“Indian Oil Corporation Limited”

Q1 FY 2018-19

“Post Result Conference Call”

13th of August 2018

Moderator - Ladies and gentlemen, welcome to Q1 FY'19 post result conference call of Indian Oil Corporation Limited hosted by Batlivala and Karani Securities India Private Limited.

We will start the call with all participant lines in the listen only mode. And there will be an opportunity to ask questions after the management comments conclude. Please note that this call is recorded. If you need assistance during the conference, please signal an operator by pressing * then 0 on your phone. I would like to hand the conference over to Mr. Bhavin Gandhi. Thank you and over to you, sir.

Mr. Bhavin Gandhi – Batlivala & Karani Securities India Private Limited

Thank you. Good afternoon everyone, on behalf of Batlivala and Karani, it gives me great pleasure to once again host the post results Q1FY'19 call of Indian Oil Corporation. Without much ado I would like to hand over the proceedings to the management for their initial comments and then we will open the floor to a Q&A session. Over to you, sir.

Mr. Matthew Thomas – Chief General Manager, Corporate Finance & Treasury, Indian Oil Corporation Limited

Thank you, Mr. Bhavin. Good afternoon friends. We in Indian Oil are here to address you on the quarter 1 results of FY'19. Director (Finance) will make the initial comments. We have with us Mr. Sandeep Kumar Gupta, Executive Director - Corporate Finance, Mr. Rohit Kumar Agrawala, General Manager - Corporate Finance, Mr. Sadashiv Naganure, Deputy General Manager - Corporate Finance & Treasury, Mr. Avinash Singhal, Senior Manager - Corporate Finance & Treasury, , along with me, Matthew, CGM - Corporate Finance & Treasury.

- I now hand over to the Director (Finance) to address you, thank you.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Thank you, Matthew, for that introduction.

- Dear investors and analysts, a very good afternoon to all of you once again. I take this opportunity to welcome all of you to this conference call organized today post announcement of first quarter results. Though by this time you would have certainly gone through the accounts posted on the website and also through the updates received by most of you, I would like to briefly dwell on the results to provide additional clarity. Before that I would like to mention that this time you would have noted that our quarterly accounts are slightly delayed. We were generally doing it by the end of July, but this time it is August. The main reason is that we thought we will voluntarily opt for consolidated quarterly results, which will become compulsory from next year on quarterly basis. We decided that we will start on a voluntary basis from Q1 this year. So that's why the delay and hope that in the subsequent quarters we will be following the timeline. Apart from that you would have noticed two or three more changes, one is that in our annual report for the last year, we have introduced the integrated financial reporting from '17-18, so this is one of the progressive steps that we have taken. From this quarter we have also adopted hedge accounting. The company has moved up a few notches above in the Fortune 500 list from 168 rank to 137 rank and continues to remain the top rated Indian company in Fortune Global 500 list.

- Coming to the financials, during this quarter IOC clocked a profit after tax of 6831 crores as against 4549 crores during corresponding quarter last year. It's a jump of almost 50%. On a sequential basis, it showed a jump of 31% from 5218 crores in last quarter. The income from operation during the quarter registered an increase of 17%, primarily driven by the price increase and quantitative changes, This translates to 1,49,747 crores, as against 1,28,183 crores. On sequential basis compared to last quarter, income from operation has increased by about 10%.

- Talking about each vertical in brief, on refineries side as we informed in the last conference call that now we are taking all refineries together including the Paradip Refinery, so no separate mention about Paradip. During the quarter our refineries achieved a capacity utilization of 102.4% compared to 101.6% during the corresponding quarter last year. This is despite the fact that the Paradip Refinery was under the planned shutdown for almost 22 days in the month of April. However, in this quarter from May onwards, we are operating at almost 100% capacity, in May the capacity utilization was 101%, June it was 97% and July 106%. So there was a shutdown which was taken in April. It was planned shutdown.

