CHAPTER - VI

FINDINGS & CONCLUSIONS
CONCLUSIONS & FINDINGS

After having the deep analysis of secondary data & primary data i.e. survey results we find some conclusions which are the man points creating problems in the Indian lubricants market & lowering down the percentage sale since few years back & also the out comes of the research work, are as follows :-

○ Servo V/s Castrol

Fight to become Market leader: -

This Study begins with an exploration of the market of lubricant, which is full of several brands like Castrol, Servo, IBP, HP, Idemitsu, Gulf, Elf, Pennsol, Mak-2, Gold, Glide, Shell, Mobil, Texaco, Exxon and other local lube oil.

Total Indian market has the potential of 5000 cr. Over the 400 grades of lube oil. Annual consumption of lubricant in India 1.2 million tones and china is one of the leading countries in the consumption of lube oil. India has ranked on sixth. Basically three types of lube oil consider as an entire market.
1. Constitutes automotive lube oil (60%)
2. Industrial lube oil (35%) and
3. marines lube oil.

And three types of lube oils are available in the market. First of all is Synthetic lube oil which is bit expensive and quality orientated, second is semi synthetic and third one is mineral based oil which are cheaper than synthetic lube oil.

Till 1993 or we can say that before the liberalization, the regulated lubricants market in India, was essentially dominated by three public sector undertaking IOC, HPCL and BPCL with a small contribution of IBP. And private player like Castrol and gulf

But now Servo and Castrol are two companies, which has a great competition by get together and known as the game player.

While servo capture 22.20% market share in 2002-03 basically it is the product of Indian oil corporation Ltd. It has 400 grades variants with a huge blending capability of 583 lakh tones an on the having 13.11% market share other hand Castrol
which has the flagship with British Petroleum and next company is HPCL, which is capturing approx 12% market share.

The Performances parameter in the lube industry are however still drivel by SAE (Society of Automotive Engineers), so all is this about the brand leadership and the market situation in the lubricant oil.

SERVO : The Giant is Born

Market

In 2003, SERVO completed 30 years serving the lubrication needs of the Indian industry. Over the decades, it has built a clientele that stretches across the automobile, manufacturing and marine sectors. Customers of the SERVO range of lubricants swear by a brand that not only delivers as well as it promises but also continues to get better with time.

In the 1990s, it became a name to reckon with, both in the Indian and overseas lubricant markets. In India, SERVO is the unquestioned leader, with a 40% share in a market estimated at Rs. 55 billion comprising approximately one million metric tonnes of lubricants (Source: Industry Estimates). SERVO is owned by Indian Oil Corporation (IOC), India’s largest commercial enterprise and the only global Fortune 500 Company, ranked 191 by revenue in the year 2002.

SERVO’s fundamental strength is its extensive spread of production units and distribution bases across the country. These include six lubricant blending plants and a grease manufacturing plant – all of which are ISO accredited. SERVO also has a formidable marketing reach, thanks to its exclusive network of nearly 16,600 outlets/stockists and thousands of other multi-brand Lube Bazar shops.

Add to this the backing of a state-of-the-art R&D centre, which is considered one of the best in Asia and you have an outstanding product backed by enviable reach. Also setting SERVO apart is another unbeatable strength: its own captive sources of base oils. The Haldia Refinery of IOC is the only refinery in India capable of producing superior grade API Group II class of Base Oils.

Starting off as a commodity in the 1970s and 1980s, SERVO has metamorphosed into a global Indian brand today. This transformation stems from its fundamental strengths in R&D, high product quality, extensive blending and distribution network, sustained advertising and sales promotion and contemporary packaging. SERVO offers a staggering range of lubricants for the automobile, industrial and marine industries. It is the lubricant of choice for most of the latest international automobiles.
that have been launched on the Indian roads. Another testimony to SERVO’s reliability and quality is its extensive use by heavy-duty trucks, battle tanks of the Indian Army and the latest guided missile destroyers of the Indian Navy.

