

Liquidity Position Of The Selected Oil And Gas Companies In India

Author

Dr. D. VENGATESWARI

Assistant Professor in Commerce

Idhaya College for Women

Kumbakonam - 612 001, Tamil Nadu

ABSTRACT

One of the several indicators of efficient management of working capital is to examine whether adequate liquidity is maintained to meet the short-term obligations as and when they mature. Liquidity or short-term solvency refers to the ability of a business concern to pay off its short-term liabilities. This study makes an attempt to analyze the liquidity position of five major oil and gas companies in India are ONGC, HPCL, IOCL, BPCL and RIL during the period from 2006-07 to 2015-16. To measure the liquidity position of the selected oil and gas companies in India, current ratio, quick ratio, working capital turnover ratio and current assets to total assets ratio have been calculated. The study concludes that none of the companies gave adequate security to the creditors as per the norm. The study gives suggestion to maintain the short-term solvency at optimum, all the companies may try to discharge the current obligations in time and increase the long-term sources for financing their permanent needs.

Key words: Current Assets, Current Liabilities, Total Assets, Working Capital, and Mean.

Liquidity ratios are those ratios which are computed to evaluate the capacity of the company to repay its short-term liabilities. These ratios indicate the short-term financial position of the company by relating short-term

resources with short-term obligations. These ratios are basically used by the short-term creditors' viz. suppliers, bankers, lenders, employees and all others who are interested in the recovery of money due to them. Short-term creditors focus their attention on the liquidity of the company.

Current ratio

Current ratio is considered a powerful parameter of on-going firm's solvency and a reliable prognosticator of potential liquidity. The significance of the current ratio is that it is not only a measure of solvency but also an index of the working capital available to the enterprises. The formula used for calculating current ratio can be expressed as:

In the current assets of the oil and gas companies in India, inventories, sundry debtors, cash and bank balances, loans and advances, prepaid expenses and accrued income are included, while in current liabilities, sundry creditors, short-term bank borrowings, outstanding expenses and provisions are included. Current ratio for the selected oil and gas companies has been exhibited in table no.1

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

From the compiled table, none of the companies gave adequate security to the creditors as per the norm. The average ratio of ONGC and RIL was better than the other selected oil and gas companies which have average ratio of less than 1. The poor ratio of other companies discloses that these corporations are not in a position to meet the day to day payment obligations. The continuous fall in the current ratio indicates that the current liabilities are heavily increasing. The reasons for the lower current ratio may include overtrading, diversion of short-term borrowed funds for financing long-term needs etc.

Quick ratio

A high current ratio by itself is not a sufficient indicator of soundness of the liquidity of a concern. The quick ratio considers the quickly realizable assets and measures them against the current liabilities. This is a more refined tool of analysis, since it underlines relationship between liquid assets and current liabilities. This ratio expressed in formula is:

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Table No.2 catalogues the quick ratio of the selected oil and gas companies in India during the period under study. On the basis of the analysis it may be inferred that the quick ratio of all the companies under study was far from the general norm of 1:1 during the period of study. The situation was very critical in HPCL, IOCL, BPCL and RIL. Their ratios indicate that the quick assets were very inadequate to meet currently maturing obligations. It is also worth mentioning here that over the period, there was increase of the proportion of current liabilities.

Working capital turnover ratio

The working capital turnover ratio is also known as net sales to working capital. The working capital turnover ratio measures how well a company is utilizing its working capital to support a given level of sales. Working capital is current assets minus current liabilities.

To calculate the ratio, divide net sales by average working capital. Formula for working capital turnover ratio is

$$\text{Working capital turnover ratio} = \frac{\text{Net Sales}}{\text{Average working capital}}$$

The working capital turnover ratio of the selected oil and gas companies under study is shown in the table no.3.

RIL has no negative working capital turnover ratio during the study period except in 2015-16. ONGC also has positive working capital turnover

ratio except in 2014-15 and 2-15-16. In these two years of the study period the company has negative working capital due to low investments in current assets and excessive dependence of on current liabilities. HPCL and IOCL, have negative working capital ratio in most of the study period. BPCL has negative working capital turnover ratio over the whole study period.

The table no.3 revealed that the working capital turnover ratio of the selected oil and gas companies in India was not favorable condition. All the selected companies have to take necessary steps to improve the working capital through the increase in the investment in current assets and to decrease the current liabilities.

Current assets to total assets ratio

This ratio represents the structure of assets and the amount in the form of current assets per each rupee invested in assets. Current assets are important to businesses because they are the assets that are used to fund day-to-day operations and pay on-going expenses and include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted into cash.

