

LIQUIDITY MANAGEMENT IN OIL COMPANIES AT INDIAN OIL CORPORATION LTD

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ABSTRACT: The capacity of oil companies to maintain financial stability and run their businesses effectively is determined by how well they manage cash flow. Particularly in the volatile and capital-intensive oil business. This study examines India's largest public oil corporation, IOCL. IOCL sells, refines, and distributes oil. IOCL manages its short-term assets and debts to maximize profits and solvency, according to the report. Current, quick, and cash flow assessments reveal how effectively a corporation can satisfy short-term commitments. Rules and regulations, operating capital requirements, and volatile crude oil prices are examined in this review. IOCL's effective liquidity management keeps the business running smoothly, enhances investor trust, and ensures its long-term viability.

Keywords: *Liquidity Management, Working Capital, Current Ratio, Quick Ratio, Cash Flow Analysis, Oil Industry, Indian Oil Corporation Limited (IOCL), Financial Stability, Short-term Solvency, Petroleum Sector*

1. INTRODUCTION

Liquidity management ensures a company has enough cash to pay its bills. Because it affects working capital, it's crucial to a company's finances.

The gap between a company's debt and assets is its working capital. A corporation with positive working capital—more assets than debts—is financially healthy. However, a business with negative working capital may be unable to pay its debts due to its higher liabilities than assets. Liquidity management ensures a corporation to meet its short-term financial obligations and business needs by managing cash flow and liquid assets. Businesses analyze and predict cash flows, maximize working capital, have enough cash on hand, and discover the best credit sources to balance cash flow.

Liquidity management helps companies maximize cash use and avoid financial issues. A corporation can maintain stability by managing its cash flow to prepare for unexpected costs and possibilities. Liquidity management for oil firms involves managing and controlling cash flows, optimizing working capital, and having enough cash for short-term and unforeseen needs. Market volatility can be managed by doing scenario studies, using credit lines efficiently, and controlling cash flow. Manage cash, flexible assets, and easy-to-get loans to stabilize operations, fund long-term goals, and avoid financial difficulty in the volatile oil and gas business.



2. LITERATURE SURVEY

HS ur Rehman (2025) The correlation between oil and gas firms' financial management and their success is extensively discussed in this paper. A business employs liquidity management techniques to maximize the usage of its assets and guarantee that it can satisfy its short-term obligations. In order to maintain stability in a capital-intensive and ever-changing market, the research states that oil and gas companies must have good cash and liquid asset management.

Nadir Hajiyev (2024) This study primarily aims to shed light on the financial management strategies employed by oil firms in the face of highly volatile markets, rapid changes in global pricing, and potential international threats. This article examines the various financial techniques employed by oil firms to maintain stability and ensure continued growth. It specifically highlights liquidity management as a crucial instrument for business resilience. As part of its scientific foundation, the study includes an alternative choices matrix that compares various approaches to financial stability. Businesses with more adaptable liquidity solutions are better prepared to deal with unexpected shifts in revenue and expenditure, according to the study's authors. They are able to continue operating at a profit because of this.

Ayman Almeshari (2023) The impact of changing terms of trade on oil-producing economies' prices is examined in this study, along with the ways in which making money available mitigates these effects. In order to mitigate the negative impact of fluctuations in global oil prices on economic growth, this study examines cash flow management strategies employed by the oil industry. From 2000 to 2019, it zeroes down on ten MENA nations to accomplish this. According to the research, economies and businesses may maintain stability, adapt to external shocks, and continue investing and growing by increasing their liquidity. Good liquidity management promotes long-term growth, makes the economy more stable, and makes it less subject to rapid changes in oil prices, according to the study, which looks at both general and sector-specific statistics.

Ismail Alhassan & Kamrul Islam (2022) From 2011 through 2020, this research examines the correlation between the liquidity and profitability of Nigerian oil and gas firms. The study examines the relationship between liquidity measurements (such as current and quick ratios) and important profitability metrics (such as PAT, ROA, and ROE) using a fixed-effects panel regression model. Companies that are good at managing their cash flow are able to make the most of their resources, avoid financial problems, and maintain steady operations, according to the research.

Nadir Hajiyev (2021)

In this article, we'll take a look at the methods used by oil firms to weather extremely volatile markets financially. In order to maintain stability and assist enterprises in dealing with geopolitical tensions, uncertain oil prices, and the global economy's unpredictability, the study highlights the significance of cash management. The study identifies efficient methods of handling money by analyzing case studies of leading oil companies. These methods include maintaining a sufficient cash reserve, making the most of short-term debt, and exploring other funding options. More specifically, it delves into the ways in which liquidity



planning influences company finance, risk management, investment policy, and long-term survival considerations.

