CHAPTER-V-

FINANCIAL PERFORMANCE OF IOC
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FINANCIAL PERFORMANCE OF IOC

1.1- Past and Present Performance
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The strength of our economy, which is primarily driven by domestic consumption; the robustness of our financial system and most notably, the foresight and prudence displayed by the Reserve Bank of India, were all contributory in insulating the Indian economy from the turmoil in the international market. The Indian oil & gas sector was, to a certain extent, shielded from global happenings and demand continued to rise. While oil consumption in the developed countries has been falling, the consumption in emerging economies is actually rising. As a nation, our consumption is likely to go up even further powered by the strength of our domestic demand. Company’s sales turnover for the year touched ₹2,71,074 crore while profit after tax touched a high of ₹10,221 crore. The profits were driven by revenues from our diversification forays as well as compensation for under recoveries by the Government of India. The Earnings per Share for the current year is ₹42.10 as compared to ₹12.15 in the previous year (2008-09). The Corporation has been consistently declaring dividend for the past 44 years and this year too, the Board of Directors has recommended a dividend of ₹13 per equity share of ₹10 each on the post-Bonus paid-up Share Capital, as against ₹7.50 per share in the previous year. Strongly driven by the highest ever sales of petroleum products and boosted by an increasing contribution from its Petrochemicals and Gas businesses, the nation's largest corporate and its highest ranked Fortune 'Global 500' company, Indian Oil Corporation Ltd. reported an excellent performance from last five years from 2004-05 to 2008-09.
1.1- PAST AND PRESENT PERFORMANCE

Indian Oil Corporation continuously performs very well during our research period 2004-05 to 2008-09.

The year 2009-10 was turbulent to say the least and the unprecedented recession worldwide continued to impact people. Added to this was the volatility in crude oil prices. In fact, the intra-year volatility of crude oil prices was perhaps the largest during the last two years, with prices touching a low of USD 40/bbl in 2008, only to recover dramatically the next year. There was a slump in demand and the global upstream oil and gas sector behaved rather predictably by cutting back on new and existing exploration projects. The Indian economy emerged out of the grip of recessionary forces, helped by a strong show by the industrial and services sectors. During the year 2009-10, in which the company celebrated its Golden Jubilee, IOC's ranking improved from 116th to 105th in the prestigious Fortune Global 500 listing. The sale of Natural Gas also went up to 1.89 million tonnes and the company emerged as the first Indian corporate to enter the international bond market this year, and even bagged the high-potential Carabobo block in Venezuela in a consortium with Repsol, Petronas, OVL and OIL. A seamless merger of Bongaigaon Refineries and Petrochemicals Ltd was also completed with IOC during the period. To realign the company's strategy in the light of emerging challenges in the future, a new Vision was adopted by the Corporation with an aspiration to emerge as the Energy of India.

IOC's gross turnover (inclusive of excise duty) for the year 2009-10 touched Rs. 2,71,074 crore. The Profit after Tax was Rs 10,221 crore.
The total net under-recovery on account of price under-realisation on PDS Kerosene and domestic LPG in the financial year 2009-10, is Rs. 3,159 crore. This is in comparison with a net under-realisation of Rs.Nil crore in 2008-09.

For the year 2009-10, IOC has accounted for cash compensation of Rs 15,172 crore, out of which Rs. 7,100 crore has been received during the year. In addition, the company has been granted discount of Rs 7,548 crore received from upstream companies, as per the under recovery sharing mechanism.

The Board of Directors has recommended a dividend of Rs 13 per share. The Gross Refining Margin for April-March 2010 is USD 4.47 per barrel as compared to USD 3.69 per barrel during the previous year.

So far, Corporation has paid a cumulative dividend of ` 15,419 crore excluding a dividend of ` 3,156 crore payable for the current year, subject to the approval by shareholders. Company makes enormous contribution to the Exchequer in the form of duties and taxes and during the current year (2009-10), ` 57,680 crore was contribution to the state and central exchequer. For the first quarter of the current fiscal, Corporation posted a loss of ` 3,388 crore as compared to a profit of ` 3,683 crore for the same quarter during the previous year (2008-09). The loss is mainly on account of unmet under-recoveries, lower refining margins and foreign exchange variation loss.

During the year, the Corporation sold over 63 million tonnes of petroleum products registering a growth of 3.52%. Our determination to retain our leadership, in the face of an uncertain retail pricing scenario, was displayed by the sustained efforts made in commissioning new retail outlets in urban and rural areas. IOCL continue to dominate the market in the competitive
branded fuels, lubricants and large volume consumer business. Indane LPG brand earned the coveted status of a 'Superbrand' during the year, and it will now be further expanded through the launch of the Rajiv Gandhi Grameen LPG Vitarak Yojana.

