A STUDY ON FINANCIAL PERFORMANCE OF PETROLEUM CORPORATION LIMITED

Rohith Vignesh.J[1], Dr S Chinnathambi[2]

Article History: Received: 18.02.2023 **Revised:** 07.04.2023 **Accepted:** 23.05.2023

Abstract

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors.

Financial ce changes in the market. CPCL is the one of the largest producer of oil and natural gas in India. It owns and operates over 11,000 kilometers of pipelines in India. The need for the study is to know the performance, liquidity and profitability of CPCL. The scope of the study is to give prompt solutions to increase the performance and to have future growth in order to achieve desired objectives of CPCL.

Keywords: Financial Performance, Ratio Analysis, Liquidity Ratio, Profitability Ratio.

[1] II-Year MBA, School of Management, Hindustan Institute of Technology and Science
[2]Associate Professor, School of Management, Hindustan Institute of Technology and Science

DOI: 10.31838/ecb/2023.12.s2.305

1. Introduction

Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.
Financial statements are primarily prepared for decision-making. They play a dominant role in setting the framework of managerial decision. The published financial statements of business may be of considerable interest to present the same to their respective potential shareholders, managers, moneylenders, banks, financial institutions, trade organization and many others.

REVIEW OF LITERATURE

The study of (Shin & Soenen, 1998) consistent with later study on the same objective that done by (Deloof, 2003) by using sample of 1009 large Belgian non-financial firms for the period of 1992-1996. However, (Deloof, 2003) used trade credit policy and inventory policy are measured by number of days accounts receivable, accounts payable and inventories, and the cash conversion cycle as a comprehensive measure of working capital management. He founds a significant negative relation between gross operating income and the number of days accounts receivable, inventories and accounts payable. Thus, he suggests that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. He also suggests that less profitable firms wait longer to pay their bills.

In other study, (Lyroudi & Lazaridis, 2007) use food industry Greek to examined the cash conversion cycle () as a liquidity indicator of the firms and tries to determine its relationship with the current and the quick ratios, with its component variables, and investigates the implications of the terms of profitability, indebtness and firm size. The results of their study indicate that there is a significant positive relationship between the cash conversion cycle and the traditional liquidity measures of current and quick ratios. The cash conversion cycle also positively related to the return on assets and the net profit margin but had no linear relationship with the leverage ratios. Conversely, the current and quick ratios had negative relationship with the debt to equity ratio, and a positive one with the times interest earned ratio. Finally, there is no difference between the liquidity ratios of large and small firms.

FINANCIAL PERFORMANCE MEASURES

The recommended measures for financial analysis are grouped into five broad categories: liquidity, solvency, profitability, repayment capacity and financial efficiency.

Financial measures are intended to help operations analyze their activities from a financial standpoint and provide useful information needed to make good management decisions. By themselves, the financial measures discussed don't provide answers—they need to be reviewed in relation to each other and to other non-operation activities. It is not possible to control or predict all of the factors that influence the final outcome of any operational decision. Nor is it possible to have available all of the information that would be ideal. But decision making can be improved through using available information and through effective financial planning and analysis.

SCOPE OF THE STUDY The study is based on the financial position of the firm by using ratio analysis and comparative statements. Financial statements help the management to analyze the profit, solvency, liquidity and efficiency etc. This analysis will give exact picture of the company. This study will also help the management to take managerial decisions. This study helps the management to understand the new possibilities. RESEARCH METHODOLOGY SOURCES OF DATA Secondary data are used in this study, which were collected from the various data base, journal and magazines. Variables pertaining to behavior of liquidity, leverage and profitability were collected from the balance sheet and profit and loss account of the selected Hindustan Petroleum Corporation Limited for a period of 5 years.
TOOLS AND TECHNIQUES The tool used for calculation of financial performance analysis is following statistical tools were applied to analyze the statistical data collected. 1. Ratio analysis • Profitability Ratios • Liquidity Ratios 2. Working Capital Analysis LIMITATIONS OF THE STUDY • The study was conducted for a period of 5 years. • The study is done with help of secondary data obtained from the annual reports of thr organizations DATA ANALYSIS AND INTERPRETATION LIQUIDITY RATIO Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligation without raising external capital. These ratios portray the capacity of the business unit to meet its short term obligation from its short-term resources. Liquidity ratio classified into three types • Current ratio • Liquid ratio • Absolute ratio. CURRENT RATIO Current ratio may be defined as the relationship between current assets and current liabilities it is the most common ratio for measuring

liquidity. It is calculated by dividing current assets and current liabilities. Current assets are those, which can be realized with in a period of one year. Current liabilities are those amounts, which are payable with in a period of one year.

