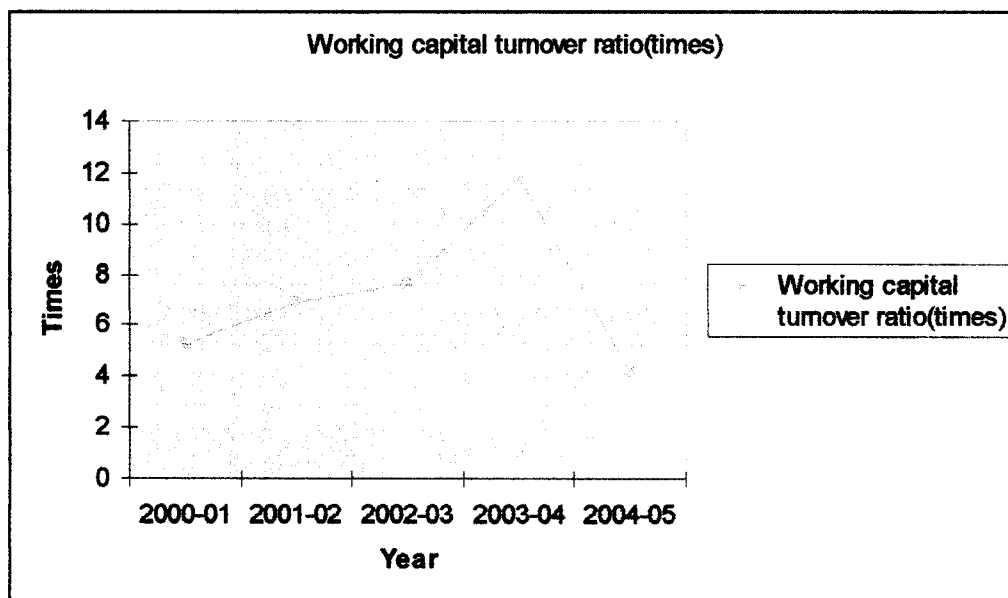


3.1.15 Working Capital Turnover Ratio from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Working Capital Turnover ratio(times)	5.26	6.87	7.67	11.79	4.2

From the table, it can be seen that the Working Capital Turnover Ratio has gradually increased for the years 2000-01 to 2003-04 and decreased drastically during the year 2004 – 2005. This was due to the decrease in debt and increase in equity.

3.1.15 Working Capital Turnover Ratio from the year 2001 – 2005

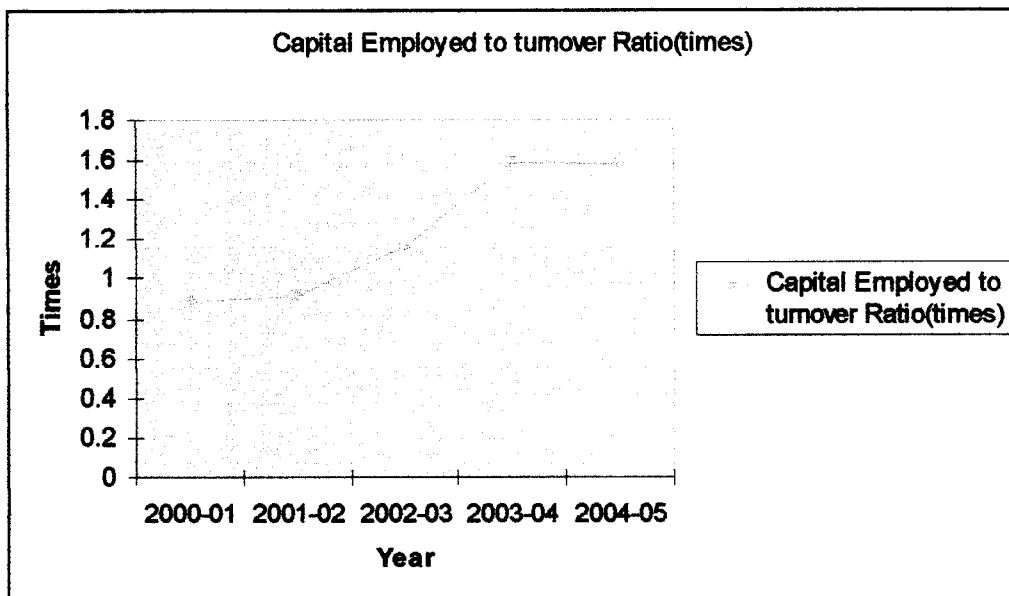


3.1.16 Capital Employed to Turnover Ratio from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Capital employed to turnover ratio(times)	0.89	0.91	1.16	1.59	1.58

From the table, it is clear that the Capital Employed to Turnover Ratio has gradually increased and attained a constant level of 1.6 during the later years of the analysis period.

