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**A STUDY ON PROFITABILITY ANALYSIS OF SHIPPING COMPANIES IN INDIA**

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**ABSTRACT**

*Shipping is a service industry that by general acknowledgement provides the lifeline of international trade. Shipping plays a very vital and significant role in today's global economy. The transportation through sea routes is considered the most economical and cheapest mode of transport which gave rise to ship building and movement of trade by using available waterways internally for local transportation of goods and subsequently through sea for intercontinental trades. The trade has been growing steadily with each passing day from the inception and recognition of interdependence on each other's products, be it agricultural or industrial. Countries which are rich in raw materials and have surplus tend to export these resources to other countries which are industrialized and able to use these materials to produce finished material by value addition and re-export to the needy countries. Like-wise the countries having agro - based economy, depend upon agricultural produce for export of their surplus commodities, however, the countries do face a situation of trade imbalance when their imports out-weigh exports by value. To study the profitability analysis of shipping companies data used are Secondary data and the analysis is Mean, Standard Deviation, Co-efficient of Variance, compound annual growth rate and multiple regression.*

**KEYWORDS**

Cheapest, Commodities, Profitability, Trade, Transportation.

**INTRODUCTION**

Within transportation, shipping industry is one of the most globalised industries operating in a highly competitive business environment that is far more liberalized than most of the other industries and is, thus, intricately linked to the world economy and trade. Shipping is the lynchpin of the global economy. Over 90 percentage of world trade is carried by the international shipping industry

The history of the Indian shipping industry dates back to 1919, when the first Indian shipping company, Scindia Steam Navigation Company, was established. The industry is seen as a symbol of national pride and sovereignty, with the result that the GoI has often intervened to promote shipbuilding and shipping activities. Nevertheless, the shipping industry is fundamentally global in nature, given that it is mostly engaged in international trade as opposed to coastal trade. Besides, historically, Indian tonnage has not grown in line with the country's trade requirements, a fact that explains the low market share of Indian liners.

The Indian seaborne trade has been growing at a CAGR of 11.38 % for the last 10 years from 1998-99 to 2008-09. For the year 2010-11, the GDP is expected to grow at a rate of 9 per cent, far better than the last two years. However, the CAGR for the period 1998-99 to 2007-08, i.e. prior to the global slowdown has been higher at 12.25%.<sup>1</sup>

Considering the CAGR of 12.25%, the Indian seaborne trade can be expected to grow from the last year's level of 598.70 million tonnes to the level of 2,134 million tonnes by the year 2020 (in terms of cargoes loaded and unloaded in India) i.e. about 3.56 times the current trade.

The global seaborne trade during 2008 reached 8.17 billion tonnes (total cargo loaded). During the past three decades, the annual average growth rate of world seaborne trade is estimated to have been 3.1% per annum. At this rate of growth, UNCTAD expects global seaborne trade to increase by 44% by 2020 and double by 2031, potentially reaching 11.5 billion tonnes and 16.04 billion tonnes, respectively.<sup>2</sup>

**ORIGIN**

India's involvement in trade and commerce since time immemorial is the fundamental governing fact under Indian maritime history. Indian maritime history comprises the extensive dealings with foreign places. South India was along the trade routes for the export of spices like cinnamon and cassia which originated from China and South East Asia. During the Sultanate period, everyday usable articles as well as luxury articles were exported to Syria, Arabia and Persia from Bengal and Cambay. East Africa, Malaya, China and the Far East were other places where things were exported. Most Indian Ocean states have continued to export raw materials and import manufactured goods produced elsewhere.

Over the years Shipping in Indian Ocean has changed from dhows, dry-cargo carriers to containers. The importance of shipping, over the period, has also increased due to the technological developments in transport, especially in terms of containerization culminating in multimodal transportation on door-to-door basis, since majority of the containers move by this mode of transport.

Ancient people famous for their shipping enterprises include the Phoenicians, the Cretans, the Egyptians, the Greeks, and the Romans. The shipping routes of those highly civilized people were chiefly in the Mediterranean, but their voyages extended to India, along the Atlantic coast of Africa, and to Britain, where tin was secured. The goods shipped consisted largely of luxuries, including spices, perfumes, and such fine pottery as the famous Athenian ware; but shipments of grain became important as cities grew in size.