Coming to the refinery efficiency parameters, the distillate yield in the refineries have touched 80.3% during the quarter as against 78.6% in the corresponding quarter previous year. The fuel and loss was 8.6% as against 9% last year. Riding on the inventory gain, the refineries have registered a GRM of $ 10.21 per barrel in the quarter as against 4.32 ($/bbl) compared to last year. So 10.21 ($/bbl) is including the inventory gain, which compares with 4.32 ($/bbl) last year. As per the practice followed during earlier quarter we have continued to work out the GRM whereby the inventory impacts are stripped off and price lags are also factored in to arrive at the normalized GRM. Accordingly normalized GRM for the quarter is $ 5.18 per barrel against $ 6.44 per barrel for the last year same quarter. On sequential basis Q1 versus Q4, you will see that the cracks have shown a downward trend, during the quarter MS cracks have come down by almost 1.2($/bbl), these were basically 10.2 ($/bbl) earlier and these are now 8.98 ($/bbl), and HSD cracks have almost been at par with the previous period.

- Pipelines continued to generate stable returns giving EBITDA of Rs. 1627 crores during the quarter compared to Rs. 1590 crores in corresponding quarter last year which is driven by the throughput increase of 7%.

- Marketing side the total sales during the quarter have been at a steady level with minor increases compared to the corresponding quarter as far as the quantitative side is concerned. Now let's see from a domestic perspective, the sales have recorded 4.3% rise as compared to the first quarter and even on a sequential basis. Therefore during the quarter, marketing has registered a healthy EBITDA of almost Rs. 4400 crores primarily driven by the domestic sales and reduced exports.

- Petrochemicals side, at the cost of repetition I would like to reiterate that our petrochemical vertical has grown to contribute handsomely to company's bottom line, accordingly during the quarter petchem business has reported an EBITDA of Rs. 1630 crores. There is a reduction in EBITDA compared to corresponding quarter previous year which is primarily on account of reduction and shrinkage of the cracks on LLBPE.

- As regards to borrowing is concerned, you would have seen that the borrowing as on 30th June has decreased to Rs. 44,797 crores as compared to Rs. 58,030 crores as on 31st March 2018. So this is briefly about the financials and about the company. So I now leave the floor open for the investors for their queries. Thank you for the patient listening.

- **Moderator**

- Certainly, sir. Ladies and gentlemen, we will now begin the question and answer session. Participants using speaker phones are requested to use handsets when asking questions. In the question answer queue please press * and 1 on your phone now. If you would like to withdraw your question and exit the queue you may press * and 1 again. We have the first question from the line of Pinakin Parekh from JP Morgan, please go ahead.

- **Mr. Pinakin Parekh – JP Morgan**

- Thank you very much, sir. Sir, my question is first of all on Paradip, Now FY'18 we saw the ramp up of the refinery, we saw the refinery hit a certain utilization rate. Now going forward, sir, in this year, what do you think that Paradip should in terms of the contribution to the refining segment, now the volume tailwind is behind us but in terms of GRM, sir, how can it move from here higher based on its own efficiencies, sir.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- The whole thing depends on how does the refinery run, as I explained that from May onwards it is running at more than 100% capacity, so that itself is a testimony of the performance and hopefully if the cracks remain favourable, I think the refinery will be generating very good GRM. As of now it is difficult to predict the GRM not only for Paradip but for any refinery, because the whole thing will depend on the crack and the absolute price of the crude, because ultimately if there is a continuous increase in the crude price, the fuel cost will increase. So I cannot predict the GRM but I certainly can say there are no hiccups and there are no reasons why Paradip will not give a very good GRM, capacity utilization is good, heavy crude intake is increasing in the refinery. So all these factors will contribute to the higher GRM.

- **Mr. Pinakin Parekh – JP Morgan**

- On a granular basis if the blend, you said, you mentioned in your call earlier, in your comments, sir, you mentioned the 5.18 ($/bbl) was broadly the adjusted GRM for the company as a whole. Where would be Paradip be on similar matrix?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- See, in the first quarter the Paradip GRM will not be comparable because Paradip out of 90 days 22 days it was under shut down, April month the capacity utilization was only 23%, so right now Paradip number will not be comparable with the quarterly numbers.

- **Mr. Pinakin Parekh – JP Morgan**

- Understood. And, sir, my last question is on the Petchem volume, sir, FY'18 volumes had come off, I mean should we see the volumes recover back to the averages we saw in FY'17, 2.55 to 2.6 million tons. How should we look at the Petchem volume, sir?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Petchem volume I don't see any problem, I think as far as the volume is concerned, volume will be maintained. And the issue remains what will be the cracks, so that will determine the profitability, volume will not be an issue.

- **Mr. Pinakin Parekh – JP Morgan**

- Understood, thank you very much, sir.

- **Moderator**

- Thank you, we have the next question from the line of Vidyadhar Ginde from ICICI Securities, please go ahead, sir.

