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A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF INDIAN OIL CORPORATION LIMITED

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ABSTRACT

Indian Oil Corporation Limited owns and operates a network of crude oil and petroleum product pipeline in India. The main objective of this analysis is to determine the firm's liquidity and profitability position by using tools like ratio analysis. Various ratios like current ratio, liquid ratio, absolute liquid ratio, Gross profit ratio, Net profit ratio, operating profit ratio, operating ratio have been used to measure the financial performance of the company. Secondary data was used for the study. For a better understanding of the analysis, the findings are interpreted in tables. This analysis consists of interpretation, findings and suggestions to assists the company to improve its performance.

KEY WORDS: *Financial Performance, Ratio Analysis, Liquidity Ratios, Profitability Ratios.*

INTRODUCTION

Financial Performance analysis is the process of Identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of Balance sheet and Profit and Loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing into its element or components parts for tracing their relation to the things as whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the components of financial statement to obtain a better understanding of the firm's position and performance. The analysis can be undertaken by management of the firm or by parties outside the firm namely, owners, creditors, investors.

STATEMENT OF THE PROBLEM

Financial performance analysis is the process of determining the operation and financial characteristics of an Indian Oil Corporation Limited from accounting and financial statements. The study is to determine the efficiency and performance of firm's management, as reflected in the financial records. The study has undertaken to analyse the financial performance of Indian Oil Corporation limited with a view to understand how management of finance plays a crucial role in the growth.

SCOPE OF THE STUDY

The scope of the study is to find the financial performance of Indian Oil Corporation Limited. The study is based on accounting information of Indian Oil Corporation for past five years. The study is mainly made to know the profit earnings, financial growth and financial performance of the company. These findings and the suggestions would help them re-orient their policies towards better financial performance so as to set the industry in the pace of its higher growth.

OBJECTIVES OF THE STUDY

- To study the liquidity position of Indian Oil Corporation Limited.
- To analyse profitability status of Indian Oil Corporation Limited.

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- To know the changes over working capital for a period of five years.
- To analyse overall financial performance of Indian oil Corporation Limited.

RESEARCH METHODOLOGY

The study is about financial performance so it deals with the secondary data. The data has been collected from annual reports of the company. The study covers the period of five years ranges from 2014-15 to 2018-19. Analytical research design is chosen for the study. The analytical research usually concerns itself with cause-effect relationships.

Tools and Techniques

For analysing the financial performance of Indian Oil Corporation Limited the following tools are used:

1. Ratio Analysis
   - Profitability ratios
   - Liquidity ratios
2. Working capital Analysis.

LIMITATIONS OF THE STUDY

- The analysis is based on annual reports of the company.
- The statement studied are historical past, that cannot be the index for future estimation.

REVIEW OF LITERATURE

Deepika and Dhivya (2019), the analysis of financial statements is to obtain better understanding of firm's position. The objective of the study was to know the profitability and solvency of the business concern. The study covered a period of 2012-16. The research methodology was based on secondary data. They found that sales were in fluctuating trend. They concluded that profitability and solvency was upto satisfactory level and their growth was fluctuating.

Elayabharathi, et.al (2019), the study included the area of working capital analysis, financial structure analysis, activity analysis and profitability analysis. The study aimed at analysing the financial performance of TNSC APEX CO-OPERATIVE BANK. The researcher used analytical type of research to analyse the firm's position. The researcher suggested the concern to increase the working capital to meet short term obligations. The study concluded the performance of concern was found to be good.

Seema Thakur (2019), financial performance means confirming the results of a firm's strategies and operations in economic terms. The researcher studied the financial performance, profitability and soundness of Dabur India Limited. Analytical research design has been chosen for the study. The study found that the financial performance was very well covered and the company was maintaining good financial performance.

DATA ANALYSIS AND INTERPRETATION

LIQUIDITY RATIO

A liquidity ratio is a financial ratio that indicated whether a company's current assets will be sufficient to meet the company's obligations when they become due.

