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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, KurukshetraUniversity, Kurukshetra.

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FINANCIAL PERFORMANCE ANALYSIS OF BHARAT PETROLEUM CORPORATION LIMITED

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ABSTRACT

Oil & Gas is one of the most important sectors contributing to the economic development of a country. The production and consumption of oil & gas in a country has become a barometer of its growth and prosperity. As per the record of Ministry of Petroleum, over the years Indian petroleum industry has played an influential part in triggering the speedy expansion of the country's economy by contributing 15% in the total GDP. Bharat Petroleum Corporation Limited is second largest state-owned oil and gas company, with Fortune Global 500 rank of 272 (2011). As the name suggests, its interests are in downstream petroleum sector. It is involved in the refining and retailing of petroleum products. Financial performance analysis is essential for every firm/company to evaluate its performance in all financial aspects. It is the process of identifying the financial strength and weakness of the firm/company and a tool to compare with industry's financial health. The analysis of financial performance of the firm/company can be carried out with the help of ratio analysis. The ratio analysis is a powerful tool for the analysis of the financial performance of the firm/company. It indicates the effectiveness of long term as well as short-term financial policies of the firm/company. Financial Performance of Bharat Petroleum Corporation Limited and its financial position can be well judged by profitability ratios (Gross profit ratio and Net profit ratio), liquidity ratio (Current ratio and Quick ratio) and Solvency ratio (Debt-Equity ratio, Debt to Total Assets Ratio and proprietary ratio). The study is based on secondary data collected from the Annual Reports of the company (BPCL), Annual Reports of the Ministry of Petroleum and other secondary sources.

KEYWORDS
BPCL, financial performance.

INTRODUCTION

Financial performance refers to the act of performing financial activity. It indicates to the degree to which financial objectives being or have been accomplished. The process of measuring the results of a firm's financial policies and operations in monetary terms is known as financial performance. It is used to measure firm's overall financial health over a given period of time usually one year. Evaluation of its performance in all aspects like production, operations, sales and finance is essential for every firm in this competitive environment. Financial performance identifies the strength and weakness of the firm with regard to the various financial aspects. In order to analysis financial performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools is ratio. Ratios express the numerical relationship between two or more related variables/values. This relationship can be expressed as percentages, times or proportion of numbers. Accounting ratios are used to describe significant relationships, which exist between figures shown in a balance sheet, profit and loss account, budgetary control system or any other part of the accounting organization. Ratio analysis plays an important role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. The analysis also reveals whether the company's financial position has been improving or deteriorating over a period of time.

Bharat Petroleum Corporation Limited has refineries at Mumbai and Kochi with a capacity of 12 MMTPA and 9.5 MMTPA respectively for refining crude oil Bharat Petroleum Corporation Limited's subsidiary at Numaligarh has a capacity of 3 MMTPA. Bina refinery is situated in the state of Madhya Padesh with a capacity of 6 TMT was commissioned at the hand of Mr. Manmohan Singh, prime minister of India on 25th may 2011.

METHODOLOGY OF THE STUDY

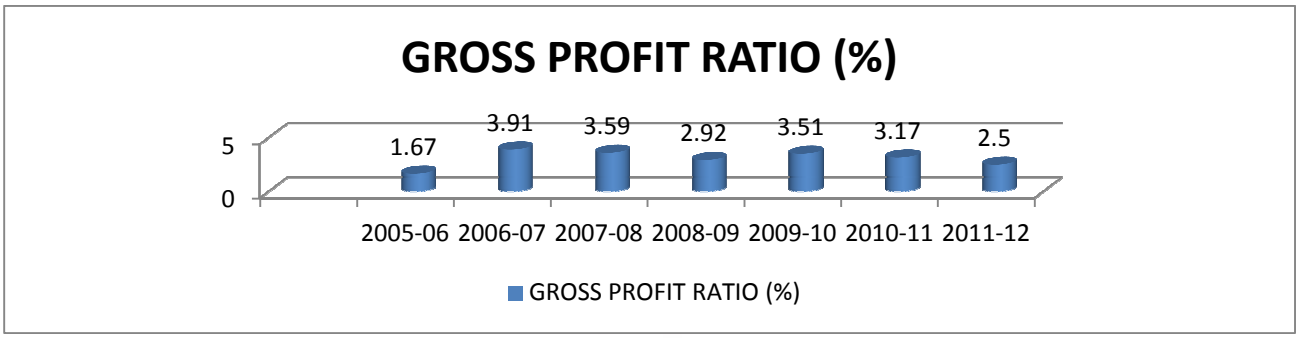
The study is based on secondary data collected for a period of last seven years from the Annual Reports (2005-06 to 2011-12) of Bharat petroleum Corporation Limited and Annual Reports of the Ministry of Petroleum for (2005-06 to 2011-12). The data collected has been classified and analysed to achieve the objectives of the study using key financial ratios like profitability ratios (Gross profit ratio and Net profit ratio), liquidity ratio (Current ratio and Quick ratio) and Solvency ratio (Debt-Equity ratio, Debt to Total Assets Ratio and proprietary ratio).

