CHAPTER VII-

CONCLUDING OBSERVATION AND SUGGESTIONS
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1.1- INTRODUCTION

Oil & Gas Industry in India the origin of oil & gas industry in India can be traced back to 1867 when oil was struck at Makum near Margherita in Assam. At the time of Independence in 1947, the Oil & Gas industry was controlled by international companies. India's domestic oil production was just 250,000 tonnes per annum and the entire production was from one state - Assam.

The foundation of the Oil & Gas Industry in India was laid by the Industrial Policy Resolution, 1956, when the government announced that petroleum would be the core sector industry. In pursuance of the Industrial Policy Resolution, 1954, Government-owned National Oil Companies ONGC (Oil & Natural Gas Commission), IOC (Indian Oil Corporation), and OIL (Oil India Ltd.) were formed. ONGC was formed as a Directorate in 1955, and became a Commission in 1956. In 1958, Indian Refineries Ltd, a government company was set up. In 1959, for marketing of petroleum products, the government set up another company called Indian Refineries Ltd. In 1964, Indian Refineries Ltd was merged with Indian Oil Company Ltd. to form Indian Oil Corporation Ltd. Growth of India petrochemical industry is playing a major part in the growth of the economy and the development of the manufacturing sector. The petrochemicals industry provides more value addition to the Indian economy than most of the other companies. Petrochemicals are obtained from different chemical compounds which are by-products of crude oil refining. Most of them fall may be categorized into hydrocarbons. With the fractional distillation of the crude oil, chemicals like naphtha, kerosene, petroleum gases, ethane, methane,
propane, and butane are the primary stocks used in the petrochemical industry for the production of various other chemical compounds.

Presently, the extent of penetration of the petrochemical products in day-to-day use is vast. It actually covers most of the domain of existence such as apparels, accessories, household items, furniture, electronics, construction, housing, automobiles, medical appliances, packaging, horticulture, and agriculture.

The India petrochemical industry originated in the 1970s and entered the arena of the industries of India. This sector was subjected to rapid growth in the period between the 1980s and 1990s. Even today, expectations from this sector are sky-high. The Indian petrochemical industry for it part is doing very well and has been contributing significantly to the country's GDP for several years now. The Indian petrochemical industry primarily consists of synthetic rubber i.e. elastomer, yarn of synthetic fiber, synthetic detergent intermediates, performance plastics, plastic processing industry, and polymers. The Bongaigaon refinery was set up as an experimental one with the capacity of a refinery and a petrochemical unit. The success of this integrated petroleum refinery-cum-petrochemicals unit led to a spree of activities in this sector. Many such units were established to boost production capabilities. With the growth of Indian petrochemical industry, it holds the share of around 20% of the total global produce of petrochemical related products.

In the present scenario, 5 naphtha and 3 gas cracker coordination compounds are in operation with ethane production capability of around 2.6 million tons every year, jointly. Along with this, another 4 aromatic coordination
compounds are in operation with a xylene production capability of around 2.1 million tons.

The challenges facing Indian petrochemical industry provides the industry with better tools which would in turn help the growth of the economy. India has stably established itself in the core of the international production of petrochemical and petrochemical-related products in the present scenario. With the economic growth cycle slowing down in the United States, the Asian developing nations, especially India, would ideally fortify its stand in the global petrochemical market as a producer of these products. This is one of the major challenges facing Indian petrochemical industries.

The global economy is a dynamic and ever-growing one in spite of the high cost of energy. This in turn is forging the demand for petrochemicals. The strong growth in demand is not backed by a sufficient supply so the cost is still to come down. Operating rates of major petrochemical product segments are very high presently.

In the Indian economy, the petrochemical sector is one of the fastest growing segments which and has a growth rate of around 13% which currently is more than twice the gross domestic product growth. The investments made in the India petrochemical industry are huge which bode well for the growth in this segment. There is a steadfast growth in the production activity of the main petrochemicals and as the result, the Indian petrochemical industry attained self-sufficiency. The dominant part of the Indian petrochemical industry, the segment consisting of polymers is growing at a superb pace, with the middle class household boosting the consumption.

