

ORIGINAL RESEARCH ARTICLE

Performance Appraisal of Indian Oil Corporation Limited

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ABSTRACT

Efficient performance is the primary condition for development of any industry, which can boost up the industrial growth in an economy. Performance appraisal is an essential for every industry to evaluate its performance in all aspects like production, sales and finance. The strength and weakness of the industry with regard to the various aspects can be identified in this process. The financial performance can be appraised with the help of ratio analysis, which is a powerful tool for appraising the financial performance of an industry. It indicates the effectiveness of long term as well as short-term financial policies of the industry. In this paper, an endeavor has been made to analyze the financial performance of Indian Oil Corporation Limited and its financial position can be well judged by EPS Ratio, Financial Leverage, Operating Leverage, Solvency Ratio, Reserve to Capital Ratio and Proprietary Ratio.

Key words: Performance, Appraisal and Indian Oil Corporation Limited

INTRODUCTION

Indian Oil Corporation Limited, a Maharatna public sector undertaking, here in after referred to as 'IOCL', is operating under the administrative control of the Ministry of Petroleum & Natural Gas. IOCL is primarily engaged in the business of refining, transportation and marketing of petroleum products and petrochemicals with installed refining capacity of 51.2 million metric tonnes, pipeline network of over 10,500 kilometer, marketing infrastructure of over 35,000 selling points and petrochemical facilities at its Panipat & Gujarat Refineries. IOCL is also engaged in exploration & production of crude oil and the distribution of natural gas. The existing paid up capital of IOCL is Rs.2427.95 crore comprising 2,42,79,52,482 shares of face value of Rs.10 each. Presently, the Government of India is holding 78.92% of the paid up equity capital of IOCL and the balance is held by institutions/FIIs/public etc. An analytical evaluation of the financial and operational efficiency of the IOCL is imperative for its efficient functioning performance appraisal of IOCL and its financial position can be well judged by EPS Ratio, Financial Leverage, Operating Leverage, Solvency Ratio, Reserve to Capital Ratio, and proprietary Ratio.

METHODOLOGY OF THE STUDY

The study is based on secondary data collected from the various Annual reports of the IOCL, annual reports of the ministry of petroleum and required information were also collected from PROWESS, which is the most reliable and empowered corporate database of CMIE. The data collected has been classified and analyzed to achieve the objectives of the study.

RESULTS AND DISCUSSION**Analysis of EPS Ratio of IOCL**

The EPS of IOCL is exhibited in (Table 1). In the year 2003-04 the EPS ratio was Rs. 59.97, which was decreased in the year 2004-05 as Rs. 41.88 and then increased to Rs.62.90 in 2006-07. In the subsequent two years, it showed decreasing trend and increased to in the year of 2009-10 as Rs.42.10. Again it shows decreasing trend and it was reduced to Rs.16.29 in 2011-12 and turned to increased in 2012-13 as Rs. 18.32. In short EPS of IOCL was fluctuated in between Rs.16.29 and Rs.59.97. Through the EPS more than the face value of the share in 2012-13, it was reduced by

two times when compare with 2003-04. It shows the poor performance of the IOCL.

Table 1: EPS Ratio of IOC

Years	Net Profit (Rs. In Crores)	No. of Equity Shares	EPS Ratio 2/3 (Rs)
2003-04	7004.82	1168012200	59.97
2004-05	4891.38	1168012200	41.88
2005-06	4915.12	1168012200	42.08
2006-07	7499.47	1168012200	62.90
2007-08	6962.58	1192374306	58.39
2008-09	2949.55	1192374306	24.30
2009-10	10220.55	2427952482	42.10
2010-11	7445.48	2427952482	30.67
2011-12	3954.62	2427952482	16.29
2012-13	4449.01	2427952482	18.32

Source: Annual Reports of IOCL

Analysis of Financial Leverage of IOCL

Financial Leverage of IOCL has been shown in (Table 2). The EBIT of IOCL fluctuated in between the low of Rs. 8,825 crores in the year 2004-05 and the high of Rs.21,629 crores in 2009-10. The PBT of IOCL fluctuated in between the low of Rs.3,754.31 crores in the year 2011-12 and the high of Rs.14106.09 crores in 2009-10. With result the financial leverage ratio lies in between 1.26 in 2003-04 and 4.92 in the year 2011-12. The financial risk is increased during the analysis period. This is mainly caused by the decline in PBT.