Despite the entry of a plethora of multinational lubricant brands in India, SERVO has held on to its number one position in the market. It has clearly shown that when the competition gets tough, SERVO gets tougher. Not content with its dominance in the domestic market, it has also taken the battle overseas by confidently entering foreign markets and fighting the global majors on their home turf. SERVO has a notable presence in the highly competitive markets of the UAE, Nepal, Malaysia, Sri Lanka, Bangladesh and Mauritius. The company’s aggressive marketing and advertising thrust together with state-of-the-art packaging has enabled SERVO to emerge as a truly global brand from India.

Achievements

SERVO’s striking achievement is a steadily rising customer approval for its products in India. The widespread popularity cuts across various customer segments and automobile user communities. Whether it is Hyundai Santro, Mitsubishi Lancer, Opel Astra, Daewoo Cielo, Fiat Uno or the Maruti family, SERVO serves them all. On its part, SERVO woos and wins its retail customers with a seductive combination of vehicle service, grocery shops and engine oil tie-ups with leading international automobile manufacturers.

Besides high customer rating, IOC has received recognition in other spheres too. These include awards for excellence in human resource management, project management, creativity, innovation and women’s development. Besides, IOC has received awards for conservation of energy from the Government of India and for environmental management from Greentech Foundation, UK. It is also the recipient of the Rajiv Gandhi National Quality Award – 2000 and British Safety Council Award – 2001.

History

Not so long ago, India was a small, under developed market for lubes and oils, entirely dependent upon imports to meet the needs of the industry. As the market grew it was incumbent upon the Government to step in and begin indigenous manufacture. In 1972, Indian Oil established its own research and development centre at Faridabad, near Delhi, in Northern India. A year later, SERVO was born. Till July 1974, it was marketed through IBP, another petroleum company. When the marketing collaboration
with Mobile ended in 1974, IOC began marketing SERVO through its own retail outlets across India. Since then the success of SERVO has been one long enduring story of corporate strategy, product improvement and consumer branding.

**Product**

SERVO primarily caters to three segments: automotive, industrial and marine. There are more than 450 different grades of lubes and oils, which cater to these sectors. The products for the automotive sector include 2T/4T oils, gasoline engine oils, diesel engine oils, gear and transmission oils, coolants and brake fluids and automotive greases. IOC is a major supplier to auto original equipment manufacturers (OEMs) like Tata Motors, Hyundai, Mahindra & Mahindra, Maruti and state transport undertaking like BEST, APSRTC, RSRTC etc. SERVO provides more than 350 lubricants and greases to the industrial segment. The marine sector, too, has a broad range of products to choose from. This includes marine engine oils, hydraulic oils, gear oils, turbine oils, compressor oils and stern tube oils. SERVO is also meeting the lubricants requirements of the Indian defence forces.

Notable among automobile products, SERVO 2T Supreme, is a new generation two-stroke engine oil recommended for two-stroke engines in motorbikes, scooters, scooterettes, mopeds and outboard engines. Others in the category are Kinetic Ultra 2T, Bajaj SERVO Gen. 2T Zoom. SERVO 4T is a new generation four-stroke engine oil specially recommended for four-stroke engines in motorbikes and scooters. SERVO Kool Plus, a triple action long life radiator coolant for optimum performance of engine radiators, is prepared from select materials to meet the highest Japanese standard. It is free from amines, borates, nitrates and silicates. SERVO Kool Plus is recommended for passenger cars. LCVs, HCVs and heavy earth moving equipment.

SERVO RR 606 MG is a high performance, multi-grade railroad crankcase oil (engine oil) developed by IOC for the Indian Railways. Earlier, the Railways used railroad engine oils based on the additive package supplied by multinational additive suppliers. Thanks to SERVO, the Railways has saved substantially in fuel and lubricant cost. Other products include energy efficient lubricants like SERVOSPIN EE for the textile industry and SERVOMESH EE range of gear oils for the heavy industry.

