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VERTICAL ANALYSIS OF BPCL AND NAYARA ENERGY

(A Comparative Study)

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Abstract: Finance is the main resource to establish and maintain operational capability and capacity of the enterprise. The available funds will determine about the kind of assets invested and the people employed in the enterprise which can be afford to use by a firm, as a result what kind of output it can produce. Financial management is must for each and every kind of organization. This subject is important where there is a use of finance. The process begins with the financial planning and decision making. In the study we have used vertical analysis tool to judge the financial viability of BPCL and Nyara Energy. A Statement in which balance sheet items are expressed as the ratio of each asset to total assets and the ratio of each Liability is expressed as a ratio of total Liabilities is called Common- Size Balance sheet and when individual items of Income statement expressed as a ratio to total sales is known as Common size Income statement. The proposed study would be descriptive in nature and it is strictly founded on secondary published data. It has been assembled by readily available sources and other published data available at BPCL and Nayara Energy like Annual Reports, Schedules etc. Secondary data will also be gathered from Journals, Magazines and published research papers. The data pertaining to one year 2021-22 and to attain the said objective tools like Common-size Statement would be used in the study. Ms-Excel and SPSS Software would be used for easy study and calculation of Quantitative data. Use of Graph and tables according to the need of presentation and provide suitable suggestions to stake holders for upraising future policies The Objectives of the study is to examine the of changes in Individual items of Statement of Profit and Loss and Balance Sheet and to analyse and compare the performance of BPCL and Nayara Energy. This study is also beneficial for all stake holders like shareholders, Investors, Creditors, general public and Government. The study is also helpful for further research.

Index Terms - Finance, Common size Statement, Balance sheet, Income Statement.

INTRODUCTION

In the present scenario finance is defined, as arrangement and procurement of funds at the time when it is required in the business firm. Each and every firm for accomplishing its objectives required adequate finance. Every business required mainly five kind of resources financial resources, Human resources, educational resources Physical resources and emotional resources, among all financial resources are first and foremost need for running any kind of Business. When we talk about important activities of a business firm so we can see, these are finance, production, and marketing. A firm secures whatever capital it needs and employs it in activities known as financing activities. Activities, which generate returns on invested capital known as production and marketing activities. Finance is the main resource to establish and maintain operational capability and capacity of the enterprise. The available funds will determine about the kind of assets invested and the people employed in the enterprise which can be afford to use by a firm, as a result what kind of output it can produce. Features of finance are Utilisation of money for profit or returns, Composition of owners and borrowers fund, concerned with the Internal controls, Concerned with the future decision, Profitable Opportunities. Financial management is must for each and every kind of organization. This subject is important where there is a use of finance. The process begins with the financial planning and decision making. Three important decisions which are to be taken in financial management are Investment decision, financial decision, Dividend decision, while implementing these decisions; the firm has to acquire and maintain balance between risk and return of business.

FINANCIAL STATEMENTS ANALYSIS

The process of analysing financial statement involves the rearranging comparing and measuring the significance of financial and operating data. Financial statement Interpretation is an attempt to reach to logical conclusion regarding the position and progress of the business on the basis of analysis. Thus, analysis and interpretation financial statements are the two sides of coin. This analysis determines the financial soundness, persuasiveness and impuissance of the firm. It facilitates in finding the reason behind the figures of data and forecast about the future earnings, ability and capacity to pay interest and debt maturities and probability of a sound dividend policy. It is a tool which can be used by expert analyst while study of relationship and trends, to determine whether or not the financial conditions and outcome of operations as well as financial progress of the company are satisfactory or unsatisfactory.

Methods of Financial Analysis

Various techniques are used to analyse the financial statements, the list of techniques are as follows:

- (a) Comparative Analysis
- (b) Trend Analysis
- (c) Common size Statement Analysis
- (d) Fund Flow Analysis
- (e) Cash Flow Analysis
- (f) Ratio Analysis
- (g) C-V- P Analysis

Under the umbrella of financial statement Analysis, given analytical methods or devices are used to ascertain or measure the relationships among the financial statements of two studying companies They also used the items of a single set of statements and the changes that have taken place in these items as reflected in successive financial statements. In this research paper, the Common size statement analysis would be used as a tool of Financial Analysis.

