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हिन्दुस्तान पेट्रोलियम कॉर्पोरेशन लिमिटेड | HINDUSTAN PETROLEUM CORPORATION LIMITED

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## Our vision.....

- ★ *HPCL delights customers by superior understanding and fulfilling their stated and latent needs with innovative product and services.*
- ★ *HPCL commands highest reputation and is known for its sensitivity and responsiveness for concerns of its customers and other stakeholders.*
- ★ *HPCL always acts faster than the competitors in the most cost effective way.*
- ★ *HPCL is the highest performer in Rate of Growth and Return on Investment.*
- ★ *HPCL is a Learning and Innovative Organization.*
- ★ *HPCL provides an environment of trust, pride and camaraderie*



Our Corporate Headquarters at Mumbai

## Our Anthem.....

### एच. पी. गीत

दसों दिशाएँ नाच उठी, जाग उठी, नाच उठी  
जन - जन का मन हर्षाया, एच. पी. ने जब कदम  
बढ़ाया, कदम बढ़ाया  
उर्जा का सागर लहराया

दसों दिशाएँ नाच उठी, जन - जन का मन हर्षाया,  
एच. पी. ने जब कदम बढ़ाया, उर्जा का सागर लहराया  
हिन्दुस्तान पेट्रोलियम, तू ऊर्जा का एक नाम  
देश के कोने कोने में जो फूंक रहा है प्राण  
आज देश की धड़कन है, कल जग को धड़काएगी  
हम एच.पी. वालों की उमंग एक नया सवेरा लाएगी

हिन्दुस्तान पेट्रोलियम, एक नई सुहानी ओर  
उर्जामय कल की ओर, उर्जामय कल की ओर,  
उर्जामय कल की ओर

Dear Shareholder

It gives me pleasure to present before you the following significant details of your Corporation :

#### HOW YOUR CORPORATION PERFORMED :

Area of Performance	2004-05	2003-04
Crude Thruput (MMT)	13.94	13.70
Market Sales (MMT)	20.09	19.53
Gross Sales (Rs. Crores)	64,690	56,333
Gross Profit (Rs. Crores)	2,382	3,643
Net Profit (Rs. Crores)	1,277	1,904
Dividend (%age)	150	220
Net Worth (Rs. Crores)	8,828	7,743
Earnings Per Share (Rs.)	37.69	56.18

#### YOUR CORPORATION'S INFRASTRUCTURE :

Refineries of Mumbai & Visakhapatnam	Depots - 100
Product Pipelines –	ASFs - 10
*Mumbai-Pune	Retail Outlets - 6667
*Visakh-Vijayawada-Secunderabad	SKO/LDO Dealers - 1648
Regional Offices – 85	LPG Distributors - 2153
Terminals/Installations/TOPs - 36	LPG Customers - 2.17 Crores

#### CURRENT MAJOR PROJECTS :

- Upgradation of facilities of Mumbai & Visakh Refineries of an expenditure of Rs. 2800 Crores.
- New Pipeline between Mundra & Delhi and Extension of Mumbai – Pune Pipeline to Solapur of an expenditure of Rs. 1960 Crores.
- Upgradation, Automation and New facilities for the Marketing Division to strengthen marketing infrastructure at an expenditure of Rs. 1400 Crores.
- Expansion and Diversification on own and through ventures and tie-ups.

Important current activities, future plans and detailed overview of HPCL as well as Petroleum Sector have been covered by me separately (Page No. 4)

Your Corporation would continue to perform strongly and thereby instill confidence in you to continue your association for a long time.

**M.B.Lal**

## Recent Events



Signing of Deed of Assurance and relaunch of Sri Guru Gobind Singh Refineries. Seen in the picture are Hon'ble Minister of Petroleum & Natural Gas and Panchayati Raj, Shri Mani Shankar Aiyar, Hon'ble Chief Minister of Punjab, Shri Amarinder Singh and Shri M.B. Lal, C&MD



Distribution of Mobile PCOs by the Corporation to Physically Challenged persons below poverty line - Seen in the picture are Hon'ble Chief Minister, Smt. Sheila Dikshit, Government of Delhi and Shri M. B. Lal, C&MD