Its refineries achieved a crude throughput of over 50 million tonnes during the Current year, but this was marginally lower than last year due to the planned shutdowns at a few refineries. Corporation's refineries together achieved a capacity utilisation of over 100% and the dispatches of BS-IV quality fuels were done much in advance of the deadline. IOC pipelines registered the highest-ever operational throughput of about 65 million tonnes. With the commissioning of the Chennai-Bengaluru Product Pipeline, the total network of pipelines touched 10,541 km. R&D continues to drive our innovations and 181 product formulations were developed and 65 approvals obtained from Original Equipment Manufacturers.

Recently, when an oil spill threatened the marine ecosystem off Mumbai and polluted the beaches, IOC, along with TERI helped in cleaning up the spill. In another incident of oil spillage caused by a sinking ship at Paradip Port, your Corporation played an important role in the clean-up operations. This we were able to do because of the highly acclaimed modified OiliVorous-S technology for bio-remediation of oily sludge, jointly developed by IOC and TERI. This development proved highly useful in bio-remediation of oily sludge accumulated in our oil installations.

Company is always focused on ensuring that all business practices and future plans are synergized with our philosophy of sustainability. Company’s commitment and sense of corporate social responsibility is reflected in the decision of the IOC Board to enhance the annual Corporate
Social Responsibility (CSR) expenditure to 2% of the retained profits of the year 2009-10.

IOCL continue to make contributions to society through the provision of a wide range of socio-economic benefits to the underprivileged, merit awards to needy students, sports scholarships as well as initiatives in providing hospitals, clean drinking water, health & medical care and education in rural areas. Corporation’s community kitchen projects backed by the provision of LPG to BPL families have made a remarkable contribution. Corporation has been implementing the provision of 3% reservation for physically handicapped and disabled persons diligently. Company has been meticulously following the various directives regarding reservation in services for Scheduled Castes, Scheduled Tribes, Physically Challenged and OBCs. It has been our endeavour to utilise 25% of community development funds for aiding underprivileged people from the weaker sections of the society.

I- PROFITABILITY

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. The
income statement, balance sheet, and cash statement form part of the financial statement. The income statement contains details about different sources of income to the organization because of various business transactions. The balance sheet displays the dynamics of assets and liabilities of the organization. Cash flow statement is the financial document detailing the exchange of cash between a business and the outside world. Financial Statement Analysis (FSA) is the detailed study of the dynamics and implications of the financial statement of the organization. FSA serves as the tool towards evaluating the financial performance of the organization. The role of various financial ratios and their inter-relationships towards evaluating the firm's financial performance is also discussed in further Chapters. Companies with economic moats will consistently post higher profitability than the industry. Therefore, by evaluating a company's profitability, we will know whether a company has economic moats or not. We will evaluate here the company's Profitability through the following measures-

**GROSS PROFIT MARGIN**

The gross profit margin is a measurement of a company's manufacturing and distribution efficiency during the production process. The gross profit tells an investor the percentage of revenue/sales left after subtracting the cost of goods sold. A company that boasts a higher gross profit margin than its competitors and industry is more efficient. Investors tend to pay more for businesses that have higher efficiency ratings than their competitors, as these businesses should be able to make a decent profit as long as overhead costs are controlled (overhead refers to rent, utilities, etc.). Gross margin can be
defined as the amount of contribution to the business enterprise, after paying for direct-fixed and direct-variable unit costs, required to cover overheads (fixed commitments) and provide a buffer for unknown items. It expresses the relationship between gross profit and sales revenue. It is a measure of how well each dollar of a company's revenue is utilized to cover the costs of goods sold.

**Gross Profit Margin = \[\text{Gross Profit} \div \text{Sales}\] x 100%**

**Table V.1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Profit</th>
<th>Sales</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>8722</td>
<td>150729</td>
<td>5.78</td>
</tr>
<tr>
<td>2005-06</td>
<td>9931</td>
<td>183172</td>
<td>5.42</td>
</tr>
<tr>
<td>2006-07</td>
<td>14622</td>
<td>220779</td>
<td>6.62</td>
</tr>
<tr>
<td>2007-08</td>
<td>14334</td>
<td>247547</td>
<td>5.79</td>
</tr>
<tr>
<td>2008-09</td>
<td>11319</td>
<td>285337</td>
<td>3.96</td>
</tr>
<tr>
<td>Average</td>
<td>58928</td>
<td>1087564</td>
<td>5.41</td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

After analyzing the above table V.1 we find that company's Gross Profit margin is more decreased in the year 2008-09 as comparison from the last four years but average of Gross Profit margin is 5.41 % in the financial year 2008-09. It indicates that company's had medium efficiency then their competitors company's revenue is utilized to cover the costs of goods sold.
NET PROFIT MARGIN-

Net margin is simply Net Profit divide by Sales. It tells us how effective the company is in turning every dollar of sales into profits. Profit margins vary by industry, but all else being equal, the higher a company's profit margin compared to its competitors, the better. The profit margin is mostly used for internal comparison. It is difficult to accurately compare the net profit ratio for different entities. Individual businesses' operating and financing arrangements vary so much that different entities are bound to have different levels of expenditure, so that comparison of one with another can have little meaning. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss.

