A Study on Financial Performance Analysis of Indian Oil Corporation Limited (IOCL) for the Period 2015 – 2019

Mr. Ramasamy Venkatasubramanian
M.Phil. Research Scholar
Department of Management Studies
Nesamony Memorial Christian College, Marthandam
Affiliated to Manonmaniam Sundaranar University, Abishekapatti,
Tirunelveli, Tamilnadu, India.
drramasamyv@gmail.com

Dr. C.L. Jeba Melvin
Associate Professor
Department of Management Studies
Nesamony Memorial Christian College, Marthandam
Affiliated to Manonmaniam Sundaranar University, Abishekapatti,
Tirunelveli, Tamilnadu, India.

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 and Trend Analysis. Various ratios from Liquidity Ratios, Solvency Ratios, Turnover Ratios, Profitability Ratios, Comparative Study and Trend Analysis 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, findings are interpreted in tables. This analysis consists of interpretations and managerial implications to assist the company and improve its performance.

Keywords: Financial Performance, Ratio Analysis, Trend Analysis, IOCL

Introduction

Finance is concerned with the investment and deployment of assets and liabilities over "space and time": i.e. it is about performing valuation and asset allocation today, based on risk and uncertainty of future outcomes, incorporating the time value of money. Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of a firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability and other indicators to analyse whether the shareholders' receive optimal returns.

Statement of the problem

Financial Performance Analysis of Indian Oil Corporation Limited (IOCL) is done to analyse effective utilization of funds with given financial policies. Since crude oil prices are extremely volatile, financial aspects of Indian Oil Corporation Limited (IOCL) are analysed in a fluctuating scenario.

Objectives of the study

The main objectives of analyzing the financial statements are as follows:

1. To know the financial position of Indian Oil Corporation Limited (IOCL)
2. To know the Solvency and Profitability position of the company
3. To evaluate the financial growth of the company using comparative analysis and trend analysis
4. To offer constructive suggestions based on findings

Research design

A research design is the specification of method and procedure for acquiring the information needed. The framework of the project determines the information to be collected. Analytical Research design is appropriate for this study. This study is undertaken with secondary data.

Limitations of the study

1. This study is completely based on the secondary data which has been collected from the annual report of the company
2. This study is purely based on five financial years (2015-2019) data.
3. Only Comparison study and Trend analysis were calculated for the study along with ratio analysis.

Analysis and interpretation of data

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.

Table 1: Liquidity ratios

Year	Liquidity Ratios				
	Current Ratio (%)	Quick Ratio (%)	Cash Position Ratio (%)	Solvency Ratio (%)	Net Working Capital Ratio (%)
2019	0.81	0.33	0.016	0.11	0.27
2018	0.76	0.25	0.008	0.16	0.29
2017	0.73	0.23	0.016	0.16	0.35
2016	0.88	0.37	0.021	0.13	0.12
2015	0.97	0.49	0.319	0.06	0.04

Source: *Financial Report of IOCL*

Current Ratio

If the ratio is very high, it means the current assets are lying idle. Very low ratio means the short term solvency of the company is not good. Thus the ideal current ratio closer to the rule of thumb of 2:1 is considered to be satisfactory. The current ratio of the company during 2018-2019 was 0.81:1. This shows the company is not in good condition. This may be due to insufficiency of funds to pay off liabilities and/or over trading without considering the company.

Quick Ratio

The liquid assets are equal to the liquid liabilities. A quick ratio of 1:1 is considered good or favourable for a company. But the company during last year 2018-2019 was 0.33:1. It shows the company was better than the last two previous years.

Cash Position Ratio:

In all the above years the absolute quick ratio is very low. The standard norm for absolute quick ratio is 1:2. But the company during last year 2018-2019 was 0.016:1. The company has failed in keeping sufficient cash and bank balances and also marketable securities.

Solvency ratio

As a general rule of thumb, a solvency ratio higher than 20% (0.2:1) is considered to be financially sound. The Solvency Ratio of the company during 2018-2019 was 0.11:1. This shows the company is not in good condition.

Net Working Capital Ratio:

A good working capital ratio is considered anything between 1.2: 1. The cause of the decrease in working capital could be a result of several different factors, including decreasing sales revenues, mismanagement of inventory, or problems with accounts receivable.

