"Indian Oil Corporation's Q1 FY2017 Post Result Conference Call"

August 30, 2016

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Moderator: Ladies and gentlemen, good day and welcome to the Indian Oil Corporation's Q1 FY2017 post result conference call hosted by Batlivala and Karani Securities India Private Limited. As a remainder, 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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhavin Gandhi of B&K Securities. Thank you and over to you sir.

Bhavin Gandhi: Thanks Reo. Good afternoon everybody. On behalf of Batlivala & Karani, I welcome you all to the post result conference call of Indian Oil Corporation. It is our great pleasure to welcome the management of Indian Oil Corporation for the call and we thank them for giving us another opportunity for hosting the call for them. I would now like to hand over the call to Mr. Matthew for the initial remarks. Over to you sir.

Matthew Thomas: Good afternoon Mr. Bhavin and I take this opportunity to welcome all the investors and analysts who are logged onto this conference call and to introduce myself, this is Matthew – DGM (Corporate Treasury) and the investors and the analysts will be addressed by our Director (Finance) Mr. A. K. Sharma and he will be assisted by our team members, Mr. Nitin Kumar – Chief Manager (Treasury), Mr. Rohit Agarwal – Chief Manger (Corporate Finance), Mr. Sadashiv Nagannure - Senior Manager (Treasury) and Mr. Avinash Singhal - Manager (Treasury and Investors) and over to you Bhavin to take forward.

Bhavin Gandhi: Sir we can start with your initial remarks if you have any and then we can follow it up with a Q&A.

Matthew Thomas: Yes, so our Director (Finance) will give an initial review and thereafter we can take the Q&A.

A. K. Sharma: Good afternoon, this is A. K. Sharma - Director (Finance), Indian Oil. I welcome all the investors and analysts to this second investors conference which IOC is participating.

Just to give you a brief review of the accounts, I am sure you would have seen the details of the accounts in the website itself. But just for recapitalization, as you are aware that the financial statement this time we have prepared based on the Ind-AS only and we have also reported all the comparatives even though there was dispensation given by the SEBI for not reporting the previous figures, but we have done that. All those figures have been reported and we have also provided you the reconciliation of the figures based on the earlier Indian GAAP and the Ind-AS also in our filings with stock exchange.

The PAT for April to June is Rs 8,269 crores as against PAT of 6,591 crores during the corresponding period last year and the income from operation obviously is down from the earlier period, it is Rs 1,07,201 crores as against Rs 1,13,743 crores. I am comparing Q1 of this year and Q1 of the last year, so it is a decrease of 5.8% which is primarily and mainly because of the price variation impact. As far as the quantity is concerned, in quantity terms overall there is an increase by 4.3% but because of the fall in the prices, the valuation of the income has gone down.

Coming to the borrowing level, the borrowing of the company is at a very low level right now touching further low, down from Rs 53,404 crores last year to Rs 39,497 crores as on 30th June. The finance costs though should have come down correspondingly, but you will notice that there is a slight increase in the finance cost, it was Rs 618 crore in Q1 of last year, it is Rs 680 crore now in Q1 of this year. The primary reason for that is for Paradip refinery earlier the financing cost was getting capitalized, but after this refinery became operational, now the financing cost of 217 crores attributable to the Paradip refinery is being booked as interest expenditure. If you exclude this 217 crores, then there is a reduction in the finance cost as well but for this accounting treatment for Paradip refinery.

GRM as you are aware it is $9.98/barrel against $10.77/barrel and obviously the major contributor to GRM has been the inventory gain which we witnessed during April to June 2016 this year and if you exclude the inventory gain, the figure is $3.56/barrel and similarly if you exclude the inventory gains of the last year same quarter, the figure comes to $5.99/barrel. So if you compare the figure excluding the inventory gains, it is $3.56/barrel as against $5.99/barrel last year. There is a reduction of almost $2.4 which is primarily and mainly because of the shrinking of the cracks between the crude and the product prices internationally.