Net Profit Margin = \[\frac{\text{Net Profit}}{\text{Sales}}\] \times 100\%

**Table V.2**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit</th>
<th>Sales</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>4891</td>
<td>150729</td>
<td>3.24</td>
</tr>
<tr>
<td>2005-06</td>
<td>4915</td>
<td>183172</td>
<td>2.68</td>
</tr>
<tr>
<td>2006-07</td>
<td>7499</td>
<td>220779</td>
<td>3.39</td>
</tr>
<tr>
<td>2007-08</td>
<td>6963</td>
<td>247457</td>
<td>2.81</td>
</tr>
<tr>
<td>2008-09</td>
<td>2950</td>
<td>285337</td>
<td>1.03</td>
</tr>
<tr>
<td>Average</td>
<td>27218</td>
<td>1087564</td>
<td>2.50</td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

From the above table V.2, we find that the Net profit margin is lower in the financial year 2008-09 as compare fro the last few financial years and it indicates the low margin of safety but overall the average net profit margin
of the Company is 2.50% and it indicates the medium efficiency of pricing strategies of Company. The Differences in competitive strategy and product mix cause the profit margin to vary among different companies and IOCL has an effective situation with their competitors.

**RETURN ON EQUITY (ROE)**

It is the ratio of net profit to shareholder's investment. It is the relationship between net profit (after interest and tax) and shareholder's/proprietor's fund. This ratio establishes the profitability from the shareholders' point of view. The ratio is generally calculated in percentage. The two basic components of this ratio are net profits and shareholder's funds. Shareholder's funds include equity share capital, (preference share capital) and all reserves and surplus belonging to shareholders. Net profit means net income after payment of interest and income tax because those will be the only this ratio is one of the most important ratios used for measuring the overall efficiency of a firm. As the primary objective of business is to maximize its earnings, this ratio indicates the extent to which this primary objective of businesses being achieved. This ratio is of great importance to the present and prospective shareholders as well as the management of the company. As the ratio reveals how well the resources of the firm are being used, higher the ratio, better are the results. The firm comparison of this ratio determines whether the investments in the firm are attractive or not as the investors would like to invest only where the return is higher.
As per table V.3, the percentage of Return on Equity is almost in decreasing trend from the year of 2004-05 to 2008-09. It is increase 21.51% in the financial year 2006-07 but after that it again decrease with 4.57% in 2007-08 and after that it was quite down in 2008-09, i.e., 6.71%. It means investor’s situation is not satisfactory during the last five years but the company hope for the best future in the favor of investors.

**II- LIQUIDITY**

For companies, being able to meet short-term financial obligations is an integral part of maintaining operations and growing in the future. After all, if it's not able to meet today's debts, a company might not live to see another day! That's why it's essential for investors to know how to evaluate a company's short-term financial health. Here we take you through a few of the ratios that are the foremost tools for doing so.
A large factor determining a company's short-term financial health is liquidity, the definition of which depends on context. In stock trading, liquidity is the degree to which the market is willing to buy a particular stock. As a characteristic of an asset, liquidity refers to the ease with which an asset can be converted into cash. This is the definition of liquidity we are interested in.

The money market account, an asset referred to as a cash equivalent, can be converted into cash within a day or two, if not immediately. The building, however, is very illiquid. For the company to get its cash, it must sell the building, which could take months, if not years. Essentially, a company's short-term liquidity determines how well it can make its necessary payments (cash outflows) - which include employee wages, interest and supplier costs - given the revenue it generates (cash inflows). If a company has no cash equivalents, its inflows need to match or exceed cash outflows. So, if a company has a bad month and it has no supply of liquid assets like a money market account, it will be unable to make its necessary payments.

**CURRENT RATIO**

The first ratio we will look at is the current ratio, which compares all of a company's current assets to all of its current liabilities. In general, the term "current" means less than one year. So, current assets include cash, accounts receivable, inventory, prepaid expenses and other assets that can be converted to cash within one year. Current liabilities include short-term debt, interest, accounts payable and any other outstanding liabilities that are due within a year's time. When calculating this ratio, you are essentially trying to determine whether a company can meet its short-term obligations. It will likely be able to do so if the ratio is above 1; if the ratio is less than 1, the
company is likely to fall short. We say "likely" because although a ratio of 1 or greater indicates that the company has more current assets than current liabilities, it may be inappropriate to judge certain industries by rigid standard. For industries that generally have a large portion of current assets tied up in inventory, a ratio of 1.5 or even 2 might be a better standard. When analyzing the current ratio, as when looking at any ratio, an investor should make comparisons between companies that operate in the same industry. Different industries have different business needs, so investors must modify their analyses accordingly.

