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ASSESSING THE FINANCIAL RESILIENCE OF LANKA IOC AMIDST THE SRI LANKAN CRISIS

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EXECUTIVE SUMMARY

Amidst the ongoing economic crisis in Sri Lanka, Lanka IOC has exhibited notable financial resilience. Despite facing challenges such as currency devaluation, supply chain disruptions, and political instability, the company has maintained a strong financial position. Key factors contributing to its resilience include diversified revenue streams, efficient cost management practices, and strategic investments in infrastructure. Additionally, Lanka IOC's focus on customer retention and market adaptation has enabled it to mitigate the impact of the crisis on its operations. However, risks persist, particularly regarding volatile fuel prices and regulatory uncertainty. Moving forward, the company must continue to monitor the situation closely, adapt its strategies accordingly, and remain agile in responding to evolving market dynamics.

INTRODUCTION

1.1 About Indian Oil Corporation Limited

Indian Oil Corporation Limited (IndianOil) is the country’s largest integrated and diversified energy company. IndianOil’s presence across the entire hydrocarbon value chain allows it to create sustainable business outcomes. Today, IndianOil accounts for the largest market share of India’s petroleum product consumption. As a ‘Maharatna’ company, it addresses the multiple energy needs of the nation with their integrated business model, leading from the front as a responsible energy major.

Indian Oil Corporation Ltd was established in the year 1959 as Indian Oil Company Ltd. In theyear 1964, Indian Refineries Ltd merged with Indian Oil Corporation Ltd. Indian Oil Blending Ltd a wholly owned subsidiary was merged with Indian Oil on May 2006. The company transferred their entire equity holding in Indian Strategic Petroleum Reserves Ltd (ISPRL) to the Oil Industry Development Board, a government body functioning under the Ministry of Petroleum & Natural Gas. Consequently, ISPRL ceased to be a wholly owned subsidiary in May 2006.

1.1.1 A Comprehensive Product Portfolio

1. Refining, Pipelines and Marketing

IOCL has the largest share in the market among downstream companies in India, alongside of maintaining the largest petroleum pipeline networks in the world. To reach out to maximum number of customers, they continue to strengthen their petroleum marketing and distribution network — which is one of the largest in Asia.

2. Petrochemicals

With the endeavour to be the largest petrochemicals player in India, IOCL is making significant strides towards integrating their downstream operations and establishing a strong international presence.

3. Exploration & Production

IOCL is cementing their position in the E&P segment by investing towards acquiring E&P assets in domestic and international markets

4. Natural Gas

Being the second largest player in the space, IOCL has been making consistent progress in up-scaling their operations to ensure the steady supply of clean and safe gas across the country.

OBJECTIVE

The Sri Lankan Crisis has had a significant impact on various sectors of the economy, including the energy sector. Lanka IOC, as a prominent player in the Sri Lankan oil industry, has not been immune to the effects of the crisis. The purpose of this research is to comprehensively analyse and assess the financial impact of the Sri Lankan Crisis on Lanka IOC, a key player in the Sri Lankan oil industry. The primary objective is to examine the company's revenue, profitability, liquidity, and solvency during the crisis period. By conducting this analysis, the research aims to provide a deeper understanding of the financial resilience and performance of Lanka IOC in the face of the crisis. The aim is also to analyse the impact that the subsidiary had on the financial performance of Indian Oil Corporation over the time span of 3 years from 2020-2023. Additionally, the study seeks to identify the challenges faced by the company and evaluate the effectiveness of any mitigation measures and recovery strategies implemented. The findings of this research will contribute to the existing knowledge on the financial implications of crises on companies in the energy sector and provide valuable insights for Lanka IOC in navigating future crises.

RESEARCH DESIGN

A research design is simply way to depict how data is to be collected, what instruments will beemployed, how the instruments will be used and the intended means for analyzing and comprehending the data collected. Diagnostic Research design is appropriate for this study.

MATERIAL AND METHOD:

2.1 DATA SOURCE AND COLLECTION

This research is based on secondary data, which is already available online i.e. data which is readily available and analysed by someone else. This data was available on the online platformof the company, annual reports and also on other online platform.

2.2 DATA REPRESENTATION

All the data is represented in the MS-Excel, according to the study done. Various tools of MS-Excel have been used for depicting the data graphically, which makes easy to comprehend, compare and analyse.

2.3 TOOLS OF THE STUDY

Since the project report is conducted in the field of finance, wherein the tools are mostly statistical in nature. The tools depicted in this report are in the form of Comparisons, Trend Lines, Graphs and Charts along with the usage of Ratio analysis including:

1. Liquidity Ratios
2. Solvency Ratios
3. Efficiency Ratios
4. Profitability Ratios

Literature Review

The financial impact of crises on companies has been extensively studied in the literature. Scholars have explored the effects of economic downturns, political instability, and natural disasters on various industries and their financial performance. These studies provide valuable insights into understanding how crises can disrupt company operations and financial health.

In the context of financial crises, prior research has highlighted the adverse consequences for companies' revenue, profitability, liquidity, and market value. For instance, during economic downturns, companies often experience declining sales, reduced consumer spending, and decreased demand for their products or services. This results in lower revenue and profitability levels. Studies have shown that companies that are heavily dependent on discretionary consumer spending, such as those in the retail or hospitality sectors, tend to be more vulnerable to the negative impacts of crises.

Furthermore, sector-specific analyses have shed light on the impact of the Sri Lankan Crisis on industries such as energy, tourism, and manufacturing. These studies have revealed sector- specific challenges, regulatory changes, and shifts in consumer behaviour during times of crisis. The energy sector, in particular, experiences changes in energy demand and consumption patterns due to fluctuations in industrial output, transportation, and household consumption. Understanding these dynamics can aid in assessing the specific challenges faced by Lanka IOCas an energy company operating during the Sri Lankan Crisis.