As you are aware, the cracks which were $16 in MS has shrunk to $10 and down by $3 in case of HSD. So the combined effect of the shrinkage in the cracks in the international market is almost around $4. So as against that, our reduction in GRM is only $2.5. The rest we have been able to make up against the trading in fuel and others. So if you look at the Singapore margins also, you will also notice that the Singapore margins have also shrunk by $3. So comparing with that, the GRMs are quite good.

Petrochemicals which as I mentioned earlier also, now has become one of the major contributor to the IOC's performance profitability, it has reported a profit of Rs. 1,756 crores during this quarter as against Rs. 1,330 crores the same quarter last year. So it is an increase of almost more than Rs. 400 crores on the petrochemical side.

So our GRM would have been further higher than $3.56/bbl, which I am saying without inventory gain could have been $4.51/bbl if we exclude the GRM of Paradip refinery. As you are aware that we have recently commissioned the Paradip refinery, all the units have been commissioned gradually one-by-one and refinery is now operating at almost 56% and in this quarter it was operating at below 50%, now it is at 56%. So obviously the GRMs for Paradip refinery will be visible only after it starts functioning at more than 90% of the capacity. So right now if we exclude the GRM of the Paradip refinery, then the GRM of IOC comes to $4.51/bbl after excluding the inventory gains. So while considering the Singapore margin it is quite good number.

As with regards to the refineries, the refinery throughput has increased to 16.099 MMT as against 13.568 in the last year quarter. So there is a growth of 18.7% and there has been a growth and improvement in all the physical parameters all around including the pipeline, the throughput pipeline has also increased from 18.955 last year to 21.437 MMT this year. So there is an increase in domestic sale by 4.3%. So overall we find the performance is well up to the mark and inventory gains also supported the financial performance for which yes I will say yes inventory gain could be a factor of the cyclical nature, and then the fact that we suffered the inventory loses, so inventory gains are also rightfully for us**.** So this is briefly from my side. Now I invite the questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Dhaval Joshi of Emkay Global. Please go ahead.

Dhaval Joshi: Good afternoon sir. Just wanted to have an idea on your debt portion as we have seen reduction in the debt on a sequential basis. So do you have significant CAPEX plan over the next couple of years or I would say next 5 years. So what will be your debt over the next 2-3 years going forward?

A. K. Sharma: I will not be able to give the number but what we can tell you is the debt equity will be 1:1, it will not cross more than 1:1, that is what is the expectation.

Dhaval Joshi: Okay and sir just wanted to know whether you have gained more marketing margins in industrial segment during the quarter one because looking at your marketing margin, it seems that it has declined on a sequential basis. So have you earned more or decent margins in industrial segment like naphtha, FO products?

A. K. Sharma: Marketing margins means it includes everything, including the industrial segment, retail everything. When we talk of marketing, it includes all sales, direct and retail sales.

Dhaval Joshi: I understand but since the way you do the business with industrial products, so just wanted to know whether you have earned marketing margin on that industrial products or not because we monitor, we calculate marketing margin on petrol and diesel and in that we know that the Q-o-Q there is a decline, but in other products like naphtha, FO, bitumen and all whether in that product segment have you earned margins or not? That is the only question.

A. K. Sharma: No significant change in the margins as far as these products are concerned, in fact in bitumen the margins were slightly lower than the corresponding period last year and otherwise there has not been any significant change in the marketing margin as such on these products.

Dhaval Joshi: And sir last question is there any reduction or increase in market share of your petrol and diesel compared to peers?

A. K. Sharma: As far as diesel is concerned, there is some reduction in the market share compared to the industry but as far as the petrol is concerned, we are better than the industry.

Dhaval Joshi: Any number?

A. K. Sharma: The industry (PSU) growth is 8.1% (Q1'16 vs Q1'15) and IOC's growth has been 8.3% as far as the petrol is concerned. As far as this diesel is concerned, the industry has grown by 2% and IOC is down by 0.02%.

Moderator: Thank you. We have the next question from the line of Rohit Ahuja of Religare Capital. Please go ahead.