ANALYSIS OF DATA

TABLE- 1: GROSS PROFIT RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	GROSS PROFIT (Rs. in Crore)	NET SALES (Rs. in crore)	GROSS PROFIT RATIO (%)
2005-06	1423	85150	1.67
2006-07	4204	107452	3.91
2007-08	4368	121684	3.59
2008-09	4246	145392	2.92
2009-10	4619	131500	3.51
2010-11	5169	163218	3.17
2011-12	5569	222394	2.50

Source- Annual report of Bharat Petroleum Corporation Limited



Interpretation

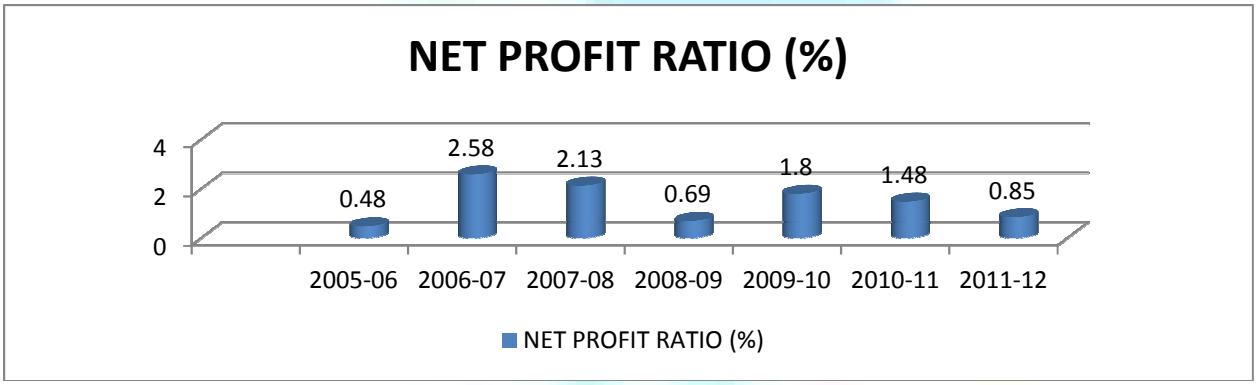
Gross Profit is the key indicator of profitability of any organization. From the above table - 1, Gross Profit ratio of Bharat Petroleum Corporation Limited, it seems that there is no stability in profitability of the company.

In 2005-06 the Gross profit ratio was 1.67% which can not be said even satisfactory from any point of view. No doubt company improved it in 2006-07 to 3.91% which is appreciable but could not maintain it and in the next two years it decreased by 1% and reached to the level of 2.92%. In the year 2008-09 it is very surprising that sales increased by almost 20% but Gross Profit ratio decreased in comparison to 2007-08. It shows the inefficiency of company in maintaining the operating expenses. Again in 2009-10 company tried to improve in the adverse condition when sales decreased but gross profit increased. The situation could not continue for long time and in the next year 2010-11 the ratio decreased and again in 2011-12 company fails to maintain its operating expenses. So it can be concluded that company improves its gross profit ratio in any year and it decreases for next two years. This trend continues and can be seen two times in the study period of seven years. Company is unable to control or even maintain its direct operating expenses, which is not good for company's financial health.

