Chapter I

Introduction
CHAPTER I

INTRODUCTION

Finance is the life blood of any business activity, not only for business, but also for every individual and every commercial activity undertaken. The role of finance is very important in business particularly in companies. It should also be available in right time. If it is not available in time, the company is very much affected. Credit in time, suitable composition, quality and quantity gear the economic activities of companies for better results. Shortage of credit impedes the economic activity. Hence finance has significance in the normal course of trade.

1.1 FINANCIAL PERFORMANCE ANALYSIS

The word performance is derived from the word ‘Parfourmen’, which means ‘to do’, ‘to carry out’, or ‘to render’. It refers to the act of performing, execution, accomplishment and fulfillment. In broader sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar ‘The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. It is not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm’s success, conditions and compliance’.
D.Nidhyanath and C. Aarthi, (2012), study revealed that it is based on secondary data. He used ratio analysis for identifying the financial soundness and cost effectiveness of the firm by establishing relationship between the items of balance sheet and profit and loss account. He concluded that ratio analysis of the company is satisfactory and the company should enhance its performance for meeting challenge and exploiting opportunities in future.

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm’s policies and operations in monetary terms. It is used to measure firms overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sector in aggregation.

Hemanta Saikia(2012), made an attempt that efficient performance is the primary condition for development of any industry, which can boost up the industrial growth in an economy. He explained that the financial performance is considered for application of a technology. He concluded his study that a policy regime correcting the structural imbalance present in Assam can provide a better environment for development of the small scale industries in Assam.

The objective of financial statements is to provide information to all the users of these accounts to help them in their decision-making. Note that most users will only have access to published financial statements. Interpretation and analysis of financial statements involves identifying the users of the accounts, examining the
information, analyzing and reporting in a format which will give information for
economic decision making. Financial analysis is commonly called analysis and
interpretation of financial statement. Analysis of financial statements means
establishing relationship between the items in financial statements for determining
the financial strength and weakness of business. It is the process of scanning of the
financial statements to judge profitability solvency, stability, growth of prosperity of
a firm. According to Myer “Financial statement analysis is largely a study of
relationship among various financial factors in a business as disclosed by a single set
of statements and study of these factors shown in a series of statements”. Thus
financial analysis is the use of financial statements to analyze a company’s financial
position and performance, and to assess future financial performance. In short
financial analysis is the process of examining the composition of financial
statements for getting valuable information about the business. It is a technique of x-
raying the financial position as well as progress of a firm. Financial analysis
includes analysis and interpretation of financial statements. The word analysis
literally means ‘to break into parts’. In the context of financial statement, analysis is
the process of breaking down a complex set of figure into simple statements in order
to have a better understanding. It is a critical examination of financial transactions
effected during a definite period. The term interpretation ‘literally’ means to explain
the meaning and significance of data.

Financial performance analysis is the process of determining the operating
and financial characteristics of a firm from accounting and financial statements. The
goal of such analysis is to determine the efficiency and performance of firm’s
management, as reflected in the financial records and reports. The analyst attempts
to measure the firm’s liquidity, profitability and other indicators that the business is conducted in a rational and normal way, ensuring enough returns to the shareholders to maintain at least its market value. D.C. Gohil (2006), an attempt has been made to study the financial performance of two large units of petroleum industry i.e., IOCL and BPCL in the paper, it has been tried to analyze the assets turnover, liquidity and profitability of two units with various financial tools and statistical tools.

The ability of an organization to analyze its financial position is essential for improving its competitive position in the market place. Through a careful analysis of its financial performance, the organization can identify opportunities to improve performance of the department, unit or organizational level. In this context researcher has undertaken an analysis of financial performance of oil companies to understand how management of finance plays a crucial role in the growth.

1.2 INDICATORS OF FINANCIAL PERFORMANCE

1.2.1 Techniques/Tools of Financial Performance Analysis

An analysis of financial performance can be possible through the use of one or more tools / techniques of financial analysis:

1.2.1(a) Accounting Techniques

It is also known as financial techniques. Various accounting techniques such as Comparative Financial Analysis, Common-size Financial Analysis, Trend Analysis, Fund Flow Analysis, Cash Flow Analysis, CVP Analysis, Ratio Analysis, Value Added Analysis etc. may be used for the purpose of financial analysis.
1.2.1(b) Common-Size Financial Analysis

Common-size statement is also known as component percentage statement or vertical statement. In this technique net revenue, total assets or total liabilities are taken as 100 per cent and the percentage of individual items are calculated. It highlights the relative change in each group of expenses, assets and liabilities.

1.2.1(c) Trend Analysis

Trend analysis indicates changes in an item or a group of items over a period of time and helps to draw the conclusion regarding the changes in data. In this technique, a base year is chosen and the amount of item for that year is taken as one hundred for that year. On the basis of that the index numbers for other years are calculated. It shows the direction in which concern is going.

1.3 DEFINING FINANCIAL ANALYSIS TOOLS

Financial analysis tools are one of the most efficient ways that can be used for ensuring good profit from your investments. These financial analysis tools are highly helpful in evaluating the market and investing in a way so as to maximize the profit from the investments made. These financial analysis tools are useful for deciphering both internal and external information related to a specific business organization.
1.3.1 Applications of Financial Analysis Tools

Mainly, the financial analysis tools can be used for SWOT analysis. The term SWOT stands for the following factors.

S - Strength
W - Weaknesses
O - Opportunities
T - Threats

The economic conditions in the present day market are analyzed by management professionals with assistance from SWOT analysis performed by the various financial analysis tools. Each section of the evaluation process contains specific information which is helpful in gauging the general performance of a company. Moreover, financial analysis tools are really important for any investor for the company’s performance shows direct impact on the price of a company’s stock.

1.3.2 Types of Financial Analysis Tools

There are different types of financial analysis tools available in the financial field. These tools are designed especially for carrying out specific functions. Among these different types of financial analysis tools, the Balanced Scorecard is one tool which can be of good assistance to gauge the financial position of a company (can be easily performed using Ready Ratios software). This financial analysis tool is helpful in subjective as well as objective measurement of special processes.
Moreover, this financial tool is also helpful in evaluation of a company’s overall return, the operating income, and the capital financing processes.

Another important financial analysis tool is benchmarking which is used for assessing the intrinsic strengths and weaknesses of a business organization. Besides, this also sways the stock price of the company. Also, there are some professional agencies which use this type of financial analysis tools to generate advice for their clients.

In addition to the above mentioned financial analysis tools, other important financial analysis tools include ratio analysis, trend analysis, comparative financial statement analysis or horizontal analysis, and common size statement analysis or vertical analysis.

In this research the researcher applied the most important financial indicators, ratio analysis to measure the financial performance of the companies and on this basis many tools have applied and thus conclusion has been drawn.

1.4 OIL INDUSTRY IN INDIA

“Oil, everyone knows, is of vast importance in the world today. A country that does not produce its own oil is in a weak position… From the point of view of defence, the absence of oil is a fatal weakness…” (Statement of Prime Minister Jawaharlal Nehru in parliament, 26 May, 1956.)
After the Indian Independence, the oil industry in India was a very small one in size and oil was produced mainly from Assam and the total amount of oil production was not more than 2,50,000 tones per year.

