

# A STUDY ON FINANCIAL PERFORMANCE OF ESSAR SHIPPING LIMITED

Ms. Neelakshi Arora (Jaidka) & Ms. Priyal Saraf

Assistant Professors, Assistant Professors,

Department of Commerce,

The Bhopal School of Social Science, Bhopal.

**Abstract :** The success or failure of any company lays on its overall financial performance at the end of the year. And for the very same reasons companies keep a close track on their liquidity and profitability at regular intervals. In fact, there are many different tools which are used by these companies to scrutinize their lacunas and work on them simultaneously. For instance, accounting ratios are one such tool which helps to analyze the actual health of the company in terms of finance, management, and other aspects. These are calculated on the basis of final accounts of the companies including profit and loss account and Balance sheet; and therefore do justice with the real overall picture of the company. This paper focuses on the financial performance of Essar Shipping Limited on the basis of some accounting ratios like current ratios, working capital turnover ratio, and others. Secondary data related to the last decade Annual reports of the company from 2010-11 to 2017-18 has been referred to do the required analysis. The paper concludes on the interpretation of these ratios, highlighting the actual positions of the company.

**IndexTerms - Financial performance, Ratio analysis, Analysis, Interpretation.**

## I. INTRODUCTION

The main aim of any business is to earn profit, and keep on increasing the profit with every passing year. For the very same reason the financial performance after the year round is of much vitality. Companies tend to evaluate their performance in terms of finance and economic activities after every financial year, through drawing out various financial statements and interpreting them through various ratios. These ratios give a true reflection of the various areas related to a company like liquidity, profitability, assets, share earnings, and many more. Therefore, the ratio analysis plays a vital role in the management of the company's finances in the long run. These ratios also have standard values, which are used as benchmarks to compare one's performance against them; and take corrective action.

## II. ABOUT ESSAR SHIPPING LIMITED

Formed in 1945 and incorporated in 2019, Essar Shipping Limited is a part of the Essar Group, headquartered in Mumbai, it is a mid cap company. The company mainly deals in sea transportation and has a fleet of 26 vessels which transport crude oil. Essar shipping limited has two subsidiaries named Essar Oilfields Services Ltd (EOSL) and Essar Oilfield Services (India) Ltd. (EOSIL).

## III. RATIO ANALYSIS

Ratios are the relationship between two elements of the financial statements of the company. And ratio analysis is one of those analysis techniques which help the management to take certain decisions. Analyzing and interpreting the ratios gives a fine outline of the financial strength and weakness of the company. Ratios can also be said to be indicators of the true financial health of the company.

There are many different types of ratio which a company can go with when evaluating itself. And these ratios cover all the varied aspects related to a firm when it comes to financial aspect.

Following ratio have been studied

- a. Based on Working Capital
  - Working capital (CA - CL)
  - Current Ratio (CA/CL)
  - Working capital turnover ratio (sales/ net working capital)
- b. Based on Return Earned
  - Return on investment (operating profit / capital employed)
  - Return on shareholder's fund (PAT / shareholder's fund)
  - Return on total assets (net profit after tax + interest) / total assets
- c. Based on Capital Structure
  - Debt Equity Ratio (long term debts/ shareholders fund)
  - Proprietary Ratio (Shareholders Fund/ Total Assets)

## IV. OBJECTIVES OF STUDY

- To study the financial performance of Essar Shipping Limited through ratio analysis.
- To study the reason of decline in share price of Essar Shipping Limited since inception.

## V. RESEARCH METHODOLOGY

In this present study, an attempt has been made to evaluate financial performance of Essar Shipping Limited. The study is based on secondary data and the details are collected through websites annual reports. The time period for study taken is from 2010 to 2018. Ratio analysis and trend analysis was applied to analyses the performance and also to find out the reason for declined market price of essar shipping since inception.