Table 2: Solvency Ratios

Year	Solvency Ratios			
	Debt Equity Ratio (%)	Proprietary Ratio (%)	Debt Ratio (%)	Capital Gearing Ratio (%)
2019	1.93	0.88	0.66	2.92
2018	1.55	0.94	0.61	5.03
2017	1.63	0.90	0.62	4.07
2016	1.53	0.92	0.61	3.27
2015	2.34	0.92	0.70	1.90

Source: *Financial Report of IOCL*

Debt Equity Ratio

The ratio gives results relating to the capital structure of a firm. Debt equity ratio is 2.34 in the year 2014-2015. A good debt to equity ratio is around 1 to 1.5. In the year 2017-2018, the ratio had decreased to 1.63 and in the year 2018-2019 it was increased to 1.93 which shows that the company depends on the debts.

Proprietary Ratio

The ideal Proprietary ratio is 0.5:1. During these five years, the company has had a good Proprietary ratio. This shows the company is in good condition.

Debt Ratio

Generally, a ratio of 0.4 or lower is considered a good debt ratio. A ratio above 0.6 is generally considered to be a poor ratio, since there's a risk that the business will not generate enough cash flow to service its debt. The company's debt ratio during the year 2019 was 0.66:1. It shows the debt ratio is not satisfactory.

Capital Gearing Ratio

A gearing ratio which is lower than 25% (0.25) is typically considered low-risk by both investors and lenders. A gearing ratio between 25% and 50% is typically considered optimal or normal for well-established companies. The company had 2.92 as gearing ratio in the year 2019 which is considered as a risky investment.

Table 4: Turnover Ratios

Year	Turnover Ratios				
	Debtors Turnover Ratio (%)	Fixed Assets Turnover Ratio (%)	Current Assets Turnover Ratio (%)	Total Assets Turnover Ratio (%)	Working Capital Turnover Ratio (%)
2019	33.11	3.25	4.03	1.56	16.91
2018	38.87	2.90	3.93	1.41	12.16
2017	39.75	2.66	3.67	1.29	9.73
2016	44.03	2.68	4.59	1.46	31.67
2015	56.54	3.69	4.28	1.85	137.57

Source: *Financial Report of IOCL*

Debtors Turnover Ratio

In the year 2014-2015, the company's Debtors turnover ratio was 56.54. In the subsequent years it decreased from 44.03 to 39.75. From 2018 to 2019, Debtors turnover ratio decreased to 33.11. A high receivables turnover ratio can indicate that a company's collection of accounts receivable is efficient and that the company has a high proportion of quality customers that they pay their debts quickly.

Fixed Asset Turnover Ratio

The company had 3.25 as Fixed Assets Turnover Ratio in 2018-2019. It had increased as compared to previous three years.

Current Assets Turnover Ratio:

A high current assets turnover ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current assets. The Ratio in the year 2018-2019 was 4.03 which increased as compared to previous years. It shows that the company is making high sales through investing in current assets.

Total Asset Turnover Ratio

For the years 2015-2018, net sales and the value of total assets were increasing. In the year 2018-2019, the company had 1.56 as total assets turnover ratio, It increased in comparison with the previous three years. This indicates the company has sufficient growth.

Working Capital Turnover Ratio

A high working capital turnover ratio indicates that the company is efficient in using its short term assets and liabilities to support sales. On the other hand, a low working capital turnover ratio indicates that the company has too many liabilities which can eventually increase the number of bad debts and deplete inventory. The Net Working Capital Turnover Ratio for 2018-2019 was 16.91. The company has improved when compared to the previous years.

Table 5: Profitability Ratios

Year	Profitability Ratios	
	Gross Profit Ratio (%)	Net Profit Ratio (%)
2019	15.49	3.04
2018	18.98	5.22
2017	22.21	5.58
2016	15.75	3.60
2015	7.67	1.13

Source: *Financial Report of IOCL*

Gross Profit Ratio

A good margin will vary considerably by industry, but as a general rule of thumb, a 10% net profit margin is considered average. But the company has had a good gross profit ratio since 2016 which indicates that the business remains healthy.

Net Profit Ratio

During the year 2014-2015, the company had 1.13% as net profit. It increased to 5.58% in 2016-2017 and despite a slight dip it remained stable at 3.04% in the year 2018-2019.

