CHAPTER 4 COMPANY PROFILE

4.1 OIL & NATURAL GAS CORPORATION LTD: An Overview

OIL AND NATURAL GAS CORPORATION LTD, (ONGC) today is the premier Indian industry effectively participating in efficient implementation of both the economic as well as the social mission of a national industry. Its growth has been one of consistent stability and ascending productivity, matching international performance makers, through innovative approach and participative management.

ONGC operates in the upstream sector of the petroleum industry on the unstructured premises of accepting the intellectual software's, geological thoughts and perceptions of the petroleum geoscientists, as its basic raw materials until today, there has been no tool or technique that can directly oil with in the earth crust, consequently, oil exploration has over been a highly probabilistic cannot be defined within the confine of the scales and measures of the conventional engineering. Input & Output ratios. In oil explorations activity, inputs are deterministic, but output is probabilistic. It is a high reward business.

Further , oil exploration and production activities are multi-disciplinary, and the industrial constantly operates under a syndrome of high-value high technology(of high rate of obsolescence) that mostly create compulsions for massive investment in exploration increases exponentially because the 'New Finds' of oil deposits progressively become more and more scarce and recovery from old fields become costlier.

Impressions often are focused in the form that ONGC is an Island of prosperity, and thus is, expected to provide high measures of various subsidies to all in various types of industries in the nationals as well as the private sector. Willing or otherwise ONGC has been providing such 'support' services to many Indian Industries, often at the cost of depletions of its logically earned income & profits.

ONGC is a performing national industry constantly achieving commanding heights of performance its attitudinal orientation in TO DO BETTERTHE THINGS BEING DONE WELL. In this document, its structural fabrics management perceptions practices and performance have been briefly profited .ONGC assures the nation than it business –like support of the govt. its main aim is to accelerate the progress of the Indian petroleum industry that would lead to the consolidation of the Indian Energy Security.

Exploration for hydrocarbon is a complex process starting with prognostication and involving the entire activities like geo- scientific surveys, drilling drawing up technological schemes, reservoir assessment, field definitions etc. There is no proven method of direct detections of hydrocarbons; the only definite means of locating oil is through drilling. The two key words in the business of oil explorations are perseverance and ability to take risk.

4.2 History: **(1947 – 1960)**

During the pre-independence period, the Assam Oil Company in the northeastern and Attock Oil company in northwestern part of the undivided India were the only oil companies producing oil in the country, with minimal exploration input. The major part of Indian sedimentary basins was deemed to be unfit for development of oil and gas resources.

After independence, the national Government realized the importance oil and gas for rapid industrial development and its strategic role in defense. Consequently, while framing the Industrial Policy Statement of 1948, the development of petroleum industry in the country was considered to be of utmost necessity.

Until 1955, private oil companies mainly carried out exploration of hydrocarbon resources of India. In Assam, the Assam Oil Company was producing oil at Digboi (discovered in 1889) and the Oil India Ltd. (a 50% joint venture between Government of India and Burma Oil Company) was engaged in developing two newly discovered large fields Naharkatiya and Moran in Assam. In West Bengal, the Indo-Stanvac Petroleum project (a joint venture between Government of India and Standard Vacuum Oil Company of USA) was engaged in exploration work. The vast sedimentary tract in other parts of India and adjoining offshore remained largely unexplored.

In 1955, Government of India decided to develop the oil and natural gas resources in the various regions of the country as part of the Public Sector development. With this objective, an Oil and Natural Gas Directorate was set up towards the end of 1955, as a subordinate office under the then Ministry of Natural Resources and Scientific Research. The department was constituted with a nucleus of geoscientists from the Geological survey of India.

A delegation under the leadership of Mr. K D Malviya, the then Minister of Natural Resources, visited several European countries to study the status of oil industry in those countries and to facilitate the training of Indian professionals for exploring potential oil and gas reserves. Foreign experts from USA, West Germany, Romania and erstwhile U.S.S.R visited India and helped the government with their expertise. Finally, the visiting Soviet experts drew up a detailed plan for geological and geophysical surveys and drilling operations to be carried out in the 2nd Five Year Plan (1956-57 to 1960-61).

In April 1956, the Government of India adopted the Industrial Policy Resolution, which placed mineral oil industry among the schedule 'A' industries, the future development of which was to be the sole and exclusive responsibility of the state.

Soon, after the formation of the Oil and Natural Gas Directorate, it became apparent that it would not be possible for the Directorate with its limited financial and administrative powers as subordinate office of the Government, to function efficiently. So in August, 1956, the Directorate was raised to the status of a commission with enhanced powers, although it continued to be under the government. In October 1959, the Commission was converted into a statutory body by an act of the Indian Parliament, which enhanced powers of the commission further. The main functions of the Oil and Natural Gas Commission subject to the provisions of the Act, were "to plan, promote, organize and implement programs for development of Petroleum Resources and the production and sale of petroleum and petroleum products produced by it, and to perform such other functions as the Central Government may, from time to time, assign to it ". The act further outlined the activities and steps to be taken by ONGC in fulfilling its mandate.

4.2.1 (1961 – 1990)

Since its inception, ONGC has been instrumental in transforming the country's limited upstream sector into a large viable playing field, with its activities spread throughout India and significantly in overseas territories. In the inland areas, ONGC not only found new resources in Assam but also established new oil province in Cambay basin (Gujarat), while adding new petroliferous areas in the Assam-Arakan Fold Belt and East coast basins (both in land and offshore).

ONGC went offshore in early 70's and discovered a giant oil field in the form of Bombay High, now known as Mumbai High. This discovery, along with subsequent discoveries of huge oil and gas fields in Western offshore changed the oil scenario of the country. Subsequently, over 5 billion tones of hydrocarbons, which were present in the country, were discovered. The most important contribution of ONGC, however, is its self-reliance and development of core competence in E&P activities at a globally competitive level.

4.2.2(After 1990)

The liberalized economic policy, adopted by the Government of India in July 1991, sought to deregulate and de-license the core sectors (including petroleum sector) with partial disinvestments of government equity in Public Sector Undertakings and other measures. As a consequence thereof, ONGC was re-organized as a limited Company under the Company's Act, 1956 in February 1994.

