Case Study: COVID-19 Impact on Indian Oil Corporation (IOC) and Its Effect on Lanka IOC

Introduction to Indian Oil Corporation (IOC)

Indian Oil Corporation Ltd. (IOC) is India's largest government-owned oil and gas company, listed in the Fortune Global 500. It operates across the full hydrocarbon value chain from refining, pipeline transport, and petroleum marketing to exploration and production, petrochemicals, and alternative energy.

Lanka IOC (LIOC), a subsidiary formed in 2002, is one of the largest private-sector energy companies in Sri Lanka. It plays a key role in maintaining national energy security and operates over 200 fuel stations, a modern lubricant blending plant, and fuel terminals. LIOC's operations are tightly integrated with IOC's refining and supply chain infrastructure.

Indian Oil's business interests overlap the entire hydrocarbon value chain, including refining, pipeline, marketing of petroleum products exploration and production of Petroleum, natural gas and petrochemicals. Indian Oil has ventured into renewable energy and globalization of downstream operations. It has subsidiaries in Sri Lanka (Lanka IOC), Mauritius (Indian Oil (Mauritius) Ltd), and the Middle East (IOC Middle East FZE).

Core Operations:

- Refining: IOC owns and operates 11 out of India's 23 refineries, with a combined refining capacity of over 80 million metric tons per annum (MMTPA).
- Pipelines: It manages over 15,000 km of crude oil and product pipelines, enabling efficient energy distribution across the subcontinent.
- Marketing: With more than 33,000 retail fuel outlets, IOC is India's largest fuel retailer, serving urban and rural populations.
- Petrochemicals & Lubricants: Produces a wide range of industrial chemicals and is a market leader with its Servo brand of lubricants.
- R&D and Alternative Energy: IOC is investing heavily in green hydrogen, solar energy, and biofuels to support India's transition to cleaner energy.

International Presence:

IOC's influence extends beyond India. Through subsidiaries like Lanka IOC (LIOC) in Sri Lanka, it plays a key role in regional energy security. The company also exports petroleum products and has joint ventures in the UAE, Mauritius, and Bangladesh.

Lanka IOC: IOC's Strategic Arm in Sri Lanka

Lanka IOC (LIOC) was established in 2002 as a strategic overseas subsidiary of Indian Oil Corporation. It is the only private sector oil company operating retail fuel stations in Sri Lanka, with:

- Over 200 fuel outlets
- A bulk terminal in Trincomalee (Sri Lanka's largest natural harbor)
- Operations in fuel bunkering, aviation fuel, lubricants, and bitumen

LIOC directly contributes to Sri Lanka's energy resilience, handling about 15-20% of the country's total fuel market. Its operations are critical, especially during emergencies, because it supplements supply gaps and stabilizes the petroleum market.

Strategic Importance

- Economic: IOC contributes massively to India's GDP and fuel tax revenues.
- Geopolitical: Its overseas operations like LIOC are aligned with India's "Neighborhood First" and energy diplomacy policies.
- Emergency Response: IOC's scale and supply infrastructure were vital during disasters such as COVID-19 and during fuel shortages in neighboring countries

COVID-19 and Global Energy Crisis Overview

The pandemic had a seismic impact on the global oil industry. Due to global travel restrictions and economic shutdowns:

- Oil demand dropped by over 30% globally in Q2 2020.
- IOC's domestic demand for transportation fuels (petrol/diesel/jet fuel) dropped by nearly 50%.
- The price of crude oil plunged to historic lows (WTI hit -$37/barrel in April 2020).

For IOC, this meant an unprecedented collapse in sales and production.

For Lanka IOC, whose fuel imports are tied to IOC's export flows, it meant tighter supply margins, import delays, and financial uncertainty in an already struggling Sri Lankan economy.

Global Oil Market Collapse

- In April 2020, global oil demand fell by more than 25 million barrels per day (bpd) nearly 25% of pre-pandemic consumption.
- Brent crude oil prices dropped below $20 per barrel, while U.S. WTI crude futures briefly turned negative, trading at –$37 per barrel on April 20, 2020 the first time in history.
- Refineries across the world slashed production; several even shut down temporarily due to lack of storage and plummeting margins.