Rohit Ahuja: Thanks for the opporutnity sir. Sir if you can throw some light on refining output, how we see your rampup over the next two quarters and if you can clarify what sort of slate we can expect from Paradip in terms of diesel, petrol and ATF output if you can give**?**

A. K. Sharma: Just to give you a brief on Paradip refinery, now as I told that all the units have been commissioned sequentially, the last being the alkylation unit which has also been commissioned on 26th August. So now we expect the throughput of the refinery to ramp up in the months to come. In July, the throughput was almost 0.7 MMT which is 55.7% of the capacity and as of now what we are expecting by December it will be well above 95% of the capacity. So with this kind of scenario, we are targeting to touch the throughput of 10 MMT, for the year. In any way, it will be between 9-10 MMTPA that is what the most expected number is if the things go our way.

Rohit Ahuja: And what would be the operating cost in terms of dollars per barrel at Paradip compared to all existing port?

A. K. Sharma: At Paradip, the operating expenses will be including depreciation about $2.05/bbl.

Rohit Ahuja: You are saying including depreciation?

A. K. Sharma: Yes and depreciation itself is 40 cents. So $1.63/bbl plus 0.42 that makes $2.05/bbl. Well you wanted to know about the product slate, Paradip refinery is actually unique in nature that it will not have any naphtha and there will be no heavy ends, as per estimates it will produce 26% of MS which is petrol, 46% of HSD, 5% of LPG and 8% of pet coke.

Rohit Ahuja: And ATF, would you be producing?

A. K. Sharma: Yes.

Rohit Ahuja: And sir lastly on marketing business, what steps are we taking to gain market share because we have been losing market share on the last few years and would Paradip help in gaining market share?

A. K. Sharma: No, we are not losing market share. In fact there is no question of IOC losing the market share. Yes, obviously with the coming of the private player, there will be some distribution, redistribution will happen but as far as IOC is concerned, we are quite buoyant and the fact remains that we are able to increase our sales over the period and we are consuming more than what we are producing. So we have no concerns and as you can see that we are well prepared to face the competition, our ROs are all equipped with modern & latest facilities, all customer friendly initiatives that were taken by IOC in past 2-3 years have earned lot of customer loyalty for us and that is the reason you can see even after 1.5 to 2 years of deregulation, there is no significant impact on the sales.

Rohit Ahuja: Great sir, thank you sir, I will come back for more.

Moderator: Thank you. The next question is from the line of Badrinath Srinivasan of Credit Suisse. Please go ahead.

Badrinath Srinivasan: Thank you for taking my question. I have two, first could you help with the Q1 EBITDA loss at Paradip sir?

A. K. Sharma: For Paradip, I will say the GRM for Q1 was about $4.25/bbl for the Paradip refinery.

Badrinath Srinivasan: Right sir and excluding inventory gain if possible sir?

A. K. Sharma: This is including, excluding we have not worked out.

Badrinath Srinivasan: Right sir and the operating cost you had mentioned earlier was about 1100 crores per year if I remember right, was that on track for the current quarter in Q1?

A. K. Sharma: Operating cost will be on track only when it is operating at full capacity, yes it will be on track.

Badrinath Srinivasan: Right sir. Second question which I had was on the inventories. If I look at the crude inventories, sale is 2 times that of peers as you explained earlier, but our product inventory is only one time that of peers .So could you just help explain the marketing inventory side sir?

A. K. Sharma: Rs 2,379 crores is the inventory gain on the marketing side on products.

Badrinath Srinivasan: Right sir, so the question which I had was if you look at number of inventory days we carry on a marketing business on the product side compared to that…

A. K. Sharma: That keeps on varying; it is somewhere 11-12 days that is the normal inventory that we would like to maintain on the marketing side.

Badrinath Srinivasan: Right and the last question, if I look at the petrochemical EBITDA, it is increased Q-o-Q despite a fall in the sales volumes, so just wanted to understand which product or which segment is the higher profitability coming from?

A. K. Sharma: I will just respond to you. One will be the cracks**.** Margins have gone up considerably because of the reduction in the fuel prices, there is a saving which has accrued. We will give you the reasons for that.

Badrinath Srinivasan: Sure. Sir just checking if there is any one-off in that EBITDA as well. Thank you sir.

