

# **A STUDY ON PERFORMANCE OF SELECTED PUBLIC SECTOR OIL AND GAS COMPANIES IN INDIA**

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## ***ABSTRACT***

*The public sector in India has been playing a crucial role in the industrial development as well as overall economic development of the nation. Its role and magnitude in the Indian economy have been directed by the Industrial Policy Resolution of 1948 and 1956. Directive Principles of State Policy in the construction of India were undertaken with the object of improving the living condition of vast majority of the common people in India who had been trapped in vicious circles of poverty, illiteracy, unemployment, crime and subsistence living due to a long history of colonial subjugation and tormented past.*

*Immediately after independence state intervention in all sectors of the economy became inevitable because private sector had neither the necessary resources in terms of capital, managerial capability and scientific talent, etc. nor the willingness to undertake risky venture involving long-gestation period.*

## ***KEYWORDS:***

*Oil, Petrol, Public sector*

## **INTRODUCTION**

India were seriously devastated on its economic, social, cultural, strategic fronts and various other imperatives for

Which it became really necessary for the Government to set up the public sector enterprises as an instrument of self-reliance

economic growth so as to develop a strong industrial base and promote agricultural development to free the people from the clutches of poverty, illiteracy, unemployment, crime and overall economic backwardness, etc.

The predominant consideration for expansion of the public sector in India was to accelerate the growth of core sectors of the economy like Steel, Railways, Telecommunications, Power Generation, and Defense, Hydrocarbons, Petrochemicals and others in order to enable the country to achieve a significant degree of self-sufficiency in the critical areas of the economy. Realizing that energy, particularly the oil and natural gas, plays a pivotal role in promoting, accelerating and sustaining industrial development, the Government of India made a huge investment in public sector enterprises (PSEs) engaged in producing, refining and selling of petroleum oil and other petroleum products such as diesel, kerosene oil, naphtha, gas lubes, chemical additives and lubricants, etc.

The development of the Indian oil and gas industry began on a very slow rate. It started mainly in the northeastern part of India especially in the place called Digboi in the state of Assam. Until the 1970's, the

production of petroleum and the exploration of new locations for extraction of petroleum were mainly restricted to the northeastern state in India. However, an important advancement in the Indian oil and gas industry came with the passing of Industrial Policy Resolution in 1956, which emphasized focus on the growth and promotion of industries in India. Another major incident was the discovery of Bombay High, which changed the scenario of the Indian oil and gas industry drastically. The Indian oil and gas sector was sponsored completely by the Government, and the management and control of it and all its related activities entirely vested to the Government. The oil and gas sector has the most significant role to play in changing the Indian economy from an agrarian economy to an industrial economy.

The advent of liberalization and privatization in India along with the global sphere attracted more of private capital in the capital structure of the Public Sector Enterprises (PSEs) in India that lead to make them more competitive with the global counterparts. The Oil and Gas sector was not an exception to this policy and accordingly the PSEs in Oil and Gas Sector in India adopted measures in planning their capital structure to keep pace with the changing

global scenario where the pricing hike in oil and gas products in the international market is a regular and an alarming phenomenon. Along with liberalization and privatization, the overall economy of India grew. Also, the demand for petroleum products increased at an annual rate of about 5.5 per cent.

The demand for petroleum and petroleum products still continues to grow, and there is great potential for investors to invest in the sector and gain valuable returns while meeting the increasing demands for the petroleum products. The oil and gas sector in India is particularly favorable for foreign investment because the industry is one of the fastest growing segments, and it has shown a staggering growth rate of around 13 per cent in the recent past. Apart from the tremendous growth rate in the Indian oil and gas sector today, it also boosts technology of international standards, easy availability of infrastructure at very cheap rates, high demands for petroleum products, and increased spending habits of the middle-class people, etc. All these factors make investments in the oil and gas sector in India an attractive proposition for foreign investors.