- **Mr. Vidyadhar Ginde – ICICI Securities**

- Thank you, good afternoon. My first question was on the how much oil you import from Iran. And do you have a term contract with it and how do you see that panning out going forward given the sanctions which are likely to come into effect from November 4th.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- See our contract with Iran is for 9 million metric tons per annum.

- **Mr. Vidyadhar Ginde – ICICI Securities**

- Okay, how much is imported until now?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Now import is continued at a pro rata basis, basically on pro rata basis the import is going on. And what was the other question of yours?

- **Mr. Vidyadhar Ginde – ICICI Securities**

- So basically how do you see this panning out because US has been talking of the imports going down to 0 by November 4. There is also hope that they may give some exemptions. So, how do you see that panning out, will government play that key role, how do you see this panning out?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yeah, I think this is more of a matter of diplomacy and the relations between the India, the US and Iran. So, I think the government will take the call on this and we will follow whatever is decided. As far as we are concerned, making up the quantity will not be an issue with us.

- **Mr. Vidyadhar Ginde – ICICI Securities**
- Even this month the imports are continuing on a pro-rata basis.
- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**
- Yes
- **Mr. Vidyadhar Ginde – ICICI Securities**
- My second question was regarding the polypropylene capacity. Sir, what is the timeline now?
- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**
- The polypropylene….
- **Mr. Vidyadhar Ginde – ICICI Securities**
- At Paradip
- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**
- The expected date is December'18.
- **Mr. Vidyadhar Ginde – ICICI Securities**
- Okay, so that's progressing …
- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**
- Yeah, 87% was completed on 30th June. So, it is 87% was the progress as on 30th June.

- **Mr. Vidyadhar Ginde – ICICI Securities**

- Okay. And so that is when you see the propylene production in the Paradip refinery works.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yes.

- **Mr. Vidyadhar Ginde – ICICI Securities**

- Sir, what, are you producing propylene right now or how does it?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Not in very large quantities.

- **Mr. Vidyadhar Ginde – ICICI Securities**

- Okay. Thanks a lot. That's it from me.

- **Moderator**

- Thank you. We have next question from the line of Mr. Aditya Suresh from Macquarie. Please go ahead, sir.

- **Mr. Aditya Suresh – Macquarie**

- Thank you. I just wanted clarify two items if I may. Firstly this is on refining, so I am assuming the same product crack environment from Q1 holds to Q2, let's assume no inventory gains, no RTP pricing impacts. Is it fair to assume that you will earn 5.20 ($/bbl) in Q2. Please confirm that.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- It may not match exactly but should be somewhere around that.

- **Mr. Aditya Suresh – Macquarie**

- Okay, got it. I will just follow up to that this pricing impact which shows as a negative item for refining, is it fair to assume an equal and positive item shows up in marketing and that's why 1Q marketing was better than expected is that a fair comment.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Mr. Sandeep Gupta, our ED will reply.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- I am Sandeep Gupta, yes I think there is a corresponding impact, the corresponding to this price slack impact in the refineries there is a corresponding opposite impact in the marketing, though the same we have not exactly quantified. But yes, principally yes, there is an impact.

- **Mr. Aditya Suresh – Macquarie**

- Okay, and the final question that I had was on fuel and loss, can we expect any improvement in this position over the next one to two years.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- In terms of percentage fuel and loss, it has been our endeavour to constantly improve on that and you will see that there is a continuous improvement happening on this side, but as far as the value is concerned the whole thing will depend on how the crude prices move. If crude prices move up the value of the fuel and loss will go up. But as it is as explained our endeavour is to bring it down by another 0.1% or 0.2 %.

- **Mr. Aditya Suresh – Macquarie**

- Okay, thank you.

- **Moderator**

- Thank you. We have the next question from the line of Probal Sen from IDFC Securities, please go ahead, sir.

- **Mr. Probal Sen – IDFC Securities**

- Thank you, sir, thank you for the opportunity. First question was the follow up on what the previous question was asked, when you say that normalized margins may actually decline a bit because pricing gains will not be there. I just wanted to understand if Paradip actually operates at full capacity utilization, would that not offset that impact, sir.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yes, very correct. We never forecast the GRMs, but you are very correct. Paradip, because it is now running at 100% it will make an impact. And we are also hopeful that the Haldia coker which is in the process of commissioning will also bring an improvement of the GRM along with more heavy crude processing of Paradip.

