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AN EMPRICAL STUDY ON FINANCIAL HEALTH OF ONGC

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ABSTRACT
Financial health analysis is vital for an organization to measure the financial situation through the financial statement and other reports. Financial health primarily performed by the management of companies to find out the business sustainability. Ratio analysis is the most powerful tool to ascertain the financial health of the Company. A single ratio or a separate ratio would not give a holistic picturesque of the Company, therefore a single measure was evolved – by Altman, called the Z-score model. The model can provide a significant idea about the financial health of a company. In this paper the author tries to analyze the performance of ONGC, the giant in oil and gas sector, in the light of liberalization considering the period from 2000 to 2015.
KEY WORDS: *ONGC, Financial, Performance, Z-score, Efficiency*

1. INTRODUCTION

Financial analysis can be defined as an information processing system, which can be used to provide relevant information for decision making. Basically, an analysis of the financial statements on the basis of various performance indicators depicts the financial position of a company. Thereafter, these indicators and their values when compared with established standards, portray the financial position of a company along with the prediction of its consistency and solvency in the long-run. Broadly, to analyze a company's financial position one can adopt any of the available techniques, viz. ratio analysis, comparative statement analysis, cash flow statement, fund flow statement, decision theory, etc. These techniques prove to be highly beneficial for the investors and stakeholders to diagnose the financial strength of a company. Ratio analysis is the most powerful tool to ascertain the financial health of the Company. A single ratio or a separate ratio would not give a holistic picturesque of the Company, therefore a single measure was evolved – by Altman, called the Z-score model. The model can provide a significant idea about the financial health of a company. In this paper the author tries to analyze the performance of ONGC, the giant in oil and gas sector, in the light of liberalization considering the period from 2000 to 2015.

2. COMPANY PROFILE

Oil and natural gas industry is the most dynamic sector that witnesses rapid changes all the time. Energy is the supreme need to fuel the engine of growth. In order to achieve energy independence, ONGC was born in 1956 as a commission. Subsequently, ONGC has travelled a long way in quest of oil and gas from the north east to western region; from the southern belt to western offshore, as misson, as the main vehicle to translate the great Indian dream into a reality. ONGC was christened "Navratna" in 1994 and rechristened "Maharatna" in 2010. The company has recently rolled out its Energy Strategy-2040, road map for future growth. ES-2040 has charted out a target of achieving three times revenue distributed across E and P, refining, marketing and other businesses, four times of current Profit-after-Tax (PAT), with 10% contribution from non-oil and gas businesses and 5-6 times of current capitalization. With this road map the company is going ahead in pursuit of its mission of further strengthening its position in the entire energy value chain. The company is ready to touch new horizons of growth by resolutely focusing on its Oil & Gas production capabilities. ONGC aims to explore newer avenues for a greener planet, excel in its exploratory endeavors and evolve into a complete energy solution provider.

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MISSION

A. World Class

- Dedicated to excellence by leveraging competitive advantages in R&D and technology with involved people.
- Imbibe high standards of business ethics and organizational values.
- Abiding commitment to safety, health and environment to enrich quality of community life.
- Foster a culture of trust, openness and mutual concern to make working a stimulating and challenging experience for our people.
- Strive for customer delight through quality products and services.

B. Integrated In Energy Business

- Focus on domestic and international oil and gas exploration and production business opportunities.
- Provide value linkages in other sectors of energy business.
- Create growth opportunities and maximize shareholder value.

C. Dominant Indian Leadership

Retain dominant position in Indian petroleum sector and enhance India's energy availability.

D. Carbon Neutrality

ONGC will continually strive to reduce CO emissions across its activity chain with the objective of achieving carbon neutrality.

3. OBJECTIVE OF THE STUDY

1. To evaluate the financial performance of ONGC.
2. To know the financial health of ONGC.

4. RESEARCH METHODOLOGY

The study is empirical in nature and covers a period of fifteen years from 2000 to 2015. This study is followed the secondary data sources compiled from Annual Reports, Balance Sheets, P&L accounts of the ONGC. This paper consider Z score model which was developed by Edward Altman, professor of Finance, Stern School of Business, New York University, to evaluate the financial health of a company.

