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A Study on Financial Performance of Hindustan Petroleum Corporation Limited

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Abstract

The oil and Gas sector is one of the important sector among six crore industries in India. It has its strategic importance and plays a pivotal role in influencing the economy of our country.The foundation of the oil & Gas industry in India was laid by the industrial policy Resolution, 1954, when the government announced that petroleum would be the core sector industry.India is the fourth largest energy consumer (2013) of oil & gas in the world, accounting for 37% of total energy consumption.The country has 5.7 billion barrels of proven oil reserves. It has 47.8 trillion cubic feet (TCF) of gas reserves and produced 33.7 billion cubic meter (BCM) of gas in 2013.Hindustan Petroleum Corporation Limited (HPCL) is an Indian state-owned oil and natural gas company headquarters at Mumbai, Maharashtra and with Navratna status. HPCL has been ranked at 260th in the Fortune Global 500 rankings of the world's biggest corporation (2013) and 4th among India's companies for the year 2012. In this paper a study has been made on the profitability, solvency and the liquidity position of Hindustan Petroleum Corporation Ltd.

Keywords: Petroleum industry, Hindustan Petroleum Corporation, Profitability, Liquidity, Solvency

Introduction

The oil and Gas sector is one of the important sector among six crore industries in India. It has its strategic importance and plays a pivotal role in influencing the economy of our country.The foundation of the oil & Gas industry in India was laid by the industrial policy Resolution, 1954, when the government announced that petroleum would be the core sector industry.India is the fourth largest energy consumer (2013) of oil & gas in the world, accounting for 37% of total energy consumption.The country has 5.7 billion barrels of proven oil reserves. It has 47.8 trillion cubic feet (TCF) of gas reserves and produced 33.7 billion cubic meter (BCM) of gas in 2013.

Review of Literature

Agarwal N.K (1997) in his study has mainly processed the data published in stock exchange official directory, Bombay for the purpose of analysis. He conclude that majority of industries have failed to plan their working capital requirements properly. As a result, they often experience excess working capital and sometimes they have to face the problem of shortage of working capital.

Banerjee (1982) conducted a study on the corporate liquidity and profitability in India. The study related to the period 1970-71 to 1977-78. The purpose of the study was to analyze the trend in the liquidity position and their relationship with the literature would be of immense help to the researcher in gaining an insight into the selected problem. The researcher aims a good background to understanding the problem by reviewing certain studies. The study concluded that for some industry/ industry groups the risk in liquidity will lead to arise in profitability and vice-versa, there are others where increase in liquidity is associated with a decline in profitability.

Sharma and Reddy (1986) made a study on the liquidity position of the Nizam Sugar Factories Limited (NSF) during the year 1972-73 to 1981-82 to identify the factors influencing the liquidity. The study concluded that the major element the liquidity position of the firm were the government policies with respect to the input and output as well.

Statement of the Problem

The financial statement is a mirror, which reflects the financial position and operational strength and weakness of concern. But a mere look at the financial statement will not reveal some crucial information.

To bring out the hidden information, financial statements over a period is to be studied. Hence the study is conducted to evaluate the financial statements of Hindustan Petroleum Limited and to obtain a better understanding of the company position and performance. A financial analysis reveals the financial strength and weakness of the firm by properly establishing the relationship between the item of balance sheet and profit and loss account.The study is also conducted to find out the company's efficiency in the management of its assets.

Objectives

1. To analyze the solvency position & assets management of the company.
2. To evaluate the profitability of the company.
3. To study the liquidity position of the company.

Scope of the Study

The scope of the study consists of analyzing the liquidity and solvency position of the company. The researcher also studies the profitability of the Hindustan Petroleum Limited.

Methodology

The study is based on the secondary data. The secondary data is collected from the published Annual Reports of Hindustan Petroleum.

Period Of Study

The present study covers of 5 Years i.e from 1st April 2009 to 31st March 2014.

