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Profitability and Financial Strengths of Oil and Gas Industry of India

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ABSTRACT

Oil and gas is a major part of the energy sector, which, in turn, is essential for the growth of the manufacturing, utilities, infrastructure and commercial services industries. India is also rising as a potential refining hub because the capital costs are lowered by 25% –50% compared to other Asian countries. The present study identified that profitability and financial strength of Oil and Gas industry of India by taking private and Public Sector Company. The samples were taken from the both sector and company selected like, ONGC, BPCL, HPCL, IOCL, RIL, EOL and OIL. The data period was financial year 2006 to 2010, the ratio calculated from the balance sheet, ratios like, gross profit margin, net profit margin, total asset turnover ratio, return on total assets ratio and return on capital employed. From the study it can be said that ONGC and RIL are the most profitable and have better financial strength as compared to other company, these two companies' have consistent performance as the profitability and return on capital employed.

Key Words: Oil and Gas, Profitability, ONGC, RIL, Financial Strength

Introduction

The oil and gas sector is fairly well developed in India, and is poised to contribute a large share to India's energy basket over the next 15–20 years. A conservative estimate of 7 per cent growth in the Indian economy is expected to approximately double India's per capita energy consumption over the next 20 years. Since energy demand and economic growth are almost interlinked, the Indian oil and gas sector, which provides the country with a significant portion of its energy requirements, has been identified as a key metric that will drive future GDP growth.

The Oil Industry is a very important industry in the world and a lot depends on the price of the oil and it has been observed that whenever the oil prices increase the price of various products also increases. The Oil Industry also through oil production accounts for a large amount of the consumption of energy.

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The international crude oil price of Indian Basket as computed/published today by Petroleum Planning and Analysis Cell (PPAC) under the Ministry of Petroleum and Natural Gas went up to US$ 105.01/per barrel (bbl) on 13th November, 2013. This was marginally higher than the price of US$ 104.94/bbl which prevailed on the previous trading day of 12th November, 2013.

In rupee terms also, the crude oil price increased to Rs 6683.89 per bbl on 13th November, 2013 as compared to Rs 6673.13 /bbl on 12th November, 2013. This was due to fall in price in dollar terms and because of rupee depreciation. Rupee-dollar exchange rate on 13th November, 2013 was Rs 63.65/US$ against Rs 63.59/bbl on previous trading day of 12th November, 2013.

A country's economic growth is closely correlated to the energy demand. Consequently, the demand for oil and gas, which is one of the main sources of meeting energy requirements, is expected to increase further. The value of the Indian oil and gas sector is forecasted to grow from US$ 117,562.9 million in 2012 (estimated) to US$ 139,814.7 million by 2015

It is therefore essential to analyze, and capitalize upon key opportunities that are put forth before the oil and gas sector to maximize output, and ensure sustainable development.

Effectively capitalizing upon potential opportunities, clubbed with the increasing demand for natural gas, favorable government policies, large scale investments and the recent discovery of offshore gas reserves are expected to fuel strong growth in the Indian oil and gas sector.

Installed Capacity & Capacity Utilization of Refineries of Crude Oil during 2010-11 & 2011-12

Refinery	Installed Capacity as on 31.03.2011 (TMTPA)	Installed Capacity as on 31.03.2012 (TMTPA)	Refinery Crude Throughput (TMT)		Capacity Utilization (%)		
Public Sector Refineries	116886	120066	115311	120906	98.7	100.7	2.0
Private Refineries	70500	78100	90692	90515	128.6	115.9	-12.7

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Major Players

Public sector corporations dominate the Indian exploration and production sector. In terms of the percentage share in total production Oil and Natural Gas Corporation (ONGC) accounts for the highest share.

The second major player in the sector is also a public sector undertaking Oil India Limited (OIL). Both of these undertakings account for about more than 70% of the total market. The remaining share of the pie is cluttered with various private players in the market.

Names of the key players in the oil and gas industry in India are Oil India Ltd., Oil and Natural Gas Commission, Indian Oil Corporation, Hindustan Petroleum Corporation Ltd., Bharat Petroleum Corporation Ltd., Gas Authority of India Ltd., Reliance Industries Ltd., Essar Oil, Adani Gas, Petronet LNG, Cairn Energy, Shell, British Gas and BP.

Objectives and data collection of the study

The main objective of the present study is to measure the profitability and financial strength of the Indian oil and gas sector. Financial statement analysis is often undertaken to provide insight on the profitability and financial strength of the firm. Return on assets and profitability ratio are the most popular measures used to assess firms' profitability and financial strength. The present study based on the seven oil and Gas Company including private sector and Public Sector Company. The research period was 2006-07 to 2010-11, the data were collected from the company's balance sheet and calculate ratios like gross profit margin, net profit margin, total asset turnover ratio, return on total assets ratio and return on capital employed. The sample were selected from public sector and private sector randomly, sample like ONGC, BPCL, HPCL, IOCL, RIL, EOL and OIL.

Analysis

For the present study researcher has used seven public and private sector Company from petroleum, oil and gas sector of India. In this study researcher has used ratio analysis to measure the profitability of the company and sector.

