15th Annual Report 2002-03

Mangalore Refinery and Petrochemicals Limited

a subsidiary of

Oil and Natural Gas Corporation Limited

15th Annual Report

BOARD OF DIRECTORS

Shri Subir Raha	Chairman
Shri R. C. Gourh	
Shri N. K. Puri	
Shri V. K. Sharma	
Shri R. S. Sharma	
Shri C. Ramulu	
Shri M.P.Modi	Nominee of ICICI Bank Ltd.
Shri G. M. Ramamurthy	Nominee of IDBI
Shri Girish Dave	
Shri S. T. Bambawale	

SENIOR EXECUTIVES

Dr. C. M. Lamba, President (Project & Refinery)
Shri J. M. Gugnani, President (Marketing)
Shri V. K. Talithaya, Sr. Vice President (HR)

VICE PRESIDENT (FINANCE) AND COMPANY SECRETARY

Shri L. K. Gupta

REGISTERED OFFICE

Mudapadav, Kuthethoor P.O. Via Katipalla,
Mangalore - 575 030, Karnataka

INVESTOR RELATIONS CELL

Arcadia, 7th Floor, 195 N.C.P.A. Marg,
Nariman Point, Mumbai - 400 021.
E-mail : mrplbom@bom.mrplindia.com
Tel : 5639 3333
Fax : 5639 3355

AUDITORS

M/s. Lodha & Co., Chartered Accountants
M/s. Sharp & Tannan, Chartered Accountants

SOLICITORS

M/s. Mulla & Mulla & Craigie Blunt & Caroe

BANKERS

State Bank of India
Bank of Baroda
Canara Bank
Punjab National Bank
Bank of India
Corporation Bank
Oriental Bank of Commerce
United Bank of India
Citibank N.A.
HDFC Bank
ABN Amro Bank
Vijaya Bank
State Bank of Hyderabad

REGISTRAR AND TRANSFER AGENTS

MCS Limited,
Sri Venkatesh Bhavan, Plot No.27,
Road No.11, M.I.D.C., Andheri (E),
Mumbai - 400 093.
Tel. No.: 2821 5235
E-mail: mcsmum@vsnl.com

DIRECTORS' REPORT FOR THE YEAR 2002-2003

Dear Members,

1. Your Directors present the 15th Annual Report of your Company, together with the audited Accounts for the financial year ended 31st March, 2003.

1.1 **Financial Performance**

(Rs. in Crore)

	Year ended 31st March, 2003	Year ended 31st March, 2002
Turnover	8058.77	5353.91
Profit before Depreciation, Interest and Tax	402.61	287.83
Interest and Finance Charges	567.07	672.29
Gross Loss after Interest but before Depreciation and Tax	164.46	384.46
Depreciation & Amortisations	404.85	394.45
Provisions for earlier years claims	83.47	–
Provision for Wealth Tax	0.01	0.03
Deferred Tax Credit	(240.98)	(286.46)
Profit/(Loss) after Tax	(411.81)	(492.48)

1.2 **Operational Performance**

During the year 2002-2003, your Company processed 7.256 million metric tonnes (MMT) of crude oil (up 36% from 5.328 MMT), produced 6.699 MMT of finished products (up 36% from 4.906 MMT), and despatched 6.769 MMT of finished products (up 40% from 4.822 MMT). The refinery was operated at highest-ever monthly thruput of 7,68,137 MT (*equivalent to 9.22 MMT on annualised basis) during October 2002.*

1.3 While the Operating performance has shown improvement, the financial results continued to be impaired due to high interest and depreciation cost, low capacity utilisation and low 'gross refinery margins' (GRMs), mainly due to lower domestic product demand / sales, lower realisation in exports and relatively high prices paid on crude entirely sourced through imports.

2. **Structural Changes**

2.1 As members are aware, Oil and Natural Gas Corporation Ltd.(ONGC), the premier Indian Oil & Gas Corporate, acquired the entire 37.39% of Equity Capital held by Indian Rayon and Industries Limited (IRIL) and its associates in MRPL on 3rd March, 2003, after obtaining approval from the Government of India for rescinding the MOU (1987) among Government of India, HPCL and IRIL and associates. This acquisition was processed in a cordial manner and has been welcomed by all viz. shareholders, lenders and employees.

2.2 ONGC successfully negotiated a proactive Debt Restructuring Package (DRP) with the Lenders' consortium of Banks and Financial Institutions, bringing about sea-change in the financial structure of your Company. The remarkable co-operation of the Heads of (Lending) Institutions is acknowledged.