TABLE- 2: NET PROFIT RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	NET PROFIT (Before Tax) (Rs. in Crore)	NET SALES (Rs. in crore)	NET PROFIT RATIO (%)
2005-06	407	85150	0.48
2006-07	2768	107452	2.58
2007-08	2597	121684	2.13
2008-09	1004	145392	0.69
2009-10	2366	131500	1.80
2010-11	2414	163218	1.48
2011-12	1884	222394	0.85

Source- Annual report of Bharat Petroleum Corporation Limited



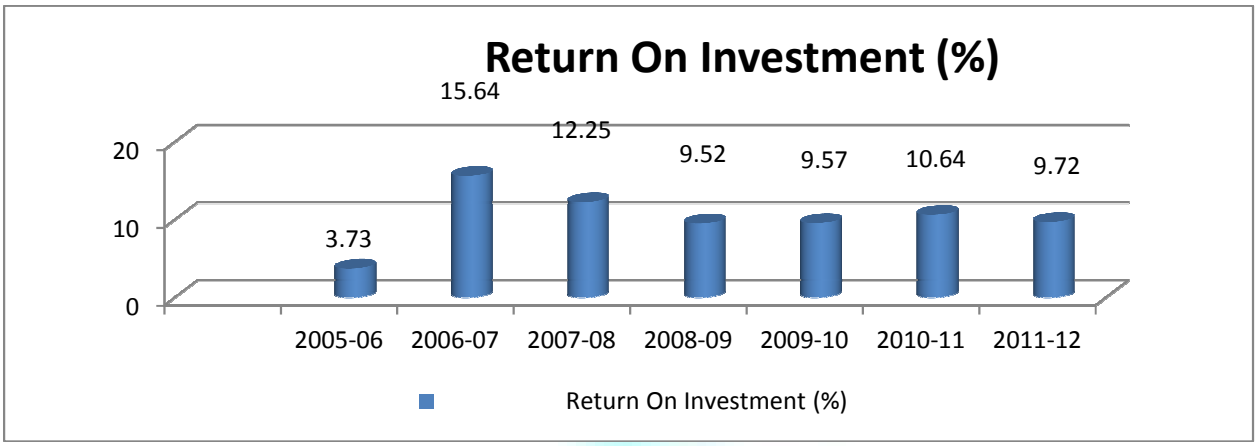
Interpretation

The trend of Gross Profit ratio is repeated in Net Profit ratio. In 2005-06 the Net Profit ratio is the lowest i.e. below 0.50%. A company where public is stakeholder at large and state-owned; the situation can not be said satisfactory. No doubt in the next year i.e. 2006-07 company improved its profitability by increasing Net Profit ratio to more than 5 times to the previous one. In 2007-08 it decreased to 2.13% in the same way as Gross Profit ratio. But due to inefficiency on the part of operations it decreased to 0.69% in 2008-09 which is less then 1/3 of the previous year even after 20% increase in sales. Again company tried and improve it more than double to 1.80% in 2009-10 but could not maintain it in the year 2010-11 and 2011-12 and continuously decreasing and reached to the level of less then 1%, which is a matter of worry to the company. It is because of direct expenses only. Because after deducting indirect expenses, the net profit follows the trend of Gross Profit. This trend can not be said satisfactory from the point of view of investors, creditors, lenders etc.

TABLE- 3: RETURN ON INVESTMENT OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	EBIT (Rs. in Crore)	CAPITAL EMPLOYED (Rs. in crore)	RETURN ON INVESTMENT(%)
2005-06	654	17513	3.73
2006-07	3301	21103	15.64
2007-08	3270	26699	12.25
2008-09	3170	33300	9.52
2009-10	3377	35282	9.57
2010-11	3514	33030	10.64
2011-12	3684	37913	9.72

