Profitability Analysis : A Study of Hidhustan Petroleum Corporation Limited

Artta Bandhu Jena
Department of Business Management, Fakir Mohan University, VyasaVihar, Odisha
Email: abjena07@yahoo.co.in

Abstract : Profitability is the primary goal of all business ventures. Without profit, a business cannot survive in the long run. So, measuring current and past profitability and projecting future profitability is very important. Profitability is measured by taking income and expenses. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability. Profitability is very important issues in the growth and survival of business. The performance of the company plays a leading role towards the growth of the industry which ultimately leads to the overall success of the economy. Finance is needed for day to day operation and it is considered as a life blood for business. Profitability is the profit earning capacity which is a crucial factor contributing for the survival of the firms. Profitability analysis is the process of identifying the financial strengths and weakness of the Hindustan Petroleum Corporation Limited (HPCL) from the available accounting data and financial statements. This study aims at analyzing the overall financial profitability of the HPCL by using various financial tools. Further, to measure the effectiveness of the above mentioned company, ratio analysis techniques have been used as tool to provide suitable suggestions and recommendations for this study.

Keywords: Liquidity, Profitability, Ratio, HPCL, Gross Profit, Net Profit and MMT

I. INTRODUCTION

The profitability of a company can be described as its ability to generate income which surpasses its liabilities. Profitability (P) is the profit earning capacity which is a crucial factor contributing to the survival of the firms. The perpetual existence of the firms depends on the profit earning capacity of the firm which is also considered to be the main factor in influencing the reputation of the firm. The borrowing capacity of the firm is also determined by profit. Thus, it is considered as the crucial factor in determining the capital structure of the firm. Profitability consists of two words, profit and ability. Therefore, it is necessary to differentiate between profit and profitability. Profit, from the accounting point of view, is arrived at by deducting the total expenses from revenue whereas profitability can be measured in terms of profit shown as a percentage of sales known as profit margin. The primary objective of a business undertaking is to earn profit. Profit earning is considered very very essential for the business. A business needs profit not for its existence but also for its expansion, modernization, growth and diversification. Profitability analysis comprises the study of sales, analysis of cost of goods sold, analysis of gross margin on sales, analysis of operating expenses, analysis of operating profit and analysis of profit in relation to
sales and capital. Profitability also indicates public acceptance of the product or services rendered by the enterprise and shows the combined effects of liquidity, assets management and debt management on operating result. Further the analysis of the relationship is also important from another angle, i.e. profitability increases on average, with the size of the firm. This will suggest that profitability is not constrained by size; in fact, it is also a positive inducement to further growth. Profitability ratios measure an organization’s ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to some metric, often the amount of money invested. They highlight how effectively, the profitability of a company is being managed. Different profitability ratios provide different useful insights into the financial health and performance of an organization. They give meaningful information only when they are analyzed in comparison to competitors or compared to the ratios in previous periods.

II. OBJECTIVES OF THE STUDY
1. To analyze the profitability position of the companies.
2. To study the present financial system at HPCL.
3. To find out the profit margin and expenses ratio
4. To offer a few suggestions for the better performance of the organization.

Scope of the Study
The scopes of the present study are the followings and presented given below.
1. Hindustan Petroleum Corporation Limited (HPCL) has been taken for the purpose of the study
2. Five year’s accounting and financial data have been taken i.e. from the financial year 2008-09 to 2012-13.

Research Methodology of the Study
Research methodology is very important component of any research work. It enables the researcher to look the problems in a systematic, meaningful and orderly manner. Research methodology consists the nature of data, data sources, collection methods, tools and technique of analysis, sampling, period of study used for the study. These elements of research methodology have been discussed in briefly given below.

i) Nature of Data
The data is must for any research work. The data may be quantitative or qualitative, financial and non-financial to a research work. Here, the financial data of various years of the HPCL has been taken for proper analysis and interpretation of data to get conclusion for the present study as well as to forward the suggestions for the greater interest of the stakeholders. The non-financial data has been excluded.

ii) Sources of Data
The sources of data are primary and secondary. The data for the present study has been collected mainly from secondary sources i.e. internet, journals, reports and information on the topic concerned. Further, the annual reports have been utilized to get the pertinent information on the financial performance of the HPCL.

iii) Collection Methods
Collection of data for any research work is not easy to the investigator. This present piece of research work is not free from this problem. The researcher has personally collected the data from various sources mentioned in sources of data of the present study. The data collected mainly from the annual report of HPCL.

iv) Tools and Technique
For analyzing the data of HPCL and to draw the meaningful conclusions, a few financial tools and techniques i.e. ratio analyses has
mainly been used for proper analysis and draw the meaningful conclusions.