Impact on Indian Oil Sector (IOC Context)

India, as the third-largest oil consumer, was also heavily affected:

- Fuel demand in India fell by 45–50% in April 2020.
- Indian Oil Corporation (IOC), the largest state-run oil company, had to reduce refinery throughput to 55%–60% of capacity.
- Auto fuel and jet fuel consumption dropped drastically, especially due to halted public transport and grounded aircraft.
- IOC's Q1 FY2020-21 financial report showed a ₹1,911 crore loss, primarily due to sharp revenue declines and inventory valuation losses.

Broader Energy Market Consequences

- Natural gas and electricity demand also fell due to reduced industrial and commercial usage.
- Global oil majors like ExxonMobil, Shell, and BP posted record losses and reduced workforce.
- Emerging economies with fragile energy import systems, like Sri Lanka, faced compounded challenges due to currency depreciation, supply disruptions, and fiscal deficits.

Relevance to Lanka IOC

Lanka IOC, being heavily dependent on Indian fuel imports via IOC, experienced:

- Delays in shipments due to Indian port congestion and export restrictions
- Reduced domestic demand due to curfews and mobility bans
- Increased operational strain as it worked to maintain uninterrupted fuel supply amidst rising public demand for essential services

Operational and Financial Impact on IOC

As COVID-19 disrupted ports, airline industries, and maritime logistics, IOC and Lanka IOC were compelled to reassess operational risks daily. Both companies implemented dynamic scenario planning to address fuel supply interruptions and adapt fuel delivery based on real-time consumption data.

IOC developed backup sourcing strategies and emergency procurement routes. Lanka IOC adjusted its tanker distribution schedules, especially in rural and underserved areas, ensuring that even during peak lockdowns, fuel was available across the island.

Operational impact

Refinery Operations: IOC's refining capacity utilization dropped during peak COVID periods as demand for fuel decreased sharply with reduced transportation and industrial activity.

This led to deferred maintenance and operational adjustments to optimize output and reduce costs.

Health and Safety Measures: Implementation of stringent COVID protocols to ensure worker safety increased operational overheads but was crucial to maintaining essential operations.

Financial Impact

Revenue Decline: The lockdowns caused a significant fall in fuel demand, hitting IOC's revenue. For example, during Q1 2020, revenues dropped sharply as transport and industrial use declined.

Profitability Pressure: Lower refining margins during the crisis, combined with volatility in crude oil prices, squeezed

IOC's profits. The company reported losses in some quarters in 2020 due to these combined effects.

Cost Management and Capital Expenditure: IOC implemented cost-cutting measures including postponement of some capital expenditure projects and operational optimization to manage cash flows.

Stock Price and Market Valuation: Market valuation fluctuated with uncertainty over oil prices and demand recovery, affecting IOC's investor sentiment.

Governance and Strategic Crisis Response

Governance Structure & Emergency Response Framework

During the COVID-19 crisis, IOC activated its crisis management protocols and maintained governance continuity through digital communication, decentralized authority, and rapid decision making.

- **Board-Level Oversight:** IOC's top management, including its Board of Directors and CMD (Chairman & Managing Director), conducted regular reviews to ensure risk mitigation and business continuity. A high-level COVID-19 Task Force was set up to coordinate operational and safety responses.

Strategic Business Continuity Plans

- **Fuel Supply Assurance:** Despite national lockdowns, IOC ensured uninterrupted supply of fuel to essential services such as ambulances, food logistics, and healthcare operations.

- **Maintained inventory and leveraged strategic storage to meet fluctuating demand.**
- **Digitalization & Remote Work Implementation:** Shifted administrative functions and board meetings to virtual platforms to ensure governance continuity.
- **Enhanced use of SAP-based enterprise systems and remote monitoring tools in refineries.**

Employee Safety & Welfare Governance

- IOC took a proactive governance approach by implementing health protocols, quarantine policies, and vaccination drives across all units and refineries.
- Introduced insurance, hospital tie-ups, and PPE supply systems to protect workers, especially frontline staff like LPG delivery teams and refinery workers.