## VI. DATA ANALYSIS AND FINDINGS

➤ Extract of financial statements (TABLE 1)

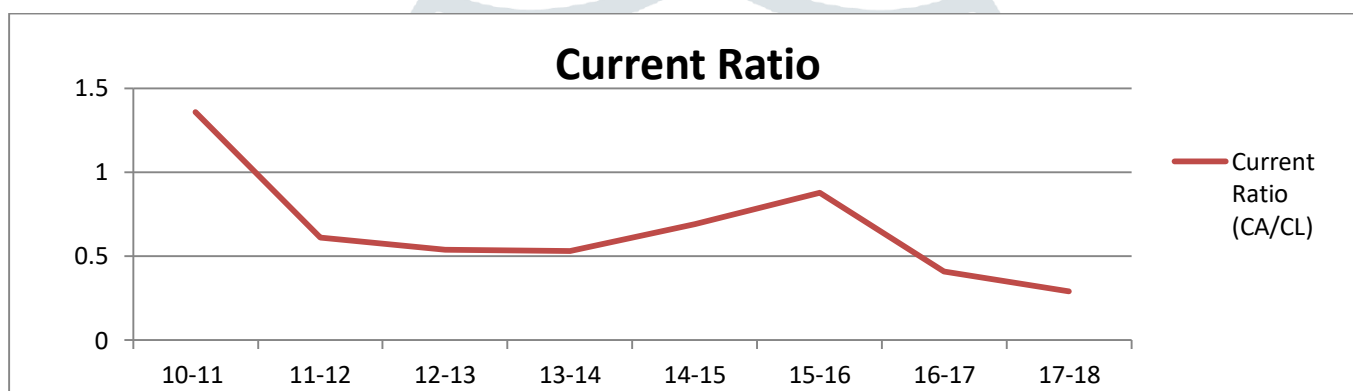
<b>Extract of Profit &amp; Loss Account</b> (₹ in Crores)								
<b>Year</b>	<b>10-11</b>	<b>11-12</b>	<b>12-13</b>	<b>13-14</b>	<b>14-15</b>	<b>15-16</b>	<b>16-17</b>	<b>17-18</b>
Revenue	514.66	1,245.35	1,488.32	873.67	791.14	728.7	657.74	643.41
Other Income	32.29	59.51	67.92	152.72	207.76	148.62	132.92	60.14
<b>Total</b>	<b>546.95</b>	<b>1304.86</b>	<b>1556.24</b>	<b>1026.39</b>	<b>998.9</b>	<b>877.32</b>	<b>790.66</b>	<b>703.55</b>
Employee Benefits	42.46	90.73	110.9	113.92	107.63	105.06	103.29	94.28
Operating Expenses	230.18	688.02	1,016.26	588.32	480.06	409.34	322.64	372.2
Establishment And Other Expenses	14.63	25.38	22.66	41.33	59.43	43.71	12.93	21.69
<b>Total</b>	<b>287.27</b>	<b>804.13</b>	<b>1149.82</b>	<b>743.57</b>	<b>647.12</b>	<b>558.11</b>	<b>438.86</b>	<b>488.17</b>
<b>Profits Before Interest, Depreciation And Tax</b>	<b>259.68</b>	<b>500.73</b>	<b>406.42</b>	<b>282.82</b>	<b>351.78</b>	<b>319.21</b>	<b>351.8</b>	<b>215.38</b>
Finance Costs	123.11	266.9	307.26	322.93	286.32	280.37	352.63	265.24
Loss On Settlement Of Forward Contracts	0	0	50.2					
<b>Profits Before Depreciation And Tax</b>	<b>136.57</b>	<b>233.83</b>	<b>48.96</b>	<b>-40.11</b>	<b>65.46</b>	<b>38.84</b>	<b>-0.83</b>	<b>-49.86</b>
Depreciation And Amortization Expense	56.91	136.36	139.01	185.56	143.96	149.07	137.14	125.04
<b>Profit Before Tax</b>	<b>79.66</b>	<b>97.47</b>	<b>-90.05</b>	<b>-225.67</b>	<b>-78.5</b>	<b>-110.23</b>	<b>-137.97</b>	<b>-174.9</b>
