Chapter V

Findings, Suggestions and Conclusion
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5.1 INTRODUCTION

The growth and development of a nation is driven by energy. Petroleum and related product form the major component of contemporary energy sources. Oil has always been the lifeblood of economics. On the other side it has made countries revise the strategic relations between countries and has made the word “oil politics” an integral part of international relations.

“Oil is precious, save it”. This apparently simple message is splashed across banners at several places. But, it is not that simple as it sounds. Behind this message is the lurking fear that oil reserves may run out one day. Today, life is almost unimaginable without oil. No other single commodity has got such a tremendous impact on the daily life.

The topic for this research is to study the financial performance of oil companies (IOCL and HPCL). The study is based on 2 public oil sector companies. The major objective of this study is to compare the financial performance of IOCL and HPCL.

The data is collected from secondary sources. The processing, classification, tabulation, analysis and interpretation of the data are done with the help of SPSS software package. The statistical tools applied are ratio analysis, cluster analysis, correlation, t-test, regression and trend analysis.
5.2 FINDINGS

The following are the findings obtained from the study.

➢ In a span of 15 years HPCL and IOCL attained high earnings per share during the years 2011-2012 for HPCL and 2002-2003 and 2007-2008 for IOCL. This implies that HPCL and IOCL share price reached its maximum due to the peak of the profit.


investment and as a result of it, company becomes more attractive to potential investors.


- HPCL performed maximum current ratio in the year 1999-2000, 2005-2006 and 2007-2008. IOCL reached its high current ratio during the years 2004-

- HPCL reached its high liquid asset during the year 2008-2009. Similarly IOCL reached high in the years 1997-1998, 1999-2000 and 2000-2001. The company is in greater liquid and it has the ability to meet its current liabilities.


- HPCL and IOCL reached maximum Interest coverage ratio during the year 2003-2004. The increase in profit makes the company is in a better position and the company’s risk is generally minimized.


- IOCL and HPCL are found to be highly correlated with regard to capital turnover ratio. Both companies are facing higher efficiency with regards to capital turnover ratio.
When comparing the stock turnover ratio, there is no correlation with regards to IOCL and HPCL. The inventory management is nothing to do with the shareholders wealth. IOCL is highly correlated with stock turnover and Debt equity ratio, investment made by IOCL is good, but there is no correlation in relation with HPCL.

No correlation is found with respect to current ratio in case of IOCL and there is a negative correlation with respect to earnings per share in case of HPCL. HPCL assets and liabilities, not in any way connected with shareholders wealth. IOCL is positively correlated with stock turnover ratio in relation to Debt equity ratio. There is efficient inventory management.

The correlation of IOCL with earning per share showed that it is highly correlated with gross profit and return on equity. Investment is good and the company is maintaining a good amount of profit.

IOCL and HPCL found that Return on total assets and return on investment are highly correlated with respect to return on equity. Both companies are maintaining adequate amount of profit and attract the investors.

IOCL and HPCL are highly correlated with Interest coverage ratio and return on investment with respect to return on total assets. The concerns are able to meet its interest commitment and the companies are at lesser risk.

The correlation of IOCL and HPCL are highly related with return on investment and return on total assets with respect to operating profit. The
company utilizes most of the operating profit by investing in assets and as such the return on investment is greater.

- IOCL and HPCL are highly correlated with return on total assets with respect to net profits; it indicates that both the company’s are incurring a greater profitability.

- The correlation of IOCL and HPCL identified that gross profit of both the company depends upon return on investment, return on equity, return on total assets, operating profit and net profit. The companies reduced their expenditure to maintain their consistency in their long term debt.

- HPCL is highly correlated with interest coverage ratio with respect to return on investment. The creditors are placed in a good position and it related that the company is at lesser risk.

- HPCL and IOCL experienced same type of earnings per share during 2002, 2006 and 2009. There is a significant difference between HPCL and IOCL with respect to earnings per share, that shareholders wealth showed a decreasing trend for the company’s HPCL and IOCL.

- HPCL and IOCL showed same type of gross profit during 2003 and 2004. The companies experienced higher profitability in the above mentioned years. In the year 2004, HPCL and IOCL experienced same type of net profit. Both the company’s experienced better operational efficiency. HPCL and IOCL experienced same type of return on equity during the year 2003 and 2004. The companies become more attractive to potential investors.
In the year 2003 and 2004, the 2 companies HPCL and IOCL experienced same type of return on total assets. This shows that there is no significant difference between IOCL and HPCL with respect to return on total assets, that the companies experienced greater profitability.

The two companies HPCL and IOCL experienced same type of return on investment during the year 1998, 1999, 2003 and 2004. This shows that there is no significant difference between IOCL and HPCL with respect to return on investment, that the companies are effectively using their capital employed.

HPCL and IOCL experienced same type of operating profit ratio during the year 1998 and 1999. The companies experienced greater operational efficiency of the firm.

In the year 2009, the 2 companies HPCL and IOCL experienced the same type of fixed asset turnover. The companies experienced more efficient utilization of fixed assets. HPCL and IOCL experienced the same type of capital turnover in 2009, companies experienced effective usages of capital.

In the year 1998, 1999 and 2006, the 2 companies HPCL and IOCL experienced same type of current ratio. Companies have adequate current asset to meet their current liabilities. The 2 companies HPCL and IOCL experienced same type of liquid asset ratio in the year 2011 and 2012. The firm liquidity position is not good.
In the year 2003, 2004 and 2005 the 2 companies HPCL and IOCL experienced the same type of debt equity ratio, companies are friendly in financing its growth with debt and more aggressive in financing its growth with debt.