**Limitation of the Study**

The researcher has his/her own limitations in each study and the present study is not free from it. A few limitations of the preset study are as follows.

1. Generally, the secondary data of HPCL has been collected from many sources. So there is a chance of discrepancy, if the data has not been correctly reported.

2. The data has been taken for a period of 5 years for analysis. However, it is restricted to lesser period when the relevant data or information is not available. Thus, uniformity in the analysis of the sample companies cannot be made.

3. The present study has been carried out only to the HPCL. Other similar petroleum companies have been excluded due to non-availability of data for better comparison.

4. The financial tool mainly ration analysis has been used. This technique has its own limitations and they are bound to be present in the study.

5. Last but not the least; the time is one of the limiting factor for carrying out such type of research work.

Therefore, the users of the study should take utmost care and keep these said limitations in mind while using the findings and suggestions judiciously.

**Hindustan Petroleum Corporation Limited (HPCL) - An Overview**

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. 1,32,670 crores and sales/income from operations of Rs 1,43,396 crores during the financial year 2010-11 having about 20% marketing share in India among PSUs and a strong market infrastructure. HPCL's crude throughput and market sales (including exports) are 14.75 Million Metric Tons (MMT) and 27.03 MMT respectively during the same period. HPCL operates 2 major refineries producing a wide variety of petroleum fuels and specialties, one in Mumbai (West 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 9 MMTPA refinery at Bathinda, 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 India 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 zone offices in major cities and 101 regional offices facilitated by a supply and 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Journey of HPCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>The Company was incorporated in the name of Standard Vacuum Refining Company of India Limited on July 5, 1952</td>
</tr>
<tr>
<td>1962</td>
<td>On 31st March, 1962 the name was changed to ESSO Standard Refining Company of India Limited.</td>
</tr>
<tr>
<td>1974</td>
<td>Hindustan Petroleum Corporation Limited comes into being after the takeover of erstwhile Esso Standard and Lube India Limited</td>
</tr>
<tr>
<td>1976</td>
<td>Caltex Oil Refining (India) Ltd. - CORIL is taken over by the Government with an Ordinance in 1976, subsequently ratified by an Act in 1977 and merged with HPCL in 1978</td>
</tr>
<tr>
<td>1979</td>
<td>Kosan Gas Company, the concessionaries of HPCL in the domestic LPG market, are taken over and merged with HPCL</td>
</tr>
</tbody>
</table>
The four main products of HPCL are petrol, diesel, lubes and LPG. Besides these, the other products that HPCL have are kerosene, aviation fuel, naphtha, hexane, bitumen, MTO, gas oil (which after cracking becomes gasoline), benzene, light diesel oil, furnace oil, low sulphur heavy stock (goes to chemical industries. The biggest customer is Century Chemicals).

HINDUSTAN PETROLEUM CORP. LTD.

Type: Public (NSE, BSE)
Founded: 1976
Headquarters: Mumbai
Industry: Petroleum
Products: Oil, Lubricants
Employees: 11,088

Source: http://hindustanpetroleum.com

Analysis and Interpretation of Data

In this section, an attempt has been made to analyze, interpret and draw the conclusions by taking the accounting and financial data of HPCL.

Table 1: Gross Profit Ratio of HPCL (in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Gross Profit</th>
<th>Gross Profit Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>206958.80</td>
<td>14639.91</td>
<td>7.073</td>
</tr>
<tr>
<td>2011-12</td>
<td>178735.50</td>
<td>71514.16</td>
<td>8.011</td>
</tr>
<tr>
<td>2010-11</td>
<td>133213.79</td>
<td>6596.44</td>
<td>4.951</td>
</tr>
<tr>
<td>2009-10</td>
<td>107300.57</td>
<td>5903.69</td>
<td>5.502</td>
</tr>
<tr>
<td>2008-09</td>
<td>124935.50</td>
<td>9881.70</td>
<td>7.909</td>
</tr>
</tbody>
</table>

Source: Annual Report of HPCL

Table 1 shows the gross profit ratios for the various years HPCL. This ratio is very vital to measure the operational efficiency of any business. It is observed from the table that gross profit ratio has been decreased in the year 2010-11 as compared other years. Further, it is increased in the year 2011-12 then it has been decreased from the financial year 2012-13. A low gross profit ratio indicates high cost of goods sold due to unfavourable purchase, lesser sales and lower selling price. High gross profit ratio is better to a firm and low ratio indicates otherwise. It is suggested that the company may try to maintain this ratio in the coming years.

