

A STUDY ON FUNDAMENTAL ANALYSIS OF OIL AND GAS INDUSTRY IN INDIA

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ABSTRACT:

The Indian Oil & Gas industry has been instrumental in fueling the rapid growth of the Indian economy. The sector meets more than two third of the total primary energy needs of the country. The oil and gas sector are among the eight core industries in India and plays a major role in influencing decision making for all the other important sections of the economy. The project report of “Fundamental analysis of oil and gas companies” is to analysis about the economic, industry, performance of selected companies. The selected companies are Adani Total Gas Ltd, Bharat Petroleum Corporation Ltd, GAIL (India) Ltd, Gujarat Gas Ltd., Hindustan Petroleum Corporation Ltd., Indian Oil Corporation Ltd., Indraprastha Gas Ltd., Oiland Natural Gas Corporation Ltd., Petronet LNG Ltd., Reliance Industries Ltd. Study aims to analyze the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc. are prepared to analyze the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc. The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

Key words:

Fundamental analysis uses revenues, earnings, future growth, return on equity, profit margins, and other data to determine a company's underlying value and potential for future growth.

1.1 Introduction

The Indian Oil & Gas industry has been instrumental in fuelling the rapid growth of the Indian economy. The sector meets more than two third of the total primary energy needs of the

country. The oil & gas sector has been actively involved in putting India on the world map. With high rate of economic growth, India has become a major consumer of energy resources. India is fourth largest consumer of oil in the world. Despite the economic crisis, India's energy demand continues to rise steadily. India ranks 21st in terms of global oil reserve. However, demand-supply gap is very high. The country imports more than one-third of its oil requirements. The Indian Oil & Gas Industry is broadly classified into upstream, midstream and downstream segments. There are large number of key players including public sector, private sector and foreign players actively involved into Indian Oil & Gas value chain.

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India's economic growth is closely related to its energy demand, therefore, the need for oil and gas is projected to grow more, thereby making the sector quite conducive for investment. India retained its spot as the third-largest consumer of oil in the world as of 2021.

The Government has adopted several policies to fulfil the increasing demand. It has allowed 100% Foreign Direct Investment (FDI) in many segments of the sector, including natural gas, petroleum products and refineries, among others. Today, it attracts both domestic and foreign investment as attested by the presence of Reliance Industries Ltd (RIL) and Cairn India.

According to IEA (India Energy Outlook 2021), primary energy demand is expected to nearly double to 1,123 million tons of oil equivalent, as the country's gross domestic product (GDP) is expected to increase to US\$ 8.6 trillion by 2040.

1.2 Statement of the Problem

Producing crude oil and refined products at a lower cost to stay competitive on the market is one of the industry's major challenges. Optimizing production systems and environmental utilities on currently operating sites is therefore a priority for the oil industry. This maximizes production efficiency, reduces the costs of extraction and refining and thereby offsets the exploration costs.

To sustain their supply of crude oil or gas, oil companies are looking to extend the life of mature sites but are also compelled to seek new sources of oil or gas for which extraction, transport and refining are much more complex and costly. For that, they aim to achieve 100% reliability of their plants: no unplanned shutdowns, increased throughput, secure industrial assets.

The oil and gas industry are a major consumer of water and energy resources and is therefore subject to increasingly stringent environmental standards. This constrains them to rethink extraction, production and distribution methods in order to obtain or maintain their license to operate. They also have to provide guarantees and ensure transparency in the environmental management of their activities.

The main objectives of the study are to know past 5 years performance of selected oil and gas industries in the stock market and to know future potential performance of selected oil and gas companies. To analyse all the scripts, fundamental analysis is used. In the fundamental analysis, economic indicators, oil and gas industry analysis, ratios of the companies are studied. These are studied to interpret to take investment decisions

1.3 Objectives of the Study:

- ✓ To analyse the solvency position of Oil and Gas industry.
- ✓ To analyse the profitability position of Oil and Gas industry.

