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Effect of Steel Price Shocks on Client's Profitability at Globe Steel Private Limited

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ABSTRACT: This study shows the impact of steel price shocks on the profitability of clients at Globe Steel Private Limited. Using data collected from the company's balance sheets, the analysis focuses on understanding how fluctuations in steel prices influence the financial performance of its major clients across various industries, including automotive, construction, and manufacturing. The findings indicate that sudden increases in steel prices significantly increase production costs for clients, thereby reducing their profit margins. Conversely, a drop in steel prices can temporarily increases profitability but affecting overall demand. The results show the importance for Globe Steel to develop proactive measures to mitigate the adverse effects of price shocks, such as enhancing communication with clients, offering flexible pricing strategies, and improving operational efficiencies. By understanding the dynamics between steel price volatility and client profitability, Globe Steel can do a better support its clients, ensuring mutual growth and sustainability in a volatile market environment.

KEYWORDS: Steel price, Clients Profitability, Globe steel private limited, balance sheet analysis, Price volatility

I. INTRODUCTION

A steel price shock at Globe Steel Private Limited could impact their clients' profitability in several ways. For example, if steel prices increase unexpectedly, clients may face higher production costs, reducing their profitability. Conversely, if steel prices decrease, clients could benefit from cost savings, potentially boosting their profitability. Studying this effect provides valuable insights into the interdependencies between steel pricing dynamics and clients' financial performance, aiding in strategic decision-making for both Globe Steel and its clients.

Steel, as one of the most widely used materials in various industries, holds a critical role in the global economy. Its significance spans across construction, automotive, infrastructure, and manufacturing sectors, making it a pivotal element for economic development and industrial activities. However, the volatility in steel prices can have profound implications on the profitability of companies that are heavily dependent on this raw material. Globe Steel Private Limited, a major player in the steel industry, is no exception. Understanding the effects of steel price shocks on the profitability of its clients is essential for the company to strategize effectively and maintain its competitive edge.

IMPACT ON CLIENT PROFITABILITY

Clients of Globe Steel Private Limited, who operate in these steel-intensive industries, face direct consequences from steel price shocks. Increased steel prices can lead to higher production costs, which may not always be transferable to end consumers due to competitive pressures. This squeeze on margins can adversely affect profitability, cash flow, and financial stability. Conversely, a decrease in steel prices can improve profit margins but may also indicate a broader economic downturn affecting overall demand. Hence, understanding the dual-edged nature of steel price movements is crucial for assessing their impact on client profitability.

II. LITERATURE REVIEW

- **Shukla et al (2021)** have conclude that there is poor liquidity position in the steel companies as no firm has kept the standard current and quick ratio of 2:1 and 1:1 respectively. Current ratio position of BSL is better whereas quick ratio position of Tata steel is satisfactory as compared to other firms. The analysis shows satisfactory long-term solvency position of JSW and SAIL however, earning of Tata Steel and JSW are sufficient to cover interest charges.

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- **Pham, Nguyen & Nguyen (2020)** investigated that the impact of working capital management (WCM) factors on the profitability of steel companies listed on the Vietnam Stock Exchange. Data was gathered from companies audited financial statements over a ten-year period, from 2010 to 2019. Twenty out of the 26 firms have samples eligible for study, which is equivalent to 76.9%. Due to the unique characteristics of the industry, as well as the various stages of economic development associated with the State's economic management policies, this conclusion stands in stark contrast to many previously published studies.
- **Innovation in the Steel Industry by Garcia, P., & Martinez, S. (2019):** This comparative analysis examines innovation trends in the steel industry, comparing strategies adopted by leading steel manufacturers worldwide. It explores the role of research and development, technological innovation, and strategic partnerships in enhancing competitiveness and sustainability in the steel sector.
- **Das (2018)** in her work **"Financial Performance of Steel Industry in India"** analysed the financial performance of selected units in the steel industry in India in terms of financial ratios such as Liquidity, Solvency, Profitability and Efficiency position. The basic rationale of doing the study is that in the recent economic scenario of the country, iron and steel industry is going through severe downturn and Government is trying to keep no stones unturned for putting the industry back on growth track to achieve the second largest producer of steel in the world. For the study following companies listed in the stock exchanges in India viz. Tata Steel Ltd., Jindal Steel & Power Ltd., J S W Steel Ltd. and Steel Authority of India Ltd. are selected. ANOVA-Test analysis is employed to evaluate the impact of selected variables on the financial performance of identified units in the steel industry.

