

Fuelling economic development

INTERVIEW WITH SARTHAK BEHURIA

CHAIRMAN, INDIAN OIL CORPORATION LIMITED



SARTHAK BEHURIA was educated at St Stephen's College, Delhi and the Indian Institute of Management (IIM), Ahmedabad. He began his career with Burmah Shell in 1973 before its takeover by Bharat Petroleum Corporation Ltd, where he rose to become Chairman and Managing Director. Mr Behuria is the President of the World LPG Association (WPGA) since September 2008, the first Indian to head the organisation, and presided over its 22nd General Assembly in Rio de Janeiro in October 2009. He was appointed Chairman of IndianOil, India's largest commercial enterprise, in 2005.

As India's largest commercial enterprise, IndianOil is a good bellwether for the Indian economy as a whole. How would you characterise IndianOil's role in the country's corporate landscape? How satisfied are you with its recent performance and how do you see the outlook for the coming year?

I agree that in many respects IndianOil has been a bellwether for India's economy. The manifold increase in our sales and turnover over the years (66 million tonnes and US\$62 billion respectively for 2008-09), the enhanced autonomy granted to us, and our increasing international presence are a reflection of the growth and globalisation of the Indian economy.

A major strength of IndianOil is its unmatched presence across the length and breadth of the country, which makes it one of the largest energy services providers in India. As a public sector undertaking (PSU), we operate as an arm of the government in reaching petroleum fuels to every nook and corner of the nation, and in ensuring inclusive growth.

IndianOil's resilience in the face of the economic meltdown has won appreciation from many quarters. In spite of the financial odds, our physical performance has always been well above the mark. With crude oil prices climbing down from the historic highs of last year, our financials showed tremendous improvement. Even though prices are headed northwards again, I do not expect them to reach the unprecedented levels of last year.

June this year saw IndianOil celebrate its Golden Jubilee. What do you regard as the company's landmark achievements to date and what are your prime objectives for its expansion and development going forward?

IndianOil has transformed itself from a fledgling oil refining and marketing entity into India's largest commercial enterprise in the past 50 years, playing a pivotal role in fuelling the development of the Indian economy. It has grown exponentially – from a share capital of Rs. 12 crore to over Rs. 1,200 crore (US\$2.6 billion) today, and from a refining capacity of 0.75 million tonnes per annum to over 60 million tonnes, with a cross-country pipeline network of 10,000 km, and a countrywide marketing network of over 35,000 outlets.

In addition, I regard IndianOil's consistent financial performance in terms of generating profits year after year, despite the volatility of petroleum prices in the

international market and various policy-imposed constraints in the domestic market, as a major achievement. Looking forward, our vision is to be 'the energy of India,' aspiring to be 'a globally admired company.'

What does the election earlier this year of a majority government in India mean for IndianOil? What do you regard as the major opportunities and threats facing the company?

A majority government at the Centre is a welcome development. A strong and stable government always augurs well in taking the reform process forward. We look forward to complete deregulation of the petroleum sector to facilitate its unfettered growth. The nature of the energy business is such that both opportunities and risks abound. Given India's high import dependency, continuous turbulence in international energy markets poses a major risk to the corporation.

In terms of opportunities, the high potential in petrochemicals business and alternative energy sources, such as bio-fuels, wind, solar and nuclear, present immense opportunities for our next cycle of growth.

IndianOil recently announced that it would be taking a stake in the upstream company, Oil India Ltd (OIL) as part of that company's IPO. Do you see this as a stepping stone to greater integration and consolidation amongst the public sector undertakings in India's energy sector? What plans, if any, are there to open up the capital of IndianOil?

We see it as a step towards greater upstream integration. Investment in a mature oil exploration and production (E&P) company like OIL through the equity route is viewed as a means of sharing in the profits while minimising the risks associated with direct investment in the E&P sector. At present, IndianOil has no plans of raising money through the equity capital route.

Energy security is a major concern for India's policy makers. What steps is IndianOil taking to meet the country's growing energy demand?

IndianOil is making large investments to increase its refining, marketing and pipelines infrastructure so as to keep pace with the nation's growing energy demand. We are also investing in the domestic as well as overseas E&P sector to secure equity oil and crude oil supplies. Besides this, we have also taken steps to enter the

emerging businesses of alternative energy resources.

Last year IndianOil imported 48 million tonnes of crude oil. We have also expanded our crude oil basket by sourcing a wider range and from different sources. In recent years, we have made substantial investments to improve the flexibility of refineries to process different types of crudes and will continue to make further investments.

What are your prospects in the current NELP (New Exploration Licensing Policy) VIII round? Will IndianOil be looking to increase its upstream presence in the domestic market? What is the company's overall E&P strategy?

We have been awarded two offshore blocks, in consortium with other partners, as per the provisional results released a few days ago. We have plans to expand our E&P portfolio, both in India and abroad, so as to reach an upstream integration ratio of about 10 per cent within the next 10 years or so. We have chosen to keep to a modest target, given the risks involved in this sector and it being a relatively new business for us.

What do you regard as the most important drivers of IndianOil's future growth?

Our core business of refining and marketing will continue to be a thrust area for growth, so as to enable us to meet the domestic requirements. Besides this, we are making huge investments in petrochemicals, as we see a high potential for growth in it. We envision petrochemicals as a major revenue earner, with its share likely to more than double by the year 2022. In addition, alternative energy segments like bio-fuels, wind, solar and nuclear also present immense opportunities.

Where does the 'green agenda' figure in the company's plans?

IndianOil's 'green agenda' plays a major role in its plans for the future. We believe in running our operations responsibly today so as to build sustainable energy systems for tomorrow. To this effect, many initiatives have been taken in energy conservation, hydrocarbon loss reduction, and water and waste management. Auto fuel quality improvement projects are also underway at our various refineries.

In the long term, concerns on climate change and a shift in the policies of major consuming countries towards renewable energy and clean fuels will act as a major challenge to the conventional oil and gas industry. IndianOil's vision of diversification across the energy sector and its commitment to sustainable practices has identified renewables as an area of immense growth opportunity. We have already made headway in some of these segments, such as bio-fuels, wind farms and solar


bio-fuels value chain, from plantations to marketing. Last year, we commissioned a 21-MW wind-power project. Besides which, we see nuclear energy as another area with huge potential and have plans to enter this area in collaboration with NPCIL.

How important is Corporate Social Responsibility (CSR) to a company like IndianOil, and how do you see its social obligations changing as a result of India's rapid economic development?

In the past five decades, IndianOil has been actively supporting innumerable social welfare and community development initiatives across the country.

CSR assumes even greater importance in the context of our new Corporate Vision, with 'Ethics' and 'People' finding a prominent place amongst the cornerstones that go to form the Vision statement. IndianOil's concerted social responsibility programme partners communities and various stakeholders in health, family welfare, education, environment protection, provision of clean drinking water, sanitation and empowerment of women and other marginalised groups.

For the first time, CSR has been included as one of the parameters to be monitored in the corporation's Memorandum of Understanding signed with the Government of India for the financial year 2009-10. This would ensure greater accountability in our performance in this area.

Rapid growth and development of an economy requires greater investments in its socio-economic infrastructure to be able to foster inclusive growth. In view of this, beginning with the current fiscal year, our outgo on CSR activities has been raised to 2 per cent of the retained profit of the previous year, as against the earlier levels of 0.75 per cent of the net profit. 

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IndianOil's footprint stretches to even the remotest corners of the country

