Original Research Paper

Volume - 12 | Issue - 06 | June - 2022 | PRINT ISSN No. 2249 - 555X | DOI : 10.36106/ijar

Commerce

YEAR OVER YEAR FINANCIAL ANALYSIS OF ONGC LTD

Mehul K	Student, Department of Commerce, Loyola College Chennai, Tamil Nadu
Dr. S. Prasanna Kumar	Assistant Professor, Department of Commerce, Loyola College Chennai, Tamil Nadu

ABSTRACT This study has been conducted based on data obtained from the official BSE website and other websites, By using Ratio Analysis tool we are able to analyze the financial performance of ONGC ltd, through these tools we are able to find the strengths and weaknesses of ONGC ltd and their financial position in the market. Different Ratios are used and particularly those which are related to the financial statement of ONGC ltd and for this study balance sheet of 2017-2021 was used and the ratios are prepared in such a way so that we can easily compare the performance.

KEYWORDS : Ratio Analysis, Balance Sheet, Financial Performance, Analysis.

Introduction:

(Asia E, 2018) Finance is important for every business organization whether the business is small, medium, or large. Without the adequate finance an enterprise cannot accomplish its objectives and cannot sustain in the market. There are two purposes for the business for which it needs finance, first one is the establishment of the business and second is to carry out its day to day operations. So we can say that the finance is the life blood of an enterprise and it is very necessary that an enterprise should perform very well financially. Financial Performance is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to assess firm's overall financial health over a given period of time. Ratio analysis is a crucial approach in financial analysis. It denotes the relationship of two mathematical expressions as well as the relationship of two or more entities. A financial ratio is a ratio of certain numbers on a company's financial statement. There are several common ratios used to assess a corporation's or other organization's overall financial situation. Financial ratios are utilised by corporate management, present and future investors, and a firm's creditor. Financial ratios are used by financial analysts to analyse the strengths and weaknesses of different firms. The essence of ratio analysis is: Financial ratio analysis enables us to determine how lucrative a company is, if it has enough cash to pay its obligations, and even whether its stockholders are likely to be successful.

Objectives of the study

To find and study the financial performance of ONGC ltd
To compare the financial performance of ONGC ltd from 2017-2021
To provide suggestions to the company to help improve its performance

Need for the Study:

We know that financial analysis helps analysts to obtain financial information and studying the financial data obtained from financial statements also helps them to know the strengths and weakness of the financial position of the company. It can also help us to make forecasts and help prepare budgets and estimates. It also helps us to know the profit-earning capacity and operating efficiency of the company as a whole.

Review of Literature

Dr Mitesh Chowdhary and War Bilal Ahmed (2019) conducted a study on the "Financial Statement analysis of ONGC ltd" using ratio analysis tool from the years 2011-2018, the main focus of this study was to analyse the financial statements of ONGC ltd and provide suggestive measures and they concluded that the performance of the company was declining over the years and it relied on debt to raise funds.

Roy M and Sabah N (2014) in their paper they analysed he financial performance of ONGC ltd from 2010-2013 they used the tool of ratio analysis and they concluded that the performance of the company was distributed as some areas were strong and some weak.

(G Uday Kumar 2015) conducted a study on the financial statement analysis of Bajaj Auto ltd for the year 2010-2015. He used ratio analysis as the tool for the study and it was conducted to find the performance of Bajaj Auto ltd over the years and it was concluded that that the companys financial performance was good and its heading in the right direction.

(Tirkey M, 2014) conducted a study on the financial performance of ONGC ltd for the span of 3 years from 2010-2013 they used the ratio analysis tool and they concluded that since 2010 the performance of the company has been declining.

(Dr Amey A Chowdhary and Dr MS Jagnade 2019) conducted a study on the financial performance of Tata Motors, they used ratio analysis as the tool, their study was conducted using the financial statements for the years 2014-2019 and they concluded that improvements need to be made regarding the finances and gave ample suggestions.

(Kennedy and Muller 1999) "The analysis and interpretation of financial statements are an attempt to determine the significance and meaning of financial statement data so that forecasts of future earnings, ability to pay interest and debt maturities (both current and long term), profitability, and sound dividend policy can be made".

