

# MANGALORE REFINERY AND PETROCHEMICALS LIMITED

## 28<sup>th</sup> ANNUAL GENERAL MEETING

### CHAIRMAN'S SPEECH

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Dear Members, Greetings for the day,

On behalf of Mangalore Refinery and Petrochemicals Limited I am delighted to welcome you all to the 28<sup>th</sup> Annual General Meeting of your Company.

Thank you for joining us today,

The 28<sup>th</sup> Annual Report, containing AGM Notice and Board's Report for the financial year 2015-16 along with the audited financial statements, was sent to all the members. With your permission, I would like to take them as read. An unqualified report from the Joint Statutory Auditors and 'Nil' comments from C&AG in 14<sup>th</sup> year in a row demonstrates transparency in disclosure practices of your company.

#### **Economy:**

Oil is an important component in the energy basket, with continued consumption growth expected in future, particularly in the emerging global markets. Though there is a likelihood of a shift towards natural gas and renewable forms of energy, with oil losing its market share, however overall production and consumption of petroleum products is likely to increase due to growth.

The global market environment has been extremely volatile and challenging in the recent times, witnessed by an oversupply in the crude oil market, that lead to crash in oil prices. Crude oil prices have been persistently low for over two years now and the fall has been more than 60 percent from their highs in the summer of 2014. The current fall in prices could be attributed to a combination of rampant supplies, weak global demand amid concerns over slowing economic growth around the world. Since Indian economy is highly dependent on oil and gas imports, this low oil price regime has helped the

country in its fiscal deficit management, forex reserves management and more importantly in bringing about reforms in the Indian oil and gas sector.

The country's robust economic growth along with low oil prices, has boosted demand of petroleum products in our country by 10.9% (YOY), the highest since 2000. That's a growth rate unmatched in the past 15 years.

With India's per capita energy consumption being one-third of global average, coupled with growth in the economy, its oil products demand is expected to remain firm on an upward trajectory, rising two-and-a-half-fold to 10 million barrels per day by 2040, the biggest rise projected for any country, according to the International Energy Agency.

### **Industry:**

India's energy demand is closely linked to its economic growth. Given the strong growth of the Indian economy and rising population, the country's oil & gas consumption is projected to witness substantial increase. The Government of India has also adopted several policies to meet the increasing demand of the country. The government has allowed 100 per cent Foreign Direct Investment (FDI) in many segments of the sector, including natural gas, petroleum products, and refineries, among others.

The demand for petroleum products is expected to be materially higher than the long-term average over the medium term, following prospects of increased economic activity and low prices of crude oil and petroleum products, incentivising the consumers in different segments to switch over from alternate fuels. However, the recovery in crude oil prices may lead to certain moderation in growth rates from the current high levels. Besides, lower prices of LNG as compared to liquid fuels may moderate growth rates for products like naphtha in the near to medium term.

Government of India has taken several flagship initiatives such as 'Make in India', 'Digital India', 'Swachh Bharat Abhiyaan', 'Skill India', 'Smart Cities', 'Startup India', etc. A lot of initiatives have been taken to promote oil and gas sector and some of the major ones are,

## Upstream Oil and Gas Sector

- New **Hydrocarbon Exploration & Licensing Policy (HELP)** was announced in March 2016 which will replace the existing NELP regime that has been in place since 1999. HELP is not a single reform but is rather bringing about a set of regulatory transformations across the sector:
  - **Revenue sharing model**, is one of the greatest reforms in the history of India's oil & gas industry. Profit-based production sharing model under NELP led to disputes between the contractors and the government because of the complex process of determining the contractor's profit. Therefore, revenue-sharing introduced under the HELP as an alternative, is welcome in the industry.
  - **Uniform licence framework** brought in under HELP will enable a contractor to explore and exploit any type of hydrocarbons from a given acreage. This marks a difference from NELP where different hydrocarbon licenses were given by the government for different types of hydrocarbons
  - **Open acreage policy** under which E&P companies can select the areas they wish to explore so that the government can offer them for bidding. As a result, investors need not wait for auctions or bidding rounds and can suggest by themselves new areas to bid anytime.
- Recently, government announced the **Discovered Small Fields Bidding Round, 2016** providing an attractive fiscal framework for the monetization of many discoveries that were undeveloped
- Another significant policy during the last financial year, was the allowance of **marketing and pricing freedom for gas** produced from High Pressure High Temperature, Deepwater and Ultra Deepwater areas.
- Policy for the **Grant of Extension to the Production Sharing Contracts** for small and medium sized discovered fields.