**HISTORY**

From about 1900 until World War I, Germany held second place in the world in both navy and merchant marine, and its challenge to Great Britain's domination of the sea was an important cause of the war. In the period between the two world wars the principal maritime nations were Great Britain and its dominions, the United States, Japan, Norway, Germany, Italy, the Netherlands, and France. The United States merchant marine steadily declined, and in order to stimulate shipbuilding the Merchant Marine Act of 1936 created the U.S. Maritime Commission. At the beginning of World War II in Europe, U.S. shipping was handicapped by the Neutrality Act; law passed by the U.S. Congress and signed by President Franklin Delano Roosevelt in Aug., 1935. It was designed to keep the

<sup>1</sup> Maritime agenda 2010 – 2020, Ministry of shipping, government of India, New Delhi, January 2011.

<sup>2</sup> Review of Maritime Transport, 2008, UNCTAD (UNCTAD/RMT/2008)).

United States out of a possible European war by banning shipment of war material to belligerent nations. American vessels were diverted to trade outside the war zones and many were transferred to other flags, mainly the Panamanian.

Since the 1960s, U.S. ports have modernized their facilities by automating operations, installing computerized tracking systems, and handling containers ("intermodal shipping") that can be transferred directly to truck trailers or rail cars. Older facilities that do not have the room to handle containerized shipping have declined. These changes have greatly reduced the number of jobs in the shipping industry.<sup>3</sup>

## SIZE OF THE ORGANISATION

The term "size of the firm" refers to the scale of organization and its operation. Size is one of the important factors that determine the efficiency and profitability of a business. When selecting the size of the business firm, the firm must be very careful and try to find out the point at which the concern is likely to get the maximum gain. The size can be measured with the help of the following terms.

- Gross Block
- Sales
- Total Asset

## REVIEW OF LITERATURE

**Samuels and Smith (1968)**<sup>4</sup> in their study "Profit variability of profits and firm size", had analyzed the relationship between profitability (profit after tax on net assets) and size of the firm (net assets) had found that they were inversely related to each other for the years 1954-63.

**Kumar.P (1985)**<sup>5</sup> in his study on "Corporate growth and profitability in the larger Indian companies", has examined the relationship between profitability and growth in 83 large companies in India's corporate sector during 1969-79. The study reveals a significant inter- study. The very low value of  $R^2$  in all the cases shows that only a small fraction of the growth of firms in India corporate sector has been explained by profitability.

**Agarwal, V.K (1978)**<sup>6</sup> in his study entitled "Size, profitability and growth of some manufacturing Industries", highlighted the relationship between profitability measures as profit/net assets and size expressed total sales for 7 Indian Manufacturing Industries viz. Cotton, Spinning and Weaving, Cement, Cotton ginning, Jute, Textiles, Paper and Pulp, Sugar and Aluminium for the period 1962-1972. The relationship between the size and profitability was observed in cotton spinning and aluminium industry, while in the case of cement and cotton spinning and ginning industry no such relationship was observed.

## STATEMENT OF THE PROBLEM

The shipping business is marked by high capital intensity, volatile freight rates, commoditized product offerings, and a high level of fragmentation. The credit risk profile of the shipping sector is also affected by the generally high leverage adopted by ship owners to fund acquisition of new/second-hand ships. In general, ships are funded with a high leverage as lenders are usually comfortable with such a funding strategy, given the liquid nature of the collateral. A high leverage does translate into high financial risk from the credit perspective, since ratings seek to capture the timeliness of debt servicing more than ultimate recoverability. This has encouraged the researcher to study the Profitability Performance of Shipping Companies in India. The following is the research questions of this study:

- ★ How is the Profitability performance of shipping company in India?

## OBJECTIVES OF THE STUDY

- ★ To analyse profitability of the Shipping Companies in India.