**Recent Developments**

Embracing the Strategic Business Unit (SBU) concept, IOC has completed a comprehensive re-engineering and benchmarking exercise to deepen customer focus, cost effectiveness and service orientation. It has been training its vast pool of technical
Promotion

Ever since SERVO embarked upon brand building from the early 1990s SERVO has been promoted with a singular, basic theme. The enormous success of various campaigns is shown by increase in top of mind awareness to 32% in 2001, up from 7% in 1994. The original positioning was ‘SERVO Adds Life’. This changed into the more active ‘Add SERVO, Add Life’ during 1995/96. During 1996/97, it was an all-car campaign with the slogan, “Do you drive any of these cars? We do”. By 1997/98, SERVO began tapping the aspirational values of the Indian car customer, who was being lured by a bevy of new cars, of different shapes and sizes on the block. The theme became ‘Love your car? Nourish it with SERVO’.

Alongside, IOC recognised that packaging was an important and integral dimension of SERVO. The new SERVO containers launched in 2000 were designed to be both functional and aesthetic and to fulfil the rising customer expectations. Colour differentiation in the graphic design of container labels (of diesel and petrol engine oils, coolants, gear oils, greases) helped customers identify products easily. Most importantly, SERVO was given a world-class look that customers became proud to be associated with. Their feelings towards the SERVO brand were found to be ‘emotive and participatory’ with tremendous ‘Brand Affection’. This strategy was a sure sign for spurious manufacturers of engine oils that the days of imitating the leader and surviving in the market were over. With this repackaging, SERVO has moved from the ‘corporate endorsed’ brand identity structure that is followed by most multinational oil companies to the more ‘brand confident’ brand identity structure that has been successfully worked upon by more customer-oriented FMCG companies. While the new SERVO package design is both functional and aesthetic, it fits into the overall corporate identity programme of IOC.

As one of its marketing thrusts, IOC has made efforts to create awareness among SERVO customers. It connects with its clientele in various ways. One is through the medium of lubricant clinics that are organised regularly for user groups like mechanics. The other is by delivering customer delight at authorised service centres of leading automobile manufacturers. IOC’s advertising campaigns for SERVO are largely focussed on educating and informing customers on the efficient use of lubricants to maximise engine performance.
Brand Values

SERVO connotes a world-class product that is complete, globalised and trusted. SERVO embraced 'world class' as the premier brand value, since most people used to associate lubricants with MNCs. Underlying the world-class dimension is the complete trust that customers repose in SERVO, which has matched the increasing sophistication of customer needs. Customers perceive SERVO’s range as a one stop shop providing the complete lubrication solution for the automotive, industrial and marine segments. For the world at large, it is India’s homespun answer to the world of lubricants.

Things you didn’t know about SERVO At 25 million litres per annum, SERVO 2T Supreme is the largest selling 2T oil in India. SERVO uses 46 million containers per annum for packing its lubricants. Indian Railways, the second largest rail network in the world, meets three-fourths of its requirements of lubricants with SERVO. A SERVO turbine oil, SERVOPRIME 57, has covered more than 225,000 hours of operation in its 30 years of service in one of the hydel turbines in India. The oil is still in service. The largest lube oil sump of SERVO is the centralised lubrication system in the hot strip mill of the Tata Iron & Steel Company, Jamshedpur, in Eastern India. It has a volume capacity of 72,000 litres.
Castrol India Ltd.

Lubricant Solution for 100 years

Castrol India limited is the second largest Castrol unit in the world and contributes significantly of Castrol's performance Castrol stated its operation in India in 1919, as a trading units. The company has since grown to become the second largest lubricant company in India and is acknowledge as the Technology Leader in the Indian lubricant industry. Castrol India limited is a public limited company with 51% equity stake held by Castrol limited the balance 49% being held by Indian shareholders Best known for its automotive lubricants. Castrol India also manufactures and markets a wide range of industrial and marine lubricants as well as specialty products besides offering consumers world class technology Castrol products deliver consistent world class quality toward, this end Castrol India was the first lubricant company in India to receive the ISO 9000 certification and gain the first lubricant company in Asia to receive the prestigious QS 9000 certification.

Commercial Division :-

The Commercial business involves direct automotive lubricant supplies to institutional / organized buyers such as fleet operators, franchised won shops servicing commercial vehicles and off-highway equipment construction contractors agricultural dealers, etc. The company has a strong presence in the vehicle manufacturing segment where it enjoys exclusive tie-ups with leading vehicle manufactures Customer service once again plays an Important role in this business segment and the Castrol commercial team works closely with its customers providing cost-effective products and exert advice and services.