A. K. Sharma: I will just find out. One is that primarily the cracks improvement in the petrochemical margins have widened. Secondly the cost of the fuel consumption if you compare with the Q1 of the last year and now, so the cost of the fuel itself has come down, so that could be another reason. But I will come back to you, we will give you reply separately.

Badrinath Srinivasan: Sure sir and if possible comparison of sequential as well between fourth quarter and this quarter?

A. K. Sharma: We will give you, right now I do not have number. I will give you.

Moderator: Thank you. We have the next question from the line of Probal Sen of IDFC Securities. Please go ahead.

Amit Rastogi: This is Amit Rastogi from IDFC. Sir, I have one question on the CAPEX plans, so we have mentioned that we are likely to incur 1,75,000 crores of CAPEX over next 5 years. So could you give us a segmentwise breakup of how much likely in refining and marketing as well as E&P and could you highlight the key projects which we are likely to take in the coming years?

A. K. Sharma: Basically on the refining side, approximately 41,000 crores which will include the Euro IV, BS VI and will be approx Rs. 11,000 plus crores.

Amit Rastogi: That is included in this?

A. K. Sharma: Yes obviously. That is also CAPEX and the various refineries the capacity augmentation which is happening, Gujarat refinery 13.7-18, Panipat refinery 15-20, Mathura 18-11, Barauni 7-9, Paradip 15-20; all this put together it comes to Rs 41,190. So may be Rs 41,000 crores you can consider. If you look at the pipeline, there is a plan for investing 15,000 crores on the pipeline which will go primarily into the Paradip Hyderabad LPG pipeline and the Koyali-Solapur pipeline, then there is a Haldia-Barauni pipeline, new pipelines which has to be laid and then the marketing side obviously the expenditure goes majorly on the new cylinders which are being procured to meet the requirements additional.

Amit Rastogi: How much is that roughly, new cylinders?

A. K. Sharma: Rs. 15,000 crores plus development of new import facilities, modernization of retail outlets, new retail outlet construction coming up.

Amit Rastogi: Total marketing, how much is the total marketing?

A. K. Sharma: That will be almost Rs 32,000 roughly, petrochemical another 23,000.

Amit Rastogi: And petrochemical includes, one is your Paradip polypropylene?

A. K. Sharma: Polypropylene, then there are certain proposals which are basically in the planning stage only and PXPT, there could be MEG unit which is already coming in Paradip and there is C4 based complex at Panipat, then we are thinking of some petrochemical in Bihar also, we are exploring at Barauni. So there are various projects which are under exploration. So almost 33,000 we propose to spend there.

Amit Rastogi: And sir E&P sir?

A. K. Sharma: Well, we are under various stages of discussions, evaluation will happen one by one but these are the things which are in our mind when we are forming up of plans for the CAPEX.

Amit Rastogi: And sir what about E&P sir?

A. K. Sharma: E&P, nothing can be planned. As and when it comes, we are earmarking almost Rs35,000 crores on that.

Amit Rastogi: Over next 5 years?

A. K. Sharma: Yes.

Amit Rastogi: But that comes to around 1,50,000 crores, but we have been highlighting about 1,75,000 crores CAPEX?

A. K. Sharma: Then there are gas schemes like Ennore LNG, about Rs 8000 crores is on gas site, alternate energy and smaller value CAPEX 300-400 crores, 500 crores and value 8000-9000 it will also happen.

Amit Rastogi: What is our plan to evacuate product from Paradip refinery because when we see your presentation, the various pipelines which are likely to evacuate the product are delayed by almost a year or so. So like Paradip, Raipur, Ranchi pipeline as well as Paradip maybe Haldia, then you have Paradip Hyderabad, so what is the plan to evacuate product from Paradip when you reach 90% by December because most of these projects are coming by December of next year or even December of 2018.

A. K. Sharma: The evacuation plan for the Paradip refinery that was envisaged was that 20%-25% will be through pipeline and similarly up to 25% will go through rail, coastal movement will be 40%-50% and road movement happens between 15%-20%. So that is the broad plan. So rail-roads have already started, it is in full swing. There is no issue on rail & road. Pipeline is also ready up to Jatni. It is already commissioned and working and further from Jatni is almost ready. Now maybe in a month or so the things should be ready, this is what we are hopeful other than some teething troubles at local levels at some patches, it is almost ready. These things get delayed because of local law and order and other issues, otherwise from project side there is no issue. So I think within a month or so it should be mechanically ready.

