

50<sup>th</sup>

ANNUAL REPORT

2008-09

Indian Oil Corporation Limited

*Annual Report*  
*1964-65*



*The cover of first Annual Report of Indian Oil Corporation Ltd. after merger*

*Towards better financial growth in profitability and liquidity.*

## directors' review (finance)

When crude oil price touched an all-time high of \$ 147 per barrel in July '08, one prominent question in everyone's mind was when would it breach the \$ 150 per barrel level and whether the prediction of analysts of the price touching \$ 200 per barrel would come true. The Government of India, which regulates the prices of the four sensitive products constituting about 65% of the total petroleum products consumption, anticipated a whopping Rs. 2,45,000 crore under-recoveries likely to be faced by the Oil Marketing Companies (OMCs) during the year.

Measures taken by the Reserve Bank of India (RBI) to contain the high rate of inflation resulted in a steep increase in financing cost from 8% to almost 15%. In a short span of three months - July to Sept. '08 - the borrowings of the three Oil Marketing Companies soared from Rs. 71,000 crore to over Rs. 1,10,000 crore. Our borrowings increased from about Rs. 34,500 crore as on 30<sup>th</sup> June '08 to over Rs. 60,000 crore in Sept. '08. Despite the compensation mechanism put in place by the Government in June '08, IndianOil posted a loss of over Rs. 7,000 crore in the second quarter of 2008-09. During the year, the heat was on as borrowings rose unabated, IndianOil faced a liquidity crunch and profitability took a hit.

Meanwhile, the Ministry of Petroleum & Natural Gas, working closely with the Ministry of Finance and RBI, ensured that sufficient funds continued

to flow to the oil sector enabling IndianOil to meet its commitment to supply products to consumers.

One of the major reasons for the huge increase in our borrowings was the considerable lag in receipt of Special Oil Bonds. Oil bonds worth Rs. 35,895 crore as compensation for sales during Jan. '08 to Sept. '08 were issued in three tranches only in Nov. '08, Dec. '08, and Feb. '09. This coupled with the mechanism of special market operations introduced by the RBI to dispose off oil bonds relatively eased IndianOil's liquidity constraints and the borrowings came down to a level of Rs. 45,000 crore as on 31<sup>st</sup> March '09.

Despite severe liquidity constraints during the year, IndianOil balanced the financing requirements of its ongoing projects with the result that the capital expenditure touched a record high of about Rs. 11,000 crore.

The oil price crash from a high of \$ 147 per barrel to about \$ 35 per barrel in the latter part of the year brought great relief to IndianOil in terms of liquidity though not with reference to profitability. Inventory procured during different periods at high prices resulted in significant losses. This coupled with a Government-mandated reduction in product prices and other factors such as lower refining margins, high interest cost and loss on disposal of bonds affected profitability substantially. Without additional support from the Government by way of full compensation of under-recoveries, it would not



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have been possible for IndianOil to post any profit during the year. Therefore, it was only on account of full compensation of under-recoveries by the Government that IndianOil could record a modest annual profit of Rs. 2,950 crore. This is in contrast to a loss of Rs. 6,632 crore upto Sept. '08 and Rs. 3,673 crore upto Dec. '08.

The IndianOil Board has approved the Paradip Refinery project at an estimated cost of Rs. 29,777 crore. With a debt-equity ratio of 60:40, about Rs. 18,000 crore is to be funded by borrowings. Marking it as the single largest syndicated rupee term loan arranged so far for a single project, IndianOil has achieved financial closure for the rupee component of the loan to the extent of Rs. 14,900 crore through a consortium of 19 public sector banks and two financial institutions. The balance loan component is proposed to be met by foreign currency borrowings or by issue of bonds in the domestic market.

As for the outlook for the year 2009-10, the oil prices continue to be volatile and are trading in the region of \$ 60 per barrel in May '09 as compared to \$ 35 per barrel in Mar. '09. Although the refining margins are still thin, there is no cause for major concern. Till May '09, IndianOil's borrowings had come down to about Rs. 32,000 crore with unsold bonds worth Rs. 28,000 crore still on hand. With an appreciating rupee, lower interest rates and under-recoveries on the four sensitive products expected to be manageable, we can hope for a better financial situation in the year 2009-10 both in terms of profitability and liquidity.

