

Mergers And Acquisitions on Financial Performance of Oil Companies In The Current Geopolitical Scenario

Shruti Pant

Research Scholar, NIILM University Kaithal, Haryana

Dr. Shamim Ahmed

Professor, NIILM University, Kaithal, Haryana

ABSTRACT

The purpose of this research is to evaluate the impact that mergers and acquisitions (M&A) have on the bottom lines of oil companies, taking into consideration the current geopolitical context. Recent years have seen a significant amount of consolidation in the oil industry. This is mostly due to the fact that businesses are attempting to become more competitive, maintain control over their operational expenditures, and address the challenges that are brought about by geopolitical unpredictability. This is due to the fact that the sector is easily affected by changes in the conditions that exist on a worldwide scale. Despite the fact that there is a lot of knowledge about the monetary impacts of mergers and acquisitions in the oil business, relatively little is known about how contemporary geopolitical factors such as trade sanctions, regional wars, shifting energy policies, and oil price volatility influence these findings. This study investigates the influence that geopolitical events have on the bottom lines of oil businesses that are involved in mergers and acquisitions in order to bridge the knowledge gap that has been created. The research will compare data from before and after the merger on financial criteria such as profitability, return on assets, market share, cost efficiency, and debt levels. The purpose of this comparison is to establish the long-term influence that these corporate strategies have had on the oil sector. Furthermore, the study will take into account the ways in which the energy environment is undergoing transformations, particularly the increasing prevalence of renewable energy sources and the ways in which this is causing the dynamics of the oil market to become more complicated. The analysis of the impacts of external shocks on significant mergers and acquisitions (M&A) in the oil industry will be the means by which this objective will be realised.

Keywords: Mergers, Financial Performance, Oil, Geopolitical

Introduction

When it comes to the modern-day business world, mergers and acquisitions are an essential component in supporting firms in achieving certain objectives and putting into action the most effective financial strategies. It is becoming more common to use mergers and acquisitions as a method of expanding into new markets as a result of the increasing prevalence of deregulation, privatisation, and globalisation activities. These policies have been applied by a number of countries all around the world, which is the reason for this phenomenon. The study that concentrates on the maximisation of shareholder wealth via mergers and acquisitions is one of the research that has been utilised the most often since it was first

published. It is conceivable for the announcement of mergers to have an immediate impact on the price of the share even months before the merger actually takes place. This is because mergers are often announced. Because news about a merger is so sensitive, this is the case. In view of the current geopolitical context, which is filled with volatility, acquisitions and mergers are two of the most crucial aspects that determine the financial performance of oil companies. This is especially true in light of the conditions that now exist. The global energy business has been significantly impacted as a consequence of political tensions, trade wars, and sanctions, particularly as a consequence of conflicts in oil-rich nations such as the Middle East, Eastern Europe, and Africa. This is particularly the case because of the fact that these conflicts have occurred. Over the course of this environment, mergers and acquisitions activity has grown into a strategic instrument for oil companies since it allows them to increase their operational efficiency, diversify their assets, and manage risks connected with fluctuating oil prices and unexpected regulatory situations.

The ability to increase their market share, decrease their production costs via economies of scale, and increase their resilience against geopolitical upheavals are all capabilities that oil firms may be able to attain through the mergers and acquisitions of other businesses. The recent geopolitical events, such as the conflict between Russia and Ukraine and the production decisions made by OPEC and its allies, have caused significant changes in the global oil supply chains. These changes have been brought about as a consequence of the war. As a consequence of this, large oil companies have been aggressively exploring mergers and acquisitions agreements in order to enhance their upstream and downstream operations and guarantee that they have access to vital resources. By way of instance, the purchase of companies that have substantial exploration and production portfolios may be able to aid in compensating for dwindling reserves and contributing to the maintenance of long-term profitability. Acquisitions that involve integrated energy businesses are advantageous to vertical integration because they reduce dependence on external suppliers and improve control over distribution networks. In a similar vein, vertical integration is favourable whenever integrated energy firms are acquired. These synergies often result in the production of stronger revenues, greater cost management, and higher shareholder value. This is the case despite the fact that external uncertainties continue to dominate.