3.1.16 Capital Employed to Turnover Ratio from the year 2001 – 2005

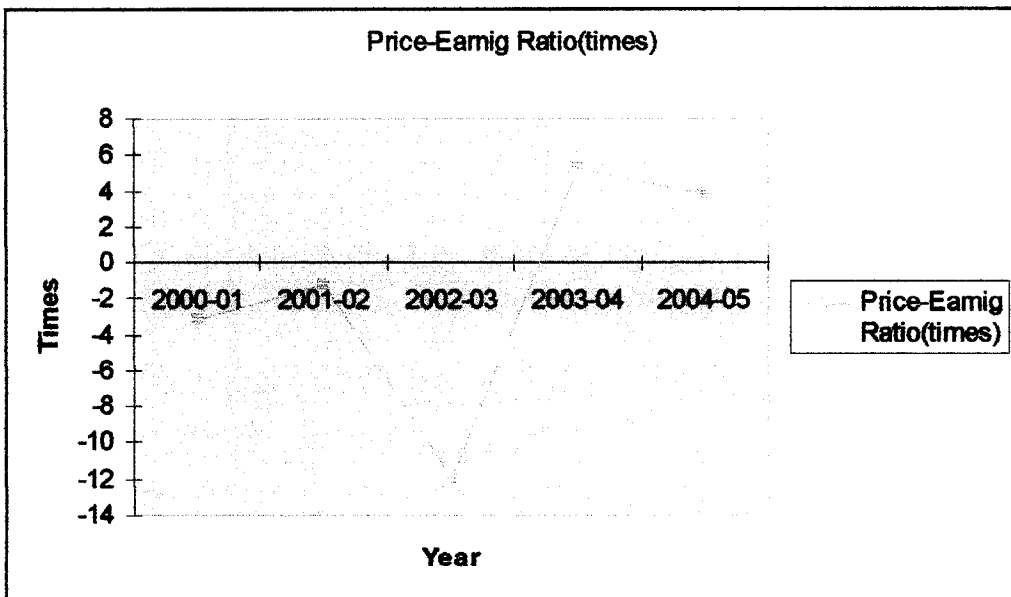


3.1.17 Price - Earning Ratio for the year 2000-01 to 2004-05

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Price-Earning Ratio(times)	-3.17	-1.19	-11.94	5.31	3.81

From the table, it is seen that the Price Earning Ratio of the company has attained the negative peak of 11.94% in the year 2002-03 and then showed a positive values for the subsequent years.

3.1.17 Price - Earning Ratio from the year 2001 – 2005

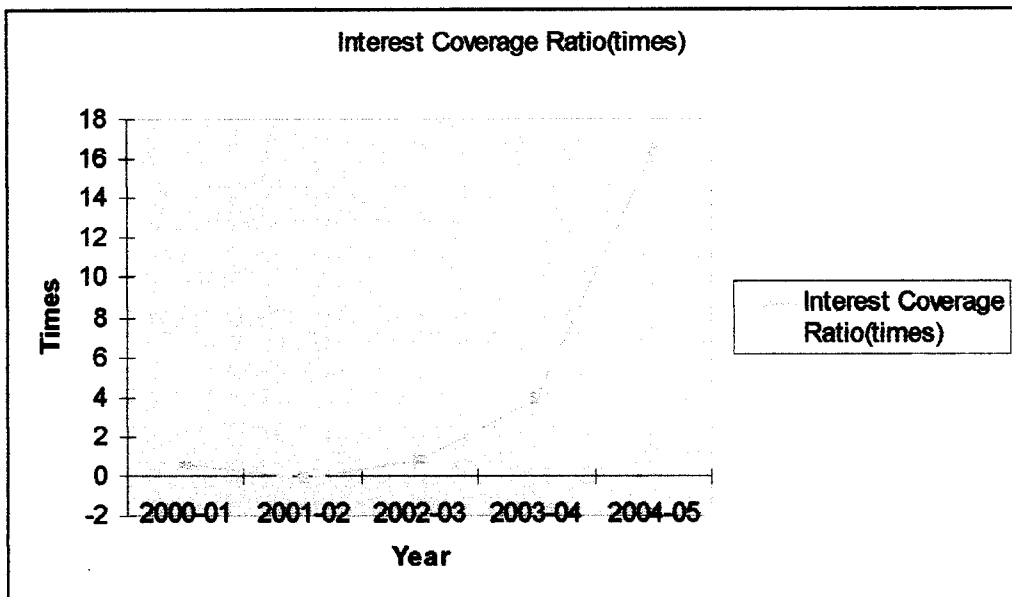


3.1.18 Interest Coverage Ratio from the year 2001 – 2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Interest Coverage Ratio(times)	0.56	-0.09	0.76	3.88	16.43