2.3 The acquisition of equity coupled with the finalisation of DRP by ONGC rescued your Company from the brink of reference to BIFR as a 'Sick Company'.

2.4 The shareholders of MRPL, in the Extraordinary General Meeting held on 28th March, 2003, approved preferential issue of 60 crore equity shares of Rs.10 each to ONGC, and upto 36.50 crore equity shares of Rs.10 each to FIs and Banks participating in the DRP.

2.5 Consequent to the allotment of 60 crore Equity Shares to ONGC on 30th March 2003, the shareholding of ONGC increased to 51.25 % of the total Equity Capital, making your Company a subsidiary of ONGC, and also a Government Company within the meaning of Section 617 of the Companies Act, 1956, from the said date. As a result of this restructuring of equity, HPCL's shareholding in your Company stands reduced to 16.95%.

2.6 ONGC has exercised its call option incorporated in the DRP for purchase of 35.82 crore equity shares allotted to the lenders under the DRP. As a result, ONGC's shareholding in the company increased to 71.62% as on 11/7/2003.

2.7 The DRP was formulated with unprecedented speed in just 4 weeks in June – July 2002 and was also implemented with equally unprecedented speed in just 4 weeks from the day ONGC acquired IRIL's stake in MRPL. The salient features of the DRP are :-

a) Rupee loans of Rs.600 Crore were paid on 31/3/2003, out of the equity of Rs.600 Crore infused by ONGC.

b) Rupee Term Lenders and Deferred Payment Guarantee (DPG) Lenders have converted Rs.358.20 Crore of their loans into equity, Rs.9.19 Crore into 0.01% Non-cumulative Redeemable Preference Shares ("Preference Shares"), and Rs.147.83 Crore into Secured Zero-Coupon Debentures (ZCD). Preference shares and ZCD are repayable in two annual Instalments at the end of 9th and 10th years from 1/7/2002.

c) The interest rate of Rupee Term borrowings has been reduced from an average of 13.61% p.a. to 9.15% p.a., payable in a stepped up manner to match the interest payments with the projected cashflows.

d) DPG lenders have sanctioned Term Loans of Rs.1700 Crore to meet the repayment obligations towards principal and interest on Foreign Currency borrowings in future.

e) Debt-equity ratio came down from 9.77:1 to 3.45:1 on implementation of DRP. Average DSCR post-DRP has been set at 1.57

f) The Term Loans are repayable in 8 years after a moratorium of 4 years from 1.7.2002.

g) MRPL can prepay the Rupee Term Loans at any time without any prepayment premium.

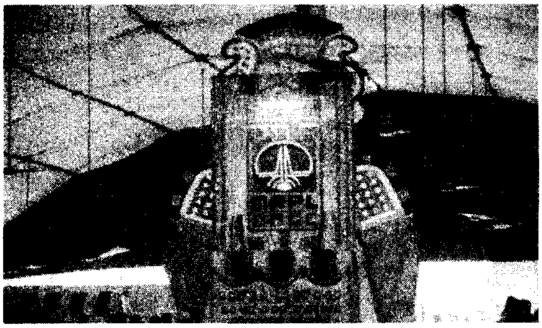
2.8 The Structural changes brought in by ONGC has reversed the assessment of creditworthiness of your Company. ICRA has assigned A1+ rating for Short-term Borrowing including

Commercial Paper (CP) of Rs.300 crore of your company, that too without any benefit of comfort from the parent, ONGC. The first issue of CP of Rs.100 Crore was oversubscribed by 50%. CPs for Rs.150 Crore have been issued on 24/7/2003 at an average interest rate of 5.41% p.a. The first MIBOR linked Bonds issue of Rs.50 crore was also oversubscribed by 4.2 times and the Company issued MIBOR Bonds of Rs.75 crore at an interest of overnight MIBOR rate plus 15 basis points (5.15 p.a.) on 7/8/2003. State Bank of India and Bank of Baroda have sanctioned working capital demand loans of Rs.240 crore and Rs.45 crore at an average interest rate of 5.5% p.a., on 5/7/2003 and 25/7/2003 respectively.

2.9 The Equity of your Company has increased from Rs.794 Crore to Rs.1753 Crore. The Market Capitalisation has gone up from Rs.636 Crore on 3rd March, 2003 when ONGC had acquired the first equity in your Company to Rs.6740 Crore when your Company entered the portal of BSE Top 30 on 17th August, 2003.

