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Financial Analysis & Performance of Indian Oil Corporation Ltd

S. Ramya[1], N. Pooja priya dharshini[2], R. Pavithra Chandran[3]

[1]*Assistant Professor PSGR Krishanammal College for Women, Coimbatore*

[2,3]*Student, PSGR Krishanammal College for Women, Coimbatore*

ABSTRACT

Indian Oil Corporation Limited owns and operates a network of crude oil and petroleum product pipeline in India. The company is mainly controlled by the Government of India which owns approx. 79% shares in the company. It has two divisions: Refineries Division and Marketing division. The main objective of this analysis is to determine the firm's liquidity, solvency and financial position of the firm by using the tools like ratio analysis and common size balance sheet. Various ratios like current ratio, liquid ratio, absolute liquid ratio, turnover ratios have been used to measure the financial performance of the company. The data used in this analysis were collected from various magazines, audited reports and from websites.

For a better understanding of the analysis, the findings are interpreted in tables, charts, and diagrams. As the shareholders invest in a company by knowing its financial performance, this analysis will be greatly helpful. This analysis also helps to make correct financial decisions, planning more efficiently and economically. This analysis consists of findings and interpretations to assists the company to improve its performance.

Keywords: *Ratios, Pertinent Information, Current Ratio, Acid Test Ratio, Common Sixe Financial Statement.*

1. INTRODUCTION

Indian Oil Corporation Limited (IOCL) is an Indian state-owned oil and gas company headquartered in New Delhi. It is the largest commercial enterprise in the country, with a net profit of INR 19,106crore (USD 2,848 million) for the financial year 2016–17.It is ranked 1st in Fortune India 500 list for the year 2016 and 168th in Fortune's 'Global 500' list of world's largest companies in the year 2017. On 31st March 2017 Indian Oil's employee strength is 33,135 out of which 16,545 are in the officer cadre. As Indian Oil accounts for nearly half of India's petroleum products market share, 35% national refining capacity (together with its subsidiary Chennai Petroleum Corporation Ltd., or CPCL), and 71% downstream sector pipelines through capacity. The Indian Oil Group owns and operates 11 of India's 23 refineries with a combined refining capacity of 80.7 MMTPA (million metric tonnes per annum) of 31st March, 20Indian Oil's equity shares are listed on the Bombay Stock Exchange and National Stock Exchange of India.As of 30th June 2017, the Promoters Government of India held approx. 57.34% of the shares in Indian Oil. Public held the rest 42.66% of the shares - this includes Mutual Fund Companies, Foreign portfolio Investors, Financial Institutions/ Banks, Insurance Companies, Individual Shareholders, and Trusts.

2. OBJECTIVES OF THE STUDY

- To evaluate the financial performance of Indian Oil Corporation Limited (IOCL) by using the financial modeling tools for a period of five years from 2013 to 2017.
- To measure the solvency position and effective utilization of resources of the company by using ratio analysis.

3. RESEARCH METHODOLOGY

The Advanced Learner's Dictionary of Current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge."Research in common parlance refers to a search for knowledge. Research can be defined as a scientific and systematic search for pertinent information on a specific topic. When the researcher utilizes secondary data, then he has to look into various sources from where he can obtain them. To analyze the financial performance of the Indian Oil Corporation Ltd., for the period of last five years i.e. from (2013-2017).

4. TOOLS USED FOR THE ANALYSIS

- Ratio Analysis
- Common Sixe Balance Sheet

5. LIMITATIONS OF THE STUDY

- The secondary data was collected through audited financial reports, magazines, journals etc., and the figures are most approximate figures.
- The period of the study is limited to five years from 2013-2017 and the results may vary when the same study is conducted after some years.

6. REVIEW OF LITERATURE

Vijayakumar (2002) carried out a study entitled "Assessment of Corporate Liquidity- A Discriminate Analysis Approach" in which 5 Co-operative sugar mills and 5 private sector companies in Tamil Nadu were taken into consideration among 14 cooperative sugar mills and 14 private sector sugar mills. Only those units which were established before 1984 and has a crushing capacity of 2000 metric tonnes per day were selected for the study. The discrimination analysis was employed to determine the combined effects of the ratios. The author concluded that the Co-operative sector was classified as a poor risk in all the selected years on the basis of current and liquid ratio. The author further concluded that the same became good risk during the years 1986-87 and 1987-88 on the basis of discriminating „Z" score. The study revealed that the overall liquidity position of the industry was satisfactory.

7. ANALYSIS & INTERPRETATION

7.1 Common Size Balance Sheet

A statement in which balance sheet items are expressed as the ratio of each asset to total asset and the ratio of each liability is expressed as a ratio of total liabilities is called common size balance sheet. A common size financial statement displays all items as percentages of a common base figure. This type of financial statement allows for easy analysis between companies or between time periods of a company. The values on the common size statement are expressed as percentages of a statement component.

