



## IMPACT OF FALL IN OIL PRICES ON SHARE PRICES OF INDIAN COMPANIES

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### ABSTRACT

Crude oil prices play a very crucial role in the economy of any country. India imports 70% of its Crude oil requirements. In this paper, an attempt has been made to study the impact of crude oil price on the share prices of companies in India. Data of few oil, tyre, plastic and paint companies is taken to show the change in share prices of these companies in 2014 because for all these companies crude is a raw material

**KEY WORDS:** oil prices India, profitability, share price, oil companies, paint companies

### INTRODUCTION

The recent fall in the prices of crude oil has drawn everyone's attention towards the crucial role that oil plays in the economy of any nation. Crude oil is one of the most necessitated commodities in the world and India imports around 100 million tons of crude oil and other petroleum products. Crude oil not only serves as a source of energy but also as a major raw material to various industries such as paint companies. For airlines, a decline in jet fuel costs would reduce pressure on their operating costs. According to Rashesh Shah, an

analyst at ICICIDirect, a unit of ICICI Securities Ltd, fuel costs make up 48-50% of airlines' operating costs.

Oil producers like Oil and Natural Gas Corp. (ONGC) may see their subsidy burdens drop as they share a part of the subsidy doled out to OMCs for selling products like kerosene and cooking gas below market prices.

Lower oil prices have meant that the daily loss incurred by OMCs for selling petroleum products below cost has fallen by nearly 70% in the last one year, Deutsche Bank

estimated in a 7 October report. OMCs are making a profit of Rs.3 per litre on retail sales of diesel, it said.

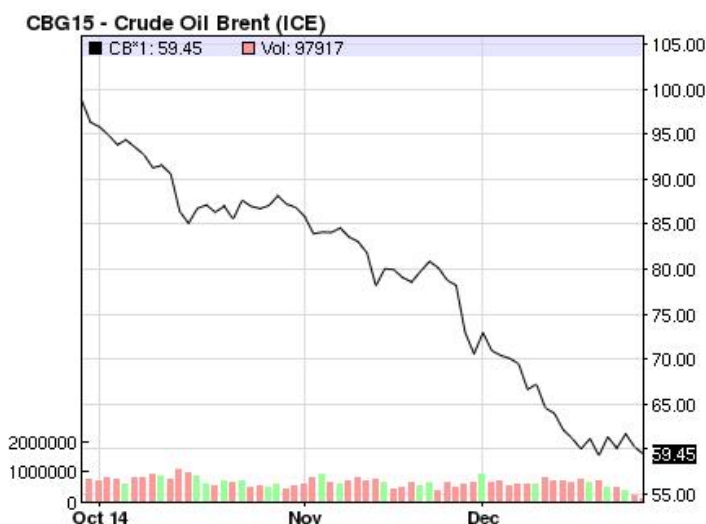
“Subdued crude prices will accordingly enable marketing margin expansion on diesel without price increases,” the report said.

Deutsche Bank estimates that every 50 paise increase in diesel margins could push up earnings per share (EPS) of HPCL by 43% in fiscal 2015. Fiscal 2015 EPS for BPCL and IOC may rise by 23% and 19%, respectively, it added. The fall in crude oil prices to the lowest in nearly five years will not only improve government finances, but also help brighten up corporate balance sheets.

On 12 December 2014 prices dropped to five year i.e US\$62.75 a barrel for January delivery on London-based ICE futures EuropeExchange and WTI for January settlement slid to US\$58.80 a barrel in electronic trading on the NY Mercantile Exchange. The United Progressive Alliance government had decided to raise diesel prices in monthly

instalments of 50 paise until retail prices were aligned with market rates, and could be deregulated. The move has narrowed diesel subsidy to an estimated Rs 19,584 crore from Rs 62,837 crore in 2013-14.

Crude oil has slid nearly 50% to below \$60 a barrel from high of \$116 per barrel in June. Analysts said lower crude prices hurt oil exploration companies like Cairn India, ONGC and Oil India. “Crude price decline coupled with OPEC decision to let markets balance itself have led to huge uncertainty over prices. We have cut our fiscal year 2015-17 earnings per share (EPS) estimates for ONGC and Oil India by 5-7%, and for Cairn India by about 14-23%,” said Harshad Borawake, analyst at Motilal Oswal. An FMCG company may seem an unlikely candidate to benefit from lower crude oil prices. But petroleum derivatives form the raw material for packaging – tubes, bottles, covers, Styrofoam, and so on, for diapers, detergents, shampoos, cosmetics and perfumes.



