Chapter II

Review of Literature
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REVIEW OF LITERATURE

2.1 INTRODUCTION

Following the introduction, which showed a bird’s eye view of the study on the financial performance of IOCL and HPCL, this chapter presents a brief review of the literatures pertaining to the studies on empirical regarding financial performance and certain analytical tools. Financial performance analysis is vital for the triumph of an enterprise. Financial performance analysis is an appraisal of the feasibility, solidity and fertility of a business. Out of the innumerable studies available on the subject some of the most appropriate studies have been revived. Financial ratios are important indicators of the company’s health and are widely used by the investors and financial analyst to evaluate company’s financial conditions. With passing time various types of ratios have been developed and used by the scholars and financial economists to analyze data and extract useful information for their decision making. However, most of these ratios are developed and devised by the developed and developing countries financial economists and are used efficiently to make a comparative study of the financial statement of an industry including oil companies. It is found that very few ratios are developed in developing and underdeveloped nation and very few comparative analyses have been done on oil companies. The outcome of the study will provide insights regarding financial characteristics of companies to financial information users in the two segments of the oil companies and will also explore new dimensions and will set new parameters to be followed by others. The methodology and findings of these research works had been carefully
studied and analyzed by the researcher. Useful hints were drawn from these studies which helped in putting the present research work in a proper perspective. The gist of some of the relevant research studies are presented in the foregoing pages.

2.2 FINANCIAL PERFORMANCE

There are different mathematical measures to evaluate how well a company is using its resources to make a profit. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value. It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures.

Jagannadha Rao (1991) in his study states that there is poor state of financial performance of the company is the cumulative result of unfavourable factors such as continuous low capacity utilization of the units, fall in sugar recovery in some of the units, poor operational performance, high cane price advised by the State Government and paid up by the company, low levy price of sugar. Remedy for the poor financial performance is rather a stupendous task. Not all-sided approach is required: better the operational performance of the sugar units particularly the sick units, paying reasonably high cane price, reducing the cost of production by improving capacity utilization, and taking advantage of free quota to make good the losses suffered due to low levy price.

Kakani et al. (2001) examined the determinants of firm performance for 566 Indian firms. They tool ROA, ROCE, cash flow ratio, Sales to asset, gross profit
margin, net profit margin, return on Net worth etc., as dependent variable and size, age, leverage, working capital ratio, business group affiliation etc., as determinants of firm performance and found that size, market expenditure and international diversification had a positive relation with market valuation for firms. A firms ownership composition, particularly the level of equity ownership by domestic financial Institutions and Dispersed public shareholders, and the leverage of the firm were important factors affecting its financial performance.

Krishna Prasad Upadhyay (2004) used different types of financial ratios to check up the financial performance of the selected finance companies. Basically in this study he used solvency ratio, liquidity ratio, efficiency ratio, profitability ratio and valuation ratio. Different measures like return on investment, return on equity, return on assets, earning per share, dividend per share, and asset utilization ratio are used to assess the profitability of the companies. He concluded his study stating that the solvency position of both companies is not sound and credit creation capacity is good in both the companies in aggregate.

Bala Ramaswmy, Darrylong and Mattew C.H. Yeung (2005) has found empirical evidence that firm size and the firm ownership are important determinants of financial performance in the Malaysian palm oil sector-findings lend support to industry analysts who have highlighted that profitability is higher in privately owned firms.

Woo Gon Kim, Baker Ayoun (2005) the study attempts to investigate the technique applied in this industry. Hospitality – related industry segments may comprise hotels, restaurants, airlines, and other amusement and recreational
services. The objective of the study is to provide information to a variety of entities that might be interested in comparing major financial characteristics of companies on its different segments. The researcher used financial ratios, time series and Multivariate analysis of variances’ test as statistical tools. The study concludes that increased volatility of hospitality industry due to unpredictable external environment for the past four to five years. More volatile trends are depicted for the other three segments over the time period of this study.

Myung Ko and Carlos Dorantes (2006) investigates the impact of information security breaches on firm performance. To evaluate the financial impact of security breaches related to confidential information, the “matched sample comparison group” method is used. The researcher used ratios and two cost related ratios and percentage of change in sales and operating income to see if these measures are better indicators for identifying differences in performance considering the context of this study. Profit ratios have been the most commonly used as performance measures.

Jose M. Moneva, Juana M. Rivera-Lirio, (2007) Maria J. Munoz-Torres analyses the mission statements and the sustainability reports, of a sample of 52 Spanish listed firms. Some traditional financial and economic-indicators are used to analyze the company’s financial performance. Results show a not very high level of the stakeholder approach in Spanish companies a high level of publication and quality of sustainability reports and, finally, a positive and not significant relationship between these variables and a positive financial performance.
Neumann and Roberts (2008) argued that financial measures are given more value over non-financial measures and ROI is the single performance measures to which managers give more weightage.