- **Mr. Probal Sen – IDFC Securities**

- Got that, sir, I just wanted to clarify that point, that's one. Second, can we get a number on the exact percentage of FO that is produced overall for the company today.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- FO percentage we will give you.

- **Mr. Probal Sen – IDFC Securities**

- Sure.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- In the meantime if there is any other question.

- **Mr. Probal Sen – IDFC Securities**

- Yeah, lastly I just had one more in terms of, if you can give us a slightly more segment wise capex guidance for FY'19-20, if you have, sir.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- That I can give you the capex guidance division wise. For '18-19 the refineries Rs. 8500 Crores, pipeline Rs. 2300 crores, marketing Rs.5800 crores.

- **Mr. Probal Sen – IDFC Securities**

- Sorry, marketing was how much, sir.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Rs.5800 crores, and petrochemicals is another Rs. 2100 crores, and then there are other E&P and others, that makes up to almost Rs. 22800 crores or so. Gas schemes are another Rs. 600 crores, that is the broad composition.

- **Mr. Probal Sen – IDFC Securities**

- Sir, does this include any capex on the West Coast Refinery at all?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- No.

- **Mr. Probal Sen – IDFC Securities**

- This excludes anything that might come up, right.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yes.

- **Management – Indian Oil Corporation Limited**

- The FO is about 4% of the total crude.

- **Mr. Probal Sen – IDFC Securities**

- Okay, I am asking this in the context of this whole news about the IMO regulations, you know, whether we are in a position to sort of either upgrade this to low sulphur FO or you know, how do we plan to tackle it if the recommendations are actually implemented come FY’20.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- We have twin action plan, one is the reduction of the FO as you are seeing that in Haldia the FO production will come down. We have some plans at Mathura also to bring down the FO and at the same time we also want to take advantage of the opportunities which are coming in view of the IMO guidelines, so we will plan to produce some bunker grade taking the call on opportunity available. So all these plans are also there on the drawing board.

- **Mr. Probal Sen – IDFC Securities**

- Okay, fair enough, sir, I will come back if I have more questions, thank you so much for your time.

- **Moderator**

- Thank you, we have the next question from the line of Sabri Hazrika from Emkay Global, please go ahead.

- **Mr. Sabri Hazarika – Emkay Global**

- Yes, good afternoon, sir, wanted to have some sense on the marketing margin of various products over the last two quarters sequentially I mean, March quarter versus June quarter, so how has it behaved in petrol, diesel and other products?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Okay, I think I explained in earlier conferences also that there is no movement in the marketing margins as such. So marketing margins are generally not tinkered with, these remain flat and the movement in the prices is governed by the risk factors, the international prices, transportation charges, delivery charges, taxes primarily by that. There will be marginal changes in the marketing margins.

- **Mr. Sabri Hazarika – Emkay Global**

- Okay, so during, what we have seen in the last, under 13 periods that the implied margin based on your own price built up has become depressed because of elections or whatever which was going on, so was there, is it, can you confirm that or it is more or less not that intense.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- I think sequentially you can compare the marketing margins with the earlier quarter.

- **Mr. Sabri Hazarika – Emkay Global**

- Okay, sir, fair enough, thank you so much.

- **Moderator**

- Thank you. We have the next question from the line of Manikantha Gare from Axis Capital. Please go ahead.

- **Mr. Manikantha Gare – Axis Capital**

- Thank you for the opportunity, sir. I request you to give some more colour on the CGD system wherein we have won 16 geographical areas in recent bidding round.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yeah, CGD I would like to just give you the numbers, and the total geographical areas, IOC actually participated in the bids in three categories, one is the IOC standalone, other is IOC with Adani and the third was IOC through green gas, a JV with GAIL. IOC on standalone participated in 34 GAs, geographical areas, out of which the bids have now been opened for 30, and we have won 7.

- **Mr. Manikantha Gare – Axis Capital**

- Yes, sir, can you please give us guidance on the volumes in the capex over 7 to 8 years, what are the volumes that we are expecting.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- I will just complete the numbers, in 20 GAs we have participated in JV with Adani, out of 20, bids have all been opened for 20 and we have won 9 there. In case of green gas where we have JV with GAIL, we participated in three, and all three bids have been opened and we have won in 2 cases. So out of, so far 53 cases we have won in 18 cases. So as far as the capex numbers are concerned, it all depends on LOI, when the LOIs are issued and when we start commissioning the work. So it will be too early to give you the capex number right now. So maybe by next quarter some directional number will be available. In any case this year the capex number will be very low because it takes time in mobilizing, ordering and other things.

