



**Essar Oil Limited**

21st annual report

2010-11

## **BOARD OF DIRECTORS**

(As on July 11, 2011)

Shashi Ruia, Chairman  
Prashant Ruia  
Anshuman Ruia  
Naresh K. Nayyar, Managing Director & CEO  
P. Sampath  
Dilip J. Thakkar  
K. N. Venkatasubramanian  
K.V. Krishnamurthy  
Melwyn Rego, Nominee of IDBI Bank Ltd.  
V. K. Sinha, Nominee of LIC of India  
Manju Jain, Nominee of IFCI Ltd.

## **COMPANY SECRETARY**

Sheikh S. Shaffi

## **BANKERS**

ICICI Bank Ltd.  
State Bank of India  
IDBI Bank Ltd.  
Punjab National Bank  
HDFC Bank Ltd  
Axis Bank Ltd.  
Indian Overseas Bank  
Oriental Bank of Commerce  
Indian Bank  
Central Bank of India  
Bank of India  
State Bank of Patiala  
Allahabad Bank  
Syndicate Bank  
Bank of Baroda  
State Bank of Mysore

## **TRANSFER AGENTS**

M/s. Datamatics Financial Services Ltd.  
Unit: Essar Oil Limited  
Plot No. B-5, Part B Cross Lane  
MIDC, Andheri (East), Mumbai - 400 093  
Tel.: +91-22-66712151 to 66712156  
Fax: +91-22-66712209  
Email: eolinvestors@dfssl.com  
Website: www.dfssl.com

## **REGISTERED OFFICE**

Khambhalia Post, Post Box No. 24  
Dist. Jamnagar - 361 305, Gujarat  
Tel.: 91-2833-661444  
Fax: 91-2833-662929  
Email: eolinvestors@essar.com

## **CORPORATE OFFICE**

Essar House, Post Box No. 7945  
11, Keshavrao Khadye Marg  
Mahalaxmi, Mumbai - 400 034  
Tel.: 91-22-66601100  
Fax: 91-22-23544281 / 23540450  
Website: www.essar.com

## **AUDITORS**

M/s. Deloitte Haskins & Sells, Ahmedabad



# Contents

## OVERVIEW

- 2 Highlights
- 4 Directors' Profiles
- 6 Chairman's Statement
- 8 Managing Director's Report

## MANAGEMENT DISCUSSION & ANALYSIS

- 10 Industry Outlook
- 13 Refining
- 14 Marketing
- 15 Exploration & Production
- 16 Internal Control System &  
Internal Audit
- 17 Risks & Uncertainties
- 18 People

