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Analysis of Corporate Finance of Selected Petroleum Companies

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Introduction

What is Corporate Finance?

Corporate finance can be defined as financial management or management of finance. Corporate finance/financial management is the areas of finance. Finance has two major areas: (I) financial services and (II) corporate finance. Finance may be defined as the art and science of managing money.in other word finance is the study of how money is managed and the process of acquiring needed funds. It has generally two type of finance such as Personal finance and corporate finance. Corporate finance is concerned with the duties of the financial manager in the business corporation. Financial manager actively manage the financial activities of any type of business firm. Here I have studied about corporate finance. The recent trends towards globalization of business activity have created new demands and opportunities in corporate finance.

Scope of Corporate Finance

Corporate finance provides conceptual and analytical framework for decision making regarding optimum management of finance. The finance function covers both acquirements of funds as well as allocation of them. Three major decisions have taken under the corporate finance decision. They decisions are as follow:

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- **The Investment Decision:** The first major decision relates to the selection of assets in which funds/capitals will be invested. The funds can be invested into two type of assets, first is long term assets which yield a return over a period of time in future or it may be deploy into the business for entire lifetime of project and second type of assets is short term assets/current assets which can be defined as those assets convert into cash within normal course of business without diminution in value, usually within one year. The decision regarding investment into the long term assets is known as capital budgeting decision and the decision regarding short term assets is known as working capital management decision.
- **The Finance Decision:** Finance decision relates to the choice of capital structure such as the proportion of debt and equity sources of financing. Financial decision covers two aspects relates to capital structure: (I) Theory of capital structure and (II) Determination of capital structure.
- **Dividend Policy Decision:** Under this decision the financial manger decides, the dividend pay-out ratio, that is, what proportion of profit earn should be paid to the shareholders and remaining part of profit should be invested into the business.

Objectives of Corporate Finance

Corporate finance is primarily concerned with maximizing shareholder value through long-term and short- term financial planning and the implementation of various strategies. The term objective is used in the sense of goal of financial manager regarding decision criterion. Three decisions are involved in corporate finance decision. Corporate finance activities range from capital investment decision to investment banking. The petroleum industry is most growing industry in India. In the petroleum industry have a large no. of changes and development so its proportionate in the revenue of national income is also increase. Production of petroleum product has increased in India; however selling price is being increased. The value of petrol and diesel are increasing. Petroleum product is not cover under Goods and Service Tax (GST).

Literature under Review

Ravindra J. Bhatt has published an article titled ‘Profitability Ratio Analysis with Specific Reference to Indian Petroleum Industry- an Empirical Study’ in a journal namely ‘Indian Journal of Accounting‘, Vol. 28(1), December, 2012. The objectives of this study was to analyze the profitability ratios of Indian petroleum industry. The study was based on secondary data taking EVA into consideration. Three Public Sector Company and private sector company was taken in consideration and various profitability ratio were calculated. It had been concluded that comparatively ONGC had the highest profitability followed by HPCL and BPCL.

Objectives of the Study

- To describe corporate finance system.
- To analyze corporate financial position.

Methodology

- **Sample Size:** In this paper three petroleum companies have been taken. These are Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), and Indian Oil Corporation Limited (IOCL)
- **Period of Study:** From 2011-12 to 2016-17.
- **Collection of Data:** The present paper is based on secondary data which is arranged from annual reports and official website.

Profitability Ratio Based on Sales

- **Net Profit Ratio:** The net profit ratio is measured by dividing profit after tax by net sales. Net profit ratio calculated as below:

  = (Profit after tax ÷ Net sales) × 100

Table 1: Net Profit Ratio of Selected Petroleum Companies

(Ratio in %)

Year	BPCL	HPCL	IOCL
2011-12	0.4	1.74	1.04
2012-13	0.79	1.32	0.78
2013-14	1.53	1.6	1.42
2014-15	2.09	1.87	1.08
2015-16	4.11	3.66	3.51
2016-17	4.72	5.06	5.55
Average	2.273333	2.541667	2.23
SD	1.769482	1.905676	1.739636
CV in %	77.83645	74.97741	78.01058

Source: Computed from the annual reports and accounts of the companies from 2011-12 to 2016-17.

Net profit ratio establishes a relationship between net profit and sales. It indicates efficiency in manufacturing and management of finance. Table 1 display that the average net profit ratio of HPCL was higher in comparison to the BPCL and IOCL. The highest increase/increasing trend in net profit ratio in the IOCL but coefficient of variation is also more than others. It means The IOCL is working on high risk (according to variability of net profit). The HPCL is working with more stable in comparison to other and his average profit is also high.

Profitability Ratio Based on Investment

- **Return on Net Worth:** This ratio is also known as return on shareholder's equity. This ratio calculated as below:

= (Net profit after tax and interest ÷ Net worth) × 100

Table 2: Return on Capital Employed Ratio of Selected Petroleum Companies

(Ratio in %)

Year	BPCL	HPCL	IOCL
2011-12	3.34	1.33	4.84
2012-13	5.89	3.75	4.14
2013-14	8.64	2.1	5.64
2014-15	10.27	2.74	3.79
2015-16	13.68	10.96	8.17
2016-17	14.12	18.08	14.09
Average	9.323333	6.493333	6.778333
SD	3.893151	6.079703	3.567003
CV in %	41.75707	93.62992	52.62361

Source: Computed from the annual reports and accounts of the companies from 2011-12 to 2016-17.

Return on capital employed ratio is considered to be the best measurement of profitability in order to assess the overall performance of the business. The average return on capital employed of BPCL was better than HPCL and IOCL. It is also observed that the variation in return on capital employed ratio of HPCL much more than the IOCL and BPCL. It means that the HPCL is providing more variable rate of return on capital employed in comparison to others there for HPCL is more risky than IOCL and BPCL.

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