

“Profitability analysis: a comparative study of selected petroleum companies of india”

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“Profitability analysis: a comparative study of selected petroleum companies of india”

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ABSTRACT

As India is developing nation and its economy is also growing and enlarging day by day after new economic policy of the year 1991, India's corporates and business entities are also started with international ventures, transactions and mergers so, in such phase of development petroleum industry of India is contributing at its highest level for the same. As we know that petroleum industry is providing valuable inputs and support for the growth of other business organization also because its base line for running any business organization. So, this research study is carried out to determine that, how these petroleum industry is performing in India and for the same three biggest companies of the industry named as ONGC, Reliance Industries and Oil India has been selected on the basis of Net Profit earning capacity and financial data of the years 2015-16 to 2019-20 has been taken as base for the profitability analysis. Three different key profitability ratios are identified and statistically tested by using single factor ANOVA test.

Key Words: Profitability, Petroleum Companies.

INTRODUCTION

As India is second largest petroleum refiner in the world, Indian petroleum industry is playing vital role in the enlargement and growth of the economy. As it was started first in Digboi of Assam and after the certain decades from the year 1991, government has started privatization of petroleum industries and because of which private players are entered in the same, which resulted in tremendous growth of this sector in not only India but whole Asia. More than 195 Million Metric tons production volume has been achieved in the year 2020 and in the same year petroleum products

are accounted for the highest share in exports of the country too, which shows importance of its contribution in GDP of India. Oil and Natural Gas Corporation of India is one of the biggest public sector petroleum company which is contributing around 70% of the domestic contribution.

India is still in development phase and because of which its expecting for extraordinary infrastructural development. As petroleum industries are supplier of varying fuels which are necessary for generation of energy, which is necessary for operating machines, transportation and even for electricity generation, it can be said that growth of petroleum sector leads to the growth of other industries which leads to ultimate economic growth. So, from all aspects it can be said that financial performance and financial position of the petroleum companies are important from the view point of the economy and because of which it's required to be assessed and analyzed for the all stakeholders of this companies. So, this research study has also been carried out with the core objective of measuring financial performance of the selected market dominating petroleum companies. Researcher has tried to analyze financial performance from different aspects and with the use of different parameters for giving valuable inputs regarding the petroleum industries belongs to the India.

RESEARCH METHODOLOGY

This research paper has been carried out by taking into account three petroleum companies selected based on net profit superiority in BSE. This research has been carried out for the period of five years 2015-16 to 2019-20. Secondary data has been extracted and taken as base for the computation of the data by using various sources like thesis, dissertations, research articles, research papers, books etc. For this profitability analysis researcher has computed the ratios, which includes Net Profit Margin, Return on Net worth and Return on Capital Employed. For reaching to the effective conclusion researcher has also made hypotheses testing by using statistical tool single factor ANOVA.

AREA OF THE STUDY

This study has been conducted with the core objective of financial performance analysis of petroleum companies in which area of profitability is being explored through financial ratios.

SAMPLE SIZE

Using convenient sampling method top three petroleum companies are selected based on Net Profit.

OBJECTIVE OF THE STUDY

- To analyze and compare profitability of the selected petroleum companies of India.

HYPOTHESIS OF THE STUDY

H₀₁: There is no significant difference in Net Profit Margin of Selected Petroleum Companies of India.

H₀₂: There is no significant difference in Return on Net Worth of selected Petroleum

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Companies of India.

H₀₃: There is no significant difference in Return on Capital Employed of selected Petroleum Companies of India.