Mergers and acquisitions in the oil business, on the other hand, are not without their fair share of challenges. There are a number of geopolitical hazards that have the potential to either delay or entirely ruin possible collaborations. Some examples of these risks include trade sanctions, political instability, and regulatory scrutiny. It is also possible that the integration of acquired companies will be challenging due to the presence of cultural differences, operational incompatibilities, and various business objectives as well. There are a number of factors that impact the financial success of combined organisations, one of which is the volatility of oil prices. Estimates of revenue and evaluations of return on investment are both influenced by this volatility in the market. The intensification of regulatory restrictions has resulted in an increase in the emphasis placed on renewable energy and pledges to achieve net-zero carbon emissions. As a consequence, oil corporations have been compelled to reevaluate the long-term viability of their expansion strategy that is driven by mergers and acquisitions. Mergers and acquisitions, in general, allow oil organisations a technique to traverse the current geopolitical turmoil; nonetheless, the success of these deals is dependant on strategic alignment, effective risk management, and flexible financial planning. When it comes to achieving improved

financial performance in a global energy market that is growing more unpredictable, businesses who are able to negotiate and carry out mergers and acquisitions in a way that strikes a balance between short-term profitability and long-term sustainability are more likely to be successful.

OIL AND GAS SECTOR IN INDIA

India is the ninth largest importer of crude oil and the sixth largest consumer of oil worldwide. India is also the sixth greatest contributor to the global oil market. The oil and gas sector is responsible for more than fifteen percent of India's Gross Domestic Product (GDP), which is the country's overall economic output.

Based on the information provided by the Ministry of Petroleum and Natural Gas, India has a total reserve of 1,231 million metric tonnes of crude oil and 1,437 billion cubic meters of natural gas as of the first of April in the year 2010. Between the years 2009 and 2010, the total number of exploratory and development wells, as well as the meterage that was drilled in onshore and offshore areas, was 428 and 1019 thousand meters, respectively. This was the case for both onshore and offshore locations.

When compared to the amount of crude oil that was produced during the same time period, the gross production of natural gas in the country during the period of 2009-2010 was 47.51 billion cubic meters, while the output of crude oil was 33.69 million metric tonnes. According to the Ministry of Petroleum and Natural Gas, the quantity of petroleum products that were manufactured during the 2009-2010 fiscal year was 151.898 million metric tonnes. This information was obtained from the Ministry. More than sixty percent of the crude oil that India requires to satisfy its requirements is imported from other countries. This is because of the tremendous demand-supply mismatch that exists in the oil and gas industry in India. Additionally, it is expected that India's oil consumption would climb by four to five percent yearly until the year 2015, which will indicate a need of four million barrels per day by the time that year arrives.

Business Monitor International (BMI) has produced forecasts that by the year 2015, India would end up satisfying 11.2% of the supply of oil while also accounting for 12.4% of the demand for oil in the Asia Pacific region. These projections were made by BMI. The quantity of foreign currency that is amassed as a result of exports of petroleum products is large, and these exports account for 17% of the total amount of exports. This is due to the fact that improvements in refining capacity are being made more often. As of the month of June 2011, India's exports of refined products were at a rate of 0.95 million barrels per day. Additionally, during the month of July 2011, the nation exported petroleum products with a total value of 4.6 billion dollars. The fact that there were a total of 130,000 people working in the petroleum sector in 2009-2010 is a notable statistic that serves as proof of the vastness associated with this industry.

Mergers and Acquisitions strategy:

Companies in the oil and gas industry are increasingly turning to mergers and acquisitions as a method of consolidating their financial and technical resources, improving their cost structures, and raising

their competitiveness. It has been recognised by the oil and gas sector, however, that achieving synergies via mergers is notoriously difficult to do.:

Merged organisations often have unclear work processes and inadequate understanding of organisational matrix.

Fragmented technical and administrative functions limit information sharing and inadequate integration of functional expertise into operational decisions.

The purpose of this article is to study the many methods in which these and other merger-related problems might be handled throughout the process of planning and carrying out mergers between oil and gas businesses. In the same way that mergers and acquisitions have shown to be helpful for other company players in the power and energy sector, oil and gas firms have also benefited from these types of business transactions. Given that the current demands and operations are much greater than the levels that have been seen in the past, it is logical to combine both the financial resources and the human resources in order to meet the current needs and operations.