3. The Renewal

3.1 The new logo of your Company reflects its new identity, the renewed confidence and the Green commitment of your People in the Refinery. The new Logo was unveiled by the Deputy Prime Minister of India, Shri L. K. Advani on 15th May, 2003 at Mangalore in the presence of Shri S. M. Krishna, Chief Minister of Karnataka, Shri Ram Naik, Union Minister of Petroleum and Natural Gas, Shri Ananth Kumar, Union Minister for Urban Development and Poverty Alleviation, Shri Santosh Kumar Gangwar, Minister of State for Petroleum and Natural Gas, Local People's Representatives to the Parliament, the Legislative Council and the Assembly, High Officials of the Government and distinguished invitees. ONGC's role as the premier Oil and Gas "Flagship" PSU in reviving your Company from the verge of bankrupcy was lauded by the Deputy Prime Minister as an example of the Public Sector's strength as a viable alternative to privatisation.



New logo being unveiled by Hon'ble Deputy Prime Minister, Shri L. K. Advani.

3.2 The Parliamentary Consultative Committee for the Ministry of Petroleum and Natural Gas met on 14.05.2003 at Mangalore, and expressed satisfaction on the revival of your Company by ONGC.

3.3 ONGC as the parent company, started immediate supply of its high quality sweet and light Mumbai High crude to your Company. The first cargo arrived at Mangalore Jetty on 28th March, 2003 itself. The pricing formula from ONGC to MRPL is the same which ONGC recovers from other coastal PSU refineries viz. KRL, CPCL, etc. This provides an inherent advantage to your Company to achieve higher GRMs with competitive pricing for higher quality. Almost simultaneously, ONGC began supply of overseas Nile Blend – a sweet crude rich in potential value to your Company. The first cargo reached Mangalore Jetty on 14th May, 2003. In the celebrations on the 15th May, 2003, the delivery of overseas crude from the parent (ONGC) to the subsidiary company (MRPL) for the first time in India was blessed by the Deputy Prime Minister of India, Shri L.K. Advani.

Dedicating to the Nation Nile blend crude

Handing over 1st Parcel of Nile Blend Crude by Shri Subir Raha, Chairman & Managing Director, ONGC Ltd to Hon'ble Deputy Prime Minister, Shri L. K. Advani.

4. Transaction costs

4.1 The Ministry of Petroleum and Natural Gas has approved the constitution of an Empowered Standing Committee (ESC) for crude oil procurement by your Company, as is the practice with other PSU refineries. With its own ESC, your Company will now be able to directly execute crude purchase contracts under Government to Government (G to G) arrangements, saving on the commission charged by the Canalising Agency. A representation has been submitted to the Government for assignment of the present contract for supply of Iranian crude, executed by IOCL, to your Company.

4.2 The agreement for crude procurement with Chevron Texaco Global Trading expired in January 2003. Crude sourcing is now directly managed by your Company resulting in reduced transaction costs. Your Company is now entering into a Term Contract for supply of about 1.5 MMT of Arab mix crude oil from Saudi Aramco. With these arrangements your Company has fully tied up its feedstock requirements for sustaining thruput at full installed capacity of 9.69 MMTPA.

4.3 Your Company, as a PSU, is now arranging crude shipping through Transchart, Ministry of Shipping, Government of India and finalised a Contract of Affreightment (COA) for transportation of imported Iranian / Saudi crude oil from July 2003 to March 2004 at a very competitive rate. Your company has concurrently also finalised a direct COA with the Shipping Corporation of India Ltd., for transporting Mumbai High Crude Oil from August 2003 to March 2004 also at very competitive rate.

5. Exports

5.1 Your company exported products (Motor Spirit, Naphtha, Reformate, HSD, ATF- and Bunker Fuel (FO)) worth Rs.1,913 Crore during the Year (up 622% from Rs.265 crore).

5.2 Export Planning of your Company is now integrated with the plans of the parent, ONGC. With such integration and effective processing, the export realisation of your Company have improved. An integrated Trading Desk covering the business interest of the parent ONGC and the subsidiaries including your Company is proposed to be set up; preparatory actions have been initiated.

5.3 With increasing volumes and value of exports, your Company is earning higher incentives under the various export promotion schemes of the Government of India.

6. Marketing

6.1 Your Company has been marketing Motor Spirit, High Speed Diesel, LPG Cooking Gas and Superior Kerosene through HPCL who have agreed to support the business operations of your Company, under the Shareholders Agreement (SHA)between ONGC & HPCL.

