An Analysis Of Corporate Performance: A Case Study Of Mangalore Refinery And Petrochemicals Limited, Mangalore

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Introduction:

Management's effectiveness is evidenced through profits earned by an organization. It is absolutely natural that any business establishment takes a keen interest in knowing about the overall corporate performance in terms of profitability of their concern. They are basically concerned bout the firm's ability to meet its short term as well as long term obligations to its creditors to ensure a reasonable return to its owners and secure optimum utilization of the assets of the concern. Profits are ultimate backbone of every business enterprise. Corporate performance facilitates growth and development of business activities. It inspires the workers to work hard, owners to invest more capital, creditors to provide more facilities and government to provide better facilities for economic development of the society. The earning power of an enterprise is measured by return on equity.

Increase in the profit margin and appropriate application of funds for business activity has a direct impact on the overall performance of an organization. It can also lead to increased sales per rupee of investment. The asset turnover can be pushed up by limiting investment in fixed assets or working capital without adversely affecting the sales or increasing sales with same amount of investment. An effort has been made to understand the practical applications of these fundamentals in Petro chemical industry.

In the word "Petroleum", the prefix "Petro-" is an arbitrary abbreviation of the word "Petroleum", since "Petro-" is an ancient Greek for "rock" and "oleum" means "oil". Therefore, the etymologically correct term would be "oleo chemicals". However, the term oleo chemical is used to describe chemicals derived from plant and animal plants. Petro chemicals are derived from various chemical compounds, mainly from hydrocarbons. These hydrocarbons are derived from crude oil and natural gas. Among the various fractions produced by distillation of crude oil petroleum gas, naphtha, kerosene and gas oil are the main feed stocks for Petrochemical industry.

Objectives of the study:

The central purpose of the study titled "An Analysis of corporate Performance: a Case study of Mangalore Refinery and Petrochemicals Limited, Mangalore" is to project and report on the dynamics of corporate performance. In this effort, the present study has the following specific objectives:

1. To briefly describe an overview of the dynamics of corporate performance as a background to the study.
2. To examine and analyze the performance of the firm through Net Profit Margin, Asset Turnover and Leverage factor of the firm.
3. To analyze overall corporate performance Mangalore Refinery and Petrochemicals Limited through studying its return on equity.
4. To offer suggestions on the basis of findings of the study.

Scope of the study

The present study covers appropriate conclusions and suggestions to meet the required needs of this study.

The study has been conducted in Mangalore Refinery and Petrochemicals, Mangalore, Karnataka state within a limited time constraints. Being a micro study, it suffers from the following limitations:

1. The geographical area covering this study is confined to only MRPL.
2. The whole spectrum of corporate performance could not be incorporated in this study.
3. Despite the efforts taken for an accurate study, there could be situational errors of misunderstanding or error
4. It may not be possible to generalize the findings of this study to all the Petrochemical industries in the sector.
5. Study is carried out only for a period of five years from 2009-10 to 2013-14.
6. The data analysis based only on monetary information and non- monetary aspects have been ignored.

However, despite these limitations, the major findings and conclusions of this project report throw sufficient light on the corporate performance of Mangalore Refinery and Petrochemicals Limited, Mangalore.

RESEARCH METHODOLOGY

The present study is partly exploratory and partly explanatory in nature. An effort has been made to examine Corporate Performance by dividing it into three significant components namely, Profit Margin, Asset Turnover, Equity Multiplier and Return on Equity. The captioned study primarily focuses on profitability, operational and financial efficiency of Mangalore Refinery and Petrochemicals Limited., Mangalore. The study has been developed largely on the basis of secondary data extracted from published financial data in the internet.

However, as a source of secondary data, text books, journals, periodicals and magazines also have been referred for data collection and also to understand the relevant concepts and aspects of Corporate Performance. Interpretation of the data has been made mainly on the basis of some of the important ratios like Net Profit ratio, Operating Profit Ratio, Asset turnover ratio and return on Assets Rati, Equity Multiplier Ratio and Return on Equity Ratio. Appropriate charts and diagrams have also been used to project interesting and significant findings.

