

Financial Statement Analysis of ONGC LTD. with reference to: Horizontal Analysis & Common Size Analysis

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ABSTRACT: ONGC was ranked at 171th position in Forbes Global 2000 list of the worlds' biggest companies for 2012. ONGC has grown multifold to become one of the largest Exploration & Production (E&P) companies in the world. The financial statement Analysis of ONGC for 2012 as compared to 2011 will reveal many things.

The present paper focuses on comparison of financial statements of ONGC for 2011 & 2012 with Horizontal & Common size analysis. Main objective is to identify various reasons of increase or decrease in variables of financial statements esp. Profit at varied stages, and to conclude financial position.

It was found from study that ONGC modifies its capital structure in 2012, by sourcing out more and more funds from own equity. ONGC's investment is increased in fixed assets and decreased in liquid asset in 2012 as compared to 2011, concluding much money blockage in illiquid assets. Still ONGC gets nice increase of PAT, which satisfies shareholders & Investors.

Keywords: Financial Statements, Horizontal Analysis, Common Size Analysis;

1. INTRODUCTION

1.1. Oil Industry:

After the Indian Independence, the Oil Industry in India was a very small one in size and Oil was produced mainly from Assam and the total amount of Oil production was not more than 250,000 tonnes per year. But the Government of India declared the Oil industry in India as the core sector industry under the Industrial Policy Resolution bill in the year 1954, which helped the Oil Industry in India vastly. The Oil that is produced by the Oil Industry in India provides more than 35 percent of the energy that is primarily consumed by the people of India. The demand for oil is predicted to go higher and higher with every passing decade and is expected to reach an amount of nearly 250 million metric ton by the year 2024.

1.2. Oil and Natural Gas Corporation Ltd.-ONGC

ONGC is an Indian multinational oil and gas company headquartered in Dehradun, India. It is one of the largest Asia-based oil and gas exploration and production companies, and produces around 77% of India's crude oil (equivalent to around 30% of the country's total demand) and around 81% of its natural gas. ONGC, as an integrated oil and gas company, has over 55 years of legacy in India. Over the years, ONGC has grown multifold to become one of the largest Exploration & Production (E&P) companies in the world.

2. LITERATURE REVIEW

Ahindra Chakrabati published an article –Performance of public sector enterprises a Case study on fertilizers in –The Indian journal of public enterprises in the year **1988-89**. He made analysis of consumption and production of fertilizer by public sector; he also made analysis of profit and loss statement.

Dr. Promod Kumar published a book (1991):In his book –Analysis of financial statement of Indian Industries he covered the 17 private sector, 5 state owned public sector and central public sector companies. He studied analysis of activities, assessment of profitability, return on capital investment, analysis of financial structure, analysis of fixed assets and working capital.

Dutts S.K: He wrote an article on –Indian tea industry an appraisal which was published in Management accountant in the year of March **1992**. He analyzed the profitability, liquidity and financial efficiency by using various ratios

S.J.parmar(1998): He had done a study on –Financial Efficiency-Modern methods, tools & Techniques for the period from 1998-89 to 1994-95.He had made an attempt to analyze financial strength, liquidity, profitability, cost and sales trend and social welfare trend by using various ratios analysis, common size analysis and value added analysis.

Dr Sanjay Bhayani published a book (2003): In his book –Practical financial statement analysis, he covered 16 public limited cement companies in private sector. He made study of analysis of profitability, working capital, capital structure and activity of Indian cement industry. In his research he revealed various problems of cement industries and suggested remedies for the problems

Marilyn B. Misch and Carolyn A. Galantine (2009): In their Paper –A Financial statement analysis project for introductory financial accounting, they described how a financial statement analysis project is useful in both preparer based and user-based introductory courses in financial accounting. The paper includes the complete project requirement sheet, a team evaluation form, examples of items that students might be expected to address in answering the questions posed, comments on the results of employing the project, and additional suggestions for implementation.

3. RATIONALE OF THE STUDY

Under, Oil drilling & Exploration Industry's top players as per Net profit – ONGC is at top with 25,122.92 cr., followed by GAIL (3653.84 cr.) and Oil India(3446.92 cr.) for 2012. Even ONGC is topping the chart of Indian Companies with Highest Net profit for 2012. ONGC was ranked at 171th position in Forbes Global 2000 list of the worlds' biggest companies for 2012.

