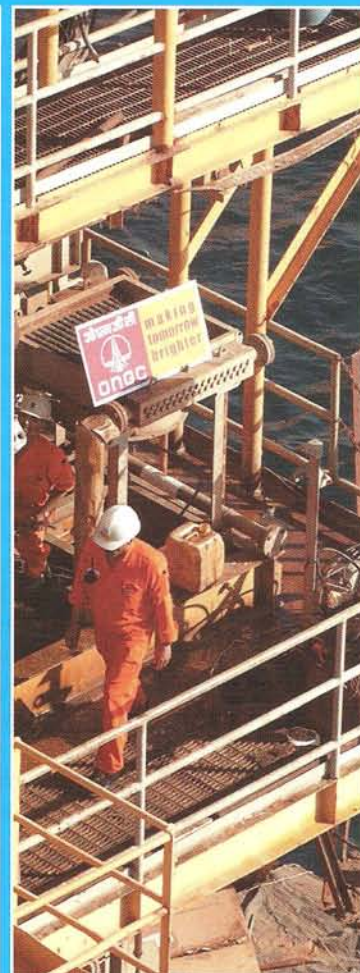
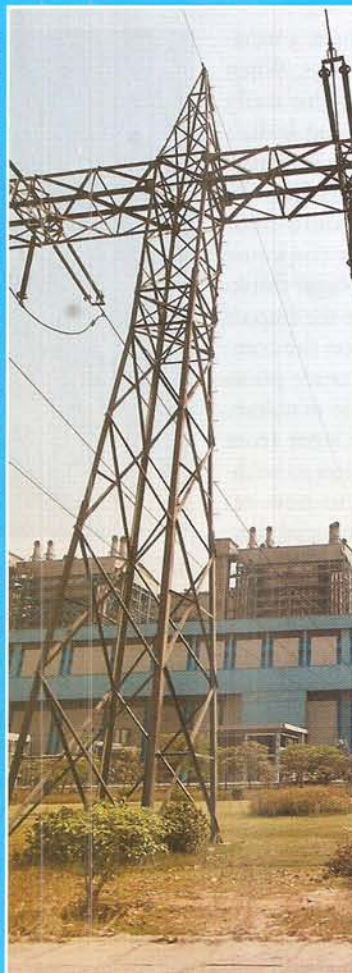


The Crown Jewels

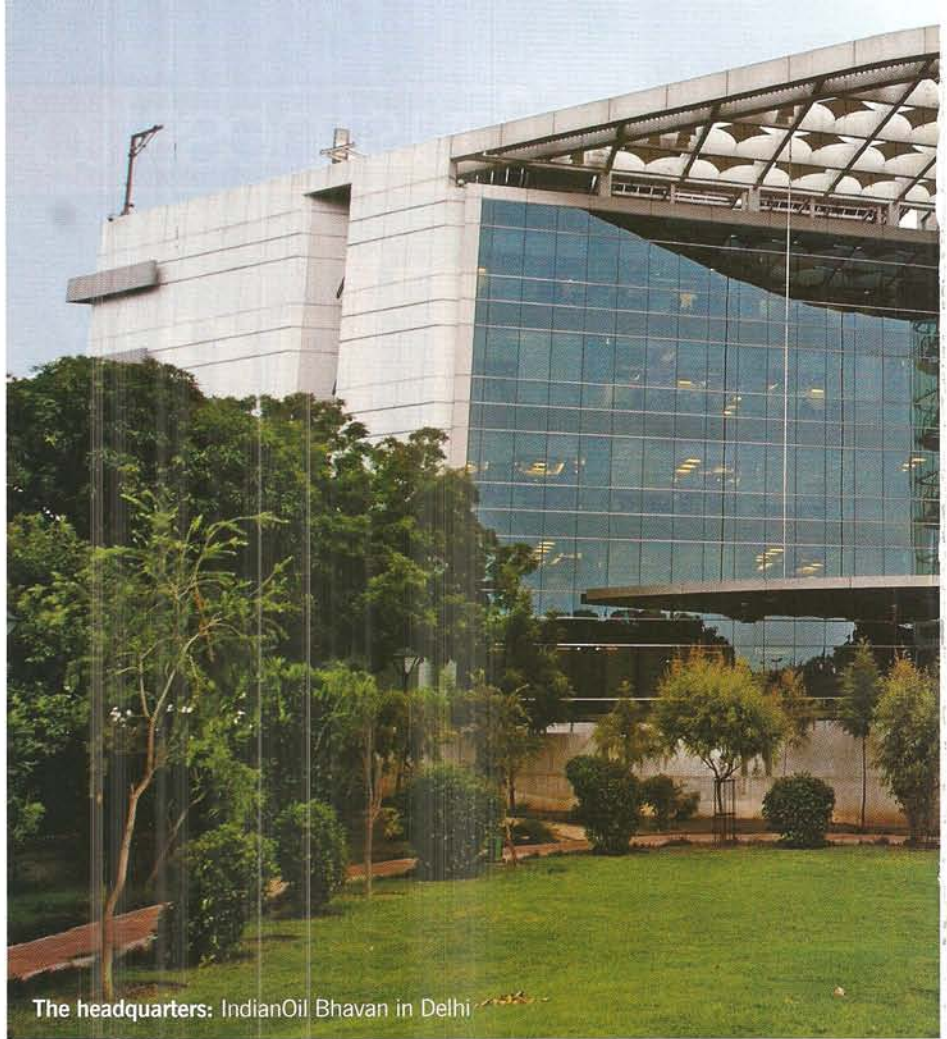
The top-ranked PSUs still occupy the commanding heights of the Indian economy