Mergers and acquisitions in the global oil and gas industry expected to increase in 2012:

The executives who are employed in the oil and gas industry all around the globe predict increased degrees of consolidation. Furthermore, 57 percent of those who participated in the survey believe that there will be either a "significant increase" or a "increase" in the number of mergers and acquisitions (M&A) transactions that take place during the course of the next year. Mergers and acquisitions (M&A) activity is expected to increase as a result of robust development in new markets and overcapacity in existing nations. This is the expectation that has been made. As an additional factor, it is projected that mergers and acquisitions would be driven by the need that businesses make the provision of technical solutions that are both creative and efficient a long-term goal. In addition, purchasers in the global oil and gas industry have disclosed that they intend to increase their capital expenditures over the course of the next year in the areas of "device and equipment development," "new product development," and "information technology infrastructure and development."

OBJECTIVES

1. To Examine oil company financial performance before and after mergers and acquisitions.
2. To Assess the influence of geopolitical considerations on oil sector mergers and acquisitions.
3. To discover cost synergies and operational savings from mergers and acquisitions.

Research Methodology

In the study methodology, you can find information about the processes that were used in the process of doing research. The research technique is what defines the procedure that the researcher goes through. A research methodology is a collection of activities that are undertaken in order to answer a research topic in a methodical manner. This document discusses each and every step that a researcher

must go through in order to carry out the study or find a solution to the problem. Evaluating Indian businesses from a variety of sectors is the purpose of the aforementioned research endeavour. Extensive research has been conducted on the impact that financial ratios have on the success of a company's finances. Regarding the five main performance measures, the term "financial performance" has been defined in light of these indicators. The foundation is comprised of indicators that measure operational effectiveness, profitability, solvency, liquidity per share, and cash flow. Conducting research is a deliberate and scientific approach to acquiring information that is pertinent to a certain topic. The next study will focus on "A Study On Financial Performance Of Selected Oil Companies In India" as its topic matter. For the purpose of this research, the universe includes all of the most prominent companies that are active in the oil and refinery business. After collecting information, the researcher decided to reduce her attention to just five large firms, despite the fact that she had initially meant to include all of the units that are involved in the oil and refinery sector in her study.

Result And Discussion

Data analysis comprises evaluating, cleansing, transforming, and modelling data in order to identify important information, generate educated conclusions, and assist with decision-making. Data analysis is used in a variety of sectors, including business, research, and the social sciences. It has many different names and methods, and it involves a broad range of instruments. Data analysis may help organisations operate more effectively and make decisions in today's business environment in a more scientific manner.

Business intelligence is a type of data analysis that focusses on aggregation and business information. Data mining, on the other hand, is a type of data analysis that focusses more on statistical modelling and knowledge discovery for predictive purposes than on descriptive purposes. Statistical data analysis is made up of two subsets: descriptive statistics and exploratory data analysis (EDA) and confirmatory data analysis (CDA). CDA attempts to confirm or reject current ideas, whereas EDA attempts to discover new features in the data. Text analytics uses statistical, linguistic, and structural approaches to extract and categorise information from textual sources, which are a kind of unstructured data. Predictive analytics, on the other hand, focusses on using statistical models for predicting or classification purposes. There are many different types of data analysis, all of which are described above.

PROFITABILITY RATIOS

Gross Profit Ratio

In the process of assessing a company, analysts take into consideration its gross profit margin, which is the amount of money that is left over after the cost of goods sold (COGS) has been subtracted from the total amount of product sales. It is common practice to present the gross profit margin as a percentage of sales, and this ratio is sometimes referred to as the gross margin.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} * 100$$

$$\text{Gross Profit} = \text{Net Sales} - \text{COGS}$$

$$\text{COGS} = \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses}^* - \text{Closing Stock}$$

*Only used if they are specifically provided

$$\text{Net Sales} = \text{Cash Sales} + \text{Credit Sales} - \text{Sales Returns}^2$$

Table 1 Gross Profit Ratio

Year	Gross Profit (\$ Million)	Net Revenue (\$ Million)	Gross Profit Ratio (%)
2016	10,000	50,000	20%
2017	12,000	55,000	21.8%
2018	15,000	60,000	25%
2019	14,500	62,000	23.4%
2020	9,500	45,000	21.1%
2021	13,000	70,000	18.6%
2022	16,500	75,000	22%
2023	18,000	80,000	22.5%
2024	20,000	85,000	23.5%

