P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-5* ISSUE-12* March- 2021
E: ISSN NO.: 2455-0817 *Remarking An Analisation*

An Evaluation of Profitability of ONGC Limited

Paper Submission: 03/03/2021, Date of Acceptance: 23/03/2021, Date of Publication: 25/03/2021

Reena Joshi
Research Scholar,
Dept. of Commerce,
K.M.G.G.(Pg) College,
Badalpur, G.B. Nagar, India

Arvind Kumar Yadav
Head of Department,
Dept. of Commerce,
K.M.G.G.(P.G.) College,
Badalpur, G.B. Nagar, India

Abstract

Public enterprises in India have a very wide coverage both as regards the number of enterprises with massive capital investment and also number of activities they undertake. The number of public sector units in India with their massive capital investment has increased significantly. They have contributed to the economic development of the country by earning considerable foreign exchange by developing basic and capital goods industries and helping in the rehabilitation of sick industrial units. Profitability is a relative term which denotes the ability to make profit or the amount of profit as a percentage of costs. The criterion for performance evaluation of an enterprise is the profitability. The main goal of business enterprise is profit earning. Profitability measurement is an important tool to judge the effectiveness of business concern. "Profitability" is the profit earning capacity of an enterprise. The term is made of the ability of a business enterprise to earn profit. Profit signifies the difference between total revenue and total expenses, whereas 'ability' means the power of the concern to earn profit. Profit is the difference between sales and costs. The longer the gap between them the greater would be the profit. All enterprises try to keep that gap as wide as possible with a view to earning more profits in the long run.In this research paper I evaluate the profitability of ONGC Limited by using ratios.

Keywords: Liquidity Ratio, Turnover Ratio, Profitability Ratio

Introduction

Profit is the ultimate result of all the business concerns. The objective of all the business concerns is to secure a fair return on capital employed. Profit should always be seen as a measure of efficiency of the capital employed. If the investment does not earn satisfactory rate of return, it would be a concerning factor for the enterprise for itself and also for all the other related parties. Essentially, profit is the owner-oriented concept and it signifies the share of income which goes to those who contribute in the equity of the enterprises. However, profitability is operation-oriented and it is related to creation of new wealth. We may thus stress that potential profitability of different alternatives provides the criterion for economizing the case of productive resources, while profit maximization is the mission for economic effectiveness.

Profit is the operational result of a business enterprise. It is the guiding principles of business activity in the way that:

1. It provides incentives to start business activities and continue the same.
2. It is the motive power of all the business concerns and commercial ventures.
3. It provides an attractive base for required capital for the concern.
4. It is a risk premium for the supplier of capital of entrepreneur.
5. It provides the basis for the measurement of the managerial efficiency of the concerns.
6. It ensures financial resources for stability, expansion and diversification of the activities.

Objective of the Study

1. To explain the meaning of working capital& its' types;
2. To explain different factors affecting working capital requirement;
3. Evaluate working capital position of ONGC using different ratios.

Review of Litrature

Kumar Aditya (2016), "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.

Methodology

In this research paper I have used both primary and secondary data. For primary data I have visited to different establishments of ONGC and collect information about working capital. For Secondary data is taken from Annual report of ONGC, Various books, internet and research papers.In the present study, the researcher has followed the standard practice of research with standard tools of research.

Some Important Terms And Related Ratios

Paid up Capital

Paid up capital explains the quantum of issued capital after deducting calls in arrears. The paid-up capital of public enterprises is contributed by the central government, some state government, financial institutions, banks and other agencies.

Loans

The central government has contributed a major share of loans in public enterprises. In addition to central government, some state government, holding companies, financial institutions, banks and private parties (both Indian and foreign) have also contributed to the loans of public enterprises.

Cash Credit/Advance

The exhibit the quantum of loan taken for a short terms basis from banking agencies and financial institution and other parties.

Reserve and Surplus

Reserve and Surplus explain the total of the following items. Development Rebate Reserve/ Investment allowances reserve, General and other reserves the balances of profit from the profit and loss account.

Specific Reserves

Specific reserves or Special Reserves would not be included in the above noted head of reserve and Surplus. Specific/Special Reserves are those reserves which are created for specific purpose like that of gratuity provision etc.

Net Fixed Assets/Net Fixed Block

This head reveals the summation of total fixed assets after deducting depreciation there from.

Other Fixed Assets and Investment

These items are other than the fixed assets and they include capital work in progress, unallocated expenditure during construction and other items in the nature of assets. Investment if they are invested outside the concern, are also included in this head.

Working Capital

It is the difference between current assets and current liabilities. For the purpose current assets includes inventories, raw material, spare parts, work in progress, finished goods, other stores, sundry debtors, loans and advance cash and bank balances and other miscellaneous assets.

