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A Study on Financial Statement Analysis of Indian Oil by Using Ratio Analysis

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ABSTRACT:

Financial analysis refers to an analysis of finance-related projects/activities or company's financial statements which includes a balance sheet, income statement, and notes to accounts or financial ratios to evaluate company's results, performance and its trend which will be useful for taking important decisions like investment and planning projects and financing activities. A person researcher after assessing the company's performance by using financial data present findings to higher-level management of a company with the recommendations about how it can improve in the future. Financial analysis involves various kinds of analysis. Here, Liquidity Analysis, Profitability Analysis, Rate of Return Analysis are taken into consideration.

KEYWORDS: Financial Statements analysis, Ratio analysis.

INTRODUCTION:

Oil & Gas is one of the most important sources of energy and is considered the lifeline of any economy. The oil and gas is one of the six core industries in India and has very significant forward linkage with the entire economy. India is the fifth largest consumer of petroleum in the world and ninth largest crude oil importer. As per the record of Ministry of Petroleum, over the years Indian petroleum industry has played an influential part in triggering the speedy expansion of the country's economy by contributing 15% in the total GDP. So Indian oil and gas sector is of strategic importance and plays a predominantly pivotal role in influencing decisions in all other spheres of the economy.

Keeping in the view the above facts and figures, the usefulness of study becomes crucial for providing better understanding to the various stakeholders for their fruitful investments. analyse and understand the financial statements easily. Financial analysis is the selection, evaluation and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision making.

Financial analysis may be used internally to evaluate issues such as profitability, liquidity, solvency, overall performance, operational efficiency and effectiveness, credit policies and externally the potential investment as well as credit worthiness of borrowers etc. Financial analysis is essential for every firm/company to evaluate its performance in all financial aspects. It is the process of identifying the financial strength and weakness of the firm/company and a tool to compare with industry's financial health. One of the most important and powerful tool of financial analysis is ratio analysis. It indicates the effectiveness of long term as well as short-term financial policies of the firm/company. Financial analysis of Indian Oil Corporation Limited and its financial position can be well judged by profitability ratios (Gross profit ratio, Net profit ratio and Return on investment ratio), liquidity ratio (Current ratio and Quick ratio), Solvency ratio (Debt-Equity ratio, Debt to Total Assets Ratio and proprietary ratio) and Investment ratio (Earning per share and Dividend pay out ratio).

The project will involve a detailed analysis of IOCL's financial statements, including the income statement, balance sheet, and cash flow statement. We will compute various financial ratios, including liquidity ratios, profitability ratios, solvency ratios, and efficiency ratios. The analysis will cover a period of three years to provide an understanding of IOCL's financial performance over time. The findings of this analysis will be useful for investors, stakeholders, and anyone interested in understanding IOCL's financial performance. It will provide insights into the company's strengths and weaknesses, and help make informed investment decision The study is based on secondary data collected from the Annual Reports of Indian Oil Corporation Limited, Annual Reports of the Ministry of Petroleum and other secondary sources. 1.2 Statement of Problem: One of the major challenges faced by IOC is the intense competition from other oil.

Research Methodology:

The data is collected from secondary data sources during the preparation of the analysis. The data, then, has been used for arriving at the performance evaluation and interpretations were made based on that. The sources of secondary data are at best-case of the calculations are made on the financial statements of the company-issued statements. The company's annual report also has been used to gain further insights into the implications of the financial results that had ensued in the year under consideration.

Secondary data:

The data the company has been collet from the annul report & balance sheet given by the company. The data has been referred from the website and books

Period of study:

The period of study covered between the financial year from 20218-2019 till 2022-2023

Tools used:

 Liquidity Ratio

 Profitability Ratio

Statement of Problem:

One of the major challenges faced by IOC is the intense competition from other oil and gas companies, including public and private sector companies such as Reliance Industries, Bharat Petroleum, and Hindustan Petroleum. These companies have significant market share and a strong presence across the country, making it difficult for IOC to maintain its market share. Another challenge faced by IOC is the volatility of global crude oil prices, which directly impacts the profitability of the company. IOC is heavily dependent on crude oil imports, and any significant fluctuations in global crude oil prices can have a significant impact on the company's bottom line .Furthermore, IOC faces the challenge of meeting increasing demand for petroleum products in the country while also focusing on sustainability and reducing its carbon footprint. The company needs to invest in new technologies and innovation to meet the growing demand while also reducing its environmental impact.