Table 2: Financial Leverage of IOC

Year	EBIT (Rs. in crores)	PBT (Rs. In Crores)	Financial Leverage 2/3 (In Times)	Percentage Change
2003-04	12236	9690.84	1.26	-
2004-05	8825	5955.18	1.48	17.46
2005-06	10364	6705.99	1.55	4.73
2006-07	16541	10485.00	1.58	1.94
2007-08	16034	10080.40	1.59	0.63
2008-09	18639	4328.59	4.31	171.07
2009-10	21629	14106.09	1.53	-64.50
2010-11	17595	9095.86	1.93	26.14
2011-12	18484	3754.31	4.92	154.92
2012-13	19598	4504.25	4.35	-11.59

Source: Annual Reports of Indian Oil Corporation Limited

Analysis of Operating Leverage of IOCL

(Table 3) shows the operating leverage of IOCL. The contribution of IOCL fluctuated in between the low of Rs. 13077 crores in the year 2005-06 and the high of Rs.35582 crores in 2011-12. The EBIT of IOCL fluctuated in between the low of Rs. 8,825 crores in the year 2004-05 and the high of Rs.21,629 crores in 2009-10. In year 2003-04 the operating leverage was 1.35 and it was increased to 1.54 in 2004-05. In the subsequent years it was reduced and it was 1.07 in 2009-10. In the years 2010-11 and 2011-12 the operating leverage was increased to 1.34 and 1.93. It was reduced to 1.52 in 2012-13. In short during the analysis period operating leverage was fluctuated in between the low of 1.07 in 2009-10 and high of 1.93 in 2011-12. In the analysis period, it is found

that the operating leverage of IOCL has not stable. It reveals that the business risk of IOCL is not stable.

Table-3: Operating Leverage of IOCL

Year	Contribution (Rs. In Crores)	EBIT (Rs. In Crores)	Operating legerage 2/3 (In Times)	Percentage Change
2003-04	16578	12236	1.35	-
2004-05	13580	8825	1.54	14.07
2005-06	13077	10364	1.26	-18.18
2006-07	20097	16541	1.21	-3.97
2007-08	20048	16034	1.25	3.31
2008-09	26645	18639	1.43	14.4
2009-10	23141	21629	1.07	-25.17
2010-11	23630	17595	1.34	25.23
2011-12	35582	18484	1.93	44.03
2012-13	29719	19598	1.52	-21.24

Source: Annual Reports of Indian Oil Corporation Limited

Analysis of Solvency of IOCL

Solvency Ratio

(Table 4) shows the solvency ratio of IOCL. It establishes the relationship between total liabilities and total assets. During the analysis period both total liabilities and total assets are showing increasing trend. The total liabilities were increased from Rs.12,178 corers in 2003-04 to Rs.173,401 corers in 2012-13. The total assets were increased from Rs.39,509 corers in 2003-2004 to Rs.237,613 corers in 2012-13. Due to the disproportionate increase in the total liabilities and total assets, the solvency ratio was fluctuated in between the low of 0.31 in 2003-04 and high of 0.73 in 2012-13. It is inferred that the solvency position of the IOCL has declined over the years.