From the table, it can be seen that the Interest Coverage Ratio of the company has improved dramatically during the year 2004 – 2005. As large amount of loans have been repaid, the interest on debt to has decreased significantly. So the interest coverage ratio has increased.

3.1.18 Interest Coverage Ratio from the year 2001 – 2005



Debt Management of the company from the year 2001 to 2005

The debt management of the company is to be analysed. For this purpose the loans are classified into secured and unsecured. During the period under study the company has redeemed and retired the following loans:

Secured Loans

Interest Rate(%)	Amount(Rs. In Crores)	Repaid Year
17	281.98	2002
17	486.00	2002
16.75	274.00	2002
16	200.00	2002
14.5	50.00	2003
13.5	270.00	2003
13.75	175.55	2004
14.5	447.00	2005
14.5	224.05	2005

Unsecured Loans

Interest Rate(%)	Amount(Rs. In Crores)	Repaid Year
10	100.00	2004
10	400.00	2004
12	100.00	2005
11.1	60.00	2005
11.25	400.00	2005

Weighted average of interest for the Secured loans were worked out as:

Redeemed	15.641%
Retired	14.5%

Similarly the Weighted average of interest for Unsecured loans were worked out as:

Redeemed	10%
Retired	11.368%

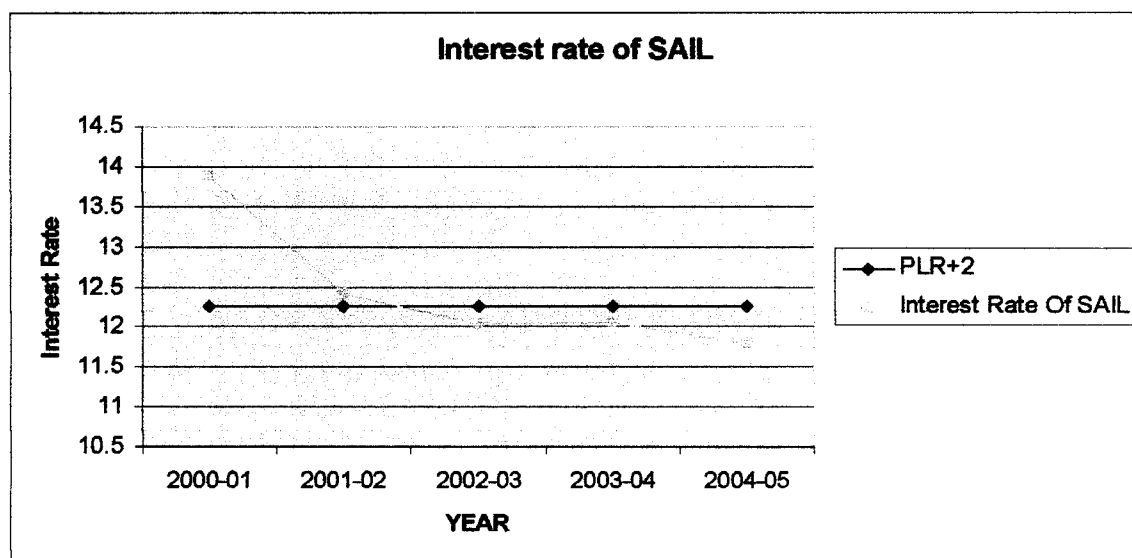
The weighted average of interest on debt for the company is shown below along with the market interest rate of SBI(PLR+2)%.

3.1.19 Interest rate of the company from the year 2001-2005

Year	2000-01	2001-02	2002-03	2003-04	2004-05
PLR+2(%)	12.25	12.25	12.25	12.25	12.25
Interest rate of the company	13.889	12.414	12.030	12.060	11.789
Difference	+1.639	+0.164	-0.22	-0.19	-0.469

From the above, it can be seen that the company was paying higher interest during the earlier years, and could reduce during the later years.

