Research Paper
Impact Factor: 4. 695
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

FINANCIAL STATEMENT ANALYSIS OF ONGC LIMITED

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Abstract
Financial is regarded as the life blood of a business enterprise. In the modern oriented economy, finance is one of the basic foundations of all kinds of economics activities .Finance statements are prepared primary for decision -making .They play a dominant role in setting the frame work and managerial conclusion and can be drawn from these statements is of immense use in decision- making through analysis and interpretation of financial statements .As said earlier finance is said to be life blood of any business every business under taking needs finance for its smooth working, it has to raise funds from the cheapest and risky source to utilize this in most effective manner . So every company will be interested in knowing its financial performance. The project entitled "Financial Statement analysis of ONGC Ltd " throw light on overall financial performance of the company.

Key words: Ratio analysis, Trend analysis, Gross Profit, Liquidity.

Introduction

The analysis of financial statements is to obtain a better understanding of the firm's position and performance. Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the item of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parts outside the firm. Financial statements provide small business owners with the basic tools for determining how well their operations perform at all times. Many entrepreneurs do not realize that financial statements have a value that goes beyond their use as supporting documents to loan applications and tax returns. The focus of the financial analysis is on key figures in the financial statements and the significant relationships that exist between them.

Statement of the Problem

Finance is the blood of the business hence without proper utilization of finance the enterprise is not serialized. As management serves as a nerve for the business which brings proper flow of finance for the effective management of fund circulation. The process of estimating the funds, creating the sources of funds and distributing it should be done on effective basis. So we make an analysis with ONGC Ltd to find out the effective utilization of funds with given financial policies. We decided to make an analysis on the financial aspects of ONGC in the fluctuating scenario because the petroleum industry faces tremendous price change in the market.

Objectives

- To compare the performance of a company for different periods.
- To know the liquidity position and assess the borrowing capacity of the business concern.

Review of Literature

ANITA MAKKAR and **SHVETA SINGH (2013),** financial performance of a bank indicates the strength and weakness of that particular bank by properly establishing the association between the items of the balance sheet and profit and loss account .The present study is a comparative analysis of the financial performance of Indian commercial banks. The study considered a sample of 37 banks for the period from 2006-2007 to 2010-2011. CAMEL rating methodology was used in the study to measure the performance of the considered banks .It was found that IDBI bank was the best performing bank followed by Kotak Mahindra and ICICI Bank.

MANISH ROY TIRKEY and NAEEM SABAH KHILKHAL (2014), "Financial statement analysis of ONGC Ltd" with an objective to evaluate and compare financial performance of the ONGC .Current ratio, Debt-equity ratio, Inventory turnover ratio and Fixed asset turnover ratio has been used as a tool for the study. This work paper is purely based on secondary data which covers a period of three years (2010-2013). For the purpose of evaluating the performance of the firm, its current calculated ratio was compared with the past ratios. The study concludes that true and fair financial position can be attained by comparing the value of the firm with other firm.

Profile of the Company

Oil And Natural Gas Corporation Limited (ONGC) is an Indian multinational oil and gas company headquartered in Dehradun, Uttarakhand, India. ONGC was founded on 14 August 1956. It is a Public Sector Undertaking (PSU) of

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

the Government of India, under the administrative control of the Ministry of Petroleum and Natural Gas. It is India's largest oil and gas exploration and production company. It produces around 77% of India's crude oil (equivalent to around 30% of the country's total demand) and around 62% of its natural gas.

Before the independence of India in 1947, the Assam Oil Company in the north-eastern and Attock Oil company in north-western part of the undivided India were the only oil producing companies, with minimal exploration input. The major part of Indian sedimentary basins was deemed to be unfit for development of oil and gas resources.

After independence, the Central Government of India realized the importance of oil and gas for rapid industrial development and its strategic role in defence. Consequently, while framing the Industrial Policy Statement of 1948, the development of petroleum industry in the country was considered to be of utmost necessity.

In 1955, Government of India decided to develop the oil and natural gas resources in the various regions of the country as part of the Public Sector development. With this objective, an Oil and Natural Gas Directorate was set up towards the end of 1955, as a subordinate office under the then Ministry of Natural Resources and Scientific Research.

ONGC's operations include conventional exploration and production, refining and progressive development of alternate energy sources like coal-bed methane and shale gas. The company's domestic operations are structured around 11 assets (predominantly oil and gas producing properties), 7 basins (exploratory properties), 2 plants (at Hazira and Uran) and services (for necessary inputs and support such as drilling, geo-physical, logging and well services).

Data Analysis and Interpretation

The analysis and interpretation of financial statements is done by using various tools in financial management. The tools used in this analysis are

- Ratio analysis
- Trend analysis

Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of determining and presenting the relationship of items and group of items in the statement.

Current Ratio

Current Ratio is defined as the relationship between current assets and current liabilities. The ratio is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm. It is calculated by dividing the total of current asset by total of current liabilities. According to accounting principles, a current ratio of 2:1 is supposed to be an ideal ratio.

Current Ratio = Current Assets/Current Liabilities

Table 1,Current ratio **(in crores)**

YEAR	CURRENT ASSETS(Rs)	CURRENT LIABILITIES(Rs)	CURRENT RATIO
2011-2012	30724.33	21142.23	1.45
2012-2013	30163.25	19173.49	1.57
2013-2014	29843.3	19079.77	1.56
2014-2015	30426.86	17473.85	1.74
2015-2016	36584.41	25697.95	1.42

Source: www.moneycontrolofongc.com

The table 1 shows the relationship between the current assets and current liabilities of the concern. The current ratio was high during the year 2014-2015 with 1.74 : 1 which indicates the Company is liquid and has the ability to pay its current obligations in time as and when they become due. The ratio is less during the year 2015-2016 with 1.42 : 1. The standard norm of current ratio is 2:1, but the ratio in the above table does not satisfy the standard norm.