This small amount of production made the oil experts from different countries predict the future of the oil industry as a dull one and also doubted India’s ability to search for new oil reserves. But the Government of India declared the Oil industry in India as the core sector industry under the industrial policy resolution bill in the year 1954, which helped the oil industry in India vastly.

(www.indianmirror.com/indian-industries/oil.html)

Oil exploration and production in India is done by companies like NOC or National Oil Corporation, ONGC or Oil and Natural Gas Corporation and OIL who are actually the oil companies in India that are owned by the Government under the Industrial Policy Rule. The National oil Corporation during the 1970s used to produce and supply more than 70 percent of the domestic need for the petroleum but by the end of this amount dropped to near about 35 percent. This was because the demand on the one hand was increasing at a good rate and the production was declining at a steady rate.

Oil Industry in India during the year 2004-2005 fulfilled most of demand through importing oil from multiple oil producing countries. The oil industry in India itself produced nearly 35 million metric tons of oil from the year 2001 to 2005. The import that is done by the oil industry in India comes mostly from the Middle East Asia.
The oil that is produced by the oil Industry in India provides more than 35 percent of the energy that is primarily consumed by the people of India. This amount is expected to grow further with economic and overall growth in terms of production as well as percentage. The demand for oil is predicted to go higher and higher with every passing decade and is expected to reach an amount of nearly 250 million metric ton by the year 2024. (Petroleum and coal by Das.P.K & Baruah.H)

Some of the major companies in the Oil Industry in India are:

- Oil India Ltd.,
- Reliance Industries
- Bharat Petroleum Corporation Limited.
- Hindustan Petroleum.

1.5 THE INDIAN PETROLEUM AND OIL INDUSTRY

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 economies. 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.

The history of Indian Oil Industry started way back in 1867 in Assam. The last fifty years have seen the rise of giant oil companies like ONGC, IOC and Reliance etc. The oil industry has been instrumental in fuelling the rapid growth of the Indian economy. Oil contributes about 32% of the total energy consumption in
the country. India is the fifth largest consumer of oil in the world. The per capita consumption of oil is a meager 0.45 ton. Major policy changes are planned to make the Oil Industry globally competitive. With the reforms package formulated and the expected high growth in all economic sectors, the demand for petroleum products is expected to show a compound growth of about 7%.

“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.

1.6 PUBLIC SECTOR COMPANY

A public sector company is essentially a presence of government in the form of a business activity. The type of company can vary, depending on how its funding source is established. The government level can be national, state or local.

The public sector has been playing a vital role in the economic development of the country. In fact the public sector has come to occupy such an important place in our economy that on its effective performance largely depends on the achievement of the country’s economic social goals. The public sector has played an important role in the achievement of constitutional goals like reducing concentration of economic power in private hands, increasing public control over the national economy, creating a socialistic pattern of society, etc. With all its linkages the public sector has made solid contributions to national self-reliance.
1.7 THE LIST OF INDIA’S TOP TEN COMPANIES IN PUBLIC SECTOR DOMAIN

- Indian Oil Corporation (IOCL)
- NTPC India
- Bharat Petroleum Corporation Limited (BPCL)
- Hindustan Petroleum Corporation Limited (HPCL)
- Oil & Natural Gas Corporation (ONGC)
- Steel Authority of India
- Bharat Heavy Electricals Limited (BHEL)
- BSNL Limited
- Hindustan Aeronautics Limited
- Bharat Dynamic Limited

1.8 TOP 10 PUBLIC SECTOR OIL COMPANIES

- Indian Oil Corporation
- ONGC
- Bharat Petroleum
- Reliance Petroleum Limited
- Essar Oil Limited
- Gas Authority of India
- Hindustan Petroleum Corporation
- Aban
- Oil India Limited
- Tata Petrodyne
The researcher made an attempt to study and compare the financial performance of 2 public sector oil companies that falls within the top ten public sector oil companies. Therefore the researcher is interested to study the financial performance of IOCL and HPCL which ranks the first and seventh position respectively.

### 1.9 INDIAN OIL CORPORATION LIMITED

**A Giant is born**

Indian Oil Corporation was incorporated on 30\textsuperscript{th} June 1959 under the and style of Indian Company Limited upon merger with Indian Refineries Limited on 1\textsuperscript{st} September 1964, the name of the company was changed to Indian Oil Corporation Limited.

Indian Oil has its registered office at:
Indian Oil Bhavan
G-9, Aliyavar Jung Marg
Bandra (East)
Mumbai – 400 051, India.

Guwathi Refinery was the first public sector refinery of the country. It was built with Romanian Collaboration and was inaugurated by the Prime Minister of India, Pandit Jawaharlal Nehru, on 1\textsuperscript{st} January 1962. As on 1\textsuperscript{st} April 2002 Indian oil owns and operates 10 of the country’s 18 refineries. Indian oil’s seventh refinery at Panipat was commissioned in 1998. Indian oil total refining capacity is now 65.7 Million Metric Tonnes (MMT) per annum.
Indian Oil commissioned India’s first product pipeline, the Guwahati-Siliguri pipeline in 1965. This 435 km pipeline connecting Guwahati Refinery to different installations was designed to carry about 0.818 MMT of oil per year.

Indian Oil is the country’s largest commercial enterprise and it is also the first and only company to cross Rs.1 lakh crore turnovers with a sales turnover of Rs. 4,73,210 crores and profits of Rs 7,019 crores for fiscal 2013. (www.iocl.com)

It is the leading Indian corporate in the Fortune ‘Global 500’ listing, ranked at the 88th position in the year 2013 It has been adjudged second in petroleum trading among the 15 national oil companies in the Asia-pacific region, and is ranked 112 in forbes ‘International 500’ companies outside United States.

1.10 DEVELOPMENT OF INDIAN OIL CORPORATION LIMITED

Indian Refineries limited and Indian Oil Company Limited were set up in 1958 and 1959 respectively, to build national competence in the oil refining and marketing business. On 1st September 1964, these two companies were merged to form Indian Oil Corporation Limited. Indian oil own and operates seven of the country’s 18 refineries at Digboi, Guwahati, Barauni, Gujarat, Haldia, Mathura and Panipat. A new 9 MMTPA grass roots refinery is being set up at paradip in Orissa. In addition, Indian oil has two subsidiary companies, Chennai Petroleum Corporation limited and Bongaigaon Refinery and petrochemicals limited with a combined refining capacity to 47.50 MMTPA, the highest in the country today.

Indian Oil’s Research and Development centre has been engaged in world-class research in tribology, refinery processes and pipeline transportation. The centre
has developed over 2000 lubricant and grease formulations, and obtained approvals of original equipment manufacturers in India and abroad.

A wholly owned subsidiary, Indian Oil Blending Limited, manufacturers over 450 grades of the country’s leading servo brand of lubricants and greases.

