

इंडियन ऑयल कॉर्पोरेशन लिमिटेड

रजिस्टर्ड ऑफिस : 'इंडियन ऑयल भवन',
जी - ९, अली यावर जंग मार्ग, बांद्रा (पूर्व), मुंबई - ४०० ०५९.

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IndianOil
A Maharatna
Company

Secretarial Department

Ref No.: SECL/LODR

Date: 07-11-2016

To, National Stock Exchange Limited Exchange Plaza, 5 th Floor, Bandra -Kurla Complex, Bandra (E), Mumbai - 400051	To, Bombay Stock Exchange BSE Ltd. 1 st Floor, New Trading Ring, P J Tower, Dalal Street, Mumbai - 400001
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Dear Sir,

Sub: Transcript of conference call with analyst for 2015-16 Q2 results

This is further to our intimation dated 27.10.16 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding the conference call to discuss the Second Quarter Financial performance of the Company on Friday, 28th October 2016 at 14:30 hrs IST.

The transcript of the conference call is attached herewith for your reference and record.

Yours faithfully,

For, Indian Oil Corporation Ltd.


(Raju Ranganathan)
Company Secretary



“Indian Oil Corporation Limited Q2FY2017 Earnings
Conference Call”

October 28, 2016



MANAGEMENT: **MR. A.K. SHARMA - DIRECTOR (FINANCE) – INDIAN OIL CORPORATION LIMITED**
MR. DK GARG - EXECUTIVE DIRECTOR (CORPORATE FINANCE) – INDIAN OIL CORPORATION LIMITED
MR. MATTHEW THOMAS - DEPUTY GENERAL MANAGER (CORPORATE FINANCE - TREASURY) - INDIAN OIL CORPORATION LIMITED

ANALYST: **MR. HARSHAD BORAWAKE - RESEARCH ANALYST - MOTILAL OSWAL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Indian Oil Corp Q2 FY2017 Earnings Conference Call, hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing “*” and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mr. Harshad Borawake from Motilal Oswal Securities. Thank you and over to you Sir!

Harshad Borawake: Thank you Ali. Good afternoon to all the participants. On behalf of Motilal Oswal Securities we welcome you all to the Indian Oil Corporation Limited’s Q2 FY2017 results conference call. From IOCL we have with us Mr. A.K. Sharma, Director (Finance), Mr. D.K. Garg, Executive Director (Corporate Finance) and Mr. Matthew Thomas, Deputy General Manager (Corporate Finance - Treasury). We thank the IOCL management for giving us an opportunity to host this conference call. Now, we will start the proceedings with initial remarks from the management on its financial and operational performance, which will be followed by the Q&A. I now hand over the call to management for their opening remarks. Over to you Sir!

A. K. Sharma: This is A.K. Sharma, Director (Finance). First of all, I would like to wish you a very Happy and Prosperous Diwali. Good afternoon to all of you. I take this opportunity to welcome you for this third conference call organised by us post announcement of our half-yearly results yesterday. In the last conference call, I had mentioned that the results of the financial year 2017 were prepared based on Ind-AS wherein all the figures were reported after regrouping the same for the previous years and the corresponding quarters.

While we continue the same, this time we have been able to announce the results within one month of half-yearly closing and we are trying to squeeze the time further. You would have certainly gone through the accounts posted on the website and further details provided by our treasury group. I would like to briefly delve on the results, which may provide additional clarity and insights.

As regards results are concerned, during H1 of financial year 2017 we have recorded a profit after tax of 11391 Crores as against 6141 Crores achieved during the corresponding H1 last year which signifies an increase of 85%. To split the same into the quarter, the Q1 PAT was 8269 Crores and during the Q2 the PAT is 3122 Crores. Obviously in the first quarter the inventory gains were quite substantial whereas in the Q2 there were some inventory losses of around 686 Crores.

Both the quarters have registered substantial increase in the profits as compared to the quarters in the corresponding period last year. Despite the fact the income from operations during H1 has registered a minor decrease of 1.7% compared to the corresponding period last year. The income from operations the gross for the first half was 207475 Crores as against 211042 Crores in the preceding period of half-year. This decrease is primarily due to fall in international prices during the current period. The income has gone down primarily because of the price variation and not because of the quantity variation.