6.2 Your Company had already commenced direct marketing of deregulated products from October 2000. Administered Pricing Mechanism (APM) in the Oil Sector has been dismantled w.e.f. 1.4.2002, and therefore, your Company is now eligible to market LPG, MS, SKO and HSD directly. Actions have been initiated for direct marketing of HSD. Capital Budget provision has been made to debottleneck and expand the facilities to enable independent despatches for your Company, saving on transactions cost and facilitating smooth and independent operations.

6.3 Transport fuels (MS, HSD and ATF) produced by your Company will be retailed under the licence granted to the parent, ONGC, by the Government of India.

6.4 Mangalore-Hassan-Bangalore Pipeline(MHBPL) is now operational.The first parcel of HSD supplied by your Refinery transported through this pipeline was delivered at Bangalore on 1st August, 2003. This pipeline will reduce transportation cost of the white oil products of your Company in the hinterland areas, and expand the economic supply envelope. Recognizing the importance of this facility, the parent, ONGC has acquired in April, 2003 a 23% stake in the Equity Capital of Petronet MHB Ltd., the Company that owns this pipeline, at a cost of Rs.38.34 crore.

7. Investment Plans

Your Directors have approved a capital budget of about Rs. 720 crore to improve profitability and productivity of your Company. This includes Rs. 600 crore for upgrading quality of Motor Gasoline and Diesel to meet emerging specifications of Bharat II and Euro III in India; Rs. 75 crore for extracting Mix Xylenes which will fetch better value; de-bottleneck processes to produce higher quantities of LPG which is projected to be deficit in the country and, for putting up a dedicated dispatch Terminal for products by rail and road without going through existing PSUs. Another Rs. 45 crore account for energy saving schemes and other devices.

8. Directors

8.1 On acquisition of entire shareholding of IRIL and its associates by ONGC, the concerned nominees viz. Shri M. C. Bagrodia, Shri B.N. Puranmalka, Shri P. Ramakrishnan and Shri Ravi Kastia have resigned from the Directorship of your Company w.e.f. 3rd March, 2003. ONGC has nominated Shri Subir Raha, Chairman and Managing Director and Chairman, ONGC Videsh Ltd., Shri R. C. Gourh, Director (Onshore), Shri R. S. Sharma, Director (Finance) and Shri V. K. Sharma, Director (Offshore) to the Board of your Company. Shri D.S.Mathur and Shri D.K. Deshpande, Nominee Directors of HPCL, resigned from the directorship of your Company w.e.f. 30th March, 2003, in terms of the Shareholders Agreement between ONGC and HPCL.

8.2 The Board places on record its sincere appreciation for the contribution, support and guidance extended by the outgoing Directors Shri M.C. Bagrodia, Shri D.S. Mathur, Shri B.N. Puranmalka, Shri P. Ramakrishnan, Shri D. K. Deshpande and Shri Ravi Kastia during their tenure as Directors of your Company. The Board also places on record, its appreciation for the valuable contributions made by Aditya Birla Group (ABG) Companies as Co-promoter of your Company.

8.3 In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri N. K. Puri, Director (nominee of HPCL) will retire by rotation at the 15th Annual General Meeting of the Company and being eligible has offered himself for re-appointment. Shri S.T. Bambawale, an Independent Director, will also retire by rotation and has conveyed his unwillingness to seek reappointment.

9. Directors' Responsibility Statement

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors state that :

a) The Annual Accounts have been prepared in compliance of the applicable Accounting Standards together with proper explanations relating to material departures;

b) The Directors had selected such accounting policies and applied them consistently and made judgements and estimates, that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of financial year and of the Profit and Loss of the Company for that period ;

c) The Directors took proper and sufficient care for the maintenance of proper and adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d) The Annual Accounts are prepared on a "going concern" basis.

10. Fixed Deposit

The Company has not accepted any Fixed Deposits from the public.

11. Debentures

The Directors confirm that the proceeds of the 16% Partly Convertible Debentures (PCDs) and the 17.5 % Non-Convertible Debentures (NCDs) have been utilised for the purposes declared in the Prospectus dated 13th April, 1992. The 16% Partly Convertible Debentures (PCDs) have been fully redeemed during the year on due date. The rescheduled portion of Non Convertible Debentures amounting to Rs.97.95 crore relating to Institutional investors which became due on 7th August, 2003 has also been redeemed on due date.