Tools used for Analysis

The researcher has analysed the financial statements of Hindustan Petroleum Corporation Limited with the help of

1. Ratio Analysis
2. Common-Size Statement

Limitations of the Study

1. The analysis was based on the secondary data provided by the financial statements pertaining to various year.
2. The study is limited to given period of 5 years.
3. Any change takes place in the middle of the accounting years cannot be accounted for because only the figures at the end are taken into account.
4. The external factors that affected the financial performance of the company have not been given much importance.

Company Profile

Hindustan Petroleum Corporation Limited (HPCL) is an Indian state-owned oil and natural gas company headquarters at Mumbai, Maharashtra and with Navratna status. HPCL has been ranked at 260th in the Fortune Global 500 rankings of the world's biggest corporation (2013) and 4th among India's companies for the year 2012. HPCL has about 25% marketing share in India among PSU and a strong marketing infrastructure. The President of India owns 51.11% shares in HPCL.

HPCL was incorporated in 1947 after the takeover and merge of Erstwhile Esso standard and Lube India Limited by the Esso (Acquisition of Undertakings in India) Act 1974. Caltex Oil Refining (India) Ltd- CORIL was taken over by government. of India. In 1976 and merged with HPCL in 1978 by the CORIL-HPCL Amalgamation Order,1978. Kosan Gas company was merged with HPCL in 1979 by the Kosangas Company Act, 1979.

Analysis and Interpretations

The secondary data collected from various sources were analysed using various tools and the interpretations were arrived. Current ratio and liquid ratio was calculated to know the liquidity and the solvency position of the firm. Gross profit and Net profit was calculated to know the profitability of the firm.

Current Ratio

S.NO	Year	Current Assets	Current Liabilities	Ratio
1	2009-2010	25900.31	16555.11	1.56
2	2010-2011	29593.21	34714.81	0.85
3	2011-2012	36759.74	42700.36	0.86
4	2012-2013	38230.64	43262.65	0.88
5	2013-2014	39736.78	35307.26	1.13

It could be seen from the Table that the Current assets of the company have been increased during the study period and the current liabilities of the company have also increased. A decrease in the current liability is noted in the year 2013-2014.

Liquid Ratio

S.NO	Year	Liquid Assets	Current Liabilities	Ratio
1	2009-2010	8062.72	16555.11	0.48
2	2010-2011	9968.69	34714.81	0.28
3	2011-2012	6678.61	42700.36	0.16
4	2012-2013	7443.69	43262.65	0.17
5	2013-2014	5500.66	35307.26	0.16

It is clear from the above Table that the Liquid assets of the company have been decreased during the study period and current liabilities of the company have increased. Liquid ratio was highest in the year 2009-2010 and lowest in the year 2011-2012. The Liquid ratio was below standard norm.

Gross Profit Ratio

S.NO	Year	Gross Profit	Net Sales	Ratio
1	2009-2010	35870.10	101347.51	35.39
2	2010-2011	37530.90	123772.42	30.32
3	2011-2012	29321.70	178139.23	16.46
4	2012-2013	34089.80	206529.34	16.51
5	2013-2014	48039.50	223036.67	21.54

The table concludes that the gross profits of the company show the increased trend during the study period and the sales also increased during the study period. The gross profit ratio is high (35.39%) during the period 2009-2010 and it was low (16.64%) in the year 2011-2012.

Net Profit Ratio

S.NO	Year	Net Profit	Net Sales	Ratio
1	2009-2010	1301.37	101347.51	1.28
2	2010-2011	1539.01	123772.42	1.24
3	2011-2012	1219.24	178139.23	0.68
4	2012-2013	1474.56	206529.34	0.71
5	2013-2014	1733.77	223036.67	0.78

It can be noticed from the Table that the Net Profits of the company have been increased and the sales of the company have also increased. Net profit ratio was highest (1.28 %)in the year 2009-2010 and lowest (0.68%) in the year 2011-2012.

