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Ratio Analysis of Indianoil Corporation Limited

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ABSTRACT

Finance is one of the most important aspects of business, ensures that a business operates without any financial hiccups. Finance refers to the study of managing money and funding the required. Established in 1959, IndianOil became one of the leading energy companies over the last few decades. IndianOil has provided energy access to millions of people and is one of the most important public sector. The objective of the study is to analyze the financial position of the company for the period of 5 years (2015-2016 to 2019-2020). Secondary data is used for the study. Various ratios like current ratio, quick ratio, absolute liquid ratio, basic earnings per share, net profit ratio, return on equity, debt ratio, proprietary ratio and debt-equity ratio have been used for analysis. The company has to reduce its expenses to achieve greater heights.

Keywords: Ratio analysis, IndianOil Corporation Limited, financial position.

INTRODUCTION

Oil and gas sector plays a major role in our economy. IndianOil Corporation Limited having 60 years of excellence is taken for the study. Finance is inevitable in the world. Financial statements are the reports prepared by the management to present their financial status. Internally as monitoring tool to manage finances. Externally used to understand overall health and evaluate financial performance.Ratio is an expression of connecting two figures to study their relationship. Financial statement analysis and interpretation are made to determine the financial performance of the selected company.

STATEMENT OF THE PROBLEM

Management of finance is vital for business. The flow of funds in an organization must be monitored to ensure proper allocation and utilization. India's oil sector is of paramount importance. The Government is planning to disinvest selected public sectors. IndianOil Corporation Limited being one of

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the key public players in oil industry is selected for the study. The present study focuses on the financial performance of IndianOil Corporation Limited for five years.

OBJECTIVES OF THE STUDY

1.To study the liquidity position of IndianOil Corporation Limited.

2. To explore the profitability position of IndianOil Corporation Limited.

3. To analyze the solvency position of IndianOil Corporation Limited.

SCOPE OF THE STUDY

The scope of the study is to find the financial position of Indian Oil Corporation limited. The study covers a period of past five years. Tools like ratio analysis, comparative statement, and SWOT analysis are applied. Ratio analysis is used for the study. The findings and suggestions would help them to reframe the policies to achieve better standing in the industry.

RESEARCH METHODOLOGY

The secondary data of IndianOil Corporation limited has been used for the study. The data is taken from annual report of the company. Data has been tabulated, classified and analyzed to achieve the objectives of the study. The study period is for the last five financial years, i.e., from 2015-2016 to 2019-2020.

TOOLS

Ratio analysis is used to analyze the liquidity, profitability and solvency of IndianOil Corporation Limited.

LIMITATIONS OF THE STUDY

1.The study is based on secondary data collected from annual reports of IndianOil Corporation Limited.

2. The study is based on past 5 years data i.e., from 2015-2016 to 2019-2020.

REVIEW OF LITERATURE

Divya Bharathi. R & Ramya. N (2020)[5] in their research paper examined the liquidity, profitability to evaluate the position of the company. The current ratio needs to be improved, steps should be taken to improve the liquidity level. The overall performance of the company is better. The financial performance of the company should be monitored and apt decisions are to be made.

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V.Sugumar&N.Prema (2019)[6] carried out this study to identify liquidity and financial position of a company. The study was conducted using ratio analysis and statistical tools. Profitability and long-term solvency was satisfactory. But, the liquidity position was weak and steps must be taken to solve its short-term solvency. The author concluded that the overall financial position of IOCL is feasible.

Dr.DonthiRavinder&MusukulaAnitha (2013)[7] discussed the nature of financial analysis, its objectives, significance, types, and tools. Financial performance of the company was depicted using comparative analysis of income statement and balance sheet. There was a fluctuating trend in sales and the overall performance was also not satisfactory. Bambino Agro Industries Limited should focus on stabilizing its sales position and improving its long-term and short-term solvency position.

Pawan Kumar et.al. (2013)[8] in their research paper has analyzed the financial statements of a company using key financial ratio. The study covered a period of 7 years (2005-2006 to 2011-2012). Profitability position of IOCL was not stable and current assets should be managed to meet current liability. Equity capital has been used efficiently.

ANALYSIS AND INTERPRETATION

The table 1 shows the liquidity ratio of IndianOil Corporation Limited.

Table 1

Liquidity ratios

Year	Current ratio (In proportion)	Quick ratio (In proportion)	Absolute liquid ratio (In proportion)
2015-2016	0.873	0.373	0.096
2016-2017	0.856	0.272	0.070
2017-2018	0.755	0.251	0.062
2018-2019	0.807	0.327	0.059
2019-2020	0.685	0.270	0.065

Source: Secondary data

Current ratio: The ideal current ratio is considered as 2:1. During the year 2015-2016, the ratio was 0.873 and decreased to 0.856 in 2016-2017.It further declined to 0.755 in 2017-2018 and showed an increase of 0.052 during 2018-2019.In the year 2019-2020, the current ratio was reduced to 0.685 which is unfavourable for paying off its debts. Overall the current ratio shows a fluctuating trend. The management should increase current assets to meet short term obligations.

