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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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A FINANCIAL ANALYSIS OF INDIAN AND FOREIGN STEEL INDUSTRIES: A COMPARISON

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ABSTRACT

Financial statement analysis is often divided into two sub-parts i.e. "Profitability Analysis" and "Risk Analysis". This is a natural division since much of our thinking about any firm's performance is influenced by our study of the relationship between risk and return in finance. This paper represents an empirical study which examines the profitability from different perspectives of Steel industries in world with a data of 10 years from 2003 to 2013 and 04 major Steel companies have been considered as sample units. For this analytical study, the researcher has used Ratio Techniques for analysis and to test hypothesis Single Factor ANOVA (F-test) has been applied. The study reveals Arcelor Mittal remained an outperforming player over the last decade in the Steel industry with leading in the profitability from the different perspectives.

KEYWORDS
steel industry, financial analysis.

INTRODUCTION
The industry directly employs more than two million people worldwide, with a further two million contractors and four million people in supporting industries. Considering steel's position as the key product supplier to industries such as automotive, construction, transport, power and machine goods, and using a multiplier of 25:1, the steel industry is at the source of employment for more than 50 million people. World crude steel production has increased from 851 megatonnes (Mt) in 2001 to 1,606 Mt for the year 2013. (It was 28.3 Mt in 1900). World average steel use per capita has steadily increased from 150kg in 2001 to 225 kg in 2013.

India, Brazil, South Korea and Turkey have all entered the top ten steel producers list in the past 40 years. By sector, global steel recovery rates for recycling are estimated at 85% for construction, 85% for automotive, 90% for machinery and 50% for electrical and domestic appliances. This leads to a global weighted average of more than 83%. The amount of energy required to produce a tonne of steel has been reduced by 50% in the past 30 years. 97% of steel by-products can be reused.

Steel is crucial to the development of any modern economy and is considered to be the backbone of the human civilisation. The level of per capita consumption of steel is treated as one of the important indicators of socio-economic development and living standard of the people in any country. It is a product of a large and technologically complex industry having strong forward and backward linkages in terms of material flow and income generation. All major industrial economies are characterised by the existence of a strong steel industry and the growth of many of these economies has been largely shaped by the strength of their steel industries in their initial stages of evelopment

LITERATURE REVIEW
A study by Amarjit Gill 1, Nahum Biger 2, Neil Mathur 3 (2010), under the title "The Relationship Between Working Capital Management And Profitability: Evidence from the United States", the aim of this paper is to find the relationship between working capital management and profitability.

N. Venkanaramana and K. Ramakrishnaiah (2012), under their study titled with "Profitability and Finacial Performance – A Case study on selected Cement companies in India" analyzed that the profitability of the selected companies have a favourable trends towards in terms of Return on Equity Ratio, Return on Capital Employed.

OBJECTIVE OF THE STUDY
This study attempts to analyze the profitability of the Selected Steel companies in terms of Gross profit ratio, Operating margin ratio, Net profit ratio, Earnings Before Interest (EBIT) and Earnings per Share (EPS).

HYPOTHESIS OF THE STUDY
1. Gross profit ratio is uniform in the sample units.
2. Operating margin ratio is uniform in the sample units.
3. Net profit ratio is uniform in the sample units.
4. Earnings Before Tax is uniform in the sample units.
5. Earnings per Share (EPS) ratio is uniform in the sample units.

TOOLS AND TECHNIQUES
For the purpose of analysis the researcher has used 'Ratio Technique' and to test hypothesis 'Single Factor ANOVA (F-test) has been applied which is one of the statistical techniques that helps in analyzing the consistency, stability and overall trends in different profitability measurements of the selected companies.

EMPIRICAL ANALYSIS
1. **<u>Gross Profit Ratio</u>**This ratio indicates the efficiency of trading activities. The relationship of Gross profit to sales is known as gross profit ratio. This ratio demonstrates how well the business is efficiently producing the products. It shows how well the products are priced given the direct wages and variable costs it takes to create them. The better the ratio is, the higher the profit potential will be.

$$\text{Ratio} = \frac{Gross\ \ Profit}{Net\ \ Sales} * 100$$

HYPOTHESIS

H_1: There is significant difference in the gross profit ratio of the selected companies.

