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"At the nation's service" - Exclusive Interview with Chairman, Mr. B M Bansal

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Mr. B M Bansal, Chairman, Indian Oil Corporation Ltd.

THE OIL & GAS YEAR (TOGY): India has recently undertaken an upgrading of its refining sector. How was the technology for this process developed?

B.M. BANSAL: Before independence in 1947, refining capacity in the country was barely 500,000 tonnes per annum (TPA). IndianOil's first refinery was built in Assam with Romanian support. From then on, refinery capacity, marketing and the distribution network kept on expanding. We added a pipeline division, moved into research and development and kept on modernising and upgrading the technology of our refineries. At first we used mostly Russian technologies, but later we adopted state-of-the-art technologies from all over the world, including from UOP, ExxonMobil, Chevron and Total.

We are extremely focused on the environment and sustainable development is very important for us. We are supplying Euro Diesel IV automotive fuel in 13 major cities, and approximately \$8 billion has been spent by the oil industry to upgrade the quality of petroleum products - diesel and petrol - to Euro Diesel III and IV. Expansion in our core

area is continuing. Our refining capacity is around 60 million tpa (including subsidiaries), and our target is to reach 83.7 million TPA by the end of 2012.

TOGY: What role has IndianOil's research and development arm played in this process?

B.M. BANSAL: Our research and development department was set up in 1972 to develop lubricants. By the 1980s we started developing technology to help our refineries optimise their operations. Amongst the many technologies is INDMAX, which is for cracking heavy oil into lighter distillates, helping to maximise LPG production. We built a demonstration plant of 100,000 TPA at our Guwahati Refinery. Based on the unique benefits of this technology, ABB have come forward to sell it in the international market. As well as this, there are a host of other technologies, such as the diesel hydro-treater technology which is for improving diesel quality, IndVi for improved distillate yield and fluidised catalytic cracking throughput, which we are implementing and marketing to other refineries as well.

TOGY: Within the downstream sector as a whole, what particular challenges do you face when maintaining your market position?

B.M. BANSAL: The biggest challenge is retaining our dominant position in the current market. We have been able to look at the components of our supply chain and take every opportunity to enhance efficiency. The process continues to reduce costs and optimise our operations. It is a matter of time before the market for both petrol and diesel is fully deregulated and then we will be in a position to obtain full value for our products.

Today, we have more than 18,000 retail outlets in separate customised retail formats for urban and rural markets. We are one of the largest suppliers of LPG in the world (with a current distribution of more than 57.4 million households) and have established a reputation of being a dependable, low-cost supplier of high-quality products. Before the current series of new generation cars eventually hits the market we were already ready with matching products in fuels, lubricants and allied services.

TOGY: Which other areas has IndianOil entered into with a view to diversifying its business and operations over recent years?

B.M. BANSAL: Following the first stages of the opening up of India's hydrocarbons industry, Indian Oil founded a business development group in 1994, and I had the opportunity to drive some of the major initiatives in that group. Diversification was both a hedging strategy as well as a business opportunity. We started working on new projects, including petrochemicals. We had a synergy in going into petrochemicals to create value from our surplus products. We commissioned a world-class linear alkyl benzene plant in Gujarat in 2004 with a capacity of 120,000 TPA. We followed that with a 553,000-TPA Para xylene terephthalic acid plant in Panipat. We have invested around \$3.5 billion into a naphtha cracker and polymer production. In addition to this, our world-scale naphtha cracker produces 850,000 tonnes of ethylene, putting us fully into the petrochemicals business. We are producing chemicals, intermediates and now polymers.

We are also getting into gas in a big way. We are one of the promoters of Petronet LNG, and in 2009 we sold some 2 million tonnes of LNG. Our aim is to establish city gas distribution networks and we have joint ventures with the Indian state-owned natural gas company GAIL in Lucknow and Agra. We have won bids to develop gas infrastructure in three more cities. In liquid petroleum product pipelines, we are in a dominant position and we are getting into gas pipelines as well. Our first gas pipeline, from Dadri to Panipat, will be commissioned in 2010. We want to go for newer and bigger trunk pipelines and as opportunities keep on coming, we will keep on expanding our activities. We are also carrying out the feasibility of establishing a LNG terminal at Ennore in Tamil Nadu.

TOGY: Why did IndianOil decide to build a naphtha cracker in Panipat when the world is experiencing a petrochemicals glut?



One of many facets of the company, Indian Oil's aviation service refuels more than 1,500 flights per day

B.M. BANSAL: Firstly, the naphtha cracker is not aimed at the export market - it is aimed at the domestic market, which is not affected by the glut. We are currently seeing a trend in which gas is coming to India in a big way, replacing naphtha as a feedstock for power and fertiliser plants, which will become surplus. Our options were to dispose of naphtha as a surplus product, export it or go for value addition. Since two of our refineries are inland, far away from the shore, we either had to move the naphtha all the way to the coast and export it, or go for value addition right there, which is what we decided to do.

The polymer industry in India is growing at almost double-digit rates, so we decided to upgrade naphtha to polymers. We decided on the naphtha cracker seven or eight years ago, and now the Middle East has decided to go for gas cracking. That kind of competition will keep coming and we have to find ways to fight it. Since our naphtha cracker is inland, we will focus on the development of the market in and around that area, which will not be impacted even by cheaper products from the Middle East. Even if we have to operate for a few years at a break-even price or low margin, we can do it. The growth is certainly going to continue.

TOGY: What is IndianOil's current strategy in regards to exploration and production?

B.M. BANSAL: We are currently operating in 21 blocks - 11 in India and 10 abroad - but we don't have any producing assets at the moment. Until recently, we always acted as a non-operator, but in 2009, at the seventh round of the New Exploration and Licensing Policy, we were awarded 100-per cent stakes in small blocks in the Cambay Basin, giving us operator status for the first time. In the long run, we would like to operate in several regions. We have taken on experts at the intermediate level so that our exploration and production team has experience in drilling, reservoir management, geophysics and all relevant fields. Even if we are participating with another operator, we still want our own expertise.

Our future strategy is to have our own production, whether in India or abroad. We are looking for developed blocks where we can start production in one or two years. We have already done so in Venezuela, where we have a stake in the \$20-billion Carabobo 1 project. Production is due to start from this field in about three years.

TOGY: Considering the emphasis that is placed on environmental issues, what needs to be done to reduce India's dependence on fossil fuels?

B.M. BANSAL: India's commitment to the environment has been demonstrated by the decision to switch to low sulphur diesel. However, the country also needs to move towards renewable energy sources. IndianOil has been a pioneer in this. We have commissioned a 21-MW windmill in Gujarat and we are working towards increasing that capacity by 100 MW. We are also entering into nuclear energy and solar power. We have plans to establish a 5-MW project in Rajasthan with Bharat Heavy Electricals. We also have plans to go into new areas such as biofuels in a big way and we do not want to be seen simply as firm whose only interest is in oil. We want to be known as the energy company of India.