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A study of financial statement analysis of oil and natural gas Corporation limited

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Abstract
Finance is considered as life blood of business enterprise. The success and survival of any organization depends upon how efficiently it is able to raise funds as and when needed and their proper utilization. The object of the present study is to know the profitability and solvency and the future value of the business concern during the period of five years from 2012-2016. For this purpose to fulfill the objectives Ratio Analysis and Correlation has been used for the calculation of the company. Finally the suggestions are offered to control the fluctuating in price changes

Keywords: Ratio Analysis, Correlation

1. Introduction
The analysis of financial statements is to obtain a better understanding of the firm's position and performance. 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. These statements are concise reports designed to summarize financial activities for specific periods. Owners and managers can use financial statement analysis to evaluate the current financial condition of their business, diagnose any existing financial problems, and forecast future trends in the firm's financial position. The focus of the financial analysis is on key figures in the financial statements and the significant relationships that exist between them. We have chosen ONGC limited in order to study the process of evaluating relationships between component parts of financial statements current raise in fuel price and also to analyze the effectiveness of the company to the current situations.

2. Company profile
Oil and Natural Gas Corporation Limited (ONGC) is an Indian multinational oil and gas company headquartered in Dehradun, Uttarakhand, India. It is a Public Sector Undertaking (PSU) of 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.

3. Statement of the problem
Financial management 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. The petroleum industry faces tremendous price changes in the market. So we decided to make an analysis on the financial aspects of ONGC in the fluctuating scenario.

4. Scope of the study
The study is based on the accounting information of ONGC limited. The study covers the period of 2012 -2016 for analyzing the financial statement such as income statement and the

balance sheet of the company. The study mainly attempts to analyze the financial performance of the company. The financial authorities evaluating their performance in future financial statement and resources. The present study develops a financial analysis for sales and working capital and profit and loss account. The study forecasting to evaluate the overall performance of ONGC in future.

5. Objective of the study

- To know the profitability and solvency of the business concern.
- To determine the future value of the business concern.

6. Tools used for the study

The analysis and interpretation of financial statement is used to determine the financial performance of the company. The tools adopted for the study is correlation and ratio analysis.

7. Literature review

- Kumar aditya (2016) [1], "An appraisal of financial solvency of ONGC". From the study of five years (2012-2016) financial data it has found that the profit earning capacity and short term investing capacity of ONGC is quite good. The study has suggested that the value of EBIT should be high in order to attain a maximum productivity capacity of assets. Through this study it indicates that the fluctuating trend might shift the company into a situation of bankruptcy.
- Izhar ahmed (2016) [2], the research paper is authored to entitle the "Analysis of financial performance of Hindusthan Petroleum Coporation Limited". This study focuses on the analysis of profitability position, financial system, profit margin and expenses ratio. This study is based on secondary data for a period of fifteen years from 2000 to 2015. In this duration of study, the researcher has used multiple regression analysis for the testing of the hypotheses. In order to measure the impacts of liquidity, solvency and efficiency on return on investment. The researcher has taken return on capital employed as a dependent variable under return on investment. This study has suggested that HPCL is required good strategies for maintaining the profitability in future.

8. Research methodology

The source of the data is predominantly from secondary data.

9. Period of the study

The study covers the period of 2012 -2016.

10. Analysis and Interpretation

Objective - 1

- To know the profitability and solvency of the business concern.

10.1 Ratio Analysis

A ratio is a simple arithmetic expression of the relationship of one number to another. It may be defined as the indicated quotient of two mathematical expressions. According to Accountant's Handbook by Wixon, Kell and Bedford, "a ratio is an expression of the quantitative relationship between two numbers". 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.

Solvency Ratios

Debt to Equity Ratio

Debt-equity ratio, also known as External-Internal Equity Ratio is calculated to measure the relative claims of outsiders and the owners. This ratio indicates the relationship between the external equities or the outsiders fund and the internal equities or the shareholders fund.

Table 1

Year	Total outside liablities	Shareholders' equity	Debt to equity
2011-2012	58770.87	112956.73	0.47
2012-2013	53673.44	124453.22	0.43
2013-2014	62563.43	136725.01	0.45
2014-2015	63478.91	144600.98	0.43
2015-2016	68253.07	151852.70	0.44