3. LIQUIDITY MANAGEMENT STRATEGIES

Treasurers and finance professionals must manage foreign operations, currencies, forecasting accuracy, and cash flow volatility when managing liquidity. Treasurers must manage credit risks, balance short- and long-term debt, and optimize investments for safety and liquidity, making liquidity management tough while maintaining operational efficiency. When used with liquidity management software, these ten strategies can improve liquidity management for your company:



Cash flow forecasting

Maintain a detailed cash flow forecast to predict cash flows. HighRadius' cash flow forecasting algorithm can predict volatile categories like AR and AP with 95% accuracy. This predicts liquidity needs and facilitates planning.

Optimize inventory management

Just-in-time (JIT) inventory solutions reduce inventory costs. Based on turnover and demand predictions, adjust inventory levels regularly.

Streamline accounts receivable

Computerized invoicing, stricter credit requirements, and early payment discounts help speed up receivables collection. Factoring or invoice discounting can turn receivables into cash quickly.

Extend accounts payable

Negotiate extended payment terms with vendors to maintain cash flow without hurting relationships. Avoid delaying payments to maintain creditworthiness.

Optimize debt management

Restructure debt to extend maturities or lower rates. Use short-term credit lines cautiously for liquidity.

Manage capital expenditures

Prioritize capital expenditures and investments that yield fast returns or are essential to operations. Postpone or eliminate unnecessary capital projects.

Enhance revenue streams

Diversify and grow income to ensure a steady flow. Explore new markets, products, and services to increase revenue.

Implement cost control measures

Review and control operating costs regularly. Reduce costs, negotiate better supplier conditions, and improve procedures.

Maintain a cash reserve

Create and maintain a cash reserve with cash flow management software to cover unexpected costs and revenue shortages. Due to HighRadius' real-time cash management technology, you can always monitor cash surpluses or deficits. This reserve protects against liquidity issues.

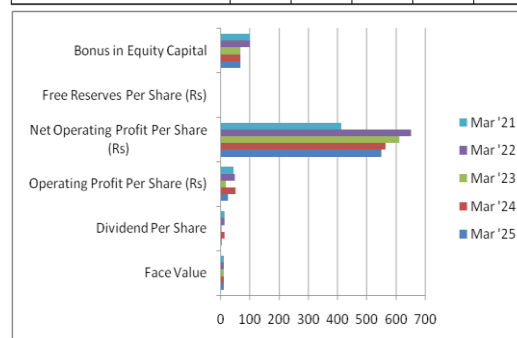
Leverage financial technology

Cash forecasting and management software can improve decision-making, automate financial processes, and provide real-time cash flow information. Technology can help identify patterns and liquidity issues early.

4. RESULTS AND INTERPRETATION

Investment Valuation Ratios

Investment Valuation Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Face Value	10	10	10	10	10
Dividend Per Share	3	12	3	11.4	12
Operating Profit Per Share (Rs)	24.03	50.39	16.16	47.1	41.46
Net Operating Profit Per Share (Rs)	548.92	562.28	609.57	651.52	411.78
Free Reserves Per Share (Rs)	0	0	0	0	0
Bonus in Equity Capital	65.62	65.62	65.62	98.44	98.44

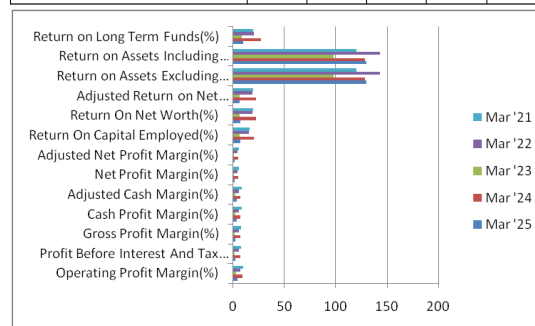


INTERPRETATION: Variations in the company's payout per share reflect unequal profit distribution. A fluctuating operating profit per share indicates variable operational success year after year. Despite operational variances, net operating profit per share is strong, showing good profitability. Bonus equity capital indicates prior issue, while free reserves are always zero, indicating few retained earnings to reinvested.