Source: NASDAQ

### REASON FOR FALL IN OIL PRICES

The oil price is partly determined by actual supply and demand, and partly by expectation. Demand for energy is closely related to economic activity. Four things that affecting are:-

1. Demand is low because of weak economic activity, increased efficiency, and a growing switch away from oil to other fuels.

2. Turmoil in Iraq and Libya—two big oil producers with nearly 4m barrels a day combined—has not affected their output.
3. America has become the world's largest oil producer. Though it does not export crude oil, it now imports much less, creating a lot of spare supply.
4. The Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price. They could curb production sharply, but the main benefits would go to countries they detest such as Iran and Russia. Saudi Arabia can tolerate lower oil prices quite easily. It has \$900 billion in reserves. Its own oil costs very little (around \$5-6 per barrel) to get out of the ground

#### **EFFECT ON PROFITABILITY OF FIRMS DUE TO FALL IN OIL PRICES**

JK Tyre and Industries, whose operating margins touched about 11 per cent in FY14, is well-placed to gain from these factors. Besides cheaper raw materials, recovering commercial vehicle sales and the trend of rapidly increasing radialisation in CV tyres (about 25 per cent currently) favour the company. JK Tyre is the market leader in radial tyres for trucks and buses with about 35 per cent share. Radial tyres add value to the product mix as these are priced higher and bring better margins.

Over the next one-two years, improved cash flows from strong demand, utilisation of additional radial capacity being installed and low input costs are expected to bring down the debt to equity ratio from about two times now. With many tyre stocks running up between two to five times in the last one year, JK Tyre also provides some valuation comfort.

Unlike most others, it is still at a discount to bigger players such as Apollo Tyres, trading at about nine times trailing 12-month consolidated earnings.

#### **Share prices of few companies**

Apollo tyres share price closed at RS. 218.15 per share on 26 december,2014 while its 52 week low and 52 week high is Rs.95.55 and Rs. 242.95 respectively.

Asian paints share price closed at RS. 727.05 per share on 26 december,2014 while its 52 week low and 52 week high is Rs.460.20 and Rs. 809.690 respectively. Asian paints 52 week high was on 28 november 2014.

ONGC share price closed at RS. 344.45 per share on 26 december,2014 while its 52 week low and 52 week high is Rs.264.15 and Rs. 471.85 respectively.

MRF share price closed at RS. 36442.95 per share on 26 december,2014 while its 52 week low and 52 week high is Rs.18645 and Rs. 39499 respectively. MRF 52week high was on 4 December 27, 2014

Bharat petroleum corporation(BPC) share price closed at RS. 645.70 per share on 26 december,2014 while its 52 week low and 52 week high is Rs.316.05 and Rs. 785 respectively.

Sintex industries share price closed at RS. 92.20 per share on 26 december,2014 while its 52 week low and 52 week high is Rs.30.75 and Rs. 105.25 respectively.

#### **CONCLUSION**

It can be stated that many companies gain from fall in oil prices and their balance sheets are gaining from fall in oil prices. Many companies share prices were 52week high in this period(from where crude started falling and till now). Companies such as Apollo tyres, Sintex industries, BPC share seen a high growth during this period.

Due to fall in oil prices Indian government also gained as burden of subsidy reduces. Where government planned to increase diesel prices 50 paise per month but after steep fall in prices of crude oil government reduced diesel prices.

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For this financial year, the government had budgeted for a petroleum products subsidy of Rs 63,000 crore and gross underrecoveries of Rs 1,04,000 crore, based on an average Indian basket of crude oil price of \$105-110 a barrel. The latest fall in crude oil prices will mean an easing of the burden. Currently, OMCs lose Rs 195 crore a day on subsidised sales of diesel, liquefied petroleum gas and kerosene. With a continued decline in global crude oil prices and monthly price rises, diesel losses have narrowed to eight paise a litre.

Deutsche Bank estimates that every 50 paise increase in diesel margins could push up earnings per share (EPS) of HPCL by 43% in fiscal 2015. Fiscal 2015 EPS for BPCL and IOC may rise by 23% and 19%, respectively, it added.

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