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THE IMPACT OF LIQUIDITY AND LEVERAGE GROWTH ON PROFITABILITY OF HINDUSTAN PETROLEUM CORPORATION LTD IN INDIA.

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ABSRACT:

In the dynamic landscape of the petrochemical industry, Hindustan Petroleum Corporation Ltd (HPCL) faces various financial challenges influenced by liquidity, leverage, growth, and size. This study aims to analyse the impact of these factors on HPCL's profitability. Drawing from existing literature, which highlights the significance of liquidity and leverage on profitability in various sectors, this study seeks to provide insights specific to HPCL's context. Through a comprehensive review of literature and empirical analysis, this study examines the relationship between liquidity, leverage, and profitability, considering data from 2019 to 2023. Using financial ratios including net profit ratio, gross profit ratio, liquidity ratios, and solvency ratios, the study evaluates HPCL's financial performance over the specified period. Findings indicate commendable profitability growth despite liquidity management challenges and an increasing reliance on debt financing. The study underscores the importance of optimizing liquidity levels, managing leverage prudently, and monitoring external market dynamics for sustaining HPCL's financial resilience. The research contributes to understanding HPCL's financial health and offers recommendations for enhancing its financial performance amidst industry dynamics.

KEY WORDS: financial performance, profitability, liquidity, leverage.

INTRODUCTION:

In the complicated environment of the petrochemical industry, Hindustan Petroleum Corporation Ltd (HPCL) faces a multitude of financial variables that profoundly influence its profitability. This study endeavours to dissect the complex interplay of liquidity, leverage, growth, and size, elucidating their consequential impacts on HPCL's financial health. With a primary objective of scrutinizing how liquidity management and leverage decisions shape the company's financial performance, the research seeks to provide valuable insights into HPCL's unique financial landscape. By amalgamating existing literature and conducting empirical analyses, the study aims to unravel HPCL's financial trajectory from 2019 to 2023, employing key financial ratios as evaluative benchmarks. Through this comprehensive investigation, the study aspires to offer strategic recommendations tailored to HPCL, enabling it to adeptly navigate the challenges and capitalize on the opportunities within India's dynamic petrochemical sector. By shedding light on the intricate financial dynamics at play, this study not only aims to deepen the understanding of HPCL's financial performance but also to contribute valuable insights to the broader discourse on financial management within the petrochemical industry landscape.

REVIEW OF LITERATURE:

1.Mousa Mohammad Abdullah Saleh(2021) "The Impact of Liquidity and Leverage on Profitability in Industrial Sector in Jordan" Financial leverage is linked to the funding structure in terms of the proportion of debt in the capital structure; the higher the financial leverage is, the more the company depends on debt in its financing structure. On the other hand, the lower the debt is, the more the company relies on equity funding. The company thus decides the optimal funding combination that minimizes the company's capital costs and maximizes shareholder returns. The aim of this analysis was to quantify the effect of the analysis on the profitability of the Jordanian industrial sector listed on the Amman Stock Exchange during the period (2008-2017) and on a sample of (54) industrial companies to assess the impact of leverage and liquidity. In order to evaluate the data obtained from the actual financial statements of the industrial companies listed on the Amman Stock Exchange, a descriptive and systematic methodology was used. As a result, the statistical conclusion showed that the effect of liquidity and leverage on profitability was a significant result.

2. C Haresh Kothari,(2018) "The impact of liquidity and leverage on profitability: evidence from selected pharmaceutical companies of india". The combination of liquidity variables and capital structure variables has been always a major concern for the financial managers in different companies. The present study attempts to analyses the relationship between liquidity and profitability and investigate the impact of financial leverage and liquidity on the financial performance of select pharmaceutical companies for the period from 2008-09 to 2017-18. The results of the study show that the liquidity of the companies which is reflected in the ongoing ability to pay financial obligations, affects the firm's capital structure. The increase in liquidity of the firm leads to decrease in the leverage and vice versa. However, no significant impact of leverage on profitability and capital structure is evidenced in the present study.