<b>Exceptional Items</b>				<b>5.44</b>				<b>224.31</b>
Current Tax	1.5	1.65	-3.2	-8.92	-4.5	-3.39	-2.65	-3.24
<b>Profit For The Year</b>	<b>78.16</b>	<b>95.82</b>	<b>-93.25</b>	<b>-229.15</b>	<b>-83</b>	<b>-113.62</b>	<b>-140.62</b>	<b>46.17</b>
Basic EPS		4.67	-4.54	-11.17	-4.04	-5.53	-6.79	2.23
Diluted EPS	3.71	4.67	-4.54	-11.17	-4.04	-5.53	-6.79	2.23
<b>Extract Of Balance Sheet</b> (₹ in crores)								
<b>Year</b>	<b>10-11</b>	<b>11-12</b>	<b>12-13</b>	<b>13-14</b>	<b>14-15</b>	<b>15-16</b>	<b>16-17</b>	<b>17-18</b>
Share Capital	205.23	205.23	205.23	205.23	205.23	206.98	206.98	206.98
Reserves And Surplus	4,938.39	5,005.65	4,943.01	4,684.00	4,600.01	4,416.92	1515.02	1,583.81
Long Term Liabilities	2,876.55	3,225.60	3,194.67	3,285.56	1,635.57	2,486.96	906.58	2,051.25
Short Term Liabilities	400.32	627.93	738.52	873.28	2,557.86	2,153.49	3668.17	2,125.78
<b>Total</b>	<b>8420.49</b>	<b>9064.41</b>	<b>9081.43</b>	<b>9048.07</b>	<b>8998.67</b>	<b>9264.35</b>	<b>6296.75</b>	<b>5967.82</b>
Fixed Assets	1,745.80	1,867.04	1,745.58	1,606.15	1,500.43	1,287.79	1,175.90	914.17
Other Long Term Assets	501.28	487.42	491.07	619.45	473.24	56.53	18.26	17.01
Investments	5,629.88	6,323.92	6,448.59	6,363.38	5,261.83	6,022.87	3,611.58	4,417.37
Current Assets	543.53	386.03	396.19	459.09	1,763.17	1,897.16	1491.01	619.27
<b>Total</b>	<b>8420.49</b>	<b>9064.41</b>	<b>9081.43</b>	<b>9048.07</b>	<b>8998.67</b>	<b>9264.35</b>	<b>6296.75</b>	<b>5967.82</b>