III. RESEARCH METHODOLOGY

RESEARCH DESIGN

Descriptive research design:

Descriptive research is a research method used to try and determine the characteristics of a population or particular phenomenon.

SOURCES OF DATA COLLECTION

SECONDARY DATA

Secondary data are those which have already been collected by someone and which are passed through the statistical machine at least once. Mainly the secondary data are used for the study i.e. annual report, company manuals and other relevant documents. The study also used the literature provided by the organization. In addition, another source of data was through reference to the library and review of different articles and relevant previous studies and from company website.

The major source of secondary data is:

- Balance sheet of the company for the last 5 years
- Profit and Loss account of the company for the last 5 years.
- Website of the company

RATIO ANALYSIS USED FOR THIS STUDY

1. Current Ratio
2. Debt equity ratio
3. Gross Profit Ratio
4. Correlation
5. Regression

IV. DISCUSSION

- The company's liquidity improved significantly in 2021 with a current ratio of 2.57, while in other years it ranged between 1.30 and 1.50, indicating stable liquidity with minor fluctuations.
- The company's rising debt-to-equity ratio from 2019 to 2023 suggests increased reliance on debt financing, posing higher financial risk amid strategic and market fluctuations.
- The company's gross profit fluctuated from 2020 to 2023, rising in 2020, declining thereafter, and stabilizing by 2023, while maintaining a generally steady gross margin.
- In this dataset, the weakly positive (R = 0.277) and statistically insignificant (P = 0.652) correlation between fixed assets and total costs indicates that variations in fixed assets do not reliably predict or influence total costs.

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- The regression analysis shows that total cost explains 64.4% of the variance in profit (R^2 = 0.644), but the relationship is not statistically significant (p = 0.102).