As far as quantity is concerned, the volumes have gone up as compared to last year. If we compare the Q2 to Q2 the income from operation has increased by 3%. It is 100274 Crores as against 97300 Crores last year. So on Q2 basis the income has increased and on half-yearly basis the income has decreased, but in both the cases the volumes have gone up.

As far as refineries are concerned, I would first like to give a brief on the refinery side excluding the Paradip. You are aware that Paradip Refinery has been commissioned and is now working. All units are operational as far as the Paradip Refinery is concerned, but because this is the first year of the operation, the units were commissioned in parts. There were initial glitches in some of the units so refinery was not able to actually continue the operation in a total optimum manner. However, the achievement of throughput in the refinery will be fully visible in the following quarters.

As of now (i.e. during the month) it is operating at around 65% of the capacity. So, for the purpose of comparison of results and for understanding the performance of the company, I think if we exclude the Paradip refinery and then compare, it will give you better glimpse of the performance of the refineries. That will give you better picture of the result. Of course about the Paradip, I will be covering separately.

As far as refining is concerned, excluding the Paradip the highlights are; the refineries achieved the capacity utilization of 106.5% during the H1 of this year as compared to the 100.3% last year. So the capacity utilisation has been quite good.

Coming to the refinery efficiency parameters, the distillate yield in the refinery which is a major ingredient in determining the GRM, has remained stable at 78.4% and the corresponding fuel loss has also remained at the same level at 8.5%, a tad lower than the earlier period by 0.1%. It was 8.6% at that time and now it is 8.5%, indicating a better performance.

The refineries have registered a GRM of \$7.19 per barrel during the half-year as compared to \$5.76 per barrel during the last year. Needless to mention that the GRM does not factor in the inventory impact; the inventory impact could be on the negative side or on the

positive side, so once we take out the inventory impact and if we exclude Paradip our GRM would be \$ 4.65/ bbl in the first half-year as against the \$6.46/ bbl in the corresponding period last year. So if you compare that way you will find that there is a drop in GRM by \$2 but this has nothing to do with the efficiency or any other parameters. It is only to do with the compression in the cracks. The margins worldwide on the petroleum product vis-à-vis the crude has actually shrunk considerably and if you look at the Singapore margins, the drop in the Singapore margins is also about the similar \$2. So our results as far as the GRM are concerned more or less in line with the Singapore margins.

The Cracks has gone down primarily on the gasoline side and of course also on the gasoil side there is an impact on the Cracks. However, the crude prices during the quarter that is July to September remained range bound and did not lead to any major inventory gain or loss for that matter. There were some inventory losses, marginal losses on the crude side. It was Rs 294 Crores on the crude side and there were inventory losses on the product side, Rs 392 Crores.

You would be aware that I was talking about the shrinking of the Cracks on MS. To give you a figure, the cracks on MS were in the range of about \$16 per barrel during the H1 last year and which has come down to a single digit that is at \$9 per barrel which is almost a reduction of 43%. In HSD the Cracks have gone down by almost \$1.

Talking about the Paradip Refinery I would like to inform that all the units have now been commissioned and the refinery per se is stabilized. As far as the dispatches on the refineries are concerned, dispatches are now happening from all the modes, roads, rails, as well as coastal. Our north and south jetties both are now operational so evacuation is not an issue now.

The refinery was in stabilization mode during the last period and it operated during the Q2 at 43% capacity. In this quarter we are expecting the capacity utilisation to ramp up. Right now it is at 65% capacity utilisation level.

The real impact of the refinery on IOC profits will be visible probably in the next financial year. Right now the refinery is actually designed to process 100% of the high sulphur crude and it has now started processing the high sulphur crude. It is tuned to process 3.5 million metric tonne of heavy crude, which it has not yet started but it will start processing the heavy sulphur crude very shortly. We have heavy sulphur crude lined up for the refinery as well and when we feel it can take the heavy crude, it will be given to the refinery.

Pipeline facilities up to Raipur and Korba are ready for commissioning. This is for the dispatch through pipelines from Paradip Refinery and presently commissioning is scheduled

for second week of November. All the clearances are in process. Only small stretch of about 60 km that is from Jharsuguda to Ranchi is yet to be completed. Up to Korba in any case it is ready for the commissioning.

As far as the performance of the pipeline is concerned, our pipelines continue to generate a stable return and have given an EBITDA of Rs 3100 Crores during the first half of 2016-2017 compared to Rs 2800 Crores for the previous period which works out to an increase of about 10%. This increase is attributed to the increase in throughput of almost equivalent percent that is 10% during the first half.

