

A Research Study on Profitability Analysis A Key Feature for Company's Financial Performance with Special Reference to Selected Oil Companies in India

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ABSTRACT

The company runs with the motive of profit and the term profit is the excess of sales over the expenses. The term profit is the most important key feature for the company's financial performance and all the stakeholders associated with the company have an eye on it. Ratio analysis is one of the means to find out the financial performance. This research paper is on profitability analysis with special reference to selected oil companies in India.

1. Introduction About Oil Industry In India

After the countries china and the united states our nation India is the 3rd largest energy and oil consumer in all over the world. India is an emerging refinery hub and also an exporter of petroleum products all round the world. In our nation India there are around 18 public sector refineries and 5 as private refineries. In our nation India, Jamnagar city in the state Gujarat has the largest refinery in India the Reliance Industry limited and also in Panipat of Haryana state the Indian Oil company.

2. Profitability Ratio Analysis and It's Importance

The Ratio Analysis method is one of the best method to access the financial performance of companies. With the ratio analysis method we can take important decisions, derive results and can do comparisons. With the help of profitability ratio analysis we can know the ability of the company that how much a company is efficient enough in generating profits.

The different types of profitability ratios to access the financial performance of selected oil companies in India used in this research study are as under:

1. Gross Profit Ratio (G.P. Ratio)
2. Net Profit Ratio (N.P. Ratio)
3. Return on Capital Employed (ROCE)

3. Review of literature

Bevan et al.(2002) Accordingly, it is suggested that the firms with high profits are recommended to hold less debt as higher profit yields more of internal funds.

Salawu, R.O. and Agboola, A.A.(2008) in there research paper study states that the panel of 33 firms in Nigeria analyses the determinants of non-financial firms and by performing statistical tests over a period of 1996-2004 revealed that the term profitability is having a positive relation with total debt and the long term debt.

4. Objective of the research study

The present research study focuses on the below mentioned objectives:

- To explore an understand about the oil industries in India and the Profitability ratio analysis and its importance .
- To analyse the Profitability ratios of selected Oil Companies in India- a key factor for financial performance of a company.
- To draw a conclusion on the derived results.

5. Research Methodology

The term research methodology is a word divided in two parts research and methodology which states about the way in which the research study has been carried out. The research methodology is the systematic and scientific method to clarify the research problem. In this present research study, the researcher has made an attempt to analyse with the special reference the Profitability position of selected Oil Companies in India. The Universe of the study comprises the leading oil companies in India. The five Oil companies selected are as follows:

- 1.Gujarat Natural Resources Limited
2. Deep Industries Limited
3. Asian Oilfield Services Limited
- 4.Selan Exploration Technology Limited
5. Jindal Drilling and Industries Limited

6. Sources of data

The present research study undertaken is purely secondary research study. The annual reports used to calculate various financial ratios are downloaded from the official company and stock exchanges websites. The information used in this research study is collected through various websites, journals, papers and books etc.

7. Time Period

The study covers time span of 10 years 2009-10 to 2018-2019.

8. Hypothesis

The present research study will depend on following hypothesis.

Null Hypothesis

1. There is no significant difference between the Gross Profit ratios of the selected oil companies of India.
2. There is no significant difference between the Net Profit ratios of the selected oil companies of India.
3. There is no significant difference between the Return on Capital Employed ratios of the selected oil companies of India.

Alternative Hypothesis

1. There is significant difference between the Gross Profit ratios of the selected oil companies of India.
2. There is significant difference between the Net Profit ratios of the selected oil companies of India.

3. There is significant difference between the Return on Capital Employed ratios of the selected oil companies of India.

9. Tools and techniques

The Profitability ratio analysis with special reference to selected Oil Companies in India is undertaken. Ratio analysis method as a financial tool and ANOVA as statistical tool have been used for this present research study.