Common Size Balance Sheet for the Year Ending 2013-2017

PARTICULARS	2013%	2014%	2015%	2016%	2017%
EQUTIES AND LIABILITIES					
Shareholders' funds					
Equity share capital	0.11	0.96	1.10	1.07	1.83
Reserves and surplus	26.20	25.18	29.81	31.56	36.65
Total shareholders' funds	**27.29**	**26.14**	**30.91**	**32.63**	**38.47**
Non-Current Liabilities					
Long Term Borrowings	9.56	12.55	14.89	11.01	7.84
Deferred Tax Liabilities (Net)	2.46	2.23	3.06	4.18	2.61
Other Long-Term Liabilities	5.11	5.31	6.92	7.79	8.09
Long Term Provisions	0.18	0.16	0.19	1.05	1.13
Total Non-Current Liabilities	**17.29**	**20.25**	**25.05**	**24.03**	**19.66**
Current Liabilities					
Short Term Borrowings	25.41	19.38	7.72	7.74	11.60
Trade Payable	13.27	14.14	13.28	9.89	11.62
Other Current Liabilities	8.86	9.63	10.60	12.74	11.35
Short Term Provisions	7.88	1.05	12.42	12.97	7.30
Total Current Liabilities	**55.42**	**53.61**	**44.03**	**43.34**	**41.87**
Total Capital And Liabilities	**100**	**100**	**100**	**100**	**100**
ASSETS					
Tangible Asset	26.71	24.66	29.85	39.82	41.24
Intangible Asset	0.36	0.27	0.29	0.30	0.38
Capital work-In-Progress	8.03	13.12	16.18	8.97	3.94
intangible Asset Under Development	0.13	0.29	0.35	0.31	0.20
Non-Current Investments	2.25	6.46	7.56	7.49	15.47
Long Term Loans and Advances	5.24	1.83	2.10	0.37	0.46

Other Non-Current Asset	0.01	0.03	0.04	0.03	2.52
Total Non-current Asset	**42.72**	**8.30**	**56.37**	**60.57**	**64.20**
Current Assets					
Current Investments	6.09	2.89	3.31	3.09	2.78
Inventories	26.48	25.63	20.73	16.89	24.07
Trade Receivable	5.03	4.37	3.07	3.54	3.28
Cash and Cash Equivalents	0.23	1.03	0.05	0.23	0.03
Short Term Loans and Advances	16.44	16.47	14.31	13.75	0.68
Other Current Asset	3.02	2.93	2.18	1.92	4.96
Total Current Asset	**57.28**	**53.32**	**43.64**	**39.43**	**35.80**
Total Asset	**100**	**100**	**100**	**100**	**100**

Source: Secondary Data

Interpretation

- The above table shows that the percentage of current assets to total assets was57.28% in 2012-13 and has decreased to 35.80% indicating that the company has dispersed its idle assets.
- In the year 2012-13 the non-current asset 42.72 % and it was increased to 64.20% in the year 2016-17. The current investment was 6.08% in 2012-13 and it was decreased to 2.7% in 2016-17.
- The current liabilities also show a decreasing trend from 55.42% to 41.87%indicating that the company had met its current obligations.
- The long-term loan funds were 5.24% in 2012-13 and were decreased to 0.46% in 2016-17 and short-term loan funds were 16.44% in 2012-13 and were decreased to 0.68%in 2016-17 which indicates the repayment of the loan by the company.

8. RATIO ANALYSIS

“Ratio analysis is a tool of Management for measuring efficiency and guiding business policies ’’Ratios are constituted to be the best guides for the efficient executions of basic managerial functions like planning, forecasting control etc, Absolute figures are valuable, but they stand alone conveying no meaning unless compared with I

8.1 Current Ratio

YEAR	CURRENT ASSETS (in Rs. Cr.)	CURRENT LIABILITIES (in Rs. Cr.)	CURRENT RATIO
2013	128298.57	124133.67	1.03
2014	134577.77	135320.24	0.99
2015	95931.02	96801.35	0.99
2016	89349.74	98208.65	0.91
2017	92787.70	108522.78	0.86

Average = 0.96

Interpretation

The standard current ratio is 2:1. In this analysis, we have taken the average of five years. Thus the company has 0.96 on an average so, it is not acceptable. The ratio lies an indication of a company’s ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is. Thus the company does not maintain a good balance of its short-term obligations. The current ratio implies a higher margin of safety for creditors. The higher current ratio implies a higher margin of safety for the creditors.

8.2 Acid Test Ratio

YEAR	QUICK ASSETS (at rs. Cr.)	CURRENT LIABILITIES (at rs. Cr.)	QUICK RATIO
2013	68984.18	124133.67	0.56
2014	69880.4	135320.24	0.52

2015	50387.17	96801.35	0.52
2016	51067.34	98208.65	0.52
2017	30386.56	108522.78	0.28

Average = 0.48

Interpretation

Ideally, the standard acid test ratio will be 1:1. In general, a quick ratio of 1 or more is acceptable by most creditors. In this analysis, we have taken the average of five years. As per the analysis, the company has a non-acceptable standard quick ratio of about 0.48, which implies that the company's financial strength is not satisfactory.

