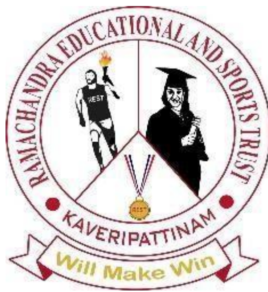

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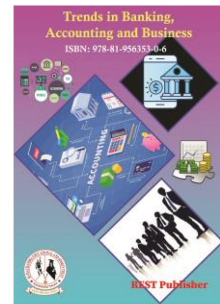

A Study on Financial Statement Analysis asst Indian Oil Corporation Limited

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Abstract: *This project conducts a comprehensive financial statement analysis of Indian Oil Corporation Limited (IOCL), one of the largest oil and gas company in India. The analysis covers key financial statement including the balance sheet, income statement, and cash flow statement for the past five fiscal years. Various financial ratios are calculated and interpreted to assess IOCL's financial performance, liquidity, solvency, profitability, and efficiency. Financial analysis is essential for every company to evaluate its performance in all financial aspects. It is the process of identifying the financial strength and weakness of the firm and a tool to compare with industry financial health. Through the application of various financial ratios, including liquidity ratios, solvency ratios, profitability ratio and efficiency ratios, this analysis provide a deep understanding of IOCL's financial health and operation additionally the comparative analysis with industry peers and historical trend offers valuable insights in to the company's competitive position and performance trajectory. This analysis is facilitating a clearer understanding of IOCL's financial standing and future prospects in the dynamic energy market landscape. The study is based on secondary data collected from the Annual report of Indian Oil Corporation limited, journals of Indian Oil Corporation Limited and other secondary sources.*

Keywords: *Financial analysis, balance sheet, income and cash flow statement, ratio analysis.*

1. INTRODUCTION

Financial statements or financial reports are formal records of the financial activities of a business, person or other entity. Financial statements provide an overview of a business or person's condition in both short and long term. All relevant financial information of a business enterprise, presented in a structured manner and in a form easy to understand is called the financial statements. The analysis of financial statement is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of firm financial position.

A complete set of financial statement comprises:

1. A statement of financial position as at the end of the period
2. A statement of comprehensive income for the period
3. A statement of changes in equity for the period
4. A statement of cashflow for the period
5. Notes of account comprising a summary of significant accounting policies and other explanatory information.

2. 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.

3. 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 years can also be included to identify any areas of improvement.

4. REVIEW OF THE LITERATURE

Anand Manoj (2002) investigated 81 big Indian companies, chosen based on market capitalization, to find out corporate finance practices such as capital budgeting decision, capital structure decision and dividend policy decision. Most respondents used NPV and IRR as their most frequently used evaluation tools. Eighty-five per cent of the respondents considered IRR as a very important/ important project c b hoice criterion. The level of popularity for NPV method was about 65 per cent only. The Payback Period method was also popular (67.5%). The most interesting results came from examining the responses conditional on firm size and growth characteristics. Large firms were significantly more likely to use NPV than small firms. Small firms were more likely to use payback period method than large firms. High growth firms were more likely to use IRR than the low growth firms, whereas low growth firms are more likely to use break-even analysis than high growth firms.

Gupta Sanjeev et al. (2007) conducted a survey of Capital Budgeting Practices in Punjab based companies to examine influence of factors like size of capital budget, age and nature of the company, professional qualification of CEO. They observed that majority of sample companies were still using non-discounted cash flow technique mostly Payback Period criteria to evaluate new project. These findings are surprising that while corporate houses in developed countries are trying the latest sophisticated methods, the sample companies are still practicing traditional unscientific tools. Only a few companies were seen to use DCF and among them a very negligible number of companies were found to apply NPV. The companies used WACC for determining the discounting rate needed for discounting of future payoffs.

Shah Kamini (2008) found that almost all the companies are using now multiple techniques for evaluating their capital budgeting proposals. The researcher also observed that the companies prefer 'IRR and NPV' to Payback period method. Interestingly she observed two different trends in choosing evaluation tools. She noted that for investing in new projects firms use IRR, PBP and NPV, while for expansion, replacement, modernization, etc., firms largely rely on Payback period method. She also found Sensitivity analysis as the most important technique for risk analysis and scenario analysis as the second most important technique for this purpose.

Verma, Gupta and Batra (2009) made a survey of 30 India companies from manufacturing sector. The authors observed that globalization and exposure of Indian companies to global competition have compelled to be more judicious and rational in making capital budgeting decisions. These companies were seen to apply formal capital budgeting analysis including DCF to avoid any mistakes resulting in losses. The authors also observed that, instead of relying on one single technique of evaluation, the companies were seen to try multiple appraisal methods for evaluation of investments. They noted the emergence of a trend of increased adoption of sophisticated discounted capital budgeting tools like NPV and IRR as compared to the non-DCF capital budgeting techniques. However, majority of companies exhibited their preference for Payback Period Method as a supplementary method as well as primary method.