After the conversion of business of the erstwhile Oil & Natural Gas Commission to that of Oil & Natural Gas Corporation Limited in 1993, the Government disinvested 2 per cent of its shares through competitive bidding. Subsequently, ONGC expanded its equity by another 2 per cent by offering shares to its employees.

During March 1999, ONGC, Indian Oil Corporation (IOC) - a downstream giant and Gas Authority of India Limited (GAIL) - the only gas marketing company, agreed to have cross holding in each other's stock. This paved the way for long-term strategic alliances both for the domestic and overseas business opportunities in the energy value chain, amongst themselves. Consequent to this the Government sold off 10 per cent of its share holding in ONGC to IOC and 2.5 per cent to GAIL. With this, the Government holding in ONGC came down to 84.11 per cent. Imbibe high standards of business ethics and organizational values. Abiding commitment to safety, health and environment to enrich quality of community life.
Strive for customer delight through quality products and services.

4.3 Integrated In Energy Business

- Focus on domestic and international oil and gas exploration and production business opportunities.
- Provide value linkages in other sectors of energy business.
- Create growth opportunities and maximize shareholder value.

4.4 Dominant Indian Leadership

- Focus on domestic and international oil and gas exploration and production business opportunities.
- Provide value linkages in other sectors of energy business.
- Create growth opportunities and maximize shareholder value.

4.5 HR Vision, Mission & Objectives

4.5.1 HR Vision

"To build and nurture a world class Human capital for leadership in energy business".

4.5.2 HR Mission

"To adopt and continuously innovate best-in-class HR practices to support business leaders through engaged empowered and enthused employees".

4.5.3 HR Objectives

- Enrich and sustain the culture of integrity, belongingness, teamwork, accountability and innovation.
- Attract, nurture, engage and retain talent for competitive advantage.
- Enhance employee competencies continuously.
- Build a joyous work place.
- Promote high performance work systems.
- Upgrade and innovate HR practices, systems and procedures to global benchmarks.
- Promote work life balance.
- Measure and Audit HR performance.
- Promote work life balance Integrate the employee family into the organizational fabric.
- Inculcate a sense of Corporate Social responsibilities among employees.

4.6 Measuring HR Performance

HR Parameters have been incorporated in the MOU by ONGC since 1994-95, to systematically and scientifically evaluate effectiveness of HR Systems, which enables and facilitates time bound initiatives.

4.7 HR Parameters of MoU for 2009-2010

- Mentoring and coaching
- HR Audit
- Engagement Survey
- Continuous professional education credit course for finance executives of ONGC.

A Motivated Team

HR policies at ONGC revolve around the basic tenet of creating a highly motivated, vibrant & self-driven team. The Company cares for each & every employee and has in-built systems to recognize & reward them periodically. Motivation plays an important role in HR Development. In order to keep its employees motivated the company has incorporated schemes such as **Reward and Recognition Scheme**, **Grievance Handling Scheme** and **Suggestion Scheme**.

Incentive Schemes to Enhance Productivity

- Productivity Honorarium Scheme
- Job Incentive
- Quarterly Incentive
- Reserve Establishment Honorarium
- Roll out of Succession Planning Model for identified key positions
- Group Incentives for cohesive team working, with a view to enhance productivity

4.8 Training & Development

An integral part of ONGC's employee-centered policies is its thrust on their knowledge up gradation and development. ONGC Academy, previously known as Institute of Management Development (IMD), which has an ISO 9001 certification, along with 7 other training institutes, play a key role in keeping our workforce at pace with global standards.

ONGC Academy is the premier nodal agency responsible for developing the human resource of ONGC. It also focuses on marketing its HRD expertise in the field of Exploration & Production of Hydrocarbons. ONGC’s Sports Promotion Board, the Apex body, has a Comprehensive Sports Policy through which top honors in sports at national and international levels have been achieved.

4.9 Transforming the Organization

ONGC has undertaken an organization transformation exercise in which HR has taken a lead role as a change agent by evolving a communication strategy to ensure involvement and participation among employees in various work centers. Exclusive workshops and interactions/brainstorming sessions are organized to facilitate involvement of employees in this project.

4.10 Participative Culture

Policies and policy makers at ONGC have always had the interests of the large and multi-disciplined workforce at heart and have been aware of the nuances and significance of cordial Industrial Relations. By enabling workers to participate in management, they are provided with an Informative, Consultative, Associative and Administrative forum for interactive participation and for fostering an innovative culture.

In fact, ONGC has been one of the few organizations where this method has been implemented. It has had a positive impact on the overall operations since it has led to enhanced efficiency and productivity and reduced wastages and costs.

4.11 A Model Corporate Citizen

Respect and **dignity** are the key values that underline the relationship ONGC has with its human assets. Conscious about its responsibility to society ONGC has evolved guidelines for Socio-Economic Development programs in areas around its operations all over the country.

- ✔ Health Care and Family Welfare
- ✔ Education
- ✔ Community Development
- ✔ Promotion of Sports and Culture

- ✔ Calamity Relief
- ✔ Development of Infrastructural Facilities
- ✔ Development of the Socially & Economically Weaker Sections of Society Benefit and Welfare

4.12 *Corporate Social Responsibility*

ONGC is spearheading the United Nations Global Compact - World's biggest corporate citizenship initiative to bring Industry, UN bodies, NGOs, Civil societies and corporate on the same platform.

During the year, your Company has undertaken various CSR projects at its work centre's and corporate level.

4.13 Women Empowerment

Women employees constitute about 5% of ONGC's workforce. Various programs for empowerment and development, including program on gender sensitization are organized regularly.

4.14 ONGC Represents India's Energy Security

ONGC has single-handedly written India's hydrocarbon saga by the following methods:-

- Building 6 billion tones of In-place hydrocarbon reserves with more than 300 discoveries of oil and gas; in fact, 5 out of the 6 producing basins have been discovered by **ONGC:** out of these In-place hydrocarbons in domestic acreage, Ultimate Reserves are 2.1 Billion Metric Tons (BMT) of Oil plus Oil Equivalent Gas (O+OEG).
- Cumulatively producing 685 Million Metric Tons (MMT) of crude and 375 Billion Cubic Meters (BCM) of Natural Gas, from 115 fields.