Manufacturing & Distribution :-

Employing over 1200 people, Castrol India' marketing manufacturing and distribution facilities are strategically located throughout the county. The company has the largest manufacturing and marketing infrastructure amongst lubricant companies in India. The manufacturing network consists of seven plants including the latest state if the are plantain Silvassa, which compares to the best in the world. In order to be as close to the customers and offer thee easy access to the company's products and service, the distribution network has recently been further strengthened to increase both width and depth of distribution. In January 1999, in line with the international restructuring, the Indian unit also reorganized into tour business units with a view to focus
on the core businesses and bring it closer to the customers. The move will provide strategic focus to all the businesses, enabling a better customer understanding and providing solutions best suited to satisfying specific customer needs.

**Marine Division:**

Castrol India’s Marine Division is a important link in Castrol’s international marine network which operates through 700 ports in 80 customers. Besides a wide range of products, the marine team provides specialist services like on-line oil analysis, product recommendations, problem solving and technical supped.

**Research and Development:**

In order to provide international quality high performance, technologically advances products. Castrol India has a full fledged, Government recognized Research & Development center at Wadala in Mumbai. This center has on line access to the Castrol International R & D center at Pangbourne in UK and other Castrol Center’s of Excellence around the globe. The Castrol India R & D center has done pioneering work it developing indigenous products and adapting international technologies to suit the unique Indian operating conditions.

**Consumer Division:**

The Consumer business of Castrol India is undoubtedly the most visible of the company’s operation. Constituting over 75% of the company’s business the consumer division supplies a complete range of products and service for the automotive consumer through retail and workshop outlets. The company’s leading brands like Castrol GTX Extra, Castrol Scooterx 2T, Castrol Super TT and Castrol CRB Plus have been trailblazers in their segments. The company has also launched a number of niche products to suit specific applications like Castrol LOXD – a Diesel engine oil specially developed for light Commercial Vehicles Castrol CRD Tractor max-the first dedicated oil developed for tractor and Castrol delta 4x – a specialist oil for jeeps and four – wheel drives Castrol is the No.1 company world wide and in India in the consumer business.

**Industrial Division:**

Castrols industrial business meets the individual needs of diverse inductees such as mining to vehicle manufacturing. The company provides a comprehensive range of specialize lubricant and functional fluid products and specialized services like Castrol plus an on-site total lubrication management concept. Castrol’s cutting
edge in the industrial segment has always been its ability to provide not only world-class products but a package of services with include application expertise cost effective maintenance systems. Disposal of used products and in some cases entire lubrication management at the customer's manufacturing facilities.

**Castrol India Ltd.**

**Market Price Data - High/Low during each month in the Year 2004**

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<th>Month</th>
<th>Rate (Rs.)</th>
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<td></td>
<td>Highest</td>
<td>Lowest</td>
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</tr>
<tr>
<td>January</td>
<td>239.25</td>
<td>205.30</td>
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<tr>
<td>February</td>
<td>221.65</td>
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<td>March</td>
<td>221.75</td>
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<td>April</td>
<td>199.50</td>
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<td>May</td>
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<td>June</td>
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<td>July</td>
<td>175.05</td>
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<td>August</td>
<td>172.10</td>
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<tr>
<td>September</td>
<td>173.45</td>
<td>164.30</td>
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<tr>
<td>October</td>
<td>166.50</td>
<td>162.15</td>
<td></td>
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<tr>
<td>November</td>
<td>193.90</td>
<td>162.75</td>
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<tr>
<td>December</td>
<td>236.70</td>
<td>180.25</td>
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</table>

**Castrol India Limited**

*Castrol Share Prices/BSE Sensex (Average of Monthly High/Low)*

![Graph showing Castrol Share Prices and BSE Sensex (Average of Monthly High/Low)]
Achievement - In November 1990 with the change in FERA Rules, Indrol reverted to its original name of “Castrol“ and is now called “Castrol India Limited the company has seven plants in operation with an overall capacity of about 1,40,000 KI on a single shift basis

1990 – Indrol Lubricants changes name to Castrol India Ltd. Mr. R.A. Savoor assumes office as Managing Director of Castrol India. GTX 2 Launched India.