Efendioglu. M (2010) explores the impact of strategic planning on financial performance of major industrial enterprises of Turkey. This paper is one of the few studies to examine the strategic planning process in a sample of firms from a transitional economy. It can be considered a longitudinal study because it examines a set of institutions to identify changes in their performance overtime, as they incorporate the use of strategic tools in a dynamic competitive environment. The research sample was drawn from the Turkish chamber of industry database which listed the top 500 manufacturing firms in 2006. The findings of this study provide a contribution to our understanding of the nature and practice of strategic planning in Turkish companies and possibilities of correlations between their efforts and performance.

Mahdi Salehi, Mehrdad Alipour and Morteza Ramazani (2010), the objective of the article is to establish the extent to which just-in-time may effect to Iranian company’s financial performance. The researcher used regression analysis as statistical tool. Eventually the researcher concludes that the application of the JIT system in Iran increases the financial and non financial performance of the companies. Because of the weakness in performing the JIT, they cannot benefit from it. The researchers strongly suggest that the barriers of performing the JIT system must be identified and removed as soon as possible, so that the Iranian companies increase their financial performances.
Verdi Ali (2010) identifies whether this company has a strong financial fundamentals and whether investment in the company will be of a long term nature. Its financial statements had been analyzed during 5 years period (2004-2008). Financial analysis has been measured by various ratios. The study concludes that current ratio has declined in the last 4 years. However, it is still well above the industry level, and it maintains a good level of liquidity.

Hassan Mobeen Alam, Ali Raza and Muhammad Akram (2011) examine financial performance of leasing companies since 2008 to 2010. Ratio analysis technique has been used to evaluate financial performance of leasing companies. All data has been retrieved from securities & Exchange commission of Pakistan, Asian financial service association, Leasing Association of Pakistan, State Bank of Pakistan, and leasing company’s websites. Nine companies are selected for analysis out of fifteen and this study covers three year period ((2008,2009 and 2010) . The researcher used ratios as statistical tools. This study concludes that in 2010 the financial ratios are showing the positive change but there is a decline in financial performance of leasing companies in 2009 when compared to 2008.

Amalendu Bhunia, Sri Somnath Mukhuti and Sri Gautam Roy (2011) aims to identify the financial strengths and weaknesses of the Indian public sector Pharmaceutical enterprises by properly establishing relationships between the items of the balance sheet and profit and loss account. The study has been undertaken for the period of twelve years from 1997-98 to 2008-09 and the necessary data have been obtained from CMIE database and public enterprises survey. In order to analyze the financial performance in terms of liquidity, solvency, profitability and
financial efficiency, various accounting ratios have been used. Various statistical measures have been used (ie) Mean, Standard deviation, co-efficient of variation, linear multiple regression analysis and test of hypothesis t-test. From the study it can be concluded that the liquidity position was strong in case of KAPL and it was so poor in case of RDPL thereby reflecting the ability of the companies to pay short-term obligations on due-dates. The study will help investors to identify the nature of Indian Pharmaceutical industry and will also help in taking decision regarding investment.

Suresh Vadde (2011) analyses the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-2009. The segment of financial and investment companies in the private corporate is highly skewed. For the study data are collected from various issues of RBI Bullentin regarding financial and investment companies. The study is based on the audited annual accounts of 1215 companies. It was observed from the consolidated result of the select 1211 non-government financial and investment companies that growth in income, both main and other income, decelerated during the year 2008-2009. Business of selected non-banking financial and investment companies expanded at a slower pace during 2008-09. Its share in total uses of funds decreased. The share of Investments in total uses of funds increased during 2008-09 on account of investments in the mutual funds and share and debentures of other Indian companies.

Dhulia Hirenkumar Kantilal (2012) conducted a study to analyze the financial position of selected pharmaceutical companies in India. The study was
based on the secondary data which were obtained from the annual reports of the selected companies and related journals. After the data collection processed and analyzed according to the outline hypothesis (‘F’ test) formulated and proved with the use of statistical tools to arrive at certain conclusion. He concluded his study that the gross profit ratio of different companies in different years is not same.

Shrabanti pal (2012) also carried out a study on financial performance of Indian steel for a period from 91 – 92 to 2010 – 11 to examine the financial performance of the Indian steel companies and establish the linear relationship between liquidity, leverage, efficiency and profitability of the selected companies. Multiple regression analyzes is conducted on fifteen financial ratios selected from different segment like liquidity ratio, solvency ratio, activity ratio and profitability ratio. He concluded his research that the company should concentrate to improve the overall liquidity, solvency and efficiency to enhance the profitability to the maximum otherwise the profitability of the companies will be affected in other way.

Shaji.U and G. Ganesan (2012) made an attempt to study the overall financial performance of selected public sector drug and pharmaceutical enterprises in India with the help of some statistical measures(i.e) mean, standard deviation, coefficient of variance, linear multiple regression analysis and test of hypothesis. The study revealed that the industry will witness an increase in the market share. The sector is poised not only to take new challenge but to sustain the growth momentum of the post decade.