4.15 Performance

Exploration and production stock, **ONGC** has recovered by over 11 per cent in March, 2007. In the last one week, the counter has gained around 4.14 per cent. But the current market valuation of Rs 878 is considered a pale shadow of its peak-traded price of Rs 1,514, hit in May 2006.

Gross sales for the quarter and nine months ended on 31st December, 2006 include Rs. 1381.18 crore (previous quarter Rs. 527.96 crore) and Rs. 4690.88 crore (previous nine months Rs. 2679.98 crore) respectively towards trading of products of MRPL, a subsidiary of **ONGC** .

The 2006-07 results, expected by the middle of next month, may show higher profit by **ONGC Videsh Ltd,** a 100 per cent **subsidiary of ONGC.**

4.16 Global Ranking

- ONGC ranks as the Numero Uno Oil & Gas Exploration & Production (E&P) Company in the world, as per Plats 250 Global Energy Companies List for the year 2008 based on assets, revenues, profits and return on invested capital (ROIC).
- ONGC ranks 20th among the Global publicly-listed Energy companies as per 'PFC Energy 50" (Jan 2008)
- ONGC is the only Company from India in the Fortune Magazine's list of the World's Most Admired Companies 2007.
- Occupies 152nd rank in "Forbes Global 2000" 2009 list (up 46 notches than last year) of the elite companies across the world; based on sales, profits, assets and market valuation during the last fiscal. In terms of profits, ONGC maintains its top rank from India.
- ONGC ranked 335th position as per Fortune Global 500 - 2008 list; up from 369th rank last year, based on revenues, profits, assets and shareholder's equity. ONGC maintains top rank in terms of profits among seven companies from India in the list.

4.17 Represents India's Energy Security

ONGC has single-handedly scripted India's hydrocarbon saga by:

Establishing 6.61 billion tones of In-place hydrocarbon reserves with more than 300 discoveries of oil and gas; in fact, 6 out of the 7 producing basins have been discovered by ONGC: out of these In-place hydrocarbons in domestic acreages, Ultimate Reserves are 2.36 Billion Metric tons (BMT) of Oil plus Oil Equivalent Gas (O+OEG).

Cumulatively producing 788.273 Million Metric Tons (MMT) of crude and 463 Billion Cubic Meters (BCM) of Natural Gas, from 111 fields.

ONGC has bagged 85 of the 162 Blocks (more than 50%) awarded in the 6 rounds of bidding, under the New Exploration Licensing Policy (NELP) of the Indian Government.

ONGC's wholly-owned subsidiary ONGC Videsh Ltd. (OVL) is the biggest Indian multinational, with 44 Oil & Gas projects (7 of them producing) in 18 countries, i.e. Vietnam, Sudan, Russia, Iraq, Iran, Myanmar, Libya, Cuba, Colombia, Nigeria, Nigeria Sao Tome JDZ, Egypt, Brazil, Congo, Turkmenistan, Syria, Venezuela and United Kingdom. OVL has a committed overseas investment of over 5 billion US dollars.

4.18 India's Most Valuable Public Sector Enterprise

Ranked as the most respected Public Enterprise in India in 2007 "Business World Survey, with 19th position in the league of the most-respected Indian Corporate(s).

Rated 'Excellent' in MOU Performance Rating for 2006-07 by the Department of Public Enterprises, Ministry of Heavy Industries in Public Enterprises, GOI.

Oil Industry Safety Directorate (OISD) has selected Ahmadabad Asset and MRPL for the year 2006-07 (as number one in Group-4 category (Oil & Gas Assets) and Second in Group-1 Refinery category respectively).

Topped the visibility metrics in Indian Oil and Gas Sector and the only PSU in the top 10 list of Indian Corporate newsmakers.

Golden Peacock Global Award 2007 for Excellence in Corporate Governance 2007”, for the 3rd consecutive time, conferred by World Council for Corporate Governance.

Bagged the coveted winner’s trophy of the maiden “Earth Care Award for excellence in climate change mitigation and adoption” under the category of GHG mitigation in the small/medium and large enterprises.

Conferred with “Infra line Energy Excellence Award” for its services to the Nation in Oil & Gas Exploration and Production category.

Bestowed with “Amity Award for Excellence” in Cost Management.

4.19 *Pioneering Efforts*

ONGC is the only fully–integrated petroleum company in India, operating along the entire hydrocarbon value chain:

- Holds largest share of hydrocarbon acreages in India.
- Contributes over 80 per cent of Indian’s oil and gas production.
- About one tenth of Indian refining capacity.
- Created a record of sorts by turning Mangalore Refinery and Petrochemicals Limited around from being a stretcher case for referral to BIFR to the BSE Top 30, within a year.
- Interests in LNG and product transportation business.

4.20 Competitive Strength

- All crudes are sweet and most (76%) are light, with sulpher percentage ranging from 0.02-0.10, API gravity range 26°-46° and hence attract a premium in the market.
- Strong intellectual property base, information, knowledge, skills and experience

- Maximum number of Exploration Licenses, including competitive NELP rounds. ONGC has bagged 85 of the 162 Blocks (more than 50%) awarded in the 6 rounds of bidding, under the New Exploration Licensing Policy (NELP) of the Indian Government.
- ONGC owns and operates more than 15000 kilometers of pipelines in India, including nearly 3800 kilometers of sub-sea pipelines. No other company in India operates even 50 per cent of this route length.