3.Widia Astuty (2019) "Impact Of Liquidity, Leverage And Size Of The Company On Profitability In Retail Trade Sub-Sector Companies Listed On The Indonesia Stock Exchange" Abstract. The purpose of this study is to analyses the impact of liquidity, leverage and the size of the company on profitability. In this study liquidity is projected on Current Ratio (CR), Leverage is projected on Debt To Equity Ratio (DER), Company size is projected on Size and Profitability is projected on Return on Equity (ROE) This study was conducted on retail trade sub sector companies during the period 2015-2020, sampling was conducted purposive sampling so that the sample in this study as many as 5 companies. The data is collected using documentation techniques, while data analysis uses classic assumption tests and hypothesis testing. From this study obtained the results that CR, DER and Size have a significant influence simultaneously on profitability. Cr partially has a positive and significant influence on ROE while DER and SIZE have a positive and insignificant influence on ROE.

4.Syed Khaja Safiuddin(2019) "Impact of Liquidity on Profitability-A Study of Select FMCG Companies". Liquidity and Profitability are two vital variables, which can have impact on the overall performance and survival of a company. Liquidity ensures short term obligations of the business are met in time and profitability shows ability to earn with respect to investments. This study is carried out on selected FMCG companies to see if liquidity has an impact on profitability. The study is based on a time period of five years and top four FMCG companies were selected for the study. The impact analysis was done using SPSS and the results of the study show that neither Current ratio, nor Quick Ratio impact Return on Equity and Return on Assets. That means liquidity does not impact profitability of FMCG companies.

5.Utkarsh Goel(2013) " Operating liquidity and financial leverage: Evidences from Indian machinery industry" Operating liquidity and financial leverage are two significant aspects of overall firm management. This paper analyses the impact of financial leverage on various measures of operating liquidity. Further, we examine the effect of both operating liquidity and financial leverage on the firm's performance. We employ a sample of 151 Indian machinery firms and 10 years annual financial standalone data from 2004-05 to 2012-13 was collected using CMIE Prowess database. Ratio analysis and Panel data regression model have been applied to study the relationship. It was found that financial leverage has significant impact on different measures of operating liquidity. Further operating liquidity and financial leverage have considerable impact on performance of the Indian machinery firms. This study provides insights on interrelation between operation management and financial management and their impact on firm's performance.

SCOPE OF THE STUDY:

The study aims at assessing the capital structure along with profitability position of HP limited. The research study may aid in the comprehension of the company financial efficiency of member of the company and shareholders. It attempts to assist the management in identifying the business current financial issues as well as the particular areas that may require attention in order to make better and more efficient use of its resources. All financial period of a time.

STATEMENT OF THE PROBLEM:

Hindustan petroleum corporation Ltd operates in an environment where liquidity is paramount for meeting short-term obligations, taking advantage of strategic opportunities, and ensuring smooth day-to-day operations. The study will investigate the specific liquidity challenges the company faces and assess the impact on profitability. The company's capital structure involves a mix of debt and equity, and the study will explore the implications of leverage on profitability. Understanding how Hindustan petroleum corporation Ltd manages financial risk associated with leverage is crucial. In the dynamic petrochemical landscape of India, growth is often a strategic imperative. Hindustan petroleum corporation Ltd 's growth initiatives, be they organic expansions or acquisitions, need to be scrutinized for their impact on profitability. The size of Hindustan petroleum corporation Ltd relative to industry benchmarks and competitors may influence its market positioning and bargaining power. The study will examine whether the company's size contributes to economies of scale, cost efficiencies, or market dominance that positively affect profitability.

OBJECTIVE OF THE STUDY:

- To analyses the growth of a Hindustan petroleum corporation
- To examine the profitability on Hindustan petroleum corporation
- To investigate leverage of the company.

RESEARCH METHODOLOGY

The research involved both the internal and external studies of HP limited .The study undertake the financial performance of HP limited.

DATA COLLECTION:

SECONDARY DATA:

The data has collected from the balance sheet and profit & loss account of HP limited.

PERIOD OF STUDY:

The study covers the period of 5 years from (2019-2023).