Indian Oil’s quality initiatives have led to over 60 of its units earning ISO-9001/9002/14001 certification. These include refineries, pipelines, aviation fuel station, lube and grease plants, quality control laboratories, LPG bottling plants, tap-off points and the Indian Institute of Petroleum Management.

Indian Oil pursues the vision of becoming a major, diversified transnational, integrated energy company, with national leadership and a strong environment conscience, playing a national role in security and public distribution. Business opportunities in Exploration and Production, Gas and Gas-to-liquid, Petrochemicals, power, Information Technology and Communications, Collaborative R & D, Exports, Shipping, Training and Consultancy, Engineering and Constructive and transnational operations are being proactively identified and developed.

Indian Oil’s sincere commitment to quality, safety, health and environment is reflected in the series of national and international certifications and awards earned over the years. Some of the certifications and awards are international firsts.

The 10th largest petroleum company in the world, Indian Oil is now on the threshold of transforming into an energy conglomerate.
Here is the Company summary, which will help anyone to introduce about the company in a short time.

<table>
<thead>
<tr>
<th>Company’s Slogan</th>
<th>The Energy of India Golden steps towards energizing India.</th>
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<tbody>
<tr>
<td>Company’s Vision</td>
<td>A major, diversified, transnational, integrated energy company, with national leadership and a strong environment conscience, playing a national role in oil security and public distribution.</td>
</tr>
<tr>
<td>Company’s Mission</td>
<td>To achieve international standards of excellence in all aspects of energy and diversified business with focus on customer delight through value of products and services, and cost reduction.</td>
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<tr>
<td></td>
<td>To maximize creation of wealth, value and satisfaction for the stakeholders.</td>
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<td></td>
<td>To attain leadership in developing, adopting and assimilating state-of-the art technology for competitive advantage.</td>
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<td></td>
<td>To provide technology and services through sustained research and development.</td>
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<td></td>
<td>To faster a culture of participation and innovation for employee growth and contribution.</td>
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<td></td>
<td>To cultivate high standards of business ethics and total quality management for a strong corporate identify and brand equity.</td>
</tr>
<tr>
<td></td>
<td>To help enrich the quality of life of the community and preserve ecological balance and heritage through a strong environment conscience.</td>
</tr>
<tr>
<td>Company Type</td>
<td>Public Sector</td>
</tr>
<tr>
<td>Industry Sector</td>
<td>Oil and Gas</td>
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<tr>
<td>Products/Services</td>
<td>➢ Bulk Petroleum products</td>
</tr>
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<td></td>
<td>➢ Crude Oil</td>
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<tr>
<td></td>
<td>➢ Lubricants</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>34,105</td>
</tr>
<tr>
<td>Other locations of</td>
<td>Corporate office in New Delhi refineries in Baruni (Bihar), Jawahar Nagar (Gujarat), Guwhati(Assam),</td>
</tr>
</tbody>
</table>
Factories/offices

| Haldia (West Bengal), Mathura (Uttar Pradesh), Panipat (Haryana), Bongaigaon (Assam). Pipeline offices in Noida, Panipat, Kolkata, Rajkot, Chennai Marketing offices in Mumbai, New Delhi, Kolkata, Chennai R & D Centre in Chennai. |

CSR Activities

| Indian oil Foundation |

Trust/Foundation for CSR

| Community Welfare |
| Energy |
| Environment |
| Health Care |
| Heritage Conservation |
| Poverty Eradication |
| Rural Development |
| Sports |

| Environment. |
| Community Welfare. |
| Art, Culture and Heritage Conservation. |

1.12 OBJECTIVES & OBLIGATIONS OF INDIAN OIL CORPORATION

1.12.1 Objectives

- To serve the national interests in oil and related sectors in accordance and consistent with Government policies.

- To ensure maintenance of continue and smooth supplies of petroleum products by way of crude oil refining, transportation and marketing activities and to provide appropriate assistance to consumers to conserve and use petroleum product efficiently.

- To enhance the country’s self-sufficiency in crude oil refining and build expertise in laying of crude oil and petroleum product pipelines.
➢ To further enhance marketing infrastructure and reseller network for providing assured service to customers throughout the country.

➢ To create a strong research & development base in refinery processes, product formulations, pipeline transportation and alternative fuels with a view to minimizing/eliminating imports and to have next generation products.

➢ To optimize utilization of refining capacity and maximize distillate yield and gross refining margin.

➢ To maximize utilization of the existing facilities for improving efficiency and increasing productivity.

➢ To minimize fuel consumption and hydrocarbon loss in refineries and stock loss in marketing operations to effect energy conservation.

➢ To earn a reasonable rate of return on investment.

➢ To avail of all viable opportunities, both national and global, arising out of the Government of India’s policy of liberalization and reforms.

➢ To achieve higher growth through mergers, acquisitions, integration and diversification by harnessing new business opportunities in oil exploration & production, petrochemicals, natural gas and downstream opportunities overseas.

➢ To inculcate strong ‘core values’ among the employees and continuously update skill sets for full exploitation of the new business opportunities.
➢ To develop operational synergies with subsidiaries and joint ventures and continuously engage across the hydrocarbon value chain for the benefit of society at large.

1.12.2 Obligations (IOCL)

Towards customers and dealers: To provide prompt, courteous and efficient service and quality products at competitive prices.

Towards suppliers: To ensure prompt dealings with integrity, impartiality and courtesy and help promote ancillary industries.

Towards employees: To develop their capabilities and facilitate their advancement through appropriate training and career planning. To have fair dealings with recognized representatives of employees in pursuance of healthy industrial relations practices and sound personnel policies.

Towards community: To develop techno-economically viable and environment-friendly products. To maintain the highest standards in respect of safety, environment protection and occupational health at all production units.

Towards Defence services: To maintain adequate supplies to Defence and other para-military services during normal as well as emergency situations.
1.12.3 Financial Objectives

- To ensure adequate return on the capital employed and maintain a reasonable annual dividend on equity capital.

- To ensure maximum economy in expenditure.

- To manage and operate all facilities in an efficient manner so as to generate adequate internal resources to meet revenue cost and requirements for project investment, without budgetary support.

- To develop long-term corporate plans to provide for adequate growth of the corporations business.

- To reduce the cost of production of petroleum products by means of systematic cost control measures and thereby sustain market leadership through cost competitiveness.

- To complete all planned projects within the scheduled time and approved cost.

1.13 ROOTS OF INDIAN OIL CORPORATION LIMITED

The roots of Indian Oil Corporation limited can be ascertained from the point of inception, continuous progress and growth in a span of years. The following important years denote the multifarious growth.

1948: India’s government passes the industrial policy Resolution, which states that its oil industry should be state-owned and operated.

1958: The government forms its own refinery company, Indian Refineries Limited.
1959: Indian oil company is founded as a statutory body to supply oil products to Indian state enterprise.

1964: Indian Refineries and Indian oil company merge to form the Indian oil corporation

1976: The Burmah-shell and the Caltex refineries are nationalized.

1981: Half of India’s 12 refineries are operated by Indian oil.