Vertical or Common- Size Statement Analysis

The Common size statement balance sheet and Income Statement, are shown in analytical Percentage. The figures are shown as percentages of total assets, total liabilities and total sales. The total assets are taken as 100 and each individual assets are expressed as a percentage of the Total. In the same way all Liabilities are taken as a part of total Liabilities. These statements are also known as Component percentage or 100 per cent statements because every individual item is stated as a percentage of the Total 100. The short comings in comparative statements and trend percentages where changes in items could not be compared with the totals have been covered up. The analyst is able to assess the figures in relation to total values. A Statement in which balance sheet items are expressed as the ratio of each asset to total assets and the ratio of each Liability is expressed as a ratio of total Liabilities is called Common- Size Balance sheet. Similarly, the items of Income Statement can be shown as percentages of sales to show the relation of each item to sales. A significant relationship can be established between items of Income Statement and volume of sale. The relationship is established between sales and other items in Income statement and this relationship is helpful in evaluating operational activities of the enterprise.

COMPANY PROFILE

Bharat Petroleum Corporation is India's 'best performing' Navratna Public Sector, oil and Gas Undertaking, with holding of 52.98% ownership. Around 1860's, companies historical journey began as Burma Oil Company, and it was founded in the year 1952, presently headquarter is in Mumbai Maharashtra. BPCL is the most admired global energy company leveraging talent and technology. Company is providing excellent quality services to customer and exploit profitable growth opportunities outside energy to give back to society and environment. This is the great organisation to work for as ensure both personal and professional growth equally. Company is the role models for Health Safety, Security and Environment initiatives. The businesses of BPCL are fuel & services, Bharat gas, Max Lubricants, Aviation, Refineries, and Gas. Company have investor's friendly policies Bharat Petroleum has constantly endeavoured to maximise returns for our investors. BPCL consistently sustain and improve Returns on Investments for investors. In October 2006 a subsidiary was incorporated with the additional aim of strengthening the company's bottom line, the Bharat Petro Resources Limited (BPRL) was introduced. Company has visions like constant pursuit for customer service, quality & excellence, efficient initiatives for **Safety, Security, Environment, Health and CSR**.

IMPORTANCE OF STUDY

Vertical Analysis is one of the most Important tools of financial analysis. Every company is concerned with the study of trends in different items of revenue and expenses in Income statement and assets, Liabilities and equity in Balance sheet. Here in this vertical analysis single assets line item is compared to the value of total assets and liabilities line item to the total value of liabilities. Similarly, each item of profit and loss account is compared to the value of total Net sales. External and Internal conditions of Business do not remain same at all times. There may be adverse business conditions like recession, depression, competition etc. Therefore, such kind of studies help to disclose changes in the relative importance of each financial statement item. This study is very beneficial for the companies those who want to take decision for expansion and growth.

STATEMENT OF THE PROBLEM

Every Business undertaking want to know how their firm's profitability position, operating position, Financial Position, Capital Structures, Fixed assets compare with other organizations. Financial Managers of such firms must apply the tool known as vertical analysis. The study is to be taken to analyse the items of balance sheet and Income statement by applying common size statement analysis tool which is also known as vertical analysis. We have taken two identical firms of same industry with different ownership pattern BPCL Public Sector Company and Nyara Energy is Public Limited Company Through this study the company can understand the actual position of the company and can take corrective measures for further improvement. The study suggested to the management of both the companies to compare revenues and expense and assets and Liabilities of another company.

OBJECTIVES OF THE STUDY:

- To examine the of changes in Individual items of Statement of Profit and Loss and Balance Sheet.
- To Analyse and compare the performance of BPCL and Nayara Energy

Research methodology:

The simple meaning of research is to search for new facts, answer to questions, and solutions to problems, so a systematic search for getting answers to our problems is called research. The proposed study would be descriptive in nature and it is strictly founded on secondary published data. It has been assembled by readily available sources and other published data available at BPCL and Nayara Energy like Annual Reports, Schedules etc. Secondary data will also be gathered from Journals, Magazines and published research papers. The data pertaining to one year 2021-22 and to attain the said objective tools like Common-size Statement would be used in the study. Ms-Excel and SPSS Software would be used for easy study and calculation of Quantitative data. Use of Graph and tables according to the need of presentation and provide suitable suggestions to stake holders for upraising future policies

