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Essar Oil net profit increases five times (also see in Jpeg)

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Essar Oil net profit increases five times

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MUMBAI

E**ssar Oil Ltd,** the flagship company the $39 billion **Essar Group,** said on Tuesda that net profit increased by five times from a year earlier in the quarter ended 31 March a it benefited from a one-time foreign exchang gain and healthy refining margins.

Essar Oil's net profit rose Rsl,008 crore in the three months from Rs200 core in the year-ago period. Profit was lifted by a foreign exchange gain of Rs314 crore.

Gross refining margins (GRM) for the quarter stood at $10.12 per barrel. GRM is the difference between the per-barrel price of crude oil and the value of petroleum products produced by a refin ery from it.

The company reported higher sales in the domestic market. Overall sales rose 7.5% to Rs27,691 crore from Rs25,757 crore a year ago.

A *Bloomberg* poll of four analysts had estimated the company to post a net profit of Rs267 crore on sales of Rs25,400 crore.

"We experienced good GRMs, forex gain and targeted 66% of our sales in the domestic market where gasoline (petrol) demand was strong. This helped in clocking healthy numbers in the last quarter," said L.K. Gupta, managing director and chief operating officer at Essar Oil. He added that the company maintained the Vadinar refinery throughput at 100% for the quarter, with over 85 of the feedstock being ultra-heavy and heavy crude, which helped increase the margins.

Typically, crude oil refineries across the world source either light (expensive) crude or heavy (cheap) crude to process into petroleum products such as petrol and diesel. The more complex the refinery, the higher is its ability to process heavier crude, which yields higher margins.

Earnings report: *The company reported higher sales in the domestic market. Overall sales rose 7.5% to ₹27,691 crore from ₹25,757 crore a year ago.*

Essar Oil's 20 million tonnes per annum (mtpa) Vadinar refinery, along with **Reliance Industries Ltd's** Jamnagar refinery, are among the most complex refineries in the world.

"Operationally we" continue to do well with the refinery further optimizing on its crude diet and product slate, which has resulted in the company delivering healthy GRMS at $10.12 per barrel which is a 10% premium over IEA GRMs, and up from $9.06 per barrel in Q4FY13" said Gupta.

IEA is the GRM benchmark used by United Kingdom-based oil refineries.

Despite the strong quarterly performance, the company still has significant debt on its balance sheet. As of 31 March 2014, Essar Oil had total debt of Rs19,109 crore, with a debt to equity ratio of 1:7. Gupta said the company doesn't have a concrete target of debt reduction but hopes to bring down its debt-equity ratio to 1:2 in the next 18-24 months.

Of the company's total debt, almost Rs6,000 crore is in dollars. In 2013, the company had started to raise dollar-denominated debt to refinance domestic debt and help reduce interest costs, but so far over it has only raised $1 billion .

"With the current level of dollarization, our interest outgo in FY15 will come down to Rs3,200 crore as against Rs3,400 crore in FY14," said Suresh Jain, chief financial officer of Essar Oil, adding that it would continue to look at raising dollar debt.