

## STUDY OF FINANCIAL STABILIZATION OF SELECTED PETROLEUM COMPANIES

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Rohitash Kumar Verma\*

### ABSTRACT

*The purpose of this paper is to analyze the financial stabilization in the context of selected companies and to find out whether it is optimal. The petroleum industry is the backbone of our Indian economy. This analysis has done regarding selected petroleum companies during the period of 2012-13 to 2016-17. The financial stabilization has a very important place in the scheme of financial planning of an enterprise. The main objective of financial management is to maximize the shareholder's wealth and other is maximization of profit. Financial stabilization is a situation in the financial system, major financial markets and financial institutional systems are resistant to economic shocks and fit to carry out their basic functions smoothly: arbitrage of financial funds, management of risks and payment arrangements. In other words financial stability is a property of a financial system that eliminates financial imbalances that arise in financial markets or as a result of significant adverse and unforeseen events. When stabilized, the system absorbs economic shocks primarily through self-corrective mechanisms, preventing adverse events from disrupting the real economy or spreading to other financial systems. Financial stability is paramount for economic development, as most transactions in the real economy are done through the financial system. Without financial stability, banks are hesitant to complete financing of profitable projects, asset prices may deviate more than their real values, and deviate from the payment settlement schedule criteria.*

**KEYWORDS:** *Financial Stabilization, Financial Stability and Crises, Financial Management.*

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### Introduction

#### Meaning and Definition of Financial Stabilization?

Financial stabilization is a situation in the financial system, major financial markets, and financial institutional systems are resistant to economic shocks and fit to carry out their basic functions smoothly: arbitrage of financial funds, management of risks and payment arrangements.

Financial stability is defined in terms of its ability to facilitate and enhance economic process, manage risks, and absorb shocks. Moreover, financial stability is considered a continuum: changeable over time and consistent with multiple combinations of the constituent elements of finance.

There are some important definitions given bellow:

- **Andrew Crockett (Bank for International Settlements and Financial Stability Forum),** "...define financial stability as an absence of instability....a situation in which economic performance is potentially impaired by fluctuations in the price of financial assets or by an inability of financial institutions to meet their contractual obligations.

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\* Research Scholar, Department of Accountancy and Business Statistics, University of Rajasthan, Jaipur, Rajasthan, India.

- **Frederick Mishkin (Columbia University)**, “Financial instability, occurs when shocks to the financial system interfere with information flow so that the financial system can longer do its job of channeling funds to those with productive investment opportunities.”
- **Norges Bank**, “Financial stability means that the financial system is robust to disturbances in the economy, so that it is able to mediate financing, carry out payments and redistribute risk in a satisfactory manner.”
- **Anna Schwartz (National Bureau of Economic Research)**, “A financial crisis is fueled by fears that the means of payment will be unobtainable at any price and, in a fractional reserve banking system, leads to a scramble for high-powered money. It is precipitated by actions of the public that suddenly squeeze the reserves of the banking system.... The essence of a financial crisis is that it is short-lived, ending with a slackening of the public’s demand for additional currency.”
- **Wim Duisenberg (European Central Bank)**, “...monetary stability is defined as stability in the general level of prices, or as an absence of inflation or deflation. Financial stability does not have as easy or universally accepted a definition. Nevertheless, there seems to be a broad consensus that financial stability refers to the smooth functioning of the key elements that make up the financial system.”

#### Literature Under Review

- **Vishwanathan, N.S.(June,2017) Deputy governor**, has published a report titled ‘Financial Stability Report’ in the **Financial Stability Unit, Reserve Bank of India, Mumbai**. The objectives of this study were to analyze the financial stability of central bank in India.
- **Schinasi, Garry J. (October, 2004)**,has published a working paper titled ‘Defining Financial Stability’ in International Capital Markets Department of International Monetary Fund.
- **Romanyuk, Vera and his friends (2016)**, have presented an article in IOP Conference Series: Earth and Environmental Science 43 (2016) titled ‘financial planning as a policy tool in the petroleum industry (the case study: OJSC “SURGUTNEFTEGAS”)’. The article deals with the financial planning of oil and gas company activities including capital structure optimization.

#### Objectives of the Study

The main objective of this paper is to know about the financial stabilization and financial stability that has some practical and operational relevance and to analyze financial stability position of selected petroleum companies.

Financial stabilization is primarily concerned with stabilizing shareholders wealth 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.

The petroleum industry is most growing industry in India. The petroleum industry has undergone major changes and developments, so its ratio to national income revenue is also increasing. Production of petroleum product has increased in India, however selling price is being increased. The value of petrol and diesel are increasing along with cost also increased. Petroleum product is not cover under Goods and Service Tax (GST).Oil and gas are the engine of the world economy.

#### Methodology

- **Sample Size:** In this paper three petroleum companies have been taken. These companies are taken on the basis of market capitalization. These are Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited(HPCL), and Indian Oil Corporation Limited (IOCL)
- **Period of Study:** From 2012-13 to 2016-17.
- **Collection of Data:** The present paper is based on secondary data which is arranged from official website and annual reports.

#### Analysis of Financial Stability of Companies

Several parameters are used to measure a company’s financial stability or financial health. Such as: measurement of income trend, measurement of trend of expenses and measurement of trend of profitability ratio etc.

I have used the profitability ratio here to measure the financial stability of the company. The best measure of financial stability is the ratio of net profit. The percentage of net profit on sales is measured to measure it.

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

$$= (\text{Profit after tax} \div \text{Net sales}) \times 100$$

**Table: Net Profit Ratio and their Trend of Selected Petroleum Companies**  
(Net Profit Ratio and Trend of Ratio in %)

Year	BPCL	Trend	HPCL	Trend	IOCL	Trend
2012-13	0.79	100.00	1.32	100.00	0.78	100.00
2013-14	1.53	193.67	1.60	121.21	1.42	182.05
2014-15	2.09	264.56	1.87	141.67	1.08	138.46
2015-16	4.11	520.25	3.66	277.27	3.51	450.00
2016-17	4.72	597.47	5.06	383.33	5.55	711.54
<b>Average</b>		<b>335.189</b>		<b>204.697</b>		<b>316.410</b>
<b>SD</b>		214.108		121.534		260.060
<b>CV in %</b>		63.876		59.373		82.191

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

CV is stand for coefficient of variation ( $CV = SD / \text{Average} \times 100$ ) and SD for Standard Deviation.

### Conclusion

The study of the above table shows that the company BPCL has shown the highest tendency to increase in net profit ratio. Hence the company BPCL is more financially stable, and if we study the coefficient of all the three companies, we find that there is minimum variance in the net profit ratio of the company HPCL. This leads to the conclusion that the company HPCL is financially more stable.

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