## SUSTAINABILITY

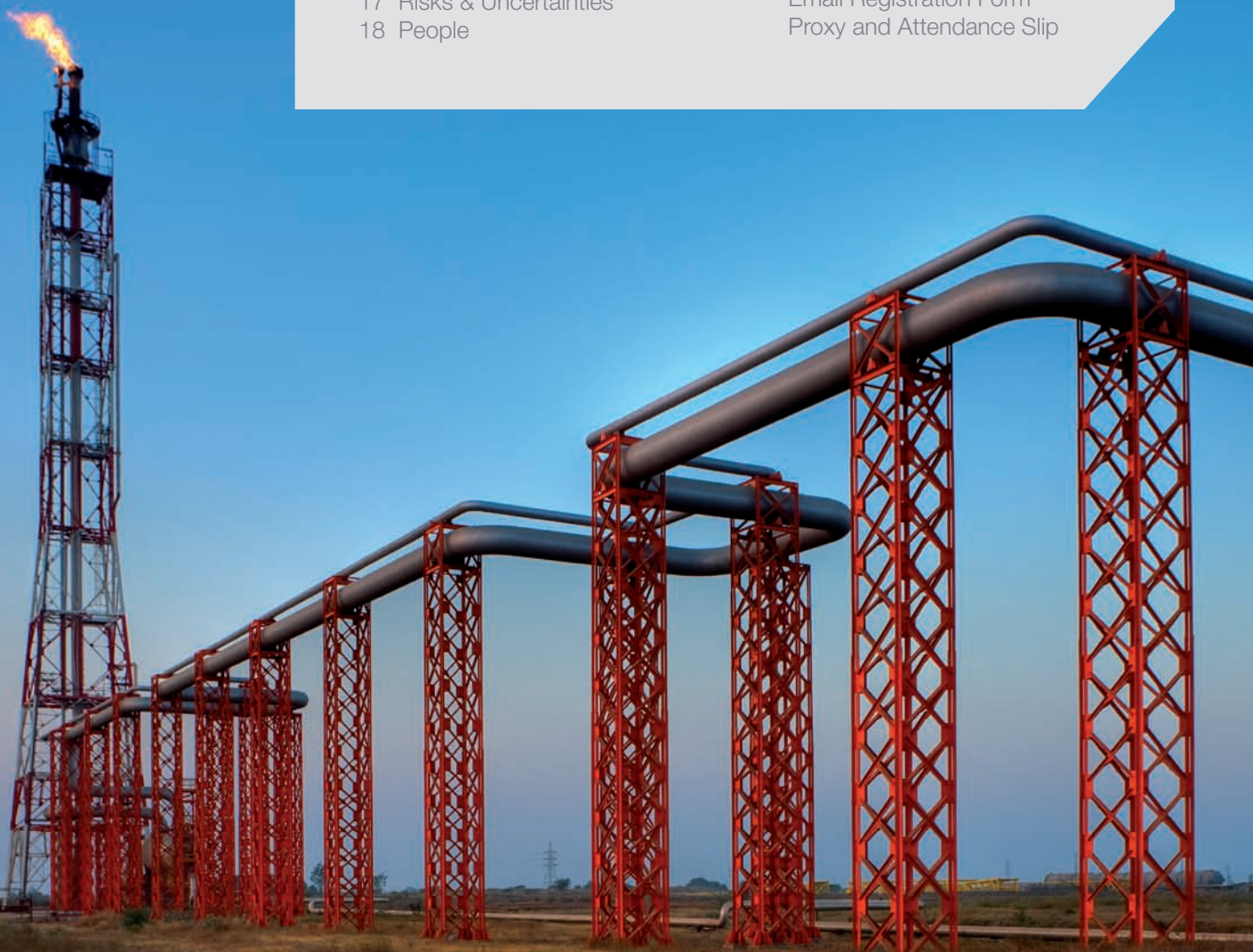
- 19 Corporate Responsibility
- 20 Health & Safety
- 21 Environment
- 22 Community Initiatives

## FINANCIALS

- 26 Directors' Report
- 30 Corporate Governance Report
- 35 Auditors' Report
- 38 Financial Statements

## NOTICE

- 68 Notice convening 21<sup>st</sup> AGM
- Email Registration Form
- Proxy and Attendance Slip



# HIGHLIGHTS



Essar Oil is a fully integrated  
oil & gas company of  
international scale with a  
strong presence across the  
hydrocarbon value chain

# Operating highlights

- Vadinar refinery achieved highest annual throughput at 14.76 Million Metric Tonnes per annum (MMTPA) – combined
- Capacity enhancement of Vadinar refinery to 20 MMTPA through phase 1 expansion. Optimisation on track
- Refinery starts receiving the low-cost, low-sulphur Mangala crude from Cairn India's Barmer fields in Rajasthan
- Steady increase in Current Price Gross Refining Margin (CP GRM)
- Refinery continued to maintain excellent safety track record, with 1,094 Lost Time Incident (LTI) free days at March 31, 2011
- 1,635 Essar Oil retail outlets; with 1,381 operational and 254 underway
- Increased focus on non-fuel retailing at outlets
- Awarded four Indian Coal Bed Methane (CBM) blocks with estimated resources of more than 7.6 tcf
- Raniganj CBM block producing about 35,000 scmd, with test sales commencing in cascades; commercial production to start soon
- Essar Oil's parent company, Essar Energy plc, listed on the London Stock Exchange, raising US\$1.8 billion through an IPO. Essar Energy plc has infused US\$487 million in Essar Oil