- Current ratio
- Liquid ratio
- Absolute liquid ratio

CURRENT RATIO

This ratio measures the financial strength of the company. Generally 2:1 is treated as the ideal ratio, but it depends on industry to industry.

Current Ratio = Current Assets/Current Liability

Table No. 1
Table Showing Current Ratio

(Rs. in crores)

Year	Current Asset	Current Liabilities	Current Ratio
2014–2015	58,783.23	77,606.37	0.76
2015–2016	50,991.58	79,508.98	0.64
2016–2017	75,033.00	88,437.90	0.85
2017–2018	81,758.66	1,00,834.15	0.81
2018–2019	93,989.00	1,15,712.00	0.81

(Source: Secondary Data)

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Interpretation

The standard norm of current ratio should be 2:1. From the above table, the Indian oil corporation has current ratio of 0.81 during the year 2018-2019 and also in the year 2017-2018. The corporation has highest current ratio in the year 2016-2017 i.e. 0.85. It gradually decreases to 0.64 in the year 2015-2016 and to 0.76 in the year 2016-2017. The corporation has lowest current ratio 0.64 in the year 2015-2016.

LIQUID RATIO

This ratio is the best measure of the liquidity in the company. This ratio is more conservative than the current ratio. The quick asset is computed by adjusting current assets to eliminate those assets which are not in cash. Generally 1:1 is treated as an ideal ratio.

Liquid Ratio = Liquid Assets / Current Liability
Where, **Liquid Assets = Current Assets – Inventory – Prepaid Expenses.**

Table No. 2
Table Showing Liquid Ratio

(Rs. in Crores)

Year	Liquid Asset	Current Liabilities	Liquid Ratio
2014-2015	8,865.84	77,606.37	0.11
2015-2016	8,734.86	79,508.98	0.11
2016-2017	9,308.94	88,437.90	0.11
2017-2018	11,190.76	1,00,834.15	0.11
2018-2019	16,862.00	1,15,712.00	0.15

(Source: Secondary Data)

Interpretation

The standard liquid ratio is considered to be 1:1. The corporation has a liquid ratio of 0.11 in the year 2014-2015. The liquid ratio remains the same i.e. 0.11 for succeeding another three years 2015-2016, 2016-2017 and 2017-2018. It gradually increases to 0.15 in the year 2018-2019.

ABSOLUTE LIQUID RATIO

This ratio measures the total liquidity available to the company. This ratio only considers marketable securities and cash available to the company. This ratio only tests short-term liquidity in terms of cash, marketable securities, and current investment.

Absolute Liquid Ratio = Cash & Bank + Marketable Securities / Current Liability

Table No. 3
Table Showing Absolute Liquid Ratio

(Rs. in Crores)

Year	Absolute Liquid Asset	Current Liabilities	Absolute Liquid Ratio
2014-2015	1,221.07	77,606.37	0.016
2015-2016	1,050.36	79,508.98	0.013
2016-2017	409.75	88,437.90	0.005
2017-2018	494.28	1,00,834.15	0.005
2018-2019	1,064.00	1,15,712.00	0.009

(Source: Secondary Data)

Interpretation

The acceptable norm of absolute liquid ratio is 1:2. The Indian oil corporation has absolute liquid ratio 0.016 in the year 2014-2015, 0.013 in the year 2015-2016, 0.005 in the year 2016-2017 and 2017-2018 and 0.009 in the year 2018-2019. The absolute liquid ratio decreased to 0.013, 0.005 during 2015-2016, 2016-2017 and 2017-2018 respectively.

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PROFITABILITY RATIO

Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, and shareholder's equity. Over time, using data from a specific point in time.

- Gross Profit Ratio
- Net Profit Ratio
- Operating Profit Ratio
- Operating Ratio

GROSS PROFIT RATIO

Gross profit ratio establishes the relationship between gross profit and Revenue from operations, i.e., Net Sales of an enterprise.