- **Mr. Manikantha Gare – Axis Capital**

- Got it, sir. Sir, if I can ask one more question about the other segment that is being shown as a loss in EBITDA contribution of around 283 crores. Can you give us the data of that others?

- **Management – Indian Oil Corporation Limited**

- Actually foreign exchange loss on our loan portfolio is not allocated to any divisional EBITDA and that is accounted for under the head ‘others’, so you would see that foreign exchange loss on other than crude liability is about 870 crores, so that is primarily going into others.

- **Mr. Manikantha Gare – Axis Capital**

- Okay, sir, so that implies that there is around 1000 crore profitability from other segment.

- **Management – Indian Oil Corporation Limited**

- You can calculate that.

- **Mr. Manikantha Gare – Axis Capital**

- 600 crores.

- **Management – Indian Oil Corporation Limited**

- 600 yeah that would be correct.

- **Mr. Manikantha Gare – Axis Capital**

- Sir, what comprises of this 600 crores, sir.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- This loss of 871 crores is on account of exchange fluctuation on loans, that's the figure.

- **Mr. Manikantha Gare – Axis Capital**

- If we take it into account, 'others' would show a 600 crores profitability.

- **Mr. Matthew Thomas – Chief General Manager, Corporate Finance & Treasury, Indian Oil Corporation Limited**

- I think we are getting into the nitty-gritty, we will probably be able to give the figures to you separately, is it okay with you.

- **Mr. Manikantha Gare – Axis Capital**

- Yes, sir, thank you.

- **Moderator**

- Thank you. We have the next question from the line of Mr. Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead, ma'am.

- **Mr. Aishwarya Agarwala – Reliance Mutual Fund**

- Sir, can you please help me with the status of this west coast refinery project in terms of where we are and what are the milestones and how things will move.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- On the west coast, the updates would be mostly available to you. The land acquisition work is continuing, so no significant change.

- **Mr. Aishwarya Agarwal – Reliance Mutual Fund**

- When will the order go, do we have to wait for one and half years and then the orders will be placed.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yes, order placing will take time. Now the DFR etc. are being worked out. DFR itself will take time. It is being prepared.

- **Mr. Aishwarya Agarwal – Reliance Mutual Funds**

- And what is the status of land acquisitions.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- I just told that for land acquisition the steps are in progress at different stages so we will have to wait.

- **Mr. Aishwarya Agarwal – Reliance Mutual Funds**

- And, sir, one more question on Ennore Terminal, where we are and it was going to start from October, and the volumes were one and half million tons is what they are talking. So what is the status, sir?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Ennore LNG is 95% complete as on June and scheduled completion is expected to be October '18, so it is not too far now.

- **Mr. Aishwarya Agarwal – Reliance Mutual Funds.**

- And volumes, sir?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- And volumes initially 1.5 million metric tons, total capacity is 5, but it will start with 1.5 that is the initial volume that we are targeting in first year.

- **Mr. Aishwarya Agarwal – Reliance Mutual Funds**

- And pipelines, sir, 20-25 kms is pending.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- That work is now going on, and it is aligned with the completion of the terminals. So some approval for 600 to 700 metres is pending that is with the government, nothing to do with the locals and others, so that will come.

- **Mr. Aishwarya Agarwal – Reliance Mutual Funds**

- Okay, sure. Thank you sir, best of luck.

- **Moderator**

- Thank you, we have the next question from the line of Chinmai Gandre from Future Generali, please go ahead.

- **Mr. Chinmai Gandre – Future Generali**

- Yeah, sir, thank you for taking my question. Sir, if I can just reconcile the GRM numbers which you have mentioned, I mean total GRM is around 10.2 ($/bbl) and in the press note which you guys have released it says that the inventory gain is around 6.8 ($/bbl) so which means the core GRM would be around 3.4 ($/bbl), then you mentioned that adjusting for the timing difference you have 5.2 ($/bbl) number, then there is another number of 4.5 ($/bbl). If you can just reconcile all these numbers.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- Yeah, actually the numbers which we initially told is 10.21 ($/bbl). Then there is normalized GRM is 5.18 dollars per barrel which is the combination of two adjustments that is one is inventory gain and the second is the price slack. So 5.18 ($/bbl) is the net normalized GRM. But as in the subsequent questions you would have noticed he also mentioned about the GRM increase which will be there as a result of Paradip commissioning and at other locations like Haldia, because of coker commissioning, etc. And as the prices and the cracks are not certain, it will not be fair to give any guidance on the GRM numbers going forward.