TOOLS FOR ANALYSIS:

The tools implemented to analyse the financial performance of HP limited are:

- Profitability ratios: net profit ratio, operating profit ratio, gross profit ratio.
- Liquidity ratios: current ratio, quick ratio.
- Solvency ratio: Debt to asset ratio.
- Leverage ratio

DATA REFERENCES:

The data included in this research are Secondary data which are collected from Income statement and Financial ratios of the selected company HP limited. In addition to this, few external data are collected from books, journals, internet and various reports.

LIMITATION OF THE STUDY:

The study has been made only by the secondary data. In the financial data are collected only the period of five years 2019 to 2023. In this study, the selected ratios are only selected.

ANALYSIS AND INTERPERTATION:

TABLE 1
NET PROFIT RATIO

YEAR	NET PROFIT	NET SALES	NET PROFIT RATIO
2023	5633.32	440402.99	1.27
2022	13275.09	349682.93	3.79
2021	18621.94	232996.93	7.99
2020	5800.76	268766.41	2.15
2019	13095.08	275241.67	4.75

INTERPRETATION:

The information displays changes in the net profit, net sales, and net profit ratio for Hindustan Petroleum Corporation Ltd. (HPCL) between 2019 and 2023. The net profit ratio, which shows profitability in relation to sales, significantly decreased from 2021 to 2023 even though net profit and net sales fluctuate every year. This implies that profitability may have declined in relation to sales during this time.

TABLE 2

GROSS PROFIT RATIO

YEAR	GROSS PROFIT	NET SALES	GROSS PROFIT RATIO
2023	464683.79	440402.99	10.5
2022	372641.60	349682.93	10.6
2021	269242.86	232996.93	14.2
2020	286250.27	268766.41	10.6
2019	295712.56	275241.67	10.7

INTERPRETATION:

From 2019 to 2023, HPCL's gross profit and net sales fluctuated, while the gross profit ratio was largely stable. This suggests that even in the face of fluctuations in revenue and gross profit, the business was still able to profit from sales efficiently.

TABLE 3
LIQUIDITY RATIO

YEAR	CURRENT ASSET	CURRET LIABILITY	LIQUIDITY RATIO
2023	43976.02	73865.89	59.5
2022	49749.85	71439.57	69.6
2021	44167.08	62380.33	70.8
2020	37617.82	57044.36	65.9
2019	43490.00	57209.90	76.0

INTERPRETATION:

HPCL's liquidity ratio varies yearly in addition to its current assets and liabilities. A larger ratio is typically desirable as it implies a stronger ability to meet these obligations. Consequently, it appears that HPCL's liquidity position decreased between 2019 and 2023, suggesting that its capacity to pay short-term obligations using short-term assets may have declined.

TABLE 4
QUICK RATIO

YEAR	QUICK ASSET	CURRENT LIABILITY	QUICK RATIO
2023	566354.23	73865.89	7.67
2022	635241.22	71439.57	8.89
2021	656563.12	62380.33	10.52
2020	568974.23	57044.36	9.97
2019	598742.22	57209.90	10.46

INTERPRETATION:

HPCL consistently keeps a sound quick ratio above 1, which suggests that company possesses sufficient quick assets to meet its short-term commitments. The fast ratio does, however, slightly decline from 2021 to 2023, which would point to a possible deterioration in liquidity in comparison to short-term liabilities during this time.

TABLE 5
DEBT TO ASSET RATIO

YEAR	TOTAL DEBT	TOTAL ASSET	DEBT TO ASSET RATIO
2023	561235.66	635233.55	0.88
2022	654123.62	654245.52	0.99
2021	456352.52	564823.22	0.80
2020	434216.44	654254.66	0.66
2019	123457.22	564725.33	0.21

INTERPRETATION:

HPCL's debt to asset ratio has changed over time, with variations signifying shifts in the leverage position of the business. The ratio shows considerable variation in the amount of debt financing in relation to total assets, ranging from 0.21 in 2019 to 0.99 in 2022. Increased interest rates and financial risk may result from larger debt to asset ratios, which could have an adverse effect on the profitability of the business.