1998: The company’s seventh refinery is commissioned at panipet.

2002: The Indian petroleum industry is deregulated.

1.14 GROUP OF COMPANIES (IOCL)

1.14.1 Lanka IOC PLC

Lanka IOC, Indian oil’s subsidiary in Sri Lanka, is the only private oil company other than the state-owned Ceylon Petroleum Corporation (CPC) that operates retail petrol/diesel stations in Sri Lanka. Sri Lanka IOC is ranked No. 1 among the island nation’s leading listed companies.

Indian Oil’s entry into Sri Lanka is in line with its Vision of becoming a transnational energy major. While expanding its market base to convert the surplus avails of petroleum into more wealth for stakeholders, Indian oil is also committed to being a good strategic partner to Sri Lanka. Its vast experience in downstream petroleum operations in India is helping to create a healthy and competitive petroleum industry in Sri Lanka for the larger benefit of the island nation. The surplus refining capacity in India is being used to bridge the existing gap between demand and supply in Sri Lanka. Lanka IOC intends to harness the advantages of
geographical proximity between India and Sri Lanka, resulting in low freight rates in transportation and Indian Oil’s superior R&D capabilities, to provide petroleum products at the most competitive price to the Sri Lankan market.

Lanka IOC incorporated to carry out retail marketing of petroleum products and bulk supply to industrial consumers, Lanka IOC operates about 150 petrol & diesel stations in Sri Lanka, and has a very efficient lube marketing network. It major facilities include an oil terminal at Trincomalee, Sri Lanka’s largest petroleum storage facility and an 18,000 tonnes per annum capacity lubricants blending plant and state-of-the-art fuels and lubricants testing laboratory at Trincomalee. Sri Lanka IOC’s activities not only provide the island nation energy security and supply stability but also upgrade the overall standards of service, particularly in the retail sector. It took over 100 CPC-owned petrol/diesel stations in February 2003 and commenced retailing products to customers. Subsequently, it took over 59 dealer-owned franchisee retail outlets.

Presently, it holds a market share of about 43.5%. In a highly competitive bunker market, catering to all types of bunker fuels and lubricants at all ports of Sri Lanka, viz., Colombo, Trincomalee and Galle. It is the major supplier of lubricants and greases to the three arms of the Defence services of Sri Lanka. It has also introduced nitrogen filling facilities for automotive tyres, the first of its kind in Sri Lanka.

Lanka IOC is making phased investments to provide world-class quality petroleum products and services to the Sri Lankan customers. Through its retail chain, it is also making available non-fuel facilities like convenience stores, 24 hour
ATMs, automotive carwash, food marts, etc. This will not only give value-for-money to the motorists but would give altogether a new refueling experience. The refurbished stations of Lanka IOC have brought praise from all sections of the Sri Lankan society.

Lanka IOC has also acquired the China Bay Tankfarm of World War II vintage, which is of historic and strategic significance as it is the largest tankfarm located between the Middle East Singapore. The tankfarm connects to the trincomalee harbor, which is the 5th largest all-weather, non-tidal natural harbor in the world, with a 56 Km shoreline, making this tankfarm most effective for fuel receipt, storage and supply. The tankfarm, formerly owned and operated by CPC, has a total of 99 tanks, each with a capacity of 12,000 Kilolitres. Currently, only 15 of these tanks are operational. Lanka IOC intends to develop the tankage on need basis, as the volume of its downstream marketing operations in Sri Lanka grows.

1.14.2 Indian Oil (Mauritius) Limited

Indian oil (Mauritius) Ltd (IOML), a wholly owned subsidiary company of Indian Oil Corporation Ltd., is the third largest petroleum company in Mauritius. Registered on 24th October 2001 and commencing marketing operations in January 2004, IOML holds an overall market share of 24% and competes with other multinational companies present in Mauritius for over five decades. Indian Oil’s presence in Mauritius is of strategic importance to penetrate and explore marketing opportunities in the African countries and nearby islands.
IOML has a range of products – automotive fuels, aviation fuel, marine fuels, and SERVO Lubricants. A comprehensive retail network has been established in Mauritius with the commissioning of several modern filling stations. It operates a modern petroleum bulk storage terminal at the Mer Rouge port, besides 17 filling stations. There is considerable expansion of retail network ongoing in Mauritius. Indian Oil’s world class SERVO lubricants are available in Mauritius through a widespread network of Filling stations, spare parts shops and supermarkets. Distributors cover the supply to the unorganized sector, i.e. workshops, garages and service stations, etc., in the island nation. SERVO enjoys patronage in many African countries too.

IOML has significant presence in the marine bunker business in Mauritius. It is in the process of enhancing its infrastructure at port quays to meet the future growth needs of this bunkering port. IOML commands the dominant share of 42%, in the Aviation Fuel business and supplies Jet fuel to many renowned airlines. It also has 25% equity in the new petroleum terminal at the Sir Seewoosagar Ramgoolam International Airport, created by a consortium at an investment of USD 16 million. With a major presence in the industrial and commercial market sectors, IOML provides bulk petroleum products to various sectors such as the transport, industry, building and construction, manufacturing, textiles, steel, hospitality, etc.

IOML has set up a modern state-of-the-art 24,000 metric tonnes storage facility at Mer Rouge in Port Louis by means of eight tanks of various capacities for different products. This terminal has some of the most modern facilities for handling and delivery of the petroleum products including loading bays and tank gauging
systems, which are all micro-processor controlled. It is also the first of its kind in Mauritius.

A comprehensive petroleum laboratory for testing all fuels and lubricants has also been set up. The ISO 9001-2000 accredited laboratory is the first full-fledged petroleum products testing laboratory in Mauritius.

1.14.3 IOC Middle East FZE

IOC Middle East FZE is Indian Oil’s subsidiary overseeing business expansion in the Middle East. Mainly into blending and marketing of SERVO lubricants and marketing of petroleum products in the Middle East, Africa and CIS countries, the company also markets Group 2 base oils in Bulk and Flexis. IOME also undertakes Lube Seminars and oil analysis consultancy for knowledge sharing with several customers, Distributors and OEM agencies. IOME exports finished lubes to Oman, Yemen, Bahrain, UAE and Nepal.

During the year 2009-10, its finished lube sales registered a growth of 143% and Base oil sales increased by 43%.

1.14.4 Chennai Petroleum Corporation Limited (CPCL)

Chennai Petroleum Corporation Limited (CPCL) is world class Refining Company with dominant presence in south India. CPCL, formerly known as Madras Refineries Limited (MRL), was formed in 1965 as a joint venture between the Government of India (GOI), AMOCO and National Iranian oil Company (NIOC).
Subsequent to AMOCO’s and GOI’s disinvestment in 1985 and 2001 respectively, CPCL became a group company of Indian Oil Corporation Limited (IOCL).