Amit Rastogi: Within one month Raipur pipeline will be ready?

A. K. Sharma: Yes, it will be ready, within one month it should be I think mechanically ready and thereafter testing and another 1 or 2 months it will take. But in the meantime up to Jatni**,** it is already being used and as far as the coastal is concerned, we have already commissioned the South Jetty, so coastal movement is no constraint at all, already loading has started which was awaited earlier. It has started happening from this month only. So evacuation is not a problem.

Amit Rastogi: And sir we have propylene as well in our Paradip refinery. So how much is that and without polypropylene unit which is likely to come in 2018 now, so what we are going to do with he propylene?

A. K. Sharma: It will be sold.

Amit Rastogi: Okay but there is a lag of from upgrading propylene to polypropylene?

A. K. Sharma: Till the time that comes in. We would like to add value as soon as the polypropylene unit is ready. Till that time, it will be sold.

Amit Rastogi: And sir you did mention that $4.5 is the refinery GRMs excluding Paradip?

A. K. Sharma: Yes, 4.51.

Amit Rastogi: Excluding Paradip but this is including inventory gains?

A. K. Sharma: No, excluding Paradip and excluding inventory gain.

Amit Rastogi: So overall refinery GRMs is?

A. K. Sharma: Without inventory gain, our figure was $3.56. If we exclude Paradip, then our figure without inventory gain is $4.51.

Amit Rastogi: But you just mentioned in Paradip refinery, GRMs of $4.25.

A. K. Sharma: Including the inventory gains.

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

Arya Sen: Firstly, just wanted to understand in the datasheet this EBITDA contribution, this contribution from others which was (-777) crores in Q1 of last year which has moved to 382 crores in Q1 of this year. If you could just shed a bit of light on that what is part of that, that number seems to be quite volatile across quarters?

A. K. Sharma: I was explaining that this is because of the one time item of Rs 709 crores towards the post retirement medical scheme that money which we funded last year in that quarter. So that was one time item last year which made the difference.

Arya Sen: Okay, but even if I look at last quarter, March quarter even then it was almost I think (-)960 crores. So it seems to be a very volatile number, why is that?

A. K. Sharma: March, there were impairment provisioning on two of our Joint Ventures and Subsidiaries.

Arya Sen: What is the sustainable sort of number for this?

A. K. Sharma: This all includes the exchange fluctuation and various other items.

Arya Sen: So is there any one-off in this quarter in that 382 crores?

A. K. Sharma: It must be generally 200-300.

Arya Sen: Positive right?

A. K. Sharma: Yes.

Arya Sen: And in this quarter there was no one-off in this 382 crores?

A. K. Sharma: No.

Arya Sen: Understood and sir overall what is the receivable from the government, what was it at the end of March 2016 and what is it….?

A. K. Sharma: Total receivable from the government is 10,716 crores.

Arya Sen: At June end?

A. K. Sharma: Yes.

Arya Sen: And what was at March end sir?

A. K. Sharma: 11,022.

Arya Sen: So that has not moved much, is it?

A. K. Sharma: It is expected to move actually now within few days now because there were government sanctions awaited in the parliamentary monsoon session, so now the government has taken the approval in the parliament session. So we are expecting the entire kerosene money outstanding which was from Q2 of the last year which is 5,026 crores is expected to come any time from now and then there was dues from ISPRL which was also pending government approval in the projects, so that is also likely to come. So I am hopeful that money, the outstanding will reduce to less than a half within a short period of time.

Arya Sen: Understood and sir lastly on the Paradip refinery, the PPAC data seems to suggest that there was a dip in utilization in June, firstly is that data correct and secondly any specific reason for that?

A. K. Sharma: Which data you are talking about?

Arya Sen: The PIB and the PPAC data.