Following are the challenges facing Indian petrochemical industry:
• High cost of energy and feedstock and the impact on demand
• The transformation in the kinetics of competition in manufacturing
• Increase in the cost of project

Problems faced by the Indian petrochemical industry:

• The manufacturing units mostly use obsolete format of technology and are not able produce optimally
• There is a necessity for the modernization of equipments
• Excise duty on synthetic fiber should be rationalized
• Prevention of reservation on Small Scale Units
• Plastic waste to be recycled and the littering habits to be discouraged
• India requires advantage on feedstock, so the import cost has to be brought down
• The industry should have access to the primary amenities of infrastructure

The future of Indian petroleum industry has good potential but it needs developmental activities in this sector to strengthen itself. The world at present is experiencing a lot of changes of mammoth proportions. The Petroleum Industry in India is one of the harbingers of huge economic growth. The arena for business has now gone global since trade boundaries are fast dissolving. These developments present India with tremendous opportunities in the future to be one of the major players in the export of petrochemical intermediaries. Today, India imports more than 70% of its oil requirements. The search for more oil led India to sift through the international markets comprising of the emerging energy-trading countries -
China, Russia, and Iran. India has made new partnerships with Venezuela, Burma, Middle East nations, and Pakistan.

The long-term energy strategies of India have to emphasize on the methods of using energy effectively and efficiently, and to enhance energy self-sufficiency. To lift the Indian economy to enhanced economic standards innovation, diplomacy, creativity, and vision are the need of the hour. India has to compete for conventional energy sources and for that there must be developmental activities for energy efficient buildings and vehicles. The main problems with the Petroleum Industry in India are related to infrastructural developments. The lack of proper storage facilities, enhancements in refining capacities, and fluctuating import prices plays an important role in the development of the sector. The target of improvement for the growth of the economy for India should be in the area of the petrochemical sector. The need for intermediary products for the manufacturing of the end use products is an important sector to tap in. With the per capita consumption for the petrochemical products in India being low and the production of these products being high, India may become one of the leading exporters of such intermediary products.

The future of Indian petroleum industry depends on:

- Demand for petroleum is growing in leaps and bounds
- Shifting focus to more production of olefin - ethylene, propylene, butadiene,
- Price and availability of crude oil and gas as feedstock would still be critical factors
The demand of the end products would affect the demand of the intermediary products

1.2- GLOBAL SCENARIO

Globally the petroleum crude production is undertaken in oil-rich countries and the refining is mainly done in countries with high demand for petroleum products. A cartel of oil producing countries named OPEC (Organization of Petroleum Exporting Countries) holds 897 billion barrels of oil reserves, around 78 percent of the world's proven reserves of 1.14 trillion barrels. Saudi Arabia is top producer as well as top exporter of crude oil. The United States is the largest importer of oil with a share of 27 percent in world imports of oil. Petrochemical Industry in India is a cyclical industry. This industry, not only in India but also across the world, is dominated by volatile feedstock prices and sulky demand. India has one of the lowest per capita consumptions of petrochemical products in the world. For example, the per capita consumption of polyester in India lies at 1.4 kg only comparing to 6.6 kg for China and 3.3 kg for the whole world. Similarly, the per capita consumption of polymers is 4 kg in India, whereas the per capita consumption is around 20 kg for the whole world. The petrochemical industry in India came into existence during 1970s. The 1980s and 1990s saw some rapid growths for Indian petrochemical industry. The biggest reason for this growth was the high demand for petrochemicals in India, which grew at an annual rate of 13 to 14% since late 90s. It also called for rapid expansion of capacity. The BMI forecast of average annual growth in India over 2007-2011 is 14 to 16%. However, the industry suffered setbacks during 2008 due to surge in the price of crude oil. It will be tough for Indian
petrochemical industry to plug the deficit of 5mn TPA of ethylene and 4mn TPA of polymer by 2012 (according to the predictions of the government).

The Scenario presently in India is that it has three gas-based and three naphtha-based cracker complexes with a combined annual capacity of 2.9 MMT of ethylene. Besides this, there are also 4 aromatic complexes with a capacity of 2.9 MMT of Xylenes.

The production of 5.06 MMT polymers during FY09 accounted for around 62% of the total production of key petrochemicals. It also achieved 88.5% capacity utilization. The industry also produced 2.52 MMT of synthetic fibres during FY09 with a 73% of capacity utilization.

1.3- PRESENT SCENARIO IN INDIA

India’s growth in the last few decades has been swift. Now the economy is liberalized, allowing the free winds of change. Today, India is emerging from the shadows of the past and looking the future in the eye. Certainly, this is not accidental but the product of vibrant economic reforms and it clearly reflects coming age of India.

This research Study highlights the physical and financial performance of Indian Oil Corporation with focus on market leadership and business developments. In this research we studied the Companies origin, its Growth and the prospects for future with the help of various standard and measures.

