Essar Oil Ltd

Analyst Meet Note

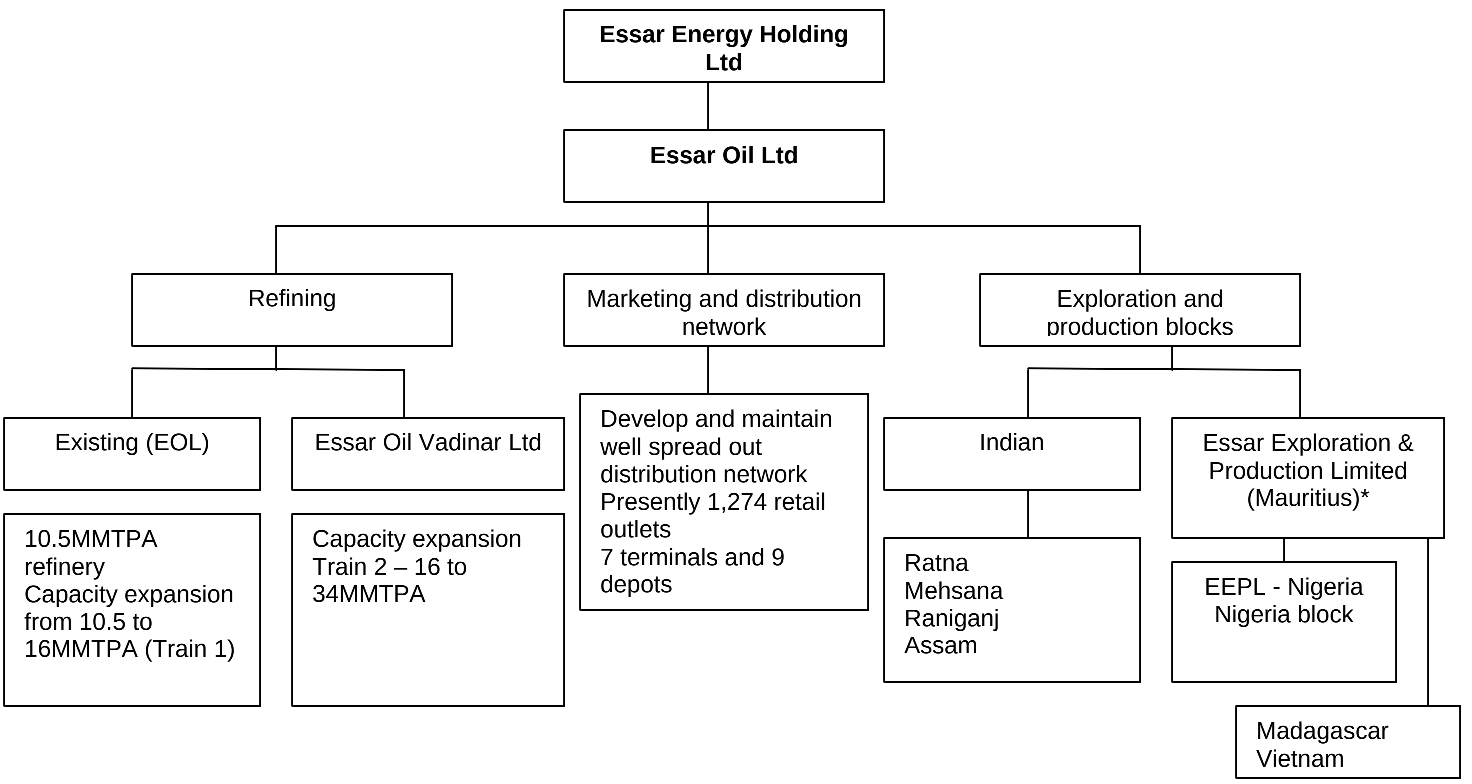
June 02, 2008

After years of maintaining silence with the analyst fraternity, Essar Oil Ltd (EOL) organized an analyst meet last week. The primary agenda of the meet was to discuss the company's current status of various projects and future growth plans. The key takeaways from the meet were as follows:

The company discussed its long term vision, which highlighted three points:

- Set up a refining capacity of 1mn barrels per day over the next three to four years using a combination of organic and inorganic initiatives.
- To have crude oil production capacity of 30% of its refining capacity and gas production capacity to meet its captive requirements.
- Set up a retail network of 5,000 outlets and have a global footprint in the petroleum products' space.