TABLE 1

Gross Profit Ratio (%) (figures in US $)						
Year	Arcelor Mittal	Posco	Nippon Steel	Tata Steel	Mean	S.D
2004	33.8	27.6	16.5	0	19.5	12.8
2005	23.6	28.6	20.5	0	18.2	10.9
2006	17.8	23	21.6	0	15.6	9.2
2007	19.3	21.2	20.8	0	15.3	8.9
2008	15.1	22	18.1	0	13.8	8.3
2009	3.4	15.8	13.9	0	8.3	6.7
2010	8.9	15	9.5	0	8.4	5.4
2011	9.0	13.2	11.8	53.4	21.9	18.3
2012	0.1	11.7	10.1	40	15.5	14.8
2013	5.3	11.1	9.3	56.1	20.4	20.7
Mean	13.6	18.9	15.2	15.0	15.7	2.0
S.D	9.8	6.1	4.7	23.2	4.4	7.3

Table 1 represents the gross profit ratios of the selected steel companies. It can be seen that the companies average on an aggregate basis remained 15.7% as against which Posco showed the highest average gross profit ratio of 18.9% followed by Nippon Steel (15.2%), Tata Steel (15.0%), Arcelor Mittal (13.6%). . The company with higher GP ratio reflects the efficiency in production whereas the company with lower GP ratios compared to industry average will find it difficult to recover its operating expenses and to build up reserves after paying all fixed interest charges and dividends.

TABLE 2: ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	16782.71	3	5594.238	0.799978	0.502057	2.866266
Within Groups	251747.7	36	6992.991			
Total	268530.4	39				

Table 2 shows the calculation of single factor ANOVA wherein, F-calculated (0.79) is lesser than F-critical (2.87) leading to the conclusion that the gross profit ratios of the selected
companies differ significantly.

2. OPERATING MARGIN RATIO

Operating margin ratio provides a lot of important information to its business owners regarding cost control. It shows how much case is thrown off after most of the expenses are met. A high operating margin means that a company has good cost control and that sales are increasing faster than costs, which is an optimal situation for the company.

$$\text{Ratio} = \frac{profit \quad before \quad \text{int}\ erest \quad and \quad Tax}{Net \quad Sales} * 100$$

HYPOTHESIS

H_1: The operating margin ratio is not uniform during the study period of the selected companies

TABLE 3

Operating Margin Ratio (%)						
Year	Arcelor Mittal	Posco	Nippon Steel	Tata Steel	Mean	S.D
2004	27.7	22.2	7.7	0	14.4	11.1
2005	16.9	23.1	12.7	0	13.2	8.5
2006	12.7	17	14.8	0	11.1	6.6
2007	14.1	15.6	13.5	0	10.8	6.3
2008	9.8	17.2	11.3	0	9.6	6.2
2009	-2.6	10.5	7.2	0	3.8	5.3
2010	4.6	9.5	0.9	0	3.8	3.7
2011	5.2	7.9	4	9.8	6.7	2.3
2012	-3.2	5.2	1.9	5.8	2.4	3.6
2013	1.5	4.2	0.5	2.4	2.2	1.4
Mean	8.7	13.2	7.5	1.8	7.8	4.1
S.D	9.1	6.4	5.2	3.2	4.4	2.1

From Table 3 it can be observed that the industry average of 10.6%, Posco reported an aggregated average of 13.2% followed by Arcelor Mittal (8.7%) and Nippon Steel with 7.5%. Tata Steel (1.8%). Operating profit margin shows how efficiently the managers of a company using business operation to generate the profits. The reason why Arcelor Mittal and Nippon Steel stood last can be visible from the table where Arcelor Mittal incurred operating loss in the year 2009 and 2012. All these caused Arcelor Mittal on an aggregate basis to earn lower operating margin wherein case of Nippon Steel the operating margin has been continuously declining from the year 2008 till 2013 and in the year 2013 it had become 0.5 showing poor efficiency of the management.