A. Based on Working Capital (TABLE 2)

Year	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Short Term Liabilities/ Current Laibilities (CL)	400.32	627.93	738.52	873.28	2,557.86	2,153.49	3668.17	2,125.78
Current Assets (CA)	543.53	386.03	396.19	459.09	1,763.17	1,897.16	1491.01	619.27
Working Capital (CA-CL)	143.21	-241.90	-342.33	-414.19	-794.69	-256.33	-2,177.16	-1,506.51
Current Ratio (CA/CL)	1.36	0.61	0.54	0.53	0.69	0.88	0.41	0.29
Working Capital Turnover Ratio (Sales/ Working Capital)	3.59	-5.15	-4.35	-2.11	-1.00	-2.84	-0.30	-0.43

Ratio Graphs: Based On Working Capital

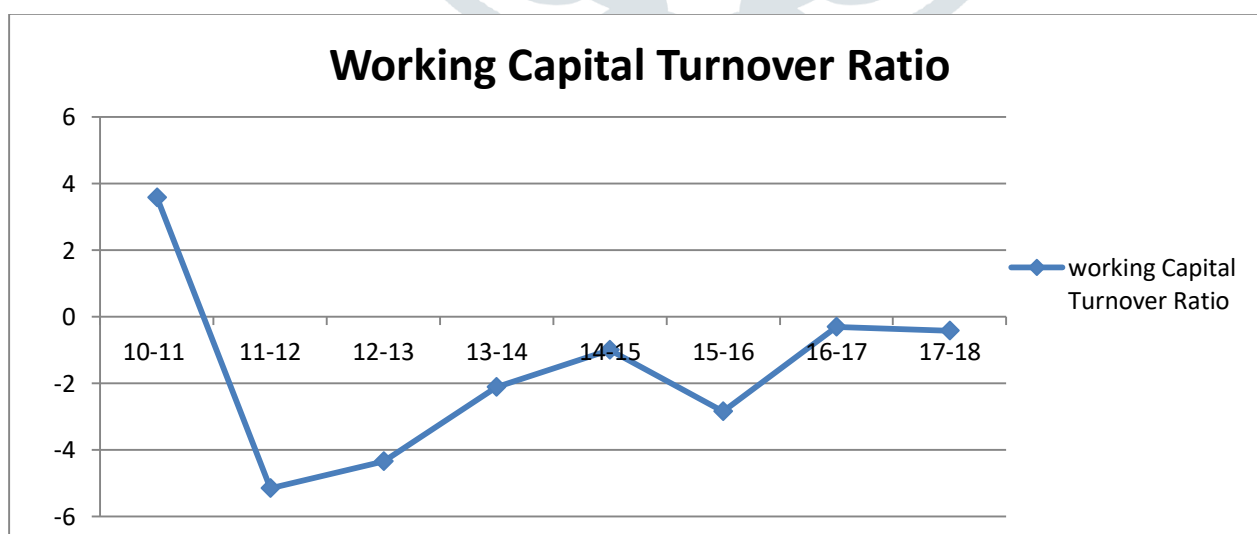
➤ CURRENT RATIO:

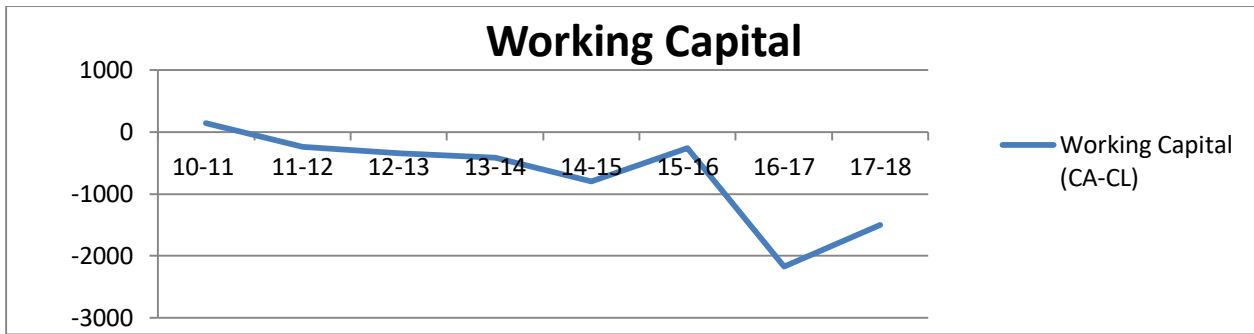


Graph: 1

Current ratio (Ideally 2:1) helps you to determine short term financial liquidity of the company, and also indicates company ability to meet short term financial obligations. Higher the Current ratio of the company better the short term strength of the company. Ratio in year 2010-11 was 1.36 which got reduced to 0.29 by year 17-18. This indicates adequate working capital and also symbolize that company is not able to pay the short term liabilities. The declining trend in the company’s current ratio can be enunciated in Table no. 1 And graph no. 1

➤ WORKING CAPITAL TURNOVER RATIO:





Graph: 2

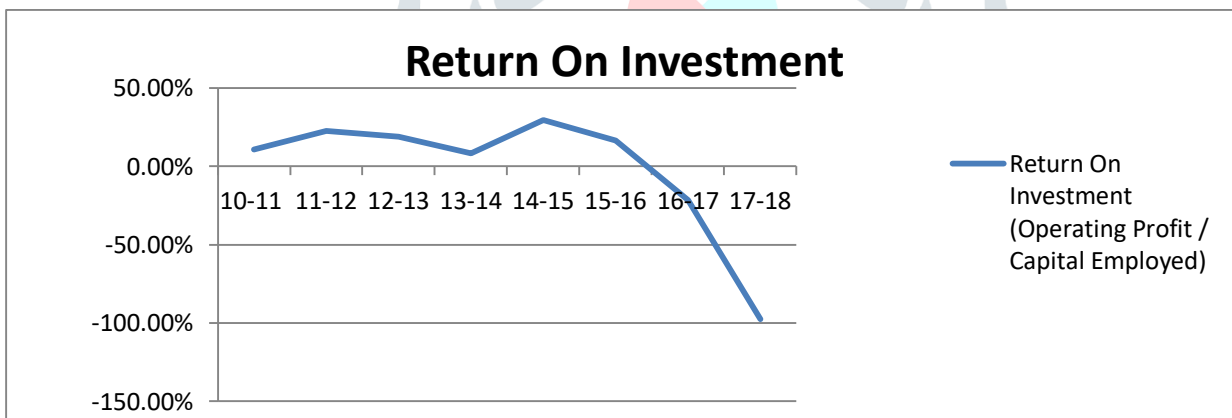
Working capital turnover ratio explains how many net sales are generated from every single unit of working capital. Here the company is already is having an negative working capital as evident in chart no. 2 Since working capital was negative, the working capital turnover ratio is also on the adverse side. In the year 2017-18 the working capital turnover ratio is - 0.43 which explains that business is not generating sufficient sales in respect of the working capital employed in the company.

B. Based on Return Earned (TABLE 3)

Year	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
<b>Return On Investment (Operating Profit / Capital Employed)</b>	10.73%	22.42%	19.06%	8.16%	29.45%	16.50%	-21.44%	-97.67%
<b>Return On Shareholder'S Fund (Pat / Shareholder'S Fund)</b>	1.52%	1.84%	-1.81%	-4.69%	-1.73%	-2.46%	-8.17%	29.84%

Ratio Graphs: Based On Return Earned

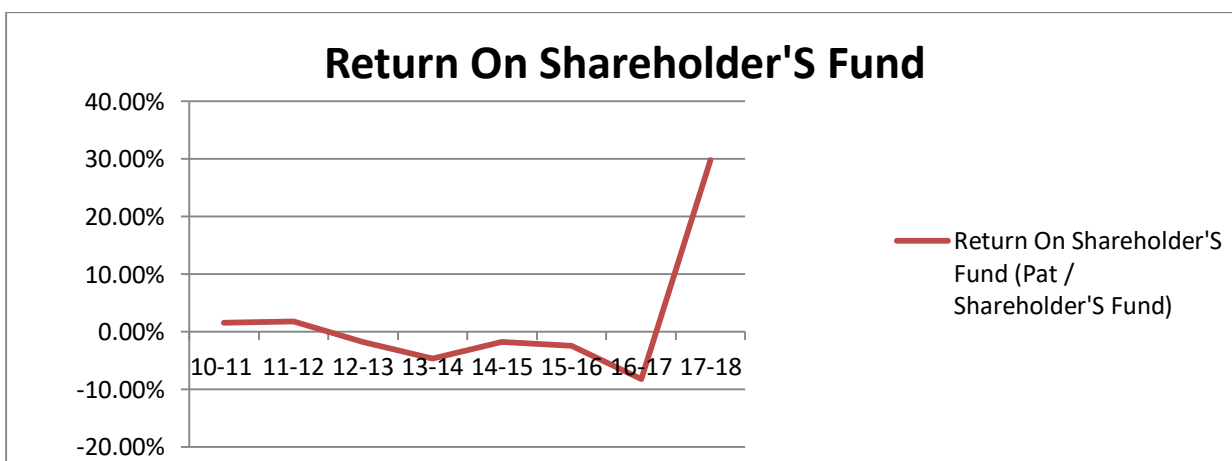
➤ RETURN ON INVESTMENT RATIO:



Graph :3

Return on investment means income earned on the capital employed by company. It also expresses benefit an investor is receiving in relation to investment (i.e capital employed) made by him . The company is earning negative profits in past few years resulting in less/ negative returns. (Graph no. 3). This is leading to down fall in the company as company is having negative profits.