BhaskarBagchi, BasantaKhamrue (2012) aimed at analyzing the financial performance of leading 2W automobile industries in India, over a period of 19 years
(1991-92 to 2009-10). For this purpose, various accounting ratios and statistical tools like, multiple regression analysis and correlation analysis have been used. The study results reveal the strong profitability and liquidity position of the selected 2W automobile industries. He recommends that the sector is all set to take the new challenges and also to sustain the growth momentum of the last decade.

Maryam Mohammadi, AfaghMalek (2012), also carried out an empirical study of financial performance evaluation of a Malaysian manufacturing company for a three-year period from 2009 to 2011. This study investigates the financial performance of an investment company in Malaysia. This study utilized the quantitative research methodology. To assess the relationships between various data on balance sheets and income statements, financial ratios were measured and evaluated for the studied period. Different ratios were also calculated and analyzed, so that the financial manager will be aware of its current financial performance and can then compare it with other industries in the same sector. According to resultant assessments, it can be interpreted that during the year 2011, company did not operate well, and overall firms performance in terms of profitability, liquidity, and credit quality declined due to deterioration in the company’s operating environment.

TariqZafar.S.M and S.M.Khalid (2012) this study is carried out and it is focused on analyzing the financial performance of Maruti Suzuki and Tata motors in automobile industry. The objective of the study is to understand and analyze qualitative and quantitative performance of Maruti and Tata Company and to investigate their risk factors, their market position and their collective impact on profitability. For the purpose of the study secondary data are used for the period
2006 – 2010 and it has been collected from published reports, magazine, annual report and website of the companies. It has been analyzed on the basis of their financial ratios, further Standard deviation, co-efficient of variation, the sum of mean values and average score are calculated. The study concludes that Maruti has better strategic position in comparison with its competitor in all the respective ratios and has secured first rank. Tata has secured second position.

Jayarajasingh.J John Samuel (2012) the study is concerned with financial analysis to evaluate the financial performance of India Cements limited Sankari West. The evaluation of financial performance was for period of 10 years from 2000-01 to 2009-2010. In this study, the financial performance of the company is analyzed on variance fronts of profitability, liquidity and turnover. The study concludes that overall performance of the India cements Ltd., is good and the study will help for the company to identify the inefficiency area.

Fozia Mehtab and Arun Kr. Kaushik (2012) its objective is to find out about the historical performance and current financial condition of Wipro limited with the help of various ratios and thereby offers appropriate suggestions for the better performance of the organization. The information and data are collected through rough formal and informal discussion with the officers of accounts department of the company on the basis of needs. Most of the calculations are made on the financial statements of the company provided statements like published annual reports, financial reports, company’s websites etc. The data analysis is done using various activity, solvency, profitability and turnover ratios. After analyzing the financial statements of the company it can be concluded though the financial position of the
company is found quite satisfactory as the company’s sales is rising continuously, yet it should take some steps to decrease its expenses because the net profit has not increased much. It concludes the company should try to increase its profit after tax.

Parviz Asheghian (2012) evaluates the relative financial managerial performance of thirty matched-pairs of U.S. firms and Chinese firms. He measured the financial performance in terms of profitability, debt management and asset management. Profitability is measured by return on assets, return on equity and return on investment. Debt management is measured by long-term debt to equity and total debt to equity. Asset management is measured by total asset turnover, receivable turnover and inventory turnover. Eight hypotheses are tested on the basis of ROA, ROE, LTDE, TDTE, TAT, RTO, and ITO. Matched pairs are used, and appropriate test is the Wilcoxon matched-pairs signed-ranked test. This test is ideal because it is a non-parametric test, not requiring a large sample size. The study concluded that Chinese firms are more efficient than the U.S. firms in terms of ROE, they are similar in terms of the other two profitability ratios of ROA and ROI.

Saeid Jabbarzadesh Kangarlouei, Asghar Azizi, Mohdi Sarbandi Farahani and Morteza Motavasseli (2012) in their study mentioned that economic value added (EVA) and refined economic value added (REVA) are among the most important criteria of financial performance measurement. The above research is applied research and in the method and nature is correlation research. In this study, relationship between REVA and other new traditional performance evaluation measures and MVA is studied using linear and multiple regressions. They concluded that although the result indicates that the relationship between REVA and MVA in
all the sizes of the firms, the amounts of these relationships is different. REVA is more timely and reliable for evaluation of the created wealth to stockholders.

Amal Yassin Almajali, Sameer Ahmed Alamro and Yahya Zakarea Al-Soub (2012) aimed at investigating the factors that mostly affect financial performance of Jordanian insurance companies. The data collected was analyzed by using a number of basic statistical techniques such as T-test and multiple regressions. He concludes that the insurance company should increase its concentration on borrowing and debt department and at the same time should be careful about this, that the insurance company should increase the current assets and decrease current liabilities. He extended his conclusion that the companies should not pay attention to age. The result suggested that the insurance companies should focus on employee’s efficiency by choosing the employees who have completed higher educations.