4.21 Strategic Vision: 2001-2020

To focus on core business of E&P, ONGC has set strategic objectives of:

- Doubling reserves (i.e. accreting 6 billion tones of O+OEG).
- Improving average recovery from 28 per cent to 40 per cent.
- Tie-up 20 MMTPA of equity Hydrocarbon from abroad.
- The focus of management will be to monetize the assets as well as to assert the money**.**

4.22 Sourcing Equity Oil Abroad

- ONGC's overseas arm ONGC Videsh Limited (OVL), continued to maintain robust growth during 2007-08. It acquired 11 E&P Projects in 6 countries during the year.
  ONGC Videsh Ltd. (OVL) signed a joint venture agreement with Petroleous de Venezuela SA (PDVSA) on 8th April, 2008 at Caracas to take 40% stake in the San Cristobal oilfield located in Orinoco Heavy Oil belt of Venezuela; Pd VSA will hold the remaining 60% stake.
- The agreement was signed by Mr. R.s. Butola, MD, OVL and Mr. Eleogao Del Pino, MD, Pd VSA during the visit of Mr. Murli Debra, Honorable Minister of P&NG, GOI. Under the agreement OVL and Pd VSA will develop the field from its current production level of 20,000 bbl/d to 40,000 bbl/d.
- The company now has participation in 44 projects in 18 countries. Of the projects acquired, NEMED Block in Egypt offshore is under appraisal phase; Blocks AD-2, AD-3 and AD-9 in Myanmar offshore; Blocks RC-8, RC-9 and RC-10 in Colombia offshore; Blocks ES-M-470

and SM-1413 in Brazil offshore; MTPN Block in Congo offshore and Block 11-12 in Turkmenistan offshore are under exploration phase. The Turkmenistan Block is held through ONGC Mittal Energy Limited (OMEL), a joint venture of OVL and Mittal Investment Sarl.

- Out of 44 Projects, OVL is operator in 18 projects and joint operator in 2 projects in 11 countries. OVL is currently producing oil and gas from Greater Nile Oil Project and Block 5A in Sudan, Block 6.1 in Vietnam, Al Fur at Project in Syria, Sakhalin-I Project in Russia and Mansarovar Energy Project in Colombia. Block BC-10 in Brazil is currently under development with production expected to being in 2009-10, Block A-1 and A-3 in Myanmar, North Ramadan Block and NEMED in Egypt and Farsi Offshore Block in Iran have discoveries and appraisal work is being carried out. The remaining projects are in exploration phase.
- OVL's share of production of oil and oil-equivalent gas (O+OEG), together with its wholly owned subsidiaries ONGC Nile Ganga B.V. and ONGC Amazon Alaknanda Limited, increase from 7.95 MMTOE to 8.80 MMTONE, up 10.7%. Consolidated gross revenue of OVL increased from Rs.118,610 million to Rs.169,540 million, up 42.93% and consolidated net profit from Rs.16,633 million to Rs.23,971 million, up 44.12%.
- ONGC's strategic objective of sourcing 20 million tones of equity oil abroad per year is likely to be fulfilled well before 2020.

4.23 Frontiers Of Technology

State-of-the-art seismic data acquisition, processing and interpretation facilities

• Uses one of the Top Ten Virtual Reality Interpretation facilities in the world
• Alliances with Transocean, Schlumberger, Halliburton and Baker Hughes, IPR, Petro bras, Norsk, ENI, Shell.
• One of the biggest ERP implementations in the Asia

4.24 Best in Class Infrastructure and Facilities

ONGC's success rate is at par with the global norm and is elevating its operations to the best in class level, with the modernization of its fleet of drilling rigs and related equipment.

• ONGC has adopted Best-in-class business practices for modernization, expansion and integration of all Info-com systems.

4.24.1 Onshore

- Pipeline Network (km) :- 15,800
- Drilling Rigs :- 70
- Work Over rigs :- 74
- Seismic Units :- 29
- Logging Units :- 32
- Engineering Workshops :- 2
- Production Installations:- 240
- Regional Computer Centre :- 5
- Virtual Reality Centre :- 5

4.24.2 Offshore

- Well Platforms :- 147
- Well-cum-Process Platforms :- 32
- Process Platforms :- 13
- Drilling Rigs :- 29
- Pipeline Networks (km) :- 4,500
- Offshore Supply Vessels :- 55
- Special Application Vessels :- 4 (including 2 MSV)
- Seismic Vessels :- 1

4.25 Financials (2007-08)

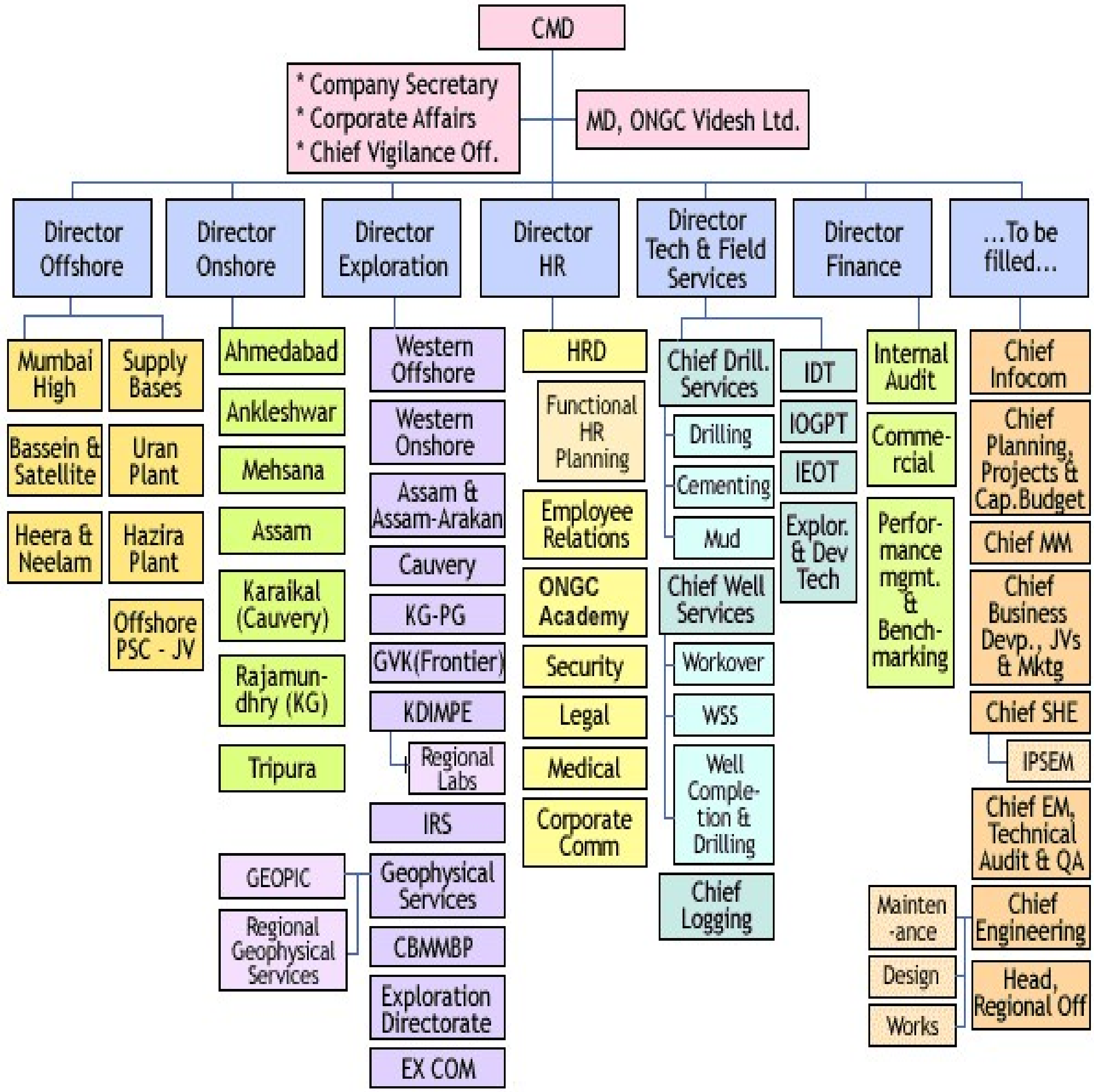
- ONGC posted a net profit of Rs. 167.016 billion, the Highest by any Indian Company.
- Net worth Rs. 699 billion
- Practically Zero Debt Corporate
- Contributed over Rs. 300 billion to the exchequer