Source- Annual report of Bharat Petroleum Corporation Limited



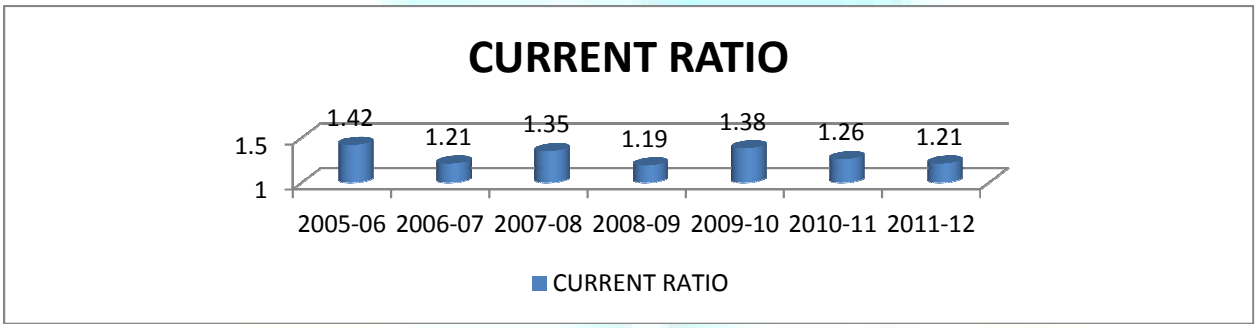
Interpretation

Return on Investment is a parameter to measure the capability of firm to earn on the amount invested by various stakeholders in terms of ownership and borrowed capital. From the above analysis it is clear that the average ROI of the company is 10% approximately during the period of study. Year 2006-07 shows the highest ROI of 15.64% which was not achieved again. In the year 2008-09 it came down to 9.52% and company tried to improve it in next year i.e. 2009-10 but no major improvement can be seen, but the results may be seen in the year 2010-11 when the ration increased to 10.64%. The company can not sustain the improvement and it came down to 9.72% in the next and last year of the study. The capital employed is increasing every year except the year 2010-11, the fluctuation in ROI is because of the EBIT. So the company is unable to maintain EBIT with respect to capital employed.

TABLE- 4: CURRENT RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	CURRENT ASSETS (Rs. in Crore)	CURRENT LIABILITIES (Rs. in crore)	CURRENT RATIO
2005-06	13313	9407	1.42:1
2006-07	13634	11277	1.21:1
2007-08	19707	14580	1.35:1
2008-09	15288	12831	1.19:1
2009-10	23584	17131	1.38:1
2010-11	27606	21958	1.26:1
2011-12	33498	27580	1.21:1

Source- Annual report of Bharat Petroleum Corporation Limited



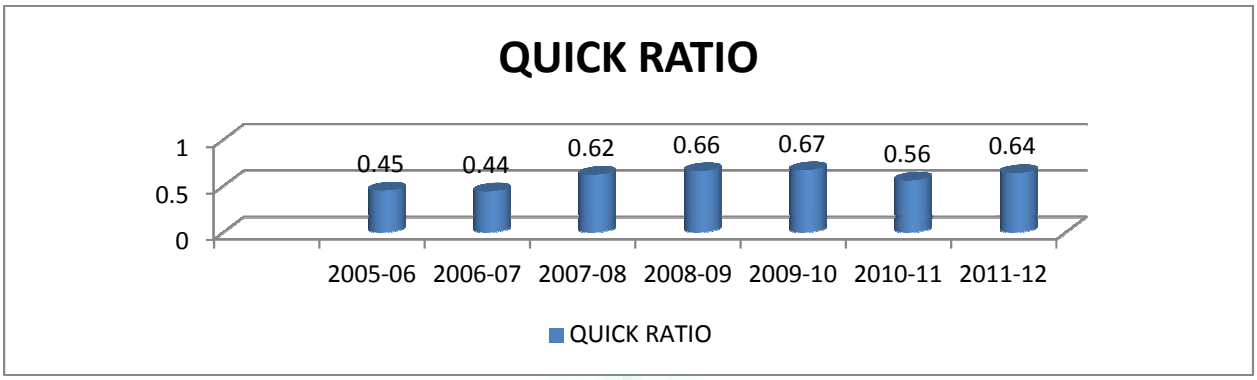
Interpretation

Current Ratio is basically a measure of short term liquidity which expresses the ability of a firm to pay its short term liabilities within in due time period. The ideal ratio should be 2:1 but the standard can not be applied to each and every industry. If we compare the current ratio of the company with the ideal ratio during the period of study, ideal ratio could never be achieved. The average Current ratio lies between 1.2 to 1.3 times. It means the company did not maintain proper level of current assets to meet the current liabilities. The correlation of current assets and current liabilities is positive but the difference i.e. working capital is not even constant, which created the fluctuation in the current ratio. In the last 3 years of the study current ratio is continuously decreasing which can not be said satisfactory the point of view of creditors & short term lenders. They may increase the cost of credit because of increasing risk of non payment within time.