Pasi Syrja, Helena Sjogren, Pasi Tuominen (2012) in an innovative study aimed at analyzing the financial performance and efficiency on consumer co-operatives and limited companies – Agency theoretical approach. The empirical data for the study was collected through a financial statement database and it was analysed using quantitative methods. The empirical data were drawn from financial statements of 2009 and 2008. Various tools such as correlation, T-test and linear regression have been used. The study concludes that the agency costs are higher in co-operatives and it seems to behave in a more opportunistic way than the management in limited companies.

Shalini H.S, preethi V.S (2012) examines the effectiveness of economic value added method over the other traditional methods which were used to analyze
the financial position of an enterprise. For the study, primary data is of little relevance, data availability is quite easy and the quality of available data is very reliable because the data are from the published information such as annual reports of the company, primary data is collected for this purpose, standard literature was abundant for the study. Secondary data has been collected from the annual reports over the period of five years, from 2006 to 2010, which acts as a sample for the purpose of financial dialectics. To evaluate this, some important traditional performance measures such as comparative financial statements, common size statements, cash flow statements, ratio analysis and economic value addition. He concluded that, this unit (BHEL – EPD) is facing some ups and down in its overall performance, BHEL- EPD is doing well in the present market and possess good and highest market share when compared to its competitors. The employees are provided with very good facilities and it provides a good working environment and work culture which in turn results in better profits.

Florenz C. Tugas (2012) analysed the comparative financial statement of listed firms belonging to the education subsector in the Philippines, there are only three listed firms in the education subsector and they are Centro Escolar University (CEU), Far Eastern University (FEU) & ipeople. This research paper aims to analyze the financial statements of these three firms for three periods (2009 – 2011) using various ratios. The data for the above study were obtained from the Philippine stock exchange (PSE) website. To provide a basis for analysis, for each financial ratio, the firm adjudged as the best one (using rule of thumb and ratio trends) was given three points, the next one, two points, and the last one, one point. The total points for each ratio category were then computed to arrive at an overall basis for
analysis. The research paper is both exploratory and quantitative in context and in
design. After conducting a comprehensive financial ratio analysis, FEU (44 points)
ranked first as the most financially healthy, followed by Malayan (40 points), then
CEU (36 points).

Reza Tehrani, Mohammed Reza Mehrgan & Mohammad Reza Golkani
(2012), the study has developed a model to evaluate corporate performance through
data envelopment analysis and has examined the model on a group of companies. To
do so, the means of financial performance for a five year period including liquidity,
activities, leverage, and economic added value are employed as input indices of Data
Envelopment Analysis (DEA) Model and profitability ratios as output indices of the
model. BCC input oriented covering model was used to rank the companies under
study. Besides, a group of 36 companies were employed as the sample in the present
case study of which 9 companies were found efficient and remaining 27 companies
were regarded inefficient. Efficient corporate were further ranked by Anderson
Peterson Model. To determine variables under study and their weights in the DEA
model, field research and questionnaires were employed. Besides, library research,
documents, books, articles, theses, and internet references were employed to review
the literature on the subject matter. The study concluded that the DEA model
indicates that of 36 companies examined through the study, 9 companies were
regarded efficient while the remaining 27 companies were determined as inefficient
implying that the model can accurately measure companies performance. Efficiency
measure obtained through DEA model in the area under study ranked 36
companies(of which 9 were efficient and 27 ones as inefficient).
Vivek Singla (2013) made an attempt to compare the financial performance of the selected units i.e. steel authority of india and TATA steel limited. In present time greater importance is given to financial performance. While analyzing the financial performance of the selected units, the study analyses the working capital and also the profitability. The profitability analysis of selected units has been made while using various ratios. The study covers a period of five years from 2007-08 to 2011-12. For completion of the study only secondary data has been used. The main sources are annual reports, various books, newspapers, journals and websites. The study concluded that after making the comparative analysis of both the firms they find that performance of TATA steel limited is better than the SAIL, it is so because the net profit of TATA steel limited is greater than the SAIL. Similarly the inventory management of the TATA steel limited is better than the SAIL.

Deepali Kapoor Suri and Shilpi Singhal (2013) made an attempt to identify the financial performance and analyze the performance in the last five years, of Indian farmers fertilizer co-operative limited, popularly known as IFFCO, on the basis of establishing relationship between the items of balance sheet and profit and loss account. For establishing the relationship various types of ratios such as solvency, liquidity, activity and profitability are used. The period of study is taken from the year 2007 -08 to 2011 -12. Data for the research work collected through secondary data, collection of data was made through published annual reports, magazines, journals, documents and other published information of the company. Ratio analysis was applied to analyze and compare the trends in banking business and financial performance. It can be concluded from the study that the maximum financial indicators of IFFCO are not at a very good position. From the analysis of
main financial indicators it is clear that operating profit to turnover ratio, fixed assets turnover ratio, debt equity ratio, current ratio, liquidity ratio, etc are at a desirable position. However, company’s return on capital employed. Profit before tax to turnover, etc were undesirable as compared to previous years.