Data analysis and interpretation:

Analysis of the present study focuses on the interface between Net Profit Margin and Asset Turnover and their impact on the profitability of Mangalore Refinery and Petrochemical Industry. The study has been analyzed in detail from the point of view of the following considerations:

1. Net Profit Ratio:

Net Profit ratio measures the rate of net profit earned on sales. It helps in determining the overall efficiency of the business operations. Net profit ratio indicates the efficiency of management in managing its manufacturing, selling, administrative and other activities.

The ratio is calculated as under:

$$\text{Net profit ratio} = \frac{\text{Net Profit}}{\text{Net sales revenue}} \times 100$$

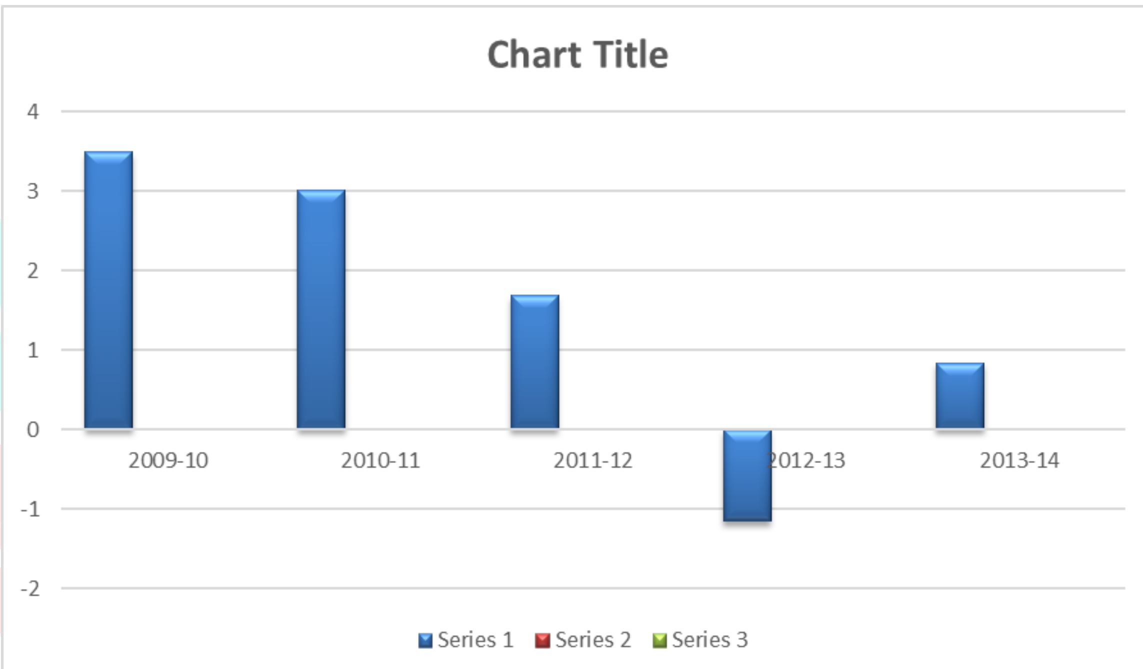
Increase in net profit ratio shows better performance, improvement in the overall efficiency and profitability of the business. In the same way, decrease in the ratio indicates managerial inefficiency and excessive selling and distribution expenses.

Table No 4.1

Net Profit Margin Ratio

Year	**Net Profit After Tax (Rs)**	**Sales (Rs)**	**Net Profit Margin Ratio (%)**
2009-2010	11123.77	318851.74	3.49
2010-2011	11766.33	389566.73	3.02
2011-2012	9085.78	537633.43	1.69
2012-2013	(7569.11)	656915.16	(1.15)
2013-2014	6011.82	718104.96	0.84

Figure 4 (a) Net Profit Margin Ratio



Statistical analysis

Mean	**6083.72**	**524214.40**	**1.58%**
Sd	7114.93	152109.78	1.66%
Cv	1.17	0.29	1.05%
Growth	-45.95%	125.21%	-75.93%
Average annual growth	-9.19%	25.04%	-15.19%

Interpretation:

Table 4.1 clearly indicates net profit margin ratio of MRPL. As can be seen from the above, while the sales have increased from Rs. 318851.74 M to Rs. 718104.96 M., net profit after tax has been on a declining trend. Particularly in the year 2012-13 it indicates a negative figure (Rs. 7569.11 M) the net profit margin ratio was 3.49% in the year 2009-10, followed by a decrease in the subsequent year which was 3.02%. the net profit ratio was at the minimum in the year 2013-14 which was at 0.84%.

