A STUDY ON PERFORMANCE APPRAISAL OF INDIAN OIL CORPORATION IN TIRUNELVELI

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ABSTRACT

Crude oil is the world economy‟s most important source of energy and is therefore, critical to economic growth. The price of crude in global market is essentially driven by supply and demand. The performance of world economy in general and the world‟s largest economies such as US, Japan and recently China have a significant impact on the demand for crude oil and vice versa. The various method developed by IMF, World Bank(WB) and OECD have estimated that 10 dollar increase in crude oil prices would lead to a decline of world production of goods and services by 0.5%. The world economic growth and world oil demand are moving in tandem and there is high correlation between world economic growth and demand for oil. It is essentially the supply that drives the prices of crude oil. Many researchers agree in opinion that no other economic event in post-World War II era generated as much attention as the series of oil price shocks, mainly produced by OPEC countries. No studies were necessary to see the clear relationship between oil prices and main economic indicators. Nevertheless, this issue was new and researchers posed such a question as the numerical impact of oil shocks and their correlation with the policy conducted by government in order to predict the best instrument to cope with the negative impacts caused by oil price increases. Since then a large number of studies have reported a correlation between increases in oil prices followed by economic downturns.

Key words: indian oil, madurai, service, customer, economic, consumer.

Introduction

The fall in global oil prices may be beneficial to India, but it also has its downsides. Directly, it affects the exporters of petroleum producers in the country. India is the sixth largest exporter of petroleum products in the world, according to media reports. This helps it earn $60 billion annually. Any fall in oil prices negatively impacts exports. At a time when India is running a trade deficit - high imports and low exports, any fall in exports is bad news. Moreover, a lot of India's trade partners and buyers of its exports are net oil exporters. A fall in oil price may impact their economy, and hamper demand for Indian products. This would indirectly affect India and its companies. For example, the share prices of Bharti Airtel and Bajaj Auto fell because of the devaluation of the Nigerian currency - Naira. Both the companies have a significant presence in the African country.

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Objectives

- To ensure maintenance of continuous and smooth supplies of petroleum products by way of crude oil refining, transportation and marketing activities
- To provide appropriate assistance to consumers to conserve and use petroieum products efficiently
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Scope of the study

This study is mainly concerned with the customer performance appraisal of indian oil. The researcher makes an attempt to study the socio- economic background of the customers in Madurai, the problems faced by indian oil in Madurai, identification of innovation indian oil in Madurai and ensure maintenance of continuous and smooth supplies of petroleum products by way of crude oil refining, transportation and marketing activities

Research problems:

Crude oil price is an important parameter for refining industries, which has a bearing on economy, because it is vital input for productivity. There is a vast gap in demand and production of crude oil in India. National oil companies are able to produce 23-24% of India‟s total requirements of crude oil. The production of crude oil from public sector enterprises in India has been decreasing due to old and the maturity of the fields. India is not self-reliance on crude oil production; therefore, it is necessary and inevitable to import the crude oil to bridge the gap between demand and supply. The increase in international crude oil prices will make import costly and raise the Indian crude basket price. Therefore, both international crude oil price rise and import dependency on crude oil are the problematic area that may damage the Indian economy. It is estimated that the import dependence of India associated with crude oil is expected to 94% by the end of 2030. Therefore, the trouble water in Indian crude oil demand and supply management is the rise

in international crude oil prices followed with the extent of the increase in crude oil requirement with respect to feasible higher GDP growth 8% to 9%. The import dependence of India associated with crude oil is from 76% in 2011-12 to 80% by the end of twelfth plan (2012-17). As crude oil prices are rising globally and imports will be expensive, it is necessary to understand the consequences of crude oil price rise on the economy. Therefore, there is a need to look at crude oil prices have an implication on consumer price Index(CPI) and GDP

Review of literature

Later Hamilton (2000) reported clear evidence of nonlinearity-oil price increases is much more important than oil price decreases. An alternative interpretation was proposed based on the estimation of a linear functional form using exogenous disruptions in petroleum supplies as an instrument. His study shows that oil shocks play a crucial role in determining macroeconomic behavior because they disrupt spending by consumers and firms.