Objectives of Study:

- To study the liquidity position of Indian Oil Corporation Limited.
- To understand the Indian oil`s financial performance using ratios.
- •To determine Indian oil liquidity, solvency, and profitability.
- To determine the efficiency of Indian oil operations by analyzing ratios such as inventory turnover ratio, and asset turnover ratio.
- To provide an outlook of company`s future in terms of financial performance.

Scope of the Study:

The scope of a study analysis of Indian oil using ratio analysis involves analysis and interpreting financial ratios such as liquidity ratios, profitability ratios activity ratios, and solvency ratio to understand the financial performance of Indian oil, identifying its strengths and weakness, comparing it with its peers, and making recommendations for improving its financial positions. Trend analysis of financial ratios over the past few rears can also be included to identify any areas of improvement.

Limitations of the Study:

The study on financial analysis of Indian Oil using ratio analysis reveals that the company has maintained a stable liquidity position, generated a decent profit from its operations, and taken a balanced approach to financing its operations. However, the company's ROI and debtto-equity ratios have fluctuated over the years, and the debtor turnover ratio has been decreasing, indicating that the company is taking longer to collect payment from its customers. While ratio analysis provides valuable insights into Indian Oil's financial performance, it is important to consider the limitations of ratio analysis, such as limited scope, data accuracy, industry comparison, external factors, and the limitations of individual ratios.

Review of literature:

N. Nirmala and K. Jyothi (International Journal of Engineering and Advanced Technology, 2019). This study used ratio analysis to assess the financial performance of Indian Oil Corporation Limited (IOCL). The authors analyzed IOCL's liquidity, profitability, activity, and solvency ratios and found that IOCL had a good liquidity position, but its profitability ratios were lower than industry averages. The study also found that IOCL's solvency ratios were satisfactory.

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 COOPERATIVE 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.

R.Saravanan and V. Pradeepkumar (International Journal of Management, IT and Engineering, 2016).

This study used ratio analysis to assess the financial performance of Indian Oil Corporation Limited (IOCL). The authors analyzed IOCL's liquidity, profitability, activity, and solvency ratios and found that IOCL had a strong liquidity position, but its profitability ratios were lower than industry averages. The study also found that IOCL's solvency ratios were satisfactory.

Ratio Analysis and Interprtation:

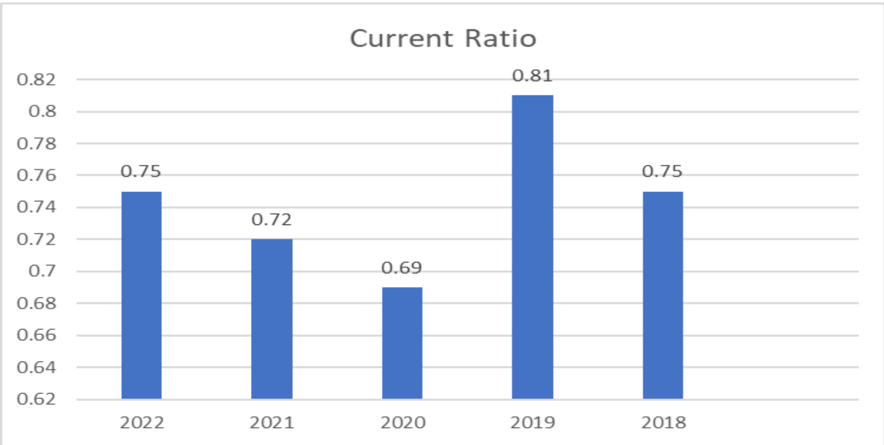
Ratio analysis is a technique used to evaluate the financial performance and health of a business by comparing different financial ratios. The ratios are calculated by dividing one financial metric by another, with the purpose of providing insight into various aspects of a company's operations and financial position.

Current Ratio:

TABLE 1 FOR CURRENT RATIO

Year	Current Asset	Current liabilities	Ratio
2022	137321.82	18297.79	075
2021	109984.89	150813.84	0.72
2020	106152.86	152906.80	0.69
2019	12443.12	153463.00	0.81
2018	103654.97	135882.28	0.75

CHART 1 FOR CURRENT RATIO



Interpretation:

In the above table, Current Ratio from year 2022 and 2018 remains constant. But in 2020 ratio is reduced drastically. During the years of 2018 and 2019 ratio was increased from 0.75 to 0.81.The current ratio of Indian oil is below 1, which says that Indian oil has inadequate current asset to reconcile its current liabilities.