## Key Performance Indicators

### Revenue ₹ crore

**FY'11** 53,119

**FY'10** 42,402

₹53,119 cr ↗ 25%

### Profit after tax ₹ crore

**FY'11** 654

**FY'10** 29

₹654 cr ↗ x 23

### CP GRM US\$/bbl

**FY'11** 6.91

**FY'10** 3.70

US\$6.91/bbl ↗ 87%

### EBIDTA ₹ crore

**FY'11** 2,779

**FY'10** 1,938

₹2,779 cr ↗ 43%

### Earnings ₹ per share

**FY'11** 4.85

**FY'10** 0.25

₹4.85 ↗ x 19

### Equity/FCCBs Issued US\$ million

**FY'11** 780

**FY'10** N.A.

US\$780 million

# DIRECTORS' PROFILES

## BOARD



### **Shashi Ruia**

#### **Chairman & Promoter Director**

Mr. Shashi Ruia is a first generation entrepreneur industrialist. With brother Ravi, Shashi Ruia founded the Essar Group, which today is a multinational conglomerate with operations in more than 20 countries, employing 70,000 people, and revenues of US\$15 billion. His career began in the family business in 1965 under the guidance of his father, the late Nand Kishore Ruia. The Ruia brothers pioneered sectors as diverse as shipping, marine construction, steel, power, offshore engineering and refining & oil exploration. Shashi Ruia's vision saw the Essar Group gain a first mover advantage in many of these businesses.

### **Prashant Ruia**

#### **Promoter Director**

Chief Executive of Essar Group Mr. Prashant Ruia is a prominent Indian industrialist.

Mr. Prashant Ruia has been involved with the Group's operations and management since 1985 and is a key member of Essar Group's strategy think tank. He is actively involved in the Group's growth and diversification within India and internationally. He is known for his project execution skills, financial expertise and people management capabilities.

### **Anshuman Ruia**

#### **Promoter Director**

Mr Anshuman Ruia is a board director of major companies in the Essar Group. He has over a decade of experience in overseeing the Group's major businesses. He currently oversees Essar's Shipping, Ports & Logistics, Telecom & BPO, and Power businesses. He is responsible for the expansion and diversification of the Power business into new, renewable energy sources and its entry into the transmission and distribution segment.

### **Naresh Nayyar**

#### **Managing Director & CEO**

Mr. Naresh Nayyar was appointed as Managing Director, of the Company on October 15, 2007. He is a chartered accountant and an alumnus of the Indian Institute of Management, Ahmedabad. He has more than 35 years' experience in the oil & gas industry. Prior to joining Essar Oil, Mr Nayyar was in ONGC Mittal Energy Ltd. where he was instrumental in steering its growth through mergers and acquisitions. Prior to that he served with Indian Oil Corporation. He held several key assignments in planning and business strategy, finance, treasury and international trade.

### **P. Sampath**

#### **Director**

Mr. Sampath is the Chief Financial Officer of Essar Energy Plc, UK. He joined Essar Oil Ltd. in October, 2008 as its Chief Financial Officer, and joined the Board w.e.f. April 1, 2009 as Director - Finance. After taking over his present role, he continues as non-Executive Director. He has a first class Bachelor of Commerce degree from Madras University, is a Fellow of both the Institute of Cost and Works Accountants of India and the Institute of Company Secretaries of India. He has more than 30 years' experience in various fields including global corporate finance and treasury, mergers and acquisitions, corporate business planning, investor relations, global HR strategy and financial and management accounting. Prior to joining Essar Group, Mr. Sampath was Chief Financial Officer for RPG Enterprises Ltd and Managing Director of GHCL Ltd.



# DIRECTORS' PROFILES

## **Dilip J. Thakkar**

### **Independent**

Mr. Thakkar was appointed to the board of directors on November 3, 1994. He is a Fellow of the Institute of Chartered Accountants of India. He is a practicing chartered accountant, with over 50 years' experience in taxation and foreign exchange regulations. He is associated with several public and private companies as a director.