Ramana Reddy N.R.V and K. Hari Prasad Reddy (2013) explains in this study that the financial distress is a situation where firms operating cash flows are insufficient to satisfy current obligations and the firm is forced to take corrective actions. A firm in financial distress may also face bankruptcy or liquidation to meet its liabilities. This paper used the Altman’s Z-score model to predict the risk of financial distress of selected sugar manufacturing units in Andhra Pradesh, India. The study made an attempt to measure the financial distress along with liquidity, solvency and leverage position of select sugar manufacturing units in the state of Andhra Pradesh in India. The data for the study collected from annual reports of chittoor co-operative sugars limited, Prudential sugar corporation limited, and Sri Venkateswara co-operative sugar factory limited from the years 2004 to 2010. In order to test the liquidity of the company the researcher used two popular ratio i.e. current and quick ratios. The Z-score analysis shows the poor financial performance leading to bankruptcy of chittoor co-operative sugars limited. Comparatively the financial performance of Sri Venkateswara sugars factory limited is good. All the three companies are facing financial distress.

The above studies were conducted to analyze the financial performance of different companies. Most of the researcher used ratio analysis as their indicators for analyzing the financial performance. The researcher applied secondary data for their
study, but some of the researcher applied both primary and secondary data. They used various statistical tools such as mean, standard deviation, multiple regression, correlation, test of hypothesis for their study.

2.3 PROFITABILITY

Profitability is the ability to earn profit from all the activities of an enterprise. It indicates how well the management of an enterprise generates earnings by using the resources at its disposal. In the other words the ability to earn profit e.g. profitability, is composed of two words profit and ability. The word profit represents the absolute figure of profit but an absolute figure alone does not give an exact ideas of the adequacy or otherwise of increase or change in performance as shown in the financial statement of the enterprise. The word ‘ability’ reflects the power of an enterprise to earn profits, it is called earning performance. Earnings are an essential requirement to continue the business. So we can say that a healthy enterprise is that which has good profitability. According to Hermenson Edward and Salmonson ‘profitability is the relationship of income to some balance sheet measure which indicates the relative ability to earn income on assets employed.

Chidamburam Ramesh Kumar, Dr. N. Anbumani (2006) argue that ratio analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially any unfavorable trends that may be starting. Ratio
analysis may provide the all-important early warning indications and it enables to sort out your business problems and the same from distress.

Allouche et al (2008) found that business group companies in Japan achieve better performance. The authors test the performance indicators ROA, ROE, ROCE as well as financial structure of 1271 Japanese companies and found that the profitability and financial structure affect the performance of a firm.

Niranjan Mandal and Imtiaz Hassain (2010) concluded that the management of working capital is highly useful to ensure better productive capacity, sound liquidity and good profitability of an enterprise particularly, the PSEs in India. It is not only essential to make decisions regarding the creation of sufficient surplus for a period but also it is required to maintain its perpetual growth and succession in today’s competitive and complex business scenario. It is needless to mention that the study suffers from some inherent limitations in the construction of different financial ratios conducted in this direction to find out the real causes behind the day-to-day problem of running the enterprises, specially the PSEs in India.

Vivek Sharma (2011) in an innovative study aimed at analyzing profitability of oil companies in India. The study is purely based on secondary data profile of IOCL, BPCL and HPCL in particular the transparent data approaches are considered profoundly. The researcher used both univariate and multivariate statistical techniques like ratio analysis, correlation and regression analysis along with multiple correlation type support are exploited to analyze the oil company’s data periodically and systematically. The analysis revealed that profitability of Oil Corporation is not adequate for the further argumentation of the oil companies. He
analyzed that a stumpy position is prevailing in all the three companies. The weak position at periodical intervals is also analyzed.

Suvarun Goswami and Aniruddha Sarkar (2011) in their study aimed to measure and evaluate the liquidity position in establishing the linear relationship between liquidity and profitability of Tata Steel. The study is based on secondary data. In the present study the liquidity and profitability position have been taken into consideration by calculating different key liquidity and profitability ratios in order to judge their financial performance. Various ratios, pearson’s simple correlation and students’ t test has been used for the purpose of testing results obtained empirically. The study concluded that the company has high operating and financial leverages during the first 3 years of the study. It means the company has been in a very risky position in the first 3 years of the study.