5. AN OVERVIEW ON Z SCORE

The Model works with the help of Five Ratios. Those are, Net Working Capital to Total Assets, Retained Earnings to Total Assets, EBIT (Earnings before Interest & Taxes) to Total Assets, Equity to Debt, Sales to Total Assets. Financial statement can be used to analyze and evaluate the financial condition of company. Many users used financial ratios. But, financial ratio has limitation. Z-score is a method which can eliminate the limitation. Z-score was invented by Altman.

It is a linear combination of the above mentioned five ratios, weighted by a co-efficient. To calculate the Z score, the results of the five ratios are multiplied by a set of factor, the results of the multiplication are added together to arrive at the final result.

The Model is specified as:

$$Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$$

This equation reflects that financial health of a company is depending upon the Z score value. If the score is high, then it is a positive sign towards financial health and vice versa.
As per the Altman's interpretation if the Z score is less than1.8, it shows the bankruptcy zone, if it in between 1.8 to 3, it is the grey zone or safety position and if it is more than 3, it indicates good financial health of the company.

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6. DATA ANALYSIS AND INTERPRETATION

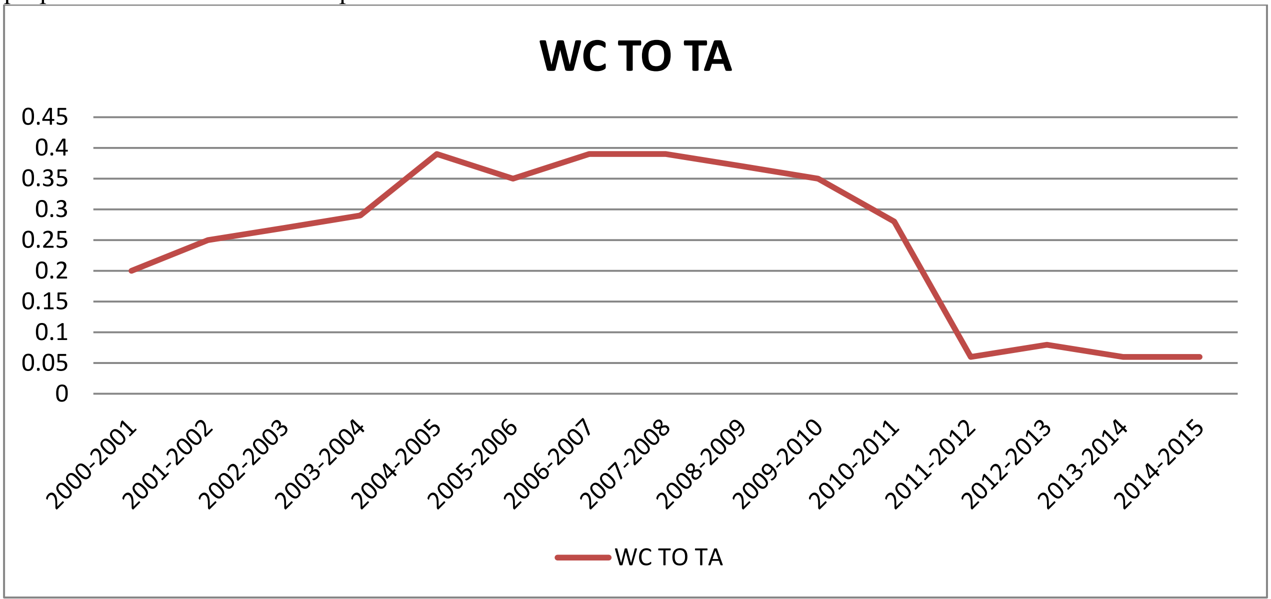
Table – 1

YEARS	WC TO TA	RE TO TA	EBIT TO TA	EQUITY TO DEBT	SALES TO TA
2000-2001	0.20	0.07	0.29	0.26	0.58
2001-2002	0.25	0.1	0.37	0.13	0.65
2002-2003	0.27	0.10	0.32	0.1	0.58
2003-2004	0.29	0.13	0.43	0.01	0.79
2004-2005	0.39	0.1	0.37	0.00	0.67
2005-2006	0.35	0.12	0.47	0.00	0.80
2006-2007	0.39	0.11	0.45	0.00	0.84
2007-2008	0.39	0.11	0.40	0.00	0.77
2008-2009	0.37	0.09	0.37	0.00	0.75
2009-2010	0.35	0.09	0.40	0.00	0.65
2010-2011	0.28	0.08	0.29	0.00	0.55
2011-2012	0.06	0.11	0.29	0.00	0.55
2012-2013	0.08	0.07	0.27	0.00	0.58
2013-2014	0.06	0.07	0.27	0.00	0.54
2014-2015	0.06	0.05	0.23	0.01	0.51