- **Mr. Chinmai Gandre – Future Generali**

- So price slack quantum could be roughly say 0.7$.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- No, it is roughly 1.75 ($/bbl) as you mentioned $ 3.4 per barrel after netting of the inventory gains and then you add 1.75 ($/bbl) towards the price slack, so that makes the normalized GRM 5.18 $ per barrel which we should compare with Singapore benchmark margin.

- **Mr. Chinmai Gandre – Future Generali**

- Okay, thank you.

- **Moderator**

- Thank you, we have the next question from the line of Sanjay Mukim from Bank of America, please go ahead.

- **Mr. Sanjay Mukim – Bank of America**

- Thank you. Sir, I had a question on the marketing EBITDA as you report every quarter, there is significant variance even if you adjust for the inventory gains and losses as you report them, and especially in the light of your comment that marketing margins are stable and they do not move too much quarter to quarter. Why is the marketing EBITDA so volatile?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- I think in the marketing, there is hardly any movement in the overall marketing EBITDA. Margins are more or less stable. In marketing EBITDA I think some inventory gains are also there.

- **Mr. Sanjay Mukim – Bank of America**

- Sir, even if we take out the inventory gain if you report them.

- **Management – Indian Oil Corporation Limited**

- There is nothing excluding inventory gains, it is flat only.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Inventory gains is 1948 crores. If you exclude the inventory impact then the marketing EBITDA is comparable as 2402 now compared to 2168 in Q1 last year and sequentially 2429. So 2168 last year to 2429 in Q4 and 2400 in Q1, so I think it is fairly stable and flat.

- **Mr. Sanjay Mukim – Bank of America**

- Correct, should we not also be adjusting for some forex losses in marketing or is that completely out, because this quarter you would have forex loss and…

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- That is not for marketing.

- **Mr. Sanjay Mukim – Bank of America**

- So there is no forex loss element at all in the marketing EBITDA that you are reporting.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- No. Nothing much.

- **Mr. Sanjay Mukim – Bank of America**

- Okay, then if I may follow up sir, this quarter there was clearly periods where the margins on petrol and diesel were well below what they should be or well below what they were in the sequential or previous quarter. Yet if the EBITDA is flat both sequentially and YoY, we can't seem to think of a reason why that may have happened, sir.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- Yeah as you would have noticed from one of the questions of the previous analyst, there is a corresponding impact of price slack in the marketing also. Marketing division is realizing the prices from the market at the latest prices and the latest exchange rates, whereas the purchase price is at a lower price, so there is a gain at marketing because of this also which is offsetting that.

- **Mr. Sanjay Mukim – Bank of America**

- But if I understand…

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- There are also certain conversions of export sales to domestic sales.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- I meant in this, though there is marginal change in the quantity sold by marketing division but as a mix the exports have come down where we do not make money and the domestic sales has gone up, so that has also made a difference in improving the overall position. What Mr. Gupta was mentioning was that because of the exchange fluctuation the overall value increases so there could be some additional gain because of that to marketing which is not named or described as exchange fluctuation, but it is part of the price. Exchange fluctuation is not separately accounted for but that becomes part of price, so that also would also make some difference.

- **Mr. Sanjay Mukim, Bank of America**

- Right. Sir, just to complete that point the lag that we are talking about is the last fortnight of the quarter, the 14 days for which the RTP does not adjust for marketing.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- Yes.

- **Mr. Sanjay Mukim – Bank of America**

- Which is that 14 days lag that we should try and model if we can.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- Yeah, in case of SKO and LPG it is one month, and for other products it is 14 days.

- **Mr. Sanjay Mukim – Bank of America**

- Alright, thank you very much, that answers my question.

- **Moderator**

- Thank you. The next question from the line of Mr. Sumeet Rohra from Smartsun Capital. Please go ahead.