HPCL and IOCL experienced same type of interest coverage ratio in the year 2004. This shows that there is no significant difference between IOCL and HPCL with respect to interest coverage ratio, that long term creditors position is good and the companies are at lesser risk.

In the year 1998 and 2009, HPCL; and IOCL experienced same type of stock turnover ratio, the companies are efficient in inventory management and in business operation. The operating profit ratio of IOCL and HPCL is predominant in influencing the return on investment. Operating profit plays a major role in return on investment.

In IOCL and HPCL for the span of 15 years the return on total assets of IOCL and HPCL is mostly influencing the return on investment. In fact, return on total assets plays a vital role in return on investment.

In the span of 15 years, IOCL and HPCL, the return on total assets is predominant in influencing the gross profit. When return on total assets increases, it leads to increase in gross profit. Therefore gross profit is dependent on return on total assets.

In IOCL, span of 15 years the return on equity of IOCL is predominant in influencing the net profit. It implies that the company is good in investment
and the return on equity increases. Therefore net profit ratio is dependent on return on equity.

➢ In HPCL, span of 15 years operating profit is predominant in influencing the net profit. As operating profit of HPCL increases, Net profit of the company also increases. Therefore net profit of HPCL is dependent on operating profit.

➢ In IOCL and HPCL for the span of 15 years return on total assets is predominant in influencing the net profit. As return on total assets of IOCL and HPCL, increases the net profit of both the companies increases..

➢ In HPCL, span of 15 years operating profit is predominant in influencing the gross profit of HPCL. As sales increases operating profit increases which in turn increases the gross profit.

5.3 SUGGESTIONS

This strategy will be useful in the future course of actions of IOCL and HPCL to meet prudential benefits.

➢ Net profit decreased during the year 2011 & 2012. Therefore the company has to decrease its manufacturing and other expenses, the oil prices must come down.
Operating profit showed a decreasing trend from 2006 to 2012. The company has to improve its net sales so as to maintaining the operating risk within the managerial limit in the years to come.

Fixed assets turnover ratio declined in the year 2012, so the company can improve asset-turnover ratio by increasing sales. Move the products more quickly, including discounting bulk purchases, holding sales on old products and initiating promotional campaigns. Use the assets more efficiently. Sell the assets that are not used. Lease equipment to make up for the sold assets. Leased equipment does not count as a fixed asset.

Liquid ratio showed a declined trend in the year 2012 and it can be increased by sweep accounts through the financial institution. Assess the overhead costs and see if there are opportunities to decrease them. If they have unproductive assets that the business is just storing, then get rid of them. Monitor accounts receivables effectively. Negotiate longer payment terms with the vendors whenever possible to keep the money longer. Review the profitability of various products and services.

Stock turnover ratio decreased in the year 2012 and it can be solved reducing the amount of inventory that the company purchases at one time. Call distributors to seek a better price for the products or materials you buy, to reduce the inventory investment. Set a better overall price for the products to increase demand, which in turn boosts sales and inventory turnover. Increase demand for the product line by working with your marketing team. Focus advertisements to locations frequented by a majority of the target market.
Current ratio decreased in the year 2012 and it can be improved by faster conversion cycle of debtors or accounts receivable, pay off currents liabilities early as possible to reduce the interest rate, sell-off unproductive assets, improve current asset by rising shareholder’s funds and sweep bank account is to be maintained to transfer excess fund from current account to another account which fetches interest on that fund.

Liquid ratio showed a declined trend in the year 2012, it can be raised by using sweep accounts, assessing the overhead costs and see if there are opportunities to decrease them. Unproductive assets to be sold out. Monitoring accounts receivable effectively to ensure that billing your clients properly and prompt payments is received. Negotiate longer payments terms with your vendors. Review the profitability on various products and services.

### 5.4 CONCLUSION

IOCL is considered as a Giant of the companies and experienced a good investment in some years by maintaining considerable amount of profits. Inventory management is good. The company reached its maximum return on fixed asset due to efficient use of fixed assets and as a result it determines the profitability of the business concern. Increasing return on total assets indicates greater profitability. Increase in profit makes the company in a better position and the company is at lesser risk.

HPCL, a fortune 500 company, is one of the major integrated oil refining and marketing companies in India. The creditors are placed in a good position and it is
related that the company is at lesser risk. The company experienced an effective usage of capital. As sales of the company increase, the operating profit which in turn increases the gross profit. Operating profit of the company plays a major role in return on investment. Efficient utilization of fixed assets is faced. They reduced their expenditure to maintain their consistency in their long term debt.

In this study, the financial performance of IOCL and HPCL was measured over the 15 years period from 1997 to 2012. Both the companies are listed as one of the navarathana public units by government of India. IOCL and HPCL on the whole results good in investments and thus it attracts potential investors. They maintained high operating profit, so that there is a sign of managerial effectiveness and the overall efficiency of the enterprise. Both the companies have adequate current assets to meet its current liabilities. Inventory management of IOCL and HPCL is efficient and it resulted in good business operations. The concerns are able to meet its interest commitment and the companies are at lesser risk. The firm’s liquidity position is not good. Share price of the companies reached its maximum due to the peak in profit. Gross profit of the company is more due to proportionate increase in sales. It can be concluded that the financial performances of both the companies are good during the period of study.
5.4 SCOPE FOR FURTHER RESEARCH

The researcher intends to suggest that further analytical studies on public sector oil companies may be undertaken giving mere thrust to the following areas.

❖ An in depth study can be undertaken by the researcher by applying other ratios.

❖ The researcher can elaborate his study based on primary data.

❖ The Managerial and operational performance can be taken for further study.