V. RESULTS

FIGURE 1. CURRENT RATIO

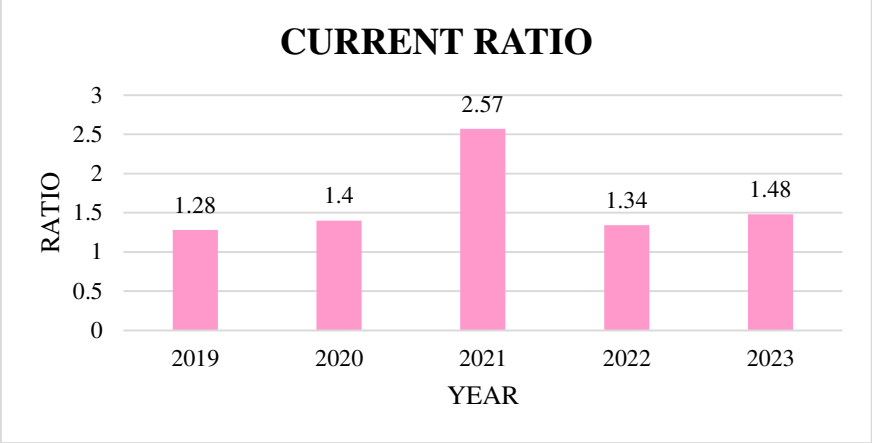

FIGURE 2. DEBT EQUITY RATIO

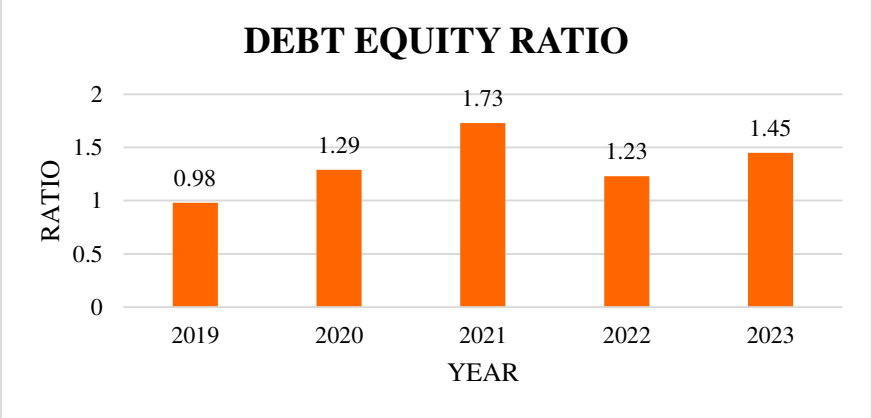

FIGURE 3. GROSS PROFIT RATIO

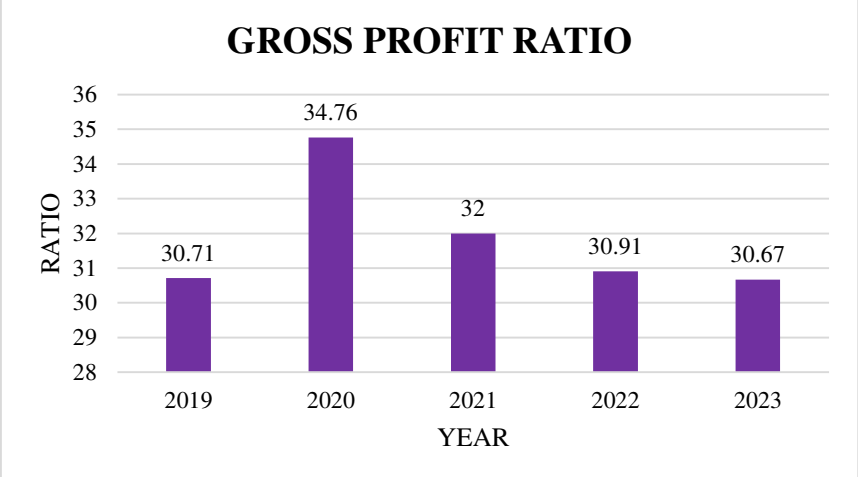

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FIGURE 4. CORRELATION BETWEEN FIXED ASSET AND TOTAL COSTS

CORRELATIONS			
		Fixed Asset	**Total Costs**
Fixed asset	Pearson Correlation	1	.277
	Sig. (2-tailed)		.652
	N	5	5
Total Costs	Pearson Correlation	.277	1
	Sig. (2-tailed)	.652	
	N	5	5

FIGURE 5. REGRESSION BETWEEN TOTAL COST AND PROFIT

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802[a]	.644	.525	83.41932
a. Predictors: (Constant), total cost				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37698.450	1	37698.450	5.417	.102[b]
	Residual	20876.350	3	6958.783		
	Total	58574.800	4			
a. Dependent Variable: profit						
b. Predictors: (Constant), total cost						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-162.311	183.470		-.885	.441
	total cost	.031	.013	.802	2.328	.102
a. Dependent Variable: profit						

VI. CONCLUSION

The analysis shows that globe steel private limited has experienced significant impacts from steel price shocks, particularly on its cost structure and profitability. Clients experiencing higher production costs relative to revenue may face challenges in maintaining profitability, as evidenced by potential declines in net profit margins and ROE.

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Additionally, reduced asset turnover ratios suggest inefficiencies in asset utilization during these periods. The company has shown resilience and adaptability, as evidenced by improvements in key financial ratios in recent years. by adopting strategic measures to mitigate the impact of steel price volatility, the company can further enhance its financial health and profitability.

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