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

Table No. 4
Table showing Gross Profit Ratio

(Rs. in Crores)

Year	Gross Profit	Sales	Gross Profit Ratio
2014-2015	34,389.73	4,49,508.66	7.65
2015-2016	46,991.04	3,46,044.74	13.58
2016-2017	3,70,471.13	3,55,379.00	104.25
2017-2018	67,154.66	4,21,491.82	15.93
2018-2019	74,455.89	5,28,148.93	14.10

(Source: Secondary Data)

Interpretation

The corporation has a Gross Profit Ratio 7.65 during the year 2014-2015. It increased to 13.58 in the year 2015-2016. It again increased to 104.25 during the year 2016-2017. Later it gradually decreased to 15.93 and 14.10 during the year 2017-2018 and 2018-2019 respectively.

NET PROFIT RATIO

Net profit ratio measures the relationship between Net Profit and Net Sales. It shows the percentage of Net Profit earned on Revenue from Operations.

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

Table No. 5
Table showing Net Profit Ratio

(Rs. in Crores)

Year	Net Profit	Sales	Net Profit Ratio
2014-2015	4,871.78	4,49,508.66	1.08
2015-2016	11,776.94	3,46,044.74	3.40
2016-2017	19,209.43	3,55,379.00	5.41
2017-2018	21,278.30	4,21,491.82	5.05
2018-2019	15,889.47	5,28,148.93	3.01

(Source: Secondary Data)

Interpretation

The Net Profit Ratio of Indian Oil Corporation during the year 2014-2015 is 1.08. Later it increases to 3.40 and 5.41 during 2015-2016 and 2016-2017 respectively. Later it decreases to 5.05 and 3.01 in the succeeding years 2017-2018 and 2018-2019 respectively.

OPERATING PROFIT RATIO

Operating profit ratio measures the relationship between Operating Profit and Revenue from Operations, i.e. Net Sales.

Operating Profit Ratio is computed by dividing operating profit by revenue from operations (Net Sales) and is express in Percentage.

Operating Profit Ratio = (Operating Profit / Revenue from Operations) * 100

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Table No. 6
Table showing Operating Profit Ratio

(Rs. in Crores)

Year	Operating Profit	Sales	Operating Profit Ratio
2014-2015	10,550.31	4,49,508.66	2.35
2015-2016	23,442.89	3,46,044.74	6.77
2016-2017	34,047.19	3,55,379.00	9.58
2017-2018	41,605.53	4,21,491.82	9.87
2018-2019	35,222.67	5,28,148.93	6.67

(Source: Secondary Data)

Interpretation

The Operating Profit Ratio during the year 2014-2015 is 2.35. It becomes increasing during next three years, that is, it increased to 6.77, 9.58, and 9.87 during 2015-2016, 2016-2017 and 2017-2018 respectively. During 2018-2019 it decreases to 6.67.

OPERATING RATIO

The operating ratio shows the efficiency of a company's management by comparing the total operating expenses of a company to net sales. The operating ratio shows how efficient a company's management is at keeping costs low while generating revenue or sales.

Operating Ratio = 100 – Operating Profit Ratio

Table No. 7
Table showing Operating Ratio

(Rs. in Crores)

Year	Operating Profit Ratio	Operating Ratio
2014-2015	2.35	97.65
2015-2016	6.77	93.23
2016-2017	9.58	90.42
2017-2018	9.87	90.13
2018-2019	6.67	93.33

(Source: Secondary Data)

Interpretation

The Operating Ratio during the year 2014-2015 is 97.65. Later it decreased to 93.23, 90.42% and 90.13 during 2015-2016, 2016-2017 and 2017-2018 respectively. During 2018-2019 it increased to 93.33.

TURNOVER RATIO

CAPITAL TURNOVER RATIO

Capital turnover compares the annual sales of a business to the total amount of its stockholder's equity. The intent is to measure the proportion of revenue that a company can generate with a given amount of equity.