The mean value for net profit margin ratio was 1.58% followed by the standard deviation at 1.66% and co-efficient of variation for the net profit margin at 1.05%.

It also indicates a growth of -75.93% and the average annual growth for the net profit margin ratio was -15.19%.

Thus, it can be concluded that the table no. 4.1 above clearly indicates managerial inefficiency and overriding selling and distribution expenses of MRPL, during this period.

It can therefore, be interpreted that the firm has to ensure better profits by controlling expenses or taking the required managerial actions.

2. Operating Profit Ratio:

This ratio measures the relationship between operating profit and sales. The main objective of computing this ratio is to determine the operational efficiency of the management. This ratio indicates an average operating margin earned on a sales of 100 and whatever portion of sale is left to cover non-operating expenses, to pay dividend and to create reserves. Higher the ratio, the more efficient is the operating management.

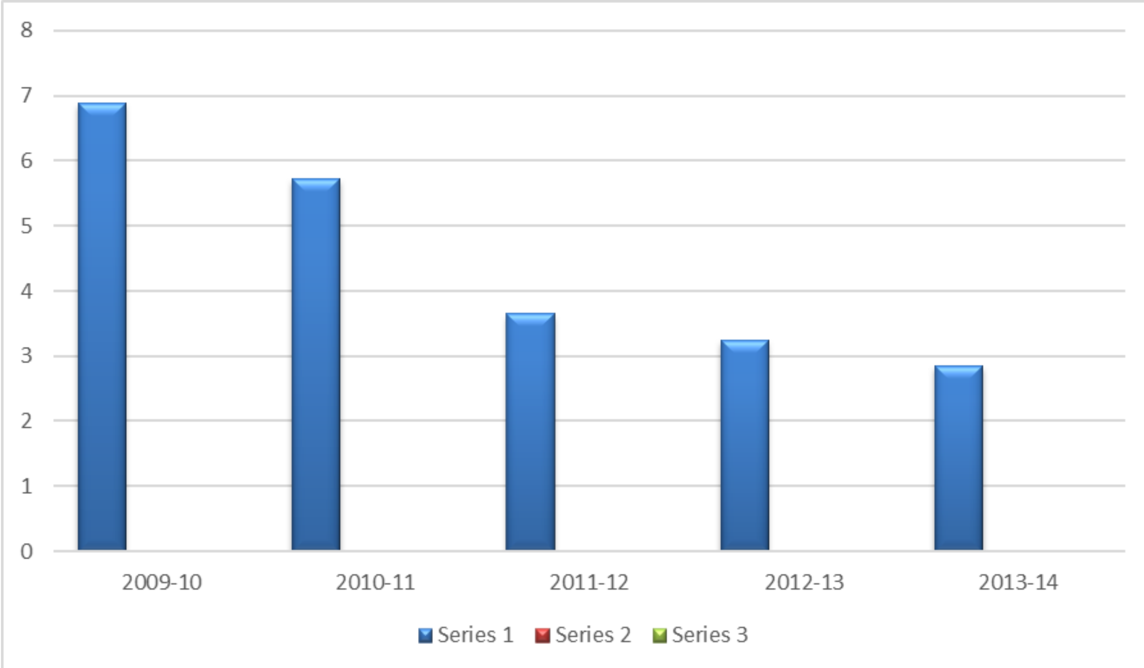
Operating profit = PBDIT – Depreciation

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net sales}} \times 100$$

Table no. 4.2
Operating Profit Ratio

Year	Operating profit (Rs)	Sales (Rs)	Operating profit ratio (%)
2009-2010	21966.70	318851.74	6.89
2010-2011	22332.84	389566.73	5.73
2011-2012	19607.53	537633.43	3.65
2012-2013	21335.00	656915.16	3.25
2013-2014	20465.00	718104.96	2.85