Singh, Jain and Yadav (2012) studied the contemporary practices in capital budgeting in Indian companies. Result of the study is based on responses received from 31 nonfinancial companies listed in BSE 200 index. The study confirmed the ongoing trend towards use of advanced techniques of capital budgeting. All responding companies used Discounted Cash Flow (DCF) techniques along with non-DCF techniques. There was a strong preference for DCF, in which more than 78.57 percent preferred IRR instead of NPV. This is contrary to textbook prescription that

NPV is better than IRR; survey results reveal that firms exhibited a preference for IRR compared to NPV. The authors found sizeable percentage of companies to follow non-DCF methods such as Payback period (64.28 percent) and Accounting Rate of Return (39.28 percent). They also noticed that sensitivity analysis was the most widely used tool for handling risk in capital budgeting decision-making. The study reports the emergence real option analysis such as re-investment options (50 percent) and abandonment options (17.64 percent). It further covered analysis of capital budgeting process too. It revealed that in 72 percent cases proposals for new investment emerged from head office. It reflects the prevalence of control of top management on such decisions. A big majority of the companies (86.24 percent) focused on capacity build-up by investing in the existing line of business followed by modernization. Technology up-gradation emerged as the second most important constituent for capital expenditure outlay (44.82 percent of the companies).

Arora, Preethi (2012) made a study of Capital Budgeting practice of top 500 companies of India, enlisted in market index in terms of their size of market capitalization. She collected data through structured questionnaire from 125 companies covering 9 industries. She observed that the major goal of the firms was to maximize market share followed by maximizing the market value per share. In respect of methods her findings were different. She noted that 92% of the companies preferred Discounted Payback Period as the most important appraisal technique. The other popular methods were simple Payback Period, Internal Rate of Return and NPV. Noted levels of popularity of these methods were 82.4%, 70.4% and 66.4% respectively. The highest number of firms used sensitivity analysis followed by Payback Period to adjust for risk.

Gupta Divya (2013) noticed existence of a positive relationship between frequency of using capital budgeting techniques and application of discounted cash flow techniques with the firm the size of the firm. According to her findings, large size firms exhibited reliance on DCF, while small firms exhibited preference for traditional payback period.

Yadav Vinod Kumar (2013) finds that firms in small-scale industries mainly use traditional payback period and Accounting Rate of Return instead of scientific evaluation methods like IRR and NPV. 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 up to 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 analyzing the financial performance of TNSC APEX COOPERATIVE BANK. The researcher used analytical type of research to analyses 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.

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.

5. RESEARCH METHODOLOGY

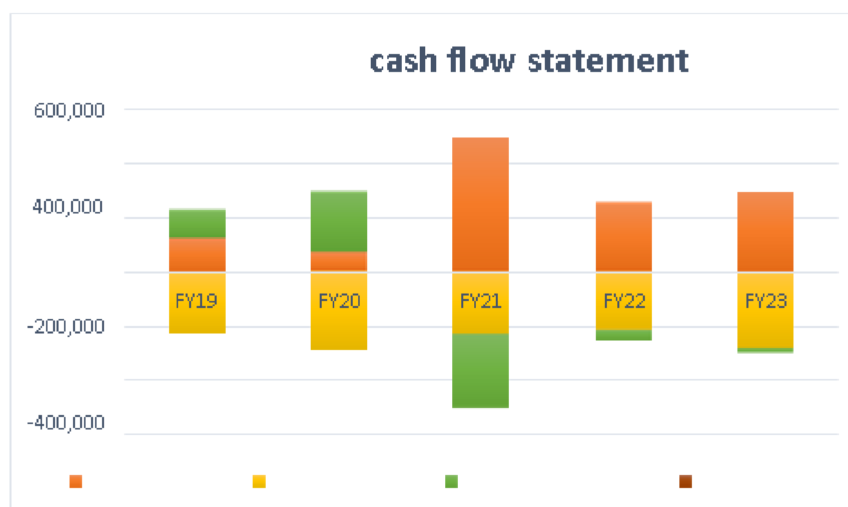
The company's survival and growth depend on its performance. Finance reports are prepared quarterly, half yearly and annually by the company, by using various financial tools and techniques, are trend analysis, ratio analysis, and comparative balance sheet. These reports of the company help in evaluating the performance and the direction in

which the company is moving. Data was selected by both primary and secondary data method, in primary method of data collection of observation of accounts used, in case of secondary data was collected by using magazines, books and journals of IOCL.

6. DATA ANALYSIS

The Cash Flow Statement of IOC For The Past 5 Years

(Rs m)	FY19	FY20	FY21	FY22	FY23
From Operations	127,465	71,463	496,502	257,467	296,437
From Investments	- 225,686	- 291,008	- 229,347	- 212,936	- 280,296
From Financial Activity	104,365	224,560	- 273,690	-40,577	-17,944
Net Cashflow	6,144	5,015	-6,534	3,954	-1,802



Interpretation:
Cash flow from operations increased in FY23 and stood at Rs 296,437 m as compared to Rs 257,467 m in FY22.
Cash flow from investments decreased in FY23 and stood at Rs -280,296 m as compared to Rs -212,936 m in FY22.
Cash flow from financial activity increased in FY23 and stood at Rs -17,944 m as compared to Rs -40,577 m in FY22.