- ✓ To analyse the liquidity position of Oil and Gas industry.
- ✓ To Analysis of the possibilities of the company's enterprise Research

1.4 Research Methodology

The Secondary methods of data collection that is From Balance sheet and profit and loss account was used to collect the data required.

Research Design

Quantitative research

The present study deal with Quantitative research. Quantitative research is the process of collecting and analysing numerical data. It can be used to find patterns and averages, make predictions, test causal relationships, and generalize results to wider populations.

Time Period

The present study was made for a period of 5 accounting years from 2018 to 2022.

Size Of Sample

- 10 Oil and Gas Companies.

Sampling techniques: -

Census Sampling Method

Methods of Data: -

Secondary data

The secondary data relating to the study were collected from Rediff money.com, Investing.com books, journals, research articles, magazines, reports, newspaper and websites.

1.5 Scope of the Study

Study aims to analyse the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc. are prepared to analyse the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc. The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

1.6 Review of Literature

(Dr.C.Balakrishnan, 2016) observed that financial performance of any organization is influenced by several factors like capital structure, cost, revenue and the consequential profit margin. The study can be analysed with many aspects like financial facts, financial ratios, financial health, financial strength and utilization of assets, etc. The study revealed that financial performance can be influenced by the operational and financial efficiency of the steel industry, which are related to cost and the revenue aspects. The study analysed the performance of steel industry in India on the parameters such as profitability, utilization of assets, growth of performance, financial strength and capital structure. The study also attempted to identify the nature of relationship between the various aspects of financial performance.

(BANDHU, 2015) He entitled Profitability Analysis: A Study of Hindustan Oil Company Limited. In his studies, he targeted on reading profitability, financial structures, profitability and price ratios. He found the general profitability was

top and counselled HPCL's future strategy of keeping profitability. Specifically, researchers have dealt with the monetary performance of the Indian oil industry when it comes to the oil industry.

(KUMAR, 2014) They entitled Capital Structure Analysis of the Oil Industry - An Empirical Study of HPCL, IOCL and BPCL. The researchers within the examiner targeted mainly at the capital shape and looked at the overall performance of debt and equity the various equal organizations. Various ratios had been used to research capital shape, including debt fairness ratio, proprietary ratio, solvency ratio, fixed Interest insurance and economic leverage ratio. The researchers found that these businesses completed well and proposed elevating funds with the assist of debt capital in place of fairness capital, as those companies have high earnings and reserve rates compared with interest quotes. For the identical studies, these can maximize shareholder wealth.

(SARKAR, 2013) They analysed capital structure, leverage, and financing decisions Selected public sector oil and gas businesses in India in the course of the 2000-01 study length 2009-10. Efforts had been made to discover enterprise dangers, financial dangers, assess general risk and monetary ruin-even factors by assessing the volume of the association Relationship among DOLs, DFLs and DTLs and ROEs of selected corporations during the examiner length period. The look at underlined that IOCL, BPCL, and HPCL have higher degrees in the course of DOL and DFL During the entire study. The look at indicates that OIL and ONGC may additionally use extra quantities The outside capital within the destiny capital structure, the result is after- tax blessings may be Because the return on external investment vendors is tax deduction charges.

(BalaRamaswmy, 2005) located Empirical evidence suggests that firm size and company

possession are crucial determinants Financial Performance of Malaysia's Palm Oil Industry - Findings Support Industry analysts pressure the better profitability of the personal area the corporation.

