PUBLICATION NAME : Project Vendor

ISSUE DATE : December 2013

PAGE NO. : 116

Essar Oil is a fully integrated oil & gas company of international scale with strong presence across the hydrocarbon value chain from exploration & production to refining and oil retail. **Lalit Kumar Gupta,** Managing Director and CEO - Essar Oil Ltd told **Sandeep Menezes** that India's petroleum exports have emerged as the single largest foreign exchange earner.

Interface

India is now an undeniable part of the global oil industry

In the first four months of 2013-14, Indian refiners processed 73.8 million tonne of crude oil. The throughput was higher by 4.6 per cent over the year ago period. Going forward, how do you foresee the scenario?

As per Petroleum Planning and Analysis Cell (PPAC), the Y-O-Y throughput growth in June 2013 in the Indian refinery sector was 2.3 percent which increased by 4.8% to 19 million tonnes in July 2013. This was due to better utilization of the refinery capacites. Indian refiners utilized 104.8% of their installed capacity in July 2013.

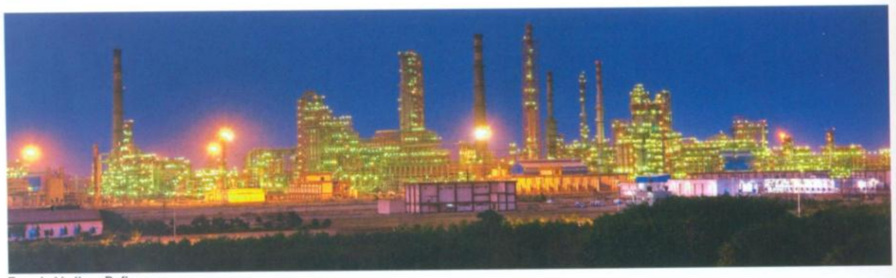
Going forward, we expect the growth pace to continue, as GDP growth is likely to be about 5%.

In last 10-12 years India has emerged from being a net importer of petroleum products to a large exporter mainly due to capacity addition in the private sector. Comment.

India is now an undeniable part of the global oil industry. India's petroleum exports have also emerged as the single largest foreign exchange earner. Petroleum product exports rose 7.7% at $60.3 billion in 2012-13 from $56.04 billion in the previous year, enabling India's exports to cross $300 billion which are mainly from private sector refineries. India is emerging as the global hub for oil refining with capital costs lower by 25 to 50 per cent over other Asian countries.

Adfactors PR Pvt Ltd
City Hall, Oasis Complex, Pandurang Budhkar Marg, Lower Parel (W), Mumbai 400 013
T: +91 22 67574145 W: www.adfactorspr.com

PUBLICATION NAME	**:**	**Project Vendor**
ISSUE DATE	**:**	**December 2013**
PAGE NO.	**:**	**118**



Essar's Vadinar Refinery

Indian capacity has increased by almost 50% in the last ten years, making the country a regional export hub and meeting rapidly growing domestic demand. Much of the expansion came in the private or joint sector, which now holds a combined ~100 MTPA of capacity (RIL – 63, EOL – 20, HMEL – 9, BORL – 6) or little less than half of the country's total. India is the largest exporter of petroleum products in Asia since August 2009.

Globally, an average of more than 1 million barrels per day of refining capacities has shut annually over the last 4 years. While new refining capacities are being added in Asia and Middle East, on a net basis, refinery capacity additions in the next 2-3 years is expected to be more or less equal to the incremental demand, which is likely to support the refinery margins. Other than India, Japan and China, where the domestic demand is high, other refiners may take a view based on the refinery margins and therefore support margins.

However, the current advantage may not last longer. If India fails to add new refinery capacities in the next five-seven years, India may again turn into a product deficit market. But in India capacity addition remains a challenging proposition given prevailing policy issues and land issues. Comment.

India processed about 220 million tonnes of crude oil year in FY 12/13, against a demand of about 155 million tonnes. Net of 38 mln tons processed at SEZ refinery capacity (dedicated for exports) and refinery fuel loss, India's net surplus is currently less than 20 million tonnes. At current growth rate of about 5% per annum, this capacity will get absorbed in about next three years. Future expansion, unless they are brownfield, are going to be extremely challenging given the issues relating to land acquisition etc. Presently IOCL Paradeep Refinery (15 MMTPA) and Nagarjuna's Cuddalore Refinery (6 MMTPA) are the ones likely in the next 2 to 3 years. Hence, India may turn to a products deficit market in with expectation of reasonable growth in demand in about next five years.

What are Essar Oil's future capacity plans in India?

At the moment we are focused on running our refinery in the most optimized manner and generate maximum returns for our stakeholders along-with correction in leverage with cash surplus. We have been operating the refinery at over 100% capacity since the last five quarters and have been processing approximately 85% of heavy and ultra heavy crude and yet producing approximately 85% of high value middle and light distillates. This has increased our GRMs from an earlier range of IEA (old methodology) + \$3-4/bbl to IEA(old methodology) + \$7-8/bbl.

On the non-operational side, we are focused on correcting our gearing, which is on the higher side currently. We have come out of CDR and our rating has gone up by two notches to BBB+. We are also dollarizing our debt (~\$820 million dollarized till date) which will on one hand provide a natural hedge to our business (since the earnings of Essar Oil is mainly in US dollars) and on the other side lower our cost of debt. Benefits of dollarizing is expected to be to the tune of \$150-200 million annually.

At this point in time, we are not looking at any expansion plans.

Unlike PSUs, Essar Oil is not eligible for any subsidy for retailing diesel at below market price, resulting in under-utilization of 1,400 odd outlets. With price deregulation happening, how do you foresee the evolving scenario?

Private oil marketing companies have invested substantially in setting up their retail outlets, but due to lack of level playing fields, these assets are grossly under utilised. Once price parity is reached between retail and market prices, it will not only benefit consumers by providing them choice, but also help in demand management of diesel. It will also be good for the economy, since a ballooning subsidy bill is now threatening to derail the overall fiscal discipline again with steep depreciation of rupee.

We are encouraged by government's resolve to bring retail diesel prices to market linked prices, which would have happened by now had it not been for the sudden and sharp devaluation of rupee, which again has widened the gap between our's and PSU pump rates. If the government keeps up with the periodic hike in diesel prices, as it has done over the last couple of months, then it is expected that over the next ~12 months, PSU pump prices will be at par with market prices.

Essar Oil has a retail network of about 1,400 outlets nationwide with another 200 under various stages of completion and on full implementation of diesel deregulation, the network will prove to be great value booster to the company. With impending diesel deregulation, we are confident that we will be able to garner a disproportionate market share. Just to site an example, the industry average for retail outlet is about 140 kilolitre (kL) per month per outlet. Private sector outlets have always outperformed the industry average in the past when there was a free market. So at about 150 kL per month per outlet, this transforms to about 240,000 kL per month or about 3 million KL per year from our network of 1600 outlets, 80-90% of which would be diesel.