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AN ANALYSIS ON LIQUIDITY STATUS OF ONGC

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Abstract

Cash 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 cash is said to be life blood of any business, every business under taking needs liquidity 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 liquidity status or position. This paper analyzes overall liquidity condition and concert of the company.

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

1. INTRODUCTION

The analysis of financial statements is to obtain a better understanding of the firm's position and performance. Liquidity analysis is the process of identifying the liquidity strengths and weakness of the firm by properly establishing relationships between the item of the balance sheet and the profit and loss account. Liquidity analysis is undertaken by management of 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. Liquidity analysis considers the key figures in the financial statements and the significant relationships that exist between them.

2. 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 liquidity aspects of ONGC in the fluctuating scenario because the petroleum industry faces tremendous competition from global forces.

3. OBJECTIVES

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

4. REVIEW OF LITERATURE

Sharma Nishi (2011) studied the financial performance of passenger and commercial vehicle segment of the automobile industry in the terms of four financial parameters namely liquidity, profitability, leverage and managerial efficiency analysis for the period of decade from 2001-02 to 2010-11. The study concludes that profitability and managerial efficiency of Tata motors as well as Mahindra & Mahindra ltd are satisfactory but their liquidity position is not satisfactory.
Mistry Dharmendra S. (2012**)** understood a study to analyze the effect of various determinants on the profitability of the selected companies. It concluded that debt equity ratio, inventory ratio, total assets were important determinants which effect positive or negative effect on the profitability.
Rapheal Nisha (2013**)** the author tries to evaluate the financial performance of Indian tyre industry. The study was conducted for period 2003-04 to 2011-12 to analyze the performance with financial indicators, sales trend, export trend, production trend etc.

Anita Makkar and Shweta 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.

5. 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 mission, 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.

6. RESEARCH METHODOLOGY

This study is purely based on secondary data. As the study is based on analysis and interpretation of financial performance of ONGC, annual report of ONGC is the major source of data collection. Annual report from 2000 to 2020 has taken into consideration so as to study the 10 years financial performance of ONGC. Apart from annual reports various journals, newspaper, magazine and business websites are used for the purpose of data collection. In order to analyze the data both ratio analysis and trend analysis techniques have been used in this paper.

7. DATA ANALYSIS AND INTERPRETATION

7.1. 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.

A. 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

YEAR	CURRENT ASSESTS	CURRENT LIABILITIES	CURRENT RATIO
2010-2011	22,594.75	28,763.69	1.35
2011-2012	31,484.83	30,715.22	1.42
2012-2013	25,786.70	30,575.81	1.74
2013-2014	24,847.09	36,062.34	1.56
2014-2015	22,301.87	34,644.95	1.57
2015-2016	21,013.63	36,713.46	1.72
2016-2017	22,152.31	40,293.05	1.55
2017-2018	15,474.25	49,691.26	0.44
2018-2019	16,693.19	52,438.29	0.61
2019-2020	14,312.23	59,356.81	0.67

Source: Annual Reports of ONGC

The table 1 shows the relationship between the current assets and current liabilities of the concern. The standard norm of current ratio is 2:1. In the year 2012-2013 the current ratio was high that is 1.74 percent. Up to the year 2015-16 current ratio was good. But after the year 2017, it was decreased. Higher the current ratio, higher is the firm's ability to pay off its current payables. However here current ratio does not meet the standard norms

B. 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.

Quick Ratio = Quick Assets / Current liabilities

Quick Assets = Current Assets – Inventory

Table-2: Quick Ratio

YEAR	QUICK ASSESTS	CURRENT LIABILITIES	QUICK RATIO
2010-2011	18475	28,763.69	1.14
2011-2012	26320	30,715.22	1.22
2012-2013	20082	30,575.81	1.41
2013-2014	18964	36,062.34	1.26
2014-2015	16338	34,644.95	1.26
2015-2016	15388	36,713.46	1.41
2016-2017	15987	40,293.05	1.23
2017-2018	8785	49,691.26	0.30
2018-2019	8944	52,438.29	0.40
2019-2020	5745	59,356.81	0.45

Source: Annual Reports of ONGC

The Table 2 depicts the relationship between the Quick Assets and Current liabilities. The high ratio is an indication that the company is liquid and has the ability to meet its current or liquid liabilities in time. Up to 2016-17 the ratio was good. The standard norm for quick ratio is 1:1. From 2010 to 2017 the quick ratio shows higher ability of ONGC to meet its current liabilities. But consecutively three years from 2018 to 2020 the ratio is decreasing.