Figure 4 (b) Operating Profit Ratio



Mean	**21141.41**	**524214.40**	**4.47**
Sd	994.83	152109.78	1.56
Cv	0.05	0.29	0.35
Growth	-6.84%	125.21%	-58.63%
Average Annual Growth	-1.37%	25.04%	-11.72%

Interpretation:

Table 4.2 drawn above highlights operating results in terms of profit for the period 2009-10 to 2014-15. Though the sales have increased by Rs. 399253.32 M from the year 2009-10 to 2013-14, operating profits have declined by Rs. 1501.70 M during the period this has resulted in a reduced operating profit ratio as on 2013-14.

Meanwhile, the mean for operating profit ratio is 4.47standard deviation for operating profit ratio is 1.56% and co-efficient of variation for the operating profit ratio is 0.35%. the growth for the same is -58.63% and the average annual growth is -11.72%.

Therefore, it can be interpreted that MRPL has to try to increase its operating profits so that it can also maintain a positive rate of growth in its operating profits.

3. Total Assets Turnover Ratio:

The relationship of assets used to sales, measures the level of sales generated by a given quantum of assets and is known as Total Assets Turnover Ratio. In other words, it measures the efficiency of the use of assets and hence is also known as asset utilisation ratio.

Total Assets Turnover Ratio indicates the firm's ability to generate sales per rupee of investment in fixed assets. The main objective of computing this ratio is to determine the efficiency with which the Total assets are utilized. In general, higher the ratio, the more efficient is the management in utilization of total assets, and vice versa.

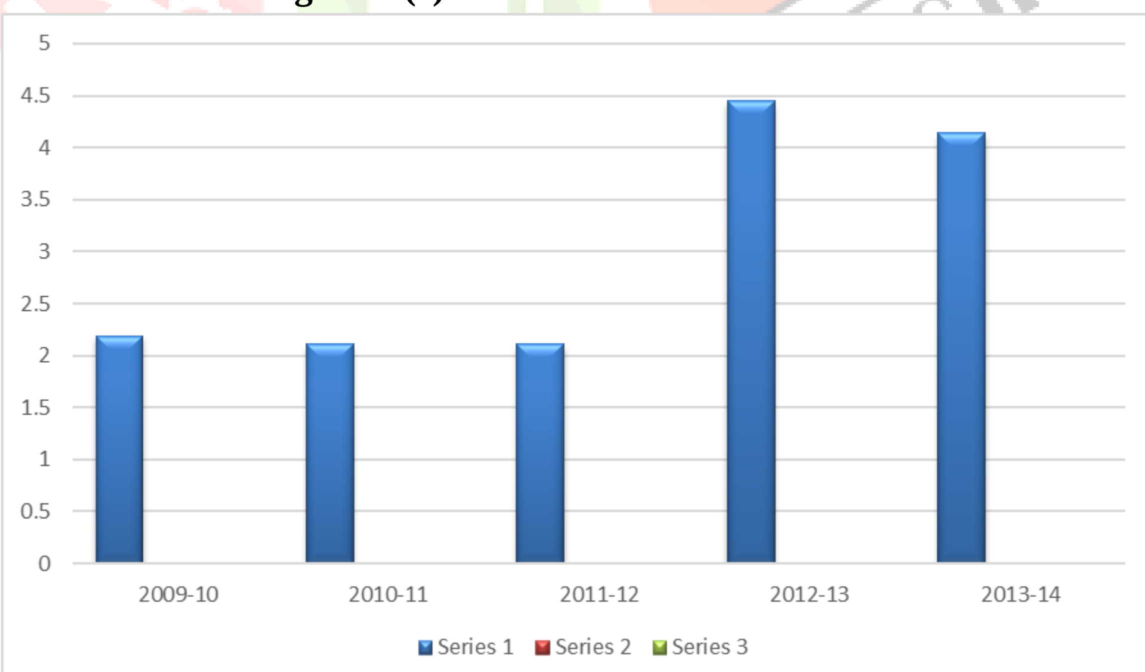
$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Total Assets}} \text{X100}$$