1.7 FINDINGS OF THE STUDY

ADANI TOTAL GAS LTD

- ✓ In 2018 EPS is 6.41 and which the highest ratio is during the five years
- ✓ In 2018 P/E ratio 368.78 is which is the lowest ratio which indicates the good P/E ratio.
- ✓ In 2018 book value is 39.95 which show the favourable result.
- ✓ In 2018 the Price to Book ratio is 2.52 which is the lowest ratio and favourable result.
- ✓ In 2022 Price to Sales is 11 which is the lowest p/s ratio
- ✓ In 2022 it has the highest ROE which is 27.99 %
- ✓ In 2021 it has the highest ROCE which is 461.71

BHARAT PETROLEUM CORPORATION LTD

- ✓ In 2021 EPS is 90.98 and which the highest ratio is during the five years
- ✓ In 2021 P/E ratio 3.49 is which is the lowest ratio which indicates the good P/E ratio.
- ✓ In 2021 book value is 233.25 which show the favourable result.
- ✓ In 2021 the Price to Book ratio is 0.39 which is the lowest ratio and favourable result.
- ✓ In 2020 Price to Sales is 8.07 which is the lowest p/s ratio
- ✓ In 2022 it has the highest ROE which is 171.25 %
- ✓ In 2019 it has the highest ROCE which is 53.09

GAIL (INDIA) LTD.

- ✓ In 2019 EPS is 26.72 and which the highest ratio is during the five years
- ✓ In 2019 P/E ratio 5.49 is which is the lowest ratio which indicates the good P/E ratio.

✓ In 2019 book value is 178.83 which show the favorable result.

✓ In 2021 the Price to Book ratio is 0.52 which is the lowest ratio and favorable result.

✓ In 2021 Price to Sales is 10.49 which is the lowest p/s ratio

✓ In 2019 it has the highest ROE which is 33.99 %

✓ In 2022 it has the highest ROCE which is 30.20

GUJARAT GAS LTD

✓ In 2018 EPS is 21.16 and which the highest ratio is during the five years

✓ In 2018 P/E ratio 21.16 is which is the lowest ratio which indicates the good P/E ratio.

✓ In 2022 book value is 81.34 which show the favorable result.

✓ In 2018 the Price to Book ratio is 1.24 which is the lowest ratio and favorable result.

✓ In 2018 Price to Sales is 15.77 which is the lowest p/s ratio

✓ In 2022 it has the highest ROE which is 120.18 %

✓ In 2022 it has the highest ROCE which is 10.51

HINDUSTAN PETROLEUM CORPORATION LTD.

✓ In 2021 EPS is 73.44 and which the highest ratio is during the five years

✓ In 2021 P/E ratio 3.08 is which is the lowest ratio which indicates the good P/E ratio.

✓ In 2022 book value is 272.58 which show the favorable result.

✓ In 2021the Price to Book ratio is 0.94 which is the lowest ratio and favorable result.

✓ In 2020 Price to Sales is 12.56 which is the lowest p/s ratio

✓ In 2022 it has the highest ROE which is 248.53 %

✓ In 2019 it has the highest ROCE which is 30.54

INDIAN OIL CORPORATION LTD.

✓ In 2022 EPS is 26.34and which the highest ratio is during the five years

✓ In 2022 P/E ratio 4.31 is which is the lowest ratio which indicates the good P/E ratio.

✓ In 2022 book value is 143.00 which show the favorable result.

✓ In 2021the Price to Book ratio is 0.50 which is the lowest ratio and favorable result.

✓ In 2020 Price to Sales is 13.45which is the lowest p/s ratio

✓ In 2022 it has the highest ROE which is 65.62%

✓ In 2019 it has the highest ROCE which is 3645.60

INDRAPRASTHA GAS LTD.

✓ In 2022 EPS is 18.79and which the highest ratio is during the five years

✓ In 2022 P/E ratio 18.71is which is the lowest ratio which indicates the good P/E ratio.

✓ In 2022 book value is 99.09 which show the favorable result.

✓ In 2022the Price to Book ratio is 3.76 which is the lowest ratio and favorable result.