Research Methodology:

Data Collection: The data to conduct the study has been obtained from financial statements of ONGC LTD for the years 2017, 2018, 2019, 2020, 2021. The study has been conducted using secondary data and these financial statements have been obtained from the official BSE website (www.bseindia.com) and Screener (www.screener.in)

Tools of Analysis: Ratio Analysis Tool has been used to conduct the study, this tool helps us to study and compare the financial performance of ONGC ltd for 5 years i.e. 2017-2021. The Ratios which have been used are:

1. Current Ratio
2. Net Profit Ratio
3. Working Capital Turnover Ratio
4. Return on Investment
5. Fixed Asset Turnover Ratio
6. Operating Profit Ratio
7. Finance Expenses Ratio
8. Capital Turnover Ratio
9. Liquid Ratio
10. Stock Turnover Ratio
11. Return on Asset
12. Return on Shareholders Fund
13. Proprietary Ratio
14. EBITDA Revenue Ratio
15. EBIT Margin Ratio

Data Interpretation and Analysis:
Current Ratio

Current Ratio = Current Assets/ Current Liabilities
Table:

Components	2021	2020	2019	2018	2017
Current Assets	319795.47	269859.95	282296.68	215165.5	299072.8
Current Liabilities	368298.97	480449.13	522264	493618.6	192334.7
Current Ratio	0.87	0.56	0.54	0.44	1.55

Source: www.screener.in

Interpretation:
The ideal current ratio is between 1.08-3 and from the above table we can understand that the company has performed well only in 2017 and since then the current ratio has been less than ideal from 2018-2021

Net Profit Ratio
Net Profit Ratio = Net profit after tax / Net sales * 100
Table:

Components	2017	2018	2019	2020	2021
Net Profit After Tax	41718	39208	54846	18962	30110
Net Sales	282506	322706	421624	396728	303958
Net Profit Ratio	14.77	12.15	13.01	4.78	9.91

Source: www.screener.in

Interpretation:
Net Profit Ratio helps us figure how much profit a company is generating as a percentage of revenue and from the above table we can conclude that the company is generating good net profit to revenue. Since the onset of the pandemic the sales have reduced which may be due to Imports and exports being banned. The ideal Net Profit ratio is 10% and the above table shows us that the company has performed well in all the years except 2020 which may be down to the fact that the pandemic was looming.

Working Capital Turnover Ratio
Working Capital Turnover Ratio= Net Sales/ Working Capital
Table:

Components	2017	2018	2019	2020	2021
Net Sales	282506	322706	421624	396728	303958
Working Capital	-48503.5	-210589	-239967	-278453	106738
Working Capital Turnover Ratio	-5.82	-0.15	-1.76	-1.43	2.85

Source: www.screener.in

Interpretation:
Working Capital turnover ratio shows us how efficiently a company is using its working capital to support sales and growth and since the working capital turnover is negative we can conclude that the company is not using its working capital efficiently. The ideal Working Capital Ratio is 2 and in this ratio the company has performed way below par and even in negative thus the company needs to improve.

Return on Investment
Return on Investment= Operating Profit / Capital Employed * 100
Table:

Components	2017	2018	2019	2020	2021
Operating Profit	52804	56889	74819	52105	49466
Capital Employed	274415	310569	324676	334577	354168
Return on Investment	19.24	18.32	23.04	15.57	13.97

Source: www.screener.in

Interpretation:
Return on Investment ratio allows us to understand the performance of the company in providing return on investments and from the above table we can say that the company's return on investments is more than ideal. The ideal Ratio is 15-20% and the company has had good return on investment in all years except for the year 2017 and especially in the year 2019 it has exceeded the ideal ratio which is a positive for the company.

Fixed Assets Turnover Ratio
Fixed Assets Turnover Ratio= Cost of Sales / Net Fixed Assets
Table:

Components	2017	2018	2019	2020	2021
Cost of Sales	229702	265817	346805	344623	254492
Net Fixed Assets	61291	59858	62307	77213	78928
Fixed Assets Turnover ratio	3.747728	4.440793	5.566068	4.463277	3.224356

Source: www.screener.in

Interpretation:
Fixed Asset Turnover Ratio tell us how efficiently a company is generating sales from its existing fixed assets and we can conclude that ONGC ltd is efficiently using its existing fixed assets. The company has also increased its fixed assets from the years 2019 but in turn cost of sales has also increased. The ideal fixed asset turnover ratio is supposed to be 2.5 or more and as we can see the company has performed well across all the year, thus indicating that the fixed assets are giving consistent and positive returns.