NOTE: Evaluating financial health of ONGC through five ratios

A. Analysis and interpretation of Net Working Capital to Total Assets

This ratio shows the net liquid assets of the firm proportionate to the overall capitalization. This ratio clearly reflects both the liquidity and size characteristics. The ratio is important in finding the liquidity position of the company.



Working capital to total asset was increased from 0.2 to 0.4 in 2005-06 and fluctuating up to the period 2009-10. After 2010-11 it was decreased largely and stood at 0.06 in 2014-15.

B. Analysis and interpretation of Retained Earnings to Total Assets

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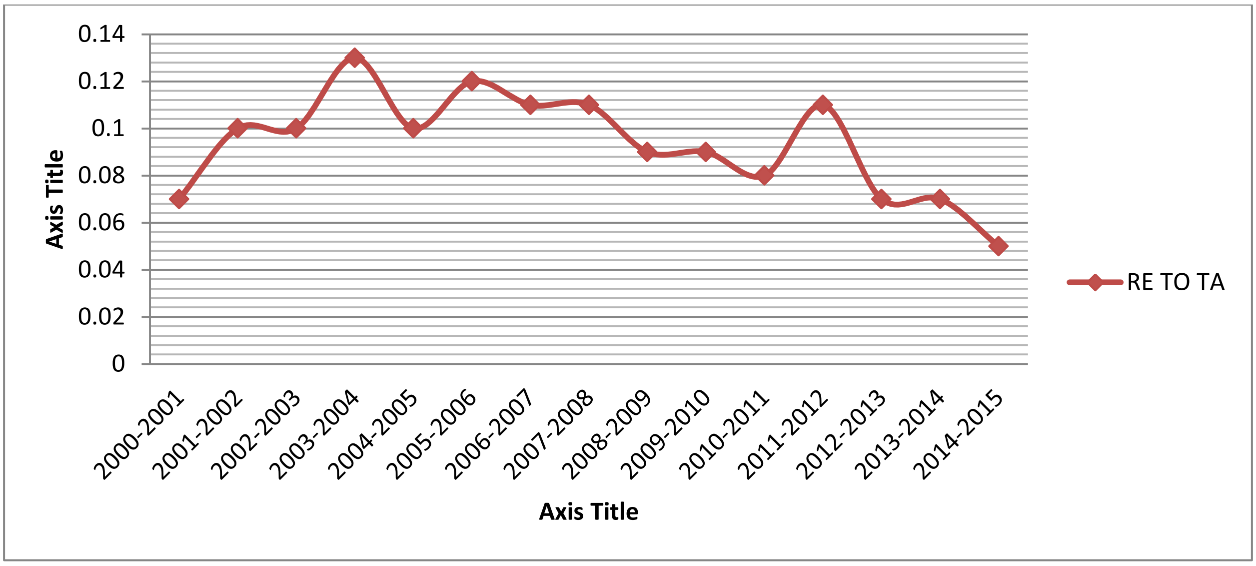
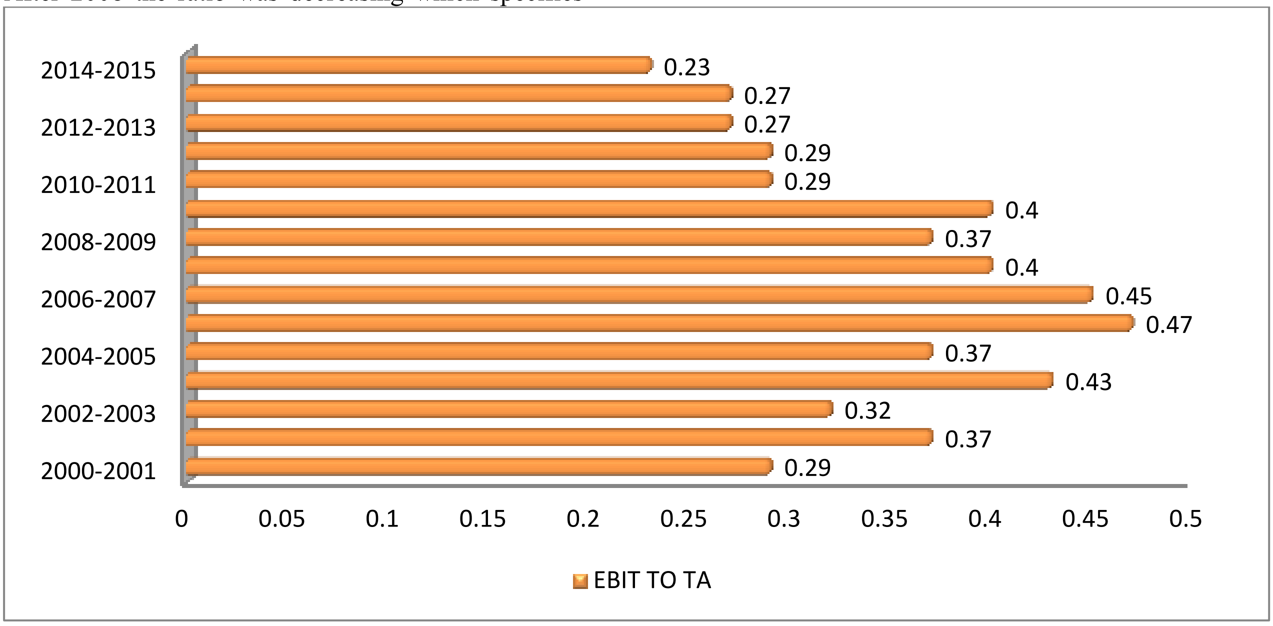