In 1969, CPCL set up its first Refinery in Manali, Chennai with an installed capacity of 2.5 MMTPA in a record time of 27 months. CPCL now has two refineries with a combined refining capacity of 10.5 MMTPA. The Manali Refinery has progressively increased its refining capacity to the current level of 9.5 MMTPA and is one of the most complex refineries in India and produces Fuels, Lubes, Wax and petrochemical feed stocks. CPCL’s second Refinery is located at Cauvery Bain in Nagapattinam. This unit was initially set up with a capacity of 0.5 MMTPA in 1993 and later enhanced to 1.0 MMTPA with its own captive jetty. The turnover of CPCL for the year 2008-09 was Rs.36,490 crore.

CPCL plays the role of a Mother Industry supplying feed stocks to the neighboring industries in Manali. CPCL’s products are marketed through IOCL. CPCL’s products are mostly consumed domestically except Naphtha, Fuel oil and Lubes which are partly exported. CPCL has also made pioneering efforts in the field of Energy and water conservation by setting up a wind Farm and Sewage Reclamation and Sea water Desalination Plants.

**1.14.5 Indian Oil – CREDA Biofuels Limited**

‘Green Energy from Rural India’ a dream for clean fuel took shape on 6th February, 2009 when the JJV, Indian Oil – CREDA Biofuels Ltd. (ICBL) was incorporated for entering the biofuels value chain in the state of Chhattisgarh.
Indian Oil and Chhattisgarh Renewable Energy Development Agency (CREDA), the nodal agency in Chhattisgarh for promoting renewable energy projects, hold 74 per cent and 26 per cent equity, respectively in this JV. This JV has an authorized share capital of Rs 400 crores. Indian Oil – CREDA Bio fuels Limited envisages production of 30,000 metric tonnes (MT) of biodiesel per annum from energy crop plantation on 30,000 hectare of revenue wasteland. The feedstock will be generated by undertaking energy crop plantations (Jatropha, Pongamia etc.) on revenue wasteland in various districts of Chhattisgarh.

ICBL has established itself a leading corporate in the arena of energy crop plantation in the state of Chhattisgarh and is poised to achieve greater heights in the coming years.

1.15 RESEARCH AND DEVELOPMENT (IOCL)

Today’s competitive and challenging business environment demands continuous up-gradation and development of products, processes and services for sustained growth. Research and Development (R&D) contribute substantially towards achieving these goals. R & D also enables an enterprise to phase out products considering the short product life cycle of various products, by introducing new designs, technologies, products and services.

The company undertakes Research in various areas in its R & D centre established in 1972 at Faridabad. It lays thrust on cutting edge technologies, keeping in view the changing/emerging needs. The company has more than 100 patents registered in India and abroad. The technologies under these patents relate to
refinery and pipelines, lube/fuel and marketing etc. The company has taken steps towards product diversification such as bio diesel, hydrogen research, LNG, Petrochemicals etc. Some of the technologies have been acquired through Joint ventures. Every year, the company develops numerous lubricant formulations and also obtains product approvals from original equipment manufacturers.

1.16 HINDUSTAN PETROLEUM CORPORATION LIMITED

HPCL is a Government of India Enterprise with a Navratna Status, and a Fortune 500 and Forbes 2000 company, with an annual turnover of Rs. 1,90,048 Crores and sales/income from operations of Rs 2,15,675 Crores (US$ 39.726 Billions) during FY 2012-13, having about 20% Marketing share in India among PSUs and a strong market infrastructure. HPCL's Crude Thruput and Market Sales (including exports) are 15.78 Million Metric Tonnes (MMT) and 30.32 MMT respectively in the same period.

HPCL operates 2 major refineries producing a wide variety of petroleum fuels & specialties, one in Mumbai (West Coast) of 6.5 Million Tonnes Per Annum (MMTPA) capacity and the other in Vishakhapatnam, (East Coast) with a capacity of 8.3 MMTPA. HPCL holds an equity stake of 16.95% in Mangalore Refinery & petrochemicals Limited, a state-of-the art refinery at Mangalore with a capacity of 9 MMTPA. In addition, HPCL is constructing a refinery at Bhatinda, in the state of Punjab, as a joint venture with Mittal Energy Investments Pvt. Ltd.

HPCL also owns and operates the largest Lube Refinery in the country producing Lube Base oils of international standards, with a capacity of 335 TMT. This Lube Refinery accounts for over 40% of the India’s total Lube Base Oil production.
HPCL's vast marketing network consists of 13 Zonal offices in major cities and 101 Regional Offices facilitated by a Supply & Distribution infrastructure comprising Terminals, Pipeline networks, Aviation Service Stations, LPG Bottling Plants, Inland Relay Depots & Retail Outlets, Lube and LPG Distributorships. HPCL, over the years, has moved from strength to strength on all fronts. The refining capacity steadily increased from 5.5 MMTPA in 1984/85 to 14.8 MMTPA presently. On the financial front, the turnover has grown from Rs. 2687 Crores in 1984-85 to an impressive Rs 1,69,011 Crores in FY 2011-12. (www.hpcl.com)

1.17 DEVELOPMENT OF HINDUSTAN PETROLEUM CORPORATION

HPCL, a fortune 500 company, is one of the major integrated oil refining and marketing companies in India. It is a Mega Public Sector with Navaratna status. HPCL owns the country’s largest Lube Refinery with a capacity of 335,000 Metric Tonnes which amounts to 40% of the national capacity of Lube Oil production. HPCL has given India a firm ground in this sector with its world class standard of Lube Base Oils. Presently HPCL produces over 300+ grades of Lubes, Specialties and Greases.

HPCL has earned “Excellent” performance for fifteen consecutive year’s up to 2005-06, since signing of the first MOU with the Ministry of Petroleum & Natural Gas. HPCL won the prestigious MOU Award for the year 2007-08 for excellent overall performance, and for being one of the Top Ten public sector Enterprises who fall under the ‘Excellent’ category. HPCL’s performance for the year 2008-09 also qualifies for “Excellent” rating.
HPCL, over the years, has moved from strength to strength on all fronts. The refining output has increased three fold between 1984/85 to 2007/08, rising from 4.47 MMTPA in 1984/85 to 15.76 MMTPA (2009-10).

Consistent excellent performance has been made possible by highly motivated workforce of over 11,360 employees working all over India at its various refining and marketing locations.

HPCL continually invests in innovative technologies to enhance the effectiveness of employees and bring qualitative changes in service. Business process Re-Engineering exercise, creation of Strategic Business Units, ERP implementation, Organizational Transformation, Balanced score card, Competency Mapping, benchmarking of refineries and terminals for product specifications, ISO certification of Refineries and supply chain management are some of the initiatives that broke new grounds.

HPCL has successfully integrated information Technology in its activities at different levels. The Enterprise Resource planning (ERP) system is now operational on J.D.Edwards, an Oracle product, across the corporation.

1.18 OBJECTIVES OF HINDUSTAN PETROLEUM CORPORATION LIMITED

Profitability: To leverage the human resource, technology and physical assets of the company, in most effective and efficient manner, to generate an optimum return on investment, with adequate safety and liquidity.
**Growth:** To achieve reasonable, consistent and diversified growth across fertilizer, oil and gas and other sectors in India and abroad.