IOC is the highest ranked Indian company in the latest Fortune ‘Global 500’ listings, ranked at the 125th position. IOC's vision is driven by a group of dynamic leaders who have made it a name to reckon with. In this section, read about IOC’s business and its spread across the country & abroad. You
can also know about IOC's current financial performance, special initiatives and recognitions & awards that have come its way. Indian Oil Corporation Ltd. is a major diversified, transnational, integrated energy Company, with national leadership and a strong environmental conscience, playing a national role in Oil security and Public distribution

1.4- **MAJOR FINDINGS**
The Petrochemical sector has played an important role in the economical development of the Country. Petrochemical has a dominant share of bulk customers business, including that of Railways, State Transport undertakings, Industrial, Agriculture and Marine sectors. At present time, Indian Oil Corporation also the highest ranked Indian Company in the prestigious fortune “Global 500”. To the best of my knowledge and brief no work has been done to evaluate the physical and financial performance of such an important concern responsible for providing continuous and smooth supplies of petroleum products in the country by way of crude refining, transportation and marketing activities. Indian Oil Corporation Limited (IOC) (Mumbai), India's state-controlled refining major, has decided to defer construction of the refinery complex in Ceyhan, Turkey. B.M. Bansal, the chairman of IOC (taken a post of chairman from 2009-10), indicated that the company would proceed with proposed projects in Turkey after financial conditions improve. In 2007-08, as part of a proposed five-year investment strategy, IOC had announced plans to build a $6 billion, 15 million-ton-per-year refinery and petrochemicals complex at Ceyhan; acquire a stake in pipeline projects; and participate in Greenfield energy projects and in Turkey's fuel-retailing sector. IOC also was exploring the possibility of picking up a 51 percent stake in the 15 million-ton-per-year refinery
developed by Calik Enerji (Istanbul, Turkey). However, Bansal dismissed reports that the company has shelved these projects.

Industrial Info Resources provides global market intelligence specializing in the industrial process, heavy manufacturing and energy markets. IIR's quality-assurance philosophy, the Living Forward Reporting Principle, provides up-to-the-minute intelligence on what's happening now, while constantly keeping track of future opportunities. Indian Oil Corporation Ltd. is India's largest company by sales with a turnover of Rs. 271,074 crore and profit of Rs. 10,221 crore for the year 2009-10.

The Financial performance of few concerns has been taken up by some workers but the same has not been carried out for IOCL, which occupies a major position in the Indian Petrochemical sector. After analyzing this research, we studied that how the supreme performance by the Company has affected in the scope of Petroleum Products during the last few years. We also find that the company has invested in all Projects and infect, are those Projects achieving their targets very well and perform efficiently in their expectations.

We can summarize the physical and financial performance of IOC from the following Points:-

1. IOC serves the national interests in the Oil and related sectors in accordance and consistence with Government Policies.

2. The Corporation ensures and maintains continuous and smooth supplies of Petroleum products by way of Crude refining, transportation and marketing activities and to provide appropriate assistance to the consumer to conserve and use Petroleum products efficiently.
3. Work towards the achievement of self-sufficiency in the field of oil refining by setting up adequate capacity and to build up expertise in laying of crude and petroleum product pipelines.

4. The Corporation creates a strong research and development base in the field of oil refining and stimulates the development of new product formulations with a view to minimize/eliminate their imports and to have next generation Products.

5. IOC further enhance distribution network for providing assured service to customers throughout the country through expansion of reseller network as per Marketing Plan/Government approval.

6. The Corporation achieves higher growth through integration, mergers, acquisitions and diversification by harnessing new business opportunities like petrochemicals, powers, lube business, consultancy abroad and exploration and production.

7. The Corporation encourages progressive indigenous manufacture of products and materials so as to substitute Imports and also develops techno-economically viable and environment-friendly products for the benefit of the people.

8. IOC avails of all viable opportunities, both national and global, arising out of the Government of India’s policy of linearization and reforms and also develops operational synergies with subsidiaries and joint ventures and
continuously engage across the hydrocarbon value chain for the benefit of society at large.

Finally, after getting the view and this study it is to be believed that Indian Oil Corporation Ltd. is well positioned for future growth prosperity.

**1.5- SUGGESTIONS-**
The following suggestions are made to improve the effectiveness of IOC:-

1. Capital structure Pattern of IOCL includes equity Share capital and borrowing capital both and constantly shows tremendous increasing trend. We are suggested here that Company ensure adequate return on Capital employed and maintain a reasonable annual dividend on equity Capital.

2. As we analyze IOC’s past performances it is clear that company maintains an optimum balance between debt and equity but yet we are suggested that Company ensure maximum economy in expenditure as future aspects.