Analysis and Interpretations:

Common Size Income Statement

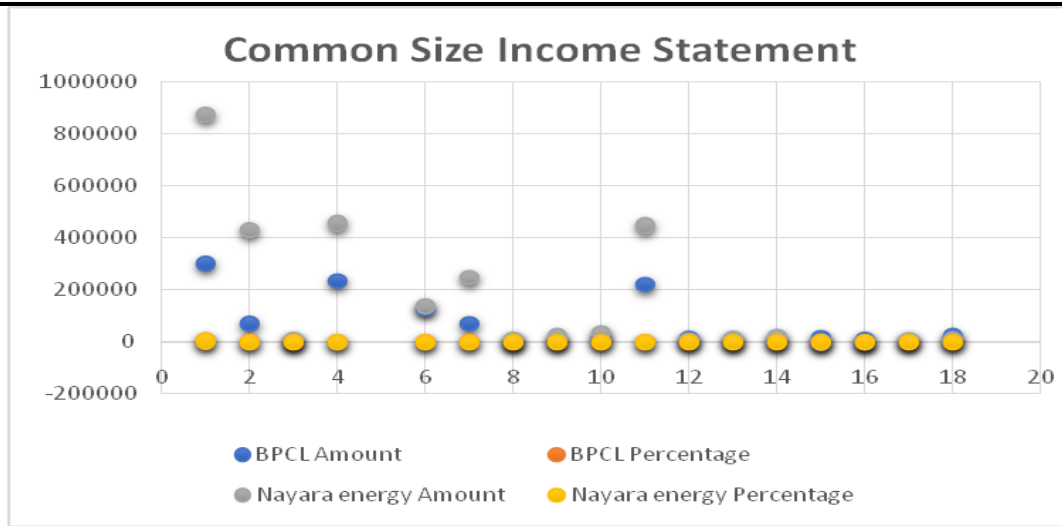
The items of Income Statement can be shown as percentages of sales to show the relation of each item to sales. A significant relationship can be established between items of Income Statement and volume of sale. The relationship is established between sales and other items in Income statement and this relationship is helpful in evaluating operational activities of the enterprise.

Common Size Income Statement

for the year ended Dec 2020-21

Rupees in crore

	BPCL		Nayara energy	
	Amount	Percentage	Amount	Percentage
Net Sales	301864.98	100	875006	100
Less- Cost of Goods Sold	71155.56	23.57	430464	49.19
Add – Decrease in Inventory	3633.57	1.20	8786	1.00
Gross Profit (A)	2,34,344.99	77.63	453328	51.80
Indirect Expenses:				
Purchase of Stock in trade	1,27,800.87	42.33	137408	15.70
Excise Duty Expenses	69319.86	22.96	247596	28.29
Employee Benefit Expenses	4477.17	1.48	6702	0.76
Depreciation & Amortisation	3978.05	1.31	19238	2.19
Other Expenses	15616.46	5.17	34901	3.98
Total Expenses(B)	221192.41	73.27	445845	50.95
Operating Profit (A-B)	13152.58	4.35	7483	0.85
Add- Other Income	4344.45	1.43	10650	1.21
Less- Finance Cost	1328.36	0.44	20968	2.39
Net Profit before exceptional items and tax	16168.67	5.35	(2835)	0.32
Add-Exceptional Item (Income)	6449	2.13	-	-
Less- Tax Expenses/add- Tax reversal	3575.91	1.18	7417	0.84
Net Profit for the year	19041.67	6.30	4582	0.52



Interpretation-

- The Sale increased in absolute figures in Nayara Energy as compared to BPCL but the percentage of Gross Profit to sales has gone down in case of Nayara Energy.
- In case of Nayara Energy, the Increase in Cost of Sales as a percentage to sales has brought the Profitability percentage down as compare to BPCL. In the BPCL company, Gross Profit as a percentage of sales is 77.63%, which is higher than the gross Profit percentage of sales in case of Nayara Energy.
- The Percentage of Operating Expenses to sales have gone up with 73.27%, as compare to Nayara Energy i.e. 50.95%. But due to high Cost of sales, the percentage of Operating profit to sales is more than in case of BPCL i.e., 4.35% as compare to 0.85% of Nayara Energy. If we talk about the percentage of Non-Operating Expenses to sales, so it is 0.44% in BPCL and 2.39% in Nayara Energy.
- Due to high Finance Cost the percentage of Net Profit before tax to sales is very low i.e., 0.32% in Nayara Energy, on the other hand percentage of Net Profit before tax to sales is 5.35% in BPCL.
- The percentage of Net Profit after tax to sales in case of BPCL is 6.30% which is more than the percentage of Nayara Energy i.e., 0.52%.
- The Overall Profitability of Nyara Energy has been decreased, due to rise in cost of sales, Operating Expenses and Finance cost. The Company Should take immediate steps to control its cost of sales.