Table 2: Operating Profit Ratio of HPCL (in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT</th>
<th>Net Sales</th>
<th>Operating Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>5364.02</td>
<td>206958.80</td>
<td>2.592</td>
</tr>
<tr>
<td>2011-12</td>
<td>5071.90</td>
<td>178735.50</td>
<td>2.838</td>
</tr>
<tr>
<td>2010-11</td>
<td>4655.37</td>
<td>133213.79</td>
<td>3.494</td>
</tr>
<tr>
<td>2009-10</td>
<td>4197.38</td>
<td>107300.57</td>
<td>3.918</td>
</tr>
<tr>
<td>2008-09</td>
<td>3787.30</td>
<td>124935.50</td>
<td>3.314</td>
</tr>
</tbody>
</table>

Source: Annual Report of HPCL

Table 2 shows the operating profit ratio in 2008-09 was 3.314 % then increased to 3.918 % in 2009-10, then decreased over the years. This ratio indicates an average net margin earned on a sale. Higher the ratio greater is the capacity of the firm to withstand adverse economic conditions and vice versa. Here, it is found that the highest operating profit is in the year 2009-10 as compared to other financial years which ensure adequate return to the company as well as enable the firm to withstand adverse economic condition during the period, it is also found that the lowest operating profit is in 2012-13. So, it is suggested that the HPCL should have a satisfactory ratio.

Table 3: Pre-Tax Profit Ratio of HPCL (in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>EBT</th>
<th>Net Sales</th>
<th>Pre-Tax Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>3344.69</td>
<td>206958.80</td>
<td>1.616</td>
</tr>
<tr>
<td>2011-12</td>
<td>2932.66</td>
<td>178735.50</td>
<td>1.640</td>
</tr>
<tr>
<td>2010-11</td>
<td>3768.33</td>
<td>133213.79</td>
<td>2.828</td>
</tr>
<tr>
<td>2009-10</td>
<td>3287.41</td>
<td>107300.57</td>
<td>3.063</td>
</tr>
<tr>
<td>2008-09</td>
<td>1703.42</td>
<td>124935.50</td>
<td>1.363</td>
</tr>
</tbody>
</table>

Source: Annual Report of HPCL

Table 3 accommodates the pre-tax profit ratios for various year of HPCL. It is found that this ratio is 1.363 % in the year 2008-09 then increased to 3.063 in 2009-10, then decreased in the subsequent years. It is concluded that the higher the ratio is better from the company point of view.

Table 4: Net Profit Ratio of HPCL (in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>EAT</th>
<th>Net Sales</th>
<th>Net Profit Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>2714.22</td>
<td>206958.80</td>
<td>1.311</td>
</tr>
<tr>
<td>2011-12</td>
<td>2529.07</td>
<td>178735.50</td>
<td>1.414</td>
</tr>
<tr>
<td>2010-11</td>
<td>3043.38</td>
<td>133213.79</td>
<td>2.284</td>
</tr>
</tbody>
</table>

ISSN (Print): 2319–5479, Volume-4, Issue–1, 2015

128
Table-4 portrays the net profit ratios of HPCL for the various years. This ratio establishes the relationship between net profit after tax and net sales. It is concluded that NP ratio in 2008-09 is 1.143 % then increased to 2009-10 and 2010-11. Further, it is found that NP ratio has been decreased in the year 2011-12 and 2012-13. If this ratio is not adequate, the firm will fail to achieve satisfactory return on shareholder’s funds. So, the HPCL should maintain a high NP ratio to meet adverse economic situation.

Table-5 shows that cost of goods sold ratio of HPCL. This ratio indicates the efficiency or otherwise in purchasing/utilizing the various components of cost of goods sold. It is observed from the above table that this ratio is 92.00 % in 2008-09 then gone up for the year 2009-10 and 2010-11. Further, it has been decreased to 60.00 in 2011-12 again it has been increased to 92.92 % for the year 2012-13. Here we find that the higher this ratio is better than the lower ratio.