➤ RETURN ON SHAREHOLDERS FUNDS:



Graph: 4

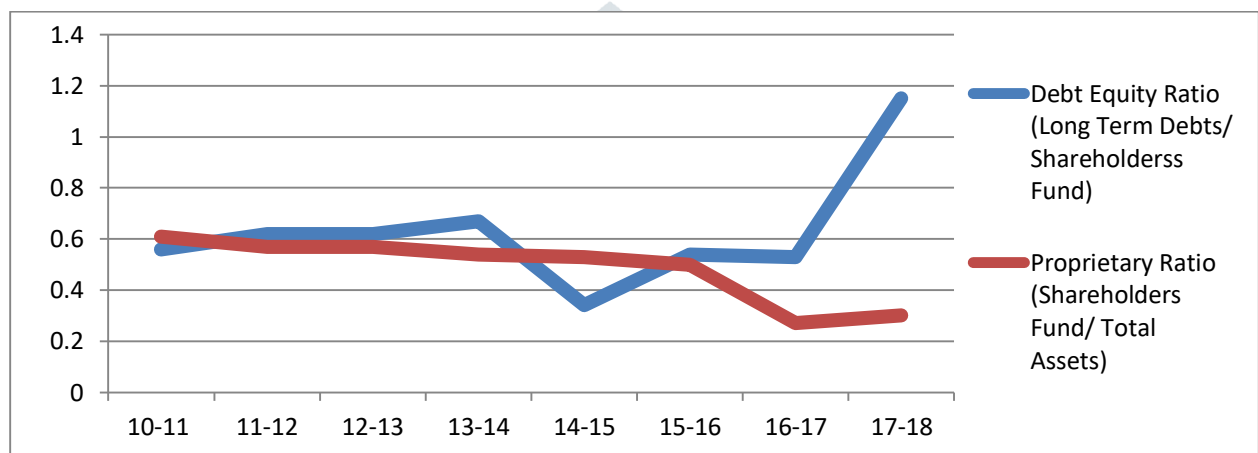
Return on shareholders' fund means how much percentage of return is earned on the fund of shareholders. There is sudden increase in the ratio in the year 2017-18 because extraordinary income of 224.51 crores of rupees. Otherwise the downfall is evident. (Graph no. 4) the return on shareholders' is on declining trend.

#### C. BASED ON CAPITAL STRUCTURE: (TABLE 4)

Year	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
<b>Debt Equity Ratio (Long Term Debts/ Shareholders Fund)</b>	0.56	0.62	0.62	0.67	0.34	0.54	0.53	1.15
<b>Proprietary Ratio (Shareholders Fund/ Total Assets)</b>	0.61	0.57	0.57	0.54	0.53	0.50	0.27	0.30

Ratio Graphs: Based on Capital Structure

#### ➤ DEBT EQUITY RATIO



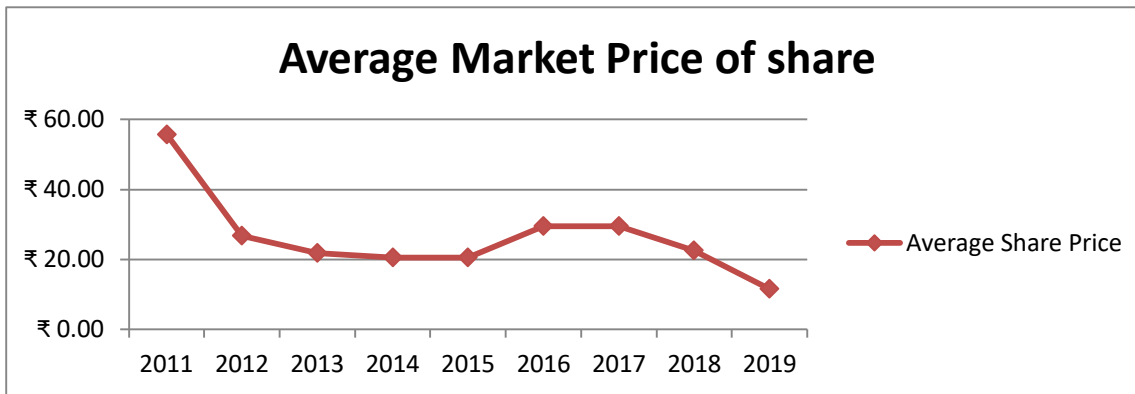
Graph :5

Debt equity ratio means total long term funds available to shareholders fund. The ideal debt equity ratio is 2:1 where as the company is having ratio of 0.56 :1 in year 2010-11 which increased to 1.15 in the year 2017-18 which means if debt is .56 then equity is 1, this ratio is within the ideal limit.