3.1.19 Interest rate of the company from the year 2001-2005



To compare the efficient debt management, the debt market rate is taken at Prime Lending Rate(PLR) of State Bank of India(SBI)+2%. The weighted average cost of debt fund have been worked out for the years 2000-01 to 2004-05. The results are given in the following table along with the investment variation of interest.[weighted average cost of debt-(PLR+2)].

During the period under study the lending rate in the economy has not significantly changed because the PLR of SBI remained at 10.25%. However, the company had availed debt funds at higher cost during earlier years. During the year 2000-01 the weighted average cost of debt for the company works out to be 13.889%; which shows the company was paying 1.639% higher cost of debt than the debt cost prevailing in the economy. However, the company had tried to reduce the weighted average cost of debt, it could achieve this only during the year 2002-03 and there after. The pecuniary loss for the company by way of not availing the opportunity of low interest bearing debt for the period 2000-01 and 2001-02 works out to be Rs.78.356 crores and Rs.7.282 crores respectively.

Simultaneously, the company gained in savings of interest during the year 2002-03, 2003-04 and 2004-05 Rs.10.874 crores, Rs.8.214 crores and Rs.13.917 crores respectively. In ultimate analysis the company has incurred a loss of Rs.52.633 crores on debt management.

4 FINDINGS AND CONCLUSION

4.1 FINDINGS

- The interest rate of the company found to be constantly decreasing from 13.889% to 11.789%.
- This indicates that the company could raise funds from debt at cheaper rates.
- The pecuniary loss for the company by way of not availing the opportunity of low interest bearing debt for the period 2000-01 and 2001-02 works out to be Rs.78.356 crores and Rs.7.282 crores respectively.
- Simultaneously, the company gained in savings on interest during the years 2002-03, 2003-04 and 2004-05 Rs.10.874 crores, Rs.8.214 crores and Rs.13.917 crores respectively.
- In ultimate analysis the company has incurred a loss of Rs.52.633 crores.
- The company has mainly concentrated in reducing the use of working capital rather than retiring loans.

4.2 SUGGESTIONS AND CONCLUSION

Debt is an important source of fund for any business. An organization must raise the debt so that it can avail 'Tax shield'. Debt is comparatively a cheap source of fund. But it is to be availed at the cheapest cost prevailing in the market.

- The company's interest rate is constantly decreasing which was showing the efficient performance on debt management.
- The interest burden of the company is higher than the Prime Lending Rate(PLR) prevailing in the economy. So, it should try to retire some of the existing debt funds and avail other sources of low cost funds. There is still scope for reducing the interest burden on debt.

APPENDIX

Balance Sheet AS AT 31ST MARCH, 2004

	Schedule No.				
SOURCES OF FUNDS					
Shareholders' Fund					
Share Capital	1.1	4130.48		4130.48	
Reserves and Surplus	1.2	697.77	697.77	697.77	697.77
Loan Funds					
Secured Loans	1.3	6976.48		6976.48	
Unsecured Loans	1.4	5310.28	8688.76	746.35	2827.94
			<u>13726.43</u>		<u>38218.11</u>
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	1.5	27712.71		27584.61	
Less: Depreciation		14558.86		13498.75	
Net Block		13153.85		14035.86	
Capital Work-in-Progress	1.6	382.20	13536.05	361.25	14397.11
Investments	1.7		543.17		543.17
Current Assets, Loans & Advances					
Inventories	1.8	3081.44		3744.37	
Sundry Debtors	1.9	1549.96		1660.09	
Cash & Bank Balances	1.10	2017.16		512.91	
Interest Receivable/Accrued	1.11	86.18		90.59	
Loans & Advances					
Subsidiary Companies	1.12	171.05		8.30	
Others	1.13	1295.54		1274.44	
		<u>8201.33</u>		<u>7290.70</u>	
Less: Current Liabilities & Provisions					
Current Liabilities	1.14	4406.00		4492.71	
Provisions	1.15	4526.62		2821.40	
		<u>8932.62</u>		<u>7314.11</u>	
Net Current Assets			-731.29		-23.41
Miscellaneous Expenditure	1.16		378.50		536.31
(to the extent not written off or adjusted)					
Profit & Loss Account Debit Balance					2764.93
			<u>13726.43</u>		<u>18218.11</u>
Accounting Policies and Notes on Accounts	3				
Schedules 1 and 3 annexed, hereto form part of the Balance Sheet.					

