



## AN ANALYSIS OF LIQUIDITY POSITION OF OIL INDIA LIMITED

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### ABSTRACT

Oil India Limited (OIL) is a Navratna Public Sector Undertaking under the Ministry of Petroleum and Natural Gas. Oil India was founded on 18 February 1959, with its registered office in Duliajan, Assam, as a privately held oil exploration company. In the year 1981, the Government of India acquired 100% of the equity interest in the company. Oil India Limited has earned highest – ever net profit since the company's inception at Rs. 6810.40 crore, a surge of 75.20 percent year on year on the back of higher operating income and growth in oil and gas production. During the last fiscal, the company has reported the highest – ever pipeline throughput of 8.19 MMT. The company has recorded the highest turnover of Rs. 23,272.57 crore, a rise of 60.17 percent year on year. As for Q4FY 2023, the company equally reported improved financial and physical performance over Q4FY 2022, with turnover growth of 26.15 percent and profit after tax increase of 9.71 percent. In this background, an attempt has been to analyze the select financial ratios and to examine the working capital position of Oil India Limited based on five financial years from 2017 to 2021.

**Key Words: Current Ratio, Liquidity Ratio, Working Capital and Oil India Limited.**

### INTRODUCTION

Oil India Limited (OIL) is a Navratna Public Sector Undertaking under the Ministry of Petroleum and Natural Gas. Oil India was founded on 18 February 1959, with its registered office in Duliajan, Assam, as a privately held oil exploration company. Burma originally held two-thirds of the stock and the Government of India held the rest. In the spring of 1961 the company became publicly listed and later that year the Government of India acquired 50% ownership interest. In 1981, the Government of India acquired 100% of the equity interest in the company. The company was created to exploit the oil fields of Naharkatiya and Moran in north-eastern India. Oil India Limited's Naharkatiya – Barauni Crude Oil Pipeline measuring 1157 Km, is the oldest pipeline of India, commissioned in 1962. Oil India Limited carries out its operations through a total of five subsidiaries, namely OIIL (Oil Indian International Limited), Oil India International BV, Oil India Sweden AB, Oil Indian (USA) Inc and OIL Cyprus.

Oil India Limited has earned highest – ever net profit since the company's inception at Rs. 6810.40 crore, a surge of 75.20 percent year on year on the back of higher operating income and growth in oil and gas production. During the last fiscal, the company has reported the highest – ever pipeline throughput of 8.19 MMT. The company has recorded the highest turnover of Rs. 23,272.57 crore, a rise of 60.17 percent year on year. The earnings per share of the company increased to 62.80 per share to rs.35.85 per share in the financial year 2022. OIL Board has declared the final dividend of Rs. 5.50 per share with a total dividend of Rs. 20 per share for the financial year 2023. As for Q4FY 2023, the company equally reported improved financial and physical performance over Q4FY 2022, with turnover growth of 26.15 percent and profit after tax increase of 9.71 percent. Crude oil and Natural Gas production also have shown growth of 6.95 percent and 6.27 percent respectively in Q4FY 2023 year on year. With Numaligarh Refinery Limited (NRL) being a group company of Oil India Limited, the company recorded its highest ever consolidated profit after tax of Rs. 9854.39 crore, a growth of 46.66 percent year on year and a highest ever consolidated turnover of Rs. 41,038.94 crore for the fiscal, an increase of 36.75 percent year on year. In this background, an attempt has been to analyze the select financial ratios and to examine the working capital position of Oil India Limited based on five financial years from 2017 to 2021.



### **REVIEW OF LITERATURE**

Jagan Mohan Rao. P (1993) in his article “Financial Appraisal of Indian Steel Industry” progressive on value addition on the public sector steel industry was measured as a tool for evaluating any business from a giant company to a small enterprise by focus on its capital. The study concluded that most of the company with the idea of financial value added often became super performer.

Amalenda Bhunia. A (2002) “Liquidity Management of Public sector Iron and steel Enterprises in India”, examined the liquidity of public sector iron and steel enterprises in India. The actual values of working capital are lower than the predictable values of working capital. This indicates insufficient level of working capital of SAIL and TISCO. This unacceptable position may be attributed to low raw equipment inventory in the container of SAIL and to low level of receivables in the case of TISCO.