This ratio helps in measuring cumulative profitability over time and reflects the part of fixed assets being financed by the retained earnings. Retained earnings are known as cheaper source of finance than the debt. From the period 2003 to 2008 the ratio was high. After 2008 the ratio was decreasing which specifies that the growth is not a real growth, as the company is being financed through increasing debt, rather than of re-investing profits.

C. Analysis and interpretation of EBIT (Earnings before Interest & Taxes) to Total Assets



EBIT to Total Assets ratio is a common variant of the return on assets which shows the operating performance and productivity of the assets. As per the graph the performance and productivity of ONGC is good. This is clear that the company is efficient in utilizing the assets in an effective manner and it increases its productivity.

D. Analysis and interpretation of Equity to debt Ratio

Equity to Debt has had a drastic fall from 0.26 in 2000-2001 to 0.1 in 2003-04 and from 2005 onwards till 2014-15; the ratio is almost close to zero. Equity to debt is a common indicator of bankruptcy. It is a measure which indicates how much the company's assets can decline in value before the liabilities exceed the assets and the company becomes insolvent.

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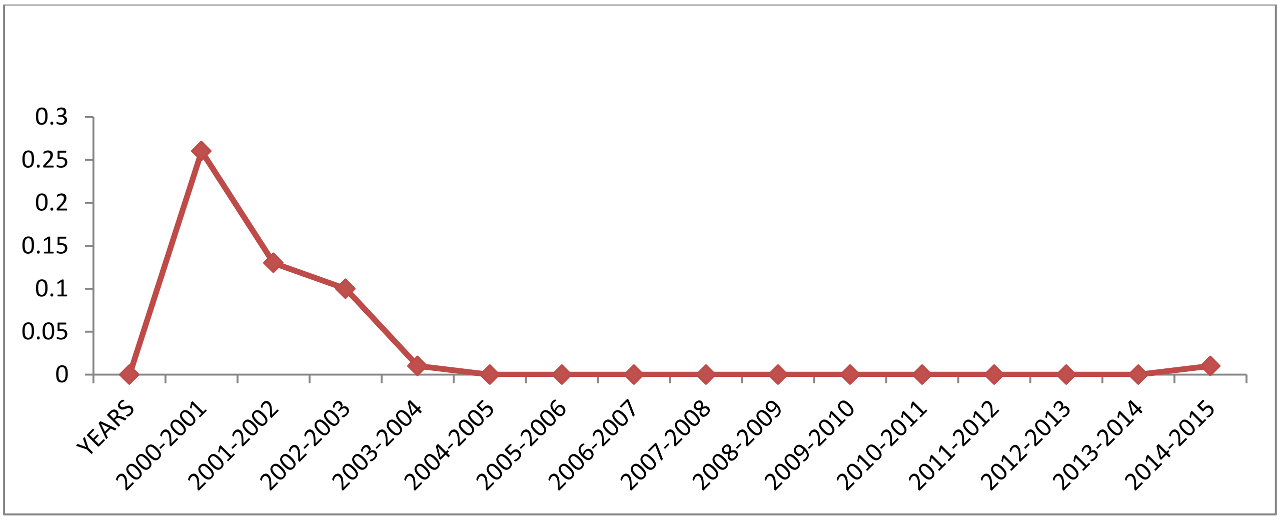
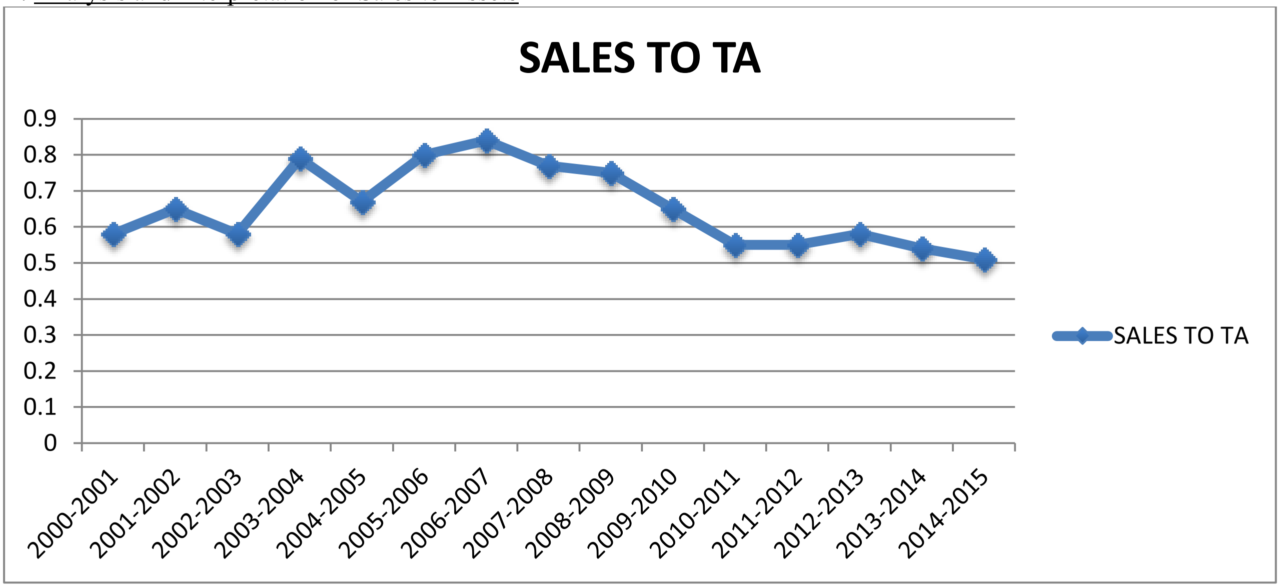


E. Analysis and interpretation of Sales to Assets



The sales are very significant in determining the total performance of the company. Sales revenue is the most important item in measuring the entire activities. This ratio is a measure of the ability of the firm's assets to generate sales. From 2000 to 2005 the ratio was on average scale and after 2005, the ratio was increased showing efficiency of the company in using assets to generate sales. However, after 2009 the ratio was decreased and showing that the company is not utilizing the assets efficiently to generate sales.