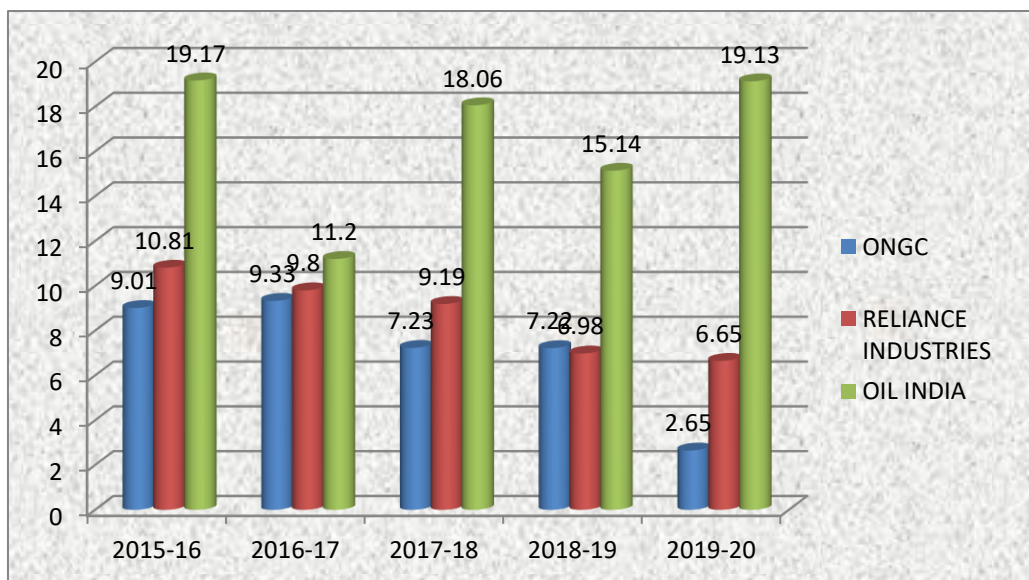
FINANCIAL PERFORMANCE ANALYSIS

1. NET PROFIT MARGIN

(In Percentage)

Year	NAME OF COMPANIES		
	ONGC	RELIANCE INDUSTRIES	OIL INDIA
2015-16	9.01	10.81	19.17
2016-17	9.33	9.80	11.20
2017-18	7.23	9.19	18.06
2018-19	7.22	6.98	15.14
2019-20	2.65	6.65	19.13
Average	7.09	8.69	16.54

Source: www.moneycontrol.com



Above table and chart is showing Net Profit Margin of selected petroleum companies of India for the years 2015-16 to 2019-20. Over the years, Net Profit Margin of ONGC and Oil India has fluctuated whereas Net Profit Margin has been declined at Reliance Industries. It can be observed that average of Net Profit Margin of ONGC is 7.09 %, Reliance Industries is 8.69 % and of Oil India is 16.54 %.

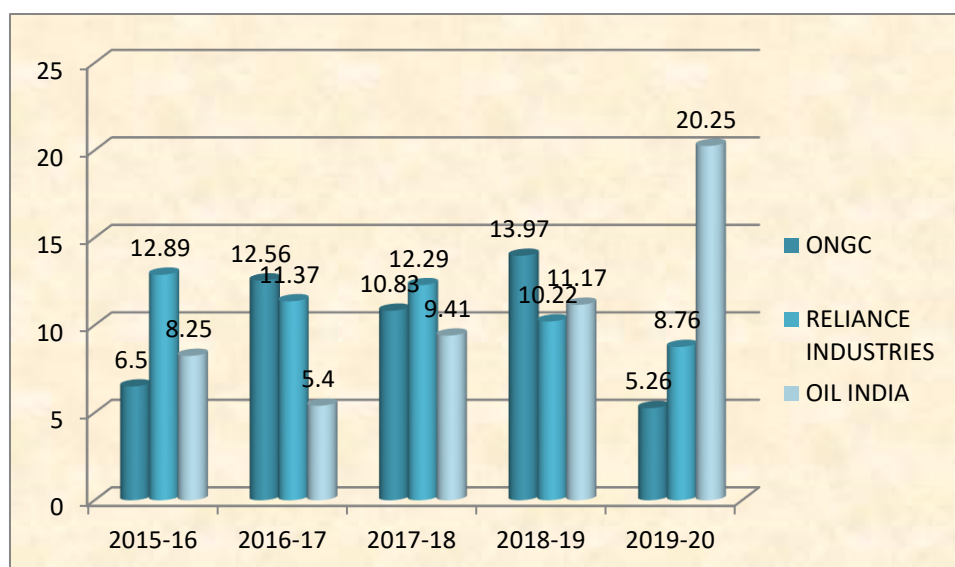
Net Profit Margin of all the three companies is good. But Oil India shows highest Net Profit Margin than ONGC and Reliance Industries.

