

Essar Oil Limited



DELIVERING
PROFITABLY



ANNUAL REPORT
2013-14

CORPORATE INFORMATION

BOARD OF DIRECTORS

(As on November 21, 2014)

Prashant Ruia, Chairman
Naresh Nayyar, Deputy Chairman
Lalit Kumar Gupta, Managing Director & CEO
Chakrapany Manoharan, Director (Refinery)
Dilip J. Thakkar, Independent Director
K. N. Venkatasubramanian, Independent Director
Virendra Singh Jain, Independent Director
S. V. Venkatesan, Independent Director
Deepak Kumar Varma, Independent Director
T. S. Narayanasami, Independent Director
R. Sudarsan, Nominee of LIC of India
Sudhir Garg, Nominee of IFCI Ltd.

COMPANY SECRETARY

Sheikh S. Shaffi

TRANSFER AGENTS

M/s. Datamatics Financial Services Ltd.
Unit: Essar Oil Limited
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MIDC, Andheri (East), Mumbai – 400 093
Tel: +91-22-66712151 to 66712156
Fax: +91-22-66712209
Email: eolinvestors@dfssl.com
Website: www.dfssl.com

AUDITORS

M/s Deloitte Haskins & Sells, Ahmedabad

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
State Bank of Mysore

REGISTERED OFFICE

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Tel: +91-2833-661444
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CORPORATE OFFICE

Equinox Business Park, 4th floor, Tower-2, Off
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Mumbai – 400070.
Tel: +91-22-67335000
Fax: +91-22-23544281
Website: www.essaroil.co.in

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**AT ESSAR OIL, FY 2013-14
HAS BEEN A YEAR OF
ACHIEVEMENTS. A YEAR
OF DELIVERING VALUE –
PROFITABLY.**

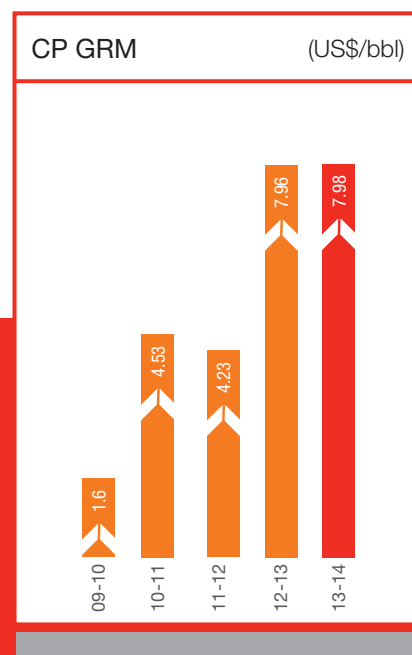
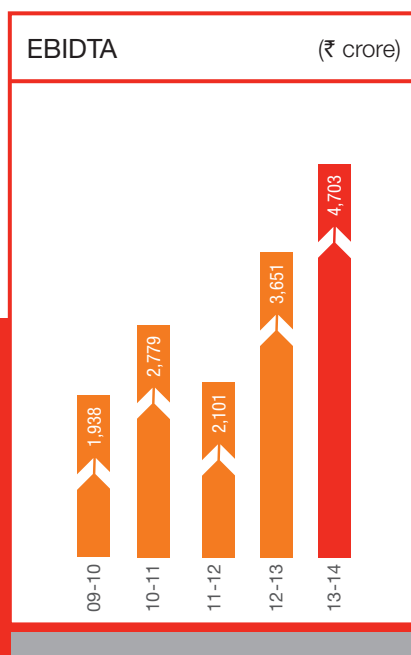
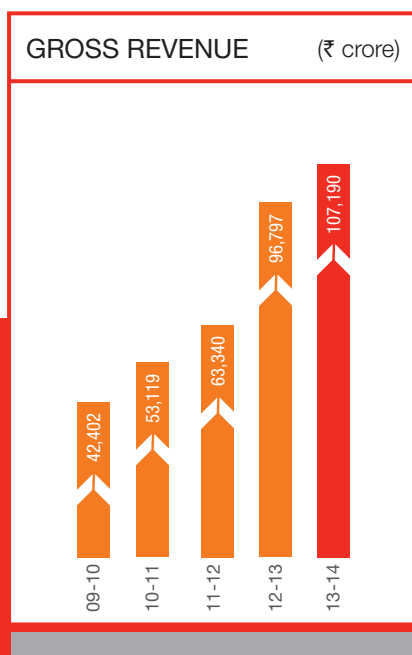
We achieved record throughput and revenue this year. It was the first full year of operations, following the completion of our expansion and optimisation project. Our Vadinar Refinery delivered beyond its nameplate capacity. We were also able to test and successfully process several new varieties of crude. It was also the first year when successfully breached the ₹ 1 lakh crore revenue mark.