Strategic Financial Management and Policy Adjustments

- Capex Rationalization: IOC reviewed and deferred non-essential capital expenditures during the crisis to preserve liquidity.
- Focus on Diversification & Green Energy:
- IOC began accelerating its strategy toward cleaner energy and diversified investments to buffer against fossil fuel volatility.
- Investments in biofuels, hydrogen fuel infrastructure, and EV charging stations.

Stakeholder Communication and Public Trust

- Maintained open lines of communication with stakeholders, employees, government, shareholders, and customers through regular updates and transparent reporting.
- Launched public reassurance campaigns (e.g., Indian Oil Cares) showcasing efforts to support India's COVID battle and maintain energy security.

Health and Safety Measures at IOC and LIOC

Indian Oil Corporation (IOC) – Health & Safety Measures

Health became a top priority. IOC introduced strict COVID guidelines across refineries and offices. Lanka IOC replicated this with PPE kits, masks, hygiene stations, and frontline worker safety measures in fuel depots and stations.

Employee Protection Protocols

- Thermal screening, social distancing, and mandatory PPE were implemented across refineries, terminals, and offices.
- Shift rotations and staggered attendance helped reduce exposure.
- Remote work was implemented where possible, supported by digital tools.

Workplace Sanitization and Disinfection

- Frequent sanitization of office spaces, fuel stations, LPG bottling plants, and delivery trucks.
- Use of disinfectant tunnels and hygiene audits at large facilities.

Medical Assistance and Health Coverage

- COVID-19 insurance for employees and contractors.
- On-site and tie-up hospitals with isolation wards and ambulance services.
- Real-time monitoring of COVID-positive cases within the workforce.

Vaccination Campaigns

- IOC launched one of the largest vaccination campaigns among PSUs in India.
- Vaccination camps for employees, families, LPG delivery personnel, and other essential staff.

Lanka IOC (LIOC) – Health & Safety Measures

Strict Safety Guidelines at Terminals & Fuel Stations

- LIOC adopted IOC’s safety playbook and aligned with Sri Lanka’s Ministry of Health guidelines.
- Staff wore face masks, gloves, and practiced social distancing.
- Customers at fuel stations were encouraged to use cashless transactions and contactless services.

Employee Health Surveillance

- Daily temperature checks and health logs were maintained.
- LIOC created quarantine arrangements and support for exposed workers.

Fuel Supply Continuity with Safety

- LIOC ensured uninterrupted fuel supply to hospitals, police, and essential services, with safety protocols in place.
- Delivery crews followed PPE rules, hygiene checks, and sanitization.

Supply Chain and Logistics Disruptions

Indian Oil Corporation (IOC)

Crude Oil Procurement Disruptions

- Global lockdowns and port closures disrupted the import of crude oil, leading to delays in supply schedules.
- IOC had to manage inventory fluctuations due to limited tanker availability and bottlenecks in international shipping.

Refinery Operations & Storage Challenges

- Due to reduced demand during lockdowns, IOC faced an oversupply of refined products.
- This led to refinery slowdowns and limited storage capacity, creating logistical congestion.

Transport and Distribution Disruptions

- Fuel transport was delayed due to state border closures, reduced trucking workforce, and curfews.
- Movement of LPG cylinders, aviation turbine fuel, and industrial fuel was severely restricted.

Lanka IOC (LIOC)

Import Delays and Port Restrictions

- LIOC depends on imports from India and other countries for its refined petroleum products.
- COVID-19 caused delays at Colombo and Trincomalee ports, affecting unloading schedules and inland transport.

Distribution Network Disruptions

- With inter-district travel restrictions and curfews in Sri Lanka, LIOC faced distribution challenges in delivering fuel to retail stations and hospitals.
- Fuel bowsers needed special curfew passes and coordination with local authorities.

Manpower Shortages and Contractor Delays

- IOC and LIOC both rely on contractors for transportation and logistics. Many workers were unable to report due to lockdowns or health issues.
- This caused delays in loading/unloading, driver shortages, and last-mile delivery failures.

Financial Strategies and Indian Credit Line Support

IOC suffered significant revenue losses during the pandemic, limiting its ability to support subsidiaries financially. However, recognizing Sri Lanka's critical situation, the Indian government extended a $500 million credit line to help LIOC import fuel.