## **RESEARCH STUDY**

The oil and gas sector encompasses activities such as exploration and development, refining, petrochemical, transportation, marketing of petroleum products and natural gas, etc. This sector plays a pivotal role in the country's rapid economic growth by contributing over 15 per cent of the Gross Domestic Product (GDP).

It's also the largest foreign exchange earner contributing about 17 per cent of the total exports from India. Oil accounts for about 34 per cent of India's total energy consumption, and has been growing gradually as a share of the country's fuel mix in recent years. The demand for natural gas, on the other hand, as per the Planning Commission is set to increase from 179 mmscmd to 280 mmscmd over the next decade.

India imports nearly 75 per cent of its crude oil requirement with a huge outflow in foreign exchange. The indigenous production has stagnated around 34 per cent of total requirement of petroleum oil. The current oil production from Barmer field is a significant step towards achieving energy security in our country.

At its peak, the crude oil production from this block will be about 20 per cent of the current crude oil production of the country and it will save 7 per cent of the crude oil import bill and reduce import dependence. Therefore, it is extremely important to ensure that the domestic public sector oil and gas companies continuously strive to improve their performances in order to save the vast amount of foreign exchange, which is being spent on the imports of crude oil and various petroleum products. The question of efficient performance by the public sector oil and gas companies in India became more significant after the Government decision to dismantle the administered price mechanism in the petroleum sector from April, 2002 to accelerate the process of on-going economic reforms. Hence, it is the time that the public sector oil and gas companies in India prepare themselves to meet the challenges of liberalization, globalization and competition from the multinational companies.

In the above context, comparative studies of the financial performances of selected public sector oil and gas companies in India have been undertaken in the areas of capital structure and leverage, liquidity management, profitability and efficiency in total cost management, efficiency in asset

management, internal resource generation, contribution to the central exchequer and value addition, etc. to identify the strengths and weaknesses pertaining to them so as to develop the overall strategies to make them competitive with the global counterparts in the areas of making them self-sufficiency in crude oil production, generating power against the pricing hike of oil and gas products in the global market and fetching the economy a boost to be a self-reliant one, etc.

The oil and gas sector is one of the six core industries in India and has vested significantly forward linkage with the entire economy. India have been growing at 8-9 per cent annually and is committed to accelerate the growth memorandum in the years to come. This would translate into India's energy needs growing many times in the years to come. Hence, there is an emphasized need for wider and more intensive exploration for new finds more efficient and effective recovery, a more rational and optimally balanced global price regime as against the rather wide upward fluctuations of recent times and a spirit of equitable common benefit in global energy co-operation. Considering the high priority of our Government to enhance energy security of country and making petroleum

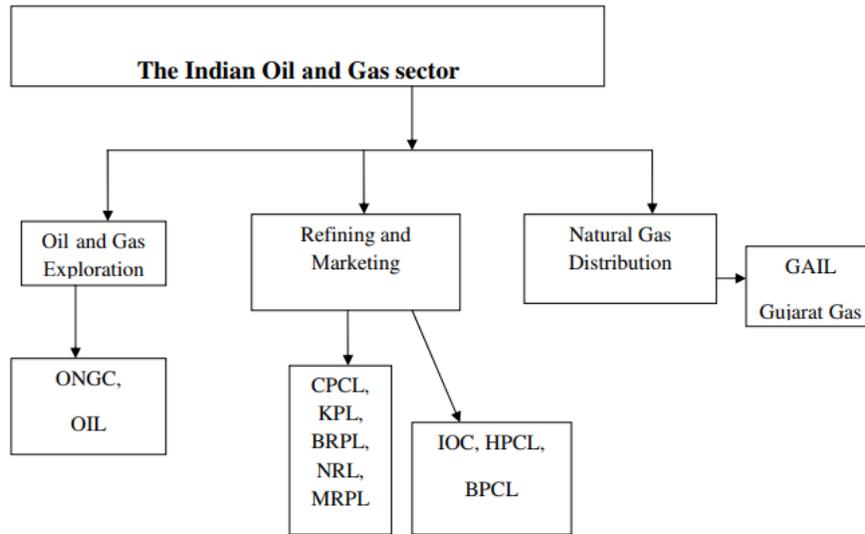
products available to common man at affordable prices, Ministry of Petroleum and Natural Gas has adopted multi-pronged strategy. Stable crude oil prices are the first requirement for sustained economic development of our country.