Hon'ble Minister of Home Affairs Shri Shivraj V. Patil presenting the Excellence Award for outstanding contribution to the Petroleum Industry to Shri M.B.Lal, C&MD at a function of Telugu Academy, New Delhi



Hon'ble Minister of Petroleum & Natural Gas and Panchayati Raj Shri Mani Shankar Aiyar presenting the NPMP Award of Excellence for Project Management to Shri M. B. Lal, C&MD. Also, seen in the picture is Shri S.C. Tripathi, Secretary to Government of India, Ministry of Petroleum & Natural Gas (MOP&NG)

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Dear Shareholder,

The financial results of your Corporation for the 12 months period April 2004 – March 2005 have already been published and I am sure you must have seen the same. I am also sure that you must have noticed that despite significant physical performance in terms of increased refinery thruputs, increased refinery margins and increased sales volume, the Corporation recorded a lower net profit of Rs.1277 crores as compared to the net profit of Rs.1904 crores for the financial year 2003-04. I am sure that the reason for the lower profit may also be known to you considering the fact that the hydro carbon sector is constantly in the news. It may be relating to the new oil and gas finds in our country or the surging crude oil prices and the constant speculation whether the product prices especially that of LPG, Kerosene, Petrol and Diesel would be raised or not. The one significant reason for HPCL's lower profit for the year was due to the wide mismatch between the crude and product prices and the need for the Corporation to bear the burden of subsidies on products like Kerosene and LPG. A portion of the subsidy was also shared by the upstream companies.

### **Physical Performance**

The physical performance of the Corporation however has been significant. The turnover during 2004-05 is Rs.64690 crores as compared to Rs.56333 crores in 2003-04 showing 14.8 % increase. The marketing volumes achieved were the highest ever at 20.09 MMT as compared to 19.53 MMT for the previous year. Our Mumbai Refinery and Visakh Refinery together recorded the highest ever thrupt of 13.94 MMT, as compared to 13.70 MMT for the previous year. On the refining front the average margins for the year have gone up to \$ 5.30 per barrel from the earlier years of \$ 4.45 per barrel. The growth trend in MS/HSD, our main product line have been successively increasing by registering highest growth rates in the industry. Similarly the Aviation and Lubes business line have also made distinct impact in terms of value and growth in the market.

## Chairman's Message (Contd.)

### Growth Strategy

In the context of continuing pressure on margins, HPCL aims not only to increase value from its core business operations but also look for new avenues for growth, expansion and diversifications. In the Marketing segment, the endeavour is to achieve not only increase in sales volumes but also increased contributions thereon and look for new avenues of growth. In the Refining Operations, we are aiming for thrupt maximization, capacity augmentation through de-bottlenecking, improved yield of products, improved units reliability etc. which could contribute to higher GRM. Risk Management initiatives have been commenced to stabilise the impact of market / price volatilities. Reduction in operating costs is aimed in all activities across the Corporation. I would like to highlight the steps taken in each of these areas.

### Refining

Both Mumbai Refinery and Visakh Refinery have recorded not only higher thrupt but also increased GRMs during 2004-05, as compared to the previous year. With the refining segment continuing to record positive contributions, steps are being taken to enhance the current infrastructure at both Mumbai Refinery and Visakh Refinery. Both the Refineries are currently implementing the Green Fuel Projects at a total cost of Rs.2800 crores which when completed would enable them to produce Motor Spirit and High Speed Diesel Oil to meet the new Euro Specifications. Visakh Refinery and Mumbai Refinery are also de-bottlenecking the existing facilities and adding certain new facilities whereby our crude processing capacities would be enhanced from existing 13 MMTs to 16.2 MMTs.

### Marketing

Downstream oil marketing scenario is witnessing intense competition from not only the PSUs but also private companies, some foreign companies who have entered the segment. Every company is making aggressive marketing efforts to gain market share and in this process are offering several value added services to the customers to gain their loyalty. **HPCL on its part is giving total focus on "Quality and Quantity" aspects to gain the trust and loyalty of its customers by which HPCL would be seen as a preferred Company to meet their fuel needs.** This is being achieved by our constant endeavour to provide quality products and services, vehicle care, combating adulteration through a process of monitoring, control, automation of activities and striving for reaching global standards in operation. Customers visiting the retail outlets are also being given added facilities like convenient stores, ATM centres, information kiosks, food centres and reward schemes.

