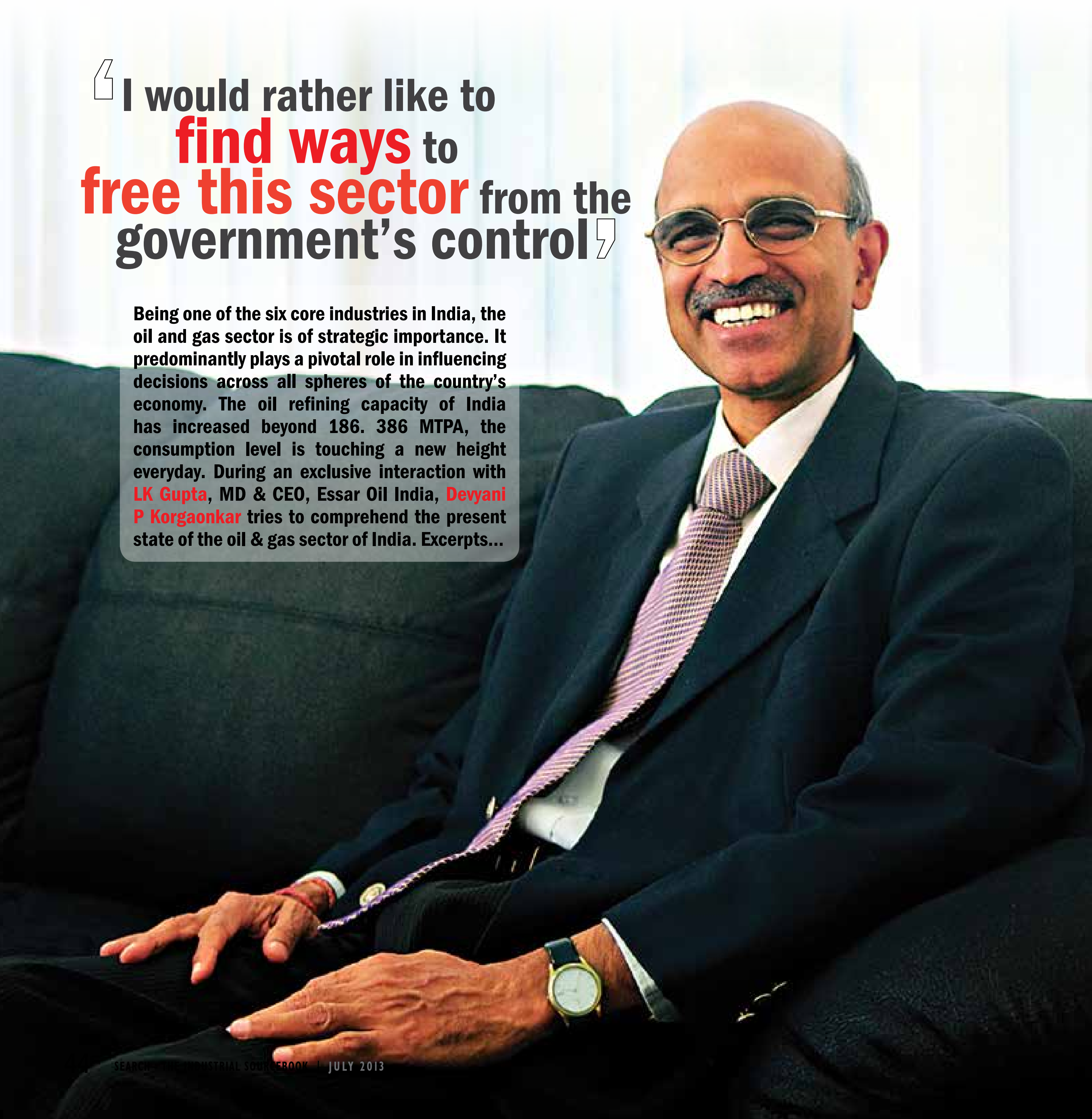
"I would rather like to find ways to free this sector from the government's control"

Being one of the six core industries in India, the oil and gas sector is of strategic importance. It predominantly plays a pivotal role in influencing decisions across all spheres of the country's economy. The oil refining capacity of India has increased beyond 186. 386 MTPA, the consumption level is touching a new height everyday. During an exclusive interaction with LK Gupta, MD & CEO, Essar Oil India, Devyani P Korgaonkar tries to comprehend the present state of the oil & gas sector of India. Excerpts...



HOW DO YOU PERCEIVE THE PRESENT OIL & GAS SCENARIO IN INDIA?