As a part of the diversification strategy, Castrol India had set up a subsid-

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### Shareholding Pattern as on 10th February, 2003

<table>
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<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>No. of Shareholders</th>
<th>No. of Shares Held</th>
<th>% to paid-up capital</th>
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<td>(i)</td>
<td>Foreign Collaborator</td>
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<td>876,7455</td>
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<td>(ii)</td>
<td>Foreign Company</td>
<td>1</td>
<td>135,474</td>
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<td>(iii)</td>
<td>Foreign Institutional Investors</td>
<td>24</td>
<td>125,0110</td>
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<td>(iv)</td>
<td>Overseas Bodies Corporate</td>
<td>5</td>
<td>11,69</td>
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<td>(v)</td>
<td>Non-Resident Individuals</td>
<td>288</td>
<td>15,4200</td>
<td>0.13</td>
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<td>(vi)</td>
<td>Financial Institutions</td>
<td>12</td>
<td>85,16051</td>
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<td>(vii)</td>
<td>Indian Mutual Funds</td>
<td>17</td>
<td>13,6310</td>
<td>1.12</td>
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<td>(viii)</td>
<td>Nationalised Banks</td>
<td>37</td>
<td>10,7904</td>
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<td></td>
<td>Other Banks</td>
<td>70</td>
<td>3,6323</td>
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<td>(ix)</td>
<td>Domestic Companies</td>
<td>1396</td>
<td>22,08561</td>
<td>1.78</td>
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<td>(x)</td>
<td>Resident Individuals</td>
<td>66,770</td>
<td>22,344,232</td>
<td>18.07</td>
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<td>(xi)</td>
<td>Directors and Relatives</td>
<td>2</td>
<td>6,009</td>
<td>0.00</td>
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<td></td>
<td><strong>Grand Total</strong></td>
<td>686,160</td>
<td>123,84,0209</td>
<td>100.00</td>
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</table>
iary company – Indtech Specialty chemicals Ltd. in Bangalore to manufacture telephone cable jellies and industrial waxes in collaboration with Dussek Campbell, a Burah Castrol subsidiary. Subsequently, this was merged with Castrol and the production facility at Hosakote near Bangalore is now used to manufacture lubricants and certain intermediaries such as gum Rosin. The Hosakote plant of the southern region.

Castrol’s performance in the last five under the stewardship of Mr. R.A. Savoor has been very spectacular, growing from a minor oil company to become one of the top three lubricant companies in India. Our sales and other income which amounted to Rs. 752 crores in 1995 as compared to Rs. 188 crores in 1990-91 show a compounded annual growth of 31.9%.

During the same period the sales volume increased from 62946 KI to 1606422 KI increasing the company’s market share from 6% to around 17% despite fierce competition. The gross profit of the company shows an increase from Rs. 34 crores in 1990 – 91 Rs. 154 crores in 1995 showing a compound annual growth of 35.2%.

This has been reflected in the performance of Castrol shares in the stock market too. On April 8, 1992 Castrol shares created history when it touched a Rs. 2000/- the highest for a Rs. 10/- face value stock. With performance like this there is little wonder than that the company is considered a blue chip on the Stock Exchange.

A Shareholder who had been allotted 100 shares in the public issue in 1983 will now be holding 3241 shares at a cost of Rs. 8,150/- His investment would be worth Rs., 15.18 Lack in 1996 apart from divide amounts regularly received

1992 Process of amalgamation of Indtech specialty chemicals with Castrol India Ltd. Limited.

Launch of Jett – X a two stroke oil for new generation vehicles in India.

1993 Castrol India becomes first lube oil Co. in India to be awarded ISO 9002 certification for its patalaganaga plant & Ms. warehouse.

The company has commissioned in August 1996 a state of the art lube oil blending plant at silvassa in the union territory of Dadra and Nagar Haveli to meet its long term requirements. The plant incorporates the latest in the lubricating oil blending technology.

It Operates on a fully automated PLC based computerized blending system which ensures high degree of accuracy in specifications. The other key features about
the Silvassa plant include a multifiltration system. Fully automated/computerized filling/packaging system and total operational safety.