■ IOC Fuelling Growth

India's largest refiner IndianOil nurses ambitions of becoming a truly transnational and integrated energy company.

AMIT MUKHERJEE



The headquarters: IndianOil Bhavan in Delhi

SARTHAK BEHURIA IS A WORRIED man these days. When not attending the daily chores of running India's largest oil refiner and marketer, the Chairman of Indian Oil Corporation sits in his third floor cabin at the IndianOil's corporate office in Delhi's Sadiq Nagar thinking of ways to minimise the impact of soaring crude prices on the company's bottom line. But crude prices are just one part of his problem. Behuria's worries also stem from the government's decision to withdraw tax concessions to new refineries from the new financial year, a move that will impact the profitability of IOC's Rs 24,000-crore Paradip refinery in Orissa.

The IOC chairman fears the rising crude prices are going to dent his company's profitability in the fourth quarter of FY2007-08 on account of a fall in the gross refining margin (GRM). His concerns seem justified,



IOC Chairman Behuria: Crude prices and under-recoveries are a cause for worry

especially when looked at against the backdrop of excellent results during the third quarter in which IOC's net profit rose nearly 17 per cent to Rs 2,091 crore, from Rs 1,792 crore during the same quarter in the previous year. For

the nine months ended December 2007, IOC's net profit stood at Rs 7,377 crore, up 23 per cent from Rs 5,997 crore reported during the same period in the previous year.

Today, the main issue facing IOC, which is also one of the coun-



IN THE PIPELINE

IOC has a well laid-out plan of vertical integration—forward into petrochem and backwards into exploration.

- Envisages a Rs 30,000-crore (\$6.8 billion) investment in petrochemicals by 2011-12
- Setting up a naphtha cracker with downstream polymer units at Panipat
- Setting up a Rs 24,000-crore refinery-cum-petrochemicals complex at Paradip in Orissa
- Exploring opportunities to acquire a suitable medium-sized oil exploration & production company
- Plans to build an LNG import terminal and create infrastructure for city gas distribution in partnership with GAIL (India) and Great Eastern Energy Corporation

try's most profitable PSUs, is the high magnitude of under-recoveries from the sale of auto (petrol and diesel) and consumptive (LPG and SKO) fuels, says Himanshu Varia, Institutional Sales, Asit C Mehta Investment Intermediates Limited. "IOC, being involved in the refining and marketing of these fuels, has to face the impact of fluctuations in the prices of crude oil—the main input for the refining industry," says Varia, adding: "The company faces cost under-recoveries due to its inability to fully pass on the higher cost to the consumers." The under-recovery is compensated by the government in the form of oil bonds and partially by upstream companies like ONGC, etc.