Hamilton extended his research work (2003, 2005, and 2009) and has presented empirical evidence suggesting that oil price shocks have been one of the main causes of recessions in the United States. Others, including Barsky and Kilian (2004), argue that the effect is small and that oil shocks alone cannot explain the U.S. stagflation of the 1970s. Taking a more intermediate position, Bernanke et al. (1997) argue that an important part of the effect of oil price shocks on the U.S. economy results not from the change in oil prices per se, but from the resulting tightening of monetary policy. In the same line of research, Blanchard and Gali (2007) present evidence showing that the dynamic effect of oil shocks has decreased considerably over time, owing to a combination of improvements in monetary policy, more flexible labor markets, and a smaller share of oil in production. Their results indicate that a 10 percent increase in the price of oil would, prior to 1984, have reduced U.S. GDP by about 0.7 percent over a 2–3 year period, while after 1984 the loss would be only about 0.25 percent. In contrast to the extensive literature on the impact of oil prices on the U.S. economy, there has Outside the U.S., studies of the relationship between oil prices and the macro-economy have almost exclusively been confined to other OECD members,

with results suggesting that they tend to be affected in broadly the same way as the U.S. but less strongly. Kaushik Bhattacharya et al. (2005) analyzed the impact of increase in oil price on inflation. They studied the mechanism of increase in the prices of petroleum products on the prices of other commodities and the output in India.

In February 1999, from an all time low of 11 U.S Dollars per barrel, it increased to a peak of 35 dollars in the first week of September 2000. Due to this, all oil importing countries faced the threat of oil shock; India, being a major oil importer, was particularly affected. Historically, there have been four oil shocks in the past thirty years. In spite of this, low inflationary pressure has been assisting the developed countries in mitigating the risk associated with oil shocks. Contrary to this, developing countries are affected more because of the absence of advanced technology to conserve oil. Literature reveals that most researchers agree with the fact that inflation has a recessionary effect on oil prices.

BAIC Economic Review Autumn 2006 (The business and industry advisory committee to the OECD), it has shown that the world economy slows down based on the BAIC Member Survey and at that time it was anticipated that the OECD –wide real GDP growth to drop from 3.1 % to 2.6% in 2007 and risk for growth was associated to oil price.

History of Oil Price

Until the beginning of the 1970‟s energy and Oil market development was described by the ascending branch with accelerated growth of Hubbert‟s curve. Production growth was based on the discovery of major new low-cost oil fields primarily in the Middle East. The international market was closed to any outsiders; first split between the Seven Sisters under the 1928 Achnacarry Agreement and by the end of the 1960‟s increasingly dominated by OPEC, especially after re-nationalization of their resources in the mid-1970‟s following the end of colonialism in the 1960‟s. However, the embargo in 1973 / 1974 and the oil price increases in 1973 /1974 and 1979 / 1980 triggered investment in oil outside of OPEC, the development of new technologies, oil substitution by other energies especially in power generation, more efficient energy use, and substitution of energy by other productive resources, firstly by capital. This finally led to the decrease of

absolute volumes of world oil consumption in the early 1980‟s and to the oil price collapse in 1985 / 1986, to more competitive structures and finally to a liquid oil market.

The development of the oil market, its contractual structure and pricing mechanisms can be divided in four major time-periods from a historical perspective. Different forms of oligopolistic pricing dominated during the first three periods: prior to the 1970‟s, at the first two stages it was the oligopoly of international oil companies (with the strong back-up of their home states), at the third stage-it was the oligopoly of 13 major producer states (OPEC). It was after the oil price collapse in 1986 that pricing set by an oligopoly was substituted by exchange – based pricing.

Oil Sector and Energy Development in India: Energy Security is essential for sustainable economic development. The modern trend of economic development in the world is characterized by country‟s Energy Security. In recent years India‟s economic growth has been achieved due to synchronization of primary energy consumption. Oil contributes about 29.028 percent and gas contributes 9.84 percent of total energy consumption of India, which is fourth largest energy consumer in the world. Energy is a vital input into production and this means that if India is to move to the higher growth rate of 9% that is now feasible, it must ensure reliable availability of energy at competitive prices.