We believe India will witness stable growth for petroleum products for many years to come due to factors like

strong GDP growth, industrialisation, urbanisation, rising aspirations and consumption. The growing demand for energy is a major growth driver for us.

With a potent combination of world-class assets and some of the most innovative minds at work, we are now ready to consolidate our position and move on to the next stage of growth.

KEY PERFORMANCE INDICATORS



CHAIRMAN'S MESSAGE

IN FY 2013-14, VADINAR LIVED UP TO ITS REPUTATION OF OPERATING BEYOND ITS CAPACITY AND PROCESSED 20.23 MMT OF CRUDE, GENERATING REVENUES OF ₹ 1,07,190 CRORE.

₹ 126 CRORE

NET PROFIT AFTER TAX
FOR FY 2013-14



Dear fellow shareholders,

I am very happy to present to you the Annual Report for FY 2013-14. This was the first full year of operations of our fully expanded capacity. We achieved record throughput and revenues and more importantly posted net profit after tax of ₹ 126 crore, without losing sight of health, safety and environment.

Industry Overview

Global refining industry continues to face several challenges in terms of weak demand, new capacity addition, dominating role of government in both exporting and importing countries. Globally around 7.7 mmb/d of refinery capacity is expected to be added in the next seven years. On the other hand, about 2 mmb/d of capacity are expected to be shut during the next couple of years. While Asia will see a majority of fresh capacity additions (49%), followed by the Middle East (25%), the region is expected to be balanced in terms of capacity growth and demand.

We believe that India will witness stable growth for petroleum products for many years to come on the back of factors like strong GDP growth, industrialisation, growth of nuclear

Company Overview	Management Discussion and Analysis
Sustainability	Governance
Financials	Notice

families, urbanisation, rising aspirations and consumption. To achieve a GDP growth rate of around 9% per year, energy supplies need to grow between 6.5 to 7% each year and oil products demand at around 4% to 5% per year. Indian refining capacity, at 215 MMTPA, is fairly balanced compared to actual demand after adjusting for fuel and loss, higher capacity utilisation and export oriented refinery. At 5% per annum expected growth rate, surplus capacity in the country will get absorbed in about next four to five years. Future expansion, unless they are brownfield, are going to be extremely challenging given the issues relating to land acquisition. Hence, India may turn to a products deficit market with the expectation of reasonable growth in demand as stated above in about the next five years.

With the new government in place, the sector can look forward to healthy growth prospects. They have already taken firm steps in the direction by deregulating diesel prices and hiking gas prices, which will benefit the country in the long run in terms of fiscal discipline and energy security.

Your Company is well-poised to meet this incremental demand and our strategy of investing in large-scale, low-cost refinery assets with long lifespans continues to be sound.

Vadinar Refinery – a Super Site

Your Company operates India's second largest single-location refinery with a capacity of 20 MMTPA and 11.8 complexity. We have built a fully-integrated state-of-the-art facility with supporting infrastructure for crude and products handling across sea, land and rails, captive power plants, crude and product tankages. A replacement cost of US\$ 10-12 billion makes Vadinar Refinery one of the most valuable assets in the Indian oil and gas sector.

In FY 2013-14, Vadinar lived up to its reputation of operating beyond its capacity and processed 20.23 MMT of crude, generating revenues of ₹ 1,07,190 crore. The benefit of increased refinery complexity reflects on our CP GRM, which, for the year stood at US\$ 7.98/bbl or at a US\$ 8.82/bbl premium over the benchmark IEA margins.

Going Forward

You must be aware that your Company has received a proposal from its promoter company, Essar Energy Ltd. (through Essar Energy Holdings Ltd., Essar Energy's wholly-owned subsidiary) to voluntarily delist from the bourses. This is further to Essar Energy Ltd.'s strategy of taking its entire hydrocarbon business private, following its own delisting from the London Stock Exchange. The promoters believe that full ownership of Essar Oil Limited would provide them with increased operational

and financial flexibility to support the Company's business and strategic needs. This measure is in line with the promoters' strategic intent to achieve greater flexibility for equity infusion into the Company.

I believe that delisting of Essar Oil Limited will benefit public shareholders as it would provide them with an exit opportunity at a price determined in accordance with the reverse book building mechanism as mandated by law.

I take this opportunity to express my heartfelt appreciation to all our stakeholders. Our employees have been our driving force and we have ridden high on their commitment and dedication. Our vendors and business partners have always stood and grown with us and we look forward to their continued association. Authorities, be it at the local, state, or central level have constantly encouraged us to achieve our true potential. And last, but not the least, you, our dear shareholders, without your support, blessings, and encouragement, we would not have reached where we have. Your support, through thick and thin, has been a great source of strength for us.

