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A STUDY ON THE ECONOMIC VALUE-ADDED ANALYSIS OF PETROLEUM COMPANY IN CHENNAI

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Abstract: A company's financial statements can be used to determine its financial performance. Financial statements are official records of a company's, firms, or other unit's financial actions over time that provide an overall picture of the company's financial status in both the short and long term. They accurately portray a company's current situation and functioning results. Financial statements are used as a monitoring tool on occasion, primarily by corporate executives and investors, to examine the company's general status and operating outcomes. This study attempted to assess the Petroleum Company's financial performance and long-term development, both of which have an impact on EVA. This study examines if the company's worth is increasing or dropping year after year.

Keywords: Economic Value-Added analysis, Sustainability, Financial statement, financial performance.

INTRODUTION:

The petroleum sector is one of the biggest and most complicated industries in the world, and it has an unusual business strategy that incorporates politics, technology, skilled workers, and environmental protection. Because oil-producing firms must ensure that freshly discovered resources be utilized in an efficient and sustainable way where technologies are present and cost efficiencies are important factors, this model places significant difficulties on their profitability and sustainability. The most significant point to make is that oil and gas are crucial to maintaining industrial civilization, making them a major issue for all countries. It is not surprising that energy security has become a key component of governments' foreign policies all around the world given that it is essential to the continuation of daily life. The administrations of both countries that import oil and those that export it are always worried about the supply and demand of oil and gas.

The main goal of the company is to increase the prosperity of shareholders through maximizing company value (value maximization). In general, the maximization of company value refers to the value of the equity market, so for companies that go public related to stock market prices. Many factors can influence stock prices, both internal and external factors of the company. External factors include national and international economic conditions, while internal factors such as financial performance, employee welfare, corporate image and corporate responsibility towards the environment. Environmental damage is a serious problem in recent years. This is caused by economic activities carried out in various parts of the world. One of the economic actors that is often the cause of environmental problems is the company. One example of environmental damage is the case of environmental damage due to coal waste along the Air Bengkulu River Basin to the coast in the cities of Bengkulu and Bengkulu Tengah that have occurred since the 1980s until now 2018 is real and invisible. Nevertheless, the regional government has never tried to find a mining company to be held accountable. Other indications, such as ex-reclaimed mining holes, damage to forest areas, the obligation to pay reclamation guarantees and post-mining guarantees that are not fulfilled also seem to be left unchecked.

- **Economic Value- Added Analysis**

The emergence of the term EVA (Economic Value Added) was popularized by the Stern Stewart Management Service, a consulting company from the United States. EVA calculation has been widely used in various large companies in the United States. EVA is based on the concept of measuring a company's profits, that it must be "fair" to consider the expectations of each fund provider (creditors and shareholders). The degree of justice is expressed by a weighted measure of the existing capital structure. For this reason, there needs to be an understanding of the concept of capital (cost of capital) because EVA (Economic Value Added) moves from there. In summary EVA is calculated by a simple formula like the following:

EVA = NOPAT- (WACC*Total invested capital)

Were,

NOPAT = Net Operating Profit after Tax (Income after tax but not yet deducted by interest costs)

If EVA> 0 then there is an additional economic value in the company (business).

If EVA = 0, then the meaning is that economically the company breaks even, because all profits are used to pay obligations to funders, both creditors and shareholders.

If EVA < there is no value added to the company.

- **Sustainability Development**

Growing Sustainability reporting is an aspect of the concept of sustainable development. Sustainability development means that current development can be met without compromising the demands of future generations. Sustainability development must be undertaken because existing economic activities harm the global ecosystem and jeopardise the demands of future generations. The disclosure of organisational performance in sustainability reporting focuses on three areas known as the Triple bottom line, which are economic, social, and environmental. Companies' sustainability reporting is the disclosure of data that indicates organisational performance in economic, social, and environmental dimensions.