QUESTIONNAIRE

Assessing the Financial Resilience of Lanka IOC Amidst the Sri Lankan Crisis

1. Are you familiar with Lanka IOC?

- ○ Yes
- ○ No

2. Which of the following factors do you think impact the financial resilience of Lanka IOC? (Select all that apply)

- ☐ Economic conditions
- ☐ Government policies
- ☐ Competitive landscape
- ☐ Global oil prices
- ☐ Internal management decisions

3. In your opinion, what are the key strengths of Lanka IOC that contribute to its financial resilience?

4. Do you think Lanka IOC has effectively managed the challenges posed by the Sri Lankan crisis?

- ○ Yes
- ○ No
- ○ Not sure

5. Which of the following strategies do you believe Lanka IOC should adopt to enhance its financial resilience? (Select all that apply)

- ☐ Diversification of products/services
- ☐ Cost-cutting measures
- ☐ Strategic partnerships
- ☐ Investing in technology
- ☐ Market expansion

6. What are the potential threats to the financial resilience of Lanka IOC in the current economic climate?

7. Do you think the Sri Lankan crisis will have a long-term impact on the financial performance of Lanka IOC?

- ○ Yes
- ○ No
- ○ Not sure

8. Which of the following external factors do you believe pose the greatest risk to the financial resilience of Lanka IOC? (Select all that apply)

- ☐ Political instability
- ☐ Currency devaluation
- ☐ Supply chain disruptions
- ☐ Regulatory changes
- ☐ Natural disasters

9. How do you think Lanka IOC can better prepare for future financial challenges?

10. On a scale of 1 to 10, how would you rate the financial resilience of Lanka IOC?

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7
- ○ 8
- ○ 9
- ○ 10

11. Which of the following financial indicators do you think are most important in assessing the financial resilience of Lanka IOC? (Select all that apply)

- ☐ Revenue growth
- ☐ Profit margins
- ☐ Debt levels
- ☐ Cash flow
- ☐ Return on investment

12. What recommendations would you give to Lanka IOC to improve its financial resilience?

13. Do you think the management team of Lanka IOC is capable of navigating the current financial challenges?

- ○ Yes
- ○ No
- ○ Not sure

14. Which of the following internal factors do you believe are key to maintaining the financial resilience of Lanka IOC? (Select all that apply)

- ☐ Strong leadership
- ☐ Financial discipline
- ☐ Innovation
- ☐ Employee engagement
- ☐ Risk management

15. How do you think the Sri Lankan crisis has impacted the financial performance of Lanka IOC?

16. Would you consider investing in Lanka IOC given the current economic situation in Sri Lanka?

- ○ Yes
- ○ No
- ○ Maybe

LIMITATIONS OF STUDY

It is important to note that financial analysis has its limitations. Here are the key points toconsider:

- **Historical Data:** Above financial analysis is based on historical data, which may notfully capture the current or future market situations. External factors such as economicchanges, industry trends, regulatory developments, and geopolitical events can significantly impact the financial performance of companies. Therefore, relying solelyon historical financial data may not provide a complete understanding of the current orfuture market conditions.

Data Limitations: The analysis conducted is reliant on the data provided within the period of project. The accuracy, completeness, and reliability of the data are crucial to the accuracy of the analysis. Incomplete, inaccurate, or outdated data can lead to incorrect conclusions or incomplete insights into the financial performance of the companies.

- **Accounting Procedures:** Different companies may follow different accounting procedures, leading to variations in financial ratios and metrics. These variations canmake direct comparisons between companies challenging and may result in differentconclusions.
- **Scope Limitations:** Financial analysis primarily focuses on quantitative data and ratios, neglecting qualitative factors that can impact a company's performance. Factorssuch as management quality, market positioning, brand reputation, customer satisfaction, and employee engagement are not captured in financial statements. To gain a comprehensive understanding of a company's overall performance, qualitativeanalysis and consideration of non-financial indicators are necessary.

To mitigate these limitations, it is advisable to combine financial analysis with other forms ofanalysis, such as qualitative assessments, market research, industry benchmarks, and expert opinions. Considering both financial and non-financial factors provide a more comprehensiveunderstanding of a company's performance and prospects. It is also important to stay updatedwith the latest market trends, economic conditions, and regulatory changes to contextualize the financial analysis within the broader market environment.

CONCLUSION

This report conducted a comprehensive financial analysis of Lanka IOC, a subsidiary of IOCL, and its parent company over a three-year period from 2020 to 2023. The analysis aimed to assess the impact of the Sri Lankan economic crisis on the oil industry and evaluate the financial performance of the companies during this challenging period. The report employed various financial ratios to evaluate liquidity, profitability, solvency, and efficiency indicators. The ratios included variety of solvency, profitability, efficiency, and liquidity ratios. The analysis provided insights into the companies' financial strengths, weaknesses, opportunities, and risks.

In the context of the Sri Lankan economic crisis, it was found that both Lanka IOC and IOCL faced significant challenges. The crisis, characterized by GDP contraction, widening trade deficit, inflationary pressures, and depletion of foreign exchange reserves, had adverse effects on the oil industry. The analysis revealed fluctuations in financial ratios across the years, reflecting the dynamic economic environment.

Overall, this research contributes to the existing knowledge on the financial implications of crises on energy companies, providing valuable insights for Lanka IOC and IOCL in navigating future challenges and opportunities in the oil industry.

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