TABLE- 5: QUICK RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	QUICK ASSETS (Rs. in Crore)	CURRENT LIABILITIES (Rs. in crore)	QUICK RATIO
2005-06	4268	9407	.45:1
2006-07	4973	11277	.44:1
2007-08	9103	14580	.62:1
2008-09	8465	12831	.66:1
2009-10	11555	17131	.67:1
2010-11	12231	21958	.56:1
2011-12	17550	27580	.64:1

Source- Annual report of Bharat Petroleum Corporation Limited



Interpretation

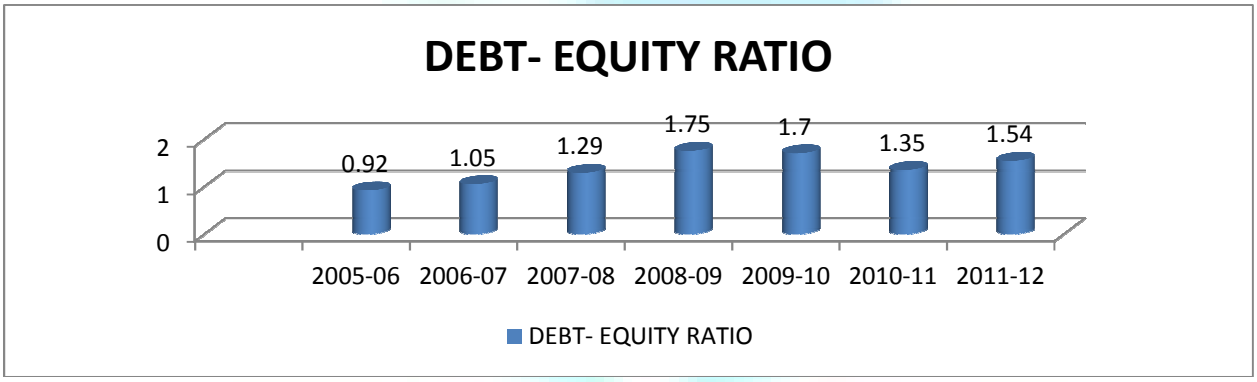
Quick ratio is the ratio between quick assets and current liabilities. When quick assets are divided by current liabilities, the result is known as Quick/ Acid test/ liquid ratio. Quick assets are the assets which are either cash or easily convertible in to cash without any major loss in the value. The ratio is a parameter to measure the ability of firm to meet its current liabilities, as and when they occur, without disturbing the operation of the company. The ideal quick ratio is 1:1; it means the quick assets should be equal to the current liabilities.

If we see the above table the average quick ratio of the company is 0.6:1 approx which is much lesser than the ideal ratio. As in the case of current ratio, the correlation between quick assets and current liabilities is positive. Quick ratio is almost moving with the current ratio. It means the non liquid but current assets of the company are not fluctuating very much but fluctuation in liquid assets is responsible for the fluctuation in both the current ratio and liquid ratio.

TABLE- 6: DEBT- EQUITY RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	TOTAL DEBTS (Rs. in Crore)	EQUITY (Rs. in crore)	DEBT- EQUITY RATIO
2005-06	**8374**	**9139**	**0.92**
2006-07	**10829**	**10274**	**1.05**
2007-08	**15022**	**11677**	**1.29**
2008-09	**21172**	**12128**	**1.75**
2009-10	**22195**	**13087**	**1.70**
2010-11	**18972**	**14058**	**1.35**
2011-12	**22994**	**14914**	**1.54**