Capital Turnover Ratio = Sales / Capital Employed

Where, **Capital Employed = Total Assets – Current Liabilities**

Table No. 8
Table showing Capital Turnover Ratio

(Rs. in Crores)

Year	Sales	Capital Employed	Capital Turnover Ratio
2014-2015	4,49,508.66	50,453.32	8.91
2015-2016	3,46,044.74	60,045.87	5.76
2016-2017	3,55,379.00	74,392.79	4.78
2017-2018	4,21,491.82	77,331.91	5.45
2018-2019	5,28,148.93	91,345.00	5.78

(Source: Secondary Data)

Interpretation

A high capital turnover ratio indicates that a business is using its capital resources efficiently. The corporation has capital turnover ratio of 8.91, 5.76, 4.78, 5.45, 5.78 during the year 2014-2015, 2015-2016, 2016-2017, 2017-2018, 2018-2019 respectively.

FINDINGS, SUGGESTIONS AND CONCLUSION

Findings

- The Indian oil corporation has highest current ratio 0.85 in the year 2016-2017 and lowest current ratio of 0.64 in the year 2015-2016.
- The corporation has highest liquid ratio 0.15 in the year 2018-2019 and lowest liquid ratio 0.11 during 2014-2015, 2015-2016, 2016-2017 and 2017-2018.
- The corporation has highest absolute liquid ratio 0.016 in the year 2014-2015. The lowest absolute liquid ratio is 0.005 during the year 2016-2017 and 2017-2018.
- The Indian Oil Corporation has highest Gross Profit Ratio in the year 2016-2017, that is, 104.25. It has the lowest Gross Profit Ratio during the year 2014-2015, that is, 7.65.
- The Indian Oil Corporation has the highest Net Profit Ratio of 5.41 during the year 2016-2017.It has the lowest Net Profit Ratio 1.08 during the year 2014-2015.
- The Indian Oil Corporation has the highest Operating Profit Ratio of 9.87 during the year 2017-2018. It has the lowest Operating Profit Ratio of 2.35 during the year 2014-2015.
- The Operating Ratio of the Indian Oil Corporation is maximum during the year 2014-2015, i.e. 97.65 and lowest Operating Ratio during the year 2017-2018 i.e. 90.13.
- The corporation has highest capital turnover ratio 8.91 in the year 2014-2015 and lowest capital turnover ratio 4.78 in the year 2016-2017.
- Net decrease in working capital is Rs. 12, 714.37 during 2015-2016.
- Net increase in working capital is Rs. 4, 289.57 during 2016-2017.
- Net increase in working capital is Rs. 3,769.37 during 2017-2018.
- Net increase in working capital is Rs. 12, 178.37 during 2018-2019.
- It is found that the overall performance of the Indian Oil Corporation is fair.

SUGGESTIONS

- The Indian Oil Corporation can take proper steps in increasing its liquidity position as it was decreasing and fluctuating throughout the year.
- The Corporation can invest in marketable securities to improve its absolute liquid ratio.
- The liquidity ratios of the Indian Oil Corporation is not upto the standard ratio. So the corporation can take necessary steps to improve its liquidity position.
- The Corporation can keep on improving its profit in forthcoming years, which will also enhance the share value of the Corporation.
- In general, the higher a company's working capital, the better. High working capital is considered a sign of a well-managed company with the potential for growth. However, some very large companies actually have negative working capital. This means their short-term debts outweigh their liquidity.

CONCLUSION

The study reveals that the financial performance is fair. It has been maintaining good financial performance and further it can improve if the company concentrates on its operating, administration and selling expenses and by reducing expenses. The company should increase sales volume as well as gross profit. The company was able to meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flows. In order to compete with global economic scenario and to sustain its place in Petroleum Industry, it need to monitor its financial performance continually and take financial decisions rationally.

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