10. Data analysis and interpretation

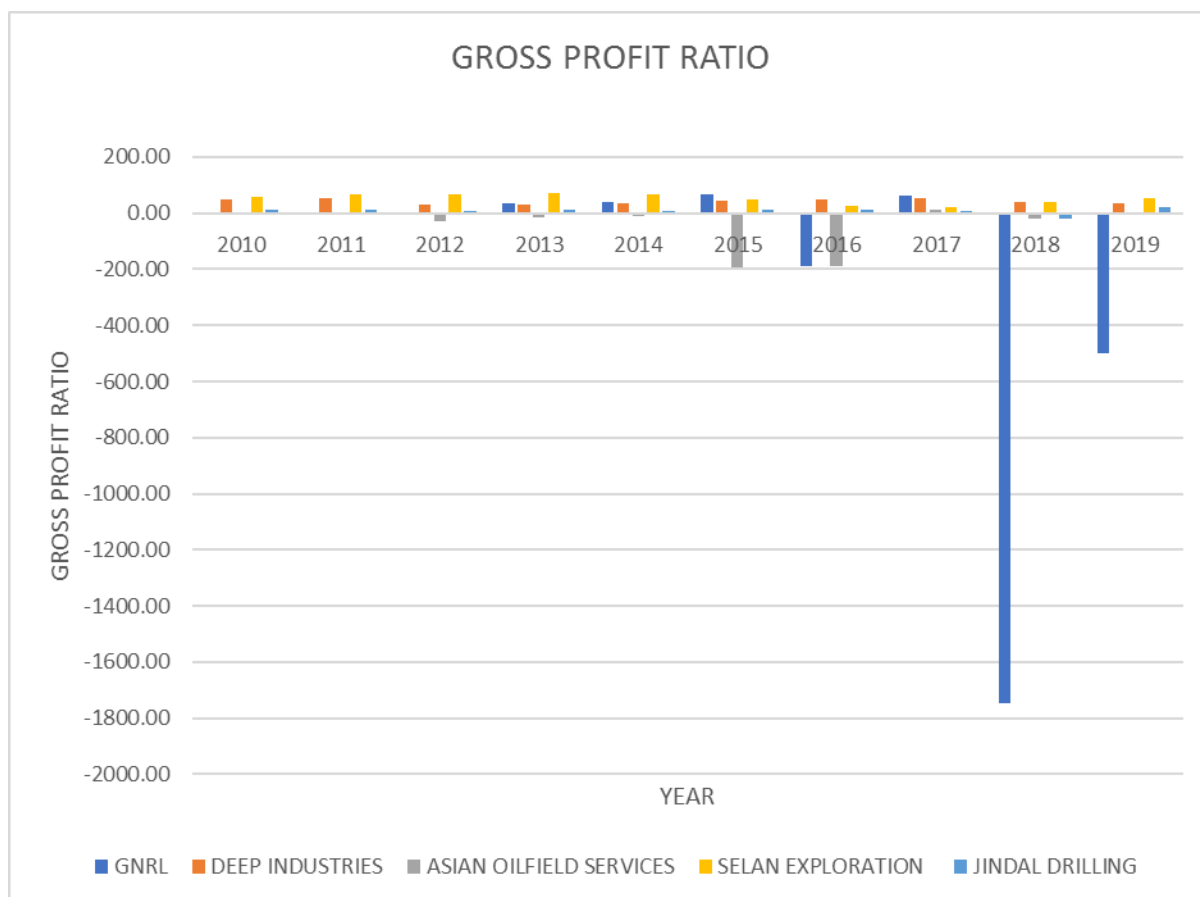
1. Gross Profit Ratio (G.P. RATIO)

Gross profit Ratio is a type of Profitability ratio a financial tool useful in deriving a company's financial performance and is calculated by dividing the Gross Profit by the Net Sales of the firm.

$$\text{Gross Profit Ratio (G.P. Ratio)} = \frac{\text{Gross Profit} * 100}{\text{Net Sales}}$$

GROSS PROFIT RATIO										
COMPANY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GNRL	1.90	0.71	-0.70	33.79	40.54	66.10	-188.46	60.28	-1745.58	-501.60
DEEP INDUSTRIES	48.80	51.35	29.88	32.66	36.12	44.98	48.50	51.05	39.03	35.33
ASIAN OILFIELD SERVICES	-2.53	0.47	27.36	14.81	10.49	-195.51	-188.80	12.12	-21.61	1.04
SELAN EXPLORATION	59.46	65.65	69.01	72.04	67.26	48.61	27.79	22.81	39.77	51.75
JINDAL DRILLING	10.67	14.12	8.75	12.50	8.74	12.49	13.28	6.38	-18.69	19.45

Table 1.1 Gross Profit Ratio (G.P. Ratio)



Graph 1.1 Gross Profit Ratio (G.P. Ratio)

Interpretation

From the above table and graph no. 1.1 of Gross Profit Ratio, it can be stated for that with 52.41 average Gross Profit Ratio Value of the Selan Exploration company stood at number one position followed by the next company Deep

Industries with 41.77 average Gross ratio value. With a negative average of -223.30 average Gross profit Ratio GNRL stands at the last position among all which states that GNRL doing their business in a less efficient way.