With warm regards,

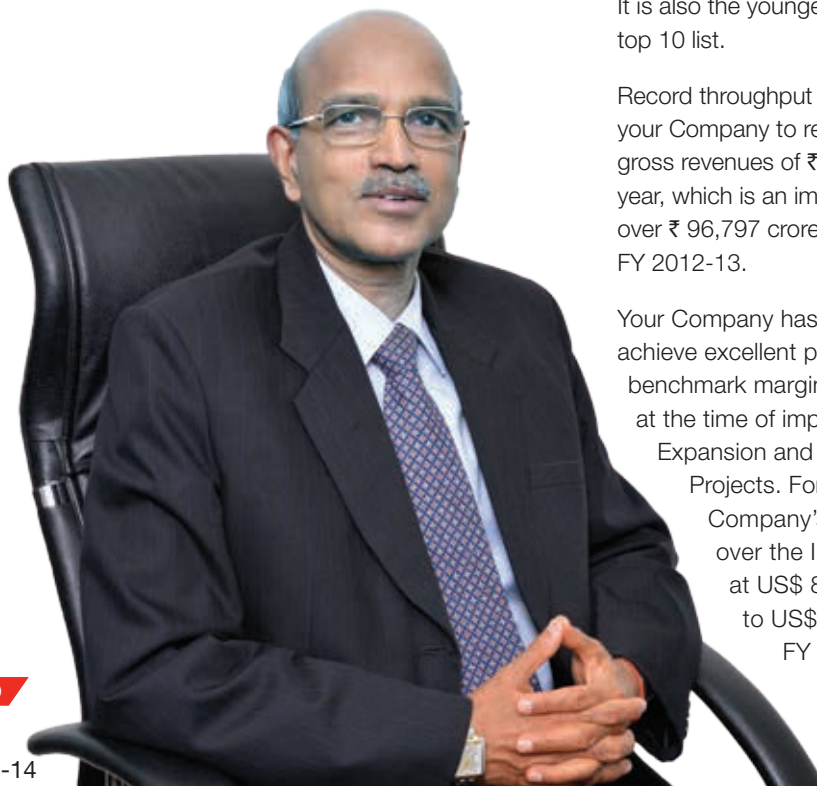
Prashant Ruia
Chairman

MD & CEO'S MESSAGE

YOUR COMPANY CLOSED THE FINANCIAL YEAR SURPASSING THE ₹ 1 LAKH CRORE REVENUE MARK FOR THE FIRST TIME. IT CONTINUES TO BE AMONG INDIA'S TOP 10 COMPANIES IN TERMS OF REVENUES.

20.23 MMT

RECORD THROUGHPUT
IN FY 2013-14



Dear Friends,

It is my pleasure to present the Annual Report for FY 2013-14 of Essar Oil Limited, which was the first full year post the completion of our expansion and optimisation projects.

Financial performance

Your Company closed the financial year surpassing the ₹ 1 lakh crore revenue mark for the first time. It continues to be among India's top 10 companies in terms of revenues, an achievement it had recorded within five short years of beginning commercial operations. It is also the youngest company in the top 10 list.

Record throughput of 20.23 MMT aided your Company to report the highest ever gross revenues of ₹ 1,07,190 for the year, which is an improvement of 11% over ₹ 96,797 crore reported in FY 2012-13.

Your Company has continued to achieve excellent premium over benchmark margins, as envisaged at the time of implementing the Expansion and Optimisation Projects. For the full year, your Company's CP GRM premium over the IEA margins stood at US\$ 8.82/bbl, compared to US\$ 6.80/bbl in FY 2012-13. Your

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Company's full year CP GRM for FY 2013-14 stood at US\$ 7.98/ bbl. This demonstrates the strength of our hardware as well as our astute crude sourcing strategy. We are now getting the full advantage of processing low API-high TAN/high Sulphur crude, normally available at a discount to the benchmark variety, and yet are able to produce higher margin light and middle distillates.

Our EBITDA, or operating profit, for the year was up by a third to ₹ 4,703 crore compared to ₹ 3,651 crore in FY 2012-13. Your Company returned to the black during the year, posting a net profit of ₹ 126 crore compared to a loss of ₹ 1,180 crore in the previous year.

Operational Excellence

Continuing its record of operating beyond its rated capacity, Vadinar Refinery processed 20.23 MMT of crude during the year, highest ever, against its nameplate capacity of 20 MMTPA. Vadinar has reinforced its position as India's second largest single location refinery, meeting about 10% of India's petro products' demand. All refinery units have displayed a high degree of reliability and reported record throughput during the year.

This was also the year when we furthered the advantage of refinery's higher complexity, which is amongst the best globally. Vadinar Refinery

processed 93% of Heavy and Ultra Heavy crude, against 86% in the previous year. In spite of processing such a high proportion of high gravity crude, we produced 84% of higher margin light and middle distillates. During the year, we tested and successfully processed several new varieties of crude. Till date, over 75 varieties of crude oil has been processed at Vadinar. The average API of crude processed during the year was 25.70, against 32.41 in FY 2008- 09 (the year of beginning commercial production).

