Measuring the Financial Performance of Jordan Steel Since 2007

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Abstract: Financial performance of a company defines competitiveness, potentials of the business, and economic interests of the company's management and reliability of present or future contracts. It is important for management, shareholders, the public (customers of the bank), the regulator (the government), the financial sector, and the economy as a whole. It provides signal to depositors and investors whether to withdraw or invest funds. The present research has been undertaken to measure the financial performance of Jordan Steel since 2007. The results highlighted that the financial performance of Jordan Steel was satisfactory during initial years of the study but deteriorated in later years and hence requisite steps should be taken to improve its performance.
Keywords: performance, liquidity, solvency, profitability, regression

INTRODUCTORY BACKGROUND

The word "Performance" is used to mean the efforts extended to achieve the targets effectively and efficiently. The dictionary meaning of performance refers to "achievement". The achievement of targets involves the integrated use of human, financial and natural resources. Performance directly reflects the disposition and utilization of the resources [1]. The measurement of financial performance means to compare the actual performance with targets fixed, identifies causes of significant variations, and devises corrective actions. It is done to examine whether the business operations would be safe, profitable, and appropriate [2]. It is known that medical authorities generally advise every individual to have a periodical checkup and examination of his body in the interest of good health. Similarly, every organization measures its financial performance in the interest of good operating results.

Financial performance of a company defines competitiveness, potentials of the business, and economic interests of the company's management and reliability of present or future contracts. Therefore, financial performance analysis has its contribution to the management, shareholders, the public (customers of the bank), the regulator (the government), the financial sector, and the economy as a whole [3]. Besides, the analysis of financial performance provides signal to depositors and investors whether to withdraw or invest funds and flashes direction to managers whether to improve its deposit service or loan service or both.

Financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and the profit and loss account [4]. It provides information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Owners and managers require financial statements to make important business decisions that affect its continued operations. It provides management with a more detailed understanding of the figures [5]. Financial ratios are the simplest tools for evaluating the financial performance of the firm. One can employ financial ratios to determine a firm's liquidity, profitability, solvency, and capital structure and assets turnover. This study examines the financial performance of Jordan Steel with the help of financial ratios.

Statement of the Problem

Steel is considered as the backbone of human civilization. Steel is considered as an important indicator of the level of socio-economic development and living standards of the people in the country. The steel industry is facing new challenges with respect to capital investment, lack of technology, low productivity, shortage of metallurgical coal, inferior quality of products, inefficiency, poor labour relations, inefficient management, and so on. This hinders proper functioning of the steel plants especially with increasing competition and limited resources in the present world of liberalized economy. The survival, growth and organizational success of an enterprise depend on the efficient management of its finance. Therefore, the

present study has been undertaken to highlight the importance of an efficient financial management in Jordan Steel. Analysis of financial statement highlights the strength and weaknesses of the company. This information can be used by management to improve performances and to predict future results.

Need of the Study

Steel industry in a country provides the basis for its economic development. Steel is an indispensable requirement for various infrastructural developments in Jordan. The present study aims to evaluate the financial performance of Jordan Steel, which is one of Jordan's largest steel producing company. The research is expected to help the management of the company, the financiers, the potential investors, and the government at large, to take important decisions and also provide insight to banks, financial institutions and long-term lenders of the company.

LITERATURE REVIEW

Singh [25] in the paper, *"Financial Appraisal of IDBI Bank Ltd."* examined the liquidity position of IDBI Bank since 1997 to 2001. The author has applied various statistical tools like t-test and correlation to test the hypothesis. The study gave the conclusion that the financial position of the bank in the last five years remained satisfactory. Sensarma [6] examined all scheduled commercial banks in India. The period of the study was from 1986 to 2003. The study found that the performance of domestic banks is better than foreign banks. Chowdhury and Amin [7] elucidate that the profitability of a firm largely depends upon the manner of its working capital management. The inefficiency in managing working capital reduces the profitability and therefore adequate working capital is sine qua non for a business concern. The excessive working capital can result in idle funds which could be used for earning profit while the inadequate working capital will interrupt the operations and will also impairs profitability. Kumar and Selvi [8] in the study makes an attempt to find the relevance of Stem and Stewart's claim and the hypothesis that MVA of the firm is largely positive associated with its EVA generating capacity in Indian context. The study also showed the temperament of association between MVA and other selected traditional financial variables like Earning per Share (EPS), Return On Capital Employed (ROCE), Net Operating Profit After Tax (NOPAT) and Return On Net Worth (RONW). The result of the study revealed that supporting Stem and Stewart's claim positively associates the relationship between MVA and EVA. Further, the results revealed ROCE as the most significant related variable with MVA followed by EPS and EVA. The study concludes that EVA and MVA itself positions in an appearance as the most outstanding factors in the definitive analysis as having a decisive on a firm's value. Sami & Khan [9] in their research paper entitled, *"Financial Performance Appraisal of Paper Industry in India: A Study of Selected Paper Mills"*