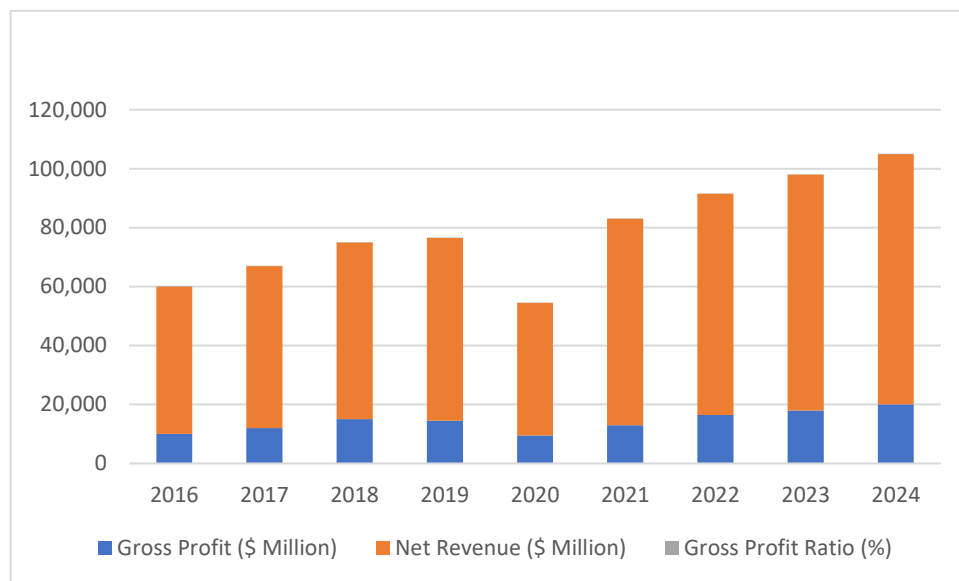
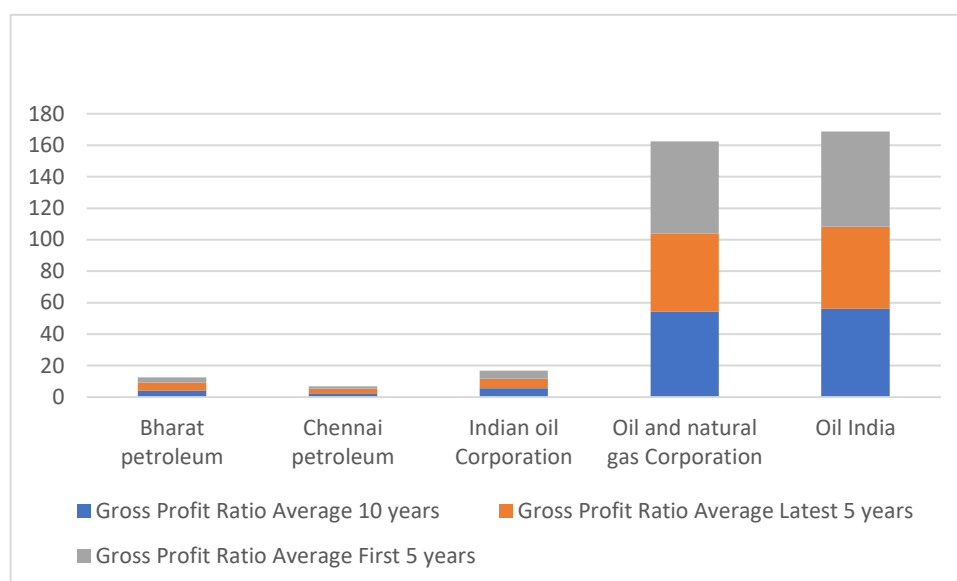


Table 2 Gross Profit Ratio 5 years average

Company	Gross Profit Ratio		Average First 5 years
	Average 10 years	Average Latest 5 years	
Bharat petroleum	4.20	5.17	3.24
Chennai petroleum	2.31	3.18	1.43
Indian oil Corporation	5.63	6.05	5.22
Oil and natural gas Corporation	54.16	49.72	58.60
Oil India	56.26	52.03	60.48



INTERPRETATION

Oil and Natural Gas Corporation (54.16) and Oil India (56.26) were the two firms that ranked highest in terms of the average gross profit ratio, according to the statistics shown in table 1 and graph 2 which were presented. Chennai Petroleum came in last position, which indicated that they were doing their business in the most inefficient way conceivable. Their average gross profit ratio was 2.31, which was the lowest possible ratio. Oil companies have, for the most part, performed admirably in the years 2016 and 2017, and they have also performed admirably with a good Gross Profit Ratio in the years 2011 and 2018. Companies such as Oil India and Oil and Natural Gas Corporation are very good at earning money, but Bharat Petroleum and Indian Oil Corporation need to put in a lot of effort to ensure that they consistently provide their best results. On the other hand, Chennai Petroleum has an excellent management plan and makes an effort to keep its expenses of sales under control in order to achieve good outcomes. When a firm has a larger gross profit, investors are prepared to pay a higher price for the company. As can be seen in both Table 2 and Graph No. 2, the Gross Profit Ratio values that have been averaged throughout the course of the last five years have been greater than those that were recorded during the first five years of the research. Based on this, it seems that the oil corporations were more successful in managing their cost of sales over the last five years of the research.