3. As we find in this research the fixed interest charges stayed with nominal difference in the year 2006-07 and 2007-08 but it is quite down in 2008-09, it shows a lower earning and lower interest paid in 2008-09. Company is not paying easily their interests as compared to the previous year i.e., 2006-07 and 2007-08. So we are advised here that IOC maintains a reasonable rate of return on investments.
4. It is also concluded that IOCL should try to run the business as per its maximum capacity in the market. It is suggested that IOC provide prompt, courteous and efficient service and quality products at competitive prices in market and further also enhance marketing infrastructure and reseller network for providing assured service to customers throughout the country.

5. We find that Corporation increase their capital in the FY 2007-08 and 2008-09 but while its Profit before interest and tax is decreased. It means company’s profitability is not in satisfactory position in concern with their capital employed So Company must optimize their utilization of capacity and maximize distillate yield and gross margin.

6. IOC must reduce the cost of production of petroleum products by means of systematic cost control measures and thereby sustain market leadership through cost competitiveness.

7. To manage and operate all facilities in an efficient manner so as to generate adequate internal resources to meet revenue cost and requirements for project investment, without budgetary support.

8. Indian oil is implementing projects of over Rs. 60,000 crore currently. It is suggested here that Corporation must be complete their all planned projects within the scheduled time and approved cost.
1.6 CONCLUSIONS-

In this research study, we have discussed the history of Indian Oil Corporation from establishment to update, also discussed about the trends in installed Capacity of Petroleum product network, Refineries and Product Pipeline supplied by different states, various existing and proposed Projects in India and their capacity from last few years. We also studied Physical and Financial Performance of Indian Oil Corporation evaluated with the help of various sources like the Annual reports, Economic Times, Journals, Articles and through the monthly magazines of Indian Oil Corporation. The Ratio and Other parameters calculated under the various performances of IOC in different areas. As we find in this research study that over the past three decades IOC R&D Centre has developed over 2000 formulations of lubricating oils and greases to satisfy the needs of Indian Industry and consuming sectors of Defense, Railways, Public Utilities and Transportation.

IOC is also exploring opportunities to purchase hydrocarbon assets overseas. However, the company, which is scouting for assets in East Africa, is awaiting the government's decision on fuel prices. The company also has expressed an interest to partner Oil India Limited (Noida, Uttar Pradesh) on exploration and production projects. Presently, state-controlled energy enterprises sell petroleum products, including kerosene, cooking gas, diesel and petrol, at government-fixed subsidized prices that are much lower than the prevailing market rates. According to a recent report published by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) (New Delhi), under the Indian government's fuel subsidy policy, kerosene and cooking gas is sold at $0.64 per liter and $6.37 per cylinder below prevailing prices, respectively. Diesel and petrol is sold at $0.15 per liter and
In 2010-11, the subsidies are expected to burden oil companies by about $6.37 billion. By March 2011, the total amount of subsidies on kerosene and cooking gas for this fiscal is forecast to increase more than $12.74 billion. The government compensates the difference in prices by issuing oil bonds to these companies. Presently, IOC has oil bonds worth $3.95 billion. In a related development, IOC's net profit surged 246 percent to $2.24 billion for 2009-10. This growth has been attributed to efficient capacity utilization and higher refinery-operating margins. In 2009-10, the average operating margin was $4.47 per barrel, in comparison to $3.69 per barrel in the previous fiscal year. During this period, IOC's total turnover, including excise duty, was $59.56 billion. The company managed to record impressive revenues, despite absorbing a loss of $694.1 million for selling cooking gas below market prices. In 2009-10, consumption of oil products in India grew 3.4 percent and IOC's sales volume increased to 63.7 million tons.

Backed by a strong financial performance in 2009-10, IOC has decided to focus on its core business of fuel marketing and refining, and revive old projects in this sector. Sources indicate that IOC proposes to complete a $6.2 billion refinery at Paradip in Orissa and is mulling over a greenfield petrochemicals plant at the same site. The Paradip refinery is scheduled to be completed in 2012. Earlier, IOC had deferred plans to build a petrochemicals plant in Orissa due to financial constraints. The company is also increasing the capacity of its refinery in Gujarat 30 percent to 18 million tons per year. Spurred by strong domestic oil demand, IOC also may consider building another refinery after 2015. During 2010-20, the company plans to spend about $7.69 billion to $8.78 billion on expansion and acquisitions. It has
been providing all the necessary technology solutions to IOC’s operating
divisions by developing innovative, cost-effective and environment-friendly
products and processes with strong technical back-up service. It has also
developed and brought many new lubricant products to the Indian market, of
which multigrade railroad oils are one example. It is suggested here that
Indian Oil Corporation develop their long term corporate plans to provide
for adequate growth of the Corporation’s business and it must be continued
in future.