Operating Profit Ratio
Operating Profit Ratio= Operating Profit/ Net sales * 100
Table:

Components	2017	2018	2019	2020	2021
Operating Profit	52804	56889	74819	52105	49466
Net Sales	282506	322706	421624	396728	303958
Operating Profit Ratio	18.69128	17.62874	17.74543	13.13368	16.27396

Source: www.screener.in

Interpretation:
Operating Profit Ratio tell us how efficiently a company generates profit from its operations. This is a performance and profitability ratio. The ideal Ratio is 15-20% and the company has performed well in all the years except for the year 2020 where the ratio is 13.13 where it should be 15-20. The companys low operating margins in 2020 maybe down to the fact that Covid 19 pandemic was at its peak and the company has come back to normal operating margins the following year.

Finance Expenses Ratio
Finance Expenses Ratio= Finance Expenses / Sales *100
Table:

Components	2017	2018	2019	2020	2021
Finance Cost	1221.7	1508.5	2492.1	3309.7	2214.5
Sales	282506	322706	421624	396728	303958
Finance Expenses Ratio	0.432451	0.467453	0.591072	0.834249	0.728555

Source: www.screener.in

Interpretation:
Finance Expenses Ratio is an indicator of how much of the companys finances have been used on operating nd other administrative expenses. The ideal Expense ratio should be between .5-.75, the company has performed ideally in all the years except 2017 and 2018 where it has underperformed.

Capital Turnover Ratio
Capital Turnover Ratio= Sales / Capital Employed
Table:

Components	2017	2018	2019	2020	2021
Sales	282506	322706	421624	396728	303958
Capital Employed	274415	310569	324676	334577	354168
Capital Turnover Ratio	1.029485	1.03908	1.298599	1.18576	0.858231

Source: www.screener.in

Interpretation:
Capital Turnover Ratio is the ratio which tell us how much investment has been made by the shareholders in the company till date. From the table we can see the gradual increase in the capital employed which indicates and increase in the total assets of the company. The sales of ONGC ltd gradually increased from 2017 reaching its peak in 2019 and declining gradually from 2020-2021. The ideal ratio is between .5-1.5 and the company's performance in this area has been good and consistent across all the years in which the study was conducted.

Liquid Ratio

Liquid Ratio= Liquid Assets/ Current Liabilities
Table:

Components	2017	2018	2019	2020	2021
Liquid Assets	235050.76	184193.7	205257.4	148276.5	237419.7
Current Liabilities	368298.97	480449.1	522264	493618.6	192334.7
Liquid Ratio	0.638206401	0.383378	0.393015	0.300387	1.234409

Source: www.screener.in

Interpretation:
Liquid Ratio or Acid Test Ratio or Quick Ratio is a financial indicator of a companys ability to pay off its short term debts. The company has also massively reduced its current liabilities during the years 2020-2021, which has helped increase its liquid ratio to an ideal level. The ideal Liquid Ratio is 1.0 and above anything higher than 1 is considered healthy and thus indicates the company can pay its liabilities.

Stock Turnover Ratio
Stock Turnover Ratio= Cost of Goods Sold / Average Inventory
Table:

Components	2017	2018	2019	2020	2021
Cost of Good Sold	229702	265817	346805	344623	254492
Average Stock	20658.5	30904.5	17979	35007	39877
Stock Turnover Ratio	11.11901	8.601239	19.28945	9.844403	6.381924

Source: www.screener.in

Interpretation:
Stock Turnover Ratio also known as inventory turnover ratio is a ratio which tell us how efficiently an inventory of a company is being managed. Inventory refers to all of companys raw materials, work in progress , as well as finished goods. The ideal ratio is between 5-10, comparing this value to the above table we can affirm that the company has exceeded the ideal value in the years 2017 and 2019 and in others years the values have been relatively ideal.

Return On Asset
Return on Asset= Sales / Total Assets *100
Table:

Components	2017	2018	2019	2020	2021
Sales	282506	322706	421624	396728	303958
Total Assets	444525	459232	492343	508364	541686
Return on Asset	63.55233	70.2708	85.63623	78.04014	56.11332

Source: www.screener.in

Interpretation:
Return on asset is a financial ratio that helps indicate how efficiently a company has used its total assets in generating sales and how it has contributed towards growth. The ideal ratio is 20% or higher and as we can infer from the above table the company is performing at great levels consistently thus indicating that the company is efficient and consistent at generating profits.

Return on Shareholders Fund
Return on Shareholders Funds= Net profit after interest and tax / Shareholders Funds * 100
Table:

Components	2017	2018	2019	2020	2021
Net Profit after Interest and Tax	24419	22106	30546	10804	16249
Shareholders Fund	207677.2	219624.9	236247	223510.4	242596.8
Return on Shareholders Fund	11.75815	10.06534	12.92969	4.83378	6.697945

Source: www.screener.in

Interpretation:
Return on Shareholders funds is the overall profitability ratio which tell us about how profitable and efficient the funds provided by shareholders have been. From the above table we can see that the companys NPAIT was gradually increasing in the years 2017-2019 and it has declined massively during the year 2020. The ideal ratio is between 15-20% and the company is performing poorly in this area thus indicating that the company raises more funds through debt than compared to equity.