TABLE 4: ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	664.726	3	221.5753	4.972547	0.005465	2.866266
Within Groups	1604.15	36	44.55972			
Total	2268.876	39				

Table 4 indicates the calculations of single factor ANOVA wherein, F-calculated (1.68) is lesser than F-critical (2.86) drawing to the conclusion that the operating margin ratio is not uniform during the study period of the selected companies

3. NET PROFIT RATIO

Net profit ratio is used to measure the overall profitability and it indicates the firm's capacity to face adverse economic conditions like – increased market competition, economic downturn and a sudden decrease in market demand for the business products. The higher the ratio is, the more effective the company is in converting revenue into actual profits.

Ratio = $\frac{Profit \quad After \quad Tax}{Net \quad Sales} * 100$

HYPOTHESIS

H_1: That there is a significant difference in the Net Profit Ratio for the different companies.

TABLE 5

Net Profit Ratio (%)						
Year	Arcelor Mittal	Posco	Nippon Steel	Tata Steel	Mean	S.D
2004	21.8	0	1.42	0	5.8	9.3
2005	12.0	0	6.51	22.52	10.2	8.3
2006	8.9	0	8.8	18.45	9.0	6.5
2007	9.9	1.37	8.16	16.57	9.0	5.4
2008	7.5	-5.07	7.35	9.39	4.8	5.8
2009	0.2	-2.74	3.25	3.27	1.0	2.5
2010	3.7	0.65	-0.33	-2.01	0.5	2.1
2011	2.4	-2.58	2.27	7.4	2.4	3.5
2012	-4.6	-5.56	1.43	4.06	-1.2	4.0
2013	-3.2	-0.63	-2.84	-5.24	-3.0	1.6
Mean	5.9	-1.5	3.6	7.4	3.9	3.4
S.D	7.5	2.3	3.7	8.8	4.4	2.6

The overall profitability based on sales i.e. Net Profit ratios of the selected companies are visible in Table 5. The industry average on an aggregate basis remained 3.9% which shows not sound profitability of the industry as a whole. However, as compared to the previously calculated gross profitability and operating profitability here the results are somewhat different. Tata Steel which showed lower operating profitability here stood the first with an aggregate average Net Profitability of 7.4% followed by Arcelor Mittal of (5.9%), Nippon (3.6%), The lowest average Net Profitability in case of Posco (-1.5%) is because of incurring huge losses but it showed high in the operating profitability .In the year 2008 (-5.07%) , (-2.58%) in the year 2011 , (-5.56%) in the year 2012 and (-0.63%) in the year 2013 which indicates that Posco will find it difficult to survive in tough times since the company does not have much cushioning against adverse conditions.

TABLE 6: ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	451.4198	3	150.4733	3.565334	0.023429	2.866266
Within Groups	1519.363	36	42.20453			
Total	1970.783	39				

The calculations of One-way F-test (ANOVA) are shown in the Table 6. Here, the F –calculated (7.1) is greater than F-critical (4.38) indicating that there is a significant difference of Net Profitability in the sample units.

4. EARNINGS BEFORE TAX (EBT): NEED DEFINITION

EBIT = Revenue – Expenses

TABLE 7

Earnings Before Tax (%)						
Year	Arcelor Mittal	Posco	Nippon Steel	Tata Steel	Mean	S.D
2004	27.6	0	2.52	0	7.5	11.6
2005	16.7	0	10.9	34.02	15.4	12.3
2006	12.2	0	14.48	27.24	13.5	9.7
2007	14.2	2.29	14.44	25.04	14.0	8.1
2008	9.2	-6.15	12.54	12.45	7.0	7.7
2009	-6.8	-3.71	5.89	4.58	0.0	5.4
2010	2.4	1.04	0.32	0.03	0.9	0.9
2011	2.9	-3.05	4.51	9.97	3.6	4.6
2012	-6.9	-6.41	2.93	6.46	-1.0	5.8
2013	-3.0	-0.97	-3.12	-3.07	-2.5	0.9
Mean	6.9	-1.7	6.5	11.7	5.8	4.8
S.D	10.6	2.8	5.9	12.2	6.3	3.7

It is an indicator of a company's financial performance. A measure of a company's ability to produce income on its operations in a given year.