- ✓ In 2021 Price to Sales is 17.12 which is the lowest p/s ratio
- ✓ In 2022 it has the highest ROE which is 56.60%
- ✓ In 2020 it has the highest ROCE which is 13.77

OIL AND NATURAL GAS CORPORATION

LTD

- ✓ In 2022 EPS is 32.04 and which the highest ratio is during the five years
- ✓ In 2022 P/E ratio 4.94 is which is the lowest ratio which indicates the good P/E ratio.
- ✓ In 2022 book value is 188.51 which show the favorable result.
- ✓ In 2020 the Price to Book ratio is 0.44 which is the lowest ratio and favorable result.
- ✓ In 2021 Price to Sales is 4.82 which is the lowest p/s ratio
- ✓ In 2019 it has the highest ROE which is 18.62%
- ✓ In 2019 it has the highest ROCE which is 5.54

PETRONET LNG LTD.

- ✓ In 2022 EPS is 22.35 and which the highest ratio is during the five years
- ✓ In 2022 P/E ratio 9.76 is which is the lowest ratio which indicates the good P/E ratio.
- ✓ In 2022 book value is 89.50 which show the favorable result.
- ✓ In 2022 the Price to Book ratio is 2.16 which is the lowest ratio and favorable result.
- ✓ In 2018 Price to Sales is 21.37 which is the lowest p/s ratio
- ✓ In 2022 it has the highest ROE which is 28.98%

- ✓ In 2021 it has the highest ROCE which is 120.64

RELIANCE INDUSTRIES LTD.

- ✓ In 2022 EPS is 57.77 and which the highest ratio is during the five years
- ✓ In 2022 P/E ratio 46.09 is which is the lowest ratio which indicates the good P/E ratio.
- ✓ In 2022 book value is 697.01 which show the favorable result.
- ✓ In 2018 the Price to Book ratio is 1.76 which is the lowest ratio and favorable result.
- ✓ In 2021 Price to Sales is 6.73 which is the lowest p/s ratio
- ✓ In 2022 it has the highest ROE which is 67.88%
- ✓ In 2022 it has the highest ROCE which is 26.20

1.8 Suggestions

- ✓ Investors can invest in Reliance Industries Ltd. because it has higher earnings per share ratio. When compared to all other Oil and Gas industry, EPS is a good measure of profitability and it will help the investors to take decisions on investment.
- ✓ The Bharat Petroleum Corporation Ltd also another option to invest because its fundamental analysis better compared to other cement companies.
- ✓ It is notable that Bharat Petroleum Corporation Ltd, Hindustan Petroleum Corporation Ltd, and Reliance Industries Ltd. are the top performer of the industry. As their Eps Ratio, Book Value and Return on Equity are high compared to others.

- ✓ The Adani Total Gas Ltd and Ltd. Are not performing well because its Eps ratio, book value and return on equity is very less when compared to that of all other companies, hence we cannot much invest in those companies
- ✓ Hindustan Petroleum Corporation Ltd. Has good return on equity in past three years due to that we can make much investment in that share.
- ✓ Those who does not want to take high risk they can invests in Adani Total Gas Ltd because it has moderate in Price to Earnings Ratio, Price to Book and Price to Sales ratio.
- ✓ Gujarat Gas Ltd. Has moderate in fundamental analysis due to Price to Earnings Ratio, Price to Book and Price to Sales ratio are moderate.

Conclusion

In this study, the Fundamental analysis of Oil and Gas industry during the five financial years, it is clear that the financial position of the companies is in fluctuation. It is assumed that there should be an efficient financial management system in the organizations. It should overcome the adverse condition and minimize its losses and protect firm from facing the negative condition of liquidity. In tomorrow's economy the world will belong to those who are open to creative, imaginative and flexible to changes, having open mindless, strength of taking risk and an innovative spirit. These entire characteristics can lead the company on a successful path.

However, the management needs to focus more on the net profit and go for increase its revenue. Based on this study the major findings are that from the

overall finance point of view, companies are performing to a very high degree level of achievement. This study indicates that in order to improve further the overall performance of the industry.

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