C. Inventory Turnover Ratio

How one organization is using its current inventory within a time period is a vital thing to ascertain the efficiency in relation to manufacturing, marketing, pricing, and purchasing decisions. Higher the well managed inventory, lower is the minimization of cost. This ratio reflects how efficiently a company increases it sales by properly utilizing the current inventory.

Inventory Turnover Ratio = Net Sales / Average Inventory

Table-3: Inventory Turnover Ratio

YEAR	NET SALES	AVERAGE INVENTORY	INVENTORY TURNOVER RATIO
2010-2011	68,338.92	4,118.98	16.59
2011-2012	76,515.09	5,165.44	14.81
2012-2013	83,005.33	5,704.39	14.55
2013-2014	83,890.27	5,882.54	14.26
2014-2015	82,870.96	5,963.53	13.90
2015-2016	77,542.72	5,625.57	13.78
2016-2017	77,698.48	6,165.32	12.60
2017-2018	84,963.08	6,688.91	12.70
2018-2019	109,609.42	7,749.17	14.14
2019-2020	96,213.61	8,566.62	11.23

Source: Annual Reports of ONGC

From Table-3 it is found that ONGC has good inventory turnover ratios. Higher the ratio higher is the liquidity of company's inventory. This means ONGC efficiently utilize its inventory and that is the reason of higher sales number. ONGC's higher inventory turnover ratio indicates the fast moving inventories.

7.2. 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 Corers

YEARS	SALES	TREND PERCENTAGE
2010-2011	68,338	100
2011-2012	76,515	112
2012-2013	83,005	108
2013-2014	83,890	101
2014-2015	82,870	99
2015-2016	77,542	94
2016-2017	77,698	100
2017-2018	84,963	109
2018-2019	109,609	129
2019-2020	96,213	88

Source: Annual Reports of ONGC

The Table 1 shows the trend for sales from 2010-2011 to 2019-2020. Sales trend of ONGC is on increasing note. In 2015, 2016 and 2020 sales trend of ONGC is decreasing scale. The highest increasing trend was in the year 2018-2019. We can say in most of the year sales trend of ONGC is positive.

Table-2: Trend Analysis of inventory in Corers

YEARS	INVENTORY	TREND PERCENTAGE
2010-2011	4,119	100
2011-2012	5,165	125
2012-2013	5,704	110
2013-2014	5,882	103
2014-2015	5,963	101
2015-2016	5,625	95
2016-2017	6,165	109
2017-2018	6,688	108
2018-2019	7,749	116
2019-2020	8,566	110

Source: Annual Reports of ONGC

Table-2 depicts the inventory trend of ONGC. It is found that inventory trend of ONGC is on increasing scale. Except in the year 2015-2016, all other years showed a positive trend percentage of inventories. This reflects proper and efficient functioning of inventory of ONGC.

Table-3: Trend Analysis of Net Profit in Corers

YEARS	NET PROFIT	TREND PERCENTAGE
2010-2011	18,924	100
2011-2012	25,122	132
2012-2013	20,925	83
2013-2014	22,094	105
2014-2015	17,732	80
2015-2016	16,139	91
2016-2017	17,899	111
2017-2018	19,945	111
2018-2019	26,715	133
2019-2020	13,444	50

Source: Annual Reports of ONGC

Table-3 depicts the trend of net profit of ONGC. Current year profit percentage decreased 50 percent. This is the lowest in last ten year. In the years 2013, 2015, 2016 also the trend of net profit was negative. The highest increase of percentage was 33 in the previous year. Here the result is that ONGC profit is on fluctuating drift. Sometimes it is highly increased but in some years there is a massive fall from the base year.

8. FINDINGS

The current ratio of ONGC was good till 2017. After that the ratio was decreased. The company has to pay attention to this, matter as the decreasing current ratio hampers the paying capacity of the organization to meet the current obligations and payables. So as to find out the companies paying capacity to meet its current dues immediately quick ratio is used. Up to the year 2017 the ratio was good but after that it was decreased. Again this matter should be considered by the management. Inventory turnover ratio of ONGC is on increasing trend. ONGC efficiently utilize its inventory and that is the reason of higher sales number. ONGC's higher inventory turnover ratio indicates the fast moving inventories. 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. The trending path of inventory is also positive, reflects smooth and efficient functioning of inventory. The result is that ONGC profit is on fluctuating drift. Sometimes it is highly increased but in some years there is a massive fall from the base year.

9. CONCLUSION

The study reveals that the liquidity status of the company is rational. The company is preserving decent liquidity position throughout the study period. ONGC's operating efficiency and liquidity policy is vibrant and shows sustainable growth. However attention should be given towards current and quick ratio. The company has the capability to meet its shot term payables and obligations deprived of any disturbance in cash flows.

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