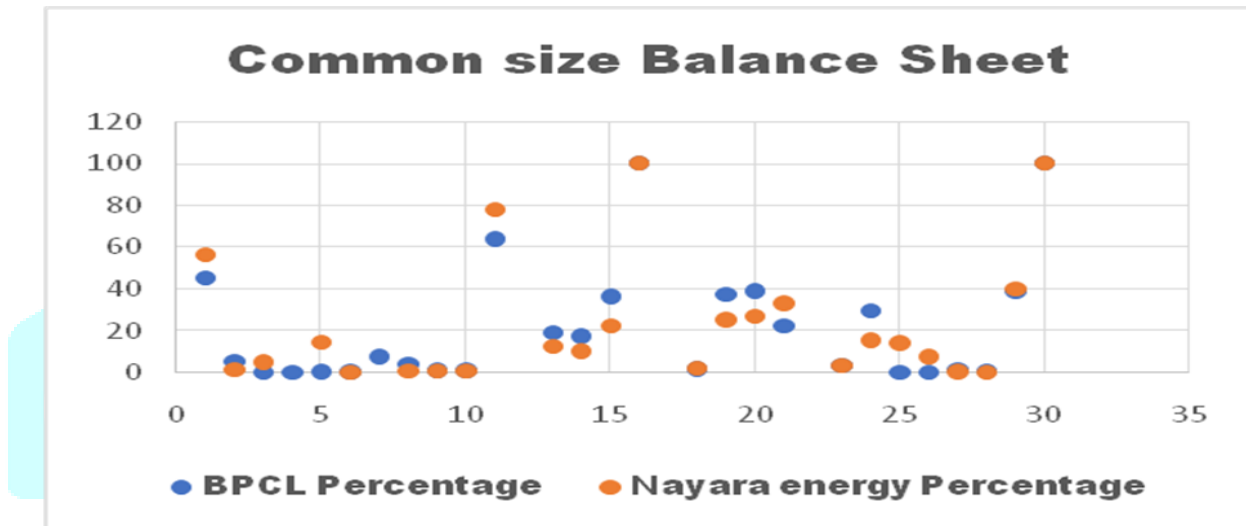
Common Size Balance Sheet

for the year ended Dec 2020-21

Rupees in crore

ASSETS	BPCL		Nayara energy	
	Amount	Percentage	Amount	Percentage
Non-Current Assets				
Property plant & Equipment	63526.50	45.18	431611	56.35
Capital work in process	7094.78	5.04	8996	1.17
Right of use Assets	-	-	36507	4.76
Investment Property	0.05	0	-	
Intangible Assets	409.70	0.29	108184	14.12
Intangible Assets	357.60	0.25	280	0.03
Investment	10466	7.44	-	
Financial Assets	5363.2	3.81	2883	0.37
Income tax Assets	1158.07	0.82	4738	0.61
Other non-current Assets	1266.29	0.90	2888	0.37
Total non-current Assets	89640.62	63.75	596087	77.82
Current Assets				
Inventories	26756.75	19.02	93448	12.20
Financial Assets	24184.05	17.20	76391	9.97
Total current Assets	50940.8	36.22	169839	22.17
TOTAL ASSETS	140604.49	100	765926	100
EQUITY & LIABILITIES				
Equity Share Capital	2092.91	1.48	15072	1.96
Other Equity	52451.64	37.30	191505	25