Performance of the oil and gas sector is a vital parameter to gauge the economic development of any country and India is no exception. The sector is often regarded as the country's growth engine apart from being a large revenue earner for the government. India, today, is the global hub of refining with major Indian companies supplying stringent Euro III/IV/V grade fuel across the globe. The country processed about 220 million tonne of crude oil in FY 12/13, against a demand of about 155 million tonne. If you take into account 38 mn tonne of SEZ refinery processing, which is dedicated for exports and the fuel loss of refineries, India's surplus is currently less than 20 million tonne. At the current growth rate of 5–7% per annum, this capacity will get absorbed in the next 2–3 years.

We have certainly 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 is mainly set up by the private or joint sector. India's existing domestic production of about 858,000 barrels of oil per day (bopd) is less than 25% of its current consumption of 3,473,000 bopd, creating a wide gap to be met through imports.

WHAT KIND OF REGULATIONS DO YOU THINK THE GOVERNMENT SHOULD IMPLEMENT FOR THIS SECTOR?

I would rather like to find ways to free this sector from the government's control. Energy, in particular 'oil and gas', is a large revenue earner. Being the core sector that plays a significant role in nation building, we look forward to receiving the government's support and encouragement. The oil and gas sector is highly capital intensive with a long gestation period. Hence, as an industry, we look for stable and consistent policies. One of the main demands of the downstream industry is complete deregulation of auto fuel prices so that the players can have a level playing field.

Moreover, it is encouraging to see the government implementing petrol price deregulation and being firm on its commitment to bring retail diesel prices to market linked prices. Although there are certain challenges in deregulating bulk diesel, we are sure that it is only a matter of time before this is addressed. Once price parity is reached, besides plugging the subsidy bill, it will increase competition, which will ultimately benefit the end consumer besides ensuring optimised fuel implementation.

IS THE INDIAN MANUFACTURING FRATERNITY TROUBLED BY TAXATION?

There are always two sides to the tax debate. Of course, it would benefit all if the taxes are lowered; however, on the other hand, the government also needs resources to implement welfare and development activities, which are funded through taxes. As stated earlier, the Indian oil & gas sector is a large revenue earner for the government, contributing about 20% to central and state governments' coffers (PPAC, Indian Public Finance Statistics, Ministry Of Finance Data).

However, more than tax breaks, we seek a level playing field so that the private sector is competitive with the public sector since we do not get compensated for selling diesel below market price. Given that different petroleum products attract different tax rates (which varies across states), there exist arbitrage opportunities that are utilised by unscrupulous elements to adulterate fuel. This not only leads to loss of taxes for the government but also impacts the working life of machines. In such a scenario, rationalisation of taxes for petroleum products will lead to significant reduction, if not complete eradication of the fuel adulteration menace. Also, rationalising of premium or branded auto fuel taxes will encourage their usage, which increases the vehicle's efficiency, thereby reducing consumption. We hope the impending implementation of Goods and Services Tax (GST) will lead to better a predictable tax regime, which is the need of the hour.

We hope that in the next 8-12 months—provided the government retains the monthly price hike of diesel till price parity is reached—retail diesel prices will be at par with the market rates. This will bring in huge opportunities for players like us.

HOW HAS ESSAR OIL BENEFITTED FROM THE EXITING CORPORATE DEBT RESTRUCTURING?

Corporate Debt Restructuring (CDR) exit provides operational and financial flexibilities to the company. We have begun the process of swapping our costly rupee debt with cheaper dollar loans that will lower our interest cost significantly and also improve our cash flows. This will be further used to deleverage our balance sheet. The company has received RBI approval of raising $2.27 billion in External Commercial Borrowings (ECBs), which will be used to replace its rupee debt. Now that we are out of CDR, we can invite participation from foreign banks also, increasing our lenders' pool, since typically foreign banks do not have exposure to firms under CDR. This will help us raise ECBs at competitive rates. We have already begun the process and have converted about $480 million worth of rupee loan through ECBs/swaps. Our target is to complete the balance in the next 1–2 quarters. Once fully implemented, we hope to save about $150–200 million in finance costs, which will be used to further lower our gearing.

IN HOW MANY COUNTRIES ARE YOU ACTIVE AT THE MOMENT?

Essar Oil is an India-focused company. We import our crude from the Middle East, Latin America, North America, etc., and sell finished products to markets like Africa, the Middle East, South East Asia, etc. However, India is our largest market with almost 65–70% of our products being consumed here. Besides, we have a large portfolio of Coalbed Methane (CBM) gas assets. Currently, our CBM block Raniganj, West Bengal, is in an advanced stage of implementation. Our parent company, Essar Energy, has two refineries abroad, one in Stanlow in the UK with a 296,000 bpd capacity and another in Kenya (4 MMTPA capacity) where we hold 50% interest.