## **K. N. Venkatasubramanian**

### **Independent**

Mr. Venkatasubramanian was appointed to the board of directors on November 29, 2000. He is a chemical engineer from A.C. College of Technology, Chennai and an M.Tech from IIT, Kharagpur. He has over 50 years of experience in the petrochemicals sector having worked for IPCL, IOCL and Gulf Oil Limited. He has previously served as Director, Marketing and Director, Operations of IPCL, Chairman and Managing Director of Engineers India Ltd., Chairman and Managing Director of IOC and as Chairman of Gulf Oil Ltd. He is currently Chairman of Times Technoplast Ltd.

## **K. V. Krishnamurthy**

### **Independent**

Mr. Krishnamurthy was appointed to the board on January 22, 2010. He is a chartered accountant and a fellow of the Indian Institute of Bankers, having previously served as a member of its Governing Board. He has more than 33 years' experience in public sector banking. His expertise includes domestic and international banking, treasury management, risk management, foreign exchange management and human resource management. He is credited with the remarkable turnaround of both Bank of India and Syndicate Bank, two leading nationalised banks. He has been the chairman/director of nationalised banks including Bank of India, Bank of Baroda, Syndicate Bank and other financial institutions including Indo Hong Kong International Finance Company Ltd, Export Credit Guarantee Corporation of India and Agricultural Finance Corporation of India Ltd. Mr. Krishnamurthy is also a director on the board of various Indian public limited companies.

## **Melwyn Rego**

### **Nominee of IDBI Bank Ltd.**

Mr Melwyn Rego was appointed to the board of directors on October 18, 2010. He joined IDBI in February 1984. His assignments were in the areas of Rehabilitation Finance, Project Finance and International Resources. He was deputed to Tata Home Finance Ltd. in May 2003 when IDBI took over the company. The takeover was effected in September 2003 and Melwyn Rego was appointed as Managing Director and CEO of IDBI Homefinance Ltd. Mr. Rego continued as Managing Director and CEO until December 2007 after which he returned to IDBI Bank Ltd. (after its conversion to a commercial bank). He is currently Executive Director at IDBI Bank Ltd.

## **Vinay K. Sinha**

### **Nominee of LIC of India**

Mr. Sinha was appointed to the board of directors on October 30, 2006. He holds a Bachelor of Arts (Honours) degree. Prior to his retirement Mr. V.K. Sinha was the zonal manager of the northern zone, Life Insurance Corporation of India ("LIC") at New Delhi where he headed the offices of LIC situated in 6 states: Delhi, Punjab, Haryana, Rajasthan, Himachal Pradesh and Jammu & Kashmir. He previously served as the Zonal Manager, north central zone, Kanpur for four years. He started his career as a Direct Recruit Officer in 1977, and in a career spanning more than 3 decades, he has held prominent positions as Sr. Divisional Manager (in-charge) of Jamshedpur and Muzaffarpur for the LIC.

## **Manju Jain**

### **Nominee of IFCI Ltd.**

Mrs. Manju Jain was appointed to the board of directors July 26, 2010. She is a chartered accountant. She joined IFCI in 1995, as a Management Trainee, she has subsequently worked in its credit department at head office, New Delhi and Mumbai regional office. At present, she is Vice President in-charge of credit at Head Office, Delhi.

# CHAIRMAN'S STATEMENT



At Essar, it has been our considered strategy to build businesses that straddle the core sectors of the Indian economy



## Dear shareholders

It is a privilege and an honour to present to you Essar Oil Limited's (EOL) 21st annual report and the audited accounts for the financial year ended 31st March, 2011.

I am deeply indebted to each of you for reposing faith in your company. The commitment has helped your company reach a position of considerable strength.

Since the Group began its journey in 1969, our growth as a corporate has mirrored that of the Indian economy. Today, we are among the top five players in each of our six key businesses: Steel, Oil, Power, Shipping Ports & Logistics, Communications and Projects.