analyzed the financial performance of two paper industries namely Ballarpur Industries Limited (BILT) and Tamil Nadu Newsprint and Papers Limited (TNPL). The authors firstly provide an introductory background of the selected paper companies and then calculated gross profit ratios, net profit ratios, current ratios, quick ratios and debt equity ratios with the help of annual reports of the industries. Further, they applied independent sample t-test to test the hypothesis. The results exhibits that there is a significant difference in gross profit, net profit, current ratios, quick ratios and debt equity ratios in BILT and TNPL. Khan [10] analyzed the profitability of four textile companies in India. It has been revealed that significant difference exists in selected textile companies with respect to gross profit ratio, net profit ratio, operating profit ratio, return on capital employed, and return on shareholder's fund. Khan & Dalayeen [11] in their research paper investigated the financial performance of major Indian cement companies. UltraTech Cement, Shree Cement, Ambuja Cements Limited, Associate Cement Companies Limited (ACC), and Ramco Cements were the cement companies that have been selected by the authors. The data was collected from the annual reports of the cement companies since 2005-06 to 2014-15 and analyzed by applying one way ANOVA as the statistical tool. The analysis of the data shows that there is a significant difference in selected cement companies in India with respect to gross profit ratios, net profit ratios, current ratios, quick ratios, and debt equity ratios.

OBJECTIVE OF THE STUDY

The objective of the study is to measure the impact of liquidity, solvency, and management efficiency on the profitability of Jordan Steel.

Hypotheses of the Study

H_{01}: There is no significant impact of current ratio (component of liquidity) on Return on Capital Employed.

H_{a1}: There is a significant impact of current ratio (component of liquidity) on Return on Capital Employed.

H_{02}: There is no significant impact of debt to equity ratio (component of solvency) on Return on Capital Employed.

H_{a2}: There is a significant impact of debt to equity ratio (component of solvency) on Return on Capital Employed.

H_{03}: There is no significant impact of inventory turnover ratio (component of management efficiency) on Return on Capital Employed.

H_{a3}: There is a significant impact of inventory turnover ratio (component of management efficiency) on Return on Capital Employed.

RESEARCH METHODOLOGY

The study is based on secondary data collected from published annual reports and financial statements of Jordan Steel. It covers a period of ten years from

2007 to 2016. The variables incorporated in the present study are financial ratios. Various financial ratios under the categories of liquidity, profitability, management efficiency, and solvency have been calculated and analyzed. The present study employed a multiple regression technique to analyze the impact of liquidity, solvency and management efficiency on the profitability of Jordan Steel.

Multiple Regression Model

Multiple linear regressions have been used to estimate the regression line. Following model has been estimated on the financial data of Jordan Steel from 2007 to 2016.

$$ROCE_t = \beta0 + \beta_1 CR_t + \beta_2 DER_t + \beta_3 ITR_t + e$$

Where,

$ROCE_t$ = Return on Capital Employed at time t (Profitability)
CR_t = Current Ratio at time t (Liquidity)
DER_t = Debt to Equity Ratio at time t (Solvency)
ITR_t = Inventory turnover ratio at time t (Efficiency)
$\beta0$ = Intercept.
$\beta1 - \beta3$ = Coefficients of the explanatory variables.
e = stochastic error term at time t.

Table-1: Profitability Ratios of Jordan Steel from 2007 to 2016

Year	GPR	ROCE
2007	35.41	35.45
2008	41.11	42.01
2009	45.43	34.05
2010	38.01	24.89
2011	40.05	24.06
2012	42.01	15.11
2013	37.85	11.24
2014	39.07	7.85
2015	40.02	6.96
2016	42.11	6.19
GPR: Gross Profit Ratio; ROCE: Return on Capital Employed;		

Source: Calculated from Company's Financial Reports

Table 1 highlights the gross profit ratios and return on capital employed of Jordan Steel from 2007 to 2016. Gross profit ratios of Jordan Steel have been in fluctuating trend during the study period. The GPR was highest in the year 2009 (45.43%) and it was lowest in the year 2007 (35.41%). In 2015, it was 40.02% and increased to 42.11% in the year 2016. Besides, ROCE has been in decreasing trend from 35.45% in 2007 to 15% in the year 2012 except the year 2008 in which it was 42.01%. In 2013, it decreased to 11.24% and remains decreasing till 2016. ROCE becomes 6.19% in the year ended 2016. It indicates decreasing profitability of the company.