4.26 The Road Ahead

ONGC looks forward to become an integrated energy provider, with:

- New Discoveries and fast track development
- Equity Oil from Abroad
- Downstream Value Additions & Forward Integration
- Leveraging state-of-the art technology and global best practices
- New Sources of Energy
- Production from small and marginal fields

Figure 4.27 Organizational Chart



4.28 ONGC GROUP COMPANIES

- ONGC VIDESH LIMITED (OVL)

- MANGALORE REFINERY AND PETROCHEMICALS LIMITED (MRPL)
- ONGC NILE GANGA BV (ONG BV)
- ONGC MITAL ENERGY LIMITED (OMEL)
- ONGC MITTAL ENERGY SERVICE LIMITED (OMESL)
- ONGC TRIPURA POWER COMPANY PVT.LTD. (OTPCL)
- KAKINDA REFINERY & PETROCHEMICALS LIMITED (KRPL)
- KAKINDA SEZ LIMITED
- MANGLORE LIMITED
- DAHEJ SEZ LIMITED
- RAJASTHAN REFINERY LIMITED (RRL)

CHAPTER 5 DATA ANALYSIS

5.1 SWOT ANALYSIS OF ONGC

5.1.1 STRENGTHS

a) **Main features are:**

- ❖ ONGC LTD is perceived to be the leader in oil production industry.
- ❖ ONGC has a very efficient and professional management team.
- ❖ ONGC being an international company has sufficient resources and capital to invest.
- ❖ ONGC has ISO-9001 & ISO 14001 registration.

a) Dominate Indian Leadership

- ❖ Focus on domestic and international oil and gas exploration and production business opportunities.
- ❖ Provide value linkages in other sectors of energy business.
- ❖ Create growth opportunities and maximize shareholder value.
- ❖ Retain dominant position in Indian petroleum sector and enhance India's energy availability.
- ❖ ONGC has a unique distinction of being a company with in-house service capabilities in all the activity areas of exploration and production of oil & gas and related oil-field services.

a) **Represents India's Energy Security**

ONGC has single-handedly written India's hydrocarbon saga by the following methods:

- ❖ Building 6 billion tonnes of In-place hydrocarbon reserves with more than 300 discoveries of oil and gas; in fact, 5 out of the 6 producing basins have been discovered by **ONGC:** out of these In-place hydrocarbons in domestic acreage, Ultimate Reserves are 2.1 Billion Metric Tonnes (BMT) of Oil Plus Oil Equivalent Gas (O+OEG).
- ❖ Cumulatively producing 685 Million Metric Tonnes (MMT) of crude and 375 Billion Cubic Meters (BCM) of Natural Gas, from 115 fields.

a) **India’s Most Valuable Public Sector Enterprise**

- Ranked as the most respected Public Enterprise in India in 2007 “Business World Survey, with 19th position in the league of the most-respected Indian Corporate(s).
- Rated ‘Excellent’ in MOU Performance Rating for 2006-07 by the Department of Public Enterprises, Ministry of Heavy Industries in Public Enterprises, GOI.

e) **Pioneering Efforts**

ONGC is the only fully–integrated petroleum company in India, operating along the entire hydrocarbon value chain.

5.1.2 WEAKNESSES

- ONGC facing difficulties to produce oil from aging reservoirs.
- Security of personnel & property especially crude oil continues to be a cause of concern in certain area.
- In some exploration Campaign Company involves high technology, high technology, High investment and high risks.

5.1.3 OPPORTUNITY

- Energy utilization of buried coal resource (700 – 1700M), estimated 63BT (Equivalent to 15000 BCM).
- ONGC facing difficulties to produce oil from aging reservoirS.

5.1.4 THREATS

The Global Energy market is concerned about – shift in energy demand-supply axis, energy security, geo- politics, growing competition to establish control over energy resources, shortage of skilled manpower, spiraling cost of services resource nationalism, regulatory frame works and taxation policies. ONGC being one of them also faces unprecedented challenge in the form of contradictions in expectations from the nations and societies and ground realities. The contradictions are:

- ❖ Shrinking conventional energy resources and booming energy demand.
- ❖ Increasing cost of producing energy vis-à-vis challenge to supply energy at defined affordable cost to majority of the global population.
- ❖ Changes in complexity of fossil fuel (more from heavy oil and other unconventional sources), available infrastructure to process such fluid and related complexity to downstream operations.
- ❖ Resource holder's demand for partnership in prosperity & economic development and priorities of energy companies
- ❖ Climate change concerns vis-à-vis Energy security.