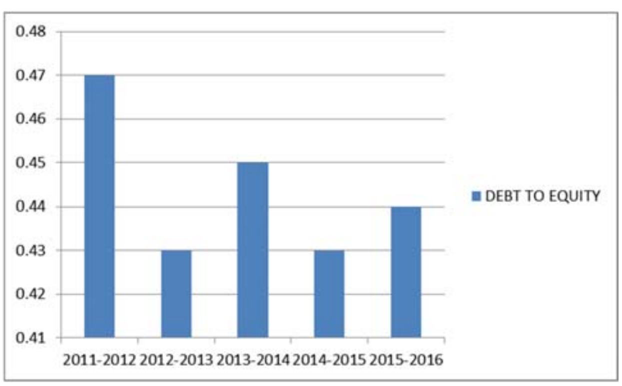

Fig 1: Debt to equity

The Table 1.1 shows the relationship between Outsider's fund and Shareholder's fund. The ratio is relatively high during the year 2011-2012 with 0.47 times and is low during the year 2012-2013 with 0.43. A high Debt-Equity ratio gives a lesser margin of safety for the creditors at the time of liquidation of the firm. A low ratio is considered favorable from the long term creditors 'point of view because a high proportion of owners, funds provide a large margin of safety.

Propreitary Ratio

The proprietary ratio (also known as net worth ratio or equity ratio) is used to evaluate the soundness of the capital structure of a company. It is computed by dividing the proprietary funds by total assets.

Table 2

Year	Proprietor's fund	Total asset	Proprietary ratio
2011-2012	112956.73	171727.61	0.65
2012-2013	124453.22	178126.67	0.69
2013-2014	136725.01	199288.43	0.68
2014-2015	144600.98	208079.88	0.69
2015-2016	151852.70	220105.77	0.68

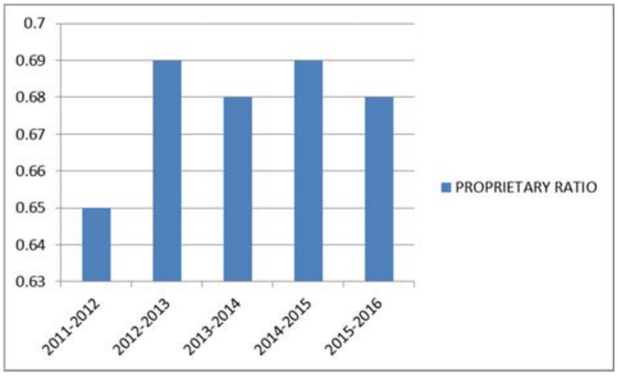

Fig 2: Proprietary ratio

The table 1.2 shows the relationship between the Proprietor's Fund and Total Assets of the company. The ratio is high during the years 2012-2013 and 2014-2015 with the value of 0.69 times and low during the year 2011-2012 with the value of 0.65 times.

Profitablity Ratio

Gross Profit Ratio

The gross profit ratio shows the proportion of profits generated by the sale of products or services, before selling and administrative expenses. It is used to examine the ability of a business to create sellable products in a cost-effective manner.

Table 3

Year	Sales	Gross Profit	Gross Profit Ratio
2011-2012	78368.07	26509.73	33.82
2012-2013	82870.96	26939.14	32.50
2013-2014	83890.27	31920.83	38.05
2014-2015	83005.33	30574.89	36.83
2015-2016	76515.09	33483.13	43.76

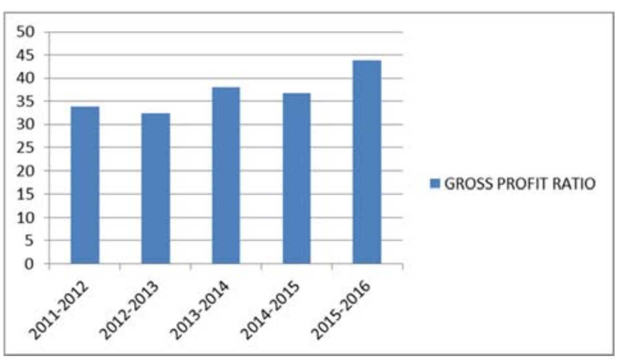

Fig 3: gross profit ratio

The Table 1.3 shows the relationship between the Gross Profit and Sales in order to compute Gross Profit Ratio. The ratio is high during the year 2015-2016 with the value of 43.76% and is low during the year 2012-2013. The ratio has increased in the recent year

Net Profit Ratio

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. It is used to compare the results of a business with its competitors

Table 4

Year	Net Profit	Sales	Net Profit Ratio
2011-2012	16003.65	78368.07	20.42
2012-2013	17732.95	82870.96	21.39
2013-2014	22094.81	83890.27	26.33
2014-2015	20925.7	83005.33	25.21
2015-2016	25122.92	76515.09	32.83