12. Auditors

M/s Lodha & Co., Chartered Accountants and M/s. Sharp & Tannan, Chartered Accountants, Statutory Auditors of the

Company hold the office until the conclusion of the ensuing Annual General Meeting. Since the Company has now become a Govt. Company, the appointment of statutory auditors of the Company will henceforth be done by Comptroller and Auditor General of India (C&AG).

13. Corporate Governance

13.1 The Company has implemented all the mandatory provisions of Clause 49 of the Listing Agreement relating to the Corporate Governance requirements. The Annual Report contains a separate section on the same.

13.2 As required under the said provisions, the Company has obtained the Certificate from the Auditors of the Company which is annexed to and forms part of the Annual Report.

13.3 The Management Discussion and Analysis Report forms part of the Annual Report.

14. Conservation of energy, technology absorption and foreign exchange earnings and outgo

The additional information required to be disclosed pursuant to the Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 is given in the 'Annexure I' forming part of this Report.

15. Particulars of employees

There is no employee whose particulars are required to be shown in terms of the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

16. Industrial relations

The industrial relations in your Company remains peaceful and harmonious, without any disruption in operations.

17. Community development

17.1 Your Company is committed to the well-being of the local community under the Community Development Programme and has focused on improving drinking water facilities, health awareness and health care facilities, and upgradation of educational infrastructure in the neighbourhood. The Company has cumulatively spent over Rs.2.5 Crore on various schemes implemented under the Community Development programme.

17.2 The MRPL School, affiliated to CBSE, gets a recurring annual grant of Rs.10 Lakh. About 65% of the students of the school come from the neighbourhood; similarly, the MRPL Hospital is open to the neighbouring public at concessional rates.

17.3 Women employees constitute about 3% of the workforce of the Company. Your company organises, with the help of local Mahila Mandals, training programmes for the un-employed women in making condiments, pickles, soaps and candles, etc.

18. Delisting of shares

At the Extraordinary General Meeting held on 28th March 2003, the shareholders have approved a Resolution authorising the Board of Directors to seek delisting of the shares of the Company from one or more of the stock exchanges. The Board of Directors, at the meeting held on 28th March 2003, have approved delisting of shares from Bangalore, Delhi, Calcutta, Madras and Ahmedabad Stock Exchanges as no particular benefit is available to the shareholders of the Company by continuing listing of shares on these Stock Exchanges. The trading volumes on these Stock exchanges are very thin and do not justify the payment of listing fees to these exchanges. Moreover, these Stock Exchanges do not provide any value-added services to the Company or to its shareholders. The Company has made application to these exchanges on 28th March, 2003 to seek delisting. Madras and Bangalore Stock Exchanges have already approved the delisting. However, with a view to provide improved convenience in trading of shares, your Company has applied for getting its shares listed on National Stock Exchange.

19. Acknowledgement

19.1 The Directors of your Company place on record their sincere gratitude to Shri Ram Naik, Hon'ble Minister for Petroleum & Natural Gas, Government of India, for his visionary decision to engage ONGC Ltd. for the revival of your Company. Your Directors wish to sincerely acknowledge the guidance and assistance from Officials of the Ministry of Petroleum and Natural Gas, Ministry of Finance, other Ministries of the Central Government and the Government of Karnataka.

19.2 Your Directors recognise the continuing co-operation from the New Mangalore Port Trust, your promoter Companies and the Members of the Oil Industry.

19.3 Your Directors appreciate the support received from the Financial Institutions and Banks.

19.4 Your Directors recognise the support received from all other stakeholders viz. suppliers of crude oil and other inputs, vendors, contractors, transporters and others.

19.5 Your Directors thank the Shareholders and Debenture-holders for the confidence reposed by them in the Company.

19.6 Your Directors wish to place on record their sincere appreciation of the sustained and dedicated efforts put in by all employees.

19.7 Finally, the Customers. Your Directors recognise the patronage extended by the ever increasing circle of valued customers, and promise to provide them the best satisfactions.

For and on behalf of the Board

Place: Mangalore
Date: 29th August, 2003

(Subir Raha)
Chairman

ANNEXURE I TO THE DIRECTORS' REPORT

Information under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 forming part of the Directors' Report for the year ended 31st March, 2003.