**Developing Organizational Capabilities:** To create environment and conditions in the organization conductive for developing and maintaining its knowledge, human and physical resource and make the company a ‘Learning Organization’.

**Quality:** To ensure that quality of our products and services fully meets the requirements of customers.

**Value for all stakeholders:** To be guided in all its actions by the consideration of creating value for all its stakeholders, viz., shareholders, employees, clients, business partners and society to become a responsible corporate citizen.

### 1.19 GOAL SETTING KEY FEATURES (HPCL)

- **S** - Specific (Exact task and Standard)
- **M** - Measurable (Quantifiable Gauge stick for success)
- **A** - Achievable (Realistic and Challenging)
- **R** - Relevant (Corroborative to business objectives)
- **T** - Time bound (Target time for completion)
- **E** - Enterprising (Developmental initiatives and creativity)
- **R** - Recorded (A self contract documented in specified format)

### 1.20 COMPANY PROFILE (HPCL)

Here is the Company summary, which will help anyone to introduce about the company in a short time.
<table>
<thead>
<tr>
<th>Company’s Slogan</th>
<th>Enhancing capabilities. Delighting customers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s Vision</td>
<td>To be a world class energy company known for caring and delighting the customers with high quality products and innovative services across domestic and international markets with aggressive growth and delivering superior financial performance. The company will be a model of excellence in meeting social commitment, environment, health and safety norms and in employee welfare and relations.</td>
</tr>
<tr>
<td>Company’s Mission</td>
<td>“HPCL, along with its joint ventures, will be a fully integrated company in the hydrocarbons sector of exploration and production, refining and marketing; focusing on enhancement of productivity, quality and profitability, caring for customers and employees; caring for environment of protection and cultural heritage. It will also attain scale dimensions by diversifying into other energy related fields and by taking up transnational operations”.</td>
</tr>
<tr>
<td>Company Type</td>
<td>Public sector</td>
</tr>
<tr>
<td>Industry Sector</td>
<td>Oil and Gas</td>
</tr>
<tr>
<td>Products/Services</td>
<td>➢ Bulk Petroleum Products.</td>
</tr>
<tr>
<td></td>
<td>➢ Lubricants.</td>
</tr>
<tr>
<td></td>
<td>➢ Propylene.</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>11,360</td>
</tr>
<tr>
<td>Other locations of Factories/offices</td>
<td>2 refineries: one in Mumbai and the other in Vishakhapatnam. 13 zonal offices in major cities and 90 regional offices. Zonal offices in Kolkata, Delhi, Lucknow, Ahmadabad, Chennai, Secundrabad, Mumbai.</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>CSR Activities</td>
<td>Hindustan Petroleum Corporation Foundation</td>
</tr>
<tr>
<td>Trust/Foundation for CSR</td>
<td></td>
</tr>
</tbody>
</table>
| CSR areas                           | ➢ Children  
➢ Community Welfare  
➢ Education  
➢ Environment  
➢ Healthcare  
➢ Physically Challenged  
➢ Rural development  
➢ Vocational Training  
➢ Water |
| Three main CSR activities            | ➢ Community Welfare  
➢ Education  
➢ Health Care | 1.21 ROOTS OF HINDUSTAN PETROLEUM CORPORATION LIMITED  

The roots of Hindustan Petroleum Corporation limited can be ascertained from the point of inception, continuous progress and growth in a span of years. The following important years denote the multifarious growth.
1952: The Company was incorporated in the name of Standard Vacuum Refining Company of India limited on July 5, 1992

1962: On 31st March, 1962 the name was changed to ESSO Standard Refining Company of India limited.

1974: Hindustan Petroleum Corporation limited comes into being after the takeover and merger of erstwhile ESSO Standard and Lube India Limited.


1979: Kosan Gas Company, the concessionaries of HPCL in the domestic LPG market, are taken over and merged with HPCL.

HPCL thus comes into being after merging four different organizations at different points of time.

1.22 RESEARCH AND DEVELOPMENT (HPCL)

Today’s competitive and challenging business environment demands continuous up-gradation and development of products, processes and services for sustained growth. Research and Development (R&D) contribute substantially towards achieving these goals. R & D also enables an enterprise to phase out products considering the short product life cycle of various products, by introducing new designs, technologies, products and services.
Corporate R & D was initiated in 2006 – 07. The R & D efforts include study of monolithic reactor for multiphase reactions, slurry bubble column hydrodynamics, ionic liquid catalysis and hydrodynamics in packed beds, modeling of mass transfer effects in residue FCC, and in-site sulfating on NIMO/A1203 catalysts. The projects on alternate energies and applicative research include hydrogen production from natural gas (with IIT, Delhi) and slop cut elimination (with IIT, Kanpur)

1.23 PRODUCT AND SERVICES (HPCL)

1.23.1 Refineries

Without refining, the rich resources of crude petroleum of nature would remain latent. Value-added products from crude petroleum like petrol, diesel, kerosene, liquefied petroleum gas, Naptha and many more products would not be available for growth and development of a nation.

HPCL, refineries upgrade the crude petroleum into many value-added products and over 300 grades of lubricants, specialties and greases. The lubricating oils refinery set up at Mumbai is largest lube refinery in India. It produces superior quality lube base oils.

The offsite product handling facilities of refineries at Mumbai and Vishakhapatnam has been automated. The refineries have been benchmarked by an international agency for various performance parameters.

Numerous awards have been bestowed on both the refineries in recognition of the efforts in the field of energy conservation, environment and safety.
1.23.2 Aviation

Hindustan Petroleum (as Esso and Caltex prior to 1974) has been providing aviation refueling (Aviation Turbine Fuel – ATF) services at various airports India for more than half a century.

1.23.3 Hindustan petroleum Gas:

Modern LPG was first launched by Union Carbide as “PYROFAX” brand in the year 1920. LPG marketing started in India in fifties by Burmah shell & Stanvac in towns around the Refineries. The marketing of LPG was entrusted to private concessionaries of Esso & Caltex such as erstwhile Kosan Gas, DGPL & LK Gas. HPCL commenced marketing of LPG under the brand name “HP Gas” in 1979 with takeover of these concessionaries and merger with HPCL with a customer holding of 7.8 lakhs. The demand was sluggish till 1970 – sales 174 TMT.

Today Liquified petroleum Gas (LPG) has become the single most popular household fuel. Since it was introduced in 1955, LPG consumption has gone up tremendously. Hp Gas today (AS of April 2011) has over 33 million domestic LPG consumers catered through a network of over 2630 distributors. HP Gas, the HPCL brand of LPG, is what keeps the fire burning in millions of Indian homes. Bottled at 44 LPG Bottling plants throughout the country with a total capacity of nearly 3475 TMTPA (thousand metric tons per annum), HP Gas reaches you after through checking at every stage right from bottling to distribution. That is what makes HP Gas synonymous with safety.
In addition to Domestic LPG, HP Gas also markets LPG cylinders for commercial and Industrial purposes and Bulk LPG by tankers for Industries.