**Current Ratio = Current assets / Current Liabilities**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current assets</th>
<th>Current Liabilities</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>31686.80</td>
<td>20075.07</td>
<td>1.57:1</td>
</tr>
<tr>
<td>2005-06</td>
<td>36483.09</td>
<td>23697.85</td>
<td>1.53:1</td>
</tr>
<tr>
<td>2006-07</td>
<td>342320.90</td>
<td>256799.70</td>
<td>1.32:1</td>
</tr>
<tr>
<td>2007-08</td>
<td>480573.80</td>
<td>328963.90</td>
<td>1.46:1</td>
</tr>
<tr>
<td>2008-09</td>
<td>404705.70</td>
<td>327545.80</td>
<td>1.23:1</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>1295770.29</td>
<td>957082.32</td>
<td>1.35:1</td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

The Experts Says that 2:1 is the best idol current ratio for all type of industries; it indicates that company has efficient current assets to pay their current liabilities easily; here we find that company had an efficient situation to pay their liabilities but not a single time in 2:1 position from last five financial years i.e., 2004-05 to 2008-09. Finally, bigger is not necessarily
better in the case of the current ratio. A really high ratio, 10 for example, should probably sound some alarm bells, because it indicates that the company has a large amount of current assets that could - and probably should - be invested back into the company. Although a company with a very high current ratio may be stable in the short term, it probably has no means of sustaining its long-term growth and performance.

But the Experts also say that bigger is not necessarily better in the case of the current ratio. A really high ratio, 10 for example, should probably sound some alarm bells, because it indicates that the company has a large amount of current assets that could - and probably should - be invested back into the company. Although a company with a very high current ratio may be stable in the short term, it probably has no means of sustaining its long-term growth and performance.

**ACID TEST OR QUICK RATIO**-

The acid test is a more rigorous version of the current ratio. It indicates whether a firm, without selling inventory, has enough short-term assets to cover its immediate liabilities. Companies with ratios of less than 1 cannot pay their current liabilities without selling inventories and should be viewed with extreme care. An acid test that is much lower than the current ratio signals that current assets are highly dependent on inventory - retail is a type of business in which this would occur. In general, a ratio of 1 is considered satisfactory, although, as with the current ratio, the acid test should be compared only within a similar industry.
Quick Ratio = Quick assets / Current Liabilities

Table V.5

<table>
<thead>
<tr>
<th>Year</th>
<th>Quick assets</th>
<th>Current Liabilities</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>12181.98</td>
<td>20075.07</td>
<td>0.60:1</td>
</tr>
<tr>
<td>2005-06</td>
<td>12205.30</td>
<td>23697.85</td>
<td>0.51:1</td>
</tr>
<tr>
<td>2006-07</td>
<td>95294</td>
<td>256799.70</td>
<td>0.37:1</td>
</tr>
<tr>
<td>2007-08</td>
<td>171159</td>
<td>328963.90</td>
<td>0.52:1</td>
</tr>
<tr>
<td>2008-09</td>
<td>153209.70</td>
<td>327545.80</td>
<td>0.46:1</td>
</tr>
<tr>
<td>Average</td>
<td>444049.98</td>
<td>957082.32</td>
<td>0.46:1</td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

From the analysis of table V.5, we analyze that company's Quick cash situation is more satisfactory in the financial year 2004-05 as compared to the after four years from 2005-06 to 2008-09 and we find that it is constantly in decreasing trend from the financial year 2005-06 to 2008-09 and it is quite alarming situation for the company in future.

INTEREST COVERAGE RATIO-

Interest coverage ratio is also known as debt service ratio or debt service coverage ratio. This ratio relates the fixed interest charges to the income earned by the business. It indicates whether the business has earned sufficient profits to pay periodically the interest charges. This Ratio is measure the debt servicing capacity of a firm in so far as fixed interest on long term loan is concerned. It is determined by dividing the operational
profits or earning before interest and tax by fixed interest charges on loans. It measures the margin of safety for lenders and debenture holders. A high interest coverage ratio means that the firm can easily meet its interest burden even if earning before interest and tax suffer a considerable.

**Table V.6**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT</th>
<th>Fixed Interest</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>6538</td>
<td>583</td>
<td>11.21:1</td>
</tr>
<tr>
<td>2005-06</td>
<td>7728</td>
<td>1022</td>
<td>7.56:1</td>
</tr>
<tr>
<td>2006-07</td>
<td>11990</td>
<td>1505</td>
<td>7.96:1</td>
</tr>
<tr>
<td>2007-08</td>
<td>11626</td>
<td>1546</td>
<td>7.52:1</td>
</tr>
<tr>
<td>2008-09</td>
<td>8281</td>
<td>3952</td>
<td>2.09:1</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>46163</strong></td>
<td><strong>8608</strong></td>
<td><strong>5.36:1</strong></td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

As per table V.6, the interest coverage ratio is regularly decreased during the study period. It shows that the company easily paid their interest burden the last years 2004-05 to 2007-08 but after that the ratio is quite down in 2008-09. Means as compared to the previous years the Company is not paying easily their interests in the FY 2008-09.