A. CONSERVATION OF ENERGY

a) Energy conservation measures taken:

i) Stopping of heavy flushing oil pump in Phase-1 Crude unit with minor modification has helped in saving power of 41.7 Kwhr / Hr.

ii) Variable speed drives were installed on two LT drives in hydrocracker unit 2 successfully.

iii) Use of special material for air-preheater tubes in power plant 2, which will last longer with lower flue gas temperature.

iv) Regular monitoring of excess air in furnaces which has improved furnace efficiencies.

v) Regular monitoring of functioning of steam traps across the refinery.

vi) Flexibility between Phase 1 and Phase 2 to optimise the load on various units.

vii) Stopping of various other drives in CDU 1 & CDU 2 units has resulted in saving power of 633.87 Kwhr/hr.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

i) Additional circulation scheme in hydrocracker HPNA system, to conserve nitrogen. The scheme is under commissioning.

ii) Taking hot sour diesel to GOHDS unit, saving 0.15 MT/hr of fuel oil to be fired in CPP.

iii) Advanced process Control proposed to be implemented in Crude Distillation Unit 1 & 2 for improvements in yields and energy consumption.

iv) Implementation of VSD on many drives in the refinery.

v) Recovery of SCAPH condensate as Hot condensate and hot condensate from steam traps in CPP area back to the deaerator.

vi) Rain water harvesting. Currently the rain water flowing from the villages through our storm drain is proposed to be used as raw water. This will help in reducing the quantity of water to be pumped from Sarpady, thereby reducing the pumping cost.

vii) Using of MP steam instead of HP steam for fuel oil heating in CPP fuel oil system.

viii) Routing of Amine flash column hydrocarbon vapours to Sulphur Recovery unit incinerator.

c) Impact of the measures (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

i) Anticipated savings due to the schemes already implemented, as per section "a" is approximately Rs 521 lacs/year, when operated at full load.

ii) Estimated energy savings due to the schemes to be implemented / proposed as per section "b" will be approximately Rs 165 lacs for the year 2003-2004. However the total saving potential on an annual basis is Rs 2252 Lacs/year.

d) Total Energy Consumption and Energy Consumption per unit of Production.

	2002-03	2001-02
a) Power and Fuel Consumption		
1. Electricity		
a. Purchased		
Unit (KWH)	**4070080**	3317531
Total Amount (Rs.)	**29955039**	27398948
Rate / Unit (Rs. / KWH)**	**7.36**	8.26
** Include Demand Charges of Rs.144.55 Lacs (Rs. 157.72 lacs for 2001-2002).		
The unit cost per KWH excluding Demand charges is Rs.3.81 for 02-03 and Rs.3.50 for 01-02		
b. Own Generation		
i) Through Diesel Generator (at Sarpady)		
Unit (KWH)	**219210**	119550
Unit per ltr. Of Diesel (KWH / ltr.)	**3.41**	3.40
Cost / Unit (Rs. / KWH)	**5.26**	5.04
ii) Through Steam turbine/ generator Unit (KWH)	**462135790**	376565300
Unit per ltr. Of Fuel Oil (KWH / ltr.)	**2.08**	2.09
Cost / Unit (Rs. / KWH)	**4.36**	3.48
2. Fuel Oil		
Quantity (M.T.) (Oil + Gas)	**480356**	376538
Total Amount (Rs.)	**4555438641**	2856741091
Average Rate (Rs./M.T.)	**9483.46**	7586.86
3. Others / Internal Generation		
Diesel (at Sarapady)		
Quantity (K.ltr.)	**64.21**	35.19
Total Cost (Rs.)	**1152010**	602856
Rate (Rs. / K.ltr.)	**17941**	17130
b) Consumption per unit production		
Total Crude Processed (TPA)	**7256478**	5476995
Total Fuel Oil Consumed (TPA)***	**557197**	434293
Total Electricity (KWH) (after deducting power to HGIL)	**463095980**	375096159
Fuel Oil Consumption / MT of Crude processed	**0.0768**	0.0793
Electricity Consumption / MT of Crude processed	**63.82**	68.49

*** includes fuel and loss

B. TECHNOLOGY ABSORBPTION

Research & Development:

1. Specific areas in which Research & Development (R&D) has been carried out by the Company.
   i) Study on the microbiological corrosion of treated effluent recycle line to cooling towers.
   ii) Spent caustic (High sulphides) oxidation at the generation unit.
   iii) Analysis of catalysts.
   iv) Crude evaluation.
   v) Stability of Furnace Oil
2. Benefits derived as a result of the above Research & Development :
   i) On the basis of the study new biocides have been introduced which has resulted in better-treated effluent quality and recycle rate.
   ii) Lower consumption of hydrogen peroxide in wastewater treatment plant and low odour.
   iii) Customer satisfaction in use of Furnace Oil and higher domestic absorption of product.
3. Future Plan of action:
   i) To monitor the lubricity characteristics of Aviation Turbine Fuel (ATF) and Low Sulphur High speed diesel (<0.05 % sulphur) with different sources of crude and operating conditions.
   ii) To develop new valuable products like LAB feed stock using capillary column.
4. *Expenditure on R & D:*

   Capital: Rs 41.24 lakhs for 2002-2003

   Recurring: Rs 2 lacs.

   Total R & D expenditure as percentage on total turnover:

   Negligible
5. Technology Absorption, Adoption & Innovation:
   i) To satisfy customer's requirement, efforts are being taken to convert Phase 1 Kerosene Merox unit to Light naphtha Merox. The mercaptans in the MS as a result of this will get reduced to less than 20 ppm by volume. The entire innovation has been done in house.
   ii) Operation of the Visbreaker unit with high soaker pressure and high temperature has helped in reducing the black oil make from the unit. The entire experiment was done in-house.
   iii) Other licensed technologies have been fully absorbed, from operational point of view.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

	2002 – 2003 (Rs. in lacs)	2001 - 2002 (Rs. in lacs)
Foreign Exchange Earnings (Includes Exports of Rs.3839.83 lakhs through Indian Oil Corporation Ltd.)	**1,91,295.45**	26,505.85
Foreign Exchange Outgo (excluding imports of crude oil through Indian Oil Corporation Ltd.)	**2,24,458.73**	2,15,121.83

MANAGEMENT DISCUSSION & ANALYSIS REPORT

1. *Industry :*

1.1. Overall, the surplus in the domestic refining capacity is getting reduced. The annual consumption of some 107 MMT of products matches the rated domestic refining capacity of 113 MMT. There are, however, serious imbalances in product-wise demand and production. The fact that HSD demand has plateaued in the recent years defies logic. The inescapable conclusion is that the pricing differentials are leading to adulteration using imported as well as domestic stocks. The profitability of majority of the domestic refineries is threatened since the designs and the operations are configured to maximise diesel production.

1.2 Increasing customer awareness, and stipulations on phased improvements in transport fuels' specifications for enhanced environmental protection call for major capital investments in additional facilities in the refineries. These essential investments do not yield any incremental margins, and therefore, overall cost- optimisation becomes the determinant for refinery profitability.

1.3 In the commodity market of petroleum products, pricing is the competitive determinant in Direct Sales, whereas Service-cum-Satisfaction attract the retail customer. The relevant costs are to be paid out of the available margins, reducing profitability per unit sold. Value addition in the refinery and beyond, therefore, assumes critical importance.

2. The New MRPL :

2.1 Confidence is the hall-mark of the New MRPL. The employees of your Company are confident of the technological edge and resultant opportunities. The management is confident of sustained growth in all aspects. The business-partners are confident of mutually beneficial association. The market is confident of benefits to the share-owners.

2.2.1 Operationally, the confidence is based on the state-of-the-art technology of the refinery, and the team of skilled and committed refiners.

2.2.2 Your refinery has been producing components for high-quality environment-friendly transportation fuels, and the premium in pricing has improved.

2.2.3. In 2003 – 04, for the first time, the refinery is proposed to be operated at the rated annual capacity. The increased thruput will bring down unit costs. Moreover, the crude-mix has been changed, the proportion of sweet crude going up from 10% or less to 30% or more. The increasing yield of light and middle distillates will add to the profitability. The reduction in de-sulphurisation will save energy costs.

2.2.4. MRPL is now buying sweet and light Mumbai High Crude, one of the best in the world, with the same pricing advantage as is available to other coastal refineries like KRL, CPCL etc. The price advantage vis-à-vis imported crude of equivalent quality and the improved yield pattern is significantly adding to the GRM. Effective April 2004, after ONGC's commitment on supply of offshore crudes to other PSU refineries (as per directive of the Ministry of Petroleum & Natural Gas) ends, it should be possible to process higher quantities of MH crude in MRPL.

2.2.5. The processing of ONGC's overseas crude – Nile Blend from Sudan – brings in the advantage of low-sulphur operations plus significant potentials for value addition.