WHAT IS YOUR PRODUCTION CAPACITY IN INDIA? WHAT IS ESSAR'S MARKET SHARE IN OIL & GAS SECTOR OF INDIA?

Essar Oil commissioned its refinery in 2006 with a name plate capacity of 10.5 mmpta. Looking at the market opportunities, the company then

CREDENTIALS

LK Gupta has been heading the downstream Oil Refining Business of Essar in India since December 2011. Gupta has 31 years of diverse leadership experience in core sectors across energy (oil & gas), utilities (power) and steel. Prior to joining Essar Group, he has held Board-level positions as CEO and Joint MD of JSW Energy Ltd and Director–Finance with MRPL (a subsidiary of ONGC). He has diverse experience across all strategic business functions including international oil trading, finance, taxation, insurance, legal and commercial function. He is a Rank Holder Chartered Accountant and also a Company Secretary. He holds a Bachelor's Degree in Commerce (Gold Medallist), from Jiwaji University, Gwalior.

undertook expansion and optimisation projects, which doubled its capacity to 20 mmtpa and increased the complexity to 11.8 by June 2012. Essar Oil accounts for about 10% of India's refinery capacity.

WHAT KIND OF DEMAND DO YOU EXPERIENCE FOR YOUR PRODUCTS WORLDWIDE?

The demand for oil products is buoyant as the growth is picking up in most major economies, particularly the non-OECD countries. The broad view is that global demand for oil products will grow annually by around a million barrels per day while there is not much addition in net refining capacity.

WHO ARE YOUR MAJOR CLIENTS?

Essar Oil has product offtake and infrastructure sharing agreements with all the three state-owned oil Public Sector Units (PSUs), viz. Bharat Petroleum Corporation Ltd (BPCL), Hindustan Petroleum Corporation Ltd (HPCL) and Indian Oil Corporation (IOCL) and almost 55–60% of our products are sold to them.

WHAT KIND OF EXPECTATIONS DO YOU HAVE FROM THE NEXT QUARTER?

The demand growth is stable. We hope that in the next 8–12 months—provided the government retains the monthly price hike of diesel till price parity is reached—retail diesel prices will be at par with the market rates. This will bring in huge opportunities for players like us. We will look at expanding our retail network once the price difference further narrows down for diesel sales.

HOW GREEN ARE THE FUNCTIONS IN YOUR REFINERIES?

Environment is the top most priority of the organisation. We actively engage with neighbouring communities on various environmental issues such as pollution, green cover and leading anti-plastic campaigns at schools. These initiatives support government programmes on conservation and tree plantation drives. We have also won various awards at national and international levels, which stands testimony to our commitment towards improvement of health, safety and environment in every sphere of our business operations. Besides, we have a two-pronged approach towards climate change—mitigation and adaptation. This includes providing clean solutions to our customers and reducing our own carbon footprint by adopting the latest technologies and energy conservation measures.

There are certain challenges in deregulating bulk diesel, we are sure that it is only a matter of time before this is addressed. Once price parity is reached, besides plugging the subsidy bill, it will increase competition, which will ultimately benefit the end consumer besides ensuring optimised fuel implementation.

Essar Oil is working towards creating a robust greenhouse gas management system to have results year-on-year. Various activities have been carried out across the refinery to reduce energy consumption and, in turn, greenhouse gas emissions. We design and run our operations in ways that help reduce water usage. In addition, we have set up a rainwater harvesting system to recharge groundwater. We also have a state-of-the-art RO plant for recycling water, which is used for non-potable purpose.

Additionally, we have earmarked a third of our refinery area as green belt. Apart from high-quality petroleum products, our refinery site is also renowned for producing very tasty mangoes! We have planted over 90,000 mango trees along our greenbelt inside the refinery complex, which gave us about 80 tonne of mangoes last year. These are exported to markets like the Middle East and Europe. We are planting an additional 12,000 mango trees over 60 acre of land, and post that, we will take up an additional 110 acre for greening.

DO YOU HAVE ANY PLANS TO EXPAND TO YOUR RETAIL NETWORK?

We have about 1,400 retail outlets spread across India, with another 200 in various stages of commissioning. Once diesel price parity is reached and the deregulation of diesel is fully put in place, we will look at expanding our retail network.

WHAT IS YOUR CRITERION OF CHOOSING A DEALER IN INDIA AND OVERSEAS?

Dealers, or any business partner—be it vendors, service providers, technology partners, associates, etc. are chosen on the basis of merit. Each category will have a different criterion. Our retail outlets are generally on a franchisee model bases, wherein an individual, who owns the land, approaches us for setting up a retail outlet. If the site has good potential for diesel and petrol sales, we proceed to set up a retail outlet. ■

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