As regards Marketing is concerned, the total sales have registered an increase compared to the previous period of six months. The marketing EBITDA for the half-year ending was about Rs 5300 Crores compared to Rs 2100 Crores during the corresponding period of six months and if the impact of inventory is removed then the corresponding EBITDA would be Rs 3600 Crores for the marketing division in the first half as against Rs 3100 Crores for the same period during the last year.

As regards Petrochemical segment, petrochemical continues to be a success story for Indian Oil and has been contributing very significantly to our bottomline. Indian Oil as you know has established itself as the second largest petrochemical player in the country in a short span of time, which is also reflected in our performance. Petrochemical business in fact reported a profit of Rs 3327 Crores during the first half as against Rs 2459 Crores during the same period last year which is an increase of Rs 868 Crores.

As regards E&P, we have concluded the deal with Rosneft through acquisition of the stake in producing oil fields of Vankor and Taas and these will actually start contributing to our revenue in the times to come.

On borrowing front with respect to the borrowing levels you would have seen that the borrowing as on September 30 has come down to Rs 41885 Crores compared to Rs 53404 Crores in March. This is significant reduction of about 22% and it has also consequently contributed to the reduction in the financing cost which has declined to Rs 1295 Crores during the six months as against Rs 1376 Crores in the corresponding period last year. If you look at the Q2 versus Q1 comparison on the borrowings the borrowings have actually gone up when you compare from the Q1. In Q1 our borrowings were Rs 39497 Crores and in Q2 we have reported as on September 30, Rs 41885 Crores. In fact there is an increase, if you compare last quarter with this quarter, the increase is attributable to the payment of the dividend and advance tax outflow which happens on a cyclical manner, but this is getting offset from October onwards. The borrowings have already come down further and as of now the borrowing stands somewhere around Rs 37600 Crores.

I would like to end my briefing on this right now and let me give the opportunity to you to seek clarification on any of the matters, which you may prefer. So once again let me take this opportunity to wish you a very happy festive season ahead. Now we will take the questions if there are any. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Dhawal Joshi from Emkay Global. Please go ahead.

Dhawal Joshi: Good afternoon Sir. Thanks for the opportunity. Sir, despite Paradip started we have observed that your opex level has remained at around roughly 6500 Crores on an average, so just wanted to know whether it will remain at this level or it is going to inch up?

A.K. Sharma: The opex level is now going to be the same because the operational expenditures what are being incurred will continue to be incurred on the same level.

Dhawal Joshi: But Sir, if you compare with the last year, the run rate was much higher than compared to this year and despite Paradip start up we have seen lower opex, so is there any precautions Sir, or any measures you have taken to reduce the opex or something, or it is because of the Ind-AS and is there any changes in the accounting standard?

A.K. Sharma: In fact the focus has been to reduce the shutdowns in the units and refineries preventive maintenance measures have been taken to see that the shutdowns are reduced. So that is impacting the opex and we see that the opex is going to be range bound.

Dhawal Joshi: So we can certainly assume Rs 6500 crores was on an average run rate for the next couple of quarters.

A.K. Sharma: Yes.

Dhawal Joshi: Second question is that you have booked 1.5 million tonnes capacity of PLNG which is for incremental 5 million tonnes of PLNG so just wanted to know what is the status of that. Have you tied up any volume with the customer on that or you will consume more?

A.K. Sharma: We are in discussion with the various suppliers as far as the long-term tie ups are concerned, but as of now we have the option of buying on the spot. We have the SPAs with various suppliers in place for direct buying and spot buying of these cargos so right now we will manage through that and over a period long-term quantities will also be tied up.