2. RETURN ON NET WORTH

(In Percentage)

Year	NAME OF COMPANIES		
	ONGC	RELIANCE INDUSTRIES	OIL INDIA
2015-16	6.50	12.89	8.25
2016-17	12.56	11.37	5.40
2017-18	10.83	12.29	9.41
2018-19	13.97	10.22	11.17
2019-20	5.26	8.76	20.25
Average	9.82	11.11	10.90

Source: www.moneycontrol.com



Above table and chart is showing Return on Net Worth of selected petroleum companies of India for the years 2015-16 to 2019-20. Over the years, Return on Net worth of ONGC, Reliance Industries and Oil India has been fluctuated. It can be observed that average of Return on Net worth of ONGC is 9.82 %, Reliance Industries is 11.11 % and of Oil India is 10.90 %. Return on Net Worth of all the

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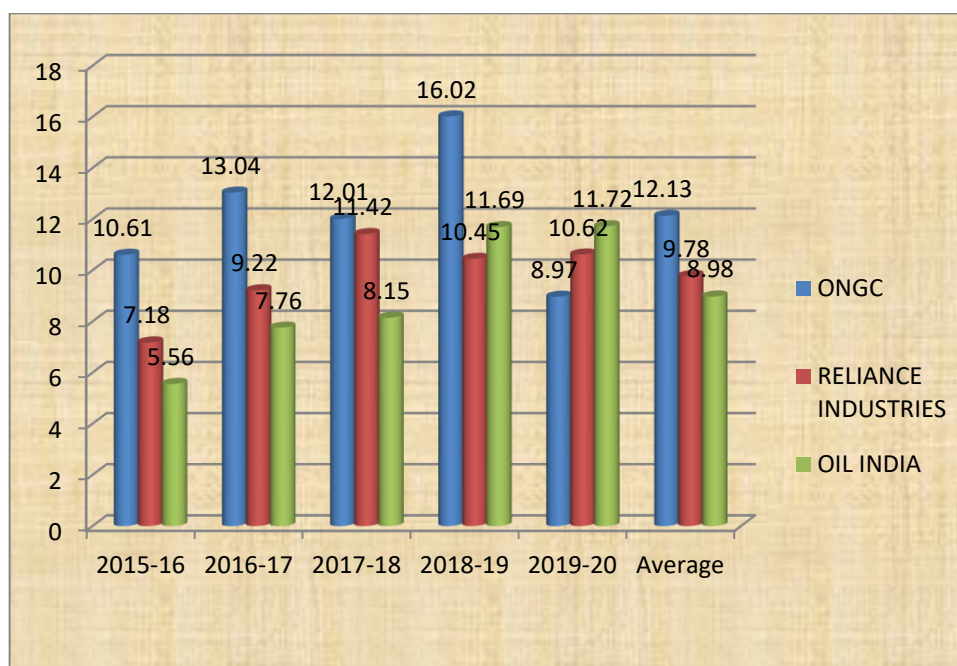
three companies is good. But Reliance Industries shows highest Return on Net Worth than ONGC and Oil India.