**III- SOLVENCY-**

A measure of a company's ability to service debts, expressed as a percentage. It is calculating by adding the company's post-tax net profit and depreciation, and dividing the sum by the quantity of long-term and short-term liabilities; the resulting amount is expressed as a percentage. A high solvency ratio indicates a healthy company, while a low ratio indicates the
opposite. A low solvency ratio further indicates likelihood of default. Different industries have different standards as to what qualifies as an acceptable solvency ratio. Potential lenders may take the solvency ratio into account when considering making further loans. It provides a measurement of how likely a company will be to continue meeting its debt obligations.

*Solvency Ratio = Net Profit after Tax + Depreciation / Total liabilities*

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit after tax+ Depreciation</th>
<th>Total Liabilities</th>
<th>% of Solvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>6963.80</td>
<td>69635.01</td>
<td>10.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>7116.46</td>
<td>85806.28</td>
<td>8.29</td>
</tr>
<tr>
<td>2006-07</td>
<td>10414.6</td>
<td>97028.76</td>
<td>10.73</td>
</tr>
<tr>
<td>2007-08</td>
<td>9672.7</td>
<td>116575.22</td>
<td>8.29</td>
</tr>
<tr>
<td>2008-09</td>
<td>5831.71</td>
<td>129806.99</td>
<td>4.50</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>39999.27</strong></td>
<td><strong>498852.26</strong></td>
<td><strong>8.01</strong></td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

Company is in good situation to pay their liabilities in the financial year 2004-05 and 2006-07 and we find that it is decreasing 2% in the financial year 2005-06 and 2007-08, i.e. 8.29%, But it is quit down in the FY 2008-09 as compared to the previous years. So that we analyze that overall average of company’s solvency is 8.01% and it indicates the average efficiency but we suggest here that company must improve their solvency in future to pay their liabilities easily.
1.2- PROJECTED PERFORMANCE-
As a leading energy corporate in a rapidly growing emerging economy, challenges & opportunities are plentiful for the Corporation. With domestic demand projected to grow at a higher rate over the long term, the Corporation has laid out strategic plans to meet the future demand for petroleum products in India. The biggest opportunity is on the infrastructure front with an unprecedented array of projects lined up for implementation, like new highways, ports, airports and power projects. The automobile and manufacturing sectors are also notching up good growth rates. Company is on the cusp of perhaps one of the biggest opportunities of our lifetime. And when a need has been felt, we have always delivered.
The corporation’s projected investments of over '47,000 crore in new and additional refining capacity, enhanced pipeline network and marketing touch-points ensure that our nation will always have a secure and reliable energy resource for development. The Corporation's 15 MMTPA Paradip Refinery Project on the east coast is also a significant addition to the nation's refining infrastructure and opens up significant export opportunities. In the recent years, while the rapid growth in the Indian economy has increased its appetite for petrochemicals, the per capita consumption still continues to be way below the world average. The demand for petrochemicals in the domestic segment in India is very strong and slowly, so the Company seeing the established markets move to specialty polymers while much of India and China are focusing on commodity polymers.
In a world that is increasingly dependent on fossil fuels, the task is to explore alternative forms of energy and your Corporation has been at the forefront in tapping such opportunities. IOCL have one of the largest captive plantations for bio-fuel production in India and have begun marketing solar
lanterns in select markets. IOCL MoU with the Nuclear Power Corporation of India Ltd., for investing in the nuclear energy sector in the country, is expected to gain traction in the years to come. The Corporation is in the process of undertaking a major environmental mapping exercise for putting in place information systems for monitoring and management of its carbon footprint.

Backing its efforts on sustainability is commitment to a safe and secure work place. An exclusive group for Safety, Health & Environment drives all initiatives in IOC to ensure compliance with safety systems and procedures at our various installations and locations. IOCL had a traumatic experience when a fire mishap destroyed our Jaipur terminal in October 2009. The Company has learnt from the incident and is in the process of further upgrading facilities across installations. IOCL handles products that are very sensitive by nature and the endeavor is to ensure the strict compliance of all standard operating practices. In 2007-08, as part of a proposed five-year investment strategy, IOC had announced plans to build a $6 billion, 15 million-ton-per-year refinery and petrochemicals complex at Ceyhan; acquire a stake in pipeline projects; and participate in greenfield energy projects and in Turkey's fuel-retailing sector. IOC also was exploring the possibility of picking up a 51 percent stake in the 15 million-ton-per-year refinery developed by Calik Enerji (Istanbul, Turkey). However, Bansal dismissed reports that the company has shelved these projects.