Quick Ratio:

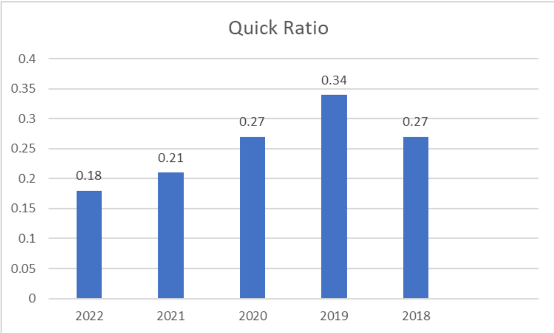
TABLE 2 FOR QUICK RATIO

Year	Current Asset	Inventory	Quick Ratio
2022	137321.82	181129.79	0.18
2021	109984.89	150813.84	0.21
2020	106152.86	152906.80	0.27
2019	124443.12	153463.00	0.34
2018	103054.94	135882.28	0.27

Interpretation:

In the above table Quick Ratio from the year of 2020 remains constant as 2018 with ratio of 0.27. During 2019 ratio increased to 0.34. where there is a decrease in ratio for the year of 2022 and 2021 with ratio of 0.18 and 0.21 respectively. The quick ratio is less than 1, so the Indian oil may not able to pay its current liabilities in short term.

CHART 2 FOR QUICK RATIO



Gross Profit Ratio:

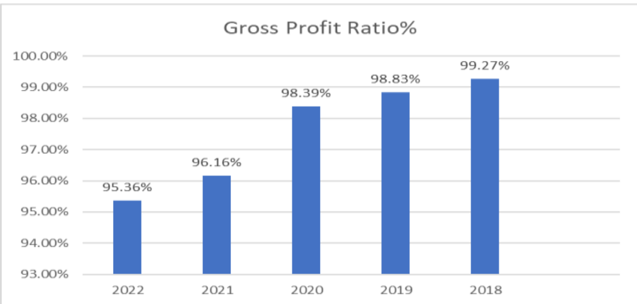
TABLE 3 FOR GROSS PROFIT RATIO

Year	Gross Profit	Sales	Ratio
2022	573144.82	598163.75	95.36%
2021	36547.22	378057.61	96.16%
2020	477867.6	485660.36	98.39%
2019	521544.09	527701.26	98.83%
2018	420966.36	424038.70	99.27%

Interpretation:

In the above table Gross profit Ratio for the year 2020 and 2019 remains constant with ratio of 98.36 and 98.83% respectively where as during the year 2022 ratio was decreased to 95% as compare to ratio of 2018. This indicates that the cost of goods sold was decrease during that year.

CHART 3 FOR GROSS PROFIT RATIO



Findings:

- The Current Ratio constant from 2018 to 2022, except for a drastic decrease in 2020. The ratio indicates that Indian Oil may have insufficient current assets to cover its current liabilities.
- The Quick Ratio also shows a similar trend, with a decrease in 2021 and 2022, and an increase in 2019. The ratio is less than 1, which suggests that Indian Oil may have difficulty paying its current liabilities in the short term.

- Indian Oil's Gross Profit Ratio remained constant in 2019 and 2020, but decreased in 2022.

Suggestion:

- The liquidity ratios of Indian Oil indicate potential issues in meeting short-term liabilities, which could lead to financial difficulties. As such, the company may need to consider increasing its current and liquid assets to ensure that it can meet its shortterm obligations. Strategies such as reducing inventory levels, improving collections from customers, and exploring new funding sources could be explored to improve liquidity.
- Indian Oil's profitability ratios indicate that the company's operations are generating decent returns, but its investments are generating mixed results. It is recommended to analyse the factors contributing to the decrease in profitability ratios and explore potential strategies for improvement.

Conclusion:

Based on the analysis of various financial ratios of Indian Oil Corporation Limited (IOCL) over the past five years, it can be concluded that IOCL has maintained a relatively stable liquidity position, despite fluctuations in some ratios. The company has efficiently managed its operating expenses, generating decent profits from its operations. However, the net profit ratio has fluctuated over the years, with some years experiencing losses.

Overall, it is important to take a comprehensive approach when analysing a company's financial health, and not rely solely on a single financial ratio. Indian Oil's financial ratios provide valuable insights into the company's performance, but it is also important to consider other factors such as market trends, competition, and management effectiveness when making investment decisions.

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