A focus on sustainability assists organisations in managing social and environmental implications, as well as improving operational efficiency and natural resource utilisation. A sustainability report expresses a company's commitment to the community and the environment in which it operates. A sustainability report is a means for internal and external stakeholders to examine whether a company's management has carried out its responsibilities. The present Corporate Social Responsibility disclosure in the Sustainability Report transparently covers the economic, environmental, and social repercussions of firm actions.

OBJECTIVE OF STUDY:

- To study the Economic Value-Added analysis of Petroleum Company in Chennai.
- To identify whether the study unit have been able to generate value of its shareholder.
- To analyse what are the measures taken to maintain the sustainability that affect the economic value addition of the company.

INDUSTRY PROFILE:

The oil and gas business are one of the world's largest and most important industries. It is in charge of the exploration, extraction, refining, and distribution of oil and gas products, which are used to power transportation, generate electricity, and supply feedstock for a variety of consumer and industrial goods. The oil and gas sector are separated into three parts: upstream, midstream, and downstream. Upstream activities include the discovery and production of oil and gas resources, generally in distant or offshore regions. This includes drilling for and extracting oil and gas from reservoirs, as well as transporting them to refineries for processing. Midstream activities involve the transfer and storage of oil and gas resources, typically via pipelines or tanker ships. This industry also incorporates natural gas processing, such as eliminating contaminants and extracting natural gas liquids. Downstream activities include the refining and distribution of oil and gas products such as petrol, diesel and jet fuel. This business also includes the marketing and distribution of these items through petrol stations and other venues.

The oil and gas sector which is the major part of contributory to the energy sector, is considered one of the eight primary industries in India and plays a vital role in influencing decision making for all the other important sectors of the economy. The economic growth of India is mostly related to the demand of the energy. Hence, the need for the energy like oil and gas is estimated to grow more and making this industry relatively conducive for investment. The Indian Government has formulated and implemented many policies in order to fulfil the increasing demand for the consumption. Now, the Indian Government has permitted 100 per cent Foreign Direct Investment (FDI) in many segments of the sector, including natural gas, petroleum products, and refineries, among others. India is expected to be one of the major contributors to non-OECD petroleum consumption growth internationally.

NEED OF THE STUDY:

- The primary goal of this paper is to provide comprehensive information on the company's performance by analyzing their financial and operational disclosures. One of the underlying motivations for writing this paper is to gain insights into the performance of this company, which dominate the global oil and gas market.
- In contrast to the financial crisis, recent developments in the energy sector have revealed that the oil and gas industry has been involved in numerous issues that have had a significant long-term impact on both countries and the world at large.
- Furthermore, given the uncertainty of future oil and gas availability, such questions have heightened public anxiety. Despite significant efforts by countries to find renewable energy sources, it appears certain that oil and gas will continue to be a major source in the coming decades.

RESEARCH METHODOLOGY:

The oil and refinery business were purposefully chosen for this study due to its importance as the backbone of any country's economic prosperity. The study will be carried out using a quantitative research design, as it will involve the analysis of financial data in order to calculate economic value-added and also to find out the contribution of the company towards sustainability development which also affects the EVA. The sample size will include all available financial data for Petroleum Company for the period of five years. The study's limitations may include data availability, financial statement validity, and potential external factors such as changes in the global economy or the oil industry. The data is examined using the economic value-added (EVA) methodology, which entails calculating the company's net operating profit after tax (NOPAT) and subtracting the cost of capital to arrive at the EVA. The data is gathered from one of the Petroleum Company’s annual reports, financial statements, and other relevant documents over the five years (2017-2022).