We entered the oil & gas sector in the 1980s with the acquisition of a fleet of drilling rigs which we contracted to Indian and international oil & gas majors. Your company won its first oil & gas block in the 1990s, and went on to win many more blocks in the New Exploration & Licensing Policy (NELP) and Coal Bed Methane (CBM) bidding rounds. One of our CBM blocks is already producing gas and post commercial sales will add substantially to our bottom-line. In the coming years, we want to be in a position where revenues from our exploration & production business act as a natural hedge to our other businesses in the oil & gas vertical.

In 1994, EOL started work on building the Vadinar refinery. The project faced several hurdles and started commercial production in 2008. It was a time that put our entrepreneurial character to the most difficult test, and helped bring out the "positive attitude" that the Essar Group has always been associated with.

EOL began commercial sales from the refinery just three years ago, but the single-minded focus of the refinery team has helped transform this manufacturing unit into one of India's most valuable industrial assets. The refinery is now poised for the next level of growth: Following the Phase I expansion this year, you can expect a 25 per cent growth in production and a substantial enhancement in the refinery complexity that will help us produce fuels of the highest international standards at a significantly lower cost and thereby significantly improve the CP GRM.

Over the years, your company has painstakingly built a countrywide network of Essar Oil-branded, franchise-owned and franchise-operated retail outlets. Though the current market conditions are not in favour of private sector oil retailers, we have created a retail infrastructure that can be quickly ramped up once the conditions

are more conducive to retail growth. As in the case of the refinery, we are confident that our patience and perseverance in growing our oil retailing business will eventually bear fruit.

Vertical integration is a key element in our corporate strategy. In each of our businesses, we have captured the complete value chain. Accordingly, EOL today has a strong presence across the hydrocarbon value chain from E&P, to refining to retail.

Building a vertically integrated business is not for the faint hearted. It requires several years of hard work and long-term vision. But eventually it reaps rich rewards for all stakeholders. I hope this Annual Report will bear testimony to this fact.

I am grateful to our employees for their contribution in taking Essar Oil to the heights that it has reached today. I thank our project management consultants, business associates, suppliers and franchisees for their support through the year. I am grateful to our bankers and financial institutions, as well as the Central Government and Gujarat Government, for their support and guidance. Finally, I sincerely acknowledge the support we have received from you, our shareholders, and from my colleagues on the Board.

I am confident that we will be able to surpass our achievements in the coming year and take your company to greater heights.

Thank you

**Shashi Ruia**  
Chairman

# MANAGING DIRECTOR & CEO'S REPORT



## Dear shareholders

FY2010-11 was a year of great significance for Essar Oil Ltd (EOL). It was the best year since we started commercial operations in 2008, both in terms of operating and financial performance.

Our gross income from operations for the year crossed 50,000 crore for the first time.

Let me take you through some of our operational highlights.

### Refining

The refinery achieved a throughput of 14.76 MMT in FY2010-11—a capacity utilization of more than 140 per cent. This is the highest volume we have ever achieved and makes us one of India's largest single location refineries.

We have also improved our operational efficiency, achieving the lowest fuel & loss of 5.83 per cent ever. Our fluidized catalytic cracking (FCC) unit completed an outstanding 515 days of on-stream operations. The Visbreaker Unit achieved its highest ever on-stream period of 182 days.

As of 31st March 2011, the refinery had completed 1,094 days of operations without a Lost Time Incident. The refinery team deserves praise for improving efficiency without compromising on safety.

We commissioned the natural gas pipeline to our refinery and have partly replaced fuel oil with gas, resulting in cleaner emissions. The refinery has also started processing Mangala crude from Cairn India's Barmer oilfield in Rajasthan. About 1.3 MMT of Mangala crude was processed during the year. Mangala crude improves our crude supply security and allows us to benefit from lower logistics costs and taxes. The refinery processed 65 per cent of lower cost, heavy or ultra-heavy crudes this year, while 74 per cent of its products were higher value light and middle distillates.

### Refinery expansion project

A large part of the procurement and construction work for the refinery expansion project was completed this year. With an overall progress of 86 per cent as of 31st March 2011, mechanical completion of the expansion units will be achieved in the second and third quarters of this calendar year. The optimisation project to further enhance the capacity to 20 MMTPA is on track. The