The financial statement Analysis of ONGC for 2012 as compared to 2011 will reveal many things .The study focuses on how the NET PROFIT in 2012 has increased by 31.81 Cr. It will be beneficial to, know, where ONGC's money was blocked in 2011 considering various items of Profit

& Loss statement. Besides Money Blockage of ONGC, this study will also reveal ONGC's new sources capital, its fund usage etc. So, analysis of financial statements of ONGC is worth performing it.

4. OBJECTIVES OF THE STUDY

- To compare financial statements of ONGC for 2011 & 2012 with help of tools like Horizontal & Common size analysis.
- To make interpretation of various variables of financial statements from the results derived from tools used.
- To evaluate profit under varied stages i.e. before and after depreciation, interest & tax.
- To identify various reasons of increase or decrease in variables and add it in the interpretation.

5. METHODOLOGY

5.1. Data Collection

Data used in the paper is secondary.

5.2. Data Analysis Tools

5.2.1 Horizontal Analysis:

It includes working out of the increase/ decrease in each item of both Balance Sheet and Profit & Loss account of the current year over the last year. And the increase/decrease in amount is also expressed in the form of percentage.

5.2.2. Common Sized Analysis:

For comparing 2 year's Income statement, the Net sale is assumed to be 100% and respective % for other items can be found in comparison to Net sales. For comparing Balance sheet of 2 years, total amount of sources and applications are assumed to be 100%, and other items are compared against them.

5.3. Time- Period of Paper

Two year's Balance sheet and Income statement of ONGC is analyzed i.e. for year ending 2011 and year ending 2012

6. ANALYSIS & INTERPRETATION

Table 1. Horizontal Profit & Loss A/C For ONGC (Rs. In Cr)

PARTICULARS	Year ended		Increase/ Decrease over 2011	
	31st March 2012	31st March 2011	In terms of Amount	In terms of %
Income				
Sales Turnover	76,887.06	66,487.19	10399.87	15.64
Excise Duty	371.97	322.85	49.12	15.21
Net Sales	76,515.09	66,164.34	10350.75	15.64
Other Income	7,593.53	5,028.07	2565.46	51.02
Stock Adjustments	91.34	12.91	78.43	607.51
Total Income	84,199.96	71,205.32	12994.64	18.25
Expenditure				
Raw Materials	2,450.98	2,790.68	-339.7	-12.17
Power & Fuel Cost	316.18	285.6	30.58	10.71
Employee Cost	6,796.05	6,445.18	350.87	5.44
Other Manufacturing Expenses	265.76	32,098.77	-31833.01	-99.17
Selling and Admin Expenses	0	-16,565.10	16565.1	-100.00
Miscellaneous Expenses	30,207.24	492.78	29714.46	6029.96
Total Expenses	40,036.21	25,547.91	14488.3	56.71
PBDIT	44,163.75	45,657.41	-1493.66	-3.27
Interest	34.83	11,133.34	-11098.51	-99.69
PBDT	44,128.92	34,524.07	9604.85	27.82
Depreciation	7,495.92	6,835.01	660.91	9.67
Profit Before Tax	36,633.00	27,689.06	8943.94	32.30

Extra-ordinary items	626.97	547.7	79.27	14.47
PBT (Post Extra-ord Items)	37,259.97	28,236.76	9023.21	31.96
Tax	12,137.07	9,177.53	2959.54	32.25
Reported Net Profit	25,122.92	19,059.23	6063.69	31.81

6.1 Interpretation

Net Sales: ONGC's Net sale is increasing by 15.64% in 2012 over 2011. This increase could have been more but comparatively with the increase in sales turnover by 15.64%, excise duty is also increased by 15.21% in 2012. So effect of increase in sales turnover is nullified by equal increase in excise duty.

Total Income: There is increase of total Income by 18.25% over 2011, it is been contributed by ONGC's increasing net sales, other income and stock adjustments.

Total Expenses: ONGC's total expenses are rising by 56.71% in 2012 against Revenue generated from sales. Major contribution in this increased expense is given by misc. expenses which is increasing by 6029.96%, followed by power and fuel i.e. increasing by 10.71% over 2011. One can interpret that with the increase in power & fuel, the orders for company have also risen.