Common Size Statement For The Years 2013 & 2014

Particulars	**31.3.2013**		**31.3.2014**	
	Rs	**percentage**	**Rs**	**Percentage**
Current Assets :				
Inventories	16438.70	21.56	18775.41	24.20
Cash & Bank balance	147.13	0.19	34.71	0.04
Loans & Advances	14082.91	18.47	10007.90	12.90
Current Investments	2360.86	3.09	5124.04	6.61
Trade Receivables	4935.04	6.47	5465.95	7.05
Other Current Assets	266.00	0.35	328.77	0.42
Total Current Assets (A)	**38230.64**	**50.13**	**39736.78**	
Fixed Assets :				
Tangible Assets	22441.67	29.43	25797.19	33.25
Intangible Assets	107.03	0.14	115.05	0.15
Capital Work-in-Progress	5172.87	6.78	4585.56	5.91
Non-Current Investments	8266.07	10.84	5735.83	7.39
Long-Term Loans &Advances	1937.70	2.54	1461.42	1.88
Other non-Current Assets	88.75	0.14	146.26	0.2
Total Fixed Assets (B)	**38014.09**	**49.87**	**37841.31**	**48.78**
Total Assets (A+B)	**76244.73**	**100**	**77578.09**	**100**
Current Liabilities :				
Short-Term Borrowings	23510.54	30.84	16375.17	21.11
Trade Payable	11071.98	14.52	10651.39	13.73

Short-Term Provisions	6879.59	9.02	6538.72	8.43
Other Current Liabilities	1800.54	2.36	1741.98	2.25
Total Current Liabilities (C)	**43262.65**	**56.74**	**35307.26**	**45.52**
Long Term Liabilities :				
Share capital	339.01	0.44	339.01	0.44
Reserves and Surplus	13387.39	17.56	14673.15	18.91
Long-Term Borrowings	8947.18	11.73	15554.88	20.05
Deferred Tax	3598.35	4.72	3908.43	5.03
Long – term Provisions	498.96	0.66	587.66	0.76
Other Long Term Liabilities	6211.19	8.15	7207.70	9.29
Total Long term Liabilities (D)	**32982.08**	**43.26**	**42270.83**	**54.48**
Total Liabilities (C+D)	**76244.73**	**100**	**77578.09**	**100**

During 2013The current asset of the company major portion 50.13 percent of total assets, followed by fixed assets 49.87 percent. Current liabilities are more than current assets.

During 2014 the current assets of the company was more than the fixed assets and it can be expressed as percentage of 51.22 and 48.78 respectively.

Findings of the study

1. Current assets of the company have been increased during the study period and the current liabilities of the company have also increased. A decrease in the current liability is noted in the year 2013-2014.
2. Liquid assets of the company have been decreased during the study period and current liabilities of the company have increased. Liquid ratio was highest in the year 2009-2010 and lowest in the year 2011-2012. The Liquid ratio was below standard norm.
3. gross profits of the company show the increased trend during the study period and the sales also increased during the study period. The gross profit ratio is high (35.39%) during the period 2009-2010 and it was low (16.64%) in the year 2011-2012.
4. Net Profits of the company have been increased and the sales of the company have also increased. Net profit ratio was highest (1.28 %)in the year 2009-2010 and lowest (0.68%) in the year 2011-2012.

Suggestions and Recommendations

1. The company should maintain adequate current assets and liquid assets to meet its short term obligation. It should hold up the more funds in the current assets. The company should adhere the standard norms for maintaining short term solvency.

2. The long term solvency position of the company was satisfactory. The company has to adhere standard norms to maintain a healthy solvency position.

3. The company should minimize their expenses, so that they can maintain their liquidity position in a safe zone.

Conclusion

India has been among the world’s fastest growing economies. With expanding economy comes an increasing demand for energy and, if current trends continue, India will be the world’s third largest energy consumer by 2020. Due to the expected strong growth in demand, India’s dependency on oil imports is likely to increase further. Rapid economic growth is leading to greater outputs, which in turn is increasing the demand of oil for production and transportation.

References

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