- Dhawal Joshi:** Sir, just last question, wanted to know that marketing margin per tonne basis during this quarter has increased on a quarter-on-quarter, Q1 to Q2 so wanted to know whether it is mainly from the increase in petrol diesel margin or it is from lubricant?
- A.K. Sharma:** Lubricant margins are more or less sustained. Marketing margins I will say have not increased in general. As far as margins are concerned, these can be seen in two ways. One is the margins that you add to the cost; there is no increase in that. What has contributed to profitability is that we have significantly reduced demurrage on various products including the LPG so that has played a role.
- Dhawal Joshi:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Probal Sen from IDFC Securities. Please go ahead.
- Amit Rustagi:** Good afternoon Sir. Wish you Happy Diwali. Sir, just two questions from my side. One could you explain us that in diesel and ATF it seems that we have lost a quite market share because our volumes are down on half-yearly basis while the industry has grown at 2.9% in diesel and similarly in ATF we are seeing that our volumes have grown only 6% while industry has grown around 12%.
- A.K. Sharma:** In case of diesel, on the retail side there is no significant change in the volumes. Direct sales, which we call the consumer segment, i.e. the supply to state transport, railways, port, seas, and various direct consumers. This business is basically based on tenders. So sometimes it happens and it will continue to happen that you win a significant tender and your volumes are immediately added. Somebody bids aggressively and you lose the volumes. So, I think these are something which will continue to happen as far as the bulk diesel segment is concerned and this may change from quarter-to-quarter. Whatever you are seeing today may not happen in the next quarter. If you win another tender, you may get the quantities and same thing happens in ATF business also. The airlines, they go for the tenders and sometimes you get two additional airlines as new business or sometimes you lose the business due to competition. So, I think this will have to be seen on a yearly basis. It cannot be compared on the quarterly basis. Sometimes if you lose a tender which is for one year, there would be a negative impact and if you win another tender which is for two years, there could be a reverse impact. This will keep on happening. As far as the retail is concerned, it is more or less stable and is not dependent on tenders and one time deals. So, there I think we will remain fairly stable. Other than the bulk business, I think it is more or less stable.

- Amit Rustagi:** The other question relates to the other expenses part. So our other expenses have come quite low on a YOY basis, so in the second quarter the total of other expenditure was Rs 8891 Crores and this quarter it was around 6696 Crores. Could you give us major items, which have led to this reduction, or there is like the foreign exchange gains are hidden in other expenses?
- A.K. Sharma:** Actually there is nothing hidden. Foreign exchange is a part of this and you have rightly pointed out the foreign exchange fluctuation has played a significant role of almost 1100 Crore. There were exchange losses in the last few years and there is slight gain in this period so that has played the role.
- Amit Rustagi:** So this quarter's gain is adjusted in the other expenses or it is adjusted in the other income?
- A.K. Sharma:** It goes to expenses. So the variation is because of 1100 Crores on exchange fluctuation to be precise.
- Amit Rustagi:** Any change in the valuation of bonds? Any gains on that have been recognized in this quarter?
- A.K. Sharma:** That is reported separately. That is reported under OCI only.
- Amit Rustagi:** Now that is going in OCI. Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Bhadrinath Srinivasan from Credit Suisse. Please go ahead.
- Bhadrinath Srinivasan:** Thank you very much for taking my question. I have two. Firstly on Paradip, could you help us with the GRM at Paradip? And also help us with the EBITDA number at Paradip Sir?
- A.K. Sharma:** While I can give you these numbers, but let me tell you, right now the GRMs will not have any meaning or any sense when the unit is operating at much below its capacity. In this month the unit is operating at 65%. However, so far it has been operating at 43%, so GRMs will not be actually measurable by any standards. Fuel & loss will be high, the yields will not be ideal. I cannot give you the number of Paradip exclusively but the differential numbers of the Refinery are there, including and excluding. I gave you the figures excluding the inventory gains and the Paradip earlier, which was \$4.65/ bbl. Figure of \$7.19/ bbl was given by me, which include the inventory gains and Paradip as well.
- Bhadrinath Srinivasan:** If you could just help with the EBITDA loss at Paradip that will be very helpful Sir?

A.K. Sharma: Just let me give you the numbers because now I have the GRM numbers. So, \$7.19/ bbl was the number given by me which includes Paradip, which also includes the inventory gains. Now if I exclude the inventory gains alone and include the Paradip my number is \$3.90/bbl. GRM excluding Paradip and excluding inventory gains \$4.65/bbl. The loss you can take as 336 Crores.

Bhadrinath Srinivasan: EBITDA loss at Paradip is 336 Crores.

A.K. Sharma: Yes.

Bhadrinath Srinivasan: That is helpful Sir. Second question if I look at the yield on a year-on-year basis 1H 2016 was 79.9% and if I heard you right you said excluding Paradip the yield was 78.4 in 1H 2017. So could you just help understand the reason for the variance?