Anova Testing

The Descriptive Statistics of different selected oil companies in India of Gross Profit Ratio

SUMMARY

Groups	Count	Sum	Average	Variance
GNRL	10	-2233.0	-223.3	316257.2
DEEP INDUSTRIES	10	417.7	41.8	65.4
ASIAN OILFIELD SERVICES	10	-447.5	-44.7	6171.4
SELAN EXPLORATION	10	524.1	52.4	307.0
JINDAL DRILLING	10	87.7	8.8	106.0

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	509840.8	4	127460.2	1.973637	0.114772	2.578739
Within Groups	2906162	45	64581.38			
Total	3416003	49				

Interpretation

Ho = There's no significant difference in between five selected oil companies in India for Gross Profit Ratio.

H1 = There's a significant difference in between five selected oil companies in India Gross Profit Ratio.

From the table given above for the 4 and 45 degree of freedom.

Fcal is 1.973637 and Ftab is 2.578739.

Thus, F calculated < F table and value of p is more than the specified value of alpha i.e. α of 0.05.

Therefore, there is acceptance of the Null Hypothesis and thus on the basis is concluded that no difference is seen in

Gross Profit Ratio between five selected oil companies of India for the present Research Study.

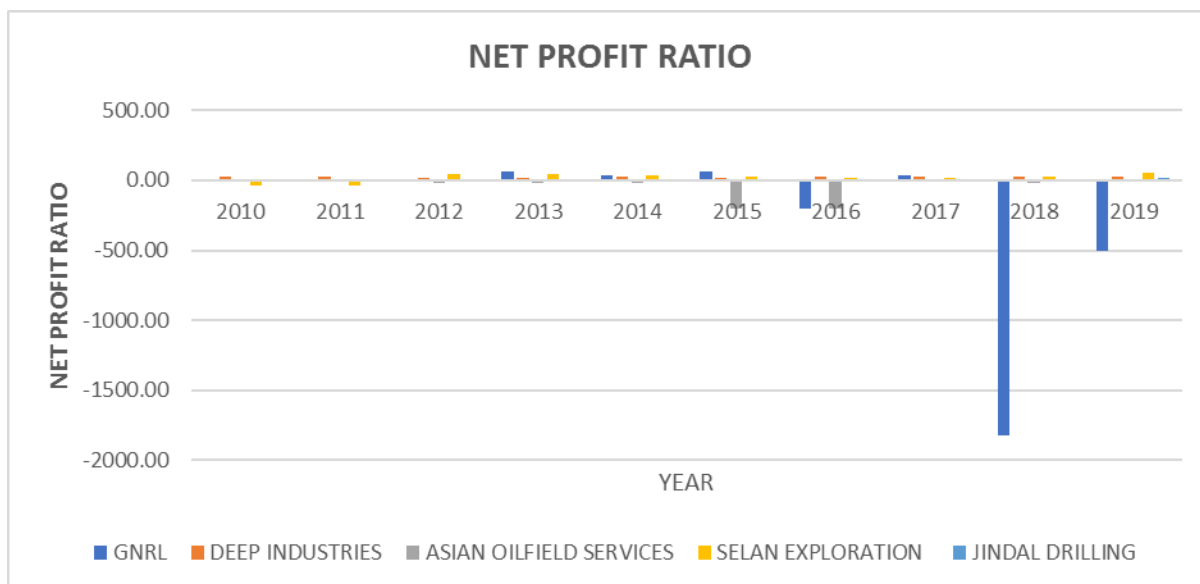
2. Net profit ratio

The Net Profit Ratio a financial tool is one of the profitability ratios which is calculated by the way of dividing the Net Profit by the Net Sales. The formula to calculate is stated as below:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit} * 100}{\text{Net Sales}}$$