Source- Annual report of Bharat Petroleum Corporation Limited



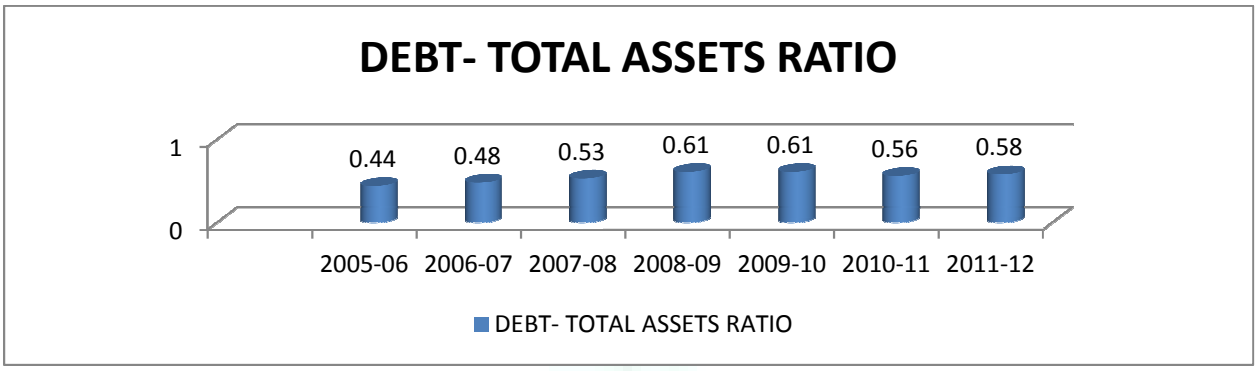
Interpretation

Debt – Equity ratio is related with the use of leverage in the capital structure. Ideally debt assumed to be less costly in comparison to equity capital. Debt is used to get the maximum benefit of leverage to maximize the return to shareholders and ultimately the wealth maximization. The Bharat Petroleum Corporation Limited has increased the debt-equity ratio for the first four years of the study but in the fifth year it decreased and continued to decrease in the sixth year and again it increased but could not reach to the level of year 2008-09 which is the highest during the study period. Company should concentrate to increase the use of debt fund in the capital structure and magnify the effect of the less costly fund to maximize the wealth of shareholders. The equity capital is increasing continuously but debt fund does not follow the trend, it increased till 2009-10 and decreased in 2010-11 and increased in the last year of the study.

TABLE- 7: DEBT- TOTAL ASSETS RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	TOTAL DEBT (Rs. in Crore)	TOTAL ASSETS (Rs. in crore)	DEBT- TOTAL ASSETS RATIO
2005-06	**8374**	**18869**	**0.44**
2006-07	**10829**	**22485**	**0.48**
2007-08	**15022**	**28181**	**0.53**
2008-09	**21172**	**34539**	**0.61**
2009-10	**22195**	**36141**	**0.61**
2010-11	**18972**	**34037**	**0.56**
2011-12	**22994**	**39774**	**0.58**

Source- Annual report of Bharat Petroleum Corporation Limited



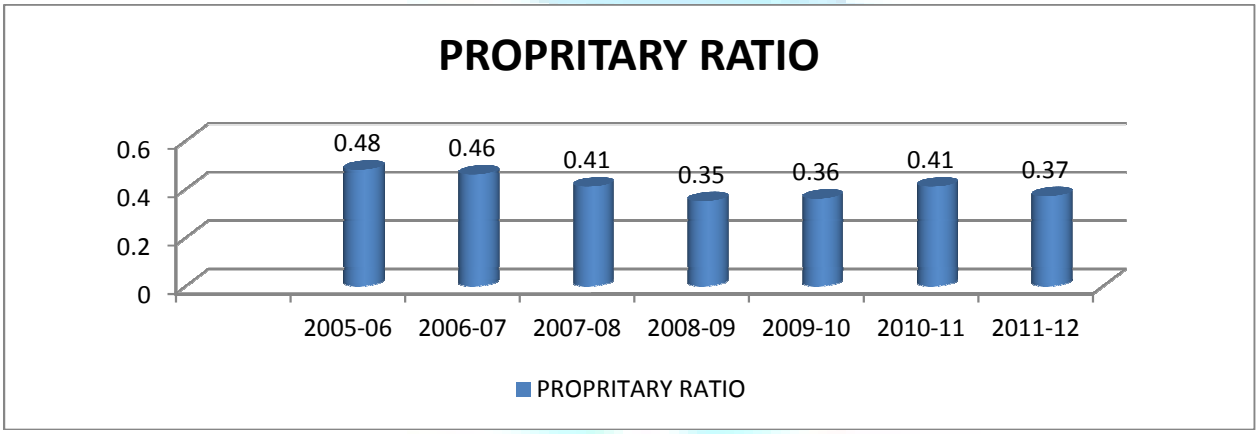
Interpretation

Total debt to total assets ratio measure the extent to which assets are financed with the borrowed capital (debt capital). If more assets are financed with debt capital, the difference between return on assets and cost of debt capital directly goes to equity shareholders which in turn increase the wealth of the shareholders. In the case of Bharat Petroleum Corporation Limited the ratio continuously increased in the first four years the study then remains constant for one year. In the year 2010-11 both total debts and total assets decreased and the ratio also decreased. In the last year of study, both total debt and total assets increased and the ratio marginally improved, which has no major impact on the capital structure. Company should use more borrowed capital to finance its long term assets.