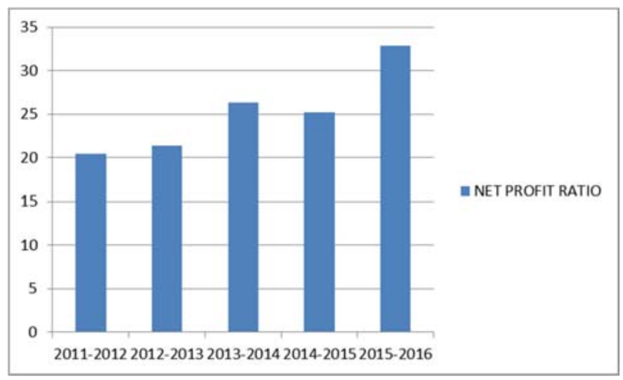

Fig 4: Net Profit Ratio

The Table 1.4 shows the relationship between the Net profit and Sales of the company in order to compute the Net Profit Ratio. The ratio is high during the year 2015-2016 with the value of 32.83% and is low during the year 2011-2012 during the year 2011-2012 with the value of 20.42. The ratio shows increasing trend.

Objective -2

- To determine the future value of the business concern.

10.2 Correlation

Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel; a negative correlation indicates the extent to which one variable increases as the other decreases Y_c= a+bx

10.2.1 Net Profit

Year (Y)	Net Profit (Y)	X	Xy	x^2	Y_C
2011-2012	25122.92	-2	-50245.84	4	16089.748
2012-2013	20925.70	-1	-20925.70	1	18232.877
2013-2014	22094.81	0	0	0	20376.006
2014-2015	17732.95	1	17732.95	1	22519.135
2015-2016	16003.65	2	32007.3	4	24662.264
	∑y= 101880.03	∑x= 0	∑xy= -21431.29	$\sum x^2$= 10	

Y_c = a+bx

a $= \frac{\sum y}{N}$

a $= \frac{101880.03}{5}$

= 20376.006

b $= \frac{\sum xy}{\sum x2}$

b $= \frac{-21431.29}{10}$

= -2143.129

Estimating the net profit for the year 2016-2017

Y_c = a+bx

2017 = 20376.006 - 2143.129(3)

= 20376.006 – 6429.387

2017 = 13946.619

The Table 12.2.1 depicts the future value of net profit of the concern. It has been observed that the table represent the fluctuating trend in net profit. Therefore in upcoming years the net profit may decrease. The estimated net profit for the year 2017 will be Rs.13946.619 crores.

10.2.2 Sales

Year (Y)	Sales (Y)	X	xy	x^2	Y_C
2011-2012	76515.09	-2	-153030.18	4	80215.586
2012-2013	83005.33	-1	-83005.33	1	80572.763
2013-2014	83890.27	0	0	0	80929.94
2014-2015	82870.96	1	82870.96	1	81287.117
2015-2016	78368.07	2	156736.14	4	81644.294
	∑y= 404649.72	∑x= 0	∑xy= 3571.59	$\sum x^2$= 10	

Y_c = a+bx

a $= \frac{\sum y}{N}$

a $= \frac{404649.72}{5}$

= 80929.94

b $= \frac{\sum xy}{\sum x2}$

b $= \frac{3571.77}{10}$

= 357.177

Estimating the net profit for the year 2016-2017

Y_c = a+bx

2017 = 80929.94 + 357.177(3)

= 80929.94 + 1071.531

2017 = 82001.471

The Table 12.2.2 depicts the future value of sales of the concern. It has been observed that the table represent the fluctuating trend in sales. Therefore in upcoming years the sales may increase. The estimated sales for the year 2017 will be Rs.82001.471 Crores.

11. Findings

- Debt-Equity reveals that the company is depending more on outsiders during the period 2011 -2012.
- Proprietary reveals the soundness of the capital structure of the company has been more on 2014-2015
- Gross profit ratio is used to examine the ability of a business to create sellable products in a cost-effective manner. Therefore gross profit ratio has been more 2015 -2016.
- Net profit ratio is used to compare the results of a business with its competitors. The Net Profit of the company has increased during the year 2015-2016.
- Net profit during the study is in fluctuating trend. Therefore estimated net profit for the year 2017 will be Rs.13946.619Crores.
- Sales during the study is in fluctuating trend. Therefore estimated sales for the year 2017 will be Rs.82001.471 Crores.

12. Suggestions

- The company should reduce its dependency towards the outsiders by tightening the policies as to maintain adequate debt equity ratio.
- The trend analysis of the company shows as fluctuating trend which is indeed good for its future activities.
- Government should control fluctuating in price changes by reducing the tax evasion.

13. Conclusions

The study is aimed to analyze the overall financial performance of the "oil and natural gas Corporation limited" for the period 2012 -2016 however for any organization increasing the profitability will be the main objective and so is the same for this company too. This study gave the knowledge about the application of financial tool and its importance and usefulness in the real time business. The various tools comprised of Ratio Analysis and Correlation of the company. Finally to conclude the company "oil and natural gas corporation limited" performance with regard to profitability and solvency was upto satisfactory level and their growth was fluctuating.

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