Table 6: Comparison Study

Year	Comparison Study				
	Fixed Assets (Difference %)	**Total Assets (Difference %)**	**Total Liabilities (Difference %)**	**Inventories (Difference %)**	**Investments (Difference %)**
2019	12.285	13.353	22.912	9.293	(-1.960)
2018	7.870	8.082	5.948	7.369	2.560
2017	5.135	18.140	20.985	55.534	40.091
2016	7.825	(-0.936)	(-14.458)	(-15.346)	94.071
2015	-	-	-	-	-

Source: *Financial Report of IOCL*

Comparison of Fixed Assets

When compared to previous years, Fixed Assets increased in the year 2018-2019. The overall comparison of fixed assets is good.

Comparison of Total Assets

Total Assets of the company increased when compared to previous years. It facilitates an increase in the company's profit.

Comparison of Total Liabilities

Compared to previous years, total liabilities have increased. In the year 2018-2019, the difference of 22.912% shows a rapid increase in liabilities. This is not good for the company's growth.

Comparison of Inventories

Inventory has increased when compared to the past few years. By increasing inventories, the company will be able to increase its sales which will result in increasing the profit.

Comparison of Investments

The current investments of a company are increasing year by year whereas non – current investments are rising up to previous year and decreased in the current year. This is the reason for negative impact (-1.960) in the year 2018-2019.

Table 7: Trend Analysis

Year	Trend Analysis			
	Net Sales (Difference %)	**Total Assets (Difference %)**	**Total Liabilities (Difference %)**	**Investments (Difference %)**
2015	0	0	0	0
2016	(-21.737)	(-0.937)	(-14.459)	94.071
2017	(-18.175)	17.033	3.491	171.876
2018	(-3.818)	26.492	9.647	178.838
2019	21.013	43.383	34.769	173.371

Source: *Financial Report of IOCL*

Trend Analysis of Net Sales

From the above table, it is clear that for the year 2018-2019 the net sales increased therefore the trend also increased 21%. The company's net sales increased when compared to previous years, it is in good trend.

Trend Analysis of Total Assets

The total assets of a company, when compared to base year it is increased by 43% in the year 2018-2019. This shows that the reflection of balance sheet assets is satisfactory.

Trend Analysis of Total Liabilities

From the above table, it is clear that when compared to previous years, the trend % is increased for total liabilities. This shows that the company may borrow long term loans for increasing the company's growth.

Trend Analysis of Investments

The trend % when compared to the base year 2014-2015, had increased to 173 %. This shows the company has better investment policies which will be helpful for the future years.

Managerial Implications and Conclusion

The current ratio of the company is 0.81:1 which is below the thumb rule 2:1 and the Quick ratio of the company in 2018-2019 is better than the previous two years. The Debt-equity ratio of a company is higher than the satisfactory limit. But the company holds a good proprietary ratio. Sales has increased over the past few years through investment in current assets. Also the total assets are increasing when compared to previous years. The Company should make provisions to have sufficient funds for paying current liabilities and also have sufficient liquidity by planning proper flow of funds.

The company can avoid debts as much as possible and it should focus on reducing its liabilities. The company has a good Gross profit margin ratio but the Net profits are comparatively low. Hence the company can reduce its Administrative expenses and Distribution costs to increase Net profits. The company can promote cash sales by incentivising the customers as much as possible rather than providing credit facilities which are uncertain.

References

1. **Goyal, Anil. (2020),** "Financial Analysis of Indian Oil Corporation Limited", *International Journal of Research in Commerce and Management* 4(7) 46-52.
2. Hooda & K S Chhikara (2018), "Financial Performance Analysis of Indian Oil Corporation Limited", *IJRAR- International Journal of Research and Analytical Reviews* 5(4) 765-772

Webpages Accessed

1. https://economictimes.indiatimes.com/industry/energy/oil-gas/crude-import-bill-may-rise-20-in-fy19-on-soaring-global-prices/articleshow/63886532.cms
2. http://pib.nic.in/newsite/PrintRelease.aspx?relid=177357
3. https://www.ndtv.com/business/stock/indian-oil-corporation-ltd_ioc/reports
4. https://www.moneycontrol.com/financials/indianoilcorporation/ratiosVI/IOC