Matthew Thomas: Arya, this is Matthew here. I would just like to clarify that we have touched 40% in the month of April and we continue to do so, but in the month of June because of commissioning of certain other units, secondary units there was certainly a dip in the production levels. If you take the Q1 total, it is 1190 that we have achieved for Q1. That is around 32% and now if you go forward, if you go to July, it is almost around 56%, on an annualized basis.

A. K. Sharma: 697 TMT in July, to be precise.

Moderator: Thank you. We have the next question from the line of Aishwarya Agarwal of Reliance Mutual Fund. Please go ahead.

Aishwarya Agarwal: Couple of questions. One is on the previous quarter you mentioned that the company has some losses on account of imports. So I am just wondering if that losses continue in the marketing side in this quarter also?

A. K. Sharma: See import loss when we talk is if we are able to produce and consume locally that is the best, otherwise procured locally and consumed locally, that is the second best alternative. The third best is we import and consume. So once we are talking of the import losses, it is because we have imported the product and then consumed. So there is relative loss and that is what we talked. There was a demand as far as the petrol is concerned and we have had to import some quantity of the diesel also in the first quarter. So I think diesel was one-off, so diesel is not likely to be there in the second quarter in any export. As far as petrol is concerned, we are hopeful that once this Paradip refinery is on full swing, so maybe this quarter may be 2-3 parcels of MS getting imported otherwise not much of it thereafter. Beyond second quarter, I do not think there will be any import.

Aishwarya Agarwal: And what is the quantum of loss in this quarter, the reported quarter, what kind of loss?

A. K. Sharma: Import losses were almost around Rs. 370 crores which is on the petrol, diesel.

Aishwarya Agarwal: We expect it to repeat in the second quarter also and thereafter it will be mitigated with the Paradip volumes, that is what you are saying?

A. K. Sharma: Mostly yes.

Aishwarya Agarwal: And sir in the marketing segment, we have lost our market share in diesel. So the industry grew by 2% and we have degrew. So why this is happening and how we should see this thing?

A. K. Sharma: This has nothing to do with the retail sales, actually now the direct consumer sales where the major buyers like in state transport, railways, there the business was as per the government guideline. Now business is mostly going through the tender. It is standard business, some time you are able to get the full business, so this keeps changing between the oil companies. But as far as the retail investors are concerned, it is fairly stable and in the bulk segment which is the direct consumer segment which is more on tenders because we are the largest players, so any tender going either way actually impacts us which we make up subsequently.

Aishwarya Agarwal: So you mean to say there is no loss as far as retailing of the diesel is concerned but it is a loss on account of bulk order?

A. K. Sharma: Generally and mostly on the direct sales, which is going through the tender now.

Aishwarya Agarwal: Okay and next sir when we should anticipate full benefit of Paradip, what is left out to complete, when it will be…?

A. K. Sharma: I will say all the units have been commissioned. The last unit got commissioned on 26th of August. So nothing is left as far as the commissioning is concerned, the coastal loading facility has also been commissioned, so now it is all ramping up of the productions, so we are hoping that next month onwards, maybe October onwards it should be running very good and maybe December it should be more than 95% plus capacity.

Aishwarya Agarwal: How about the secondary units, whether secondary units are running smooth because those are the critical units for any refinery to really give the full benefit.

A. K. Sharma: There was initially some problem with one or two units which got stabilized. Some teething problem comes that will be handled. In the new refinery in the first year of the operations processing different types of crudes, so if issues come, those will be handled but we do not anticipate any major issues to happen. In fact the alkylation unit what we commissioned on this 26th of August is the first of its kind in IOC, which we setup.

Aishwarya Agarwal: So what is the add on benefit of this unit and then…?

A. K. Sharma: It is basically for the MS, for petrol quality improvement.

Aishwarya Agarwal: And sir this depreciation and interest in this quarter whether it has taken the full quarter cost of depreciation interest on account of Paradip also?

A. K. Sharma: Yes, it has been capitalized fully.

Aishwarya Agarwal: So all the costs are there in this quarter as far as Paradip is concerned?

A. K. Sharma: Yes, you can take it that way except for some 1 or 2 minor units.

Aishwarya Agarwal: Sure and sir can you just repeat the slate of Paradip one more time. You mentioned that I missed few quotes when you said 26%..