Current structure of the company



Source: Company

Operational highlights of the existing refinery having a total capacity of 10.5MMTPA

- Commercial production of the refinery commenced on May 1, 2008 and is currently operating at considerably above the rated capacity (12.5MMTPA).
- The refinery has been processing more than 21 types of crude and has a nelson complexity index of 6.1.
- Currently, the refinery produces Euro II/III products.

Current refinery configuration

Unit	MMTPA	Trial commissioning date
CDU	10.5	Nov-06
VDU	7.2	Nov-06
Visbreaker unit	1.9	Jan-07
Naphtha hydrotreating unit	1.6	Feb-07
Continuous catalytic reformer	0.9	Feb-07
Fluid catalytic cracking unit	2.9	Dec-07
Diesel hydro desulphurization unit	3.7	Jan-08
Amine regeneration unit	2.02	Dec-07
Sulphur recovery unit	422 tpd	Feb-08

Source: Company

Tax benefits for the existing refinery

- 100% income-tax exemption on refinery profits for seven years under section 80-IB.
- Sales tax / VAT deferral benefit made up to August 14, 2020. The company estimates the value of this benefit at US$2bn.

E&P business

Current portfolio of E&P assets

Domestic blocks	
Gujarat	70% operatorship interest in Mehsana block CB-ON/3 Certified 2P reserves of 2.7mmbl of oil in one discovery alone
Assam	100% interest in 2 exploration blocks
West Bengal	100% interest in RG (East) - CBM-2001/1 block in Durgapur, WB
Ratna	50% joint operators interest in Ratna & R series blocks
	Certified 2P reserves of 161mmboe
International blocks	
Nigeria	63% interest in offshore block OPL 226
Madagascar	100% interest in 3 exploration blocks
Vietnam	100% interest in offshore block 114

Source: Company

The international blocks are not currently under EOL and will be transferred to another group company in the near term. However, there is not much clarity on the reasons for the transfer of these assets.

- The company has acquired 180sqkm of 3D seismic data and has drilled 10 wells in block CB-ON/3, Mehsana. One of the wells is producing and two other discovered wells are under appraisal.
- EOL has drilled 15 core holes and has tested the coal for permeability and gas content of the CBM block in Raniganj. The company has initiated a drilling program of 15 wells and seismic data acquisition of 120LKM. It has a target to reach peak production rate of 2-2.5mn cu meters of gas per day in 2-3 years.
- The total commitment of the company towards the existing blocks is US$290mn of which US$130mn will be spent in FY09.

Refinery expansion project

EOL is more than tripling its refining capacity from current 10.5MMTPA to 34MMTPA. The company estimates total capex of US$6bn. To fund the expansion, EOL is raising additional debt of US$4.4-5bn and promoters are expected to infuse about US$2bn in two tranches. Post the infusion, the debt equity would be 1.3:1. The company plans to complete the refinery by Q4 CY10. The refinery is being designed in such a manner that 90% of the 9.6MMTPA gasoline produced will be of Euro V grade. With respect to diesel (total production of 12.2MMTPA), the refinery would be configured to produce 11% Euro II, 28% Euro IV and 61% Euro V grade.

Details of the refinery expansion project

Particulars	Current	Post expansion
Capacity (MMTPA)	10.5	34.0
Nelson complexity index	6.1	12.8
API Density	35.5^{o}	24.8^{o}
Sulphur	2.00%	2.97%
Product grades	Up to Euro III	Up to Euro V / US Specs / CARBS
Product slate		
Gasoline	24.7%	28.2%
Diesel	31.2%	35.9%
ATF	6.0%	8.1%
Kerosene	7.6%	2.9%
LPG	5.4%	3.4%
Others	7.2%	5.3%
Fuel Oil	11.3%	11.2%
Fuel & Loss residue	6.6%	5.0%

Source: Company

Capex details of the project

Cost head	US$mn
Land & building	50
Plant & machinery	4,614
Project management & engineering fees	246
Preliminary & preoperative expenses	105
Financing cost	656
Contingency	329
Total	6,000

Source: Company

Our view

- The management's initiative to interact with the analyst fraternity is encouraging. However, opaqueness persists with respect to reasons for transferring of international assets to another company. Also the de-listing issue continues to haunt long term investors.
- The company has embarked upon an aggressive capacity expansion plan. Timely and cost effective execution is the key risk in such large scale projects.

India Infoline Research Team