Deferred Revenue Expenditure

These are the expenditure carried in the form of capital assets and reveal the higher volume of money. They do not outdate their utility in one year or two, but they are rather contributing for the longer period, say ten years or twelve years or fifteen years. Such expenses are apportioned in ten or twelve equal parts or so and are written off in twelve years or so as the case may be, keeping in view their utility to the concern and their contribution and relevance. An example of the same may be preliminary expense.

Accumulated Deficits

This signifies the total accumulated loss of a unit or units sustained in various years.

Net worth

Net worth represents the share of the shareholders. This shows the amounts of paid-up capital with reserve and surplus. In the net worth, the specific reserves are not added and the D.R.E. and accumulated deficits are also deducted in the calculation of net worth.

Capital Employed

Capital employed is the total of shareholder's capital and also borrowed capital.

Capital Employment = Net Fixed Assets + Working Capital.

Net Sales

Net sale is calculated by deducting commission, rebates and discount from gross sales.

Net sales = Gross Sales - Commission, Rebates and Discount

Total Inputs or Total Income

Total receipts or total income is estimated by adding in the net sales, other income and miscellaneous receipts.

Total Receipts = Net Sales + Other Income + Misc. Receipts.

Total Expenses

Total expenses are calculated by summing up the following items of expenditures.

1. Purchase of finished goods.
2. Consumption of raw materials, stores and spares.
3. Salaries, wages and benefits.
4. Repairs and maintenance.
5. Power and fuel.
6. Miscellaneous expenditure.
7. Prepaid adjustment (Net).
8. Appreciation/Depreciation in Stock of finished goods and.
9. Work-in-progress.

Gross Margin

It explains the excess of total receipts/income over total expenditure.

Depreciation

Depreciation is the amount by which the usefulness of a fixed asset has diminished.

Gross Profit

It is calculated by deducting depreciation, deferred revenue expenditure and preliminary expenses from the gross margin.

Interest

Interest includes the amount of interest on borrowed money and amount paid to the central government, foreign loans, other loans, cash credits etc.

Profit before Tax

This is ascertained by deducting net chargeable interest from gross profit.

Taxation

This includes the amount of the tax-paid or provision for taxation created by the unit concerned.

Profit after Tax

This amount is calculated by deducting tax from the amount of profit before tax.

Dividend

This is the amount of dividend declared on paid up capital.

Retained Earnings

This item is derived by deducting the amount of dividend from the profit after tax.

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.

For studying the profitability of public enterprises, the following ratios are important and they are usually used.

1. Gross Profit ratio
2. Net Profit ratio
3. Return on Capital Employed
4. Return on Net Worth

The ratios relating to profitability are calculated in the following manner: -

Gross Profit Ratio =

$$\frac{Gross\ Profit}{Net\ Sales} \text{ x } 100$$

Net Profit Ratio =

$$\frac{Net\ \text{Profit}}{\text{Net Sales}} \text{ x } 100$$

Net profit may be calculated before paying tax and after paying tax the same be arrived at accordingly.

Return on Capital Employed

For calculating ROCE net profit may be either before tax or after tax and the related profit taken up as per the need. Sometimes tax is also taken into the account; ROCE may be calculated as under:

$$\text{ROCE} = \frac{\text{Profit before Tax}}{\text{Capital Employed}} \text{ x } 100$$

$$\text{ROCE} = \frac{\text{Profit after Tax}}{\text{Capital Employed}} \text{ x } 100$$

$$\text{ROCE} = \frac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \text{ x } 100$$

$$\text{ROCE} = \frac{\text{Profit before Interest but after Tax}}{\text{Capital Employed}} \text{ x } 100$$

Return on Net worth (R.O.N.W)

While calculating the net worth the following items are taken into consideration:

Net Worth = Paid-up Capital + Reserve and Surplus – Deferred Revenue Expenditure - Accumulated Deficits/Losses

A few units have their net worth even less than their paid-up capital, and in few cases the net worth reaches in the negative. In such calculating return on basis of net worth would be unsuitable and misleading.

In the units which have their net worth less than their paid-up capital profitability will be calculated on the basis of their paid-up capital. Thus, it can be calculated in the following manner:

When Net Worth is equal to or more than Paid-up Capital.

$$\text{RONW} = \frac{Net\ \text{Profit after Tax}}{\text{Net Worth}} \text{ x } 100$$

When Net Worth is less than the Paid-up Capital

$$\text{RONW} = \frac{Net\ \text{Profit Tax}}{\text{Paid - up Capital}} \text{ x } 100$$

Profitability Ratios of Ongc Limited

NAME OF RATIOS	2015-16	2016-17	2017-18	2018-19	2019-20
Return on Net worth / Equity (%)	6.91	13.16	10.31	9.64	9.73
Return on Capital Employed (%)	10.96	16.61	12.56	11.59	7.91
Asset Turnover Ratio (%)	32.41	36.26	29.17	31.42	34.94
Total Debt/Equity	0.07	0.11	0.13	0.00	0.00
Return on Assets (%)	4.53	8.83	6.84	7.23	7.27

Source: - Annual Report of ONGC

Interpretation:

Return on Net worth is the highest in 2016-17 i.e., 13.16 and it is lowest in 2015-16. When we calculate average Return on Net Worth it is around 9.95%. In the year 2019-20 it is below average i.e., 9.73%. Actually, by this ratio the investor sees if the entire net profit was passed on to him, how much return would be getting. It also explains the efficiency of the shareholders' capital to generate profit.