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Quick ratio: The ideal quick ratio is 1:1. In 2015-2016, the ratio was 0.373 and indicated a sharp decline of 0.272 in the year 2016-2017.The ratio decreased to 0.251 in 2017-2018.It shows a decreasing trend for the past three years. The quick ratio slightly increased in the following year to 0.327. In 2019-2020, the ratio reduced to 0.270 which is comparatively lower than ideal ratio. This indicates that quick assets were not able to meet current liabilities. A low quick ratio represents that company's liquidity position is not good.

Absolute liquid ratio: The ideal absolute liquid ratio is 1:2. The absolute liquid ratio for four years (2015-2016 to 2018-2019) of IOCL was decreasing in the range of 0.096 to 0.059. The company had faced risk while meeting its current liabilities during 2016-2019. In 2019-2020, the ratio increased to 0.065 but still far from ideal norm. The ratio was constantly declining for first 4 years, it showed an increase in the last year.

The table 2 shows the profitability ratio of IndianOil Corporation Limited.

Table 2

Profitability ratios

Year	Basic Earnings per share(In Rs.)	Net profit ratio (In percentage)	Return on equity (In percentage)
2015-2016	25.37	5.222	13.361
2016-2017	41.88	7.868	19.442
2017-2018	22.52	5.368	19.486
2018-2019	18.41	3.271	15.450
2019-2020	-0.97	-0.387	-0.936

Source: Secondary data

Basic Earnings per share: During 2015-2016 Basic EPS was Rs.25.37. It increased to Rs.41.88 in 2016-2017. But it gradually decreased in the upcoming years to Rs.22.52 (2017-2018), Rs.18.41 (2018-2019) and was negative Rs.0.97 (2019-2020). Overall fluctuating trend is observed. Higher Earnings per share is necessary to attract investors. The company should increase take necessary steps to increase profits and provide more returns.

Net profit ratio: In 2015-2016 net profit ratio was 5.22% and showed an increase in 2016-2017 to 7.86%. During 2016-2017 declined to 5.36%. Further in 2018-2019 decreased to 3.27%. It went negative in the year 2019-2020. Overall net profit is unstable which is not favourable for future growth. Proper planning can be done by the management to boost sales. Expenses should be controlled to improve its profit margin.

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Return on equity: During the year 2015-2016 return on equity is 13.36%. 19.44% in the year 2016-2017 and 19.48% in the year 2017-2018 due to increase in net profit and shareholder's fund. 2018-2019 decreased by 15.45% and further declined in the following year. Return on equity is fluctuating. Higher return on equity indicates proper utilization of shareholder's equity. Company must take steps increase earnings available for equity shareholders.

The table 3 shows the solvency ratios of IndianOil Corporation Limited.

Table 3
Solvency ratios

Year	Debt ratio (In proportion)	Proprietary ratio (In proportion)	Total Debt-equity ratio(In proportion)
2015-2016	0.605	0.388	1.557
2016-2017	0.620	0.373	1.661
2017-2018	0.607	0.385	1.577
2018-2019	0.659	0.335	1.963
2019-2020	0.708	0.290	2.447

Source: Secondary data

Debt ratio: During the year 2015-2016, the debt ratio was 0.605. It has increased to 0.620 in 2016-2017 and again decreased to 0.607 in 2017-2018. In the year 2018-2019, the ratio was increased to 0.659. It further increased to 0.708 with a decrease in assets in 2019-2020, owing to a higher ratio. Though the company has efficiently managed its debt ratio early, the last two years increase in ratio is alarming.

Proprietary ratio: In the year 2015-2016, the proprietary ratio was 0.388 and decreased to 0.373 in 2016-2017. In spite of increase in shareholders fund, ratio has decreased. It has increased to 0.385 in 2017-2018 and declined to 0.335 in 2018-2019. Decrease in shareholders' fund is more than the decrease in total assets which further declined the ratio to 0.29 in 2019-2020. There is a fluctuating trend in proprietary ratio.

Total Debt-equity ratio: During the year 2015-2016, debt-equity ratio was 1.557 and increased to 1.661 in 2015-2016. It backed to 1.557 in 2017-2018 and increased to 1.963 in 2018-2019. In the year 2019-2020, ratio increased to 2.447 which is alarming. The company's total debt has increased rapidly over the last two years. Decrease in reserves and surplus has reduced the shareholder's fund. Shareholders' fund must have a stable growth and debts must be controlled.

SUGGESTIONS

1. The management should increase current assets to meet short term obligations.

2. Company must take steps increase earnings available for equity shareholders. Shareholders' fund must have a stable growth.

3. Finance costs can be controlled by reducing its borrowings.

4. Expenses should be controlled to improve its profit margin.

5. The management should frame plans and ensure that they are followed.

CONCLUSION

Financial Analysis is performed by professionals to examine the financial health, strength and weakness to reach business decisions.The data collected from the financial statements are analyzed to provide meaningful insights. IndianOil Corporation Limited during the study period showed a fair financial performance. Overall working performance was affected due to pandemic. The company can further improve its performance by boosting sales and control over its expenditure. Borrowings should be reduced to decrease liabilities.

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