Narware P.C. (2003) in their study “Working Capital and Profitability – An Empirical Analysis of Steel Authority of India Limited” examined the inter-relationship between profitability and working capital of Steel Authority of India Limited. The analysis revealed that working capital management and profitability disclosed both negative and positive relationship.

Subbas Chandra Sekar and Amalenda Bhunia (2004) “Liquidity Trend Analysis: A Case Study of TISCO”, compared the liquidity trends and liquidity position using least square trend analysis and chi-square test. The results of chi-square test showed that there was a significant difference between actual values and trend values of current assets, current liabilities and working capital at 5 percent level. The study concluded that the direction of changes in liquidity in current assets, current liabilities and working capital was not correlated positively and thus the liquidity position of TISCO appeared to be satisfactory.

Michal Kravee (2014) in his study “Application of Multidimensional Statistical Methods in Steel Industry” financial performance of 49 companies has been evaluated by cluster analysis and factor analysis has been used. The study found that Chinese companies’ production would grow for the whole period whereas European companies decline.

### **OBJECTIVES OF THE STUDY**

1. To analyze select liquidity ratios of Oil India Limited based on five financial years from 2017 to 2021.
2. To examine the working capital position of Oil India Limited.
3. To summarize the findings and to suggest measure for financial soundness of Oil India Limited.

### **METHODOLOGY**

#### **DATA COLLECTION PROCESS**

Secondary sources of information of Oil India Limited have been used in the study. The data has been collected from the Financial Statements and Annual reports for the years from 2016-2017 to 2020-2021. An analytical study has been undertaken to assess the data with the available information.

#### **HYPHOTHESIS**

To study the liquidity position of Oil India Limited, the parameters used are current ratio and liquid ratio and working capital.

#### **FINANCIAL TECHNIQUES USED IN THE STUDY**

The financial techniques such as current ratio, liquid ratio and working capital are used in the study.

#### **LIMITATIONS OF THE STUDY**

The study is based on the secondary sources of information from the annual reports of Oil India Limited for five years period. The reliability of the study depends upon the information published in the annual reports.



### ANALYSIS AND INTERPRETATION OF DATA

#### PART – I

In this part, an attempt has been made to analyze select financial ratios of Oil India Limited based on five financial years from 2016 - 2017 to 2020 - 2021. Financial ratios used for analysis in this study include selected short term solvency ratios such as current ratio and liquid ratio.

#### CURRENT RATIO

The short –term liquidity position of a company can be measured by means of current ratio. The current ratio represents the relationship between current assets and current liabilities.

**TABLE – 1**  
**CURRENT RATIO**

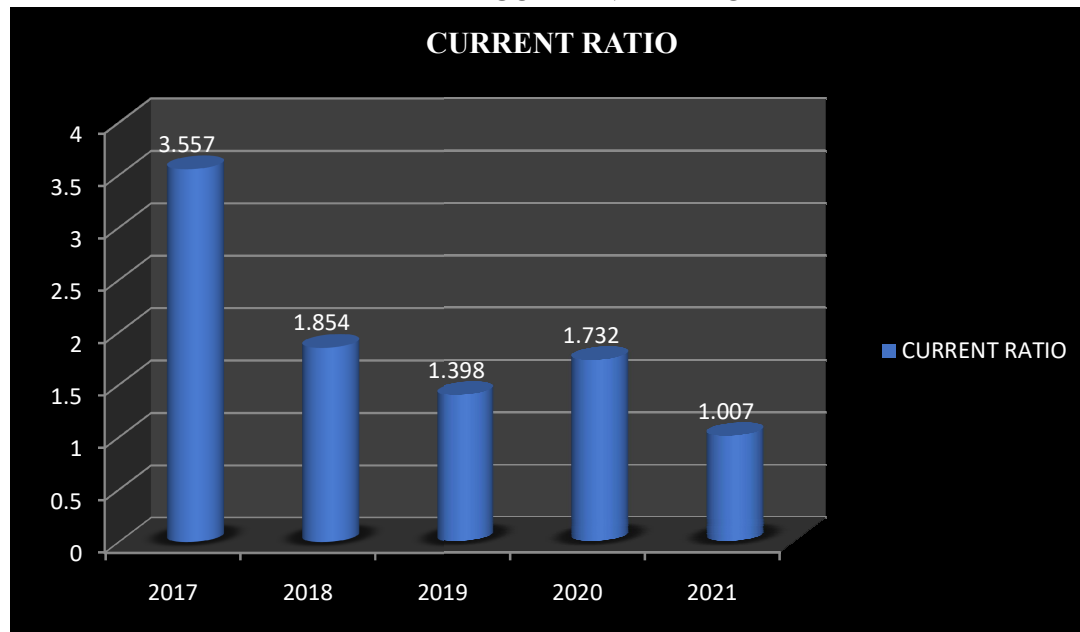
(IN CRORE)