- **Mr. Sumeet Rohra – Smartsun Capital**

- Hi, sir, a very good evening. My question to you is more on the marketing point of view, you know, I keep reading a couple of reports which continuously keep stating that because of the upcoming elections and the election in May 2019, marketing margins will be subdued, but I just heard what you said that marketing margins have been very stable you know of late, so can we assume that marketing margins will continue to be stable.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Yeah, it is fair to assume so.

- **Mr. Sumeet Rohra – Smartsun Capital**

- Okay, and sir, my second question is on the GRM point of view. I just heard you explain that, but sir, one observation which I had was that after the weakness in June, GRM actually now have moved up to 6.5 on the Singapore GRM. So because of all the expansions and Paradip kicking in, can we assume that we should at least be able to be close to the Singapore GRMs, is that a fair assumption.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- As far as close to Singapore GRM I think that's something which is achievable but as I said it is, forecasting GRM will be very difficult because there are various factors at play, on efficiency side, performance side, I think the refineries will perform well and it should be comparable with Singapore.

- **Mr. Sumeet Rohra – Smartsun Capital**

- Okay, got that, sir, thank you very much, sir, and it is very heartening to know that our a marketing margins are very stable and they will continue to be stable, thank you very much for your clarification.

- **Moderator**

- Thank you. We have the next question from the line of Nitin Tiwari, from Antique Limited. Please go ahead.

- **Mr. Nitin Tiwari – Antique Limited**

- Sir, good afternoon, thanks for taking my question. Couple of them. So if I heard you right you were saying that the marketing margins have been stable and because whatever price modulation happened on the pricing end that was offset by your procurement price. So does that mean that the refinery segment was adversely hit to compensate the marketing margin?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- We have never said about modulating or procurement prices, this is all internal, there is no procurement by marketing division, it is all our products getting transferred to marketing division as such.

- **Mr. Nitin Tiwari – Antique Limited**

- And secondly if you can help me understand the inventory gain part a little bit. So what is the days of inventory that we are basically using as benchmark for our calculation in the refinery and as well as on the marketing side, one is that. And second is there are portions in inventory gain which given some more time could have actually translated into the core GRM, in terms of like you know is there some intermediate stock or something like which has given some more processing time could have actually resulted in the final product and hence the core GRM.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Can you repeat the question in different words so that we are able to understand? Can you word it differently?

- **Mr. Nitin Tiwari – Antique Limited**

- Sure, sir, so what I was asking is that how many days of inventory actually you used for calculating your inventory gains on the refining side and on the marketing side, that is one part. Second part is that given that there is a huge inventory gain number in this quarter, so is there any portion of that gain like you know which is transferable to the core GRM because it is probably intermediary stock or unprocessed stock which would have like you know if further processed would have resulted into a final product, and hence would have reflected in the core GRM and not in the inventory gain. I mean like is there a shift possible from one segment to another segment that is what I want to understand.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Segment means from one quarter to another, I could not get your question.

- **Mr. Nitin Tiwari – Antique Limited**

- No, within the entire GRM of 10.2 if we look at, the inventory gain is about 6.5 about 3.5 is the core GRM, right. So is there a segment in the inventory gain of 6.5 which if further processed could actually translate and move towards the core GRM and add to the core GRM.

- **Mr. Sandeep Kumar Gupta – Executive Director, Corporate Finance, Indian Oil Corporation Limited**

- No, actually this inventory gain is, basically Indian Oil is holding almost a similar level of inventory as every period. So this inventory gain represents the difference in the opening and the closing rate of inventory corresponding to the inventory holding. So, your next question on….

- **Mr. Nitin Tiwari – Antique Limited**

- Right, so how many days of inventory is there on the refining side and on the marketing side.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Crude 45 days inventory we hold. And semi-finished it is 7 days stock that we hold.

- **Mr. Nitin Tiwari – Antique Limited**

- 7 days you said.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- And crude is 45 days.

- **Mr. Nitin Tiwari – Antique Limited**

- Okay, sir, and sir, last question is on your refinery capex and upgradation project. So there were a lot of upgradation projects that you were undertaking, and I believe you said that 8500 crores is what you were looking to spend on the refineries capex, So I just wanted to get an update on all those upgradation projects and which ones are completed, which one is there, so if you can help me with that.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- See, completed means these all will get completed by next year only. For BS VI the date is 2020, expenditure on BS VI (all projects put together) this year is Rs. 4600 crores that is what we will spend. Another project which is going on at BGR is Indmax that is another almost 750 crores. And then there are projects going on in Gujarat and Barauni worth 800 crores, Haldia coker 700, so these are the broad breakup of 8500 in refineries.