Table no 4.3

Total Asset Turnover Ratio

Year	Sales (Rs.)	Total Asset (Rs.)	Asset turnover Ratio (times)
2009-2010	318851.74	145828.3	2.19
2010-2011	389566.73	184799.0	2.11
2011-2012	537633.43	254281.8	2.11
2012-2013	656915.16	147596.72	4.45
2013-2014	718104.96	173318.62	4.14

Figure 4 (c) Total Assets Turnover Ratio



Statistical analysis

Mean	**524214.40**	**124686.38**	**4.22**
Sd	152109.78	36749.52	0.28
Cv	0.29	0.29	0.06%
Growth	125.22%	18.85	89.04%
Average Annual Growth	25.04	3.77%	17.80%

Interpretation:

Table 4.3 on asset turnover ratio illustrates a fair view of asset maintenance by the firm. It is evident that the firm has been maintaining almost constant asset turnover ratio during the period 2009-10 to 2013-14 which is on an average 4.22M.

The asset turnover ratio has increased in the year 2012-2013 and 2013-2014 as compared to earlier years. Considering the firms growth rate, it can be inferred that growth rate for asset turnover ratio has significantly better at 89.04% with an average annual growth of 17.80%.

4. Fixed Assets Turnover Ratio:

This ratio indicates the firm's ability to generate sales per rupee of investment in fixed assets. The main objective of computing this ratio is to determine the efficiency with which the fixed assets are utilized. In general, higher the ratio, the more efficient is the management in utilization of fixed assets, and vice versa. This ratio is computed by dividing the net sales by the net fixed assets.

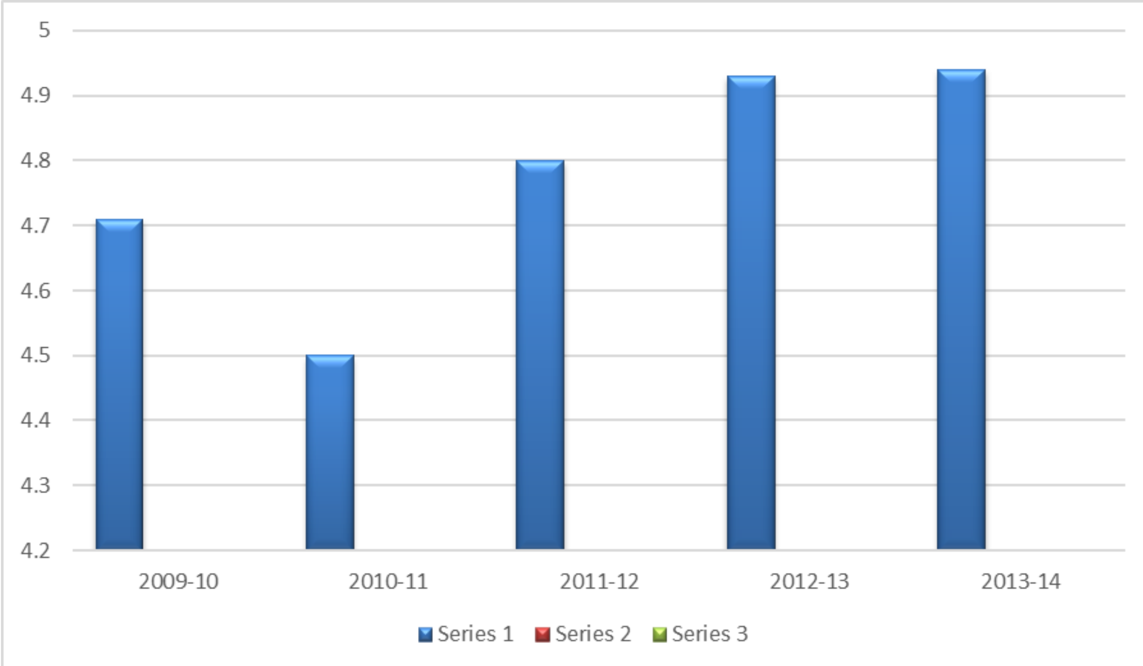
$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net fixed assets}} \times 100$$