Proprietary Ratio
Proprietary Ratio = Shareholders Funds / Total Tangible Assets
Table:

Components	2017	2018	2019	2020	2021
Shareholders Fund	207677.2	219624.9	236247	223510.4	242596.8
Total Tangible Assets	424679.4	439458.9	481370	495420.6	529242.6
Proprietary Ratio	0.489021	0.499762	0.49078	0.451153	0.458385

Source: www.screener.in

Interpretation:
Proprietary Ratio also known as Equity ratio is an indicator of how much shareholders funds has been used to support a business. In other words it is an indication of how much reliance a company has on debt and equity. The ideal ratio is between .5-1 and the company has performed relatively well in the years 2017-2019 but has dropped off in the years 2020 and 2021 indicating a higher reliance on debt.

EBITDA To Revenue Ratio
EBITDA/Revenue Ratio= EBITDA/ Total Revue * 100
Table:

Components	2017	2018	2019	2020	2021
EBITA	65528	67319	84387	53086	60727
Total Revenue	295230	333135	431191	397710	315219
EBITDA/ Revenue Ratio	22.19558	20.20772	19.57068	13.34792	19.26502

Source: www.screener.in

Interpretation:
EBITDA to Revenue ratio is a profitability metric used to determine the relativity of a companys profit to its generated revenue. EBITDA of the company has increased gradually during the years 2017-2019 but has slumped in 2020 which maybe majorly due to COVID 19 but since then it has increased in the year 2020. The ideal ratio is 10% or more and from this we can conclude that the EBITDA performance of the company is well above ideal levels and healthy

EBIT Margin Ratio
EBIT Margin Ratio= EBIT/ Total Revenue *100
Table:

Components	2017	2018	2019	2020	2021
EBIT	45309	44207	60683	26451	35189
Total Revenue	295230	333135	431191	397710	315219
EBIT Margin Ratio	15.34702	13.27	14.07335	6.650826	11.16335

Source: www.screener.in

Interpretation:
EBIT Margin Ratio is a financial indicator how effectively a company is managing its activities. We can see that the EBIT was increasing gradually in the years 2017-2019 before taking a hit in 2020 but the company has performed well in the following year. The ideal ratio is above 15% and from the above table we can conclude that the performance was good only in the year 2017 and has fallen every year since then while 2020 being the lowest point from the study conducted.

Conclusion:
From the study we can conclude that the performance of ONGC LTD has been good in the year 2017 and since then the performance has fallen off. From the above 15 ratios the position of ONGC LTD has gradually declined, this may be due to many factors internal and external. We also understood that the company relies more on debt while raising funds and relatively less on equity as indicated by proprietary and return on shareholders fund ratios. Covid 19 pandemic may have also played its role in the gradual decline in the profits of ONGC LTD during the peak years of 2019 and 2020 and has marginally improved in the year 2021

Limitations of the study:

Ratios can only be correct when the data they have been derived from is correct and accurate sometimes information given in the financial statements is overvalued to make the company more appealing to the world, analysts must take caution when conducting studies and try to identify this any signs of window dressing. Sometimes factors which have nothing to do with the functioning of the company may cause changes in the ratios of two different years, factors such as inflation, change in prices etc. may cause doubt over the authenticity of the ratios. Ratio analysis as a tool is not enough for analysts to give a conclusive answer, detailed study needs to be conducted using various other tools give a better and clearer insight into the performance of the company.

REFERENCES:

1. "A STUDY ON RATIO ANALYSIS OF BAJAJ AUTO". (2015).
2. Asia E, J. I. (2018). FINANCIAL STATEMENT ANALYSIS OF ONGC LTD: A DESCRIPTIVE STUDY.
3. Ed. (2019). Business Strategies ASM Business Review Practices andInnovations.
4. Tirkey M, K. N. (2014). Financial Statement Analysis of ONGC ltd.
5. Ravindra, P. S., & Rao, C. T. (2014). An anlysis on financial and capital structure of oil and gas industry-A case study of ONGC Videsh Limited. International Journal of Advanced Research in Management and Social Sciences, 3(6), 158-171.
6. www.screener.in
7. www.bseindia.com