Particulars	2017	2018	2019	2020	2021
Current Assets	11758.74	8115.93	11372.98	9710.35	9086.00
Current Liabilities	3305.15	4376.15	8133.48	5603.40	9014.96
Current Ratio	3.557	1.854	1.398	1.732	1.007

Source: Annual Reports

From the above table, it can be observed that current ratio for the years 2017, 2018, 2019, 2020 and 2021 is 3.557 times, 1.854 times, 1.398 times, 1.732 times and 1.007 times respectively.

**CHART – 1**  
**CURRENT RATIO**



This ratio explains the relationship between current assets and current liabilities. It can also be observed that current ratio is in increasing trend only in the year 2017, it shows increase and decrease trends in the years 2018 to 2021. Therefore, it is concluded that current ratio of Oil India Limited has been fluctuating year by year from 2018 to 2021.



### LIQUID RATIO

Liquid ratio is the difference between liquid assets and current liabilities. Liquid ratio represents the ability of a company to pay the current liabilities using the liquid assets. The analysis of liquid ratio is exhibited in Table – 2.

**TABLE – 2**  
**LIQUID RATIO**

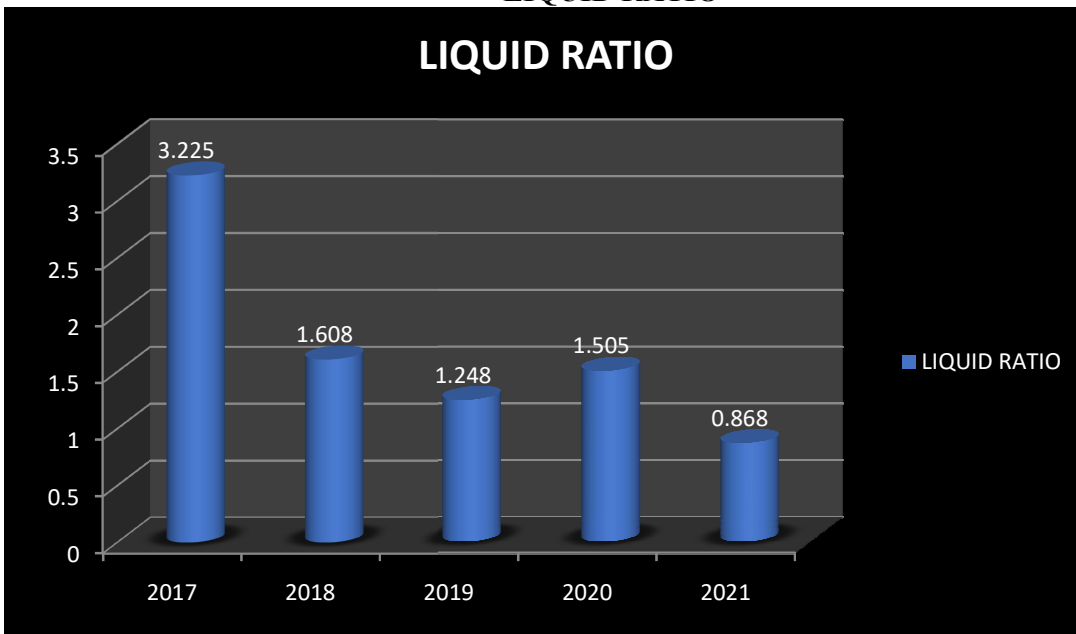
(IN CRORE)

Source: Annual Reports

Particulars	2017	2018	2019	2020	2021
Liquid Assets	10662.27	7037.67	10153.07	8435.33	7827.96
Current Liabilities	3305.15	4376.15	8133.48	5603.40	9014.96
Liquid Ratio	3.225	1.608	1.248	1.505	0.868

From the above table, it can be observed that liquid ratio for the years 2017, 2018, 2019, 2020 and 2021 is 3.225 times, 1.608 times, 1.248 times, 1.505 times, and 0.868 times respectively.