The other strategy has been to reach out and consolidate in the highway segment which is expected to be the new growth area with the cross country road construction projects nearing completion in several areas. Concerted thrust by all the SBUs of the Marketing Division has now resulted in the greater visibility of your Corporation in each of the segment. The State-of-art 'Club-HP' Retail outlets stands out distinctly in the urban market.

### Rural Focus

Rural India presents untapped opportunities. Continuing with our thrust on the rural segment, we have set up number of low cost retail rural outlets during the year for supply of quality diesel which are called "Hamara Pumps". This has also been improvised as a multipurpose "Kisan Vikas Kendras", offering a 'Single Window' supply point, for the farmers to source their fuel, seeds, pesticide needs etc. Our "Rasoi Ghar", the community kitchen has made a deep impact

## Chairman's Message (Contd.)

in the rural market by making LPG available at affordable price. During the year HPCL opened additional Rasoi Ghars all over the country bringing the total to over 1350.

### **Lubes & Aviation Business**

The Lubes segment which is not price regulated, has potential to contribute considerably to the profitability of the Corporation. The facilities at the Lubes Unit of the Mumbai Refinery are therefore being enhanced to produce superior Grade II Lubricants which has good market demand, both in India and abroad. The Aviation business line has been registering impressive growth and profitability. This SBU is continuing with aggressive plans to enhance market share in the aviation segment.

### **Value Addition, Efficiency, Productivity**

In order to mitigate the impact of negative margins on the main product lines, the Corporation has been taking many initiatives oriented towards value additions and operational improvements in its core lines of refining and marketing. Improving unit service factors, improving the yield of value added products through process improvements in the Refineries and stabilizing the impact of price fluctuations through oil price risk management have been the focus areas during the year as detailed in the Management Discussions Analysis Report. In addition, we are also enhancing the supply side infrastructure through new Pipeline Projects. Further, setting up of Single Buoy Mooring for receipt of crude through very large crude carriers (VLCC) at a suitable location is also being explored. Our cost control and cost reduction measures include optimizing crude procurement costs, enhancement of energy efficiencies, optimizing product distribution and transportation costs, savings in financing and operating costs etc. which receive focussed attention resulting in savings to the Corporation.

### **Diversification**

To sustain growth and profitability in the coming period, it is essential that the Corporation not only retains and consolidates its current position but also look for new areas of business opportunities. It is in this context that the Corporation has started taking steps for entering the segments of Exploration & Production, sourcing supply of LNG/CNG to meet increasing demand for Gas. Both these segments being capital intensive, the Corporation is weighing the option of entering these segments in association with reputed Indian and foreign companies, details of which have been covered in the report.

Prize petroleum, our joint venture has struck its first own crude oil in its on shore marginal field at Gujarat which is a small beginning for a big step ahead. This was achieved by Prize petroleum in association with M/S Aban Llyod in the development of 3 marginal oil fields at Gujarat. It has also acquired a 50% stake in a producing oil well at Sangapur and has taken further developmental steps in the field. HPCL in consortium with Oil India Limited have also quoted for oil fields currently offered by Government of India under NELP V and is hopeful of getting some blocks.

### **Crude Price and Impact on Margins**

Crude oil prices witnessed the most dramatic rise in the past year, with the average price per barrel of the Indian Basket crude rising from around \$32 per barrel in March 2004 to about \$49 per barrel in March 2005. The international crude oil markets have witnessed fundamental change in the demand supply scenario. The huge increase in demand across the globe and



## Chairman's Message (Contd.)

inability of reserve supply capacity to keep up to demand played a major role in the rise of the crude oil prices. Price movements were amplified by the concerns about the insecurity of supply due to natural calamities (like Hurricane Ivan in Gulf of Mexico) and geo-political tensions including terrorism and strikes in oil producing countries.

The inventory levels in the industrialized nations have also been a major concern which during the past one year have been close to the lowest in the past and thus impacting crude price volatility. There has been a rapid rise in the demand for oil from Asia, especially China and India. In the current scenario, ensuring uninterrupted supplies has assumed importance.