For and on behalf of Board of Directors

Sd/-
(Devinder Kumar)
Secretary

Sd/-
(G.C. Daga)
Director (Finance)

Sd/-
(V.S. Jain)
Chairman

In terms of our report of even date

For Chaturvedi & Co.
Chartered Accountants

For P.A. & Associates
Chartered Accountants

For S.K. Mittal & Co.
Chartered Accountants

Sd/-
(Shalini Chaturvedi)
Partner

Sd/-
(P.S. Panda)
Partner

Sd/-
(S.K. Mittal)
Partner

Place : New Delhi

Dated : May 28, 2004

Balance Sheet

AS AT 31ST MARCH, 2002

	Schedule No.	As at 31st March, 2002		As at 31st March, 2001	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1.1	4130.40		4130.40	
Reserves and Surplus	1.2	1159.97	5290.37	1160.21	5290.61
Loan Funds					
Secured Loans	1.3	7051.38		7961.02	
Unsecured Loans	1.4	6960.25	14011.63	6289.66	14250.68
			<u>19302.00</u>		<u>19541.29</u>
APPLICATION OF FUNDS					
Fixed Assets	1.5				
Gross Block		27198.88		26915.59	
Less: Depreciation		12400.73		11738.19	
Net Block		14798.15		15177.40	
Capital Work-in-Progress	1.6	555.94	15354.09	1220.59	16397.99
Investments	1.7		538.62		435.30
Current Assets, Loans & Advances					
Inventories	1.8	4041.83		4518.99	
Sundry Debtors	1.9	1389.41		1687.59	
Cash & Bank Balances	1.10	416.37		667.43	
Interest Receivable/Accrued	1.11	93.52		174.69	
Loans & Advances					
Subsidiary Company	1.12	23.37		14.31	
Others	1.13	1165.42		1313.01	
		<u>7129.92</u>		<u>8376.02</u>	
Less: Current Liabilities & Provisions					
Current Liabilities	1.14	4653.58		4838.66	
Provisions	1.15	2105.32		1955.08	
		<u>6758.90</u>		<u>6793.74</u>	
Net Current Assets			371.02		1582.28
Miscellaneous Expenditure	1.16		577.65		371.99
(to the extent not written off or adjusted)					
Profit & Loss Account Debit Balance			<u>2460.62</u>		<u>753.73</u>
			<u>19302.00</u>		<u>19541.29</u>

Accounting Policies and Notes on Accounts

3

Schedules 1 and 3 annexed hereto, form part of the Balance Sheet.

For and on behalf of Board of Directors

Sd/-
(Devinder Kumar)
Secretary

Sd/-
(V.S. Jain)
Director (Finance)

Sd/-
(Arvind Pande)
Chairman

In terms of our report of even date
For and on behalf of

S.R. Batliboi & Co.
Chartered Accountants
Sd/-
(R.K. Agrawal)
Partner

S.N. Nanda & Co.
Chartered Accountants
Sd/-
(S.N. Nanda)
Partner

Chaturvedi & Co.
Chartered Accountants
Sd/-
(S.C. Chaturvedi)

Balance Sheet

AS AT 31ST MARCH, 2005

	Schedule No.	As at 31st March, 2005		As at 31st March, 2004	
(Rupees in crores)					
SOURCES OF FUNDS					
Shareholders' Fund					
Share Capital	1.1	4130.40		4130.40	
Reserves and Surplus	1.2	6176.25	10306.65	907.27	5037.67
Deferred Tax Liability (Net)			1844.31		—
Loan Funds					
Secured Loans	1.3	1603.98		3400.78	
Unsecured Loans	1.4	4165.81	5769.79	5289.28	8690.06
			17920.75		13727.73
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	1.5	28043.48		27683.63	
Less: Depreciation		15558.41		14515.73	
Net Block		12485.07		13167.90	
Capital Work-in-Progress	1.6	366.48	12851.55	382.20	13550.10
Investments	1.7		606.71		543.17
Current Assets, Loans & Advances					
Inventories	1.8	4220.69		3057.06	
Sundry Debtors	1.9	1908.45		1549.96	
Cash & Bank Balances	1.10	6132.12		2035.82	
Interest Receivable/Accrued	1.11	142.18		86.18	
Loans & Advances					
Subsidiary Companies	1.12	146.20		171.05	
Others	1.13	1783.99		1346.13	
		14333.63		8246.20	
Less: Current Liabilities & Provisions					
Current Liabilities	1.14	4778.92		4412.32	
Provisions	1.15	5387.15		4577.92	
		10166.07		8990.24	
Net Current Assets			4167.56		-744.04
Miscellaneous Expenditure	1.16		294.93		378.50
to the extent not written off or adjusted)					
			17920.75		13727.73

Significant Accounting Policies and Notes on Accounts 3
Schedules 1 and 3 annexed, hereto, form part of the Balance Sheet.