2.2.6. MRPL is now in a position to directly contract sour crudes under Government-to-Government arrangements on Term basis, leading to reduction in transaction costs.

2.2.7. The recently concluded shipping contracts have resulted in substantial advantages in ocean freight (including coastal freight), with positive impact on profitability.

2.2.8. Capital investments for (i) production of transport fuels meeting *Bharat II/ Euro III specifications, (ii) replacement /* modernisation of plant and equipment, (iii) additional facilities to obtain flexibilities in product despatch and (iv) production of mixed xylenes for value addition have already been approved. Several short-gestation high-yield value addition projects have been identified, and project formulation is in progress.

2.2.9. Several representations have been made to the Ministry of Petroleum & Natural Gas on various issues; on approval, several bottlenecks in profitability will be removed.

2.2.10. With re-structuring of the equity base and outstanding debts, the financial outlook of your Company has undergone a sea-change. Your Company now enjoys A1+ credit rating from ICRA, and invitations for short-term borrowing are being substantially over-subscribed at competitive interest rates, without any parent company undertaking.

2.2.11. Integrated export planning with ONGC and the advantage of intrinsic product quality from MRPL have helped improve the export realisations. These advantages are proposed to be *reinforced through the proposed Integrated Trading Desk of* the ONGC Group of Companies.

2.2.12. Mangalore-Hassan-Bangalore Pipeline has been commissioned, bringing pricing advantage to MRPL's products in the expanded hinterland.

2.2.13. It has been decided to implement all relevant modules of SAP R/3 ERP at the refinery, integrating the system to project ICE ("Information Consolidation for Efficiency") of the ONGC Group. The comprehensive MIS will help cut costs and optimise decisions.

2.2.14. Direct marketing of HSD has been taken up, and realisations on sales of Naphtha, Bitumen etc are improving. Retail marketing of MS and HSD will be initiated this year under ONGC's licence and brand.

2.2.15. Dr. C.M. Lamba has been appointed as President (Refinery & Projects) and Mr. J.M.Gugnani, as President (Marketing). Both are outstanding professional in their respective disciplines, with in-depth knowledge and experience.

2.2.16. Overdue promotions have been granted to senior and middle Managers, in recognition of the competence, contribution and potential of the individuals concerned, and certain positions below-the-Board have been upgraded. These motivations will surely be reflected in the performance of your Company.

2.2.17. The Government has been requested to (i) classify MRPL as a Schedule 'B' PSU, (ii) sanction the posts for Managing Director and Director (Finance) followed by selection and appointment and (iii) nominations to the Board of Directors. Pending these actions, a Committee of Directors has been constituted and empowered by your Board to manage the operations of your Company.

2.2.18. Officers have been deputed from MRPL to work in the ONGC Videsh Ltd. (OVL) team on a proposed mega-project for Refinery & Pipelines abroad. Such opportunities have come up for the first time to MRPL.

2.2.19. The pay-roll of your Company was 936 as on 31st March, 2003.

2.2.20. Safety and Environment Protection are accorded over-riding priority by the Management and the Employees of your Company.

3. The Uncertainties

3.1. Like all other refineries, the fortunes of your Company are tied with the volatility in international prices of crude and products.

3.2. ONGC had conceded certain privileges to HPCL as a sister-PSU, in the Shareholder Agreement. These need to be reviewed in the context of the decision of the Government to privatise HPCL.

3.3. Domestic sales contribute to the major part of the revenue of your Company. The state of the economy, therefore, influence the turnover and profitability.

4. Internal Control Systems and their Adequacy

The Company has the required internal control systems and procedures. These ensure optimal use of Company's resources. The Company's internal audit department conducts regular audits of various operational and financial matters. The audit observations are periodically reviewed by the Audit Committee of the Board of Directors.

5. Financial performance

The refinery achieved a crude thruput of 7.256 MMT during the year and produced 6.699 MMT of finished products both up by 36% from 5.328 MMT and 4.906 MMT. The turnover during the year was Rs. 8058.77 crore, up 51% from Rs.5353.91 crore. This includes exports amounting to Rs.1913 crore up by 622% from Rs.265 crore. Profitability was adversely affected on account of high interest and depreciation costs, low GRMs and low capacity utilisation mainly due to lower domestic demand of the products / sales and lower realisation in exports and relatively high prices paid for crude entirely sourced through imports.

Cautionary Statement

These discussions are "forward looking statements" within the meaning of the applicable laws and Regulations. Actual performance may deviate from the explicit or implicit expectations.