8.3 Cash Ratio

YEAR	ABSOLUTE LIQUID ASSETS (in Rs. Cr.)	CURRENT LIABILITIES (in Rs. Cr.)	ABSOLUTE LIQUID RATIO
2013	14141.89	124133.67	0.11
2014	9891.23	135320.24	0.07
2015	7382.81	96801.35	0.08
2016	7523.99	98208.65	0.08
2017	7281.91	108522.78	0.07

Average = 0.41

Interpretation

It measures the absolute liquidity position of the business. Generally, 0.75:1 ratio is recommended to ensure liquidity. This test is a more rigorous measure of a firm's liquidity position. If the ratio is 1:1, then the firm has enough cash on hand to meet all current liabilities. This type of ratio is not widely used in practice. In this analysis, we have taken the average of five years. From the analysis, we come to know that the company may face risk while meeting its current liabilities

8.4 Fixed Assets Turnover Ratio

YEAR	SALES (in Rs. Cr.)	F.A ACC. DEP. (in Rs. Cr.)	FIXEDASSET TURNOVER RATIO
2013	391364.87	73104.86	5.31
2014	433667.06	91067.93	4.76
2015	420347.81	98046.31	4.29
2016	342907.72	107064.93	3.20
2017	353210.21	112394.34	3.14

Average = 4.14

Interpretation

The higher the fixed assets turnover ratio, the more effective the company's investment in net property, plant, and equipment and thus increase in fixed assets leads to increase in sales. . In this analysis, we have taken the average of five years. By this analysis, we came to know that the company is making a turnover by using the investments in fixed assets of around 4 times.

8.5 Total Assets

YEAR	SALES (in Rs. Cr.)	TOTAL ASSET (in Rs. Cr.)	TOTAL ASSETS TURNOVER RATIO
2013	391364.87	223995.27	1.75
2014	433667.06	252413.78	1.72
2015	420347.81	219849.47	1.91
2016	342907.72	226607.18	1.51
2017	353210.21	259213.27	1.36

Average = 1.65

Interpretation

Thus increase in total assets results in an increase in total sales. In this analysis, we have taken the average of five years. From his, we came to know that the company is making a turnover of about 1.65 times from the investment made in total assets.

9. FINDINGS

COMMON SIZE BALANCE SHEET

From the analysis of Common Size Income Statement, it is very clear that the profitability of the firm is fluctuating. Decreasing flow of current assets to the total assets shows that the company has dispersed its idle assets. Share Holders funds increased indicates in shareholders contribution.

10. RATIO ANALYSIS

- The current ratio has a standard of 2:1 and the company on its analysis shows a current ratio of 0.96, which is not appropriate. The ratio was high at 1.03 in the year 2012-2013 and low at 0.86 in the year 2016-2017. Thus the company is not having a satisfactory balance of its short-term obligations.
- The acid test ratio has a standard of 1:1, the company is not having an acceptable standard which is 0.48, which implies that the financial strength is not satisfactory. The ratio is high at 0.56 in the year 2012-2013 and remains constant during the years 2014-2017.
- The cash ratio has a standard of 1:1, the company is having only 0.41 which is not satisfactory. The ratio is high at 0.11 and constant at 0.08 in the years 2015-2016.
- The company has maintained an average of 4.14 times of net sales when compared to fixed assets. The ratio is high at 5.31 in the year 2012–2013 and low at 3.14 in the year 2016-2017.
- The company has maintained an average of 1.65 times of net sales when compared to total assets. The ratio is high at 1.91 in the year 2014-2015 and low at 1.31 times in the year 2016-2017.
- The debt to equity ratio has a standard of 2:1 and the company have 60.58 which shows that the company is financing more with equity. The ratio is high at 76.78 in the year 2013-2014 and low at 62.55 in the year 2014-2015.
- The debt ratio has a standard of 2:1 and the company on its analysis shows a debt ratio of 0.26 which is lower than 50% so it is not a leveraged company. The ratio is high at 0.35 in the year 2012-2013 and constant at 0.19 during the period 2015-2017.

11. SUGGESTIONS

- The company should take proper steps in increasing its liquidity throughout the year as it was decreasing and fluctuating.
- The activity ratios tell that the company operates efficiently and the fixed assets turnover and total assets turnover to increase its efficiency in its operations.
- The company should take care of investing in fixed assets rather investing in non-income recurring assets.
- The company can invest in marketable securities to improve its cash ratio.
- The company must keep on making a profit in the forthcoming years, which will also enhance the share value of the company.

12. CONCLUSION

This analysis of financial performance of IOCL is not merely a work of the project. But a brief knowledge and experience of how to analyze the financial performance of the company. The study undertaken has brought in to the light of the following conclusions. From the above analysis, it is very clear that the company have been doing a satisfactory job. But the company should focus on the area of meeting its current liabilities. So the company should focus on getting profits in the coming years by taking care of both internal and external factors. And with regard to resources, the company is advised to utilize its assets properly.

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