TABLE 8: ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	923.2511	3	307.7504	3.643263	0.021561	2.866266
Within Groups	3040.959	36	84.47108			
Total	3964.21	39				

Table 8 shows the calculations of ANOVA wherein F-calculated (3.64) is greater than F- critical (2.86) indicating that the EBIT of the selected companies is not uniform during the study period.

5. EARNINGS PER SHARE

EPS represents the earnings available to equity shareholders per share. EPS remains industry standard in determining the corporate profitability for shareholders. EPS ratio calculated for a no. of years indicates whether or not the earning power of the company has increased or not.

Ratio = $\frac{profit \quad after \quad Tax \; - \; preference \quad share \quad dividends}{Total \quad number \quad equity \quad shares} * 100$

TABLE 9

Earnings Per Share $						
Year	Arcelor Mittal	Posco	Nippon Steel	Tata Steel	Mean	S.D
2004	27.6	0	2.52	0	7.5	11.6
2005	16.7	0	10.9	1.1	7.2	7.0
2006	12.2	0	14.48	1.15	7.0	6.5
2007	14.2	2.29	14.44	1.25	8.0	6.3
2008	9.2	-6.15	12.54	2.78	4.6	7.1
2009	-6.8	-3.71	5.89	1.01	-0.9	4.8
2010	2.4	1.04	0.32	-0.43	0.8	1.0
2011	2.9	-3.05	4.51	1.58	1.5	2.8
2012	-6.9	-6.41	2.93	0.91	-2.4	4.3
2013	-3.0	-0.97	-3.12	0.06	-1.8	1.3
Mean	6.9	-1.7	6.5	0.9	3.2	3.7
S.D	10.6	2.8	5.9	0.9	3.9	3.7

If it is about analyzing profitability from different viewpoints, the profitability analysis is said to be incomplete if we do not consider the profitability from the viewpoint of shareholders. Table 9 depicts the earnings per share (EPS) of the selected companies over the last decade. The industry average on an aggregate basis is $3.2 as against which Arcelor Mittal scored the highest average EPS of $6.9 followed by Nippon Steel ($6.5) , Tata Steel ($0.9) and Posco incurred heavy loss in the share. EPS remains the industry standard in determining the corporate profitability. The highest EPS was of $27.6 achieved by Arcelor Mittal in the year 2004 and the next highest EPS was of $16.7 again by Arcelor Mittal achieved in the year 2005 as against this, the lowest or even negative EPS of $6.41 was registered by Posco during the year 2012.

TABLE 10: ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	20293.4	3	6764.468	8.921182	0.000149	2.866266
Within Groups	27296.93	36	758.2479			
Total	47590.33	39				

Table 10 shows the calculations of ANOVA wherein F-calculated (8.90) is greater than F- critical (2.86) indicating that the EPS of the selected companies is not uniform during the study period.

FINDINGS OF THE STUDY

Arcelor Mittal showed its greatest ability and consistency to control its manufacturing costs and also in managing the margins it makes on the products it purchases or sells. Operating profitability shows the success rate of the managers. Posco and Arcelor Mittal with the highest operating margins showed that their sales were increasing faster than the costs showing a highly liquid position of both the companies.

Tata Steel showed the highest Net Profitability indicating the efficiency of the company to control its costs and the same can be seen in case of Arcelor Mittal whereas Posco registered the lowest average Net Profitability indicating its poor efficiency in managing the costs.

Ceteris paribus i.e. other things being equal, the only way to grow individual shareholders claim to profit and to generate return on investment – is to increase EPS. This can be visible in case of all the selected companies however the two extremes are Arcelor Mittal and Nippon Steel with the highest average EPS , Tata Steel having EPS value with $0.9 and Posco with the lowest average EPS.

CONCLUSION

Ratio Analysis is helpful for any shareholder, investor, creditor, banker or any other party who is concerned with the financial performance of the company. Single factor ANOVA technique helps in analyzing the significance of empirical study by comparing different ratios over a period of time which provides a good sense to the management of the company as well as to the relevant shareholders. The results of this empirical study reveal that Arcelor Mittal remained an outperformer of the steel industries of world whereas Nippon Steel remained consistent and next best after the Arcelor Mittal. Tata Steel and Posco did well during the study period.

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