Vijay S Patel, Chandresh B. Mehta (2012) analysed the profitability of Krishak Bharati cooperative limited. The study is made to assess the growth potential organizational structure and present position of the KRIBHCO limited. The study focuses on the analysis of the performance of Kribhco limited profitability and T- test. The nature of data which is collected and used for this research is secondary in nature. The relevant and required data has been collected from journals, annual reports, magazines literature and websites of selected companies. The period of the study is from 2000-01 to 2008-09. Statistical measures like percentage, mean, ratio analysis and T-test are used in this study. The study concludes that gross profit is very much satisfactory and it discloses that operating expenses are high in all the year which shows very critical situation of the company.
Venkataramma.N, K. Ramakrishnaiah (2012) made an attempt to know the profitability and financial position of selected cement companies, the data collected from the annual reports from 2001 – 2010 from the selected ten cement companies in India. The collected data is analyzed and computed to fit for drawing inference. The study utilizes various ratios, correlation, mean, standard deviation, variance and skewness. The results reveals that profitability of the selected companies has a favourable trend towards in terms of return on equity ratio and return on capital employed.

Vipul C. Koradia (2013) made an attempt to analyze the profitability of selected oil companies in India. Analysis of profitability is done for selected oil companies like(BPCL, HPCL, IOCL). The researcher used profitability ratio, ‘F’ test as statistical tools. The study is based on secondary data i.e. annual reports of the respective companies. The study revealed that there is significant difference between profitability ratio as per operating profit margin ratio, Gross profit margin ratio and Net profit ratio but there is no significant difference between return on capital employed. The profitability ratio is satisfactory and is adequate during the study period.

PaghadarAmalaAnilbhai (2013) analyzes the liquidity, profitability and examines the management efficiency of selected units. He applied ratio analysis and mean, standard deviation and ‘t’ test as a tool and statistical techniques. He concluded that management efficiency of both the units was good.

Susan Ward (2008) in his article emphasis that financial analysis using ratio between key values help investors cope with the massive amount of numbers in
company financial statements. For example, they can compute the percentage of net profit a company is generating on the funds it has deployed. All other things remaining the same, a company that earns a higher percentage of profit compared to other companies is a better investment option.

Malyadri.G and B. Sudheer Kumar (2013) made an attempt to review progress of sugar industry in India both financial and micro economic terms, understand its problems and challenges in context of an going liberation process based on sound financial fundamentals Indian sugar industry can be global leader provided it comes out of the various cycle of shortage and surplus of sugarcane, lower sugarcane yield, lower sugar recovery, ever increasing production costs and mounting losses. This study aims to provide insight into the financial viability and profitability of Indian sugar industry. In this study, the secondary data has been provided wherever required, the secondary data has been collected from various sources like books, journals, newspapers, abstract industries report and internet. The study concludes that the research and development efforts in sugar cane need to be focused primarily toward evolving new high sucrose-content, disease resistant varieties of sugarcane and developing quality seed and varieties resistant to water logging, drought etc, higher sugarcane and sugar production could result in india again becoming a net exporter of sugar. However, India’s sugar export fluctuates considerably because of continuing increase in demand, and fluctuations in domestic supply.

Asha Sharma (2013) examines the value creation strategy of Infosys by analyzing whether the EVA better represents the market value of company in
comparison to the conventional performance measures. In this regard, EVA and the conventional measures of corporate performance such as PAT, EPS, ROCE and RONE are analyzed. Infosys technologies is the first Indian company to report its EVA. It is an estimate of firms economic profit. It measures the value addition to an organization. EVA is the profit earned by the firm less the cost of financing the firm’s capital. The idea is that value is created when the return on the firm’s economic capital employed is greater than the cost of that capital. The study is mainly based on secondary data which were collected from the corporate annual audited reports, company database, published research reports by various industries, related websites, and annual report of different companies of different industry. Along with the usual statistical tools such as tables, percentages, mean, standard deviation, coefficient of variation, Karl pearsons method for correlation was used for analyzing the data which helps in arriving at sound conclusions. EVA better represents the market value of company in comparison to conventional performance measures.

The above studies were conducted to analyze the profitability of different companies. The researcher conducted their study based on secondary data. They used ratio analysis to find profitability of the companies and they concluded their study by adopting various statistical tools such as percentage, karl pearson correlation, ANOVA, T-test etc.

2.4 CAPITAL STRUCTURE

The capital structure is the combination of different source of capital. In this combination every firm decides the portion of debt and equity. Selection of a right
capital structure is a serious decision for any firm. This decision is important not only due to need of make increase in rate of return but also it is necessary for the purpose of maximizing the firm ability to face the challenges of its competitive environment. Researches in Business, Economics and Finance always analyzed the processes of economic value creation as their main area of studies. Capital structure has become one of the main factors in determining value. The division of equity is important in explaining the overall capital structure. The variable associated with the collateral value of assets shows a considerably positive relationship with debt. Capital structure refers to the way a firm finance its assets through some mixture of equity, debt, or hybrid securities. A firm’s capital structure is then composed of ‘structure’ of its liabilities.