India is both a major primary energy producer and a consumer. India‟s crude oil proved reserve at the end of 2011 as per BP statistics (June 2012) is 0.3% of world reserves. India‟s Crude oil production is 38.9 Million tonnes that is just 1% of World Crude oil production (i.e. 3913.7 Million tonnes). But, India is consuming 4.0 % of total world oil consumption as per BP annual statistical report (June 2012). However, the per capita energy consumption of India is one of the lowest in the world. India consumed 455 kgoe per person of primary energy in 2004, which is around 26% of world average of 1750 kgoe in that year. As compared to this, per capita energy consumption in China, Brazil was 1147kgoe and 1232kgoe respectively. In the year 2009, the per capita energy consumption of India is increased to 530Kgoe only.

India is not endowed with large primary energy reserves in keeping with her vast geographical area, growing population, and increasing final energy needs. The distribution of primary commercial energy resources in the country is quite skewed. Whereas coal is abundant and is mostly concentrated in the easter region, which accounts for nearly 70% of the total coal reserves, the western region has over 70% of the hydrocarbons reserves in the country. Similarly, more than 70% of the total hydro potential in the country is located in the northern and north eastern regions. The southern region, which has only 6% of coal reserves and 10% of the total hydro potential, has most of the lignite deposits occurring in the country.

The proven oil reserves of India as on 2011-12 is around 5.7 Thousand Million barrels or 0.8 Thousand Million tonnes, i.e 0.3% share of total world reserves. This can sustain the current level of production for the next 22 years. The current level of production barely caters to 24% of the petroleum products demand and the balance oil requirements are met by importing the crude. So, products prices are very sensitive.

Petroleum pricing is fundamental for the operation of efficient energy market. Petroleum product prices perform the important role of balancing consumer energy demand with producer supply. The basic objectives of energy pricing are economic efficiency, social equity and financial viability. Efficiency principle seeks to ensure regulation of prices in such a manner that the allocation of society‟s resources to the energy sector fully reflects their values in alternative uses. Equity principle relates to welfare and income distribution considerations. Financial principle suggests that energy supply system should be able to raise sufficient revenues to remain financially viable, so that continuity and quality of service is ensured and common people and community benefitted from the energy supply system for sustainable growth and development. encouraged to form groups.

a. There should be proper regulation of unorganized sector industries, which ensure job security, healthy work environment and at least minimum wages, maternity and child care benefits.

Imports and prices of Crude Oil: Imports of Crude Oil during 2010-11, in terms of quantity was 163.594 MMT valued at Rs.4,55,909 crores, this marked an increase by 2.72% in quantity terms w.r.t. 159.259 MMT during the year 2009-10 and an increase by 21.45% (w.r.t.Rs.3,75,378 crores) in value terms over the year of 2009-10. In terms of US$, the extent of increase in value of Crude imports was 25.73%. It may be noted that the imports of crude oil has doubled during this period when seen in relation to imports in 2002-03. During this period, the average price of International crude oil (Indian Basket) has increased from US$ 26.59/bbl in 2002-03toUS$ 85.09/bbl in 2010-11 i.e. an increase of about 220%. The trend in growth of crude oil imports and crude oil International (Indian Basket) prices

Imports and Exports of Petroleum Products:

It may be seen that despite considerable variations in International prices of crude oil, imports have followed a steady growth primarily to meet domestic demand of a burgeoning economy, apart from re-exports of petroleum products. With substantial increase in refining capacity in India, as seen earlier, exports of petroleum products have picked since 2002-03 although declined shortly in 200809 due to slowdown in global economy. Exports of petroleum products during 2010-11, in terms of quantity was 59.133MMT valued at Rs.1,96,112 crore, which marked an increase of 16.01% in quantity terms (w.r.t. 50.974 MMT during the year 2009-10),

Crude Oil Demand Projection for India. A summary of the projections by various agencies is given in table 5.7.3. The projection by IEA and EIA are based on unrealistically low growth rates of GDP for India. It may be seen the demand for the year 2025 varies from 235 Mt for the best case scenario(BCS) of India Vision- 2020 to 368 Mt of India Hydrocarbon Vision-(IHV) 2025. The IRADe-PWC projections exclude Naphtha and their

projection of 347Mt under high growth case (HOG) is comparable to 368 Mt of India Hydrocarbon Vision.