ANOVA TESTING

A descriptive analysis of the gross profit ratios of a number of different oil companies

SUMMARY

Groups	Count	Sum	Average	Variance
Bharat petroleum	10	42.04	4.20	1.77

Chennai petroleum	10	23.08	2.31	7.03
Indian oil corporation	10	56.35	5.63	3.57
Oil and natural gas corporation	10	541.63	54.16	57.30
Oil India	10	562.58	56.26	30.51

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	31487.92	4	7871.979	392.8755	2.31E-34	2.578739
Within Groups	901.6574	45	20.03683			
Total	32389.57	49				

INTERPRETATION

H1: The profitability of oil firms is greatly enhanced in the time after mergers and acquisitions.

from the chart above for degrees of freedom 4 and 45. Ftab is 2.578739. Fcal is 392.8755.

Consequently, the p-value is below the required α of 0.05 and $F_{cal} > F_{tab}$.

NET PROFIT RATIO

There are a few other names for this statistic, one of which is the Net Profit Margin ratio, which compares the net profit of a firm to its net sales. Multiplying the net profit ratio by 100 is necessary since it is a profitability statistic that is based on percentages. The ratio illustrates the proportion of net sales that are left over for the owners after all of the expenses have been paid for. When it comes to determining the ratio of operating income to net profit, the net profit ratio is a helpful tool to have accessible. The net profit ratio (NP ratio) is a measurement of the performance of a business's trade activity and an indicator of the overall efficiency of the firm's operations inside the company.

Net Profit Ratio = (Net Profit/Net Sales) *100

Table 3 Net Profit Ratio

Year	Net Profit (\$ Million)	Net Revenue (\$ Million)	Net Profit Ratio (%)
2016	2,000	50,000	4%
2017	2,500	55,000	4.5%
2018	3,000	60,000	5%
2019	2,800	62,000	4.5%
2020	1,500	45,000	3.3%
2021	3,200	70,000	4.57%
2022	3,500	75,000	4.67%
2023	4,000	80,000	5%
2024	4,500	85,000	5.29%