Exploration & Production

Your Company remains focussed on the exploration of non-conventional gas and is India's largest Coal Bed Methane (CBM) player by acreage with blocks spread over 2,500 sq. km. Gas production at our flagship Raniganj Block has reached upto 314,000 scm/d as on November 21, 2014. A total of 235 wells have been drilled. Over the coming years, the number of wells is expected to rise to about 365 wells, with production volume rising to 3 million scm/d.

In October this year, Indian government has approved an increase in domestic gas prices effective November 1, 2014 to US\$ 5.61/mmbtu on net calorific value (NCV) basis. This new price, to be revised every six months, would be applicable to all gas producers except

in cases where there is a contractual provision in PSCs or for cases where the gas price is under arbitration. Our CBM fields will also be eligible for this revised price.

Marketing

The initiative taken by the government in January 2013 with ₹ 0.4 - 0.5 per litre per month increase in retail diesel prices finally led to deregulation of the retail diesel market price with effect from October 19, 2014. The future prices would now be market linked for all consumers. This will provide level playing field for the private sector refineries like us, as now they will be able to compete in the open market, which hitherto was not available to them due to the subsidy regime. This increased competition will ultimately benefit the end consumer.

Deregulation of diesel prices will also be a big boost for the economy as this will reduce subsidy burden of government and upstream companies which will help reduce the deficit on one hand and leave higher resources with upstream companies for giving a boost to Oil and Gas production on the other.

Petrol was already deregulated earlier and was being sold from our outlets. Diesel deregulation now offers great opportunity to your Company in

marketing its product directly to retail consumers through its retail outlets. Your Company has a nationwide network of over 1,400 operational retail outlets, with another 300 in various stages of commissioning. We plan to further grow our retail network to capitalise on this opportunity.

Strategic Initiatives

VPCL acquisition

Your Company has decided to acquire the balance 73.99% stake in Vadinar Power Co. Ltd. (VPCL) which it didn't own, for an amount not exceeding ₹ 2,100 crore, thus making VPCL a wholly owned subsidiary. The transaction, undertaken at an arm's length basis, is a strategic move for your Company. This acquisition will give your Company power security and a better control over its assets which will optimise operating cost and operations, particularly after the commissioning of a coal-fired power plant which is providing a GRM uplift of US\$ 1-1.5/bbl.

Optima Plus Project

Your Company is undertaking a series of low capex and short gestation optimisation projects across its refinery and marketing value chain under the banner of Optima Plus, which upon completion would provide a GRM uplift of about US\$ 1/bbl over a period of the next two to three years. These projects

include setting up one more Hydrogen Manufacturing Unit and the conversion of the surplus VGO into more valuable distillates.

Debt Dollarisation Programme

We are continuing on our mission to dollarise debt. Being a fully dollar-driven company—our crude purchases and product sales are dollar-denominated—it makes immense sense for us to de-risk our business from currency fluctuations by converting our liabilities into dollars. Till date, Your Company has dollarised about US\$ 1 billion of rupee debt through ECBs and swaps, which besides lowering our interest cost, also extends our debt tenure. It is important to note that dollar debt brings to us an advantage of about five to six percentage points in terms of interest rates as compared to rupee debt.

Sustainability

Your Company is committed to sustainable form of development and adopting globally-recognised best practices towards this. We are committed towards being a responsible corporate citizen and will continue to participate in community engagement activities to create long-term benefit for the community and society at large. Amongst the initiatives for the community is the launch of Jan Jagruti Express, a government-

YOUR COMPANY IS UNDERTAKING A SERIES OF PROJECTS UNDER THE BANNER OF OPTIMA PLUS, WHICH UPON COMPLETION WOULD PROVIDE A GRM UPLIFT OF ABOUT US\$ 1.0/BBL OVER A PERIOD OF THE NEXT TWO TO THREE YEARS.

to-citizen connect programme. Flagged off by Gujarat Chief Minister Ms. Anandiben Patel, this specially designed van with audio video facility goes from village to village, raising awareness about government welfare schemes, particularly those targeted towards women and children. This is a unique initiative which is taking government to the doorsteps of the citizens.

We continue to report our carbon performance at Carbon Disclosure Project (CDP) level. Your Company, in its best ever performance so far, has graduated from National to Global Top performer category this year in the CDP Climate Performance Leadership Index 2014 or CPLI. From India, Essar Oil, along with only four other companies has entered the Top Most "A-LIST" group of 187 companies globally. Your Company is the only Chemical / Energy / Oil & Gas sector company on the list.