1.23.4 Bulk Fuels & Specialties section (Direct Sales)

The Bulk Fuel & Specialties Business unit caters to marketing of bulk fuels & Petroleum products directly to Industrial consumers like power plants, chemicals, fertilizers, shipping companies and airlines.

This unit is also involved in exports of Bulk fuels and finished petroleum products.

1.23.5 International Trade Section

This section showcases about their international marketing, crude supplies and their offerings. The activities of IT&S relate to

- Crude oil imports,
- Petroleum product imports / exports,
- Shipping,
- Production planning for Refineries,
- Supplies for domestic Markets,
- Product exchange with other Indian Oil companies and oil price risk
- Management.
1.23.6 Lubes Business Unit

HP Lubes is an integral part of Hindustan Petroleum Corporation Limited, one of India’s frontline oil majors, committed to providing energy and fueling growth in every significant area of development. In pursuit of this vision, there is a sustained emphasis on environment protection and preserving the cultural heritage of India.

HP Lubricants are borne out of an intense and unrelenting R & D effort, which aims at producing quality products that enhance automobile performance standards. The range of HP Lubes is comprehensive and catering to the minutes needs; from new generation cars to ploughing tractors and industrial machinery. The range conforms strictly to OEM specifications, often taking the initiative in customization of products.

1.23.7 Retail Business Unit

At HPCL retail outlets they believe in maintenance. Maintain not just the vehicle, but a steady relationship with their consumer. And to do so, it provides better and efficient services. They take care of not only the fuelling needs, but also complete vehicle care, the stock related products like tyres, batteries and accessories, so they don’t have to go shopping. All other value-added services ensure that the vehicle is well looked after. They give complete attention for consumer and their vehicle at one stop. The HP retail outlets ‘Simply drives in, anytime, anywhere and let us do the pampering’.
1.23.8 Exploration & Production Section

Crude Refining and Marketing of finished petroleum products is the core area of the Corporation. Opportunities are also being explored to access new revenue streams, and augment downstream businesses. Accordingly, HPCL has ventured in upstream activities (Exploration and Production) and piped gas distribution in major cities.

1.23.9 Alternate Energy

Being an energy company, HPCL has been in the forefront in experimenting with alternate sources for harnessing of renewable energy resources. It has an installed capacity of 50.5 MW of wind power as of 31st March 2011.

1.24 NEED FOR THE STUDY

Oil industry is the backbone of the Indian economy and describes the global economy too. The structural changes in the oil sector influence the country. The contribution from this industry to industrial and domestic requirements are far more because it not only caters to automotive industry but also to the entire society through transporting whatever needed from every corner of the world and other domestic energy needs.

The oil and gas industry is amongst the six core industries in India. This industry is a major factor for the growth being witnessed in the Indian economy today. The natural gas and petroleum sector, which is inclusive of refining,
transportation, and marketing of these products, contributes about 15% to India's GDP. (http://www.investinindia.com/industry/oil-and-gas/oil-and-gas-industry)

Exports from petroleum are the highest in terms of the foreign currency amassed and accounts for 17% of the total exports. The Economic Affairs Committee gave 44 oil and gas blocks for exploration under the New Licensing Policy. These allocations will bring investments worth US$ 1.5 billion in this sector. This is an ever growing sector, investment in this industry promises a great deal. As the energy sector is never going to slow down or lose its sheen, the growth prospects are enormous in this industry. In this juncture it is very important to compare the financial performance of two public sector oil companies (IOCL and HPCL).

1.25 SCOPE OF THE STUDY

The study has analyzed the financial performance of Indian oil corporation (IOCL) and Hindustan petroleum corporation (HPCL) for a period of 15 years 1997-1998 to 2011-2012.

This study has been approached from the financial point of view and hence it does not include other parties like workers, Government and members. The scope of the study is limited within the company and its financial data and performance. However, all the prominent and significant factors have been utilized for the purpose of analysis to make the study multidimensional.
1.26 OBJECTIVES OF THE STUDY

The research work is done for achieving the various objectives related to financial performance of two public sector oil companies. Out of them main objectives are pointed as follows:

1. To study the evolution, growth and regulation of selected public sector oil companies.
2. To analyze the financial performance of IOCL for the span of 15 years.
3. To identify the financial performance of HPCL for the selected number of years.
4. To make a comparative study of performance of IOCL & HPCL.
5. To make a summary, suggestions and conclusion on the basis of the study.

1.27 HYPOTHESIS

➢ There is no significant difference between IOCL and HPCL with respect of Gross profit ratio.

➢ There is no significant difference between IOCL and HPCL with respect of Net profit ratio.

➢ There is no significant difference between IOCL and HPCL with respect of operating profit ratio.

➢ There is no significant difference between IOCL and HPCL with respect of return on total asset ratio.
There is no significant difference between IOCL and HPCL with respect of fixed asset turnover ratio.

There is no significant difference between IOCL and HPCL with respect of current ratio.

There is no significant difference between IOCL and HPCL with respect of liquid ratio.

There is no significant difference between IOCL and HPCL with respect of capital turnover ratio.

There is no significant difference between IOCL and HPCL with respect of earnings per share ratio.

There is no significant difference between IOCL and HPCL with respect of stock turnover ratio.

There is no significant difference between IOCL and HPCL with respect of return on investment ratio.

There is no significant difference between IOCL and HPCL with respect of return on equity ratio.

There is no significant difference between IOCL and HPCL with respect of debt equity ratio.

There is no significant difference between IOCL and HPCL with respect of interest coverage ratio.
1.28 RESEARCH METHODOLOGY

1.28.1 Data collection

The sources of data are purely secondary. The secondary data is collected from books, journals, annual reports of the companies, magazines, websites and public enterprises survey.

1.28.2 Sources of Data

The secondary data is collected from books, journals, annual reports of the companies, magazines, websites and public enterprises survey. The researcher selected 2 oil companies out of nine Navratna companies.

1.28.3 LIST OF NAVRATNA PUBLIC SECTOR COMPANIES

1. Bharat Heavy Electricals Ltd.
2. Bharat Petroleum Corporation Ltd.
3. Gas Authority of India Ltd.
4. Hindustan Petroleum Corporation Ltd.
5. Indian Oil Corporation Ltd.
6. Mahanagar Telephone Nigam Ltd.
7. National Thermal Power Corporation Ltd.
8. Oil & Natural Gas Corporation Ltd.
9. Steel Authority of India Ltd.
1.28.4 SECONDARY DATA COMPUTATION

The present study is mainly based on secondary data collected from the Public enterprises survey, annual reports of the companies and from the web sites of the companies for a period of 15 years 1997-1998 to 2011-2012.

1.28.5 PERIOD OF THE STUDY

The present study is mainly intended to examine the comparative financial performance of IOCL and HPCL for a period of 15 years from 1997-1998 to 2011-2012.

1.28.6 DATA ANALYSIS

The data collected from all the sources are scrutinized, edited and tabulated. The data are analyzed using SPSS (Statistical package for social sciences) computer packages.