Table-2: Liquidity, Solvency, and Efficiency Ratios of Jordan Steel

Year	CR	DER	ITR
2007	1.57	1.44	5.59
2008	2.02	1.52	5.61
2009	2.01	1.27	6.04
2010	1.99	0.99	5.44
2011	2.24	1.15	4.49
2012	1.62	1.19	4.41
2013	1.57	1.06	3.87
2014	1.31	1.04	3.17
2015	1.01	1.24	3.09
2016	0.91	1.35	3.01
CR: Current Ratio; DER: Debt Equity Ratio; ITR: Inventory Turnover Ratio;			

Source: Calculated from Company's Financial Reports

Table 2 highlights the current ratios, debt equity ratios, and inventory turnover ratios of Jordan Steel from 2007 to 2016. The standard current ratio is 2:1 but Jordan Steel has shown a lower current ratio in the study period except from 2008-2011. The mean value of current ratio of Jordan Steel was 1.57 times during the study period which indicates that the short term liquidity position of the company was not

satisfactory from 2007-2016. Nevertheless, debt to equity ratio of Jordan Steel has been more than 1:1 during the study period except for the year 2010 (0.99 times). It indicates that total liabilities were higher than owners' equity and external lenders and creditors were bearing more risk. The average debt to equity ratio has been 1.18 times indicating that the company has been financially leveraged from 2007-16. Furthermore, the inventory turnover ratio of Jordan Steel has been in decreasing trend from 5.59 times in 2007 to 3.01times in the year 2016. It indicates that the company has not been able to efficiently use its inventory stock over the study period.

Table-3: Multiple Linear Regression Analysis

Independent Variables	Regression Coefficients	Standard Error	t Value	P Value
(Constant)	1.157124	1.5542	-7.561	0.000
Current Ratio	0.078064	1.3174	4.874	0.556
Debt Equity Ratio	0.277888	1.4063	3.340	0.005
Inventory Turnover Ratio	0.068968	1.0278	-1.223	0.429
R square: 0.886; Adjusted R square: 0.834; Durbin Watson: 2.4412				
Dependent Variable: ROCE				

Table 3 shows the results of multiple linear regression analysis. ROCE is dependent variable whereas current ratio, debt equity ratio, inventory turnover ratio are independent variables. The value of adjusted R square is 0.834 which means 83.4 percent variation in ROCE is explained by current ratio, debt equity ratio, inventory turnover ratio and rest of the variation $(1-R^2)$ is an unexplained variation due to variables that has not been considered in this model. Besides, current ratio has positive impact on ROCE but this impact is statistically insignificant at 5% level of significance because p value is less than 0.05. Therefore, H_{01} is accepted. Furthermore, the unstandardized beta coefficient of debt equity ratio is 0.277888 which indicates that one unit change in debt equity ratio will bring 0.277 unit change in ROCE. The regression coefficient of debt equity ratio is statistically significant at 5% level of significance (P<0.05). Therefore, H_{02} is rejected. Nonetheless, inventory turnover ratio (ITR) has significant positive relationship with return on capital employed but statistically insignificant at 5% level of significance (P>0.05). Therefore, H_{03} is accepted. Hence, it can be said that there is no significant impact of current ratio and inventory turnover ratio on Return on Capital Employed but debt equity ratio has significant impact on Return on Capital Employed.

SUMMARY

Financial performance analysis is the process of identifying the financial strength and weaknesses of the firm between the items of the balance sheet and the profit and loss account. It provides information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Owners and managers require financial statements to make important business decisions that affect its continued operations. The rationale of financial analysis is to diagnose the information contained in financial statement so as to judge the future earning, ability to pay interest, debt maturities, profitability and sound dividend policy. The present study examines the financial performance of Jordan Steel from 2007 to 2016. Liquidity, profitability, management efficiency, and solvency ratios have been calculated with the help of financial reports. Multiple linear regressions has been applied to evaluate the impact of current ratio, debt equity ratio, and inventory turnover ratio on profitability of Jordan Steel. The analysis showed that debt to equity ratio has significant impact on return on capital employed but current ratio and inventory turnover ratio has no significant impact on return on capital employed. The overall findings of the study brought the conclusion that the financial performance of Jordan Steel was satisfactory during initial years of the study but deteriorated in later years and hence requisite steps should be taken to improve its performance.

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