Table No. 4.4

Fixed Assets Turnover Ratio (Rs. In million)

Year	Sales	Fixed assets (Rs)	Fixed Assets Turnover Ratio (Times)
2009-2010	318851.74	67763.04	4.71
2010-2011	389566.73	86518.74	4.50
2011-2012	537633.43	11912.97	4.80
2012-2013	656915.16	133351.13	4.93
2013-2014	718104.96	145429.68	4.94

Figure 4 (d) Fixed Assets Turnover Ratio



Statistical Analysis

Mean	524214.40	108995.11	4.78
Sd	152109.78	28775.79	0.16
Cv	0.29	0.26	0.03
Growth	125.21%	114.61%	4.88%
Average Annual Growth	25.042%	22.92%	0.976%

Interpretation:

Table no. 4.4 indicates that the fixed assets turnover ratio was 4.71 times in the year 2009-10 which has increased to 4.94 times in the year 2013-14. However, fixed assets turnover ratio has decreased to 4.50 times in the year 2010-11, and then onwards it has been increasing gradually. The mean for this ratio was 4.78 times and the standard deviation was 0.16b times. The co-efficient of variation of fixed assets turnover ratio was 0.03 times and the growth was 4.88 %. In the ned, the average annual growth for fixed assets turnover ratio was 0.976%.

5. Current Assets Turnover Ratio:

Current Assets Turnover Ratio indicates the firm's ability to generate sales per rupee of investment in current assets. The main objective of computing this ratio is to determine the efficiency with which the current assets are utilized. In general, higher the ratio, the more efficient is the management in utilization of current assets, and vice versa. This ratio is computed by dividing the net sales by the net fixed assets.

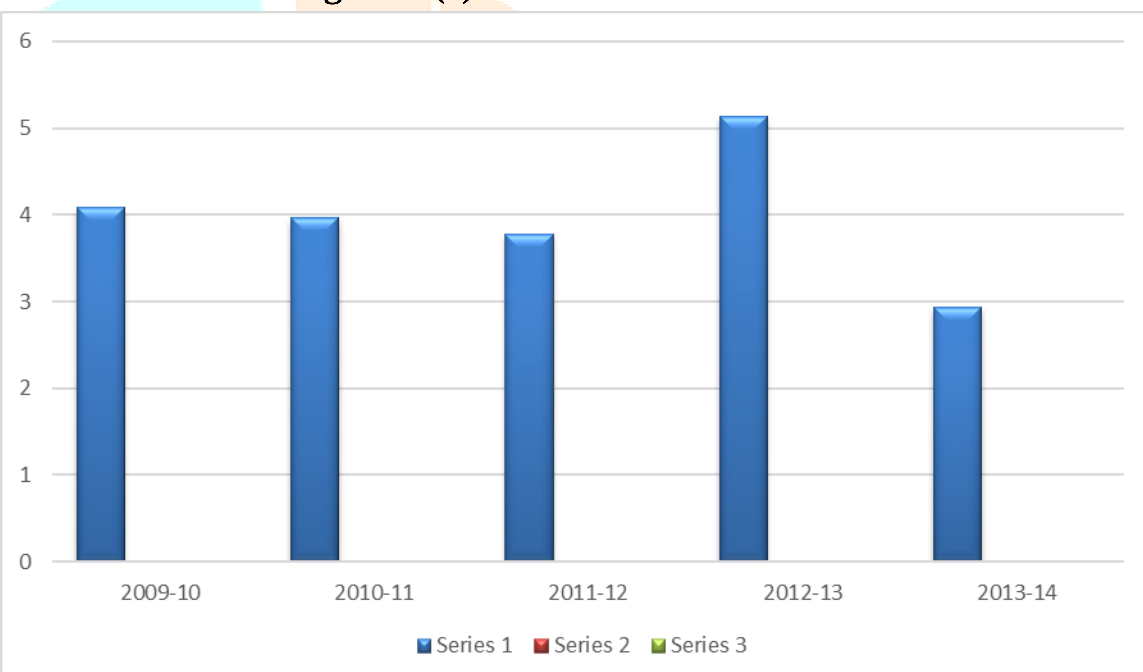
$$\text{Current Assets Turnover Ratio} = \frac{\text{Net sales}}{\text{Current Assets}} \times 100$$