REVIEW OF LITERATURE:

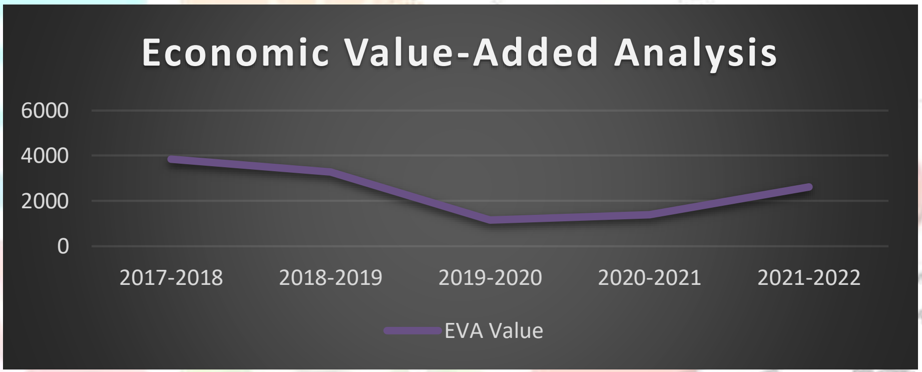
1. **Sharma and Soni (2021)** conducted an economic value-added analysis of the Indian automobile industry from 2011 to 2019. According to the findings, EVA is a good predictor of a company's financial performance. Companies with higher EVA had a higher market share and profitability, according to the study.
2. **Olibe, et al. (2020)** compares EVA, MVA, and traditional accounting measures as predictors of stock returns in Nigerian companies in "Economic Value Added, Market Value Added and Traditional Accounting Measures: Which Measure Correlates Better with Stock Returns?" by. The study finds that EVA has the strongest correlation with stock returns.
3. **Hamzah et al. (2019)** apply the EVA model to Islamic banks in Malaysia in "Assessing the Performance of Islamic Banks Using Economic Value Added (EVA): Evidence from Malaysia." According to the study, EVA is a useful tool for evaluating the financial performance of Islamic banks.
4. **Singh and Singh (2018)** compare EVA and Market Value Added (MVA) as measures of financial performance in Indian companies in "A Comparative Analysis of Economic Value Added and Market Value Added in Indian Companies." According to the study, EVA is a more reliable measure of financial performance than MVA.
5. **Dr. Setiabudhi (2017)** Financial performance is an indicator of how well a company manages its finance functions. The EVA method is excellent for measuring financial performance because it describes the true value of a company. The subject of this study is PT Kalbe Farma Tbk, with financial data ranging from 2012 to 2014. The descriptive quantitative method is used in this study. According to computations, the company's EVA value has fluctuated and been positive.
6. **T. Kacprzak and J. Szopa (2016**) "Economic value added (EVA) as a tool for evaluating the performance of small and medium-sized enterprises (SMEs)": The authors investigate EVA's utility as a performance evaluation tool for SMEs. They discover that EVA provides a more accurate picture of a firm's economic value than traditional accounting measures.

DATA ANALYSIS AND INTERPRETATION:

Economic Value-Added Analysis
Table 4.2.1

SR NO	Year	EVA Value
1	2021-2022	2624.73
2	2020-2021	1393.88
3	2019-2020	1162.31
4	2018-2019	3282.63
5	2017-2018	3835.22