### Product Pricing

Non-revision in the prices of the major finished product lines in tandem with increase in crude oil prices have caused significant impact on the profitability of oil companies including HPCL operating as an integrated refining and marketing company. Despite the growth in volume, the reduced margins on prime products like MS and HSD, as well as the need to bear the impact of subsidies on SKO and LPG has had a direct effect on the profitability. The Government is seized of the issue and is trying to evolve a suitable scheme to minimize the impact on oil companies, including HPCL. The current gap between the cost of production and quantum of realisation would continue to impact the future margins unless crude prices comes down considerably.

The outlook for the short and medium term on the crude oil prices indicate continued high level of crude prices due to changes in the supply/demand scenario, political uncertainties, stretched production capacities of producing nations and the limited complexities of Asian refineries. HPCL is actively exploring use of various innovative tools to cushion the volatilities of such market forces and introduce appropriate risk management practices. Initiatives like own sourcing of crude, crude transportation through VLCC, widening basket of crude purchased, efficient treasury management have all started showing positive contributions.

### HR Initiatives

In our organisation pyramid, the base is our employees who continue to serve with dedication. Our thrust has been to 'Empower', 'Enable' and 'Enhance' capabilities of our employees to meet the requirement of changing market dynamics and environments. It is also our endeavour to ensure that all the activities of different functions are aligned with the overall corporate objectives. The ongoing HR initiatives such as "Competency Mapping" to enhance employee capabilities and "Balanced Scorecard" approach to fix performance targets and evaluation are addressing the core of the above requirements. The other initiative of "Six Sigma" approach to quality improvement has helped us to clearly identify the action areas on each segment of study and as more and more employees are introduced to these concepts the efficiency level of the organisation will improve further. Encompassing all these initiatives, the organisation transformation exercise for achieving continuous excellence is also progressing well and a large segment of employees have already gone through this change management process.

An important aspect that is being highlighted in the change management process is the need for SBUs to look constantly for other avenues of growth and profitability while endeavouring to improve physical performance. The need to support line functions in their activities, improving efficiency, achieving reduction in costs are being emphasized to all other functions across the Organization.

## Chairman's Message (Contd.)

### Way Forward

To summarise, the initiatives to consolidate in the downstream segment and slowly but steadily enter upstream segment would enable your Corporation to meet the emerging challenges of increased competition, changing energy mix and need for operational excellence and growth.

In our current area of downstream activities which mainly form refining and marketing petroleum products, the Corporation is enhancing its capabilities in both the segments. The Marketing Division is implementing two major product pipeline projects connecting Mundra and Delhi and Loni and Solapur at an estimated cost of Rs.1960 crores which when completed will enhance the supply capabilities to meet the consumer demand in the northern sector. The Marketing division will spend further nearly Rs.1400 crores towards upgradation, automation and modernization of retail outlets and other facilities. It is consolidating its market position in the urban segment through the process of various initiatives aimed at delighting the customers for their continued loyalty and look at HPCL as a preferred company to meet their fuel needs.

All these activities, including the expenditure required for the initiatives under the exploration and production segments, entering the gas segments etc would entail a capital expenditure of about Rs.11000 crores to be incurred during the next 3-4 years.

### Corporate Social Responsibilities

We recognise our obligations to the society, both in area of environmental protection and social development. HPCL has taken several initiatives and is implementing schemes aimed towards upliftment of weaker sections of the society. The Corporation spent about Rs.5 crores during 2004-05 on several welfare measures. We also made a special contribution of Rs.7.5 crores to the Prime Minister's National Relief Fund to provide relief to the tsunami affected people.

I would also draw your attention to our special focus area relating to the Corporate Social Responsibilities.

### Conclusion

Last year, I began my message stating that 'Customer is the King' and the definition of 'Customer' by our immortal father of the Nation, Mahatma Gandhi who said "The Customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption of our work. He is the purpose of it. He is not an outsider to our business. He is part of it. We are not doing a favour by serving him. He is doing us a favour by giving us the opportunity to do so.....". I have repeated this because this definition will hold good forever for every organization.

Our customers include you the esteemed shareholders and the stakeholders like our dealers, vendors, contractors, business associates and others who have reposed faith on HPCL. We, on our part, would continue to endeavour to take HPCL further towards growth and profitability by meeting the challenges that we face and grabbing the opportunities that arise. We look forward to your continued support in this ongoing process.

Thank you,

**M. B. LAL**