This support was vital as Sri Lanka was already facing a balance of payments crisis, worsened by COVID-19. The credit was used by LIOC to procure oil from India without relying on U.S. dollars, easing pressure on Sri Lanka's foreign reserves. The facility was extended under a bilateral agreement, backed by India's geopolitical commitment to regional energy security.

This moves highlighted IOC's strategic value not just commercially, but also diplomatically.

Impact on Lanka IOC: Dependencies and Risks

Lanka IOC relies heavily on IOC for:

- Fuel imports (diesel, petrol, jet fuel)
- Technical expertise in refining and blending
- Strategic pricing and operational guidance

While this partnership normally ensures high operational efficiency, the pandemic exposed its vulnerabilities. Port closures in India, refinery slowdowns, and political prioritization of domestic needs delayed supplies to Sri Lanka.

LIOC was unable to quickly pivot to alternative sources due to its structural dependency. This caused temporary shortages, public concern, and pressure from Sri Lankan policymakers to diversify sources.

CSR and Community Engagement in Sri Lanka

During the pandemic, Lanka IOC actively engaged in Corporate Social Responsibility (CSR) to support local communities and maintain goodwill. Key initiatives included:

- Donation of hygiene kits to rural schools and communities

- Distribution of smartphones to students for online education
- Support for food distribution drives in low-income neighborhoods
- Contributions to local hospitals and public health campaigns

These CSR activities humanized the brand during a national crisis, fostering emotional loyalty, and ensuring that LIOC was viewed as more than a fuel supplier. This strengthened public relations and positioned LIOC as a socially responsible entity aligned with Sri Lanka's recovery goals.

Technology, Innovation, and Digital Shifts

IOC's supply chain was hindered by port delays, refinery shutdowns, and international shipping bottlenecks. Lanka IOC, reliant on imports from IOC and third-party suppliers, restructured its logistics operations to stockpile key fuels.

The company added local storage facilities, optimized last-mile delivery, and used real-time tracking tools for delivery trucks. In response to public pressure, it expanded retail outlets by opening 50 new fuel stations in underserved regions.

Summary & Strategic Lessons

Key Takeaways:

- The crisis highlighted the critical role of coordinated governance between IOC and Lanka IOC.
- Digital readiness, CSR strength, and crisis communication helped manage public trust.
- Long-term resilience requires investment in local sourcing, diversified energy models, and digitization.
- Lanka IOC enhanced its national brand image by serving the public during hardship, creating a foundation for post-COVID growth.