TABLE- 8: PROPRIETARY RATIO OF BHARAT PETROLEUM CORPORATIO LIMITED

YEAR	PROPRIETARY VALUE (Rs. in Crore)	TOTAL ASSETS (Rs. in crore)	PROPRITARY RATIO
2005-06	**9139**	**18869**	**0.48**
2006-07	**10274**	**22485**	**0.46**
2007-08	**11677**	**28181**	**0.41**
2008-09	**12128**	**34539**	**0.35**
2009-10	**13087**	**36141**	**0.36**
2010-11	**14058**	**34037**	**0.41**
2011-12	**14914**	**39774**	**0.37**

Source- Annual report of Bharat Petroleum Corporation Limited



Interpretation

Proprietary ratio is a variant of the debt-to-equity ratio. It is also known as equity ratio or net worth to total assets ratio. It is the relationship of the shareholder's funds to total assets. Proprietary / Equity ratio indicates the long-term or future solvency position of the business. Shareholder's funds include paid-up equity share capital and all reserves and surplus. Total assets include all assets, excluding fictitious assets. In that case the total shareholder's funds are to be divided by total tangible assets. The ratio throws light on the general financial strength of the company. It is also regarded as a test of the soundness of the capital structure. Higher the ratio or the share of shareholders' fund in the total capital of the company, better is the long-term solvency position of the company. A low proprietary ratio will result in greater risk to the creditors.

In case of Bharat Petroleum Corporation Limited, the ratio continuously decreased for the first four years of the study from 0.48 to 0.35 and in the next and fifth year it increased slightly and reached to 0.36 which can not be counted as increase. The company tried to improve it in the sixth year of the study but could not even maintain it in year 2011-12 which is the last year of the study. The proprietors' fund continuously increasing during the period of study but the fluctuations in the ratio are mainly due to increase and decrease in the total assets. The increase in the both values is not proportionately, so the ratio fluctuates. The situation seems that the company is taking advantage of leverage and financing its assets with borrowed capital.

CONCLUSION

After the study of financial performance analysis of Bharat Petroleum Corporation Limited from various financial aspects like profitability, liquidity and solvency, it can be concluded that the profitability position of the company can not be said satisfactory because the Gross Profit Ratio varies from 1.67% to 3.91 % with the average of 3.04%. The gross profit ratio of 3% needs to be improved. The second ratio of profitability is net profit ratio which varies from 0.48% to 2.58% with the average of 1.43%. The net profit ratio of 1.43% is not satisfactory from any point of view so company should concentrate on minimization of the expenses. The third and last measure of profitability taken in the study is return on investment which varies from 3.73% to 15.64% with an average of 10.15%. The return of 10% on investment to the investors is not so good or so bad; it seems to be an average return on any investment.

The short term solvency is measured by the current ratio and quick ratio. Undoubtedly the ideal ratios can not be applied in each and every industry, though the ideal current ratio is 2:1. The company never even touched the ideal current ratio. It varies from 1.19:1 to 1.42:1 with an average of 1.29:1 which is much less than the ideal ratio. The second ratio of liquidity is quick ratio; ideally it should be 1:1. In the case of the BPCL it varies from 0.44:1 to 0.69:1 with an average of 0.58:1. As in the case of current ratio the company was unable to even touch the ideal quick ratio during the period of the study which may create problem to the short term liquidity.

The long term solvency is measured by Debt-Equity ratio, Debt to Total Assets ratio and Proprietary ratio. Debt –Equity ratio of the company varies from 0.92 to 1.75 with an average of 1.37 which shows that the company is not taking benefit of leverage. As the debt capital is presumed to be cheaper to the equity, company should get benefit by restructuring its capital structure. The second measure of long term solvency is taken Debt to Total Assets ratio, which varies from 0.44 to 0.61 with an average of 0.54; the solvency position of the firm is good. The firm can finance more assets with borrowed capital to take the advantage of so-called cheaper capital. The third measure of long term solvency taken is Proprietary ratio which varies from 0.35 to 0.48 with an average of 0.41, which express the less risk of insolvency of the firm.

The financial performance of the company is good on the part of long term solvency but it need to improve its short term solvency and profitability position.

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