Backed by a strong financial performance in 2009-10, IOC has decided to focus on its core business of fuel marketing and refining, and revive old projects in this sector. Sources indicate that IOC proposes to complete a $6.2 billion refinery at Paradip in Orissa and is mulling over a greenfield petrochemicals plant at the same site. The Paradip refinery is scheduled to be
completed in 2012. Earlier, IOC had deferred plans to build a petrochemicals plant in Orissa due to financial constraints. The company is also increasing the capacity of its refinery in Gujarat 30 percent to 18 million tons per year. Spurred by strong domestic oil demand, IOC also may consider building another refinery after 2015. During 2010-20, the company plans to spend about $7.69 billion to $8.78 billion on expansion and acquisitions. IOC is currently implementing projects with an approved cost of over Rs 47,000 crore. The major ones in the refining segment are - a 15 MMTPA refinery at Paradip; residue upgradation and MS/HSD quality improvement at Gujarat Refinery; MSQ upgradation projects at Barauni, Guwahati, Digboi, Bongaigaon; DHDT at Bongaigaon Refinery and Panipat Refinery Expansion. Some of the major pipeline expansion projects include the Paradip-Sambalpur-Raipur-Ranchi pipeline (1,108 km) and the Dadri-Panipat R-LNG line. The projects related to the integrated crude oil handling facilities at Paradip are also under way.

1.2- PERFORMANCE OF SIMILAR FIRMS-

In a befitting acknowledgement of its ever-improving performance, and a crowning glory in its Golden Jubilee Year (1959-2009), IOC has moved up 11 places, in the just-released Fortune 'Global 500' list of world's largest companies by sales for the year 2009. Placed at 105, IOC leads the pack of seven Indian companies appearing in the list that is based on the performance in of the year 2008, all made possible by a 35000 - strong team of IOC People.IOC has been consistently improving its position in the elite list published annually by the CNN-Time Warner group magazine, Fortune. In the 'Global 500' club, IOC has steadfastly climbed from 226 in the year
2002 to 191 in 2003, 189 in 2004 to 170 in 2005, 153 in 2006, 135 in 2007, 116 in 2008 and now 105 in 2009. *Fortune* magazine has considered IOC’s revenue for the fiscal 2008-09 and has derived the same at US$ 62.993 billion (excluding excise duties). This is the 7th year in succession that IOC has improved its ranking.

**Chart V.1**

IOC has also maintained its leadership status as India’s numero uno corporate in the prestigious listing, followed by Tata Steel (258), Reliance Industries (264), Bharat Petroleum (289), Hindustan Petroleum (311), State Bank of India (363) and Oil & Natural Gas Corporation (402). Amongst the petroleum companies in the world, IOC’s rank is 20.

Battling odds in a challenging business environment, India's No.1 commercial enterprise and flagship oil major, IOC notched up another year of sterling performance for fiscal 2008-2009. IOC’s gross turnover (inclusive of excise duty) for the year 2008-09 reached a new high of Rs.
2,85,337 crore up by 15.3% as compared to Rs. 2,47,457 crore in the previous year. The Profit after Tax was Rs. 2,950 crore. The Corporation's refineries surpassed 100% capacity utilisation and clocked the highest ever throughput of 51.4 million tonnes. The Corporation also achieved record sales of 62.6 million tonnes (including 1.7 million tonnes of Gas). Breaching the 10,000 km mark in length, the

Pipelines network registered the highest-ever operational throughput of 59.5 million tonnes of crude oil and petroleum products.

IOC's leap forward in the oil & gas sector, with a well laid-out road map through vertical integration - upstream into oil exploration & production (E&P) and downstream into petrochemicals - and diversification into natural gas marketing, besides globalization of its downstream operations, represents the growth of the Indian corporate sector as well, thus carving a niche for itself in the global arena.

For the past 15 years, the 'Global 500' has been the premier list of the world's largest companies. And 2009 is no exception except the bar has been set higher to make it to the list. It is one of the best snapshots of the business world today.

Carrying on the torch of being the front-runner in posting highest net sales and the best company to work for, IOC has once again topped the charts. Being India's largest public sector petroleum refiner, IOC has ranked No.1 in the 'FE 500', 2009-10, rankings on the basis of net sales. The 'FE 500' is an annual prestigious ranking published by premier business daily the Financial Express. It is placed in the 2nd position (on the basis of assets) and 5th position for its net worth.
Shedding light on the growth graph of the corporation, Mr. Sarthak Behuria, Chairman, said in an interview in to the publication, "During the past five decades, IOC has grown to emerge as the country's largest commercial enterprise and India's highest ranked company in the prestigious Fortune Global 500 listing, at 105th position.

