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A Study on Profitability Position of Ports and Special Economic Zone Limited

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Abstract

Profitability Ratio Analysis plays a vital role in corporate world, as it helps the investors to compute the returns earned out of the investments. Profitability Ratio Analysis is necessary for Adani Ports and Special Economic Zone Limited, as they are expanding their business throughout India and the shares of Adani Group also traded at highest cost in the share market. The Paper computes the Profitability Ratios Analysis on the data of Adani Ports and Special Economic Zone Limited which is sufficient to compare the return with its investment. The Data of Adani Ports and Special Economic Zone Limited was collected for past five years from its secondary source and analysed. The Study helps to analyse the Profitability of the company and compare its return out of its performance with its previous years. It analyses the overall performance of the company which resulted in less profitability. Hence, we suggest to increase its revenue by expanding its business operation and by taking up new-revenue generating projects through diversification.

Keywords: Profitability Ratios, Investments, Return, Earnings.

1. Introduction

The term Profitability is a composition of two words 'profit' and 'ability' which refers to "the earnings of the company out of its operations". The Profitability Ratio Analysis helps the management and the investors to analyse the return from the investments. In other words, it tells the investors whether the investment made into the business is worthwhile or not. Its importance is to help the management and the investors to take an appropriate decision. The main objective of the project is to study the Profitability Position of Adani Ports and Special Economic Zone Limited and to recommend the investors to gain the best return by investing in the funds of this public company.[1-4]

2. Research Methodology

The Research Methodology is a process of collecting data from various sources and

evaluating an overall study on validity and reliability. In other words, the Research Methodology involves the techniques of identifying, selecting, analysing, processing and examining, fresh and innovative ideas in the executed journal.[5-10].

2.1 Objective of the Study

- To evaluate the profitability position of Adani Ports and Special Economic Zone Limited
- To calculate the return earned out of the investments.

2.2 Need for the Study

The need for the study is to analyse the profitability position of Adani Ports and Special Economic Zone Limited which is very important for running the business efficiently and effectively. If the business does not have good Profitability

ratio, then it cannot survive in this competitive world.[5-10].

2.2.1. Research Design

The Research Design is an outline of the methods and techniques chosen by the researchers for the arrangement of their collected data using a specific research methodology in a reasonably logical manner so that the research problem would be efficiently handled. Hence, the Research Design adopted in this study is analytical in nature.

2.2.2. Data Collection Method

The data for conducting the study is collected from secondary sources. The secondary data is collected from the annual reports of the company from its website, and other sources.

2.2.3. Period of the Study

The study covers the period of five financial years from 2015-2016 to 2019-2020.

2.3 Statement of Problem

Adani Ports and Special Economic Zone Limited faced a fall in its net profit in the 4th quarter (march 2020), due to a large foreign exchange loss on FY 2019-2020. We have found that the net income of the company is facing downward trend during the present financial year also. Hence, our study upon the Profitability Position of Adani Ports and Special Economic Zone Limited will analyse the return and recommend increase in the net income.

2.4 Scope of the Study

Profitability Ratio is necessary to maximize the firm value. Once the profitability ratios are evaluated, the management can make better decisions to maximize the profits. This helps both the management and the investors of the company for the effective allocation of their funds. This study covers the calculation of Profitability Ratio included in each source of funds of Adani Ports and Special Economic Zone Limited. And further compares and analyses the return of that company for a specific period.

2.5 Limitations of the Study

- The Market Price of the company shares is collected from other sources which may differ from the actual in financials.
- The annual reports for the 5 years are taken from sources other than the company's websites.
- Our suggestions and our analysis on cost are related only to the specific period.

- The study was conducted only on the selected components of funds.

2.6 Review of Literature

Asha Sharma (2012)¹, did cost of capital and profitability analysis of telecommunication industry. The objective of the author is to analyse the relationship between cost of capital and a company's profitability. Impact of cost of capital on profitability was discovered. The author discovered that the higher cost of capital adversely affects the profitability position of the companies. The author suggests that finance is an important aspect for any business thus proper sources of finance is to be used to ensure that cost of capital is under proper control. Author makes use of calculation and formulas of cost of capital of various as tools for analysis. **Akarsh Singhal (2014)²**, investigated the impact of corporate governance on firm performance and valuation by using tools such as WACC, cost of equity, return on capital employed, return on equity, sales growth and cost of debt. The sample contains 30 SENSEX companies listed in BSE for 10 years from FY 2003-04 to FY 2012-13. The main objective is to recognize the correlation between corporate governance variables and cost of capital of the company. Author concludes that competitive and legal infrastructure of the corporate has an important role improving company's performance thus enabling it to attract foreign capital which positively impacts cost of capital. He also suggests investors to invest in companies with better governance and portfolio.[11-15].