A.K. Sharma: The reason for variance is primarily the intermediate stocks, the inventory of the intermediate stock, which has to be converted into the product is high so that will get converted in this quarter.

Bhadrinath Srinivasan: Understood Sir and the last one if I may, just on the marketing EBITDA, you said that it was Rs 3600 Crores for the first half of this year excluding inventory. Could you help give the number on 1Q and 2Q as well as the comparable number for last year?

A.K. Sharma: Q1 is 1718 Crores this year and Q2 this year is 1890 Crores.

Bhadrinath Srinivasan: Thank you. Just if you could help with the last year 1H 2016 numbers?

A.K. Sharma: We will give you that separately.

Bhadrinath Srinivasan: Thank you very much.

Moderator: Thank you. The next question is from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: Good afternoon everyone. Wishing your entire team a very happy Diwali. Few questions from my side. Firstly, you mentioned some number of Rs 294 Crores of inventory loss on crude side and Rs 394 Crores on product side. I did not fully get what period that refers to because in the data sheet you mentioned.

A.K. Sharma: It refers to the H1 number. For Q2 crude inventory loss was Rs 294 Crores and product inventory loss was about Rs 392 Crores. So, total inventory loss in Q2 is Rs 686 Crores.

Arya Sen: But in the data sheet you have given a loss on products of Rs 731 Crores. What is it in that case?

A.K. Sharma: That was given for the marketing division. We have products on both the sides, with the refineries as well as in pipeline and with the marketing division. Product-wise what I have given is; crude Rs 294 Crores and the other is product which include the intermediary stocks also. So this Rs 392 Crores is on products on corporate basis. That was the figure for the marketing division.

Arya Sen: So in that case there has been a slight inventory gain in the refining division in this quarter is that understanding correct?

A.K. Sharma: Yes very correctly said. Very correct observation.

Arya Sen: Secondly on this 4.65 number that you mentioned I would presume that is excluding both inventory and Paradip right because last quarter you had talked about I think 3.56 ex-inventory gain including Paradip and then you had given a separate number of I think 4.51 ex inventory ex Paradip.

A.K. Sharma: If we include the Paradip, I am talking of all figures after netting off the inventory loss. Inventory loss gains are excluded now and if we consider including Paradip the GRM figure will be \$3.90 per barrel and if I exclude Paradip the figure will jump to \$ 4.65 barrel. So the Paradip comprises of 0.75 cents on the negative side for six months.

Arya Sen: Understood. That becomes very clear then. Thirdly, I just wanted to understand how you are reporting the various segmental EBITDA because the total EBITDA in that includes the other income. Now how does that other income flow into the different segments? Does it go entirely into others or is some of it reported as part of refining, marketing, etc.?

A.K. Sharma: It is not being included in any of the segment. This is not being included in any of the segment because this is basically the interest, dividend and others, so it does not form part of any segment specifically.

Arya Sen: Sir, it becomes part of others?

A.K. Sharma: Yes.

Arya Sen: The forex loss or gain that you have reported, gain in this quarter that is divided into crude liability and other than crude liability. Is it fairly to assume that the crude liability part is

entirely part of refining and the other than crude liability part is part of marketing and that is how your EBITDA is being calculated in terms of the segment wise?

Matthew Thomas: Those figures given in the highlights are just breakups; these are forming part of the number elsewhere.

Arya Sen: But is there any sense on how this fluctuation gain flows into the segmental numbers or it is all mixed, I mean Rs 216 Crores of crude inventory?

A.K. Sharma: Crude goes into segment.

Arya Sen: Entirely into refining or some of it could be refining or some of it could be marketing?

A.K. Sharma: Crude has nothing to do with the marketing.

Moderator: Thank you. We have the next question from Vidyadhar Ginde from ICICI Securities. Please go ahead.

Vidyadhar Ginde: Thanks. Just I think you have given until now the GRM including and excluding Paradip inventory loss gain only for H1, can you give us the same number for Q2?

A.K. Sharma: I can give you. I am talking of GRM after excluding the inventory gains. So that is main statement. Excluding the inventory gains and without Paradip the GRM for Q2 is \$4.79/bbl.

Vidyadhar Ginde: This includes inventory gain but excludes Paradip?