- **Mr. Nitin Tiwari – Antique Limited**

- Okay, Gujarat….

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- And then i think the coker which is getting completed in Haldia. Most of the other projects will be spilling over the next period as scheduled.

- **Mr. Nitin Tiwari – Antique Limited**

- Right, so if you can just help me understand what is the project that is there in Gujarat and Barauni and you are putting up additional coker unit, what is that?

- **Mr. Matthew Thomas – Chief General Manager, Corporate Finance & Treasury, Indian Oil Corporation Limited**

- So Gujarat we are talking about expansion which is from 13.7 to 18.00 metric tons per annum, That's one which is having a first stage clearance which we will be embarking upon. And then there will be one new atmospheric unit to replace the four and the improvement in the distillate yield and HSD maximization also. This is what is expected of the Gujarat expansion. But that is in the first stage.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Right now it is BS IV and some units are being readied for BS VI. That are the projects on which sending is happening right now.

- **Mr. Nitin Tiwari – Antique Limited**

- Okay, and in Barauni, sir.

- **Management – Indian Oil Corporation Limited**

- Just to clarify if you are talking about 8500 crores to be spent this year, for Gujarat it will be majorly for BS IV stuff and for…

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- And Barauni also BS IV.

- **Management – Indian Oil Corporation Limited**

- Barauni also for the same. It is only quality upgradation for this year.

- **Mr. Nitin Tiwari – Antique Limited**

- Right, thank you.

- **Moderator**

- Thank you. We have the next question from the line of Mr. Manikantha Gare from Axis Capital. Please go ahead.

- **Mr. Manikantha Gare – Axis Capital**

- Thanks for taking my question again, sir. Just wanted to confirm with you how much of heavy crude was processed in Paradip, I think last year it was mentioned around 13% was processed and the designed capacity 40%.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- We will get back on this number because Paradip was under shut down for 22 days, so we will have to work out the equivalent number and tell you.

- **Mr. Manikantha Gare – Axis Capital**

- Thank you.

- **Moderator**

- Thank you. We have the next question from the line of Mr. Chinmai Gandre from Future Generali. Please go ahead, sir.

- **Mr. Chinmai Gandre – Future Generali**

- Sir, thank you for taking my question again Sir. You mentioned the total days of inventory for the marketing division which, is only 7 days I just want to understand?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- No, no, I mentioned the 45 days crude inventory and intermediate the semi-finished goods this is the inventory at the refineries that is 7 days, semi-finished 7 days.

- **Mr. Chinmai Gandre – Future Generali**

- So what would be the inventory on marketing?

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Marketing would be on product side?

- **Mr. Chinmai Gandre – Future Generali**

- Product, yeah.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- On product side, marketing put together would be 22-25 days.

- **Mr. Chinmai Gandre – Future Generali**

- Product side, so basically diesel, petrol and LPG and all put together would be 25 odd days.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Product side would be both marketing as well as in the refinery, it is 25 days.

- **Mr. Chinmai Gandre – Future Generali**

- Only in marketing would be how much.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- About 22 days.

- **Mr. Chinmai Gandre – Future Generali**

- 22 days. And, sir, you mentioned the crude inventory is 45 days but I mean I understand that like because Paradip is a coastal refinery so I mean I believe that the average inventory that we hold in crude would have gone down by now.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Would have gone down means by compared to what?

- **Mr. Chinmai Gandre – Future Generali**

- So earlier our crude inventory was around 45 days but post Paradip I thought it would have gone a bit it would have gone lower, or even for Paradip we are holding crude inventory of 45 days.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- I don't think we will have significant change because of the capacity, the other is that is related to the number of days, sales and other production. Some transit time impact will also be there, because of additional transit time. Not much of change will be there.

- **Mr. Chinmai Gandre – Future Generali**

- Okay. Thank you, sir.

- **Moderator**

- Thank you.

- As there are no further questions in queue I now hand the floor over to the management team of IOC, thank you and over to you, sir.

- **Mr. A.K. Sharma – Director (Finance), Indian Oil Corporation Limited**

- Thank you.

- **Moderator**

- Ladies and gentlemen, this concludes your conference call for today. We thank you for your participation, and using Ijunxion Conference Service. You may please disconnect your lines now and have a great evening ahead, thank you.