PBDIT: PBDIT is decreasing by 3.27% in 2012, which is due to higher expenditure of ONGC in 2012, and which has completely nullified the effect of increase in income as hike in expenditure is very high.

PBDT: ONGC gets nice hike of 27.82% in 2012 for PBDT, It is because of ONGC's decision to reduce debt burden, which decreases interest obligation by 99.69% in 2012. So it can be interpreted ONGC depends more on equity for capital.

PBT(Before EOT): It has grown by 32.30%, it is also observed money blocked in depreciation is also increased by 9.67% in 2012 over 2011. But as the hike in PBDT was 3 times higher than hike in depreciation, it helps to give nice growth in PBT over 2011.

PAT: Final reported NET PROFIT is increased by 31.81% over 2011, which is a good sign for company & its shareholders. ONGC could have generated a better hike in PAT for 2012 but its money blockage in tax payments is also increasing by 32.25% over 2011.

2. Horizontal Balance Sheet For ONGC (Rs. In Cr)

PARTICULARS	Year ended		Increase/ Decrease over 2011	
	31st March 2012	31st March 2011	In terms of Amount	In terms of %
Sources of Funds				
Total Share Capital	4,277.76	4,277.76	0	0.00
Equity Share Capital	4,277.76	4,277.76	4,277.76	100.00
Reserves	108,678.97	93,226.67	15452.3	16.57
Networth	112,956.73	97,504.43	15452.3	15.85
Secured Loans	4,500.00	0	4500	
Unsecured Loans	0	17,564.26	-17564.26	-100.00
Total Debt	4,500.00	17,564.26	-13064.26	-74.38
Total Liabilities	117,456.73	115,068.70	2388.03	2.08
Application of Funds				
Gross Block	191,914.75	80,938.60	110976.15	137.11
Less: Accum. Depreciation	123,857.78	62,299.05	61558.73	98.81
Net Block	68,056.97	18,639.55	49417.42	265.12
Capital Work in Progress	26,879.29	65,354.44	-38475.15	-58.87
Investments	14,398.82	5,332.84	9065.98	170.00
Inventories	5,165.44	4,118.98	1046.46	25.41
Sundry Debtors	6,194.82	3,845.90	2348.92	61.08
Cash and Bank Balance	20,124.57	356.55	19768.02	5544.25
Total Current Assets	31,484.83	8,321.43	23163.4	278.36
Loans and Advances	30,907.72	64,693.91	-33786.19	-52.22
Fixed Deposits	0	22,090.00	-22090	-100.00
Total CA, Loans & Advances	62,392.55	95,105.34	-32712.79	-34.40

Current Liabilities	30,715.22	35,384.31	-4669.09	-13.20
Provisions	23,555.65	34,775.19	-11219.54	-32.26
Total CL & Provisions	54,270.87	70,159.50	-15888.63	-22.65
Net Current Assets	8,121.68	24,945.84	-16824.16	-67.44
Miscellaneous Expenses	0	796.03	-796.03	-100.00
Total Assets	117,456.76	115,068.70	2388.06	2.08

6.2 Interpretation

6.2.1. Sources of Fund

➤ Net Worth

There is an increase of Net worth by 15.85% in 2012, which is only due to increase in Reserves by 16.57% over 2011. ONGC's equity capital remains constant for 2012.

➤ Total Debt

Overall debt is decreased by 74.38% in 2012. The reason is company has taken secured loan in 2012 and has repaid unsecured loan. This way has reduced its debt proportion to greater extent which helped company to reap good PBT by reducing interest obligations.

6.2.2. Applications of Fund

➤ Net Block

Net Block is increased by 265.12% over 2011. This could have been more but Depreciation has increased by 98.81% in 2012, as the company has purchased fixed Assets in 2012, and which has increased Gross block by 137.11%. This indicates more fund of company gets blocked in illiquid asset.

➤ Capital WIP

It is decreasing in 2012 by 58.87%, this may be the good sign as some funds will be released and can be invested elsewhere.

➤ Investments

ONGC's has increased its investment by huge 170%, which can be a good indicator and can be interpreted that company has gathered enough funds or recovered blocked funds which are invested for returns, providing margin of safety for creditors.