## **DISCUSSION**

During the last 4-5 years, the prices of crude oil in the International Market have been on a roller coaster ride creating uncertainty. This volatility created problems for the import dependent economies. The Indian response to the volatility was measured one. However, Government bore the maximum burden of this price increase by issuing bonds worth Rs 71292 crores and rest was met by upstream oil companies. Maximum burden was passed on to the consumers. Ministry of Petroleum and Natural Gas formulated a scheme, namely, Rajiv Gandhi Gramin LPG Vitrak Yojna which has

launched very recent time. This envisages the increase in LPG population coverage from 50 per cent to almost 75 per cent by 2015.

This will not only help to conservation of forests, but will also have positive impact on the environment as well as on the health of our rural womenfolk. In view of the above and to protect the “aam admi” from volatility in international oil prices, India have trying to intensify the efforts to discover hydrocarbon resources. Economic growth means higher demand for energy. Higher demand would require more intensified efforts in the fields of Exploration and Production. It is necessary that impetus provided by discovery of new fields under New Exploration Licensing Policy (NELP), which provides level playing field to each player be in indigenous or foreign has to be mentioned.



Source: Oil and Gas Sector Survey 2009, Ministry of Petroleum and Natural Gas, Government of India.

The research study presumes the selection of public sector oil and gas companies in India for the comparative study purpose. The oil and gas sector in India is largely in the public sector. Though the Government of India has opened the oil and gas industry to private participation since the announcement of New Industrial Policy on July 24 1991, the private investment in this area has not come up as expected, presumably due to enormous capital requirement, environmental constrains and long-gestation period, etc. Hence, the study is confined to the public sector oil and gas companies controlling by the Government of India for the period from 2000-01 to 2011-12. At present, there are more than 12 companies in the public sector engaged mainly in producing, refining and selling oil and gas

products in India. The oil and gas companies in India have been organized as Government Companies U/S 617 of the Companies Act 1956. Some of the companies are included in the list of Global Fortune-500 Companies List-2011 because of their capacity outlay, turnover and profit, etc. Even after opening the oil and gas sector as private sector companies the Government of India has decided to retain the public sector oil and gas companies under its control in the larger national interest.

Out of the oil and gas companies operating as PSEs in India (shown at Table-1.1), six companies have been selected for comparative study purpose after careful examinations of their operations, paid-up capital, organization structure, earning

capability and market capitalization, etc. The six companies that have selected are Oil and Natural Gas Corporation of India Ltd. (ONGC), Oil India Limited (OIL), Indian Oil Corporation Ltd. (IOCL), Bharat Petroleum Corporation Ltd. (BPCL), Hindustan Petroleum Corporation Ltd. (HPCL) and Gas Authority of India Ltd. (GAIL). It may be pointed that IOCL, ONGC and BPCL are among the Global Fortune 500 Companies List 2011.

The study has been concentrated on the analysis of financial performance of the selected public sector oil and gas companies in India individually as well as comparative analysis has been made among the various selected companies regarding their financial performances in the areas of capital structure and leverage, liquidity management, profitability and efficiency in total cost management, efficiency in asset management, internal resource generation, contribution to the central exchequer, and value addition, etc to comment on their overall financial performances and draw conclusion.

## **CONCLUSION**

The study will open up ample scope for further research in the areas of finance,

human resource, marketing, corporate social responsibility, market value addition, shareholders' value addition, employment generation, foreign exchange earnings, etc. by the selected public sector oil and gas companies in India and financial performance can be measured for the private sector oil and gas companies in India too and comparison can also be done between public sector and private sector companies regarding the areas stated earlier.

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