Table-6 shows that operating ratios of HPCL and measures the relationship between operating cost and net sales. This ratio also indicates an average operating cost incurred on sales of goods. Lower the ratio, greater is the operating profit to cover the non-operating expenses to pay dividend and to create reserves and vice versa. It is found from the table that there is low operating ratio for the year 2011-12 and 2012-13 as compared to other years. Further, it is also found that operating ratios 3.161 % in 2009-10 which is not the good indicator to the HPCL. Because high operating expenses should increase the cost of the manufacture goods. The implication of a high operating ratio is that only a relatively small percentage share of sales is available for meeting financial liability like interest, tax and dividends. It is safely suggested that HPCL should maintain a satisfactory operating ratio for the greater interest of its business.
Table-8 shows the current ratio of the sample company and establishes the relationship between current assets and liabilities from the year 2008-09 to 2012-13. It is closely observed from the above table that the current ratio is not satisfactory for the all years as per the standard norm 2:1. This ratio also indicates the rupees of current assets available for each rupee of current liability. Higher the ratio, greater is the margin of safety for short-term creditors and vice-versa. So, the HPCL should maintain a sound liquidity position with regard to current ratio to pay current liabilities in time and avail the short term market leverage.

<table>
<thead>
<tr>
<th>Year</th>
<th>Quick Asset</th>
<th>Current Liabilities</th>
<th>Quick Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>21457.53</td>
<td>30060.06</td>
<td>0.713</td>
</tr>
<tr>
<td>2011-12</td>
<td>15990.40</td>
<td>30507.78</td>
<td>0.524</td>
</tr>
<tr>
<td>2010-11</td>
<td>9968.69</td>
<td>22802.23</td>
<td>0.437</td>
</tr>
<tr>
<td>2009-10</td>
<td>8512.37</td>
<td>18812.73</td>
<td>0.452</td>
</tr>
<tr>
<td>2008-09</td>
<td>7469.45</td>
<td>13629.18</td>
<td>0.548</td>
</tr>
</tbody>
</table>

Table-9 Acid Test/Quick Ratio of HPCL. (in crores)

Table-9 shows that quick ratio of HPCL for the various financial years and shows the relationship between quick assets and current liabilities. The quick ratio is an important ratio which measures the enterprise’s ability to meet current obligations without relying on the sale and collection of inventories. It is closely observed from the above table that the quick ratio is not satisfactory for the all years as per the traditional standard norm 1:1. Therefore, HPCL should have the satisfactory quick ratio to pay the current liabilities in time without affecting the short term liquidity position.

Summary of Findings

The present study deals with the empirical analysis of profitability analysis on HPCL. After analysis and interpretation of accounting and financial data, the major findings are the followings.

1. The gross profit ratio has been decreased in the year 2010-11 as compared other years.
2. The operating profit ratio in 2008-09 is 3.314 % then increased to 3.918 % in 2009-10, then decreased over the years.
3. The pre-tax profit ratio is 1.363 % in the year 2008-09 then increased to 3.063 % in 2009-10, then decreased in the subsequent years.
4. The NP ratio has been decreased in the year 2011-12 and 2012-13.
5. The cost of goods sold ratio is 92 % in 2008-09 then gone up for the year 2009-10 and 2010-11.
6. There is low operating ratio for the year 2011-12 and 2012-13 as compared to other years.
7. There is the increasing trend of return on asset from 2008-09 to 2010-11 and the reverse trends for the last financial years.
8. The current ratio is not satisfactory for the all years as per the standard norm.
9. Similarly, the quick ratio is not satisfactory for the all years as per the traditional standard norm.

Suggestions

In order to overcome the short comings, it is felt that appropriate remedial measures would be recommended in the form of suggestions. The HPCL should maintain the satisfactory and good GP, operating profit, NP, current and quick ratios to pay current liabilities in time and avail the short term market leverage. The HPCL would also avoid the short term liquidity position and satisfy to stakeholders.

Concluding Remarks

Finance is regarded as life blood of every business. Without effective management of finance, a business cannot be in this competitive world. A prudent financial
manager has to measure the perfect and suitable working capital management policy. Profit is the engine and fuel which drive the business in the right economic direction for the greater economic interest of stakeholders. From the above study with regard to profitability analysis of HPCL, it is found that it is very difficult task to maintain ideal ratios in such a big organization. There are various micro and macro business environmental factors which affect the ratio analysis like credit policy, inventory management system, production cycle, etc. but it is very important to manage it in every situation. Last but not the least, it is concluded that the HPCL’s overall profitability position is at good position. In the coming years, the HPCL can come out with the better and suitable financial strategies in successfully and maintain the sound ratios with regard to profitability position.

**Selected References**


WEBSITES
www.hpcl.com
www.investopedia.com
http://money.redim
www.googlesearch.com

◆◆◆