➤ Net Current Assets (NCA)

It is decreasing by 67.44% in 2012 which interprets company may find difficulty to manage the working capital requirement. The decrease in CA (by 34.40%) & CL (by 22.65%) can be observed in 2012 which effects NCA., However the CL is decreasing but it is not worth as there is higher decrease in CA comparatively, in 2012.

Table 3. Common Sized Profit & Loss A/C For ONGC (Rs. In Cr)

PARTICULARS	YEAR ENDED		YEAR ENDED	
	31st March 2012	% CHANGE	31st March 2011	% CHANGE
Income				
Sales Turnover	76,887.06	100.49	66,487.19	100.49
Excise Duty	371.97	0.49	322.85	0.49
Net Sales	76,515.09	100.00	66,164.34	100.00
Other Income	7,593.53	9.92	5,028.07	7.60
Stock Adjustments	91.34	0.12	12.91	0.02
Total Income	84,199.96	110.04	71,205.32	107.62
Expenditure		0.00		0.00
Raw Materials	2,450.98	3.20	2,790.68	4.22
Power & Fuel Cost	316.18	0.41	285.6	0.43
Employee Cost	6,796.05	8.88	6,445.18	9.74
Other Manufacturing Expenses	265.76	0.35	32,098.77	48.51
Selling and Admin Expenses	0	0.00	-16,565.10	-25.04
Miscellaneous Expenses	30,207.24	39.48	492.78	0.74
Total Expenses	40,036.21	52.32	25,547.91	38.61
PBDIT	44,163.75	57.72	45,657.41	69.01
Interest	34.83	0.05	11,133.34	16.83
PBDT	44,128.92	57.67	34,524.07	52.18
Depreciation	7,495.92	9.80	6,835.01	10.33
Profit Before Tax	36,633.00	47.88	27,689.06	41.85
Extra-ordinary items	626.97	0.82	547.7	0.83
PBT (Post Extra-ord Items)	37,259.97	48.70	28,236.76	42.68
Tax	12,137.07	15.86	9,177.53	13.87
Reported Net Profit	25,122.92	32.83	19,059.23	28.81

6.3. Interpretation.

➤ *Total Income*

Percentage change in total income is increasing in 2012 against net sales., it can be interpreted that against 100 Rs. Net sales, ONGC gets 110 Rs. Total Income, which is a good sign for company.

➤ *Total Expenses*

ONGC has big list of expenses which have increased in 2012 against sales, they are 52.32 % in 2012, indicating, against 100 Rs. Net sales, ONGC's 52.32 Rs is blocked in big list of expenses. It must be noted, ONGC's expenditure was 38.61% in 2011, which was lesser.

➤ *PBDIT*

It is 57.72% against Net sales in 2012, it has decreased in comparison to 2011, reason is very high hike in expenditure in 2012.

➤ *PBDT*

PBDT of ONGC has increased in 2012 i.e. 57.67% .It can be interpreted that with 100 Rs. Net sales , PBDT is 57.67 Rs., The Increase of this PBDT is contributed by decrease in interest from 16.836% (2011) to only 0.05 % (2012) against Net sales.

➤ *PBT(Before EOT)*

It is 47.68% against Net sales of 2012, It is lesser than PBDT, because of depreciation which is 9.8% in 2012, but it can be seen depreciation is slight decreased against net sales in 2012.

➤ *PAT*

It is 32.83% against Net sales in 2012, it is increasing in comparison to 2011. However, tax obligations of ONGC is also increasing against net sales in 2012, which is 15.86% , which stiked the PAT to 32.83 Rs. against 100 Rs sales.