5.2 Working Capital Management of ONGC

5.2.1 COMPONENTS OF WORKING CAPITAL IN ONGC

5.2.1.1 Current assets

a) Inventories

b) Debtors

c) Cash and Bank balance

d) Others

5.2.1.2 Current Liabilities

a) Sundry creditors for supplies/works:

- ➢ Small scale industry
- ➢ Other than small scale industry

a) Liability for royalty /less/ sales tax etc.

b) Liability for oil bonds / on account payment from PPAC

c) Deposits

d) Other Liabilities
e) Unclaimed Dividend
f) Interest accrued but not due on loans
g) Leave encashment
h) Interim dividend
i) Tax on interim dividend
j) Tax on proposed final dividend
k) Provisions against non-knowing inventories etc.
l) Provisions for abandonment.

5.3 STATEMENT OF NET WORKING CAPITAL OF ONGC

FOR LAST 5 YEARS

Table 5.3.1 ***STATEMENT OF NET WORKING CAPITAL OF ONGC***

	As on 31st Mar 10	**As on 31st Mar 09**	**As on 31st Mar 08**	**As on 31st Mar 07**	**As on31st Mar 06**
A) Current assets					
Inventories	46785	40606	34806	30338	30385
Debtors	30586	40838	43604	27594	37043
Cash& Bank Balance	108279	121405	160143	136704	42792
Deposit with bank under site restoration fund scheme	74031	69556	64033	56103	45336
loans and advances& others & interest accrued	278030	273591	195745	193214	216059
Total current assets	**537711**	**545996**	**498331**	**443953**	**371615**
B) Current Liabilities					
current liabilities and provisions and short term loan(excluding provision for gratuity abandonment & impairment)	194999	211050	176083	139932	105951
Total current liabilities	**194999**	**211050**	**176083**	**139932**	**105951**
working capital (A-B)	537711-194999	545996-211050	498331-176083	443953-139932	371615-105951
Net Working Capital	**342712**	**334946**	**322248**	**304021**	**265664**

5.4 Ratio Analysis of ONGC

5.4.1 LIQUIDITY RATIOS

5.4.1.2 CURRENT RATIO

The liquidity and solvency of a firm are closely related to its working capital position. The usual way to measure a company's liquidity is to divide the current assets by the current liabilities to get the current or 2:1 ratio:

$$\textbf{\textit{Current ratio}} = \text{Current AssetsCurrent Liabilities}$$

This ratio sometimes called the working capital ratio provides a rough measure of the safety afforded to the company's short term creditors. For in the events of a technical liquidation, current assets are more likely to yield a higher percentage of their real value than are fixed assets. Short term lenders regard current assets as the ultimate source for the repayment of their loans.

	As on 31st March 10	**As on 31st March 09**	**As on 31st March08**	**As on 31st March 07**	**As on 31st March 06**
Current Assets	537711	545996	434298	387850	326279
Current Liability	194999	211050	176083	139932	105951
Current Ratio =	2.75	2.58	2.46	2.77	3.08

Table 5.4.1.2

Figure 5.4.1.2

INTERPRETATION

Although the high ratio shown by the graph says that we can easily meet up our current liabilities but too high ratio is also not beneficial for the company as it shows that because of poor investment policies of the management and poor control of inventory, assets are lying idle and they should be further invested.

5.4.2 QUICK RATIO

Quick ratio also called acid test ratio establishes a relationship between quick, or liquid, assets and current liabilities. An asset is liquid if it can be converted into cash immediately. Inventories are considered to be less liquid. Inventories normally require some time for realizing into cash.

Quick Raio =Current Assets-InventoriesCurrent Liabilities

Generally a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition. Thus, a company with a high value of quick ratio can suffer from the shortage of funds if it has slow paying, doubtful and long duration outstanding debtors. On the other hand a company with a low value of quick ratio may really be prospering and paying its current obligation in time if it has been turning over its inventories efficiently.

Table 5.4.2

	As on 31st March 10	As on 31st March 09	As on 31st March 08	As on 31st March 07	As on 31st March 06
Quick Assets = Current Assets - Inventory	490926	505390	399492	357512	295894
quick ratio= quick assets /total current liabilities	2.517582141	2.394645818	2.268770977	2.554898093	2.792743816

Figure 5.4.2

INTERPRETATION

As the inventory does not play a major part in current assets therefore, the difference between quick and current ratio is not high. This can be explained by the fact that ONGC being into an exploration sector requires less amount of raw material.

5.4.2.1 CASH RATIO

The cash ratio measures the extent to which a corporation or other entity can quickly liquidate assets and cover short term liabilities, and therefore is of interest to short term creditors.

Cash Ratio= Cash+Marketable SecuritiesCurrent Liabilities

Table 5.4.2.1 CASH RATIO OF ONGC FOR LAST FIVE YEARS

	As on 31st March 10	As on 31st March 09	As on 31st March 08	As on 31st March 07	As on 31st March 06
CASH	108279.29	121405.48	160143.04	136705.08	42792.65
Marketable Securities	0	0	0	0	0
Current Liabilities	120875.63	140252.80	109151.42	88169.7	65270.11
Cash Ratio	0.895790905	0.865618939	1.467164055	1.550476865	0.655623991

Figure 5.4.2.1

Interpretation

A perusal of above data shows that the concerned ratio is quite satisfactory in all the previous years because it is much higher than the rule of thumb i.e. .5.Moreover a higher ratio in all the years shows that the company has improved its needed short term financial position.

5.4.3 PROFITABILITY RATIOS

Profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when company earns enough profit.