A.K. Sharma: I am making the first statement that all figures are excluding inventory gains. So that is my first statement. So within that now I am making further statements. The GRM including the Paradip will be \$4.26/bbl and excluding Paradip will be \$4.79/bbl. This is for Q2. So the impact of the Paradip on GRM is almost 53 cents per barrel on the negative side.

Vidyadhar Ginde: Second thing I wanted to ask this Rs 294 Crores of crude inventory loss and product inventory loss of Rs 394 Crores that is for Q2 or H1?

A.K. Sharma: That is for Q2.

Vidyadhar Ginde: That was Q2. Last question is regarding what is IOC's market share in direct and bulk diesel segment last year and in first half this year?

A.K. Sharma: That figure we will provide you separately.

- Vidyadhar Ginde:** That is it from me.
- Moderator:** Thank you. The next question is from Manish Kumar from HSBC. Please go ahead.
- Manish Kumar:** Good afternoon Sir. My question is related to the lubricant segment. Has there been some margin pressure of late, is this something that you have witnessed or you believe it is earning pretty stably all this while?
- A.K. Sharma:** As far as lubricant is concerned, I think the margins are fairly stable and there has not been any margin pressure on the lubricant side because lubricant business has witnessed competition for quite a few number of years, so the margins are more or less stable.
- Manish Kumar:** Last question will it be fair to assume that Paradip will start to earn normal GRM, whatever GRM it was supposed to earn by sometime in February or March next year?
- A.K. Sharma:** Yes obviously, that is what we expect. When it starts operating at more than 90% capacity, it will start generating the normal GRM on month-to-month basis. It cannot generate the GRMs for the whole year, but for months, may be for February'17 or March'17 when it is operating at more than 90% it will be generating normal GRM for that month.
- Manish Kumar:** Thank you.
- Moderator:** Thank you. The next question is from Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** Thanks for your time. You mentioned demurrage incurrence has come down? How much was the amount?
- A.K. Sharma:** Do you want to know the demurrage reduction?
- Vishnu Kumar:** Absolutely Sir, correct.
- A.K. Sharma:** It is around Rs 500 Crores may be.
- Vishnu Kumar:** This is on a quarterly basis, Rs 500 Crores per quarter or per annum.
- A.K. Sharma:** This reduction is upto this quarter.
- Vishnu Kumar:** For the quarter and second question is on the forex gain you mentioned that there was about 1100 Crores that is offset in the other expense part. But the highlights that show is only 254 Crores of exchange gain. Is there a misunderstanding in terms of the numbers that you told?

- Rohit Agrawala:** This time the gain is Rs 250 odd Crores. Last time there was a corresponding loss, Rs 1100 minus 250 around Rs 800-odd Crores there was a loss in the earlier period. That is how the total difference become Rs 1100 when we compare the other expenses, because both are netted in that part, other expenses.
- Vishnu Kumar:** So currently only 254 Crores is netted in other expenses?
- A.K. Sharma:** Yes, but the 1100 Crores is the difference, when you are comparing the two quarters.
- Vishnu Kumar:** Got it. Lastly you mentioned that we are losing some volume on the consumer side, are you seeing this more from the private with RIL Essar or is it to do with BPCL?
- A.K. Sharma:** Not of significant from them. It is a mix of all, but not so much on them.
- Vishnu Kumar:** Sir, one last question on diesel margin the gross margin has increase from about 2.4 average if we have to take to 2.7 in the last four fortnights. Is this more sustainable or we would see it fluctuating?
- A.K. Sharma:** We have not calculated the product wise margins.
- Vishnu Kumar:** Price build up typically that you release, the margins if we compute between RTP and price charged to dealers that difference is what I am talking about. Now it has gone to 2.7 for the last four fortnight?
- A.K. Sharma:** I do not know. We have not calculated. We do not declare product wise and it is not even calculated that way.
- Vishnu Kumar:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from Rohit Ahuja from Religare Capital. Please go ahead.
- Rohit Ahuja:** Thanks for the opportunity. Sir, I have two questions; one is on the refining side and one is on the marketing side. First of all on refining, how do we see the overall throughput of the refinery panning out over the next two to three quarters considering there was a slight reduction in the throughput QOQ by about 3%, so if you could break up for the first half throughput of 31.73 how much would be Paradip's contribution and how do we see this panning out for the next two to three quarters?
- A.K. Sharma:** I mentioned about the capacity utilisation was 106.5% during the H1 excluding the Paradip. I think we will provide you the figure separately on this. As it is excluding Paradip it is

106.5% capacity utilisation and if you include the Paradip the capacity utilisation dropped to 91.5%.