For and on behalf of Board of Directors

Sd/-
(Devinder Kumar)
Secretary

Sd/-
(G.C. Daga)
Director (Finance)

Sd/-
(V.S. Jain)
Chairman

In terms of our report of even date

For P.A. & Associates
Chartered Accountants

For S.K. Mittal & Co.
Chartered Accountants

For Ray & Ray
Chartered Accountants

Sd/-
(P.S. Panda)
Partner

Sd/-
(S.K. Mittal)
Partner

Sd/-
(R.N. Roy)
Partner

1.3 : SECURED LOANS

	As at 31st March, 2004	As at 31st March, 2003
		(Rupees in crores)
Working Capital Borrowings from Banks (Including Foreign Currency, Non-Resident (Bank) Loan of Rs. 108.92 crores) (Previous Year Rs. 1175.78 crores)	1223.43	2694.62
Rupee term Loan from Banks	—	516.25
Foreign Currency Loans	—	—
Non Convertible Bonds	331.65	357.97
Interest Rate	Date of Redemption	
13.75%	1st July 2003	—
14.5%	21st May 2004	175.55
14.0%	1st July 2005	447.00
14.5%	1st April 2006	394.45
12.95%	1st December 2007	224.05
11.30%	1st June 2008	226.90
11.60%	1st June 2008	100.05
7.80%	1st September 2008 *	7.25
11.10%	1st December 2008 *	33.95
11.50%	1st December 2008 *	0.15
11.10%	20th July 2009 *	6.50
11.50%	20th July 2009 *	0.30
9.75%	1st February 2010 *	0.50
10.25%	1st February 2010 *	48.65
8%	1st September 2010 *	0.10
13.05%	1st December 2010	88.35
12.10%	1st June 2011	0.70
12%	1st December 2011 *	59.80
12%	20th July 2012 *	91.30
10.75%	1st February 2013 *	76.90
8.20%	1st September 2013 *	109.90
		75.30
		58.20
		1823.40
		3378.48
		1942.75
		5511.99

(a) Secured by hypothecation of Company's inventories, book debts and other current assets.

(b) Secured by hypothecation of all movable machinery pertaining to modernization Stage-I at Bokaro Steel Plant.

(c) Secured by charges ranking pari-passu inter se, on all the present and future immovable assets, except for Bonds carrying interest rate of 14.5% for value of Rs. 447 crores and maturing on 21st May, 2004 which are secured on movable and immovable property at Mouje-Wadej of City Taluka, Distt. Ahmedabad, Gujarat and Company's Plant & Machinery including the land on which it stands, pertaining to Durgapur Steel Plant.

* Additional Security is yet to be created in respect of DSP properties.

Note : Secured Loans repayable within one year as at 31.03.2004—Rs.447.00 crore (Previous year : Rs. 328.90 crore)

1.4 : UNSECURED LOANS

	As at 31st March, 2004	As at 31st March, 2003
		(Rupees in crores)
Public Deposits	581.39	1021.28
Government of India	0.27	0.27
Interest accrued and due thereon	0.50	0.42
Steel Development Fund	204.16	204.16
Interest accrued and due thereon	675.27	539.85
Foreign Currency Loans	974.33	1475.03
Long term (Guaranteed by Govt. of India/State Bank of India Rs.723.50 crores (Previous Year Rs. 864.79 crores))	374.36	1348.69
Short Term	—	444.16
Term Loans From Banks	—	500.00
Non Convertible Bonds @ @		
Interest Rate	Date of Redemption	
10%	18 th September, 2003	—
10%	24th September, 2003	100.00
12%	1st February, 2007	400.00
12.15%	1st February, 2007	60.00
11.10%	30th March, 2007	99.00
11.25%	30th March, 2007	400.00
11.10%	15th April, 2007	50.00
10.25%	3rd June, 2007	500.00
12.15%	1st September, 2007	152.35
11.30%	12th March, 2008	105.00
11.60%	12th March, 2008	15.00
10.10%	1st August, 2008	35.00
10.50%	1st August, 2008	35.00
11.50%	30th March, 2010	43.50
11.50%	15th April, 2010	21.00
12.45%	1st September, 2010	38.15
12.55%	1st September, 2010	39.40
12.65%	1st September, 2010	96.60
12.10%	12th March, 2011	195.00
11%	1st August, 2011	115.00
		2500.00
Others		
Inter Corporate Loans - Short term	—	6.18
Housing Finance Loans	—	225.00
	—	231.18