Jighyasu Gaur (2010), capital structure of a firm is very important as far as performance is concerned, and previous studies have shown that leverage has a negative relation with capital structure. The packing theory proposed by Myers states that better the performance of the firm, the less is the firm interested to raise capital from debt. Firms go for equity as a means to raise capital. The study supports the theory that the leverage of a firm has a negative effect on performance. The other variable, which is working capital ratio, is again an important measure because it is the liquidity by which the firm takes care of its operational aspect. Firms always try to reduce the cycle time of debtors and inventory so as to gain as much as possible.

Puwanentiren Pratheepkanth (2011) made an attempt to identify the impact between capital structure and companies performance, taking into consideration the level of companies financial performance. The study based on secondary data was
obtained from the financial statement published by business. He used many statistical tools like ratio, correlation, regression analysis and ANOVA. He concluded his study that the business companies mostly depend on the debt capital. Therefore, they have to pay more interest expenses.

Sudesh kumar, Dr.Bimal Anjum and Dr. Suman Nayyar (2012) aimed to make analyses of capital structures pattern of various companies for the period of 2007 – 2011 and analyse the effect of changes in capital structure on its investment pattern over the period of time. This study also attempts to make an intra company analysis with the objective to determine the importance of debt-equity mix for the effective investment policy. Similarly, to study the financing decisions, this paper includes the trend analysis of detail financial information of four reputed pharmaceutical companies, that are Dabur India limited, Cipla, Aurobindo Pharma limited , Cadila Health care limited for the period of five year 2007 – 2011. This study is based on the secondary data, financial information from the company’s annual reports. This study is a focus on determining the capital structure pattern of the companies and its impact on the investment pattern over the period of time. To achieve the set objectives of the study the financial analysis technique is applied, trend analysis on the company financial statements to analyse the change in capital structure and its impact on investment pattern of the companies. This study concludes that the capital structure decision of pharmaceutical companies has very little effect on its investment pattern, which defines that the activities of its business with the object to attain the long term solvency and maximizing profitability with least cost of capital.
Mahvish Sabir and Qaisar Ali Malik (2012) intends to analyze the effect of profitability, tangibility, size and liquidity on capital structure decisions of the listed companies in oil and gas sector of Pakistan. The study attempts to provide information that may help in taking capital structure decisions in listed companies of oil and gas sector of Pakistan, which will ultimately support in maximization of the value of firms on the one side and the minimization of cost of capital on the other side. The study concludes that capital structure decisions in listed oil and gas sector companies are mostly determined by four factors such as profitability, liquidity, size and tangibility of the companies. These factors have a crucial impact on capital structure decisions which affects the overall cost of capital in terms of weighted average and the resultant market value of the shares.

Thian Cheng Lim, Dan Zhao and Ruiyang Chai (2012) investigate the determinants of capital structure of real estate firms in china. An empirical study on determinants of capital structure of real estate in Chinese listed firms is conducted using a relatively regression of accounting data for 44 A-share financial listed companies over the quarter from 2008 to the third quarter of 2011. This paper identifies that the pecking order theory in china is different from western countries. This empirical study proves that the growth and tangibility are the non-significant variables in this regression in the big real estate. While, in the small real estate firms, growth, tangibility and non-circulating shares are the non-significant variables. A combination of the big and small firms indicates that the size, growth and tangibility are non-significant variables.
Osuji Casmir Chnaemerem and Odita Anthony (2012) examines the impact of capital structure on financial performance of Nigerian firms using sample of thirty non-financial firms listed on the Nigerian stock exchange during the seven year period, 2004 – 2010. Panel data for the selected firms were generated and analyzed using ordinary least squares (OLS) as a method of estimation. It provides evidence that asset tangibility is a major determinant of firm’s performance. On the other hand, the study could not provide evidence that growth opportunity is a determinant of firm’s performance in the two proxies of corporate performance for the two models.

Syed Atif Ali, Shahid A Zia and Ami Razi (2012) aims to analyze the impact of capital structure on the profitability of petroleum sector of Pakistan, while controlling the size of the company. A total of 12 companies were selected randomly for the study and taken 10 years data from 2001 to 2010. Regression analysis was conducted. The results showed that there is a significant and positive impact of capital structure on the profitability of the petroleum sector only in overall analysis but in individual analysis it is not significant. Only two companies oil and gas development and Pakistan petroleum has the significant relation between the capital structure and the profitability.

Tharmila K and Arulvel K. K. (2013), examines the relationship between capital structure and financial performance of the listed companies traded in Colombo stock exchange (CSE). The sample of this study a composed of thirty companies listed on the Colombo stock Exchange and period of 5 years from 2007 to 2011. The relationship between independent variable capital structure and
dependent variable financial performance were tested by correlation analysis. The researcher concluded that there is negative relationship between capital structure and firm’s financial performance in many developing countries like Sri Lanka. In the concluding remark section, it is summarized that Sri Lankan listed firms with dispersed capital structure are associated with higher risk, implying higher market valuation, but worse performance when it comes to Net profit margin, and ROE. On the contrary, firms with a high efficient capital structure in general have lower firm-specific risk. This implies lower valuation, but better performance when it comes to ROE and ROCE.