References and Evidences

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FINANCIAL HIGHLIGHTS

	Metric	2020-21	2019-20	2018-19	2017-18	2016-17
Operating Results						
Revenue	Rs. mn	66,686	81,947	86,322	91,343	81,039
Gross Profit	Rs. mn	3,113	4,106	4,141	1,800	6,968
Operating Profit	Rs. mn	161	635	854	(1,385)	3,148
Net Profit/(Loss) Before Taxation	Rs. mn	988	599	331	(776)	3,601
Income Tax	Rs. mn	(105)	(177)	73	32	(535)
Net Profit/(Loss) After Taxation	Rs. mn	883	422	403	(744)	3,065
Dividends	Rs. mn	399	399	346	666	666
Capital Employed						
Stated Capital	Rs. mn	7,576	7,576	7,576	7,576	7,576
Revenue reserves (Retained earnings)	Rs. mn	12,347	11,870	11,851	11,793	13,214
Shareholders' Funds (Total equity)	Rs. mn	19,924	19,446	19,427	19,369	20,790
Borrowings-Short term	Rs. mn	20,590	16,955	2,327	5,018	886
Other Short term Liabilities	Rs. mn	5,842	3,285	6,484	8,552	3,640
Total Current Liabilities	Rs. mn	26,432	20,239	8,811	13,570	4,526
Asset Employeed						
Non-current assets	Rs. mn	19,753	9,610	9,694	9,445	9,290
Current assets	Rs. mn	26,654	30,149	18,551	23,514	16,204
Total assets employed	Rs. mn	46,407	39,760	28,245	32,959	25,494
Key Ratios						
Earning Per Share	Rs.	1.66	0.79	0.76	(1.40)	5.76
GP Ratio	%	5%	5%	5%	2%	9%
Operating Profit Margin	%	0.2%	1%	1%	(2%)	4%
Net Profit Ratio	%	1%	0.5%	0.5%	(1%)	4%
ROE	%	4%	2%	2%	(4%)	15%
Net Assets per Share	Rs.	37.42	36.52	36.49	36.38	39.05
Dividend per share	Rs.	0.75	0.75	0.65	1.25	1.25
Annual sales growth	%	(19%)	(5%)	(5%)	13%	14%
Equity to total assets ratio	%	43%	49%	69%	59%	82%
Dividend cover	Times	2.2	1.1	-	4.6	3.4
Dividend Payout (Paid Basis)	%	95%	99%	-	22%	30%
Dividend Yield	%	5%	4%	2%	4%	4%
Price Earning Ratio (P/E)	Times	11	20	23	-	5
Price to book value	Times	0.5	0.4	0.5	0.8	0.7
Current Ratio	Times	1.0	1.5	2.1	1.7	3.6
Quick Assets Ratio	Times	0.6	0.8	0.5	1.0	2.5
Turnover to capital employed	Times	3	2	4	4	4
Interest cover	Times	0.3	1.3	4.1	-	38.6
ROCE	%	0.4%	2%	4%	(6%)	15%
Debt/Equity	%	103%	87%	12%	26%	4%
Debt/Total Assets	%	44%	43%	8%	15%	3%
Price Movement Rs.						
Market Value Per Share (Highest)	Rs.	31.30	22.00	37.00	35.40	42.90
Market Value Per Share (Lowest)	Rs.	13.00	14.50	17.10	25.80	27.70
Last Traded Price	Rs.	19.00	15.80	17.40	30.10	29.00
Market Capitalisation	Rs. mn	10,117	8,413	9,265	16,027	15,442
Enterprise Value	Rs. mn	18,066	12,656	10,647	12,638	9,353

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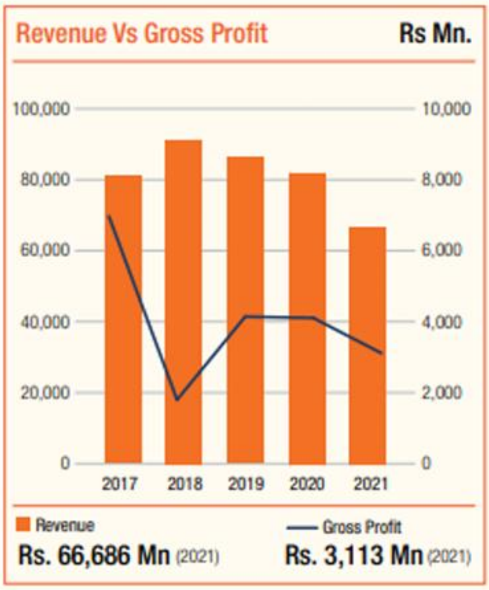
Annual Report 2020-21



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PERFORMANCE HIGHLIGHTS

	Metric	2020-21	2019-20	2018-19
Financial Performance				
Revenue	Rs. mn	66,686	81,947	86,322
Operating profit	Rs. mn	161	635	854
Profit before tax	Rs. mn	988	599	331
Profit after tax	Rs. mn	883	422	403
Return on equity	%	4%	2%	2%
Return on capital employed	%	0.4%	2%	4%

Group Members

NAME	REGISTRATION NUMBER
1. K.M.M.M.Kanakaratne	(2021/C/040)
2. A.M.S.N.Divyanjalee	(2021/C/005)
3. Amandi Dissanayake	(2021/C/023)
4. Ishani Madhushika	(2021/C/038)
5. K.D.D.Poornima	(2021/C/041)
6. S.H.L.S.Vijeypala	(2021/C/088)
7. S.W.S.Sandaruwan	(2021/C/085)
8. Ridmi Hettiarachchi	(2021/C/079)
9. Isuru Shayaman	(2021/C/052)
10. Mahesh Sandaruwan	(2021/C/076)
11. Hashan Sanujaya	(2021/C/067)