Total Equity Liabilities	54544.55	38.79	206577	26.9
Non-Current Liabilities	31314.82	22.27	253044	33.03
Current Liabilities				
Borrowings	4232.81	3.01	23326	3.04
Trade Payable	41056.01	29.19	117559	15.34
Other Financial Liabilities	-	-	106727	13.93
Other Current Liabilities	6771.90	0.04	57037	7.44
Provision	1858.92	1.32	961	0.12
Corporate tax Liability	825.48	0.58	695	0.09
Total current Liabilities	54745.12	38.9	306305	39.99
TOTAL LIABILITIES	140604.49	100	765926	100



INTERPRETATION-

- An Analysis pattern of financing of both the companies shows that Nyara Energy is more traditionally financed as compared to BPC. The former company has depended more on its own funds as is shown by balance sheet. Out of total Investment 38.79% of the funds are proprietor's fund and outsiders fund are 61.17%. In Nayara Energy proprietors fund are 26.99% while outsiders fund are 73.02% which shows that this company has depended more upon outsiders funds. In this context both the companies have good financial planning but Nayara is more financed on traditional lines.
- Both The Companies are suffering from inadequacy of working capital. The percentage of Current Liabilities is more than the percentage of Current Assets in both the Companies. The Second company is suffering more from working capital position that the first company because Current liabilities are more than current assets by 17.82% and this percentage is 2.68% in the case of First Company.
- A near look at the fixed assets shows that not only fixed assets have been financed from long term sources but part of working capital has also been financed from long term sources in both the companies. In BPCCL Fixed assets account for 45.18% of total assets while long term funds account for 61.06% of total funds. In Nayara Energy Fixed Assets account for 56.35% whereas long term funds account for 59.93% of total funds. Both the companies are adopting wise policy to finance fixed assets by raising long term funds.
- Both the companies face working capital problem and immediate steps should be taken to issue more capital or raise long term to raise working capital position.

FINDINGS AND SUGGESTIONS-

- According to Common size Income statement, we have found that both the companies have high cost of sales, which gives adverse impact on gross profit. The Companies have to control on their cost of goods sold. Comparatively, we can say that, BPCL has better position than Nyara Energy.
- Similarly, the Operating expenses are also increasing, which reduces the operating profit of firms. We suggest that company should reduce their operating cost. In comparison BPCL is in Better Position.
- The Net Profit for the year is very low due to high finance cost, companies should focus on other sources of raising funds to avoid finance cost. Nyara Energy should be change their polices to control on cost.
- In Nayara Energy proprietors fund are 26.99% while outsiders fund are 73.02% which shows that this company has depended more upon outsiders funds. In this context both the companies have good financial planning but Nayara is more financed on traditional lines.
- As Common size Balance sheet depicts that, the Companies are suffering from inadequacy of working capital. The percentage of Current Liabilities is more than the percentage of Current Assets in both the Companies. Nayara Energy is suffering more from working capital position then the BPCL because Current liabilities are more than current assets, we suggest that company should maintain standard norms of current Ratio.
- As we know that working capital plays very pivotal role in operation of business, here in the study, companies are facing working capital problem and immediate steps should be taken to issue more capital or use long term sources to raise working capital position.
- Another important part of analysis shows that, not only fixed assets have been financed from long term sources but part of working capital has also been financed from long term sources in both the companies. Companies are adopting wise policy to finance fixed assets by raising long term funds, which is good sign for financial viability.
- We conclude that, more or less BPCL and Nyara Energy are at same pace of growth during the year. Comparatively we can say that as BPCL is public sector Company having preferential rights and sound policies, which make it better that Nyara Energy which Public limited company.

LIMITATION OF THE STUDY:

- This study is based on secondary data.
- The reliability of data is totally depended on the audit reports available.
- This study has specific and limited time period of one year.

SCOPE FOR FURTHER RESEARCH

Scope means the coverage of the study where the work done will be helpful for future research and development. The study, Comparative Vertical Analysis of BPCL and Nayara Energy is very helpful for the oil and gas industry. It gives an idea to petroleum companies about their grey areas and how to improve their financial weaknesses. On the basis of the study future researcher may study other aspects like capital structure analysis, financial appraisal, working capital analysis etc. This study is also beneficial for all stake holders like shareholders, Investors, Creditors, general public and Government. The study is also helpful for researchers who want to know about the study and its conclusion for further research.

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Published Data

Annual Report of BPCL of the year 2020-21

Annual Report of NAYARA ENERGY2020-21