## METHODOLOGY

### SOURCES OF DATA

Secondary data is used for the study. The required data for the study are collected and compiled from "PROWESS" database of Centre for Monitoring Indian Economy (CMIE) for the period from 2000-2001 to 2009-2010 which is a reliable and empowered corporate database. In addition to this, supportive data are collected from the business world, business India, books, journals, library and various newspapers.

### TECHNIQUES OF ANALYSIS

For analyzing profitability of the Shipping Companies in India, statistical tools like Correlation and Multiple Regression have been applied.

### SAMPLING

As the complete source list of all the Shipping Companies is not available, the data for this study is selected based on convenience sampling method, among the companies listed with major stock exchange of India namely, Bombay Stock Exchange and National Stock Exchange of India; 11 companies are selected for this study. They are Chowgule steams ships Ltd (Chowg), Global Offshore Services Ltd (Global), Great Eastern Shipping Co Ltd (GE), Essar Shipping Ports (Essar), Mercator Lines Ltd (Mercat), Shipping Corporation of India Ltd (SC), SKS logistics (Sks), Seamec Corporation (Seamec), Scindia Steam Navigation (Scindia), Shreyas Shipping Ltd (Shreya), Varun Shipping Co Ltd (Varun).

### HYPOTHESIS

The following hypotheses have been framed in consonance with the objectives of the study.

- ❖ There is no significant linear effect on net profit by the independent variables.

## SIGNIFICANCE OF THE STUDY

The study focuses on profitability performance of selected Shipping Companies during the specific period based on the selected variables, which may create interest not only for the respective companies in the industry but also brings a process of development in operational aspects of the entire company. Shipping transport differs from other transports even though many studies in this direction have been conducted, the present one would be of greater significance to many. The study is expected to help the corporate management, the financiers, the investors and the government at large, to take valuable decision at their own. The study has academic relevance in new theoretical and practical knowledge undoubtedly. The present study will act as a masterpiece on the subject for further research and development.

<sup>3</sup> See J. Hornell, *Water Transport: Origins and Early Evolution* (1946, repr. 1970); B. Landstrom, *The Ship: An Illustrated History* (1983).

<sup>4</sup> Samuels and Smith, (1968) "Profits, Variability of profits and firm size", *Economica*, May 1968, Vol.35, pp. 127-139

<sup>5</sup> Kumar, P., (1985) "Corporate Growth and profitability in the large Indian companies", *Margin*, July 1985, Vol. 17, No:4.

<sup>6</sup> Agrwal, V.K. (1978) 'Size, Profitability and Growth of Some Manufacturing Industries', Unpublished FPM Thesis, Indian Institute of Management, Ahmedabad, India, 1978.



**NET PROFIT**

Table 1 Show the compound annual growth rate of Net Profit of Selected Shipping Companies during the period from 2000-2001 to 2009-10.

**TABLE 1**

Rs. In Crore

Year	Chowg	Essar	Global	GE	Mercat	Sks	Scindia	Seamec	SC	Shreys	Varun
2000-01	5.6	100.27	2.71	176.53	3.15	0.93	-22.51	3.67	382.56	2.73	16.21
2001-02	-23.87	172.3	1.01	197.19	7.48	0.65	-22.72	7.12	241.56	3.38	13.84
2002-03	-2.96	63.3	4.27	227.29	5.39	3.02	69.38	10.02	274.78	1.07	11.38
2003-04	8.69	129.55	6.58	471.13	49.85	7.15	-5.44	9.22	626.99	7.31	35.81
2004-05	30.21	288.62	12.36	808.79	174.42	6.24	-10.94	42.1	1419.91	35.73	81.69
2005-06	10.87	185.22	10.58	838.6	180.99	3.36	-17.66	19.32	1042.2	34.34	180.89
2006-07	7.17	133.98	15.58	883.31	71.2	4	45.64	58.57	1014.58	29.52	141.35
2007-08	24.34	241.67	40.84	1356.8	166.2	2.61	-14.9	37.03	813.9	8.38	225.78
2008-09	23.23	107.66	40.37	1384.8	181.1	0.08	-19.45	47.12	940.67	14.99	122.81
2009-10	40.89	90	40.72	395.75	6.4	8.19	-20.19	203.91	376.91	20.47	12.55
Mean	12.417	151.26	17.502	674.02	84.618	1.985	-1.879	43.808	713.406	11.698	84.231
SD	18.348	71.023	16.566	453.81	81.437	4.2459	32.2375	59.4466	395.094	17.468	79.238
CV	147.77	46.955	94.652	67.329	96.241	213.9	-1715.7	135.698	55.3814	149.33	94.072
CAGR	17.08	110.08	8.99	48.79	53.25	14.46	110.15	2.81	101.33	16.68	125.54