PROPRIETARY RATIO

Proprietary Ratio shows the relationship between shareholders' funds to total assets of the concern. The shareholders' funds are equity share capital, preference share capital, undistributed profits, reserves and surpluses.

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

TABLE: PROPRIETARY RATIO

Year	Shareholder fund	Total Asset	Ratio (Times)
2018	49032.66	721526.32	0.067957
2019	57947.70	964432.08	0.060085
2020	65949.20	1053413.74	0.062605
2021	64986.04	1223736.20	0.053105
2022	83951.20	1335519.24	0.062860

SIGNIFICANCE

It shows that proprietary ratio was high in the year 2018 with 0.067957 and low in the year 2021 with 0.053105. Thus, it can be said that the company is maintaining the long term solvency. The current year (2022) proprietary ratio is found to be 0.06286 it is in a increasing position.

The Proprietory ratio which shows the relationship between the shareholder's funds to total tangible assets. The ratio is in the decreasing manner due to the fluctuation in the total assets.

TABLE: CURRENT RATIO

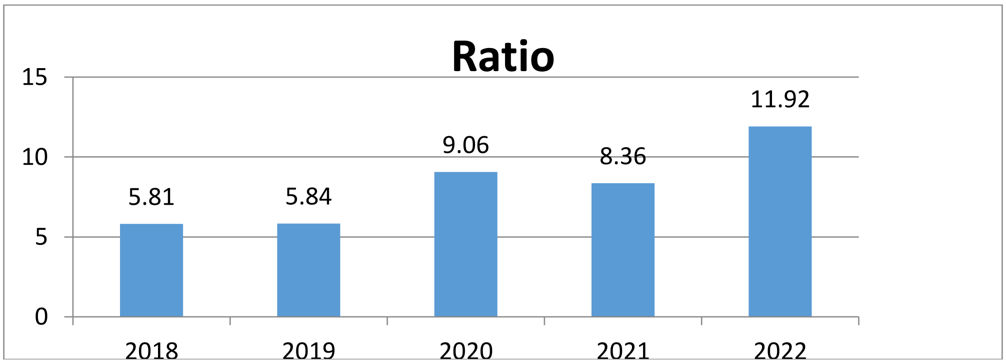
Year	Current Asset	Current Liability	Current Ratio
2018	484234.54	83362.30	5.81
2019	646907.00	110697.57	5.84
2020	728098.00	80336.70	9.06
2021	879593.60	105248.39	8.36
2022	964742.06	80915.09	11.92

SIGNIFICANCE

It shows that current ratio was high in the year 2022 with 11.92and low in the year 2018 with 5.81. The current year (2022) current ratio is found to be the highest (11.92) due to the decrease in the liabilities.

From the above table and chart the current ratio of the company is fluctuating in manner. Although the company has an increasing current assets the current liabilities is also fluctuating. Proper steps should be taken as such the ratio is less than 2 the company may get difficult in paying the creditors.