Rohit Ahuja: So Paradip would be for the quarter 1.5 to 2 million tonne for the quarter?

A.K. Sharma: 1.7 million for the quarter.

Rohit Ahuja: 1.7 million for the quarter and this moves up. Is it by Q4 you will be crossing the 90% utilisation at Paradip?

A.K. Sharma: 3.7.

Rohit Ahuja: So it will start clocking 3.7 to 4?

A.K. Sharma: Yes.

Rohit Ahuja: Secondly on the marketing side, we have seen that there has been our growth in volumes have lagged the industry and as there were questions for you we have been losing market share but this trend has been happening since quite a few years?

A.K. Sharma: It has not been happening that way. In fact this happened only because of some losses in the tenders for the bulk consumer business, by the way it has not been the trend.

Rohit Ahuja: Sir what specific actions you are taking to reverse this trend may be after Paradip ramps up fully?

A.K. Sharma: I am saying that this has not been the trend. This is happening as one off cases in some quarters whenever you lose some tender. Trend can be visible in retail, which is more of the stable part. It keeps on happening with consumer and we may also get some business. You lose some business and then you get some additional business so this is an ongoing thing. It is a question of taking call on the tenders. So at an appropriate time if we really feel that there is a trend we will take the corrective actions, but right now we feel these things are dynamic and we keep taking decisions appropriately. If we find that this is going to be a trend we will certainly take the corrective action. Right now we do not feel it is the trend. We know what is happening and on what account the volume was lost and how to regain it.

Rohit Ahuja: Sir the volume from Paradip Refinery is entirely sold by us or it is also been through channel partners?

A.K. Sharma: No, it is all sold by us and that will continue to be sold by us.

- Rohit Ahuja:** It will come in your marketing volumes whatever ramp up in Paradip happens?
- A.K. Sharma:** Yes.
- Rohit Ahuja:** Thank you.
- Moderator:** Thank you. The next question is from Sanjay Mookim from Bank of America. Please go ahead.
- Sanjay Mookim:** Good afternoon Sir. Can we get guidance for your capex for this year and next year please?
- Matthew Thomas:** Earlier we had targeted around something like Rs 15000 Crores but with the Russian acquisition this would go up to Rs 19000 Crores for this current year, and if you would like to have a segment wise breakup, refineries would be something like Rs 3400 Crores, pipelines Rs 1300 Crores, marketing to be around Rs 4800 Crores, and as mentioned because of the Russian acquisition the exploration and production goes up to Rs 6000-odd Crores and with petrochemicals Rs 1000 Crores and with some of the other alternate energy and gas schemes it will come to around Rs 19000-odd Crores. For the next five to seven years the target you might have been reading in the newspapers and other reports that we are planning to spend something like Rs 175000 Crores and so we would be having and we have a target of something like close to Rs 175000 to 183000 Crores. With different segments may be in refineries, we will be having something like Rs 50000 Crores and pipelines around Rs 22000 Crores and marketing around Rs 40000 Crores and E&P around Rs 30000 Crores, as far as E&P is concerned it is only earmarked and petrochemicals Rs 29000 Crores, and then you have got alternate energy and gas schemes and R&D and so on and so forth. Let me also tell you that we have got a very structured system of due diligence and feasibilities and evaluation of the projects and now most of the projects are on the table but then of course call will be taken, a decision will be taken on each project to find out whether it is feasible and viable to take it forward. Of course these are ambitious projects and we believe that we are capable to take it forward so that we are diversified at the same time we strengthen our core business.
- Sanjay Mookim:** Thank you. I have just one more question. Are you considering an employee pay scale revision any time soon and what amounts might that be?
- A.K. Sharma:** For the public sector there is a committee, which was set up by the government and the pay scales, are due for revisions on January 1, 2017. So I think the committee's report will be out in a few months time and at that time it will get revised.
- Sanjay Mookim:** We will wait for that. Thank you.