**CHART – 2**  
**LIQUID RATIO**



This ratio explains the relationship between liquid or quick assets and current liabilities. It can also be observed that liquid ratio show the highest 3.225 times in the year 2017. The ideal standard for liquid ratio is 1. Liquid ratio is found to be above the standards for the years 2017, 2018, 2019 and 2020 and it is below the standard for the year 2021.

**PART – II**

In this Part, an attempt has been made to examine the working capital position of Oil India Limited. Working is the difference between current assets and current liabilities.

**TABLE - 3  
WORKING CAPITAL ANALYSIS OF OIL INDIA LIMITED**

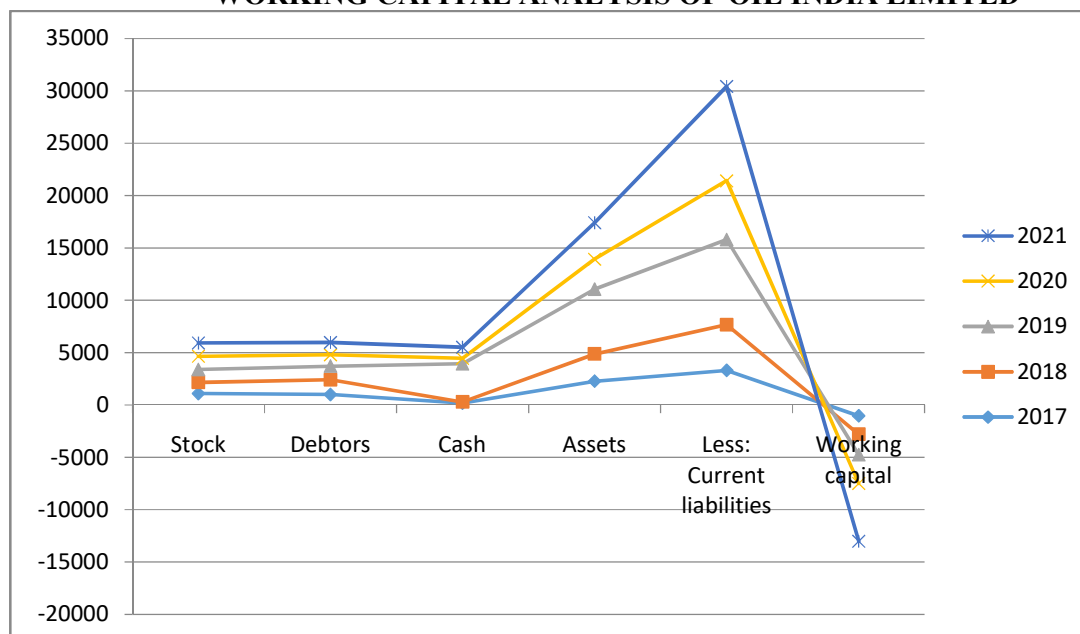
(IN CRORE)

PARTICULARS	2017	2018	2019	2020	2021
Stock	1096.47	1078.26	1219.91	1275.02	1258.04
Debtors	1005.55	1407.76	1313.51	1074.76	1173.84
Cash	177.71	114.95	3661.64	507.10	1058.07
<b>Current Assets</b>	<b>2279.73</b>	<b>2600.97</b>	<b>6195.06</b>	<b>2856.88</b>	<b>3489.95</b>
Less: Current liabilities	3305.15	4376.15	8133.48	5603.40	9014.96
<b>Working capital</b>	<b>(1025.42)</b>	<b>(1775.18)</b>	<b>(1938.42)</b>	<b>(2746.52)</b>	<b>(5525.01)</b>

Source: Annual Reports.

From the above table it can be observed that the Stock in the years 2017, 2018, 2019, 2020 and 2021 is 1096.47, 1078.26, 1219.91, 1275.02 and 1258.04 Rs in crore respectively. The Debtors in the years 2017, 2018, 2019, 2020 and 2021 is 1005.55, 1407.76, 1313.51, 1074.76 and 1173.84 Rs in crore respectively. The Cash in the years 2017, 2018, 2019, 2020 and 2021 is 177.71, 114.95, 3661.64, 507.10 and 1058.07 Rs in crore respectively. The Current Assets in the years 2017, 2018, 2019, 2020 and 2021 is 2279.73, 2600.97, 6195.06, 2856.88 and 3489.95 Rs in crore respectively. The Current Liabilities in the years 2017, 2018, 2019, 2020 and 2021 is 3305.15, 4376.15, 8133.48, 5603.40 and 9014.96 Rs in crore respectively. The Working Capital in the years 2017, 2018, 2019, 2020, 2021 is 1025.42, 1775.18, 1938.42, 2746.52 and 5525.01 Rs in crore respectively.