CHART: CURRENT RATIO



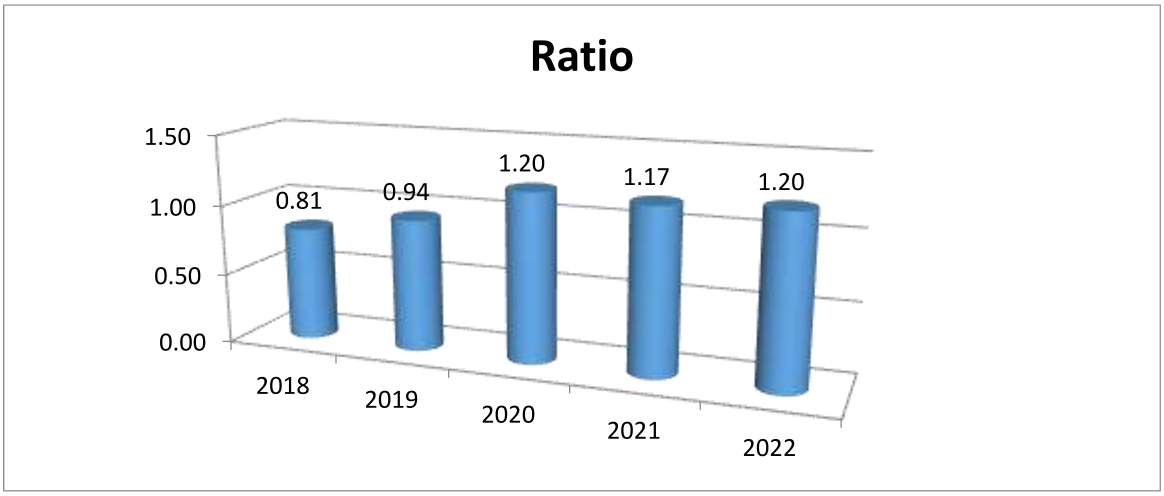
CASH POSITION RATIO

Year	Cash-Company	Current liabilities	Ratio (Times)
2018	67,466.34	83362.30	0.81
2019	104,403.80	110697.57	0.94
2020	96,183.85	80336.70	1.20
2021	122,874.15	105248.39	1.17
2022	97,163.17	80915.09	1.20

SOURCE: SECONDARY DATA

SIGNIFICANCE
From the table, it is inferred that the cash position ratio is high in the years 2020 and 2022 with 1.20 and low in the year 2018 with 0.81. The current year (2022) cash position ratio has increased to 1.20 when compared to the previous year 2021 with 1.17.

CHART: CASH POSITION RATIO OC



TREND ANALYSIS
CURRENT LIABILITIES

YEAR	CURRENT LIABILITY- y	x	xy	X^2	Y = a + b x (IN CRORES)
2018	83362.3	-2	-166725	4	94180.73
2019	110698	-1	-110698	1	93146.37
2020	80336.7	0	0	0	92112.01
2021	105248	1	105248.4	1	91077.65
2022	80915.1	2	161830.2	4	90043.29
	∑Y=460560.1	**∑X= 0**	**∑XY=-10343.6**	**$\sum X^2$=10**	

Y = a + bX Where a = ∑Y ; b = ∑XY/ $\sum X^2$

FINDINGS

1. The current year (2022) proprietary ratio is found to be 0.06286 it is in a increasing position.
2. The current year (2022) current ratio is found to be the highest (11.92) due to the decrease in the liabilities.
3. The current year (2022) cash position ratio has increased to 1.20 when compared to the previous year 2021 with 1.17.
4. The current year (2022) earnings per share ratio is found to be increasing with 174.15 when compared to the previous year with 116.07. This is due to the increase in the net profit
5. The current year 2022 dividend payout ratio is found to be decreasing with 0.20 when compared to the previous year.

SUGGESTIONS

- Company may look into the measures how to reduce the loans and advances in the coming periods.
- Company may look into maintain the current assets and current liabilities. Current liabilities may reduce coming periods.
- It is suggested to the company can strongly focus on cost reduction strategy that will make a Company more profitability.
- The company has a bright future if it concentrates more on its working capital short term, investments, thus achieving the overall objectives of the company.
- Thus it is essential to avoid excessive liquidity but to maintain sufficient liquidity to ensure smooth running of the company's operation.
- The company has better liquidity position and has to maintain same in the future.
- In the comparative statement of Chennai Petroleum Corporation Limited for the year 2021 and 2022 the current assets of the year 2022 has been decreased to a great extent. And that the company has decrease its liabilities and increase it asset to have a good liquidity position
- In all the 4 years of the Chennai Petroleum Corporation Limited Company has sold its fixed asset and reduced its reserves to pay its bills and that care to be taken so that the company should have a fixed amount as reserve for future.