A. K. Sharma: As per estimates, this is our broad plan, MS should be 26, HSD 46, LPG 5, pet coke 8. Now the things will vary depending on the demand and supply and the running of the unit, type of the crude, but this is broadly the idea on which it should operate and as you note this slate keeps varying depending on the market situation.

Aishwarya Agarwal: Sure and sir coming to CAPEX part, what CAPEX have we earmarked for this year and the next year?

A. K. Sharma: This year it is about Rs 15,395 crores and next year it will be in the range of 15,000-16,000 crores that is what we expect.

Aishwarya Agarwal: On one side, you are talking 1,70,000 and other side you are talking 15,000-16,000 in 2 years, so effectively we are talking 1,40,000 crores?

A. K. Sharma: I have given the broad breakup. What happens is that once the projects are approved, then only they are included in the broad CAPEX. So right now these are all directional, once a project's viability, feasibility is established, then they are included in the CAPEX properly. So what we mentioned is the identified projects. So this year Rs 15,000 crore is what we are mentioning, for next year may go up to Rs 20,000. As you know before much of the spending of the money while executing a project, there are activities like - ordering, tendering this entire process takes time. After conceiving a project, designing, ordering, tendering, thereafter spending of the money happens. So it cannot happen that we envisage something today and from next year you start spending money. Money spending will start after a year or two, after this entire designing, ordering is complete.

Aishwarya Agarwal: That is very helpful and sir one last thing, how we should see the Ennore LNG terminal where we are in CAPEX and what we will do as far as marketing is concerned. We have seen that GAIL was not able to lay the pipeline in the state of Tamil Nadu and we have the LNG terminal there?

A. K. Sharma: Right now, the project progress is at 25% and all the 3 major LNG contracts are performing well and by June 2018 it should be ready, we have already reported 25% progress As far as the product evacuation is concerned, we are fairly confident of it because we ourselves are one of the anchor customers where our refinery is there, and within a distance of 300 KM 3 major customers, like our refinery, SPIC, Madras fertilizers. The 3 major customers are there within about 309 km. We have the right of way already available with us barring few patches. So even though there is a plan for laying these pipelines which will run up to 1300 KM, but most of our consumption sector is very near to the Chennai. So we do not envisage any problem because Chennai and around we have the right of way available at least to feed the major customers.

Aishwarya Agarwal: And sir what kind of volume you anticipate because of these 3 anchor customers, CPCL, Madras Fertilizer and SPIC?

A. K. Sharma: It is almost 3.5 million metric tonnes for major customers.

Aishwarya Agarwal: 3.5 MMT of LNG?

A. K. Sharma: Yes.

Aishwarya Agarwal: That is too good.

A. K. Sharma: Yes, obviously refinery itself will consume 0.921 MMT and then the fertilizer and power plants.

Moderator: Thank you. The next question is from the line of Vinod Bansal of Franklin Templeton. Please go ahead.

Vinod Bansal: Couple of questions. One on the Euro VI fixed CAPEX that you are doing, what kind of price hike would you need to take to justify this investment?

A. K. Sharma: On Euro VI, you are talking of the price?

Vinod Bansal: Not the CAPEX, I am saying once this is returned, you will have to raise petrol diesel prices to recover the money, what kind of let us say per liter price hike do you think you should be able to take?

A. K. Sharma: What happens is that as far as price is concerned, it has no connection with the cost what you are incurring. The petroleum product prices are governed by the international prices of the products in the international market. So there is a price of Euro VI which is available in the international market, so once we start selling Euro VI, the international price applicable for Euro VI at that time will become applicable here.

Vinod Bansal: How high would be Euro VI price compared to Euro IV right now would you be able to?

A. K. Sharma: Right now it is difficult, in 2020 only it can be assessed what will be the difference, it will be few paisa. If I see today, I think it should be few paisa difference. There is additional price for that in the international market.

Vinod Bansal: And your refinery operating cost will also go up because you have to process a lower sulphur crude?

A. K. Sharma: No, operational cost will not go up. It is only the CAPEX which is going up.

Vinod Bansal: And secondly when do you see Paradip turning EBITDA positive for you, this year second quarter, third quarter or it will take longer?