## Downstream Oil and Gas Sector

- Established a mechanism for procurement of Ethanol by Public Sector Oil Marketing Companies (OMCs) to carry out the **Ethanol Blended Petrol (EBP) Program**.
- Allowing state-owned oil firms to evolve their **own crude oil import policies** which involve freedom to choose source companies as well as pricing for their crude oil imports, thus allowing them to compete in the market effectively.
- Setting up of the **Hydrocarbon Sector Skill Council (HSSC)**, under its Skill India initiative, to train over 1.9 million people in the oil and gas sector over the next 10 years, to cater to the rising skill needs of the industry.
- Setting up of a working group to draw a **road map for India's crude oil refining capacity over the next two-and-a-half decades** through 2040. The idea is to align the country's energy portfolio with a diversified fuel mix and the transition towards cleaner sources of energy.
- Pilot programme, aimed at introducing **compressed natural gas (CNG) as fuel** for two-wheelers.
- Government launched scheme for **direct transfer of LPG subsidy to consumers known as PAHAL** which is the largest direct cash transfer scheme in the world recognized by Guinness Book of World Records. Under this scheme, LPG is being sold to consumers at the market rate while the subsidy is directly credited to their bank accounts as per entitlement.
- Under **Pradhan Mantri Ujjwala Yojana (PMUY)** 5 crore LPG connections will be provided to BPL families with a support of Rs.1,600 per connection in the next 3 years. Rs. 8000 Crore has been allotted towards the implementation of PMUY.

The outlook of the refinery sector in the medium term appears to be positive. Low crude oil prices could continue to support the demand growth despite modest global economic prospects and accordingly crack spreads of most of the products are expected to remain healthy. Additionally, any recovery in crude oil prices would also lead to inventory gains for the refiners. The

marketing margins also are expected to be healthy due to lower prices of petroleum products apart from anticipated healthy demand growth due to improving economic activity in the country.

### **Performance:**

I am delighted to share with you that your Company witnessed sustained growth and performance despite several challenges during 2015-16. MRPL continued the tradition of setting several new records in terms of its achievements during the year:

- Highest-ever Crude Through-put of 15.53 MMT
- Highest-ever Distillate yield of 76.88 %
- Highest-ever Diesel Production: 6,491 TMT
- Highest-ever LPG production of 797 TMT and dispatch of 810 TMT
- Highest-ever Coke production of 843 TMT and dispatch of 856 TMT
- Highest-ever Polypropylene production for a month in July 2016 at 29.2 TMT
- Highest-ever throughput of 3.318 MMT through MHL product pipeline
- Highest-ever EBIDTA at Rs 2,464 Crore
- MRPL is back in green with Net profit of Rs.1,148 Crore vis-a-vis loss of Rs.1,712 Crore last year.

### **Marketing:**

Marketing infrastructure is the key to our competitiveness. Your Company is augmenting its marketing activities to improve the margins on the various products produced by the refinery. Various grades of polypropylene produced by MRPL were received well in the market, your Company has been successful in achieving a sizable polypropylene market share in the southern part of India.

Your company has started direct HSD supplies to large consumers like State transport Corporations, Railways etc and are working towards setting up of retail outlets in various locations in the states of Karnataka and Kerala shortly. After deregulation of HSD pricing, MRPL has gone ahead with the retail

expansion plan by releasing advertisement for appointment of dealers for retail outlets in the states of Karnataka and Kerala. Your Company has plans to build around 500 to 1000 retail outlets in the next 5 to 8 years. Your Company continues to expand its market spread in the direct sales segment of petroleum products in the state of Karnataka and its adjoining states and has maintained significant market share for products such as Bitumen, Fuel Oil, Sulphur, Diesel, Naphtha, Petcoke and Mixed Xylene in its refinery zone.

### **Your Company's Growth:**

After successful commissioning of the Phase-III units, your Company's product base has expanded to include Pet coke, Ultra Low sulfur Diesel and Polypropylene. MRPL is establishing value partners to expand market base and partner sustainable growth. Your Company has undertaken several projects such as Railway Siding, Revamp of CCR2, Relocation of loading facilities and additional tankages. MRPL is also implementing the Flare Gas Recovery System which would recover the gases that are lost from the flare and utilize it as fuel, thereby protecting the environment while saving on fuel cost. Your company's on-going project - Additional Petcoke Silos for marketing would provide greater flexibility in marketing of petcoke and mitigate environmental impact of concentrated loading.