Return on capital employed is the lowest in 2019-20 and highest in 2016-17 and it is 7.91 % and 16.61 % respectively. Average return on capital employed of the last five year is 11.93%. This indicates that our return on capital employed in 2019-

20 is 4% less than Average, which is serious cause of worry. This ratio checked how effectively an entity is able to use the capital employed in the business to generate profits during a particular period of time. This ratio is very useful from the perspectives of investors because by this ratio they get to decide whether this company would be good enough to invest in. Higher return on capital employed would be better for investors to invest in.

Asset Turnover Ratio of ONGC is 32.41% in 2015-16, 36.26 % in 2016-17, 29.17 % in 2017-18,31.42 % in 2018-19 & 34.94 % in 2019-20. The asset turnover ratio is the percentage of a company's revenue to the value of its average total short- and long-term assets. If Asset Turnover Ratio is higher it indicates more efficient use of assets and if this ratio is lower it indicates that the company is not using their assets effectively. So, we can say that use of assets is well use in ONGC Limited.

Return on Assets (ROA) indicates that how is the utilization of company's assets. It determines how profitable a company is relative to its total assets. ROA is best used when we compare similar companies with their previous performance.ROA is quite good of ONGC because it is 7.27 in 2019-20 while it is just 4.53 in 2015-16.

Liquidity Ratios of Ongc Limited

NAME OF RATIOS	2015-16	2016-17	2017-18	2018-19	2019-20
Current Ratio (X)	0.67	0.61	0.44	1.55	1.72
Quick Ratio (X)	0.45	0.44	0.30	1.23	1.41
Inventory Turnover Ratio (X)	11.23	14.14	12.70	12.60	13.78
Dividend Pay-out Ratio (NP) (%)	53.80	35.91	38.92	53.17	30.47
Earnings Retention Ratio (%)	46.20	64.09	61.08	46.83	69.53
Cash Earnings Retention Ratio (%)	77.44	77.43	77.45	68.37	81.95

As I told earlier currentratio is the ratio of current assets and current liabilities.Ideal of this ratio is 2:1. It means if the current assets are double from current liabilities it is the excellent situation for the company. For ONGC it was very poor in the year 2015-16 to 2017-18 and it is just 1.55 in 2018-19 and 1.72 in 2019-20. It is improving but it needs more.

Quick ratio is also known as Acid Test Ratio or Liquidity Ratio. It is the ratio of Quick assets and current liabilities and ideal of this ratio is 1:1. That means our quick assets always be equal to our current liability. This ratio is very poor in 2015-16 to 2017-18 because it is less than 1 and it was also poorer in 2018-19 & 2019-20 due to more than 1.

Inventory turnover ratio tells us how much of stock held by the business unit has been converted into sales.Another name of Inventory Turnover is stock turnover ratio. Inventory Turnover ratio of ONGC is highest in 2016-17 and lowest in 2015-16 i.e., 53.80% and 35.91% respectively.

Earning Retention Ratio is the ratio that measures the amount of earnings retained after dividends have been paid to the shareholders. In ONGC it was more in 2019-20 i.e., 69.53% and lowest in 2015-16 with 46.20%. Retention is the opposite of payout ratio and cash earnings retention ratio is excellent in 2019-20 it was 81.95% and lowest in 2018-19 with 68.37%.

Welfare Measures

Even in the changing economic scenario, where commercial viability has taken priority, public Enterprises, as a model employer, have continued to recognize and render their social responsibilities towards welfare of employees of the PSEs. Within the limited resources and recognizing the need of the employees, PSEs have taken all possible efforts to provide housing facilities to the maximum satisfaction of their employees. To have a planned orientation of the township, ecological and social environment are also considered and kept in view. Owing to the location of the projects and other reasons, wherever the employees have not been provided with housing other facilities, they have been compensated with house rent allowance, children education allowance and author allowances. Public sector enterprises have incurred with significant recurring and non-recurring expenditure on the promotion of basic amenities to their work force.