Profitability Ratios

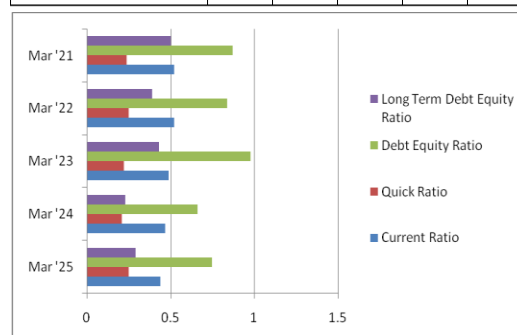
Profitability Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Operating Profit Margin(%)	4.37	8.96	2.65	7.22	10.06
Profit Before Interest And Tax Margin(%)	2.34	7.04	1.22	5.35	7.38
Gross Profit Margin(%)	2.35	7.08	1.23	5.38	7.47
Cash Profit Margin(%)	3.47	6.94	2.37	5.84	8.26
Adjusted Cash Margin(%)	3.47	6.94	2.37	5.84	8.26
Net Profit Margin(%)	1.71	5.11	0.98	4.04	5.77
Adjusted Net Profit Margin(%)	1.7	5.08	0.97	4.01	5.7
Return On Capital Employed(%)	7.27	20.35	6.22	15.1	15.84
Return On Net Worth(%)	7.25	22.41	6.11	18.42	19.76
Adjusted Return on Net Worth(%)	6.22	22.41	6.11	18.42	19.76
Return on Assets Excluding Revaluations	129.74	128.32	97.85	143	120.36
Return on Assets Including Revaluations	129.74	128.32	97.85	143	120.36
Return on Long Term Funds(%)	9.89	27.36	8.61	20.1	19.77



INTERPRETATION: Profit margins have dropped since March 25, indicating that the corporation is less efficient at turning revenues into earnings. A considerable drop in net worth and returns on capital consumed suggests lower profitability than invested and shareholder funds. However, returns on assets are high, indicating good asset utilization. Profitability is volatile, reflecting market or operational sensitivity.

Liquidity And Solvency Ratios

Liquidity And Solvency Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Current Ratio	0.44	0.47	0.49	0.52	0.52
Quick Ratio	0.25	0.21	0.22	0.25	0.24
Debt Equity Ratio	0.75	0.66	0.98	0.84	0.87
Long Term Debt Equity Ratio	0.29	0.23	0.43	0.39	0.5



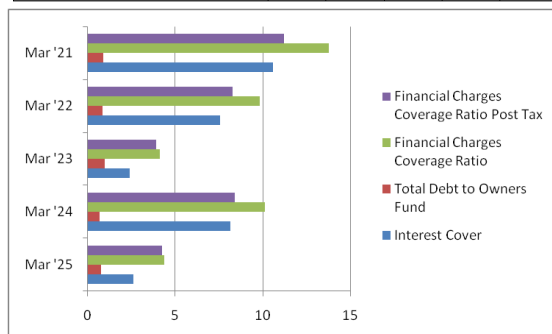
INTERPRETATION: With current and quick ratios below 1, the corporation may have short-term liquidity issues meeting its obligations. The debt-to-equity ratio shows modest



leverage and grew on March 25. Long-term financial stability is improving when long-term debt to equity decreases. The company's high leverage and inadequate short-term liquidity may increase financial risk.

Debt Coverage Ratios

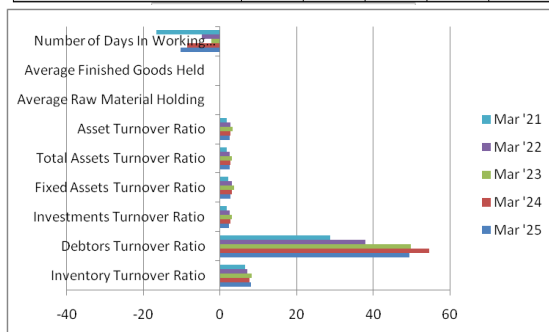
Debt Coverage Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Interest Cover	2.61	8.14	2.4	7.57	10.6
Total Debt to Owners Fund	0.75	0.66	0.98	0.84	0.87
Financial Charges Coverage Ratio	4.36	10.12	4.11	9.85	13.77
Financial Charges Coverage Ratio Post Tax	4.23	8.39	3.9	8.29	11.23



INTERPRETATION: Interest coverage dropped significantly on March 25, indicating a reduced ability to pay interest from operational income. Owners' fund debt has minimal leverage, showing a commitment to debt financing. Both before and after taxes, financial charge coverage ratios have deteriorated, increasing financial risk. The company's debt service decrease has generated concerns about its short- and long-term solvency.