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Gross Profit Margin Ratio of Selected Indian Oil & Gas Company

(In %)

Sr. No.	Name of Company	2006-07	2007-08	2008-09	2009-10	2010-11
1	IOCL	58.97	56.77	55.13	56.83	55.05
2	RIL	98.29	92.82	95.24	96.30	97.35
3	BPCL	10.73	9.03	10.65	5.98	7.95
4	HPCL	1.34	-3.26	-3.82	1.21	-1.28
5	ONGC	76.61	73.98	72.63	74.73	70.85
6	EOL	1.67	11.95	11.57	5.32	6.16
7	OIL	96.37	96.31	96.82	95.46	96.54

From the above table suggested that RIL and OIL has better performance than the other company in this sector. IOC and ONGC have also satisfactory results in this sector but HPCL, BPCL and EOL has not performing well. Thus, it will interpret that overall this sector has good profitability.

Net Profit Margin Ratio of Selected Indian Oil & Gas Company

(In %)

Sr. No.	Name of Company	2006-07	2007-08	2008-09	2009-10	2010-11
1	IOCL	4.43	4.12	0.98	4.71	2.85
2	RIL	10.61	14.23	9.90	12.03	7.26
3	BPCL	2.18	1.59	0.46	1.32	1.06
4	HPCL	1.89	1.34	0.67	1.40	1.32
5	ONGC	21.60	20.53	18.93	19.07	19.09
6	EOL	-14.24	-7.33	-1.29	0.08	1.39
7	OIL	31.03	29.99	30.28	33.69	35.59

From the above table of net profit margin of Indian Oil and Gas Sector Company, it is suggested that ONGC and OIL has huge profit margin, while in the case of EOL and HPCL has lower profit margin. Thus, overall this sector has satisfactory net profit margin and it will also affect the economy of the country as well as this sector provide the necessary requirement of the society.

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Total Assets Turnover Ratio of Selected Indian Oil & Gas Company

(In %)

Sr. No.	Name of Company	2006-07	2007-08	2008-09	2009-10	2010-11
1	IOCL	177.11	164.37	179.16	150.77	153.79
2	RIL	85.84	78.39	61.45	78.53	86.44
3	BPCL	262.53	233.72	252.54	200.42	229.69
4	HPCL	269.95	236.89	230.30	184.64	185.24
5	ONGC	74.28	77.20	67.56	60.83	60.70
6	EOL	2.98	2.57	168.89	141.61	144.22
7	OIL	55.64	55.60	53.36	42.83	38.16

From the above table, it is suggested that company of Oil and Gas sector has proper use of assets. It is measure the efficiency of the use of assets. Thus, it will identify that HPCL has lower profit but asset turnover ratio is higher, so it indicate that company has huge operating cost. While in case of OIL and RIL has lower asset turnover but company has lower operating cost.

Return on Total Assets Ratio of Selected Indian Oil & Gas Company

(In %)

Sr. No.	Name of Company	2006-07	2007-08	2008-09	2009-10	2010-11
1	IOCL	11.02	11.36	5.48	10.90	7.13
2	RIL	11.98	13.77	8.00	11.85	8.61
3	BPCL	10.90	7.57	6.56	6.43	6.14
4	HPCL	7.99	5.20	6.33	5.88	5.13
5	ONGC	25.68	24.83	20.24	18.50	17.94
6	EOL	-0.28	-0.17	2.90	4.69	6.29
7	OIL	26.34	25.62	25.41	21.58	20.33

This ratio measures that a company's EBIT against its total net assets. The ratio is considered an indicator of how effectively a company is using its assets to generate EBIT. IOCL, RIL, BPCL, ONGC and OIL have huge return on total assets. Thus, it is said that these company use their assets in effective and efficient manner.

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Return on Capital Employed Ratio of Selected Indian Oil & Gas Company

(In %)

Sr. No.	Name of Company	2006-07	2007-08	2008-09	2009-10	2010-11
1	IOCL	15.55	15.79	7.44	15.44	10.58
2	RIL	14.14	16.27	9.50	14.17	10.58
3	BPCL	16.18	11.38	8.87	9.26	9.59
4	HPCL	11.85	7.53	8.47	8.69	7.48
5	ONGC	30.77	30.56	24.76	22.57	22.47
6	EOL	-0.37	-0.27	4.43	7.77	9.71
7	OIL	29.55	30.63	33.05	26.34	24.09

From the above table suggested that efficiency of use of capital. ONGC and OIL has better efficiency in terms of use of capital asset as compare to other company in Oil and Gas sector. EOL has lower capital employed, it is seen that is continuously increases the efficiency of utilization of assets.

Conclusions

To cope up with the high demand, the Indian government has adopted policies such as allowing 100 per cent foreign direct investment in many segments of the oil and gas sector such as refineries, pipelines, petroleum products, natural gas and infrastructure related to the marketing of petroleum products.

Indian oil and gas sector offers a considerable opportunity for investors and shows healthy development in conformity with the escalation of the Indian economy.

India's per capita consumption of energy is really small as compared to other countries and the world average. There is a huge potential in India for the escalation of energy consumption, should the supply grow to meet the demand as it fosters.

The move to liberalize fuel prices and increase gas prices in India is expected to improve the investment climate in both the upstream gas and downstream refining sectors. We expect higher investment in offshore and unconventional gas to impact the longer term production outlook. High oil prices and a deflated rupee have impacted refiners' margins as product prices have been capped. Reducing subsidies for fuels would make the refiners profitable, though protests have taken place rejecting the price rises that have fed through to end users. As a result liberalization of fuel prices may be delayed in 2014, an election year, with refiners not benefiting until later into the forecast.

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From the present study researcher concluded that ONGC and RIL has high profitability and maintain the level of profitability. Though which researcher can interpret for investment purpose investor invest in the Oil and Gas sector, which can improve the wealth of the investors.

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