The company also markets products of other Burmah Castrol subsidiaries such as chem. trend (mould release agents) Tribal and Optional (Lubricants). These are high technology products used in every specialized application in industries such as plastic, rubber, type, steel, cement, mining etc. where the performance standards are very critical.

1965 Specialty products division set up to market Tribol/ Optimal range of products in India.

1966 Launch of Syntorm Extra – India’s first fully synthetic engine oil to meet API-SH specifications.

Balabdarh unit II commissioned.

Castrol Largest lubricant plant in Asia commissioned at Silvassa.
Analytical Representation

Analysis –01
As per the response of the shopkeepers of the lubricant oils the main products of Castrol & Servo, demanded by customers on large scale, are:

**Castrol**
- Active – 4 t
- Scootek tt
- Super tt
- CRP – plus
- Hypoy 90
- GTX – magnetic
- GTX extra
- Deusol super
- RX – supermax

**Servo**
- Servo pride 4t
- Servo Supreme
- Servo super multigraded lube oil
- Servo gear oil
- Servo k – ultra
- Servo grease
- Servo pride 40
- Servo premium CF – 4

Analysis – 2
As per the responses, the sizes in which Servo & Castrol lube oils are available:

**Castrol**
- 500 ml (pouch)
- 1 Ltr. Plastic pack
- 500ml.
- 1 ltr.
- 2.5 ltr pack
- 3 ltr. Pack
- 5 ltr. Pack
- 20 ltr pack
- 50 ltr pack

**Servo**
- 40 ml (pouch)
- 60ml. (pouch)
- 250 ml (pouch)
- 500ml. (pouch)
- 1 ltr (pouch)
- 2 ltr (pouch)
### Company wise trends in Sales: 1997-98 to 2002-03

<table>
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<tbody>
<tr>
<td>Indian Oil Corpn.</td>
<td>1779.82</td>
<td>1908.35</td>
<td>1918.31</td>
<td>1872.54</td>
<td>1883.39</td>
<td>1911.76</td>
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<td>Hindustan Petroleum Corpn.</td>
<td>896.32</td>
<td>842.22</td>
<td>774.20</td>
<td>832.52</td>
<td>996.39</td>
<td>1159.08</td>
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<tr>
<td>Castrol India</td>
<td>961.08</td>
<td>1056.65</td>
<td>1167.89</td>
<td>1215.13</td>
<td>1342.55</td>
<td>1128.97</td>
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<td>Bharat Petroleum Corpn.</td>
<td>423.39</td>
<td>468.69</td>
<td>469.95</td>
<td>561.39</td>
<td>590.91</td>
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<td>Savita Chemicals</td>
<td>128.04</td>
<td>122.14</td>
<td>149.62</td>
<td>184.81</td>
<td>215.50</td>
<td>283.07</td>
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<td>Bharat Shell</td>
<td></td>
<td>193.54</td>
<td>197.40</td>
<td>223.16</td>
<td>210.35</td>
<td>234.46</td>
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<tr>
<td>BP Company</td>
<td>116.37</td>
<td>143.87</td>
<td>160.81</td>
<td>170.63</td>
<td>181.85</td>
<td>189.27</td>
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<td>Gulf Oil Corp.</td>
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<tr>
<td>Tide Water Oil (India)</td>
<td>184.20</td>
<td>186.90</td>
<td>175.41</td>
<td>183.11</td>
<td>161.04</td>
<td>154.72</td>
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<td>Valvoline Cummins</td>
<td>18.21</td>
<td>32.89</td>
<td>58.19</td>
<td>78.09</td>
<td>101.26</td>
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<td>Raj Lubricants (Madras)</td>
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<td></td>
<td></td>
<td></td>
<td>20.98</td>
<td>20.11</td>
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</tbody>
</table>

Source: CMIE July 2004
• **Changing Market Share Scenario**

• Before the liberalization of the Indian economy the public sector oil companies dominated the India lubricant industry with a market share of 90 percent. The lubricants produce were simply blends based on low and medium level technologies. More sophisticated lubricants were imported and theses accounted for a relatively small market share.