Table 4: Solvency Ratio of IOCL

Years	Total Liabilities (Rs. In Crores)	Total Assets (Rs. In Crores)	Solvency Ratio 2/3	Percentage Change
2003-04	12,178	39,509	0.31	-
2004-05	17,320	47,610	0.36	16.13
2005-06	26,404	60,130	0.44	22.22
2006-07	27,083	67,320	0.40	-9.09
2007-08	35,523	81,994	0.43	7.5
2008-09	44,972	94,449	0.48	11.63
2009-10	44,566	99,875	0.45	-6.25
2010-11	52,734	114,403	0.46	2.22
2011-12	75,447	138,566	0.54	17.39
2012-13	173,401	237,613	0.73	35.19

Source: Annual Reports of IOCL

Analysis of Reserve to Capital Ratio of IOCL

Reserve to capital ratio of IOCL has been exhibited in (Table 5). Throughout the period of analysis the reserve fund of IOCL shows increasing trend. Reserve fund were increased from Rs.22783.6 corers in 2003-2004 to Rs.58696.4 corers in 2012-13. Share capital was increased from Rs.1168 corers in 2003-2004 to Rs.2427 corers in 2009-10. With the result Reserve to capital ratio was fluctuated in between the low of 19.51 times in 2003-04 and high of 35.89 times in 2008-09. It is inferred that the

IOCL plaguing back of profit in the business, which shows the strength of financial decision.

Table 5: Reserve to Capital Ratio of Indian Oil Corporation Limited

Years	Reserve (Rs. In Crores)	Capital (Rs. In Crores)	Reserve to Capital Ratio 2/3 (In Times)	Percentage Change
2003-04	22783.6	1168	19.51	-
2004-05	26281.9	1168	22.50	15.33
2005-06	28134.7	1168	24.09	7.06
2006-07	33664.9	1168	28.82	19.63
2007-08	39893.9	1192	33.47	16.13
2008-09	42784.2	1192	35.89	7.23
2009-10	48124.9	2427	19.83	-44.75
2010-11	52904.4	2427	21.80	9.93
2011-12	55448.8	2427	22.85	4.82
2012-13	58696.4	2427	24.18	5.82

Source: Annual Report of Indian Oil Corporation Limited

Analysis of Proprietary Ratio of IOCL

Proprietary Ratio of IOCL has been shown in (Table 6). It establishes the relationship between proprietors fund and total assets. During the analysis period both proprietary value and total assets are showing increasing trend. The proprietors fund were increased from Rs.23,952 corers in 2003-2004 to Rs.63,036 corers in 2012-13. The total assets were increased from Rs.39,509 corers in 2003-2004 to Rs.237,613 corers in 2012-13. Due to the disproportionate increase in the proprietors fund and total assets, the proprietary ratio was fluctuated in between the low of 0.27 in 2012-13 and high of 0.61 in 2003-04. It is noticed from the proprietary ratio the IOCL depends more on debt capital, which is reveals the more risk level of the IOCL.

Table 6: Proprietary Ratio of IOCL

Years	Proprietary Value (Rs. In Crores)	Total Assets (Rs. In Crores)	Proprietary Ratio (In Times)	Percentage Change
2003-04	23,952	39,509	0.61	-
2004-05	27,449	47,610	0.58	-4.92
2005-06	29,303	60,130	0.49	-15.52
2006-07	34,857	67,320	0.52	6.12
2007-08	41,086	81,994	0.50	-3.85
2008-09	43,998	94,449	0.47	6
2009-10	50,553	99,875	0.51	8.51
2010-11	55,332	1,14,403	0.48	-5.88
2011-12	57,877	1,38,566	0.42	-12.5
2012-13	63,036	2,37,613	0.27	-35.71

Source: Annual Reports of IOCL

CONCLUSION

Performance appraisal of IOCL concluded that even though the EPS was more than the face value of the share in 2012-13, it has been reduced by two times compare with 2003-04. It shows the poor performance of the IOCL. It is observed form the financial leverage that the financial risk is increased during the analysis period, which is mainly caused by the decline in PBT. It is found that the operating leverage of IOCL has not stable. It

reveals that the business risk of IOCL is not stable. The solvency ratio was fluctuated in between the low of 0.31 in 2003-04 and high of 0.73 in 2012-13. It is inferred that the solvency position of IOCL has declined over the years. It is noticed from the reserve to capital ratio that the IOCL plaguing back of profit in the business, which shows the strength of financial decision. It is understand from the proprietary ratio that the IOCL depends more on debt capital, which reveals that the company facing more risk.

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