**Source:** Compiled and Calculated from the data published in CMIE.

The above table 1 shows the net profit of the selected Shipping Companies in India. The net profit shows a fluctuating trend during the study period. Profit measures the overall efficiency of a business. The higher profits more efficient are the business considered. Varun Shipping Co Ltd has the highest compound annual growth rate of net profit 125.54 per cent; followed by Essar Shipping Ports 110.08 per cent. Scindia Steam Navigation has the lowest compound annual growth rate of net profit 1.87 per cent.

Shipping Corporation of India has the highest mean of net profit at Rs.713.406 crores; followed by Great Eastern Shipping Company Ltd at Rs.674.02 crores. Scindia Steam Navigation has the negative mean of net profit at Rs.1.879 crores.

Great Eastern Shipping Ltd has the highest Standard Deviation of net profit at Rs.453.81 crores; followed by Shipping Corporation of India at Rs.395.094 crores and the lowest Standard Deviation is maintained by the Sks Logistics Ltd at Rs.4.24 crores and it is found to be stable in net profit.

Shreyas Shipping Co Ltd has highest co-efficient of variation of net profit at 149.33 per cent; followed by Seamec Corporation at 139.65 per cent. Scindia Steam Navigation shows the consistency of net profit more than the other companies because Scindia Steam Navigation has the lowest co-efficient of variation of net profit at 1715.7 per cent more than the other Shipping Companies.

**TABLE 2: MULTIPLE REGRESSION ANALYSIS OF SHIPPING COMPANIES IN INDIA (Model Summary)**

COMPANY	R	R Square	Adjusted R Square	Std. Error of the Estimate
Chowgu	.658(a)	.433	.150	16.91519
Essar	.863(a)	.744	.616	44.01593
Global	.959(a)	.920	.879	5.75310
GE	.985(a)	.970	.955	95.77753
Mercat	.972(a)	.944	.916	23.54014
Sks	.777(a)	.604	.405	3.27426
Scindia	.757(a)	.573	.359	25.81086
Seamec	.973(a)	.946	.919	16.93812
SC	.801(a)	.641	.461	289.93252
Shreys	.656(a)	.431	.146	16.14043
Varun	.952(a)	.907	.861	29.56489

A Predictors: (Constant), Total Assets, Sales, Gross Block

Table 2 represents the multiple regression analysis of Shipping Companies in India during the Study Period from 2000-2001 to 2009-2010. The Great Eastern Shipping Co Ltd statistical significance of the model. The  $R^2$  value at .970 states that all the three independent variables that is Total assets, Sales, Gross block have 97 per cent influence on the dependent variable of Net profit is highly significant at 5 per cent level.

**SUGGESTION**

In order to increase the profitability, the Essar Shipping Ports, Great Eastern Shipping Ltd, Mercator Lines Ltd, Shipping Corporation of India Ltd and Varun Shipping Co Ltd should control their expenses for improving their profitability.

**CONCLUSION**

The Indian shipping industry has been growing in the last two decades; however the competitive position of the Indian shipping industry needs to be strengthened. The Government of India has been supporting the growth of the industry through various measures. The players in the shipping and associated sectors have also a role to play for the development of the industry. It is concluded from this study that during the study period, the efficiency of the Shipping Companies are satisfactory and there is a significant relationship between net profit by the independents variables such as Gross block sales and total assets.

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**WEBSITE**

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