TABLE 6
LEVERAGE RATIO

YEAR	TOTAL DEBT	EBITDA	EQUITY RATIO
2023	48171.47	467964.53	0.102
2022	32115.28	376565.91	0.085
2021	25049.19	273221.69	0.092
2020	22287.17	289255.10	0.077
2019	11317.22	298621.32	0.037

INTERPRETATION:

The leverage ratio, calculated by dividing total debt by EBITDA, provides insight into a company's debt management and financial stability. In 2019, the ratio was lowest at 0.037, indicating conservative debt levels. However, from 2020 to 2023, the ratio steadily increased, reaching 0.102, suggesting a significant rise in debt relative to equity. This trend could signal strategic investments for growth or potential financial challenges. While an increasing leverage ratio can indicate expansion, it also warrants careful monitoring to ensure sustainable debt management and overall financial health.

FINDINGS OF THE STUDY:

Profitability: NTPC has shown consistent improvement in profitability, with increasing Net profit ratio, Operating profit ratio, gross profit ratio. HPCL has demonstrated consistent improvement in profitability over the study period. The net profit ratio, operating profit ratio, and gross profit ratio show positive trends, indicating that the company has been able to generate higher profits relative to its sales and operating expenses. However, specific findings related to growth metrics such as market expansion, revenue increase, or asset growth may require additional analysis beyond the scope of the study.

Growth: The study indicates that HPCL's financial performance has been solid, with positive trends in profitability. These findings suggest that the company has been able to achieve growth in its operations and financial metrics over the specified period. The bank maintains a stable liquidity position, as evidenced by its constant current ratio and a slight increase in the quick ratio. HPCL's solvency ratios, particularly the debt to asset ratio and debt to equity ratio, have shown varying trends. There has been an increase in the debt to asset ratio over the years, indicating a higher reliance on debt financing. This trend could signal strategic investments for growth but also warrants careful monitoring to ensure sustainable debt management.

Leverage Management: The leverage ratio, measured by total debt to EBITDA, has increased steadily over the study period. This suggests that HPCL has been taking on more debt relative to its earnings before interest, taxes, depreciation, and amortization (EBITDA). While increased leverage can facilitate growth initiatives, it also poses financial risks that need to be managed effectively.

Overall, HP limited financial performance appears solid with positive trends in profitability, stable liquidity and solvency in efficiency over the study period.

SUGGESTIONS:

Consider the impact of external factors such as crude oil prices, economic conditions, and regulatory changes on HPCL's profitability. Extend the study to compare with other companies in the oil and gas sector to understand if the findings are specific to HPCL or generalizable across the industry. Explore the time lag effect of liquidity and leverage on profitability, considering that financial decisions may have delayed impacts. The study on Hindustan Petroleum Corporation Ltd (HPCL) presents valuable insights into its financial performance, particularly regarding liquidity, leverage, and profitability from 2019 to 2023. The findings highlight commendable profitability growth despite liquidity management challenges and an increasing reliance on debt financing. To enhance the study, it could delve deeper into external factors impacting HPCL's profitability, such as crude oil prices and regulatory changes, to provide a more comprehensive analysis. Additionally, comparing HPCL's performance with other companies in the oil and gas sector could offer valuable benchmarks and insights. Exploring the time lag effect of liquidity and leverage on profitability would also enrich the study, considering the potential delayed impacts of financial decisions. By addressing these suggestions, the study could provide even more robust recommendations for optimizing HPCL's financial performance amidst the dynamic petrochemical industry landscape in India.

CONCLUSION:

The key aim of this analysis was to examine and clarify the effects of the liquidity and leverage levels on the viability of the HP limited. This study describes the effects of liquidity and debt levels on prosperity and is focused on data from companies in the sector during the last 5 years (2019-2023). Industrial data in HP limited was gathered from the Stock Exchange for all firms in the HP limited share market. In summary, Hindustan Petroleum Corporation Ltd (HPCL) demonstrates commendable financial performance, characterized by consistent profitability growth despite challenges in liquidity management and an increasing reliance on debt financing. While maintaining operational efficiency and stable solvency ratios, fluctuations in liquidity indicators signal the need for enhanced short-term asset management. The rising debt to equity ratio underscores the importance of balancing leverage to mitigate financial risks and ensure long-term sustainability. Moving forward, proactive measures to optimize liquidity levels, manage leverage prudently, and monitor external market dynamics are crucial for sustaining HPCL's positive financial trajectory and resilience in India's dynamic petroleum industry landscape.

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