Table 4. Common Sized Balance Sheet For ONGC (Rs. In Cr)

PARTICULARS	YEAR ENDED		YEAR ENDED	
	31st March 2012	% CHANGE	31st March 2011	% CHANGE
Sources of Funds				
Total Share Capital	4,277.76	3.64	4,277.76	3.72
Equity Share Capital	4,277.76	3.64	4,277.76	3.72
Reserves	108,678.97	92.53	93,226.67	81.02
Networth	112,956.73	96.17	97,504.43	84.74
Secured Loans	4,500.00	3.83	0	0.00
Unsecured Loans	0	0.00	17,564.26	0.00
Total Debt	4,500.00	3.83	17,564.26	15.26
Total Liabilities	117,456.73	100.00	115,068.70	100.00
Application of Funds				
Gross Block	191,914.75	163.39	80,938.60	70.34
Less: Accum. Depreciation	123,857.78	105.45	62,299.05	54.14
Net Block	68,056.97	57.94	18,639.55	16.20
Capital Work in Progress	26,879.29	22.88	65,354.44	56.80
Investments	14,398.82	12.26	5,332.84	4.63

Inventories	5,165.44	4.40	4,118.98	3.58
Sundry Debtors	6,194.82	5.27	3,845.90	3.34
Cash and Bank Balance	20,124.57	17.13	356.55	0.31
Total Current Assets	31,484.83	26.81	8,321.43	7.23
Loans and Advances	30,907.72	26.31	64,693.91	56.22
Fixed Deposits	0	0.00	22,090.00	19.20
Total CA, Loans & Advances	62,392.55	53.12	95,105.34	82.65
Current Liabilities	30,715.22	26.15	35,384.31	30.75
Provisions	23,555.65	20.05	34,775.19	30.22
Total CL & Provisions	54,270.87	46.20	70,159.50	60.97
Net Current Assets	8,121.68	6.91	24,945.84	21.68
Miscellaneous Expenses	0	0.00	796.03	0.69
Total Assets	117,456.76	100.00	115,068.70	100.00

6.4. Interpretation

6.4.1. Sources Of Fund

➤ Net Worth

Out of 100% sources of fund, ONGC has Net worth of 96.17% (2012) higher than 84.74% (2011) of which company has increased Reserves to 92.53% (2012) almost 12% higher than 2011, Where Equity capital remains constant. This interprets efforts of company to depend on own money more.

➤ Total Debt

ONGC takes only 3.83% debt in 2012 and possess only secured loan. It has decreased debt from 15.26% in 2011. This interprets ONGC collects long term funds from own equity and reserves rather than going towards higher debt. This may increase ROE & Profits, with decreasing debt equity ratio and financial leverage in 2012

6.4.2. Applications of Fund

➤ Net Block

It has increased to 57.94 % of total fund, interpreting ONGC's increasing investment in fixed assets in 2012, because in 2011 ONGC invested only 16.20% of fund in net block.

➤ Capital WIP

ONGC blocks only 22.88% in 2012, which is lesser than 2011's 56.80%. It is observed some funds have been switched over to long term assets.

➤ Investments

It has increased to 12.26% in 2012. It interprets out of 100 Rs. ONGC invest 12.26 Rs. In Investment, which was only 4.63. in 2011.

➤ Net Current Assets (NCA)

It is decreasing by 3 times (approx.) in 2012, it is observed investment in CA & CL is also decreased in 2012. It interprets Current ratio falls in 2012, still ONGC can manage its short term requirement internally in 2012 but condition was better in 2011.

7. Conclusions

- Net sales is increasing in 2012 but, effect of increasing sales turnover gets nullified with nearby equal increase in excise duty, this concludes Net sales could not have increased much.
- From the analysis, it is found, against 100 Rs. Net sales, ONGC's Income is 110.04 Rs and Expenses are 52.32 Rs in 2012.
- ONGC's Total Expenses are increased in 2012, which has impact on PBDIT and it is reduced against 2011.
- ONGC decreases debt in 2012, which decreases financial leverage, as interest obligations falls, these funds are invested elsewhere.
- ONGC's PAT for 2012 has increased, which is contributed by increasing PBDT& PBT, but the effect of these increases gets somewhat nullified due to increase of tax obligations in 2012. Still it can be concluded ONGC holds nice increase of PAT, which satisfies shareholders.
- ONGC modifies its capital structure in 2012, by sourcing out more and more funds from own equity. It is found, ONGC collects 96.17% from net worth and only 3.83% from outsiders in 2012. The current debt is from secured loans, while ONGC repaid all unsecured loans.
- ONGC's investment in CA and CL is reduced in 2012, which reduces NCA, which concludes difficulty in managing working capital requirement. ONGC's investment is increased in fixed assets and decreased in liquid asset in 2012 as compared to 2011, concluding much money blockage in illiquid assets.

8. REFERENCES

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