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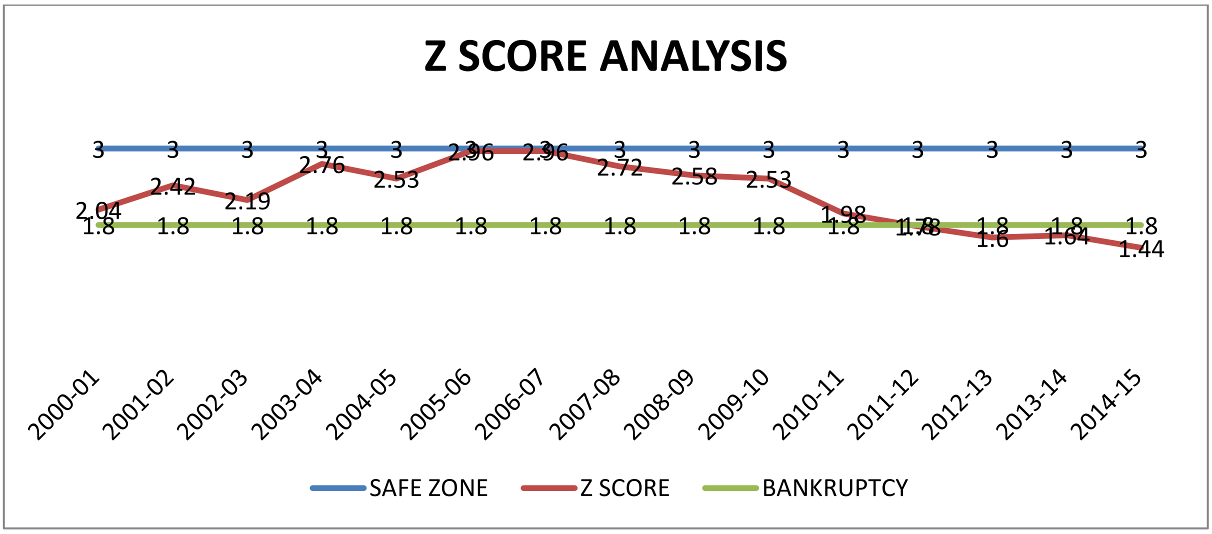
7. Z SCORE ANALYSIS

Table- 2

Years	1.2 X1	1.4 X2	3.3 X3	0.6 X4	1.0 X5	Z score
2000-01	0.24	0.1	0.96	0.16	0.58	2.04
2001-02	0.3	0.15	1.24	0.08	0.65	2.42
2002-03	0.32	0.15	1.08	0.06	0.58	2.19
2003-04	0.35	0.19	1.43	0.01	0.79	2.76
2004-05	0.48	0.14	1.23	0.01	0.67	2.53
2005-06	0.43	0.17	1.56	0	0.8	2.96
2006-07	0.47	0.16	1.49	0	0.84	2.96
2007-08	0.47	0.16	1.33	0	0.77	2.72
2008-09	0.45	0.13	1.24	0	0.75	2.58
2009-10	0.43	0.13	1.33	0	0.65	2.53
2010-11	0.34	0.12	0.97	0	0.55	1.98
2011-12	0.07	0.16	0.98	0	0.55	1.78
2012-13	0.1	0.11	0.8	0	0.58	1.6
2013-14	0.08	0.11	0.91	0	0.54	1.64
2014-15	0.08	0.07	0.77	0.01	0.51	1.44



As per the graph up to 2012 ONGC was on the safe zone but after 2012 it was disturbing for the Oil Corporation giant as it was in bankruptcy zone. It is clear that the financial position was good up to 2011-12 and after that the Z score was going down less than 1.8 which is a bankruptcy zone.

8. FINDINGS

The ratio of working capital indicated that the investment situation of the company was weak, and funds were blocked. It is clear from the analysis that ONGC is more dependent on debt finances rather than on retained earnings. ONGC should finance its assets more from retained profits than debt. A high ratio of EBIT indicates that the productivity capacity of assets is good. However the unstable movement of financial performance put it in to bankruptcy zone as per the Z score value. But as a giant organization in energy sector, ONGC has that capability to perform well. As the asset utilization and productive capacity is good and also by shifting its financing pattern to

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retained earnings it can make itself financially vibrant.

9. CONCLUSION

The Altman's model of Z score of ONGC is fluctuating from 2.04 to 1.44 throughout the period of study. Z-Score model is one of the best tools to analyze and evaluate one organization's financial health over a period of time. As the Z score of an organization is getting higher, it entails vibrant financial position and productivity and to put an organization in safe zone and the lower the Z-Score, the more likely one organization could go in to the bankruptcy zone. It is a common occurrence for an organization to go through many ups and down and having fluctuating performances, and this is not an exception in the case of the ONGC. But as the productivity and earning capability of the organization is good, with no doubt it can make a healthy footprint of financial sustainability and impulse vitality.

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