3. Profile of Adani Ports and Special Economic Zone Limited

Adani Ports and Special Economic Zone Limited (APSEZ) is a part of Adani Group, which is one of the largest conglomerates in India. They had more than 15% share in India's cargo in FY 2019-20. It possesses installed capacity of 410 million metric tons (MMT) as of FY 2019-20. Adani Ports & Special Economic Zone Limited's key products or revenue segments include income from port services, export incentives, infrastructure leasing income and other operating revenue for the year ending 31st March 2020. Adani Ports and Special Economic Zone Limited (APSEZ) represents a large network of ports with India's largest SEZ at Mundra, Gujarat. It has changed its name from Mundra Port and Special Economic Zone Limited

to its present name on 6th January, 2012. APSEZ Port Business is integral to its logistics business and is India’s largest private port operator with presence across ten locations in six maritime states Gujarat, Goa, Kerala, Andhra Pradesh, Tamil Nadu and Odisha. These ten ports altogether contain 45 berths and 14 terminals. APSEZ Ports handles cargo such as crude, coal, containers to fertilizers, steel and project cargo, agricultural products automobiles, edible oil, chemical, etc. At the National CSR Award Ceremony 2019, the organization won an ‘Honorary Special Mention’ Award presented by the Finance Minister Nirmala Sitharaman and her deputy Anurag Thakur.

4. Profitability Ratio

Our Analysis using Profitability Ratio helps the management and the investors to analyse the return from the investments and its helps to compare the profitable return from the business. In other words, it tells the investors whether the investment made into the business is worthwhile or not.

4.1 Return on Equity

Return on Equity measures the profitability of investment made in equity funds of the firm. It shows the return earned out of the equity funds by utilizing it in the business. It includes the profit, after tax liability and before distribution of dividend.

$$ROE = \frac{\text{Net Profit after Tax}}{\text{Equity Shareholders' Fund}} \times 100$$

Table 1 -Return on Equity
(in Crores)

Year	Net Profit after Tax (In Rs.)	Equity Shareholders' Fund (in Rs.)	Return on Equity (ROE) (in %)
2015-2016	2,841.58	13,625.57	20.85
2016-2017	3,100.61	16,862.04	18.39
2017-2018	2,408.10	18,280.45	13.17
2018-2019	2,637.72	20,488.86	12.87
2019-2020	1,934.25	19,862.67	9.74

(Source: compiled from annual reports of the company 2015-2016 to 2019-2020).[5-9].

The Table shows the Return on Equity of the company during 2015-2016 to 2019-2020. The ROE was highest (20.85%) in the year 2015-2016 and has attained lowest (9.74%) return during 2019-2020. The ROE was facing decreasing trend during the study period. It is due to the massive increase in Equity shareholders fund compared with the increase in Net profit earned by the company. As the company has transferred the maximum part of its earnings to the reserves of the business rather than providing dividend to its equity shareholders.[10-15].

4.2 Return on Capital Employed

Return on Capital Employed measures the profitability of investment made in shareholders’ funds of the company. The Capital Employed includes Equity Shares, Preference Shares and Reserves and Surplus Funds in it. Hence the return from the utilization of shareholder’s fund as a whole is calculated.

$$ROCE = \frac{\text{Net Profit after Tax} + \text{Interest}}{\text{Capital Employed}} \times 100$$

Table 2 - Return on Capital Employed
(in Crores)

Year	Net Profit After Tax (In Rs.)	Interest Paid (in Rs.)	Capital Employed (In Rs.)	Return on Capital Employed (ROCE) (in %)
2015-2016	2,841.58	856.14	13,628.38	27.13
2016-2017	3,100.61	907.49	16,864.85	23.77
2017-2018	2,408.10	1,154.92	18,283.26	19.49
2018-2019	2,637.72	1477.22	20,491.67	20.08
2019-2020	1,934.25	1,858.37	19,865.17	19.09

(Source: compiled from annual reports of the company 2015-2016 to 2019-2020)

The Table shows Return on Capital Employed during 2015-2016 to 2019-2020. The ROCE was

highest (27.13%) in the year 2015-2016 and has attained lowest (19.09%) return in the year 2019-2020 during the study period. The ROCE was fluctuating due to fluctuation in both the Net profit earned and Capital Employed in the business and due to the lower distribution of dividend out of the reserves. Hence the Capital Employed funds have accumulated with reserves and fluctuate according to the Net Profit earned by the company.