Table No. 4.5

Current Assets Turnover Ratio (Rs. In millions)

Year	Sales (Rs)	Current Assets (Rs)	Current Assets Turnover Ratio (Times)
2009-2010	318851.74	78065.23	4.08
2010-2011	389566.73	98280.28	3.96
2011-2012	537633.43	142368.80	3.78
2012-2013	656915.16	127705.16	5.14
2013-2014	718104.96	244165.64	2.94

Figure 4 (e) Current Asset Turnover



Statistical Analysis

Mean	524214.40	138117.02	3.98
Sd	152109.78	57560.36	0.70
Cv	0.29	0.42	0.18%
Growth	125.21%	212.77%	-27.94%
Average Annual Growth	25.042%	42.554%	-5.588%

Interpretation:

Table No. 4.5 above indicates that the current assets turnover ratio for the year 2009-10 was 4.08 times which decreased to 3.78 times in the year 2011-12. However, in the year 2012-13, it has increased to 5.14 times which is maximum in the study period. Further, in the year 2013-14, it has again reduced to 2.94 times. The mean of current assets turnover ratio was 3.98 with a standard deviation of 0.7o and co-efficient of variation of 0.18 times. The growth rate is -27.94 % with an average annual growth of -5.588 %.

Findings, Suggestions and Conclusions:

The present study has been carried out as highlighted in the aforesaid chapters. Accordingly in the light of analysis made in the previous chapter, the following findings, suggestions and conclusions can be drawn.

It is observed that, no doubt, sales have been very good but assets have not been optimally utilized in contrast to sales. It can be noticed that company has heavy investments in total assets. Excessive funds have been blocked in the fixed assets which indicate that fixed assets are underutilized. in the same context, current assets are also indicating heavy blockage of funds.

Suggestions:

Considering the above viewpoints, the following suggestions can be offered:

1. The company can think of reducing the cost of goods sold which is a major impediment in its profitability. In this regard the company can think of reducing its components like spares consumed, engineering and fabrication expenses, fuel expenses and so on.
2. The operating expenses of the company are under control and the same level should be maintained by the company for the future as well.
3. Blockage of funds in fixed and current assets should be minimized and alternative avenues like investments in earning returns should be resorted.

The company should try to maintain a favorable annual growth rate and ensure that doesn't go negative. Unprecedented changes in the expectations and ever-changing preferences of customers coupled with stiff competition in the petrochemical products and services have made petrochemical business a formidable challenge for the industry. At this crucial juncture, MRPL should protect itself against the wrong approach of 'over-promising' and 'under-performance' in the process of service deliver. Focus should be diverted towards need based selling customer centric marketing strategies, based on long term trust and win-win approach rather than aggressive selling.

Conclusion:

In the light of the present study, it can be concluded that the position of net profit was not satisfactory due to huge amount incurred on cost of sales. The company has huge amount of total assets are not fully utilized properly as compared to sales. Huge amount has been blocked both in fixed as well as current assets. Similarly, return on assets is also not all that inspiring. Return on equity is also on a decreasing trend.

The substance of the present study conveyed both pleasant and unpleasant aspects in respect of net profits and return on equity of Mangalore Refinery and Petrochemical Industry.

Though the study has brought out many important points to light, the study is not free from its own limitations as normally found. However, sincere effort has been made to understand and present various aspects of corporate performance of this industry.

Reference book:

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