A. K. Sharma: Most probably, third quarter onwards.

Vinod Bansal: So what kind of utilization do you think you would need to have it EBITDA positive.

A. K. Sharma: Capacity I think EBITDA positive, I have not done that working. I will tell Mr. Matthew to give that figure separately to you.

Vinod Bansal: I wonder you said third quarter I was wondering if there is work done behind that to the third quarter?

A. K. Sharma: Mr. Matthew will give you more details about it.

Vinod Bansal: And on the evacuation side, hypothetically you are saying that if the pipeline does not come through for some reason, can you still hit 90% absent the pipeline?

A. K. Sharma: Yes, I already explained you that 50% of the product will go through coastal route and our Jetty has already been commissioned. Rail and Road are already in operation, so we are not dependent on the pipeline for that and pipeline up to Jatni has already been commissioned and may be if we look from now may be in 1 or 2 months. Few patch works are only left. So pipeline will also get commissioned in soon but we are not so much dependent on the pipeline.

Moderator: Thank you. The next question is from the line of Mansingka of Goldman Sachs. Please go ahead.

Mansingka: I have few questions, one was how much was the capitalization of Paradip refinery?

A. K. Sharma: You want to know the amount which is capitalized so far?

Mansingka: Yes sir.

A. K. Sharma: So far I think around 27,300 something has been capitalized.

Mansingka: Then how much would be left to be capitalized?

A. K. Sharma: Another maybe 5000.

Mansingka: Okay sir, that is one question, the other one is sales tax deferral scheme, how much was the sales tax deferral.

A. K. Sharma: It is basically 11 years deferral for next 15 years.

Mansingka: And we have started the same right from 1st April?

A. K. Sharma: Yes, we have started.

Mansingka: There are two more questions, one in the pipeline can you just reiterate about various pipelines, one is the Paradip Raipur and what about the other two pipelines, can you just reiterate them?

A. K. Sharma: Which pipeline?

Mansingka: All the pipelines connected with the Paradip refinery.

A. K. Sharma: Paradip-Raipur-Ranchi pipeline which is 1069 KM and second is Paradip-Haldia-Baurani pipeline.

Mansingka: And that would be how much million sir?

A. K. Sharma: Paradip-Haldia-Baurani is basically the augmentation of the pipeline which is happening, the third is the Paradip-Haldia-Durgapur LPG pipeline and one is Paradip-Hyderabad product pipeline.

Mansingka: And this would be how much?

A. K. Sharma: Paradip Hyderabad product pipeline, this expected commissioning will go to 19-20, this is a project which was picked up subsequently, which was not envisaged along with the Paradip refinery but we thought it will be prudent to do that so it is now starting.

Mansingka: And this Ranchi would be how much million tonne capacity, Raipur-Ranchi?

A. K. Sharma: 5 MMT.

Mansingka: And last question is you have seen a reasonable debt reduction from Q1 over Q4. Can you explain how this was there and do you see this sustainable or do you see this comeback again?

A. K. Sharma: It is quite sustainable, this is happening because of the reduced working capital, increased profitability of the company and now obviously because as I said the outstanding from government is also going to come down, so this seems to be fairly sustainable except for that some payments, maybe few dividend payments and something will be happening.

Mansingka: Related to this, any color on the inventories because we have also seen some compression of inventories in Q4, so how do you see the inventory status for the next…

A. K. Sharma: We see compression in the sense it is only the valuation, but quantitatively there is no significant change.

Moderator: Thank you. Due to time constraints that was the last question. I would now like to hand the conference over to Mr. Bhavin Gandhi for any closing comments.

Bhavin Gandhi: Thank you Reo. I would like to take this opportunity to thank the management of IOC for sparing time for the investors. Thank you very much sir.

Matthew Thomas: Mr. Bhavin, thank you very much for arranging this meeting and we hope it would have been quite useful and we look forward for the feedback. At the same time some of the questions which we said we will come back to you, you can certainly reach out to us and we will be certainly settling that. Thank you very much.

Moderator: Thank you very much. On behalf of B&K Securities that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect the lines.