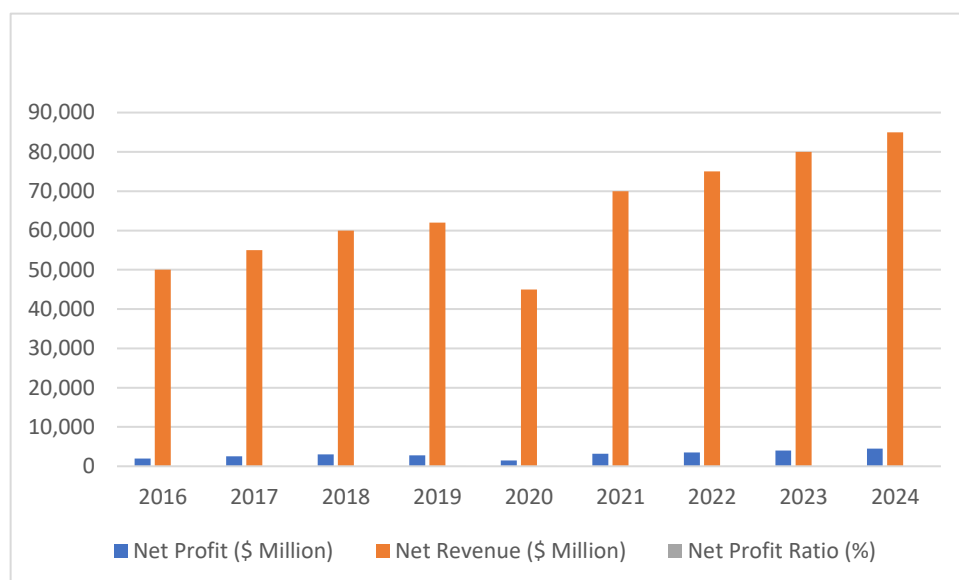
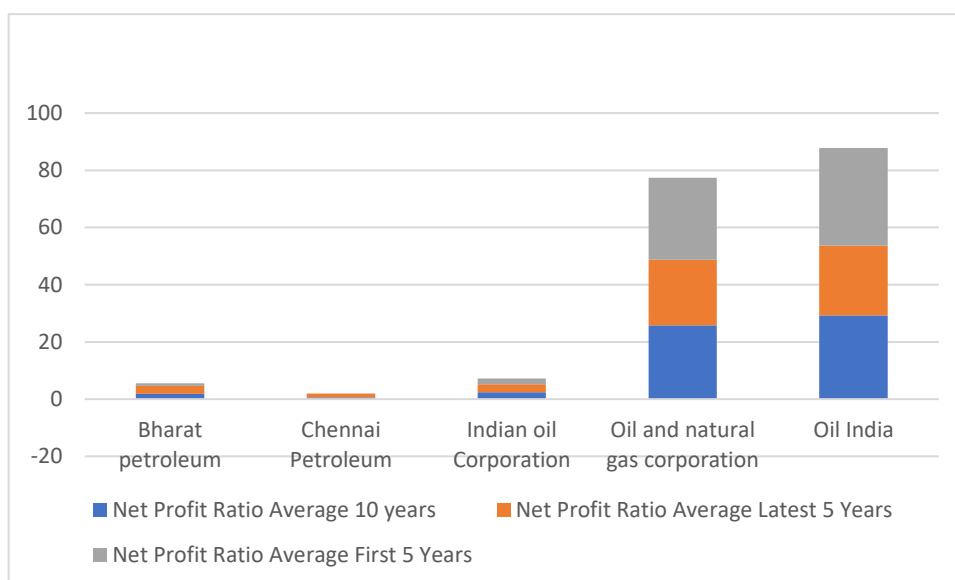


Table 4.4 Net Profit Ratio 5 years average

Net Profit Ratio

Company	Average 10 years	Average Latest 5 Years	Average First 5 Years
Bharat petroleum	1.83	2.76	0.91
Chennai Petroleum	0.56	1.37	-0.25
Indian oil Corporation	2.39	2.83	1.94
Oil and natural gas corporation	25.80	22.92	28.68
Oil India	29.25	24.39	34.12



INTERPRETATION

Based on the data shown in table 3 and graph no.4, the top two companies in terms of average net profit ratio were Oil and Natural Gas Corporation (25.80) and Oil India (29.25). As a result of their inefficient business practices, Chennai Petroleum ranked worst with an average net profit ratio of 0.56. Although the majority of oil businesses had strong performance in 2011 in terms of their Net Profit Ratio, this trend has reversed in 2016 and 2017. Oil India and Oil and Natural Gas Corporation are two profitable firms; Bharat Petroleum and Indian Oil Corporation should work hard to provide their finest performances all the time, while Chennai Petroleum, thanks to its smart management, always aims to do well. According to the data in table 4 and graph 4, the average Net Profit Ratio values for oil

companies have been on the rise in the last five years. This suggests that these companies were operating more efficiently in the earlier part of the study period.

Conclusion

The gross profit ratio is one way to quantify profitability. It compares total net sales revenue to gross profit. This ratio is helpful when evaluating how well the firm is doing in terms of operations. Oil India has the highest ratio value, with an average gross profit ratio of 56.26. Oil and Natural Gas Corporation came in second place, behind Oil India Company, with an average ratio score of 54.16. Chennai Petroleum's average gross profit ratio of 2.31, which is the lowest of all the companies, indicates that they are not managing their business in an effective manner. In addition to doing well in 2016 and 2017, the majority of oil companies also had a good year in 2011 and 2018, as measured by their Gross Profit Ratio. Investors are more likely to pay a premium for a firm that has a larger gross profit. Oil and Natural Gas Corporation and Oil India are two great examples of lucrative enterprises. On the other hand, Bharat Petroleum and Indian Oil Corporation should constantly strive to perform at their best. Chennai Petroleum, which has a solid management plan, makes an effort to keep its sales expenses under control. When comparing the first five years to the last five years, the average gross profit ratio for oil companies has increased. This indicates that oil businesses were more successful in managing their cost of sales over the latter five years of the study period.

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