Management Efficiency Ratios

Management Efficiency Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Inventory Turnover Ratio	8.01	7.7	8.21	7.06	6.59
Debtors Turnover Ratio	49.42	54.69	49.86	37.94	28.81
Investments Turnover Ratio	2.41	2.64	3.14	2.47	1.83
Fixed Assets Turnover Ratio	2.81	3.07	3.73	3.05	2.06
Total Assets Turnover Ratio	2.44	2.67	3.17	2.5	1.85
Asset Turnover Ratio	2.49	2.76	3.3	2.66	1.83
Average Raw Material Holding	0	0	0	0	0
Average Finished Goods Held	0	0	0	0	0
Number of Days In Working Capital	-10.26	-8.61	-2.3	-4.67	-16.61



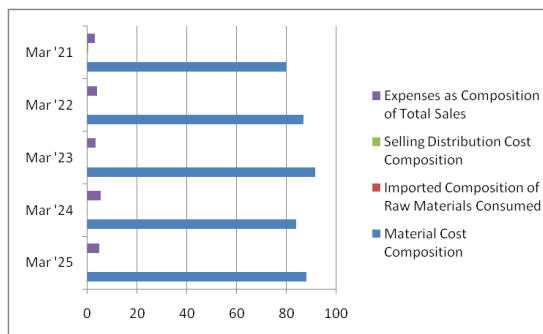
INTERPRETATION: After March 25, debtor turnover declined slightly, yet inventory and debtor turnover ratios demonstrate efficient stock and receivables management. Asset and fixed asset turnover ratios are moderately efficient, with a minor fall on March 25 reflecting



slower resource consumption. Investment turnover is falling, indicating poorer returns. Negative working capital days imply strong operational liquidity since the business collects from customers faster than it pays suppliers.

Profit & Loss Account Ratios

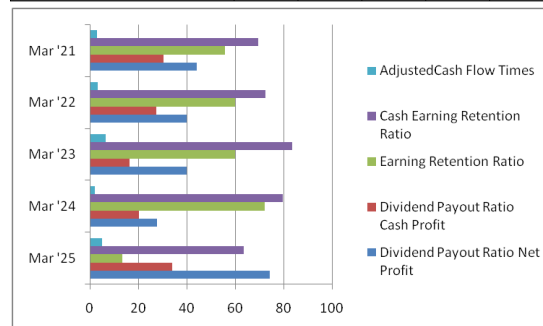
Profit & Loss Account Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Material Cost Composition	88	83.76	91.48	86.63	80
Imported Composition of Raw Materials Consumed	0	0	0	0	0
Selling Distribution Cost Composition	0	0	0	0	0.01
Expenses as Composition of Total Sales	4.77	5.23	3.19	3.69	2.87



INTERPRETATION: The material cost composition is consistently above 80%, indicating that raw materials dominate total expenditures. Without imported raw ingredients, domestic sourcing is used. Selling and distribution have low marketing and logistical costs. Low expenses relative to revenues show rigorous control over operating costs other than raw materials.

Cash Flow Indicator Ratios

Cash Flow Indicator Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Dividend Payout Ratio Net Profit	74.37	27.8	40.1	39.86	44.14
Dividend Payout Ratio Cash Profit	34.13	20.35	16.44	27.39	30.46
Earning Retention Ratio	13.34	72.2	59.9	60.14	55.86
Cash Earning Retention Ratio	63.5	79.65	83.56	72.61	69.54
AdjustedCash Flow Times	5.09	2.15	6.59	3.15	3.05



INTERPRETATION: On March 25, the dividend payout ratio based on net earnings increased significantly, indicating that shareholders are receiving more profits. Internal dividend liquidity is indicated by the minimal cash profit dividend payout. Loss of profit



reinvestment lowers earning retention ratio. Strong adjusted cash flow times show the corporation can pay its debts numerous times.

5. CONCLUSION

The financial studies of significant oil businesses like IOC, ONGC, GAIL, and OIL stress the importance of efficient liquidity management for operational stability and financial health. An study of current ratio, quick ratio, debt-equity ratio, and profitability measures shows that some businesses have solid cash flows and low short-term liabilities, while others are under pressure from increased operational costs or delayed receivables. To increase liquidity, businesses must utilize accurate cash flow predictions, cash buffers, and working capital management.

Hedging against oil price volatility, monitoring receivables, negotiating favorable supplier conditions, and diversifying finance sources can also protect short-term liquidity. Monitoring liquidity ratios, investing extra cash, and using technology for cash management increase financial resilience. Liquidity management helps oil companies meet obligations, expand, and weather market changes.

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