



## 'COST AND MANAGEMENT ACCOUNTANTS PLAY A VERY IMPORTANT ROLE IN DESIGNING THE COSTING SYSTEM IN THE OIL INDUSTRY'

Interview of **CMA S K Barua**, Director (Finance), NRL

**MA** What have been the major initiatives taken during your tenure with this organization? What is your immediate plan?

Well let me say that as a CFO my job is to deliver commercial insight to our business- in other words everyone from the plant manager to the peon should know what business we are doing and how we can do it better financially. To do this I need to encourage flow of information and facilitate transparency of our financial performances across the organization and that is exactly what I am trying to do in that last 12 months.

Pricing of POL products in India is somewhat complicated and needs un-

derstanding of the whole process. The mechanism of subsidy sharing makes it more complex, particularly while addressing accounting issues. These needs to analyzed and meaningfully presented and that has been my major initiative

We had numbers of outstanding issues, both within the industry and outside, which were lying open in our books of accounts, and, frankly speaking, that was my next target and with the assistance of all stakeholders I have been able to successfully close a number of them.

I am now trying to provide some insights to the different functions of the refining business so as to ensure that decisions are based on indebt analysis

Besides, with the firm announcement in this current budget regarding adoption of Indian Accounting Standard by Indian companies, we are thinking of voluntarily adopting the same from the financial year 2015-16. This along with the new provisions of the Company's Act will be our major challenges in the coming months

**MA** As we know in large oil companies turnover and profits margins are essential indicators of the company's efficiency. What are some important financial indicators for Numaligarh Refinery Limited? Some of the key financial indicators of NRL for the last 3 years are as follows:

Indicators	FY 2011-12	FY 2012-13	FY 2013-14
a) Sales turnover gross	14,067.86	8,752.88	9,872.15
b) Profit after tax	183.70	144.26	371.09
c) Profit before tax	287.46	262.86	562.65
d) Net worth	2,699.25	2,757.44	2,990.83
e) PAT as a %age of net worth	7%	5%	12%
f) Earnings per share	2.50	1.96	5.04
g) Book value per share	36.69	37.49	40.66

**MA Ten years down the line, what growth do you see in this sector? What are the major opportunities and threats of this sector in India?**

India's economic growth is closely correlated to the demand in energy. Demand for oil and gas remains the main source from meeting the country's energy requirement. With the trend for rapid industrialization and growth in automobiles, power and fertilizer, oil and gas which today contribute 45% to 50% of the country's total energy consumption will remain the major source of energy.

Government of India is committed to accelerate production & exploration of oil and gas in the country. The Budget announcement to build infrastructure, particularly, to lay additional 15000 KMs of gas pipeline in PPP module is a very welcome move.

I personally feel that availability of qualified human resources in our country is the biggest opportunity for us to grow in this sector and our threat is political instability in certain Oil producing nations leading to volatility of oil prices.

**MA Numaligarh Refinery Limited (NRL) has implemented a tripartite B2B (Business to Business) integration with upstream oil companies and also has entered into a strategic agreement for commercialization and production of petroleum wax. How will this strategy help NRL to gain a competitive edge?**

We have an annual trade of around Rs. 9000 crore with upstream oil companies viz ONGC and OIL and with implementation of B2B we will be able to fully automate the entire complex business process of crude oil supply and invoicing.

Wax is a new addition to our product slate and we will be producing both Paraffin wax and Microcrystalline wax which will improve our refinery margins. The Paraffin wax market is highly fragmented. Marketing of paraffin wax, which will be unlike other liquid POL products, will now be our major challenge in this financial year.

**MA In what areas of your business**

**will you be looking for further investment or joint venture partnerships?**

We would primarily look into investments in our core areas of business, i.e., oil and gas as well as in energy sector. We are planning expansion of our refinery from 3.0 MMTPA to 9.0 MMTPA as there will be adequate demand in the eastern part of the country by 2020 and NRL can most optimally meet this requirement. We are also looking into investments on pipeline infrastructure from India to Bangladesh and some selective power plants in this region in the near future.

**MA Oil firms are facing severe problems due to financing issues. Do you foresee a change in the business model of companies?**

Oil Marketing Companies often face problems on liquidity due to delay in settlement of subsidy. I think this is temporary and with the deregulation in oil prices these issues will disappear.

**MA Should fuel prices be set by the oil companies itself rather than the Government? And in the absence of subsidies, will the oil companies be able to maintain their competitive position?**

Government of India has already deregulated pricing of Motor Spirit. This is a welcome move. The complete deregulation will definitely bring in a lot of competitiveness amongst the OMCs and Private retailers the benefits of which will pass on to the general consumer.

**MA Numaligarh Refinery Ltd launches online bill tracking system. How it will be beneficiary for your organization?**

Online Bill Tracking is another effort to bring in e-governance and transparency in our dealing with the outside world. I am confident that vendors' confidence to work with NRL will substantially go up and we expect a much wider participation in our tenders.

**MA When it comes to corporate ethics, not everyone is alike. So how**

**does your organization strike a balance?**

As Company we had initiated number of good Corporate Governance in line with those as laid down by SEBI though we are not mandatorily required to do so. With a view to be transparent in our commercial dealings we have adopted integrity pact with major vendors [above Rs. 1 crore] which is a tool promoted by Transparency International with whom we have a laid down agreement. Such Integrity Pact forms a part of the contract and these are monitored by Independent External Monitor appointed by us.

**MA How could proper Cost Management system play an important role in the overall growth of oil refinery sector in India?**

Cost Accounting System plays an important role in the Oil Industry particularly for determining cost of production like power, steam, petroleum products etc. and finalizing the prices of decontrolled products.

**MA Can you identify significant role of the Cost and Management Accountant professionals in this sector?**

Cost and Management Accountants plays a very important role in designing the Costing System in the Oil Industry as these data analysis and subdivision of cost are exclusively used by us for determining the cost of a process or of a product particularly products in which we are competing in other sector. A recent case in NRL relates an item called Bharat Metal Gas Cutter which competes with Acetylene Gas and Cost and management records had been a great help for us.

**MA What do you expect from the new government for the development of this industry?**

Our new Government has been proactive and has taken number of initiatives particularly with regard to pricing of natural gas, de-regulation of auto fuel transparency in the commercial buildings etc. I expect that there will be substantial flow of funds in this sector particularly FIs in the area of oil exploration and which will ensure sustenance of oil production in the country.