4.3 Price Earnings Ratio

The Price Earnings ratio indicates the expectations of the equity investors about the earnings of the company. It is determined by dividing the Market Price of the Equity Shares with Earnings per Share. It relates the earnings with the market price.

$$P/E \text{ Ratio} = \frac{MPS}{EPS}$$

P/E Ratio → Price Earnings Ratio
MPS → Market Price per Share
EPS → Earnings per Share

Table 3 - Price Earnings (P/E) Ratio

Year	Market Price per Share (in Rs.)	Earnings per Share (in Rs.)	P/E Ratio (in Rs.)
2015-2016	248	14.31	17.33
2016-2017	344	14.97	22.98
2017-2018	368	11.63	31.64
2018-2019	383	12.74	30.06
2019-2020	261	9.43	27.68

(Source: compiled from annual reports of the company 2015-2016 to 2019-2020)

The Table shows the Price Earnings Ratio during 2015-2016 to 2019-2020. The P/E ratio was highest (Rs. 31.64) in the 2017-2018 and lowest (Rs. 17.33) in the year 2015-2016. The Price Earnings ratio was in fluctuating trend during the study period due to the fluctuation of share price in the market.

4.4 Dividend Payout Ratio

The Dividend Payout Ratio measures the dividend paid during the year in relation to the earnings of the firm. In other side it shows how much the earnings per share have been retained by the management for the business. It is determined by dividing the Dividend Per Share with Earnings per

Share.

$$DP \text{ Ratio} = \frac{DPS}{EPS}$$

DP Ratio → Dividend Payout Ratio
DPS → Dividend Per Equity Share
EPS → Earnings Per Share

Table 4 - Dividend Payout (DP) Ratio

Year	Dividend Per Equity Share (in Rs.)	Earnings Per Share (in Rs.)	Dividend Payout Ratio (in Rs.)
2015-2016	2.20	14.31	0.15
2016-2017	0	14.97	0
2017-2018	1.30	11.63	0.11
2018-2019	2.00	12.74	0.16
2019-2020	3.40	9.43	0.36

(Source: compiled from annual reports of the company 2015-2016 to 2019-2020)

The Table shows the Dividend Payout Ratio during 2015-2016 to 2019-2020. The DP ratio was highest (Rs. 0.36) in the year 2019-2020 and was lowest (Rs. 0.11) in the year 2017-2018. It was zero during the year 2016-2017 due to the non-issue of dividend in the specific year. Hence the Dividend Payout Ratio was in fluctuation as there is no fixed percentage of dividend issued on the earnings out of the business.

4.4.1 Findings

- Return on Equity is the measure of the profitability of a company in comparison to its equity. It is evident from the study that ROE is falling each year during the period of study. We can conclude that the company is creating value despite the fall in return on equity.
- Return on Capital Employed is a financial ratio that assesses company’s profitability with its capital efficiency. The performance of the ROCE proves that the company will be profitable for the foreseeing future and in long run.

- Price earnings ratio depicts what the market is willing to pay today for a stock based on its past earnings and future earnings capacity. At NSE and BSE index level 25-26 is considered as ideal P/E ratio. It is evident that for the year 2015-16 and 2016-17 company's shares are undervalued whereas in the years 2017-18 and 2018-19 the same is overvalued. The company has good P/E ratio in the year 2019-20.
- The dividend payout ratio is the total amount of dividends paid out to shareholders in proportion to the net earnings of the company. An ideal DP ratio is 0.35 to 0.55. The company has achieved ideal DP ratio in the year 2019-20.

4.4.2 Suggestions

- From analyzing the return on capital employed and return on other sources of funds over the period of study it is discovered that the rate of return is falling and it is important for the company to increase its investment performance. This can be done by increasing both operating and non-operating revenue. Operating revenue can be increased by taking up new revenue-generating projects through diversification and expansion. Non-operating revenue can be increased by investment in revenue-generating profiles outside the company and also by investing more in stocks.
- The company should not follow no or very low debt policy. It is better to have a capital structure that has more debt. Because interest paid on debt is tax-deductible and thus it reduces tax obligations will give desired results in long run and there is chance that the company may get into debt trap.

Conclusions

The study on profitability position of Adani Ports and Special Economic Zone Limited for the period from FY 2015-16 to FY 2019-20, show that the company is having a good valuation. At the same time, few suggestions are provided to ensure that the company maintains the same control, value and also to reduce the risk associated with the company in the foreseeing future. While analysing the return on the major source of fund separately and all sources as a whole it is discovering that it is

important for the company to take measures to increase the profitability of the company and its performance in the future.

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