	As on 31st March 10	As on 31st March09	As on 31st March08	As on 31st March 07	As on 31st March 06
Income from Operation (Turnover)	619832	650494	615426	590575	494397
Gross Income or (PBDIT)	375588	319684	314790	306465	283731
Operating Income (PBIT)	229000	198835	216811	211471	199158
Operating Profit or (PBT)	249839	239149	252345	236702	218371
PAT	167676	161263	167016	156429	144308

Table 5.4.3

Figure 5.4.3

5.4.4 Gross Profit Margin

The gross profit margin reflects the efficiency with which management produces each unit of product. A high gross profit margin relative to the industry average implies that the firm is able to produce at relatively lower cost. It is a sign of good management. A gross margin ratio may increase due to; i) higher sales prices, ii) lower cost of goods sold, iii) a combination of variations in sales prices and costs, iv)an increase in the proportionate volume of higher margin items.

A low gross profit margin may reflect higher cost of goods sold due to the firm's inability to purchase raw materials at favorable terms, inefficient utilization of plant and machinery, or over investment in plant and machinery resulting in higher cost of production.

Gross Profit Margin=Sales-Cost of good soldSales=Gross ProfitSales

Table 5.4.4

	As on 31st March 10	As on 31st March 09	As on 31st March 08	As on 31st March 07	As on 31st March 06
Gross Profit Margin	**0.660**	**0.595**	**0.511**	**0.518**	**0.574**

Figure 5.4.4

INTERPRETATION

Gross profit ratio is a reliable guide to the adequacy of selling prices and efficiency of trading activities. As the figure states that the ratio on 31st mar 2006 is highest which shows its higher adequacy to cover the administrative and marketing expenses and to provide for fixed charges, dividends and building up of reserves. Of course, higher the gross profit ratio, the better it is. As on 31st mar 08, the ratio is 51.1%, which is quite similar to the ratio of previous year. Thus, we can say that ONGC is maintaining the gross profit ratio.

5.4.4.1 NET PROFIT MARGIN

Net profit is obtained when operating expenses interest and taxes are subtracted from the gross profit.

$$\text{Net Profit Margin}=\text{PATSales}$$

Net profit margin ratio establishes a relationship between net profit and sales and indicates management’s efficiency in manufacturing, administering and selling the products. This ratio

	As on 31st March 10	As on 31st March 09	As on 31st March08	As on 31st March 07	As on 31st March 06
Net Profit Margin =PAT/SALES	.28	.25	0.27	0.26	0.29

indicates the firm's capacity to withstand adverse economic conditions. A firm with a high net margin ratio would be in an advantageous position to survive in the face of falling selling prices, rising costs of production or declining demand for the product. It would really be difficult for a low net margin firm to withstand these adversities.

Table 5.4.4.1

Figure 5.4.4.1

INTERPRETATION

On comparison of gross profit margin and net profit margin for the last two years, it is observed that net profit margin for year07-08 is greater than for year 06-07 irrespective of having higher gross profit margin in 06-07. This can be explained by the reason that deferred tax liability is higher for the year 07-08 than for the year 06-07.

5.4.5 OPERATING EXPENSE RATIO

The operating expense ratio explains the changes in the profit margin (EBIT to sales) ratio.

$$\text{Operating Expense Ratio}=\text{Operating expensesSales}$$

A higher operating expenses ratio is unfavorable since it will leave a small amount o operating income to meet interest, dividends etc. The variations in the ratio, temporary or long lived can occur due to several factors such as:

a) Change in the sales prices
b) Change in the demand for the product
c) Change in proportionate shares of sales of different products with varying gross margins.

Table 5.4.5

	For 09-10	For 08-09	For 07-08	For 06-07
Operating expense	126324	123812	106823	102016
Sales	599862.77	635982.97	601370.2	569123.1
Operating expense ratio	21.06%	19.47%	17.76%	17.93%

Figure 5.4.5

5.4.6 RETURN ON CAPITAL EMPLOYED

The term investment may refer to total assets or net assets. The conventional approach of calculating return on investment (ROCE) is to divide PBDIT or PBIT by capital employed. Capital employed represents pool of funds supplied by shareholders and lenders, while PAT represents residue income of shareholders.

$$ROCE = \frac{PBDIT}{Capital\ employed}$$

Table 5.4.6

	As on 31st March 10	**As on 31st March 09**	**As on 31st March08**	**As on 31st March 07**	**As on 31st March 06**
PBDIT	375588	319684	314790	306465	283731
CAPITAL EMPLOYED	738014	640583	604844	540744	493763
ROCE = PBDIT/ Capital employed	50.89%	49.91%	52.04%	56.67%	57.46%

Note: PBDIT taken in accordance with annual report of ONGC.

Figure 5.4.6

INTERPRETATION

Return on Capital employed judges the overall performance of the enterprise. ROCE shows a good trend of average 54% in the past five years. It shows the strong profitability and god performance efficiency.

5.4.7 RETURN ON EQUITY (ROE)

Common or ordinary shareholders are entitled to the residual profits. The rate of dividend is not fixed; the earnings may be distributed to shareholders or retained in the business. A return on shareholders equity is calculated to see the profitability of owners investment. The shareholders equity or net worth will include paid up share capital, share premium and reserves and surplus less accumulated losses.

$$\text{Return on Equity}=\text{PATNet Worth}$$

	As on 31st March 10	As on 31st March 09	As on 31st March08	As on 31st March 07	As on 31st March 06
ROE =PAT/ EQUITY	0.19397	0.20652	0.23650	0.25261	0.26743

Table 5.4.7

Figure 5.4.7

INTERPRETATION

ONGC is capable of earning a return of average 25% on the equity employed in the last five years. It shows that equity shareholder's funds are being used efficiently. A constant trend also helps in increased trust worthiness of organization among its shareholders.

5.4.8 LEVERAGE RATIOS

To judge the long term financial position of the firm financial leverage ratios are calculated.

	As on 31st March 10	**As on 31st March 09**	**As on 31st March08**	**As on 31st March 07**	**As on 31st March 06**
UNSECURED LOANS	49.75	267.35	369	696	1069.76
DEBT	52	236	369	696	1069.76
SHARE CAPITAL	21388.87	21388.87	21388.87	21388.87	14259.3
RESERVES AND SURPLUS	851437.15	765965.28	684785.12	597850.39	525337.39
EQUITY	872826.15	787354.28	706173.99	619239.26	539596.69
CAPITAL EMPLOYED	738014	640583	605213	541440	494832
NET WORTH	864413	780848	699435	614099	535934

Table 5.4.8

Figure 5.4.8

5.4.8.1 DEBT RATIO

Sev

eral debt ratios may be used to analyze the long term solvency of a firm. The firm may be interested in knowing the proportion of the interest bearing debt in the capital structure. Total debt will include short and long term borrowings from financial institutions, debentures/bonds, deferred payment arrangements for buying capital equipments, bank borrowings, public deposits and any other interest bearing loan.