Chart 4.2.1



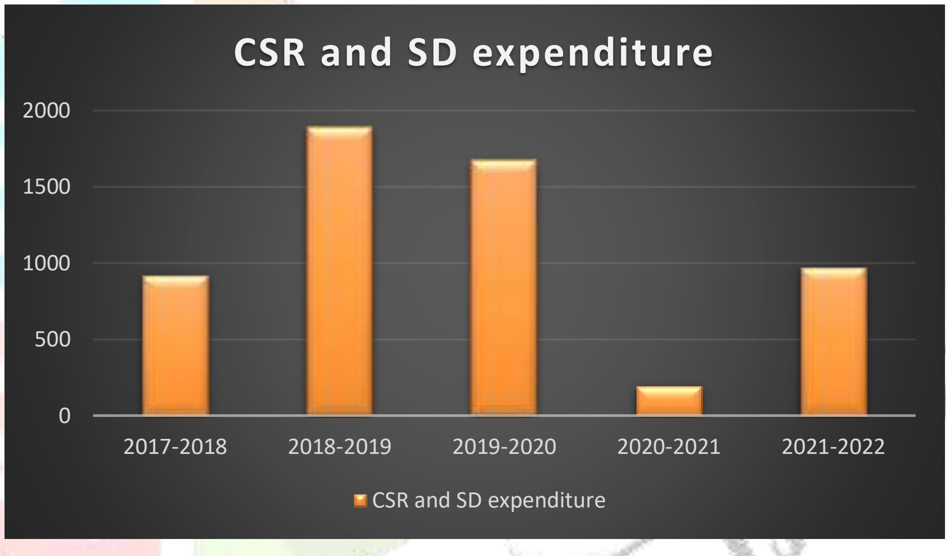
From the table and chart, it can be said that the value of EVA for 2017 to 2018 is 3835.22. For the year 2020-2021 and 2021-2022 is 1393.88 and 2624.73. The EVA for 2019-2020 is 1162.31. The value for the period of 2018-2019 i.e., 3282.63.

Details of CSR and SD Expenditures

Table 4.2.2

SR NO	Year	CSR and SD Expenditure (in lakhs)
1	2021-2022	972.94
2	2020-2021	196.51
3	2019-2020	1671.72
4	2018-2019	1889.00
5	2017-2018	918.18

Chart 4.2.2



From the table and chart, it can be said that the value of CSR and SD expenses for 2017 to 2018 is 918.18. For the year 2020-2021 and 2021-2022 is 196.15 and 972.94. The EVA for 2019-2020 is 1671.72. The value for the period of 2018-2019 i.e., 1889.00

FINDINGS:

- ✓ The maximum value of EVA i.e., 3835.22 is for the year of 2017-2018.
- ✓ The minimum value of EVA i.e., 1162.31 is for the year of 2019-2020.
- ✓ Referring the Annual reports, it can be said that the company has maintained its sustainability in all circumstances.
- ✓ The mandated CSR and SD budget was Nil for 2020-2021, the company spent a total of 196.51 lakhs on ongoing sustainable development and CSR programmes.
- ✓ In comparison, the company spent a much larger amount of 972.94 lakhs on ongoing sustainable development and CSR programmes in the next year, 2021-2022, despite the mandatory CSR and SD budget being Nil.

CONCLUSION:

Overall, the analysis of the EVA values indicates that CPCL has been performing well with a consistent increasing trend, except for the year 2019-2020, which was impacted by the COVID-19 pandemic. The EVA value for the period of 2018-2019 decreased slightly, but then it gradually increased. The highest EVA value was recorded for the period of 2017-2018, and the values for the year 2020- 2021 and 2021-2022 also show a positive trend. Therefore, it can be concluded that CPCL has been able to generate value for its shareholders, and it has been able to maintain a positive EVA trend over the year. According to the analysis, the corporation has been actively investing in CSR and SD activities over the years, with yearly expenditure changing. In addition, the company has exceeded the mandated CSR and SD budget, demonstrating its commitment to social responsibility and sustainable development.

SUGGESTIONS:

- ✓ Managers: Managers in India's oil and gas industry and related companies should pay close attention to and review their credit sales policies, as well as their age analysis.

- ✓ Investors: Investors are advised to be aware of the credit policies and corporate sustainability profile in terms of profitability and asset growth trend of the listed oil and gas companies in India over the years in order to determine their corporate sustainability as a guide in making investment and portfolio diversification decisions.

- ✓ Contribution to Knowledge: The findings of this study are thought to be useful to investors, market analysts, economic regulators, policymakers, and managers, as well as the entire management of companies, who want a manufacturing company that performs well, with managers who are efficient and effective in cash management, which translates to effective performance.

- ✓ Policy Markers: Capital market stakeholders and potential investors, in particular, who are concerned about the continuous quality performance of companies in the Indian capital market, want to invest in companies that meet their profitability targets and are positively influenced by liquidity management in terms of corporate sustainability.

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