Nirajini.A and Priya. K.B (2013) made an attempt to analyze the capital structure and financial performance during 2006 to 2010 (5 years) financial year of listed trading companies in Sri Lanka. For the purpose of this study, data was extracted from the annual reports of sample companies. Correlation and multiple regression analysis are used for analysis. He concludes that there is positive relationship between capital structure and financial performance. And also capital structure is of significant impact on financial performance of the firm. So every firm should make good capital decision to earn profit and carry on their business successfully.

Faize Saleem et al (2013) examines the determinants of capital structure in Oil and Gas firms listed on Karachi stock Exchange of Pakistan on a data for the period of 2006 to 2011. Multiple regression technique is used to analyze the relationship between dependent variable (Leverage) and independent variables (firm Size, Tangibility of Assets, Profitability, and sales Growth). It is concluded that all
the independent variables have significant impact on the balance of leverage. The results suggest that more profitable firms do not often finance their investments by debt source in textile sector of Pakistan. More profitable firms learn to issue more debt and repurchase equity. Less profitable firms tend to do the overturn. Firm size also matters. Larger firms tend to be more active in the debt markets while smaller firms tend to be moderately more active in the equity markets.

Aamir Farooq et al (2013) explain the impact of capital structure on investor behavior and performance of firms in Pakistan. Study on capital structure proves that an organization capital structure plays a vital role in determining financial performance, sustainability and future growth of the organization. This study provides guidelines for developing countries that capital structure increases performance of firms and creates positivity in investor behaviour. It is also seen that different choices of capital structure influence the behaviour of investors. Results suggest that a large portion of debt in capital structure makes a negative effect on return on asset, return on equity and earnings per share. This review paper provides guidelines and helps to the stakeholders in the selection of right pattern of capital structure in the Pakistani corporate sector.

Sarangarajan. V, Lourthuraj S.A and Ananth. A (2013) carried out the study with the objective of finding out the capital structure management efficiency of cement industry in Tamil Nadu. Ten years data has been employed in this study from 1996 – 97 to 2005 – 2006. To find out the capital structure management efficiency the authors employed DEA by an application of KONSI DEA analysis for Benchmarking software professional Version. It concludes that the cement industry
in Tamil Nadu efficiently utilized their debts like secured loan, unsecured loan and current liabilities to maximize the return in the form of shareholders fund except during the years 1996 and 1999 – 2005. The high negative bottom-line during 2003 and 2004 is the result of increase in interest cost and costly unsecured loan. Internal funds mobilization, right issue, and higher internal accruals will help the companies to sustain decent bottom-line.

The above studies were conducted to analyze the capital structure of different companies. The researcher conducted their study on the basis of secondary data, collected from the annual reports of the company. To conclude the above study they applied trend analysis, multiple regression analysis and correlation.

2.5 RESEARCH GAP

The critical analysis of national and international literature pertaining to financial performance of firms and organizations clearly revealed that financial ratios are essential to microscopically analyze the financial performance. These studies did not address the specific financial ratios and their numerical significance related to financial performance.

The present research study enumerates the ratio which has been used as an important tool is divided into 3 main categories, profitability ratio, efficiency ratios, financial ratios and on the above mentioned categories the ratio has been calculated and thus conclusion has been drawn on that basis.

Performance analysis of various companies has been made by various research scholars. They have selected different types of companies such as banking,
agricultural, co-operatives, iron and steel, MNC companies, and transport companies. This study is different from the earlier studies.

In this study the companies operating in India are selected. Their performance in terms of quality and quantity are analyzed in this study. Comparisons are made in relation to production, operational efficiency and various financial matters. Comparing the performance in the field of public sector oil companies is not done so far by the researchers.

The present study exhibits the problems of the selected oil companies and the reasons for the problems are thus identified. Important ratios, cluster analysis, trend analysis, correlation analysis, multiple regression analysis are used in the present study for getting the valid conclusion.

Earlier studies reviewed in this research are all related to profitability, performance and financial performance of various industries and are related to comparative financial performance of some specific industries. Comparative study of the financial performance of oil companies, especially IOCL and that of HPCL has not been done so far by the researcher.

This study systematically analysis the financial performance of two companies from various angles. First, the financial performance of both the companies is analyzed in detail and then it is compared to get the overall conclusion of both the oil companies. In this study the review of previous study is done in details. While analyzing the review, it is found that no attempt has been made by the previous researcher to compare the financial performance of two public sector oil
companies. Hence this study may be considered as a different from the earlier studies. The review from different study helped the researcher to pursue the study in the right innovative and useful direction. Further the significance of the present study over the previous studies is also explained in this research.

Therefore, this study is unique in the above aspect and a pioneer in analyzing the comparative financial performance of two public oil companies.