- Moderator:** Thank you. The next question is from Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** Thank you very much Sir. Just a couple of questions; Sir, first on the marketing side of the business compared to the first half EBITDA of 3600 Crores excluding the inventory swing it seems that last year the same number was roughly around 3100 Crores or something like that. So there has been a healthy growth in the marketing EBITDA. Now Sir, what would have driven this increase or what product spreads volumes or margins?
- A.K. Sharma:** That is as we explained it is primarily attributable to the reduction in the demurrage so that has been the main contributor.
- Pinakin Parekh:** So there has not been any increase in any particular product line margins?
- A.K. Sharma:** Not significantly. Margins keep on fluctuating on both sides. Major role has been played by demurrage reduction. Margins do play a role but not that significantly.
- Pinakin Parekh:** Secondly on Paradip, what kind of capital spending should we see from next year on the expansion in terms of the amount and in terms of what it would be spent on?
- Matthew Thomas:** In Paradip, we have already got a project of petrochemicals going on, there is polypropylene going on and that is around Rs 3000 Crores and is supposed to be commissioned by 2018. So this expenditure certainly will take place between now and 2018. Some expenditure has already taken place and we have already made a progress of around 30%. Then we have got some expansion plans coming up in Paradip but those figures are basically ballpark figures, yet to be finalised but then those should be finalised once decisions are taken.
- A.K. Sharma:** Almost 1000 Crores we will be spending on Euro-VI.
- Matthew Thomas:** Yes, on Euro-VI or the BS-VI the quality improvement project, we will be spending another 1000 Crores. Right now these are in the anvil. Of course, there are projects in Paradip which are going to come up but they are still in the decision stage.
- Pinakin Parekh:** Lastly Sir, Paradip you said February March whenever it hits 90% utilisation over and above it should have normalized GRM so as of now what kind of premium would it see to the blended GRM as a \$4.5 that we are seeing right now if the situation were to sustain will it be \$2, \$3, \$4 higher?

- A.K. Sharma:** I would reply in the way that it all depends on the margins in the market. But definitely the Paradip GRMs will certainly be higher than the normal GRMs of IOC. To what extent it will have will depend on the international cracks.
- Pinakin Parekh:** Thank you very much.
- Moderator:** Thank you. We have the next question from Falguni Dutta from JetAge Securities. Please go ahead.
- Falguni Dutta:** Good afternoon Sir. I just missed on crude inventory gain relating to refinery?
- A.K. Sharma:** That figure was 45 Crores.
- Falguni Dutta:** Inventory gain?
- A.K. Sharma:** Yes on the product side.
- Falguni Dutta:** So 45 Crores was the inventory gain on the refinery side?
- A.K. Sharma:** Yes, on the refinery side for the products.
- Falguni Dutta:** What was the loss on the marketing side?
- Rohit Agrawala:** As we have already told, there are two ways we look at inventory losses. The inventory losses for Q2 were 686. If you see by product category, crude was 294 loss and products was 392 loss. But if we go business segment wise, refinery has overall gain of 45 where crude is on loss and product is on gain. Marketing is 731 loss. So either way the total loss is 686. So if you go division wise, the refinery is positive 45, marketing is negative 731, total 686 negative. If you go on crude and products separately, then crude will be 294 negative and product will be 392 negative. In both ways the total will be 686 negative.
- Falguni Dutta:** Thank you.
- Moderator:** Thank you. The next question is from Nitin Tiwari from Antique Stock Broking. Please go ahead.
- Nitin Tiwari:** My questions are answered. Thank you. Just one update, what is the progress on the west coast refinery that was planned between you, BPCL and HPCL? Is there any progress on that refinery, if you can update on that please?

- A.K. Sharma:** Right now the site selection is going on and that process is on. Once the site selection is done thereafter I think it will be possible to give further updates. So we will have to wait for some more time for the site to be finalised.
- Nitin Tiwari:** Thank you Sir.
- Moderator:** Thank you. The next question is from Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Thanks. I had a question on your Dhamra LNG Terminal. When is that likely to get completed and you are likely to use gas in your Paradip, Barauni, and Haldia refineries. So what is the quantity of gas that is likely to get used in these three refineries once the project is complete and the pipelines are done and gas can be transferred?
- A.K. Sharma:** We will give you separate update on this because this is not directly related to the financials right now. We will separately give you the projects, which are coming in JV. So we will give you separate update on this.
- Vidyadhar Ginde:** Thanks.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Harshad Borawake for closing comments.
- Harshad Borawake:** We thank the IOCL management for taking out time to address participant's questions and also thank all the participants for joining in. Thank you. Wish you all a very happy Diwali.
- A.K. Sharma:** Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.