Current assets to total assets ratio of the oil and gas companies under study has been exhibited in the table no.4. The analysis has revealed that the IOCL has more average value of current assets to total assets ratio compared to other selected oil and gas companies in India. HPCL and also BPCL have more average value which is less good than IOCL. But ONGC and RIL have very poor average value of current assets to total assets ratio. Whenever the amount of current liabilities more, definitely the working capital of the company will affect these low ratio companies.

Conclusion

A sound liquid position is of primary concern to the management from the point of view of meeting current liabilities as and when they mature as well

as for answering continuity of operations. Thus, liquidity is the base of continuous business operations.

On the whole, it can be said that though none of the companies gave adequate security to the creditors as per the norm. The analysis of ratios of current, quick, working capital turnover and current assets to total assets among the selected oil and gas companies gave us an indication that the companies except ONGC and RIL suffer from inadequacy of the working capital in most of the years rather than excessiveness. To maintain the short-term solvency at optimum, all the companies may try to discharge the current obligations in time and increase the long-term sources for financing their permanent needs. Oil and gas companies have to take necessary steps to improve the working capital through the increase of the investment in current assets and to decrease the current liabilities.

References

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Table No.1
Current Ratio

(In Times)

Years	ONGC	HPCL	IOCL	BPCL	RIL
2006-07	2.09	0.92	0.98	0.77	1.16
2007-08	2.07	1.12	1.04	0.78	1.43
2008-09	1.50	1.03	0.73	0.52	1.24
2009-10	1.60	0.79	0.89	0.67	1.36
2010-11	1.42	0.74	0.93	0.75	1.43
2011-12	1.21	0.85	1.02	0.85	1.82
2012-13	1.15	0.87	1.03	0.92	1.62
2013-14	0.94	1.08	1.00	1.08	1.31
2014-15	1.06	1.09	0.97	0.90	0.99
2015-16	0.92	0.96	0.91	0.98	0.68
Mean	1.40	0.95	0.95	0.82	1.30

Source: Compiled from published annual reports of selected oil and gas companies.

Table No.2
Quick Ratio

(In Times)

Years	ONGC	HPCL	IOCL	BPCL	RIL
2006-07	1.07	0.14	0.14	0.16	0.20
2007-08	1.12	0.18	0.11	0.12	0.29
2008-09	0.67	0.20	0.09	0.09	0.58
2009-10	0.69	0.13	0.10	0.09	0.47
2010-11	0.72	0.10	0.10	0.09	0.61
2011-12	0.79	0.10	0.10	0.12	0.63
2012-13	0.72	0.13	0.11	0.15	0.70
2013-14	0.60	0.19	0.12	0.16	0.41
2014-15	0.65	0.20	0.09	0.16	0.13
2015-16	0.56	0.21	0.08	0.21	0.09
Mean	0.76	0.16	0.10	0.14	0.41

Source: Compiled from published annual reports of selected oil and gas companies.

Table No.3
Working Capital Turnover Ratio

(In Times)

Years	ONGC	HPCL	IOCL	BPCL	RIL
2006-07	4.39	115.67	*	*	39.99
2007-08	4.32	197.00	409.45	*	13.87
2008-09	5.05	93.01	*	*	11.38
2009-10	5.64	*	*	*	14.05
2010-11	6.35	*	*	*	10.63
2011-12	10.32	*	*	*	7.34
2012-13	17.84	*	147.51	*	6.36
2013-14	104.35	*	253.46	*	9.09
2014-15	*	65.33	*	*	22.13
2015-16	*	298.94	*	*	*
Mean	19.78	153.99	270.14	-	14.98

* Negative ratio due to negative working capital

Source: Compiled from published annual reports of selected oil and gas companies.

Table No.4
Current Assets to Total Assets Ratio

(In Per cent)

Years	ONGC	HPCL	IOCL	BPCL	RIL
2006-07	35.24	37.41	40.76	41.39	24.99
2007-08	38.12	48.09	46.28	45.21	29.43
2008-09	32.90	35.28	34.67	31.09	23.87
2009-10	30.73	38.95	42.04	40.29	26.64
2010-11	30.82	41.87	48.20	45.65	34.96
2011-12	26.32	48.97	56.98	57.08	44.27
2012-13	22.02	47.84	56.56	54.13	43.03
2013-14	19.47	50.95	52.71	52.33	35.23
2014-15	16.86	39.60	43.25	41.73	27.07
2015-16	16.50	37.77	39.04	35.21	20.88
Mean	26.90	42.67	46.05	44.41	31.04

Source: Compiled from published annual reports of selected oil and gas companies.