

Directors' review (finance)



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Director (Finance)

The financial year 2009-10 was significant in more ways than one. During the year, the company celebrated its Golden Jubilee after completing 50 years of glorious service to the nation. Sharing this joy with our shareowners, your company had issued Bonus Shares in the ratio of 1:1 exuding optimism about the future potential. Eventually, the year ended with the highest ever profit crossing the Rs. 10,000 crore barrier, recording a net profit of Rs. 10,221 crore. The Board also recommended the highest ever dividend payout of Rs. 13 per share.

While the year started well with low oil prices, a sudden spurt to a level of over \$ 70 per barrel created certain uncertainty with regard to

liquidity and profitability. The burden sharing mechanism of under-recoveries approved by the Government envisaged that MS & HSD under-recoveries would be borne in full by the upstream companies while the burden on LPG and Kerosene would be compensated by the Government. However, inadequate compensation on LPG & SKO resulted in a very nominal profit in the 2nd and 3rd quarters. Eventually, the Government compensated a substantial portion of under-recoveries resulting in the record profit. The Government also switched over to cash compensation in lieu of bonds which resulted in significant improvement in liquidity as well.

The financial turmoil which resulted in withdrawal of foreign banks from lending to corporate sector in India affected the foreign currency borrowings of your company in the latter part of the financial year 2008-09. Various stimulus packages offered by different countries coupled with robust growth in India saw the revival of foreign currency loans with very attractive spreads.

IndianOil took advantage of this situation and increased borrowings from \$ 1.99 billion as on 31st March'09 to \$ 3.22 billion on 31st March'10.

With appropriate currency hedging as per policy, your company could substantially reduce the interest cost. In fact, the company recorded net interest income as against a huge interest expenditure in the earlier year. Taking advantage of the bond market, IndianOil also raised \$ 500 million in the offshore market which was oversubscribed 13 times.

The Government of India had appointed a committee under the Chairmanship of Dr. Kirit Parikh to suggest an appropriate mechanism for the pricing of petroleum products. The Committee recommended the total deregulation of petrol and diesel and suggested targeted subsidies for LPG and SKO.

Based on the decision of the empowered Group of Ministers, constituted to consider this report, the Government announced the deregulation of Petrol and also its intention to deregulate diesel. The consumer prices of all the four sensitive products were also increased. This bolstered the sentiments of the investors who were otherwise weary of Oil stocks. The company's market capitalisation crossed Rs. 1 lakh crore for the first time on 28th June'10.

Your Company recorded the highest ever capital expenditure of Rs. 14,260 crore during the year. The major project at Panipat, the Naphtha Cracker, was commissioned as also the Hydrocracker at Haldia Refinery. All quality-related projects for supply of BS-IV and BS-III fuel were completed or are on the verge of completion.

The International Financial Reporting Standards (IFRS) will be made applicable to Indian corporates in phases from 2011-12 and IndianOil is one of the major corporate which is covered for implementation. Your company has taken advance action and is well ahead in its implementation programme and would be ready by this year end for compliance with new standards.

The outlook for 2010-11 appears to be promising considering the deregulation of petrol and the likely deregulation of diesel. A cash subsidy is also envisaged for subsidised products viz. Kerosene and LPG. While deregulation would result in competition from private players, IndianOil is well equipped to meet the challenges. With the commissioning and stabilisation of Naphtha Cracker project, our margins would further improve and with oil prices remaining range-bound between \$ 70 to \$ 80 per barrel and less uncertainty on the extent of under-recoveries and compensation thereof, IndianOil is poised to grow both its topline and bottomline.



One of the largest treasury operations in the country