PUBLICATION NAME : Project Monitor

DATE : 15-21 July

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Essar Oil Ltd has a global portfolio of onshore and offshore oil and gas blocks, with about 35,000 sq. km available for exploration, and over 750,000 barrels per stream day of global crude-refining capacity. Essar owns India's second largest single-site refinery in Gujarat, and operates over 1,400 retail outlets. **Lalit Kumar Gupta**, in an email interaction with **Sandeep Menezes**, discusses the refining scenario in India.

'Future expansion of refining capacity will be challenging'

— **Lalit Kumar Gupta**, Managing Director and CEO, Essar Oil Ltd

Q With the expansion of refinery capacity from a modest 62 million tpa in 1998 to 215 million tpa in 2012-13 India has become self-reliant in, and an exporter, of petroleum products. What is the potential for ramping up exports?

You are right. We have come a long way in the last 10-12 years from being a net importer of petroleum products to a large exporter of such products. The new capacity addition is mainly set up by private or joint sector which today has capacity of almost 95 million tpa.

India today is the global hub of refining with major Indian companies supplying stringent Euro III/IV/V grade fuel across the globe. India processed about 220 million tonnes of crude oil year in FY12/13, against a demand of about 155 million tonnes. If you take into account 38 million tonnes of SEZ refinery processing, which is dedicated for exports and the fuel loss of refineries, India's net surplus is currently less than 20 million tonnes.

PHOTOS: ESSAR OIL LTD

▲ *Essar Oil's 20-million tpa refinery at Vadinar, Gujarat, started commercial production in May 2008.*

Q By 2016, India's refining capacity is expected to increase by 24 per cent to 265 million tpa. Do you feel this overcapacity will squeeze oil refining margins?

At current growth rate of 5-7 per cent per annum, this capacity will get absorbed in the next two-three years. Future expansion, unless they are brownfield, are going to be extremely challenging given the issues relating to land acquisition etc. unless new refinery capacities are added in next five-seven years. India may return to a products deficit market in about three to five years if the growth in demand continues at the current rate.

Q Essar Oil Ltd completed its refinery expansion in March 2012 and optimisation in June of the same year. Going forward, what is your company's future strategy?

In 2012, we expanded our capacity from 10.5 million tpa to 20 million tpa by undertaking expansion and optimisation projects, which also increased our complexity from 6.1 to 11.8. This makes us India's second largest single-site refinery and amongst the most complex globally.

At the moment we are fully focused on running our refinery in the most optimised manner and generate maximum returns for our stakeholders. We have been operating the refinery at over 100 per cent capacity since the last three quarters and have been processing over 85 per cent of heavy and ultra-heavy crude and yet producing valuable 85 per cent of products of middle and light distillates. This has increased our GRMs from an earlier range of IEA +$2-3/bbl to IEA+$7-8/bbl. Our coal fired power plant is also fully operational which is also aiding to our margins.

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 which will on one hand provide a natural hedge to our business and on the other lower our cost of debt.

On the marketing side, we continue to watch the space very closely. Essar Oil currently operates over 1,400 retail outlets, with another 200 in various stages of commissioning. These are located across the nation. Currently, since only petrol prices are deregulated, we are competitive with the PSU pumps on only petrol. However, with the impending deregulation of diesel, we expect to garner good diesel market share. We hope that in the next 8-12 months, diesel price parity will be reached with the regular increase of 45-50 paise per litre increase in retail diesel prices and that would be a big opportunity for players like us.

Q How does Essar Oil intend to reduce its interest cost?

As mentioned earlier, we have exited the CDR, which allows us to raise foreign debt (typically foreign banks do not have exposure to CDR firms). ECBs give us two advantages: one, we achieve longer maturity, and two, cost of

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For Advertisements contact Vikas Sankwar : (0) 9323123346 E-mail : vikas.s@eril.co.in

PUBLICATION NAME : Project Monitor

DATE : 15-21 July

PAGE NO. : 7

'Expansion of capacity will be challenging'

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debt is cheaper by about 5-6 percentage points as compared to rupee debt. We have received RBI's approval to raise ECBs up to $2.3 billion and we have converted about $480 million worth of rupee loan through ECBs/Swaps. Our target is to complete the balance in the next one to two quarters. Once fully implemented, we hope to save about $150-200 million in finance costs, which will used to further lower our gearing.

Q Tell us about the effects of a depreciating rupee on your company's operations?

As far as forex fluctuation is concerned, Essar Oil is naturally hedged. However, a depreciating rupee is positive for us since we buy crude in dollars and sell products for which realisation is in rupees, but linked to dollars. These are earnings (GRMs) in terms of Indian Rupee increasing with depreciating rupee whereas our opex and interest in INR terms remain same. A depreciating rupee will also lower the overall debt when converted to dollar. Hence, rupee depreciation is positive for the EOL.