NET PROFIT RATIO										
COMPANY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GNRL	0.20	-0.14	-0.77	62.29	37.26	61.12	-204.18	32.46	-1824.15	-504.39
DEEP INDUSTRIES	25.96	25.62	19.90	18.65	22.08	21.01	24.19	26.68	25.30	23.02
ASIAN OILFIELD SERVICES	-4.47	10.15	19.74	17.18	18.70	-200.89	-201.19	1.14	-21.61	10.86
SELAN EXPLORATION	-	-	42.37	41.18	38.97	31.09	17.94	13.54	26.18	49.52
JINDAL DRILLING	7.01	9.48	12.46	7.93	6.37	8.57	8.68	4.57	-10.15	16.45

Table 2.1 Net Profit Ratio (N.P. Ratio)



Graph 2.1 Net Profit Ratio (N.P. Ratio)

Interpretation

From the above table and graph no. 2.1 for the Net Profit Ratio Analysis, it is in conclusion that Deep Industries company with 23.24 average Net Profit Ratio of stood at number one position followed by with 18.07 average Net Profit ratio analysis

value the Selan Exploration Company. With the Negative average value as -234.03 average Net profit Ratio GNRL stood at last position which indicates GNRL doing their business least efficient way.

Anova Testing

The Descriptive Statistics of different selected oil companies in India for Net Profit Ratio SUMMARY

Groups	Count	Sum	Average	Variance
GNRL	10	-2340.3	-234.0	342886.9
DEEP INDUSTRIES	10	232.4	23.2	7.6
ASIAN OILFIELD SERVICES	10	-481.9	-48.2	6594.8
SELAN EXPLORATION	10	180.7	18.1	1061.9
JINDAL DRILLING	10	71.4	7.1	47.9

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	470808.9	4	117702.2	1.678587	0.171578	2.578739
Within Groups	3155393	45	70119.84			
Total	3626202	49				

Interpretation

Ho = There's no significant difference in between five selected oil companies in India for Net Profit Ratio.

H1 = There's a significant difference in between five selected oil companies in India for Net Profit Ratio.

From the above table for 4 and 45 degree of freedom.

F calculated value is 1.678587 and F table value is 2.578739.

Thus, F calculated value is less than the F table value and value of p is more than value specified of alpha i.e. α of 0.05.

Therefore, there is acceptance of Null Hypothesis and thus conclusion is that no difference is seen between five selected oil companies in India in Net Profit Ratio.

3. Return on Capital Employed (ROCE)

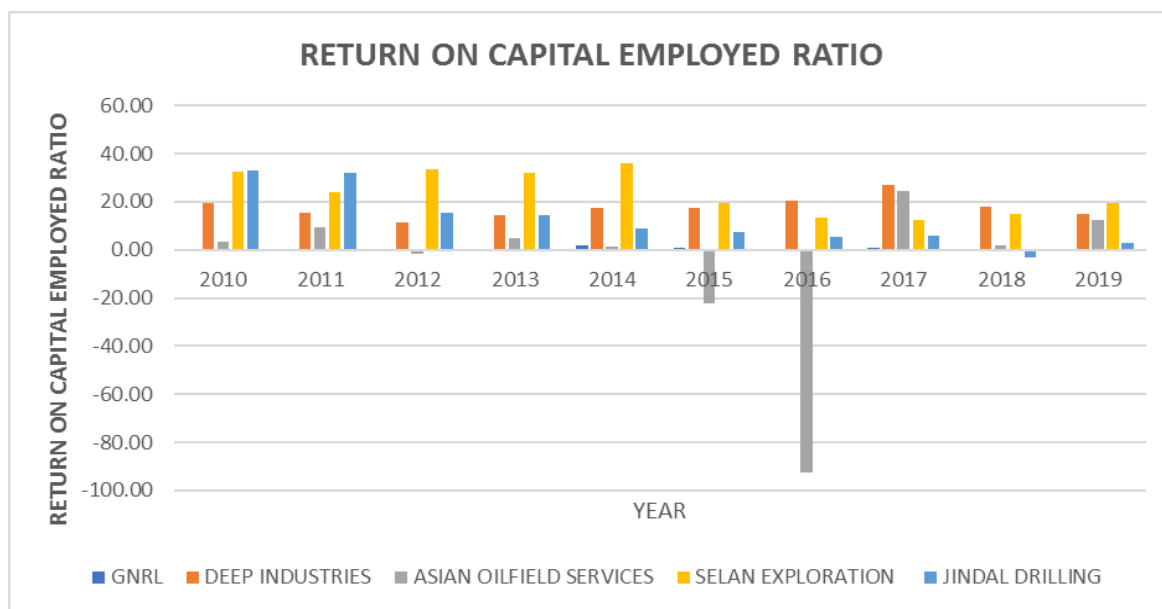
The ROCE ratio a type of profitability ratio a financial measure tool Return on Capital Employed also known in short as ROCE is a type of profitability ratio which is used to access a company's profitability and its capital efficiency. It is calculated with the below mentioned formula as under:

$$\text{Return on Capital Employed (ROCE)} = \frac{\text{Earnings before Interest and Tax (EBIT)}}{\text{Capital Employed}}$$

Where the Capital Employed is arrived by deducting the current liabilities from the Total Assets

RETURN ON CAPITAL EMPLOYED RATIO										
COMPANY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GNRL	0.06	0.05	-0.40	0.32	1.91	0.88	-0.38	0.93	-0.63	-0.53
DEEP INDUSTRIES	19.69	15.33	11.40	14.38	17.64	17.39	20.30	27.10	17.90	14.98
ASIAN OILFIELD SERVICES	3.28	9.24	-1.47	5.00	1.55	-22.09	-92.70	24.32	1.71	12.44
SELAN EXPLORATION	32.71	24.10	33.62	31.96	36.05	19.54	13.35	12.18	15.14	19.58
JINDAL DRILLING	33.08	32.02	15.51	14.42	8.85	7.26	5.41	5.96	-3.24	2.88

Table 3.1 Return on Capital Employed Ratio (ROCE)



Graph 3.1 Return on Capital Employed Ratio (ROCE)

Interpretation

From the above table and graph no. 3.1 for the Return on Capital Employed Ratio, it is in conclusion that Selan Exploration company stood at number one position with 23.82 average Return on Capital Employed Ratio followed by Deep

Industries with 17.61 average ratio value. Asian Oilfield Services stood at last position with negative -5.87 average Return on Capital Employed Ratio which indicates that the Asian Oilfield Services company were not utilising their capital well to generate good profits.

Anova Testing

The Descriptive Statistics of different selected oil companies in India of Return on Capital Employed Ratio

SUMMARY

Groups	Count	Sum	Average	Variance
GNRL	10	2.22	0.22	0.65
DEEP INDUSTRIES	10	176.10	17.61	18.09
ASIAN OILFIELD SERVICES	10	-58.72	-5.87	1067.97
SELAN EXPLORATION	10	238.24	23.82	83.11
JINDAL DRILLING	10	122.15	12.22	143.39

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6006.578	4	1501.644	5.7174294	0.000828	2.578739
Within Groups	11818.95	45	262.6433			
Total	17825.53	49				

Interpretation

Ho = There's no significant difference between five selected oil companies in India in Return on Capital Employed Ratio.

H1 = There's a significant difference between five selected oil companies in India in Return on Capital Employed Ratio.

From the above mentioned table form for the 4 and 45 degree of freedom.

F calculated value is 5.7174294 and F table value is 2.578739.

Thus, the F calculated value is more than the F table value and the value of p is less than the specified value of alpha i.e. α of 0.05.

Therefore, there is rejection in the Null Hypothesis and it is in conclusion that the difference is seen between five selected oil companies of India for the present research study in Return on Capital Employed Ratio.

11. Conclusion

Through the present research study on Profitability analysis for the five selected oil companies of India we can conclude that Selan Exploration and Deep Industries companies have good Profit generating ability and better capital efficiency with better performance. The GNRL, Jindal Drilling and Asian Oilfield Services Limited need to concentrate and take adequate steps to improve their Profitability position for the smooth and continuous exitance of the company. Profitability position of the company should always be monitored and should be high so that the investors don't mind for paying a high price for the share and profitability is very important financial aspect where everyone's eye is on and proper efforts and best management practices should be made to improve the overall profitability of the company.

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