: SECURED LOANS

	As at 31st March, 2002	As at 31st March, 2001
Working Capital Borrowings from Banks * including Foreign Currency Non - Resident (Bank) of Rs.661.74 crores (Previous Year Rs.473.17crores)	4026.65	3546.86
Short Term Loan from banks / Financial Institution#	718.33	1097.50
Foreign Loans#	366.45	350.92
Convertible Bonds@		
Interest Rate Face value of Bond (Rs.) Date of Redemption		
0% 100,000/- 1st April 2001	—	281.98 ✓
6% 100,000/- 5th August 2001	—	486.00 ✓
5% 100,000/- 1st November 2001	—	274.00 ✓
0% 100,000/- 1st Dec. 2002	270.00	270.00 ✓
0% 100,000/- 14th Jan 2002	—	200.00 ✓
5% 500,000/- 1st July 2003	175.55	175.55 ✓
0% 100,000/- 21st May 2004	497.00	497.00 ✓
0% 500,000/- 1st July 2005	394.45	394.45 ✓
0% 500,000/- 1st April 2006	226.90	226.90 ✓
5% 500,000/- 1st December 2007	100.05	100.05 ✓
0% 500,000/- 1st June 2008	7.25	—
0% 500,000/- 1st June 2008	33.95	—
0% 500,000/- 1st December 2008	6.50	—
0% 500,000/- 1st December 2008	0.30	—
5% 500,000/- 1st December 2010	59.80	59.80 ✓
0% 500,000/- 1st June 2011	91.30	—
0% 500,000/- 1st December 2011	76.90	—
	1939.95	2965.73
Karnataka Housing Board	—	0.01
	7051.38	7961.02

Secured by hypothecation of Company's inventories, book debts and other current assets.

Secured by hypothecation of all tangible movable machinery at Bokaro Steel Plant Rs. 366.45 crores, Sinter Plant III of Bhilai Steel Plant Rs.205.83 crores and selective units of Rourkela Steel Plants Rs.325 crores, all movable plant and machinery at Durgapur Steel Plant Rs.150 crores and current assets of the company Rs. 37.50 crores.

Secured by charges ranking pari-passu inter se, on all the present and future immovable and movable assets except for Bonds of face value of Rs. 5,00,000/= each which are secured on immovable property only at Mouje - wadej of city Taluka, District Ahmedabad, Gujarat and company's plant and machinery including the land on which it stands, pertaining to Durgapur Steel Plant.

: UNSECURED LOANS

	As at 31st March, 2002	As at 31st March, 2001
Public Deposits		
Interest accrued and due thereon	1272.46	1337.16
Government of India	2.60	2.78
Interest accrued and due thereon	0.27	0.27
Development Fund	0.35	0.28
Interest accrued and due thereon	204.16	204.16
Foreign Loans	454.41	317.24
Short Term	1548.37	1742.03
(Guaranteed by Govt. of India / State Bank of India Rs.913.22 crores (Previous Year Rs.1041.32 crores)		
Short Term Loans from Banks	544.03	331.29
Loans From Financial Institution	150.00	300.00
Convertible Bonds@		
Interest Rate Face value of Bond (Rs.) Date of Redemption		
0% 500,000/- 18th September, 2003	100.00	—
0% 500,000/- 24th September, 2003	400.00	—
5% 500,000/- 1st February, 2007	100.00	100.00 ✓
0% 500,000/- 1st February, 2007	400.00	400.00 ✓
5% 500,000/- 30th March, 2007	60.00	60.00 ✓
5% 500,000/- 30th March, 2007	99.00	99.00 ✓
0% 500,000/- 15th April, 2007	400.00	400.00 ✓
0% 500,000/- 15th April, 2007	50.00	50.00 ✓
5% 500,000/- 1st September, 2007	152.35	152.35 ✓
0% 500,000/- 12th March, 2008	105.00	105.00 ✓
0% 500,000/- 12th March, 2008	15.00	15.00 ✓
0% 500,000/- 1st August, 2008	35.00	—
0% 500,000/- 1st August, 2008	35.00	—
0% 500,000/- 30th March, 2010	43.50	43.50 ✓
5% 500,000/- 15th April, 2010	21.00	21.00 ✓
5% 500,000/- 1st September, 2010	38.15	38.15 ✓
5% 500,000/- 1st September, 2010	39.40	39.40 ✓
5% 500,000/- 1st September, 2010	96.60	96.60 ✓
0% 500,000/- 12th March, 2011	195.00	195.00 ✓
0% 500,000/- 1st August, 2011	115.00	—
Application Money	2500.00	1815.00
Finance Loans	83.60	39.45
	200.00	200.00
	6960.25	6289.66