Quick Ratio

Quick ratio, also known as Acid test or Liquid ratio is a more rigorous test of liquidity than the current ratio. Quick ratio indicates whether the firm is in a position to pay its current liabilities within a month or immediately. An ideal quick ratio is said to be 1:1.

$$\textbf{Quick Ratio} = \frac{\textbf{Quick Assets}}{\textbf{Current liabilities}}$$

Quick Assets = Current Assets – Inventory
Current Liabilities = Current Liabilities – Provisions

Table 2, Quick Ratio (in crores)

YEAR	QUICK ASSETS(Rs)	CURRENT LABILITIES(Rs)	QUICK RATIO
2011-2012	25082.28	21142.23	1.18
2012-2013	24199.72	19173.49	1.26
2013-2014	23960.76	19079.77	1.25
2014-2015	24722.47	17473.85	1.41
2015-2016	31418.97	25697.95	1.22

Source:www.moneycontrolofongc.com

The Table 2 depicts the relationship between the Quick Assets and Current liabilities. The Quick ratio of the concern is high during the year 2014-2015 with 1.41:1 and is less in the year 2011-2012 with 1.18:1. The high ratio is an indication that the company is liquid and has the ability to meet its current or liquid liabilities in time. The standard form of Quick Ratio is 1:1, but the ratios in the table are more than the standard form.

Net Working Capital Ratio

Net working capital is more a measure of cash flow than a ratio. The result of this calculation must be a positive number. Bankers look at net working capital over time to determine a company’s ability to weather financial crises. Loans are often tied to minimum working capital requirements.

$$\textbf{Net Working Capital Ratio} = \frac{\textbf{Working Capital}}{\textbf{Current liabilities}}$$

3, Net working capital ratio (in crores)

YEAR	NET WORKING CAPITAL(Rs)	CURRENT LIABILITIES(Rs)	NET WORKING CAPITAL RATIO
2011-2012	9582.1	21142.23	0.45
2012-2013	10989.76	19173.49	0.57
2013-2014	10763.53	19079.77	0.56
2014-2015	12953.01	17473.85	0.74
2015-2016	10886.46	25697.95	0.42

Source:www.moneycontrolofongc.com

The Table 3 shows the relationship between the Net Working Capital and Current Liabilities. The ratio is high during the year 2014-2015 with the value of 0.74:1 and low during the year 2015-2016 with the value of 0.42:1. The table has positive value and hence the company has sufficient working capital to meet its expenses.

Trend Analysis

A trend analysis is a method of analysis that allows traders to predict what will happen with a stock in the future. Trend analysis is based on historical data about the stock's performance given the overall trends of the market and particular indicators within the market.

Table 1, Trend analysis for sales (in crores)

YEAR	SALES	TREND PERCENTAGE
2011-2012	76515.09	100
2012-2013	83005.33	108
2013-2014	83890.27	109
2014-2015	82870.96	109
2015-2016	78368.07	109

Source:www.moneycontrolofongc.com

The Table 1 shows the trend for sales from 2011-2012 to 2015-2016. As sales is concerned it has been increasing from 2012-2013 by 8% and from 2013-2014 onwards it seams to remain constant with 109%. Thus the trend in sales is neither increasing nor decreasing in the current scenario.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Table 2, Trend analysis for inventory (in crores)

YEAR	INVENTORY	TREND PERCENTAGE
2011-2012	5165.44	100
2012-2013	5704.39	110
2013-2014	5882.54	113
2014-2015	5963.53	114
2015-2016	5642.06	108

Source:www.moneycontrolofongc.com

The Table 2 shows the trend for Inventory. As far as inventory is concerned the company has to maintain optimum value of inventory for proper functioning. The trend in inventory has been increasing till 2014-2015 but in the year 2015-2016 the value has decreased to 108% but still it has not gone down when compared to the base year 2011-2012.

Table 3,Trend analysis for net profit (in crores)

YEAR	NET PROFIT	TREND PERCENTAGE
2011-2012	25122.92	100
2012-2013	20925.70	83
2013-2014	22094.81	87.6
2014-2015	17732.95	70
2015-2016	16003.65	63

Source:www.moneycontrolofongc.com

As profit in trend is concerned from the year 2012-2013 there is decrease in profit by 17% but it has increased in the year 2013-2014 by 4.6%. Again in 2015-2016 the profit has decreased to 63%. Thus the trend in profit is fluctuating.

Findings

- The current ratio of the company ranges between 1.42:1 to 1.74:1. This indicates that the company has the ability to meet its current dues and obligations.
- Quick ratio is computed to know if the company can pay off its current dues immediately or not. The ratio ranged from 1.18:1 to 1.41:1, here the concern has maintained the standard norms.
- Trend analysis of sales showed an increasing trend which indicates that there is more demand for the product which also increases the market share of the company.
- Trend analysis of inventory revealed fluctuating trend. Therefore in future inventory may increase.
- Trend analysis of net profit of the concern resulted in fluctuating trend. The profit shows tremendous decrease in percentage when compared to earlier years.

Conclusion

The study reveals that the financial performance of the company is fair. The company is maintaining good liquidity position during the study period. The sustainability growth rate says that the company's operating efficiency, financial policy are in a satisfactory position. The company could meet its short-term obligations and entire requirements immediately without any interruption in cash flows.

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