Debt ratio=Total debttatal debt+Net worth=Total DebtCapital employed

Table 5.4.8.1

	As on 31st March 10	**As on 31st march 09**	**As on 31st March08**	**As on 31st March 07**
DEBT RATIO = TOTAL DEBT/ CAPITAL EMPLOYED	0.00007045	0.00036841	0.000527569	0.00128716

Figure 5.4.8.1

INTERPRETATION

It is seen that debt ratio is decreasing since 2004 and now it's been very less. This is just because financing through outside has decreased in ONGC.

5.4.9 CAPITAL EMPLOYED RATIO

This is yet another alternative way of expressing the basic relationship between debt and equity.

CE ratio=Capital Employed (CE)Net worth

Table 5.4.9

	As on 31st March 10	**As on 31st March 09**	**As on 31st March08**	**As on 31st March 07**	**As on 31st March 06**
CAPITAL EMPLOYED	738014	640583	605213	541440	494832.76
NET WORTH	864413	780848	699435	614099	535934
CAPITAL EMPLOYED RATIO	0.85	0.82	0.86	0.88	0.92

Figure 5.4.9

5.4.10 ACTIVITY RATIOS

Activity ratios are measures of how well assets are used. Activity ratios -- which are, for the most part, turnover ratios -- can be used to evaluate the benefits produced by specific assets, such as Inventory or accounts receivable. Or they can be use to evaluate the benefits produced by all of Company's assets collectively.

These measures help us gauge how effectively the company is at putting its investment to work. A Company will invest in assets – e.g., inventory or plant and equipment – and then use these assets to generate revenues. The greater the turnover, the more effectively the company is at producing a benefit from its investment in assets.

5.4.10.1INVENTORY TURNOVER RATIOS

Inventory turnover is the ratio of cost of goods sold to inventory. This ratio indicates how many times inventory is created and sold during the period:

Inventory Turnover=Cost of Goods SoldAverage stock

	As on 31st March 10	As on 31st March 09	As on 31st March 08	As on 31st March 07	As on 31st March 06
NET SALES	**599862.77**	**635982.97**	**601370.2**	**569123.1**	**482443.9**
GROSS PROFIT	396054	378292	314790	306465	283731
COST OF GOODS SOLD	203808.7	257690.97	286580.2	262658.1	198712.9
OPENING INVENTORY	40606.71	34806.37	30337.58	30384.94	25691.9
CLOSING INVENTORY	46785.72	40606.71	34806.37	30337.58	30384.94
AVG. INVENTORY	87392.43	37706.54	32571.98	30361.26	28038.42
I.T.R.	2.33	6.83	8.80	8.65	7.09

Table 5.4.10.1

Figure 5.4.10.1

INTERPRETATION

ONGC is turning its inventory of finished goods into sales 8.80 times in 2008. In other words it holds average inventory for 41 days in 2008. The average inventory figure is more appropriate to use than the year end inventory figure because the levels of inventories fluctuate over the year. The average inventory figure smoothes out the fluctuations.

5.4.10.2DEBTORS TURNOVER RATIO

Debtors turnover ratio establishes the relationship between the net credit sales and average debtors of the year. Average debtors are calculated by dividing the sum of debtors in the beginning and at the end by 2. This ratio is calculated as:

	As on 31st March 10	**As on 31st March 09**	**As on 31st March08**	**As on 31st March 07**	**As on 31st March 06**
Net credit sales	599862.77	635982.97	601370.23	569123.06	482443.9
Opening Balance (debtors)	40838.04	43603.66	27594.4	37042.76	37293.07
Closing Balance	30586.37	40838.04	43603.66	27594.4	37042.76
Avg. Acc. Receivables	35712.21	84441.7	35599.03	32318.58	37167.915
Debtors Turnover ratio	16.79	7.53	16.89	17.61	12.98

Debtors turnover ratio=Net credit salesAverage accounts receivables

Figure 5.4.10.2

Figure 5.4.10.2

INTERPRETATION

ONGC is able to turnover its debtors 16.89 times a year in 2008. In other words, its debtors remain outstanding for 21days in 2008. It shows the efficiency of the staff entrusted with collection of amounts due from debtors. The decreased avg. collection period in the last two years is a good indicator and shows the efficiency of collection policies.

5.5 MANAGEMENT OF INVENTORY IN ONGC

In ONGC the inventory consists of stores and spares and trade inventory. Stores and spares are imported as well as indigenous. Since the lead time of the imported items is high, therefore huge inventory is maintained in the stores so as to meet the requirements.

Purchase is made through the following methods:

i. Global Tender.

ii. Open Tender.

iii. Limited Tender.

iv. Single Tender.

v. Hand quotation for petty orders not consuming more than Rs. 5000/-

vi. Annual Rate Contracts.

vii. Board of officers.

The levels are fixed according to the corporate cadre for fixed monetary limits. Provisions for emergency purchase is restored if there is a certain breakdown and when it is necessary to restore equipment, machinery or vehicles and the urgency does not permit following the normal methods purchase. Authority is delegated for purchase as per the book of delegated powers. There is a stores procedure for regulating the purchases, issues and disposal of materials.

The classification of inventory is based mainly on the FSN and ABC analysis. The senior most Material Management Officer not below E-1 (stores and purchase officer) have full power to

5.*6 CASH MANAGEMENT IN ONGC*

The cash management is under the control of its headquarters located in Dehradun. There is a separate cash credit section which takes care of the management of cash. There is a centralized cash arrangement with State Bank of India, Tel Bhawan Dehradun, which is hooked through SBI branches with the main project offices/ sites of ONGC.

The entire stages corporate budget is prepared o