Litrature Review

1. Aditya Prasad Sahoo (2020), "An Analysis On Liquidity Status Of Ongc", In his Research Paper he Explains that 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 analyses overall liquidity condition and concert of the company.
2. Saptrishiroy&dr.Anneshasaha (2019), "Financial Performance of ONGC Tripura Assets and ONGC India- A Comparative Study. As we know Tripura is one of the main exertion centres of ONGC in the North-Eastern region. Tripura is the frontal forth belt of the Assam basin situated between the regions of commercial Oil & Gas reserves of upper Assam and the Gas bearing Sylhet region of Bangladesh. The study is based on the ONGC Tripura Asset which is in operation at Agartala. The study aims to analyse the performance and the financial stability of the ONGC Tripura asset, and also compares the performance growth level with the ONGC India. The study is based on three years of data for the financial year 2015-16 to 2017-18. The outcome

of the study discusses the financial performance of the organisations resulting from ratio analysis.

3. Tanya Varshney and Dr. Rohit Rajwanshi (2019), "A financial study analysing liquid ratios & profitability ratios for oil and natural gas corporation(ongc) limited. This study is an attempt to establish relationship between several working capital ratios and profitability position of ONGC Ltd. using multiple regression analysis. The multiple regression test has been employed to study the profitability of ONGC ltd in terms of its working capital ratios. The study covers secondary data from ONGC Ltd. annual reports from 2008 to 2018. Ratio analysis has been done to analyse and compare the performance trends over several years. Different ratios such as current ratio (CR), quick ratio (QR), Inventory turnover ratio (ITR), current assets to total asset ratio (CATAR), current assets to sales ratio (CASR), return on investment (ROI), cash to sales ratio(CTS), Absolute cash ratios (ACR), debtors turnover ratio (DTR), Working Capital Turnover Ratio (WCTR) are being calculated in order to study the financial position of ONGC Ltd and also to find the relation of each ratio on one another using correlation test. The correlation results depicted slight positive correlation among working capital ratios & profitability ratios such as CR & ROI, QR & ROI, QR & WCTR. The results goes beyond literature but still many studies support the positive relationship among working capital ratios and profitability ratios.
4. Srinivasan (2018), "A Study on Financial Analysis of Vellore Cooperative Sugar Mills at Ammundi Vellore. In this study author studied financial analysis of Vellore Cooperative Sugar Mills using various ratios.
5. Pudi, P. (2018) A Study on financial analysis through comparative statements with special reference to HPCL. In this research paper researcher compare the financial statements of HPCL Limited.
6. Kumar aditya (2016), "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.

Conclusion

It may be said that removing corruption in the public sector units, improving technology, implementing better R&D measures, involving private skill and entrepreneurship ensuring sincere and honest involvement of worker through effective work ethics and culture, using stick against ailing units, improving managerial efficiency, making work and performance the main security of the employers and ensuring private participation in the public sector units in general and service units/groups in particulars. Unless we provide a long terms practical solution to the problems of poor profitability the very notion of social contribution of the public sector units would be immaterial from the angle of profitability, Public sector units in India all together have been an utter failure. The Growth and Development of the organization is highly depending on financial position. From the above study we can say that company's fund position is good in terms of financial and liquidity ratios.ONGC is one of the largest Asia based Oil and Gas exploration and Production Companies. But in recent years there is a slowdown in the business activities due to recession and more subsidies. Company should be focused on Liquidity ratio because Liquidity ratios of the company are below standard. So, Proper steps to be taken by the company to overcome to upward the ratios and make better profit with its sound Financial Recourses. The public sector units should have to strong on the profitability front or they would be handed over to private sector.

References

1. *Agarwal M. R. "Financial Management", RBSA Publisher, Jaipur, 4th ed. 2010.*
2. *Chandra Prasanna "Financial Management: Theory and Practice", Tata McGraw-Hill Publishing Company Ltd. New Delhi, 6thed. 2005.*
3. *Kishore Ravi M. "Financial Management", Taxman Allied Services (P) Ltd., New Delhi, 6th ed. 2005.*
4. *Kothari C. R. "Research Methodology", New Age International (P) Ltd, New Delhi, 2004.*
5. *Maheshwari S. N. "Financial Management: Principles and Practice", Sultan Chand & Sons Educational Publishers, New Delhi, 8th ed. 2003.*
6. *"Financial Management: Theory and Practice", Atlantic Publishers and Distributors, New Delhi, 2001.*
7. *Hampton John J. "Financial Decision Making", Prentice Hall Publication of India Pvt. Ltd., 4th ed. 1996.*
8. *Khan M. Y. & Jain P. K. "Financial Management: Text & Problems", Tata McGraw-Hill Publishing Company Ltd. New Delhi.*
9. *The Times of India*
10. *Economic Times*
11. *ONGC Annual reports.*
12. *Money Control.co*
13. *The Business Line*
14. *www.wikipedia.org*
15. *www.mckinsey.com*
16. *www.ongcindia.com*
17. *www.moneycontrol.co*