Mr. Behuria also threw light on the challenges faced by IOC in recent years. "For downstream oil companies like IOC, managing the day-to-day operations in an environment of high volatility in crude oil prices is a daunting task. During 2008-09 in particular, the peaking of crude oil prices and the sudden switch to a low-price regime dramatically affected the economics of the industry across the value chain."

Despite the difficulties faced by the corporation, it has still managed to maintain its dominance in the market place and clock the highest ever sales of over 66 million tonnes of petroleum products, registering a growth of 5.67% over the previous year. IOC takes a very bullish stand on petrochemicals business. A well laid-out road map of vertical integration - upstream into oil exploration & production (E&P) and downstream into petrochemicals – and diversification into natural gas marketing in addition to globalization of its downstream operations is the key to its sustained success.

The leading FE 500 companies' list is ranked mainly on the parameter of net sales, asset base & net worth. Overseas ventures of the corporation include two gas blocks in Sirte Basin of Libya, the Farsi Exploration Block in Iran, onshore farm-in arrangements in Gabon, an on land block in Nigeria and two on-shore blocks in Yemen. The corporation is also exploring opportunities to acquire a medium-sized E&P company to consolidate its upstream portfolio.
1.4 - REVENUE INCOME AND SUMMARY

FIVE YEARS PERFORMANCE OF IOC DURING 2004-05 TO2008-09

TABLE V.8

<table>
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<tbody>
<tr>
<td>Turnover(inclusive of excise duty)</td>
<td>150729</td>
<td>183172</td>
<td>220779</td>
<td>247457</td>
<td>285337</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>8722</td>
<td>9931</td>
<td>14622</td>
<td>14334</td>
<td>11319</td>
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<tr>
<td>Profit before interest and Tax</td>
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<td>7728</td>
<td>11990</td>
<td>11626</td>
<td>8281</td>
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<td>10080</td>
<td>4329</td>
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<tr>
<td>Profit after Tax</td>
<td>4891</td>
<td>4915</td>
<td>7499</td>
<td>6963</td>
<td>2950</td>
</tr>
<tr>
<td>Earning Per Share</td>
<td>41.88</td>
<td>42.08</td>
<td>62.90</td>
<td>58.39</td>
<td>24.30</td>
</tr>
</tbody>
</table>

(Source: Annual report of IOC 2004-05 to 2008-09)

IOC’s Turnover (inclusive of excise duty) for the year 2008-09 reached a new high of Rs. 285337 crore up by 15% as compared to Rs. 247457 crore in the previous year 2007-08 and also increase 12.1% from 220779 crore to 247479 crore in 2007-08. It is show from the above table that company’s turnover is continuously increased from last five financial years to Current year. The profit after tax is Rs. 2950 crore in the FY 2008-09 and it is also increased from last Financial years.

For the year 2008-09, the company ‘s Earning Per Share (EPS) Stand at 24.30 as compared to Rs. 58.39 for 2007-08. The total net under recovery account price under realization on Petrol, diesel, PDS kerosene and domestic LPG in the financial year 2008-09. This is in comparison with a net under realization of Rs. 9774 crore in 2007-08.
earning per share is almost in decreasing trend from the year 2004-05 to 2008-09. EPS has decreased Rs. 5.81 in 2007-08 as compared to 2006-07 and Rs. 33.65 in 2008-09 as compared to 2007-08 with the overall average of Rs.16.30. this is quit alarming for the company. The Profit after tax was Rs. 2950 crore, which is in fluctuating trend from last financial years. During the year 2008-09, IOC’s sales volume registered a growth of 5.6% and went up to an unprecedented 62.6 million tones of petroleum products as compared to 59.30 million tones during the previous year 2007-08.

**NET DOWN 16% EVEN AS SALES GREW 31% (CURRENT YEAR 2009-10)**

Indian Oil Corporation (IOC) reported 31% rise in revenue (to Rs. 77883.02 crore) but its earnings have fallen by 16% to Rs. 5556.77 crore. Fall in bottom-line despite strong top-line growth is largely on account of tepid operating performance where the lower Gross Refining Margin seems to have hurt the company along with net under-realization on account of non revision of retail prices of MS, HSD, SKO (PDS) and LPG (domestic) in line with international prices which seems to have been absorbed during the quarter of current year 2009-10..

The gross refining margin of the company for the quarter was relatively lower compared to the corresponding period affecting the operating performance of the company. The GRM which stood at USD 4.84/ barrel for the first nine month ended Dec 2009 has come down to USD 4.47/ barrel for the full year ended March 2010 signaling significant fall in GRM during fourth quarter of current fiscal. On the other hand the GRM for 9 month
ended Dec 2008 which stood at USD 3.37/ barrel had increased to USD 3.69/ barrel for the full year ended March 2009.