**CHART - 3  
WORKING CAPITAL ANALYSIS OF OIL INDIA LIMITED**





From the above chart it can be observed that trend analysis shows negative impact on working capital for all the five years. The stock shows an increasing trend in the year 2019 and 2020 it started to decrease in the year 2021. The debtors show an increasing trend only in the year 2018 and 2021. The cash shows a fluctuating trend from the year 2017 to 2021. The current assets show an increasing trend in the years 2019 and 2021. The current liabilities show an increasing trend in the year 2018 and 2021. Therefore the working capital is increasing every year with negative trend.

## **FINDINGS**

The following are the findings of the study:

### **CURRENT RATIO**

Current ratio for the years 2017, 2018, 2019, 2020 and 2021 is 3.557 times, 1.854 times, 1.398 times, 1.732 times and 1.007 times respectively. Current ratio is found to be the highest in the year 2017 with 3.557 times which is above the standard. Current ratio is found to be least in the year 2021 with 1.007 times which is below the standard. Current ratio of Oil India Limited has been fluctuating year on year from 2018 to 2021 and it is also below the standard.

### **LIQUID RATIO**

Liquid ratio for the years 2017, 2018, 2019, 2020 and 2021 is 3.225 times, 1.608 times, 1.248 times, 1.505 times, and 0.868 times respectively. Liquid ratio is found to be the highest in the year 2017 with 3.225 times. The ideal standard for liquid ratio is 1. Liquid ratio is found to be above the standards for the years 2017, 2018, 2019 and 2020 and it is below the standard for the year 2021. Liquid ratio of Oil India Limited has been fluctuating year on year from 2018 to 2021.

### **WORKING CAPITAL**

The Current Assets in the years 2017, 2018, 2019, 2020 and 2021 is 2279.73, 2600.97, 6195.06, 2856.88 and 3489.95 Rs in crore respectively. The current assets show increased values in the years 2019 and 2021. The current liabilities in the years 2017, 2018, 2019, 2020 and 2021 is 3305.15, 4376.15, 8133.48, 5603.40 and 9014.96 Rs in crore respectively. The current liabilities show increased values in the year 2018 and 2021. The Working Capital in the years 2017, 2018, 2019, 2020, 2021 is 1025.42, 1775.18, 1938.42, 2746.52 and 5525.01 Rs in crore respectively. The working capital is increasing every year with negative impact.

## **CONCLUSION**

Financial soundness indicates the growth potential of an undertaking. In this study, an attempt has been made to study the short term solvency and working capital position of Oil India Limited. On analyzing the financial reports of Oil India Limited, the short term solvency financial ratio, current ratio is found to be the highest in the year 2017 with 3.557 times, which is above the standard. The standard for current ratio is 2. A high current ratio indicates dependence on long-term source of raising funds. Current ratio is found to be least in the year 2021 with 1.007 times, which is below the standard. A ratio of less than 2 indicates inadequate current assets to meet current liabilities. Current ratio of Oil India Limited has been fluctuating year by year from 2018 to 2021 and it is also below the standard. Hence, Oil India Limited should maintain Ideal ratio of 2 because it acts as cushion and provides flexibility for payments. Liquid ratio represents the relationship between the liquid assets with current liabilities. Liquid ratio is found to be the highest in the year 2017 with 3.225 times. The ideal standard for liquid ratio is 1. Liquid ratio is found to be above the standards for the years 2017, 2018, 2019 and 2020 and it is below the standard for the year 2021. It represents that Oil India has difficulty in meeting its debts. Working capital represents the relationship between current assets and current liabilities. The current assets show increased values in the years 2019 and 2021. The current liabilities show increased values in the year 2018 and 2021. The working capital is increasing every year with negative impact. The management of working capital involves managing inventories, accounts receivables, accounts payables and cash. When a large investment is made in purchasing



stocks and equipments, it will result in negative working capital. Positive working capital should be maintained by optimum investment in stocks, products or equipments which will safeguard the financial position of Oil India Limited. Liquidity position reflects the credibility of the company as well as the credit rating of the company.

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