The proprietary ratio (also known as the equity ratio) is the relationship between shareholders fund and total assets; it describes soundness of the company and also defines the current amount of shareholders which they contributed in the total assets of the company. In the year 2010-11 the ratio was 0.61 which means that if total assets are 1 then shareholders contribution in total assets is 0.61, further in the year 2017-18 the ratio reduced to 0.30. The declining ratio symbol is that the company is depended on external source of finance more than internal source of finance. The reason for declining is losses thereby decreasing the shareholders fund.

#### ➤ MARLETS SHARE PRICE (TABLE 5)

Year	2011	2012	2013	2014	2015	2016	2017	2018
<b>Open</b>	₹ 95.00	₹ 19.00	₹ 27.00	₹ 20.90	₹ 22.00	₹ 24.35	₹ 26.60	₹ 32.50
<b>High</b>	₹ 95.00	₹ 35.60	₹ 30.80	₹ 27.00	₹ 25.90	₹ 38.00	₹ 35.85	₹ 33.55
<b>Low</b>	₹ 16.20	₹ 18.00	₹ 13.00	₹ 14.11	₹ 15.20	₹ 21.00	₹ 23.15	₹ 11.50
<b>Close</b>	₹ 18.70	₹ 27.00	₹ 20.35	₹ 21.80	₹ 23.95	₹ 27.50	₹ 32.55	₹ 12.50
<b>Average (high and low)</b>	₹ 55.60	₹ 26.80	₹ 21.90	₹ 20.56	₹ 20.55	₹ 29.50	₹ 29.50	₹ 22.53



Graph :6

It is evident from the above figures that the highest share price was 95 in the year 2011 and the lowest share price was 7.25 in the year 2011. Market capitalization changed to -90.53%. The reasons for download fall are negative return on investment (graph no. 4), fluctuating return on shareholders' fund (graph no. 6), decreasing profits (chart no. 1)

### VII. CONCLUSION AND ANALYSIS:

The paper focused on analyzing the financial position of the Essar Shipping Limited through various ratios. The ratios used were current ratio, working capital ratio, return on investment, debt-equity ratio and others. Coming on to the individual interpretation of these ratios the overall position of the company is seen to be distorted. The current ratio was below 1:2 which meant that the company was not liquid enough; thus not being able to pay back the short term liabilities. The working capital ratio was also downward facing, which illustrated that the company could not increase its sale to an adequate level in the last decade. Coming to the investment side, the returns which company earned on its investments were negative, which meant that the company had suffered huge losses. For the very same reason, the return provided to the shareholders was also low. Coming on to the asset capacity of the company in relation to the share holders, the debt equity ratio and the proprietary ratios were also very low, indicating poor health of the company. Last but not the least, the market share of the company also showed a fall in the consecutive year; thus leading to its demise.

Thus through various ratios we could study the overall declining health of the Essar Shipping Limited. And also got the understand how ratios showcase the overall functioning of the organization.

### VIII. REFERENCE:

- <https://www.essar.com/investors/essar-shipping-limited/>
- <https://www.essar.com/shipping/financials/>
- <https://www.moneycontrol.com/india/stockpricequote/shipping/essarshipping/ES10>
- [https://www.moneycontrol.com/stocks/hist\\_stock\\_result.php?ex=B&sc\\_id=ES10&mycomp=Essar%20Shipping](https://www.moneycontrol.com/stocks/hist_stock_result.php?ex=B&sc_id=ES10&mycomp=Essar%20Shipping)