MRPL has already initiated actions for upgrading the MS and HSD qualities to meet BS VI specifications which will come into force from April 2020. The expected cost of the project based on current estimates stands at ₹1,810 crore.

Your Company is exploring plans to set up Linear Alkyl Benzene production facilities, Pet-coke Gasification, Ethylene Benzene/Styrene production facilities, etc. These projects are in various stages of evaluation. MRPL is also considering further expansion of the capacity of the refining beyond the existing 15 MTPA.

A major breakthrough in MRPL's growth was achieved when it acquired majority stake in ONGC Mangalore Petrochemicals Ltd - OMPL, making OMPL

its subsidiary. OMPL's Aromatic complex produces Paraxylene and Benzene which are value added petrochemical products using the feed streams from MRPL's Refinery. Presently complete functional integration of OMPL with MRPL is in progress. This will establish MRPL as a world class Integrated Refinery and Petrochemical complex, ensure higher returns for stakeholders by adding value to refinery product streams, to optimize its GRM and will also maximize combined margins of refinery and petrochemicals as per market dynamics.

### **Corporate Social Responsibility (CSR):**

Your Company has given high priority to its social responsibilities. Your Company's social welfare and community development initiatives are focused on the key areas of education, health care and overall development of basic infrastructure in and around its operational areas.

Under Swachh Vidyalaya Abhiyaan MRPL has constructed 54 toilets in 31 government and government aided schools. MRPL has been associated with Ramakrishna Mission, Mangalore for Swachh Mangaluru Abhiyaan, in association with school children, CISF personnel and own employees.

### **Sustainability Development:**

Sustainability efforts of your Company is focussed on drawing action plans towards minimizing our carbon footprint through efficient operations of the complex refinery projects, addressing associated risks as well as harnessing opportunities. Your Company is consolidating its position in potential hydrocarbon value chain optimization opportunities laying emphasis on recovering value from low value hydrocarbons such as petcoke, refinery off gas and internal fuel oil. Your Company believes in creating wealth for stakeholders, through Sustainable and Organic growth positioning MRPL as a technologically advanced refiner in India.

### **Health, Safety and Environment:**

Your Company has laid highest priority in integrating health, safety and environmental (HSE) aspects into our business decisions. Safety is non-

negotiable at MRPL. Continuous drive to operate safely and responsibly sets your Company apart. This relentless focus and adoption of the highest international standards has helped build an excellent safety record at MRPL over the years. Your Company's focus on shared prosperity through empowerment and development of the adjoining areas, has enabled us to forge a lasting relationship with the communities.

To protect environment your Company has adopted environmental friendly processing technologies, sulphur recovery units, utilization of tertiary treated sewage water from Mangalore City Corporation / MSEZL, periodic as well as continuous monitoring of environment in and around refinery complex. Your company has also implemented in the refinery an advanced waste water Treatment Plant having Sequential Batch reactor (SBR), Membrane Bio Rector (MBR), Ultra Filtration (UF), Reverse Osmosis (RO) and has taken up development of an extensive green belt in consultation with State Forest Department.

In the recent months of April to June 2016, the refinery faced scarcity of water because of which the refinery faced partial shutdown. Your company gainfully utilised the situation as an opportunity for preponing major maintenance activities scheduled later during the year.

### **Corporate Governance:**

Your Company's philosophy of Corporate Governance stems from its belief that the spirit of good governance lies in adherence to highest standards of transparency, accountability, ethical business practices, compliance of law in true letter and spirit, adequate disclosures, corporate fairness, social responsiveness and commitment to the organization to meet stakeholders' aspirations and societal expectations. Your Company has been complying with the requirements of corporate governance as stipulated in the Companies Act 2013, Listing Regulation, and DPE guidelines (except the non-availability of Independent Directors). The issue of appointment of



Independent Directors has been taken up with the Ministry of Petroleum and Natural Gas.

**Acknowledgements:**

At the outset, I thank all our esteemed shareholders who have reposed faith in us. I would like to thank the Ministry of Petroleum and Natural Gas, Ministry of Finance, Ministry of Corporate Affairs, Department of Public Enterprises, Ministry of External affairs, Government of Karnataka, HPCL for their continued support and guidance. We also acknowledge that the growth of your company would not have been possible without the continued support of the parent company, Oil and Natural Gas Corporation Limited.

The commendable performance of your Company during 2015-16 is due to the whole hearted commitment and dedication of the entire workforce across the organisation. I would like to place on record my sincere gratitude to "Team MRPL" for the untiring efforts of every employee towards the growth of your Company.

Thank you.

Jai Hind!