3. RETURN ON CAPITAL EMPLOYED

(In Percentage)

Year	NAME OF COMPANIES		
	ONGC	RELIANCE INDUSTRIES	OIL INDIA
2015-16	10.61	7.18	5.56
2016-17	13.04	9.22	7.76
2017-18	12.01	11.42	8.15
2018-19	16.02	10.45	11.69
2019-20	8.97	10.62	11.72
Average	12.13	9.78	8.98

Source: www.moneycontrol.com



Above table and chart is showing Return on Capital Employed of selected petroleum companies of India for the years 2015-16 to 2019-20. Over the years, Return on Capital Employed of ONGC and

Reliance Industries has been fluctuated whereas Return on Capital Employed has been increasing at Oil India. It can be observed that average of Return on Capital Employed of ONGC is 12.13 %, Reliance Industries is 9.78 % and of Oil India is 8.98 %. Return on Capital Employed of all the three companies is good. But ONGC shows highest Return on Capital Employed than Reliance Industries and Oil India.

RESULTS OF HYPOTHESES TESTING

1. NET PROFIT MARGIN

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
ONGC	5	35.44	7.088	7.11352
RELIANCE INDUSTRIES	5	43.43	8.686	3.26553
OIL INDIA	5	82.7	16.54	11.60275

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	255.9654	2	127.9827	17.46663	0.000279	3.885294
Within Groups	87.9272	12	7.327267			
Total	343.8926	14				

Source: Researcher's Calculation

Single factor ANOVA has been conducted to compare average of Net Profit Margin of selected petroleum companies of India for the period of five years. An analysis of variance showed that difference is significant, $F(02,12) = 17.46$, $p = 0.000$

H_{01} : There is no significant difference in Net Profit Margin of Selected Petroleum Companies of India.

$F > F$ Crit ($17.46 > 3.88$) So, Null hypothesis is rejected.

2. RETURN ON NET WORTH

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
ONGC	5	49.12	9.824	14.39153
RELIANCE INDUSTRIES	5	55.53	11.106	2.73573
OIL INDIA	5	54.48	10.896	31.74698

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4.728013	2	2.364007	0.145108	0.866424	3.885294
Within Groups	195.497	12	16.29141			
Total	200.225	14				

Source: Researcher’s Calculation

Single factor ANOVA has been conducted to compare average of Net Profit Margin of selected petroleum companies of India for the period of five years. An analysis of variance showed that difference is significant, $F(02,12) = 0.14$, $p = 0.86$.

H_{02} : There is no significant difference in Return on Net Worth of selected Petroleum Companies of India.

$F < F \text{ Crit } (0.14 < 3.88)$ So, Null hypothesis is accepted.

3. RETURN ON CAPITAL EMPLOYED

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
ONGC	5	60.65	12.13	7.06765
RELIANCE INDUSTRIES	5	48.89	9.778	2.72942
OIL INDIA	5	44.88	8.976	7.18133

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	26.87137	2	13.43569	2.37402	0.135302	3.885294
Within Groups	67.9136	12	5.659467			
Total	94.78497	14				

Source: Researcher's Calculation

Single factor ANOVA has been conducted to compare average of Return on Net Worth of selected petroleum companies of India for the period of five years. An analysis of variance showed that difference is significant, $F(02,12) = 2.37$, $p = 0.13$.

H_{03} : There is no significant difference in Return on Capital Employed of selected Petroleum Companies of India.

$F < F \text{ Crit } (2.37 < 3.88)$ So, Null hypothesis is accepted.

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FINDINGS, SUGGESTIONS AND CONCLUSION

On the basis of conducted research study related to the profitability analysis of the top 3 selected petroleum companies on the basis of Net Profit from BSE for the period of five years it can be analyzed that selected parameters of profitability which includes Net Profit Margin, Return on Net Worth and Return on capital employed gives inputs on the basis of single factor ANOVA test that, there is significant difference identified in the case of Net Profit Margin while Return on Net Worth and Return on Capital Employed shows no significant difference among all the three companies. So, on the basis of detailed graphical and tabular analysis it can be suggested that ONGC and Reliance should focus on enhancement of the Net Profit Margin, ONGC and Oil India should find out more ways for growing their net worth while Oil India and Reliance should optimize its Return on Capital Employed. In total all companies performing well in terms of profitability at their operating capacity level but more ways for improvement can be identified which will be beneficial to the economy as a whole.

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