Indian Oil, which began life in 1959 as Indian Oil Company Ltd. but got its current name in 1964 following the merger with Indian Refineries Ltd. (Estd. 1958), owns 10 out of India's 19 refineries with a

combined capacity of 60.2 million metric tonnes per year MMTPA representing 40.4 per cent of India's total refining capacity. These include two refineries of subsidiary Chennai Petroleum Corporation Ltd. (CPCL) and one of Bongaigaon Refinery and Petrochemicals Limited (BRPL).

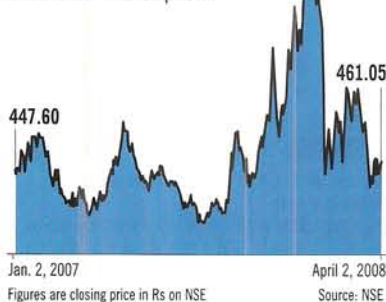
For the year 2006-07, IOC sold 57.97 million tonnes of petroleum products, including 1.63 million

tonnes of natural gas and exports of 3.13 million tonnes. Its cross-country crude oil and product pipeline network spanning about 9,300 km is the largest in the country. It has a countrywide distribution network of about 32,500 sales points. They are backed for supplies by 170 bulk storage terminals and depots, 101 aviation fuel stations and 89 Indane LPG bottling plants. IOC also operates the largest and the widest network of petrol and diesel stations in the country, numbering about 16,600. It reaches Indane cooking gas to the doorsteps of over 47.5 million households in 2,671 markets through a network of 4,990 Indane distributors.

IOC's world-class R&D Centre is perhaps Asia's finest, having done pioneering work in lubricants formulation, refinery processes, pipeline transportation and alternative fuels such as bio-diesel. The Centre is also the nodal agency of

Grossly Undervalued

Being a PSU marketing company tells on IOC's stock price.





Strong on R&D: IOC has done pioneering work in lubricants formulation

the Indian hydrocarbon sector for ushering in hydrogen fuel economy in the country. In 2006-07, its IND-MAX technology developed in-house for the 4 MMTPA Fluidised Catalytic Cracking (FCC) unit at its upcoming 15 MMTPA refinery-cum-petrochemicals complex at Paradip, as well as for the FCC unit coming up at BRPL, was selected for marketing and commercialisation abroad.

Today, IOC is not only India's largest commercial enterprise with a sales turnover of Rs 2,20,779 crore (\$51 billion), it is also the highest ranked Indian company in the *Fortune 500* listing, having moved up 18 places to the 135th position this year based on its performance in 2006-07. It is also the 20th largest petroleum company in the world.

Being the leader imposes certain obligations and responsibilities on IOC and these go beyond issues of profitability and commercial interest. Says Behuria: "Providing a healthy environment is high on our priority list. We have plans to invest

Rs 9,000 crore (\$2.25 billion) to improve the quality of petrol and diesel in line with the tighter regulations that are due to come into force from April 1, 2010." India's auto fuel policy requires the country's 13 major cities to be running on Euro-IV compliant diesel and petrol by 2010, while the rest of

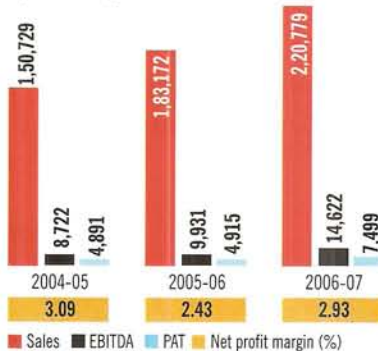
the country will switch over to Euro III fuels. "So we are gearing up to respond to the future needs, and hope to be ready by December 2009," says Behuria.

According to Behuria, "At IOC, customers always gets the first priority. New initiatives are launched round-the-year for the convenience of the various customer segments." Exclusive XTRACARE petrol and diesel stations in select urban and semi-urban markets offer a range of value-added services. Similarly, large format Swagat brand outlets cater to highway motorists, with multiple facilities such as food courts, first aid, rest rooms and dormitories, spare parts shops, etc. Specially-formatted Kisan Seva Kendra outlets meet the diverse needs of the rural populace, offering a variety of products and services ranging from seeds, fertilisers, pesticides, farm equipment and medicines to spare parts for trucks and tractors, tractor engine oils and pump set oils, besides auto fuels and kerosene.