The physical performance of the company is mixed for the quarter. While the throughput of the refineries was lower by 10% (to 13.29 million metric tones) for the quarter ended March 2010 that of pipeline went up by 7% (to 16.94 million metric tones) for the quarter. The domestic sale of products was up marginally by 1% to 16.63 million metric tonnes and the exports were higher by 18% to 1.097 million metric tonnes.

- Revenue for the quarter rose 31% (to Rs. 77883.02 crore) on the back of 72% jump in Government Grant towards under recovery on sale of SKO and LPG amounting to Rs. 10689.35 crore over and above the 25% rise in net sales to Rs. 66116.20 crore. The budgetary support accounted for full year ended March 2010 is Rs. 15171.84 crore compared to earlier envisaged Rs. 7100.18 crore. On proportionate basis the company has accounted a grant of Rs. 4482.49 crore for the nine month period ended Dec 2009 thus resulting in strong 72% jump in grant during the fourth quarter.

- Despite surge in revenue, the operating profit degrown by 9% (to Rs. 7951.79 crore) as operating margin contracted by 440 bps to 10.2%. Contraction in margin is largely on account of PTC & Crude cost which as proportion to net sales (net of stocks) rose sharply to 49.9% compared to 31.5% in the corresponding previous period. The other cost though has come down significantly that is not good enough to completely offset the rise in crude & PTC cost.

- Other income was lower by 21% to Rs. 523.15 crore and the interest cost too was lower by 48% to Rs. 435.67 crore. The depreciation was higher
by 10% to Rs. 887.18 crore. Thus the PBT before EO was lower by 7% to Rs. 7152.09 crore.

- The forex gain (accounted part of other operating income) was Rs. 693.95 crore compared to Rs. 258.72 crore in the corresponding previous period. Thus spurred the fall in PBT level moderated to 2% (to Rs. 7846.04 crore). The EO was nil for the quarter as well as corresponding previous quarter. But with taxation being higher by 69% to Rs. 2289.27 crore, PAT was lower by 16% to Rs. 5556.77 crore.

Standalone net sales was lower by 5% to Rs. 252169.69 crore and including the government grant the total revenue was lower by 12% to Rs. 267341.53 crore.

As the Gross Refining Margin for FY10 higher at USD 4.47 per barrel compared to USD 3.69 per barrel during the corresponding previous fiscal the operating margin expanded to 5.1% compared to 3.8% in the corresponding previous period. As other income stay flat, the interest cost was lower by 61% and the depreciation was higher by 12% to Rs. 3227.14 crore. The PBT was higher by 48% to Rs. 12311.59 crore. Forex gain was Rs. 12311.59 crore compared to a forex loss of Rs. 4013.87 crore. Spurred thus on low base the PBT after forex gain was higher by 226% to Rs. 14106.09 crore. After accounting for higher taxation (up 182% to Rs. 3885.54 crore) the net profit was higher by 247% to Rs. 10220.55 crore.

Pursuant to orders pronounced by the Honorable Supreme Court / various High Courts in the matter of Entry Tax on Crude Oil, HSD & Lubricants, and as advised, the Company has not provided for Entry Tax amounting to Rs. 3743.19 crore (2009: Rs. 2658.78 crore) including Rs. 1084.42 crore for
the year (2009: Rs. 1332.96 crore) in respect of Mathura & Panipat Refineries, Mundra-Panipat & Salaya Mathura Pipelines and Asaouti Lube Blending plant. Pending final disposal of the matter by the Honourable Supreme Court / various High Courts, Entry Tax already paid / deposited / provided for at various units has not been considered for write back.

CONSOLIDATED ANNUAL PERFORMANCE

Consolidated sales were lower by 3% to Rs. 238792.26 and the total income was lower by 12% to Rs. 253964.10 crore. The operating profit more than doubled to 119% to Rs. 16734.11 crore and the other income was higher by 5% to Rs. 3595.81 crore. The interest cost was lower by 59% to Rs. 1726.16 crore. The depreciation cost was higher by 11% to Rs. 3555.16 crore. The taxation was higher by 223% to Rs. 4049.92 crore and the PAT was higher by 359% to Rs. 10998.68 crore. The minority interest and other was Rs. 285.49 crore compared to a loss of Rs. 203.56 crore. Thus the net profit after minority interest was higher by 312% to Rs. 10713.19 crore.

NET UNDER REALIZATION STANDS AT RS. 3158.81 CRORE FOR FY10

The net under-realisation/ under-recovery on account of non-realisation of market-related prices for MS, HSD, SKO (PDS) and LPG (Domestic) in line with international prices for the fiscal ended March 2010 was Rs. 3158.81 crore (after considering Upstream Discount of Rs. 7548.29 crore and Budgetary Support from Government of India amounting Rs. 15171.84 crore) as compared to nil in the corresponding previous period.
REFERENCES-