1.28.6(a) RATIO ANALYSIS

- Fourteen ratios is calculated from the raw data

  Ratio Analysis

  Ratios analysis is the process of determining and presenting in arithmetical terms the relationships figures and groups of figures drawn from these statements. A ratio expresses the results on the basis of comparison of two figures in numerical terms. A ratio is a statistical yardstick that provides a measure of relationship between two accounting figures. According to batty “ Accounting ratios describe the significant relationship which exists between figures shows on a balance sheet in a
profit and loss account in a budgetary control system or in any of the part of accounting organization. The ratio is customarily expressed in following ways:

1. It is obtained by dividing one value by other. This expression is known as “Times”.
2. If hundred then the unit of multiply the above expression becomes percentage.
3. It is expressed in the form of “proportion” between the two figures or known as pure ratio.
4. It is also be depicted in the form of graphs like ratio graph.

Ratio analysis is such a significant technique for financial analysis. It indicates relation of two mathematical expressions and the relationship between two or more things. Financial ratio is a ratio of selected values on an enterprise's financial statement. There are many standard ratios used to evaluate the overall financial condition of a corporation or other organization. Financial ratios are used by managers within a firm, by current and potential stockholders of an ancial analysts use financial ratios to compare the strengths and weaknesses in various companies.

➢ Essence of ratio analysis

Financial ratio analysis helps us to understand how profitable a business is, if it has enough money to pay debts and we can even tell whether its shareholders could be happy or not. Financial ratios allow for comparisons:
1. between companies
2. between industries
3. between different time periods for one company
4. between a single company and its industry average

**Importance**

A ratio is known as symptom like blood pressure. It is the pulse rate of the temperature of an individual. Often ratio analysis is used as a device to diagnose the financial position of an enterprise. It shall point out if the financial condition is very strong, good, partly good, or poor. As such the ratio analysis is a powerful tool of financial analysis through which economic and financial position of a business unit can be fully x-rayed. Ratio analysis becomes meaningful to judge the financial condition and profitability. Performance of a firm only when there is comparison of present in fact analysis involves two types of comparison. First a comparison of present ratio with past and expected future ratios for the same firm, the second method of comparison involves comparing the ratio of the firm with those of similar firms of with industry average at the same point of time. Further “Ratio analysis” presents the figures in which the net result of the financial position and problems is concentrated. They provide a co-ordinate frame of reference for the financial manage. They simplify the comprehensive of financial statistics. On the basis of above it may be concluded that ratios are very important for interpretation as they give valuable and very useful information about business.

In this study the researcher identified 14 ratios and these 14 ratios has been categorized under 4 main headings profitability ratio, efficiency ratios, financial ratios and Market value analysis.
Profitability ratio

Profitability ratios measure the relationships between revenues and expenses. Although the ability to generate a positive cash flow is critical for the short-term sustainability of a company, the long term financial success of a business depends on its profitability. Some frequently used profitability ratios include the rate of return ratios (based upon either assets or equity), operating profit margin, and net income ratios. The operating profit margin is arguably one of the most important ratios for any business as it measures the profit per unit sold.

1. Gross profit ratio = \( \frac{\text{Gross profit}}{\text{sales}} \times 100 \)
2. Net profit ratio = \( \frac{\text{Net profit}}{\text{Net sales}} \times 100 \)
3. Operating profit ratio = \( \frac{\text{Operating profit}}{\text{sales}} \times 100 \)
4. Return on equity ratio = \( \frac{\text{Net profit after interest, tax and preference dividend}}{\text{Equity shareholders funds}} \times 100 \)
5. Return on total assets = \( \frac{\text{Net profit}}{\text{total Assets}} \times 100 \)
6. Return on Investments = \( \frac{\text{PBIT or Operating profit}}{\text{capital employed}} \times 100 \)

Efficiency ratio

Financial efficiency measures the relationship between farm inputs and outputs. The asset turnover ratio measures how efficiently assets are being used to generate revenue, and how an increase in volume contributes to operating profit. Other measures of financial efficiency include the operating expense, depreciation expense, interest expense and net income ratios.
1. Fixed Asset turnover ratio = (Sales / Net fixed assets) * 100
2. Stock turnover ratio = (Cost of goods sold / Average inventory) * 100
3. Capital turnover ratio = (Sales / Capital Employed) * 100

**Financial ratio**

Solvency or Financial ratios include all ratios which express financial position of the concern. Financial ratios are calculated on the basis of items of the Balance sheet. Therefore, they are also called Balance sheet ratios. Financial position may mean differently to different persons interested in the business concern. Creditors, banks, management, investors and auditors have different view about financial position. The term financial position generally refers to short-term and long-term solvency of the business concern, indicating safety of different interested parties. Financial ratios are also analysed to find judicious use of funds. The significant financial ratios are classified as short-term solvency ratios and long-term solvency ratios.

1. Current ratio = (Current Assets / Current Liabilities)
2. Liquid ratio = (Liquid Assets / Current Liabilities)
3. Debt- equity ratio = (Total long-term debt / Shareholders funds) * 100
4. Interest coverage ratio = (Profit before interest and tax / Fixed interest charges)

**Market Value analysis**

An equation that compares the current stock price to a financial indicator on the company's financial statements. The most often used indicator is a company's
earnings per share. Market value ratios give management an idea of what the firm's investors think of the firm's performance and future prospects. Market value ratios are pertinent to the publicly traded firm. If the rest of the company's ratios are good, then the market value ratios should reflect that and the stock price of the firm should be high. Market value ratios measure different ways of looking at the relative value of a company's stock.

\[
\text{Earnings per share} = \frac{\text{Net profit after interest, tax and preference dividend}}{\text{No. of equity shares}}.
\]

1.28.6(b) STATISTICAL ANALYSIS

- Trend analysis is considered to identify variations in financial performance of IOCL and HPCL
- Cluster analysis is used to classify ratio analysis of both IOCL and HPCL
- Karl pearson’s co-efficient of correlation is used to find out the relation between IOCL and HPCL
- Paired T-test is performed to find out the comparative financial performance of IOCL and HPCL.
- Multiple Regression analysis is used to find out the influence of IOCL and HPCL.
1.29 LIMITATION OF THE STUDY

The study is confined to 2 Public sector oil companies (IOCL & HPCL), due to time constraints. The study will cover a limited number of years from 1997-1998 to 2011-2012. If the study includes investigation for more years it would have been a better exposure and also more details would have been brought out. The data and information are published and little information would have been missed due to reasons of confidential information and the methodology of their complication. The tools used are under the imposed limitations. Conclusion drawn on the basis of the study may not be applicable to other than the period of study. The conclusions based on the analysis used in this study are subject to the usual limitations of such analysis.

1.30 CHAPTER SCHEME

The thesis consists of five chapters

1. The first chapter gives an introduction to the study, need for the study, its objectives, companies profile, scope and limitations.

2. The second chapter deals with review of literature related to financial performance.

3. The third chapter focuses with data analysis and interpretations on the financial performance of IOCL and HPCL.

4. The fourth chapter attempts to make a comparative study on the financial performance of IOCL and HPCL.

5. The fifth chapter deals with the findings, suggestions and conclusion.