ROLE OF CRUDE OIL PRICES ON INDIAN ECONOMY:

Crude oil price is an important parameter for oil importing country like India; it has a bearing on economy, because crude oil is the raw material for refinery. The domestic production accounts for only 24 to 26% of total country‟s crude oil demand; rest is to be met by importing the crude. India‟s huge dependence on imported crude oil makes it vulnerable due to the shocks & disruptions in the Global Oil Market. Any sharp spike in oil prices in the global market results in an unfavorable economic situation. The reasons for the same are outlined below.

RISE IN COST OF IMPORTS:

The first victim of rise in crude oil prices is the state exchequer. Every increase of $1 per barrel in Indian crude basket prices pushes up the annual oil import bill by $1.2 billion. The oil import bill of $140 billion is faced by India in 2011-12.(Source: World Oil, August 2012/ vol.233 No.8, p-25). It also leads to a faster depletion of India‟s Foreign Exchange (FOREX) Reserves.

5.8.3. Increase in Oil Under Recoveries: As the pricing of Diesel, LPG & Kerosene is still under government control; any rise in international oil prices is not reflected in the domestic market. The inability of OMCs to sell fuel at the market defined rate results in higher under recoveries. OMC have reported under recoveries totaling Rs. 1,385,410.00 million for the Financial Year 2012. (ONGC, Annual Report 2011-12, P-96).

MOUNTING FUEL SUBSIDY BURDEN:

Any hike in price of imported crude oil is absorbed by the OMCs along with the Upstream Oil Companies & the federal government. The fuel subsidy bill has witnessed a continuous rise for the past few years. Government‟s fuel subsidy bill amounts to US $ 9 billion during 201011 (International Institute of Sustainable development, iisd, Fuel Subsidies in India, 14th Aug 2012).

WORSENING FISCAL DEFICIT:

India‟s Fiscal Deficit for 2009-10 stood at 6.6 % of Gross Domestic Product (GDP). Rise in crude oil prices worsens the situation as Government has to shell out more money in the form of fuel subsidy to OMCs. High subsidies are putting pressure on fiscal deficit which has touched 5.9 % of GDP in 2011-12 and Govt. has targeted to bring it down to 5.1% in 2012-13.

REDUCED AMOUNT FOR INFRASTRUCTURE INVESTMENT:

India aims to invest $1 Trillion in infrastructure development during the 12thFive Year Plan (2012-17). High prices of crude oil (leading to higher fuel subsidy & increase in fiscal deficit) have the potential to derail the government‟s plans as they eat into the amount of disbursal available with the government for infrastructure &social development schemes. A continuous rise in the subsidy bill & worsening fiscal deficit has forced the federal government to deregulate the petrol prices in the domestic market while in-principle approval has been given for deregulation of diesel prices. However, the Government reserves the right to intervene whenever the situation demands.

CONCLUSION

Due Diligence is an expensive and exhausting process. The buyer will want as much time necessary while seller will try to limit the length and scope. It is highlyintrusive and places demand on managers‟ time and attention. It rarely works to seller‟s advantage as long as detailed due diligence is likely to uncover items that buyer will use an excuse to lower price. Consequently, sellers may seek to terminate it before buyer feels is appropriate. Thus, it is in the interests of buyer to conduct a thorough due diligence in shortest possible time so as not to alienate the seller and disrupt business.Sometimes buyer and seller may agree to abbreviate due diligence period. The theory is buyer can be protected in a well-written agreement of purchase and sale in agreement; seller is required to make certain representations and warrant that they are true. Such “representations and warranties” could include seller‟s acknowledgement that they own all assets listed in agreement free of any liens or attachments. If representation is breached the agreement will include a mechanism for compensating buyer for any material loss. What constitutes material loss is defined in contract, relying on “representations and warranties‟ is rarely a good idea. A data room is another method used by sellers to limit the due diligence. This

amounts to the seller sequestering the acquirer‟s team in a room to complete due diligence.

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