Guaranteed by Government of India

Schedules

FORMING PART OF THE BALANCE SHEET

SECURED LOANS

		As at 31st March, 2005	As at 31st March, 2004
<i>(Rupees in crores)</i>			
Long Term Capital Borrowings from Banks		100.78	1224.73
Long Term Foreign currency demand loans			
27.49 crores (Previous Year Rs. 1068.92 crores)	(a)		
Long Term Currency Loans	(b)	329.85	331.65
Convertible Bonds	(c)		
Interest Rate	Date of Redemption		
%	21st May 2004	—	447.00
%	1st July 2005	394.45	394.45
%	1st April 2006	—	224.05
%	1st December 2007	100.05	100.05
%	1st June 2008	7.25	7.25
%	1st June 2008	33.95	33.95
%	1st September 2008	0.15	0.15
%	1st December 2008	6.50	6.50
%	1st December 2008	0.30	0.30
%	20th July 2009	0.50	0.50
%	20th July 2009	48.65	48.65
%	1st February 2010	0.10	0.10
%	1st February 2010	88.35	88.35
%	15th April 2010	21.00	21.00
%	1st September 2010	0.70	0.70
%	1st December 2010	59.80	59.80
%	1st June 2011	91.30	91.30
%	1st December 2011	76.90	76.90
%	20th July 2012	109.90	109.90
%	1st February 2013	75.30	75.30
%	1st September 2013	58.20	58.20
		<u>1173.35</u>	<u>1844.40</u>
		<u>1603.98</u>	<u>3400.78</u>

Secured by hypothecation of Company's inventories, book debts and other current assets.

Secured by hypothecation of all movable machinery pertaining to modernization Stage-I at Bokaro Steel Plant.

Secured by charges ranking pari-passu inter-se, on all the present and future immovable assets at Mouje-Wadej of City taluka, Distt. Ahmedabad, Gujarat and Company's Plant & Machinery, including the land on which it stands, pertaining to Durgapur Steel Plant.

Secured on 1.4.2004 at par by exercising call option.

Secured Bonds earlier guaranteed by Govt of India, have since been converted into Secured Bonds, for which additional security is yet to be created over DSP properties

Secured Loans repayable within one year as at 31.03.2005, Rs.724.30 crore (31.03.2004 : Rs. 447.00 crore)

UNSECURED LOANS

		As at 31st March, 2005	As at 31st March, 2004
<i>(Rupees in crores)</i>			
Deposits		217.10	581.39
Government of India			
Amount accrued and due thereon	0.27		0.27
Development Fund	0.58	0.85	0.77
Amount accrued and due thereon	204.16		204.16
	810.10	1014.26	675.27
Long Term Currency Loans			
Term			
Guaranteed by Govt. of India/State Bank of India	744.57		974.33
19.96 crores (31.03.2004 Rs.723.50 crores)			
Term	395.03	1139.60	374.36
Convertible Bonds @ @			
Interest Rate	Date of Redemption		
%	1st February 2007	— \$	100.00
%	1st February 2007	325.00 *	400.00
%	30th March 2007	— \$	60.00
%	30th March 2007	99.00	99.00
%	15th April 2007	— *	400.00
%	15th April 2007	50.00	50.00
%	3rd June 2007	450.00 *	500.00
%	1st September 2007	152.35	152.35
%	12th March 2008	105.00	105.00
%	12th March 2008	15.00	15.00
%	1st August 2008	35.00	35.00
%	1st August 2008	35.00	35.00
%	30th March 2010	43.50	43.50
%	1st September 2010	38.15	38.15
%	1st September 2010	—	—

BIBLIOGRAPHY

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- 'MANAGEMENT ACCOUNTING' by S.N.Maheswari