SERVOXpress has been

Truly Gigantic

IOC is the largest Indian company by market cap.



Figures in Rs crore
The sales, EBITDA and PAT figures for the first nine months of 2007-08 are Rs 1,77,222.5 crore, Rs 10,749.9 crore and Rs 7,376.8 crore respectively. Source: BT research



Going green: IOC plans big investments in this area

launched recently as a one-stop shop for auto care services. To safeguard the interest of the valuable customers, interventions like retail automation, vehicle tracking and marker systems have been introduced to ensure quality and quantity of petroleum products.

Global Footprint

To emerge as a transnational energy major, IOC has set up subsidiaries in Sri Lanka, Mauritius and the United Arab Emirates (UAE) and is simultaneously scouting for new opportunities in the energy markets of Asia and Africa. While Lanka IOC operates 151 retail outlets in Sri Lanka, its oil terminal at Trincomalee is also Sri Lanka's largest petroleum storage facility.

Another overseas subsidiary of the corporation, IndianOil (Mauritius), has also garnered a 16 per cent market share, which includes aviation fuelling and bunkering business. It operates a modern petroleum bulk storage terminal at Mer Rouge port, besides nine petrol and diesel stations. In addition to the ongoing expansion of retail network, the first ISO-9001 product-testing laboratory has been commissioned in Mauritius. The company is partnering Shell, Caltex-

Chevron and Total to build an aviation jet fuel depot at the SSR International Airport at a cost of \$16 million (Rs 64 crore).

IndianOil's UAE subsidiary, IOC Middle East FZE, which oversees business expansion in the Middle East, has commenced blending SERVO lubricants and marketing petroleum products and lubricants in the Middle East, Africa and CIS-countries.

IndianOil has drawn up a capex of Rs 43,250 crore (\$10.65 billion) during the Eleventh Plan period (2007-12) for adding refining and pipeline capacities, expanding its marketing infrastructure and upgrading product quality as well as for integration and diversification projects. This is in addition to projects worth over Rs 10,000 crore (\$2.3 billion) that the corporation commissioned in 2006-07.

Expanding Base

IOC has a well laid-out roadmap for realising its vision of becoming a diversified, transnational, integrated energy company through vertical integration—forward into petrochemicals and backwards into exploration and production of oil—and diversification into natural gas marketing, besides globalisation of

its downstream operations.

In petrochemicals, IndianOil is currently implementing a master plan envisaging a Rs 30,000-crore (\$6.8 billion) investment by the year 2011-12. Through the world-scale Linear Alkyl Benzene (LAB) plant set up at its Gujarat Refinery, the corporation has already captured a significant market share in India besides exporting the product to Indonesia, Turkey, Thailand, Vietnam, Norway and Oman.

An integrated Paraxylene/Purified Terephthalic Acid plant for polyester intermediates is already in operation at Panipat, while a Naphtha Cracker with downstream polymer units is also coming up at Panipat. IndianOil's refinery-cum-petrochemicals complex at Paradip is proposed to be completed by 2011-12 and is expected to strengthen its presence in the sector.

In exploration and production (E&P), the corporation has bagged eight oil and gas blocks and two Coal Bed Methane blocks under NELP (New Exploration Licensing Policy) in India in consortium with other companies. It has also acquired participating interest in two onshore blocks in Assam and Arunachal Pradesh. Overseas ventures of IndianOil include two gas blocks in Sirte Basin of Libya, the Farsi Exploration Block in Iran, onshore farm-in arrangements in Gabon, an onland block in Nigeria and two on-shore blocks in Yemen. The corporation is also exploring opportunities to acquire a suitable medium-sized E&P company to quickly consolidate its upstream portfolio.

In the natural gas business, IndianOil is targeting sale of 2 million tonnes in 2007-08, up from 1.63 million tonnes in 2006-2007. An LNG import terminal and city gas distribution projects are in the pipeline in partnership with GAIL (India) and Great Eastern Energy Corporation. ■