The Ratio Analysis Of IOC For The Past 5 Years.

	FY19	FY20	FY21	FY22	FY23
Operating Profit Margin (%)	4.34	1.77	5.49	4.42	1.11
Net Profit Margin (%)	2.79	0.23	4.24	3.32	0.88
Debt to Equity Ratio(x)	0.76	1.16	0.85	0.84	0.98

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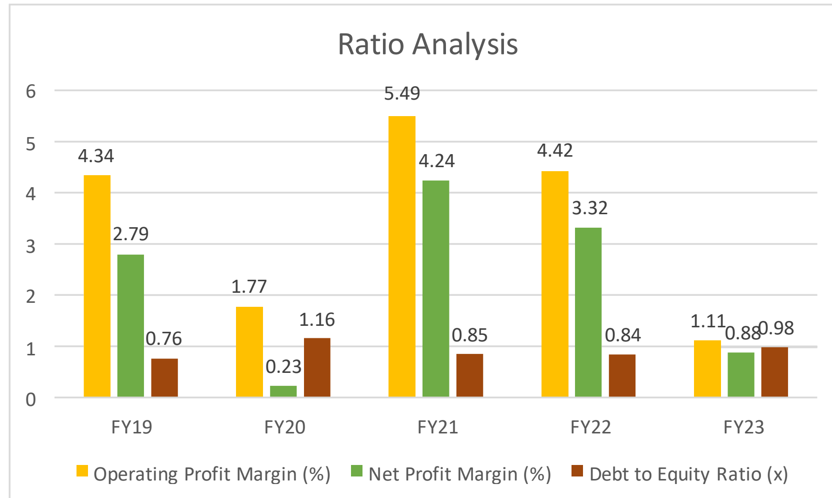

Interpretation:
Operating profit margins witnessed a fall and stood at 4.4% in FY23 as against 11.1% in FY22.
Net profit margins declined from 3.32% in FY22 to 0.88% in FY23.
Debt to Equity ratio for FY23 stood at 0.9 as compared to 0.8 in FY22.
Indian Oil reported Revenue from Operations of ₹9,34,953 crores for FY 2022-23 as compared to ₹7,28,445 crores in last year. The Net Profit for FY 2022-23 is ₹8,242 crores as compared to ₹24,184 crores during last year mainly on account of lower marketing & petrochemicals margin and higher exchange losses during the current year as compared to last year. The Revenue from Operations of Indian Oil is ₹2,26,492 crores in Q4 2022-23 as compared to ₹2,06,457 crores in the corresponding quarter of last year. The Net Profit for the fourth quarter of FY 2022-23 is ₹10,059 crores as compared to ₹6,022 crores in the corresponding quarter of last year.

7. FINDINGS

This report work has identified how companies use financial statement analysis in making effective management decisions. Overall organizational profitability and achievements of organizational objectives were discussed. Again, the difference between the returns of a financial statement analysis based on management decision were also discussed.

1. Gross profit and net profit are increased during the period of 2022-2023, which indicates that firm's efficient management in manufacturing and trading operations.
2. Liquidity ratio of the firm is better liquidity position in over the two years. It shows that the firm had sufficient liquid assets.
3. Current liabilities are decreased.
4. Current assets ratio are increased in two years.
5. Net profit also increased by 0.98%
6. The key ratio analysis of IOC are increased in return on asset and return on average net worth.
7. The debt equity ratio is increasing in the year of 2022-2023

8. 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 short-term 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 analyze the factors contributing to the decrease in profitability ratios and explore potential strategies for improvement.

9. CONCLUSION

After the study of financial statement analysis, The Indian Oil Corporation Limited from various aspects like profitability, liquidity and solvency activity and the investment, it can be concluded the profitability position of the company. The comparison of the financial statement analysis of the balance sheet reflects a stable financial position, characterized by healthy asset levels, strong liquidity and manageable liabilities. The company assets including property, plant, and equipment, as well as investments and cash reserves, demonstrate its robust operational base and financial strength. The profit and loss account indicates a commendable performance, marked by consistent revenue generation and effective cost management. The company likely experienced steady revenue growth, driven by factors such as increased sales volumes, favorable pricing dynamics and strategic business expansion. Moreover, IOCL's ability to control operating expenses and optimize operational efficiency contributed to healthy profit margins. Overall, IOCL's profit and loss account indicates the resilient financial performance, positioning the company well for sustained profitability and value creation in the future. The cash flow statement would likely indicate strong operating cash flow, reflecting the company's ability to efficiently convert its operational activities in to cash. Additionally, IOCL's investment in capital expenditure and strategic initiatives would be evident in cash flow statement, indicating its commitment to long term growth and sustainability. Furthermore, IOCL's financing activities, including debt management and dividend payments, would reflects its efforts to maintain a balanced capital structure and maximize shareholder value. Overall, the cash flow statement of IOCL for 2022-2023 would likely portray a healthy financial position and strategic allocation of resources.

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