The liberalization of the Indian economy in general and the oil sector in particular led to diagonalization of base oil imports which used to be canalized through Indian Oil Corporation earlier. There has been substantial reduction in the level of important duties. Free pricing has been permitted and administered pricing regime has bee abolished. Deregulation has encouraged all the major MNCs, which increased competition and substantial reduction in the market share of public sector oil companies.

• The total market size and production of the lubricant industry in Indian in the year 2000-2001 were Rs.101.034 billion and 13,898 thousand toners respectively. The lubricant industry witnessed a cumulative annual growth rate of 15 percent during the period 1995-96% to 2000-01. The major players are India Oil Corporation, Hindustan Petroleum Corporation, Bharat Petroleum, Bharat Shell, and IBP Co. has grown by 12 percent on a cumulative annual basis.

Indian Oil corporation is the market leader with 18.53 percent and 24.29 percent share in the years 2000-01 and 2001-02 respectively. OIL enjoyed market share of 12.03 percent and 17.48 percent during these two years.

• The lubes of the public sector oil companies are sold through their own well-established petrol pumps network. These petrol pumps are not allowed to market the lubes of the MNCs which are marketed through auto repair shops, garages, and service stations private sector. Has clearing and forwarding agents, distributors, and dealers in their distribution chain in case of retail lubricant market popularly known as ‘bazaar trade’ and clearing and forwarding agents only for institutional sales. OIL dominates the retail lubricant market and has access to over 70,000 retail outlets.

• The automotive lubricant industry is a derived demand industry primarily driven by the conditions in the automotive transportation and general industrial sectors. Both these sectors have experienced slowdown in the recent past. During the year 2001-02, the commercial vehicle sales declined by 4.4 percent, tractor sales in the year 2001-02 indicates the difficulties confronting the automotive sector. The two-wheeler segment is the only segment that performed well with sales growth of 15 percent. The other influences on the lube demand namely, the overall GDP growth and industrial growth (2-7%) have been lower than
The vehicular population structure in India is changing rapidly. The commercial vehicle consumes over 70 percent of automotive lubricants popularly known as Diesel Engine Oils (DEOs). In recent years, there has been a shift to fuel-efficient, emission compliant engines with lower top-up requirements. The two-wheeler segment is also shifting gears from two-stroke scooters to four-stroke motorcycles. The new four-stroke two-wheeler engine technology has also resulted in lower lubricant consumption.

The impact of the development compound by recent sluggish trends in the road transport industry resulted in the year 2001 being an extremely difficult one for the lubricant industry. The automotive lubricant market declined by about six percent, the main impact was fleet in the Diesel Engine Oil category, the major volume contributor, where per capita vehicular consumption decline has more than offset part expansion. Although two-wheeler and car lubricants have grown; their current share of overall demand is modest. The ancillaries segment comprising gear oils, greases break fluids, and coolants contribute around 13 percent to the lubricant industry volumes their demand has been unfavorably impacted by similar factors. The industrial lubricant demand is reflective of the industrial production and the growth trend in the economy, which has been going through successive decline in the last two years from a previous low of 5 percent in 2000-01 to 2.7 percent in 2001-02.

**Company wise trends Market Share : 1997 - 98 to 2002 -03**

![Table showing market share of different companies from 1997-98 to 2002-03.](source: CMIE July 2004)
Crude oil production - Dependency on Foreign Nations

In India, the imports of crude oil is nearly three-fourth of its requirement. So it is crystal clear that any small increase in the world crude oil price will have great impact on domestic economy. The changes in the world crude oil price have increased the inflation rate in the economy and as a result, it has affected the stock markets also.

In the present economic scenario, one of the important factors that determine the economic development of a country is the change in oil prices. The recent increase in oil prices can be attributed to the result of the relationship between demand, supply and other speculative factors. The strong recovery of US economy and the rapid growth in Asia also increased the demand for oil and contributed to the surging oil prices.

The health and wealth of the world economy depends on the changes in oil prices. The current volatility in the prices is a result of geopolitical reasons and also sustained increase in demand coming mainly from China and India. The impact of higher oil prices on an economy would essentially depend on two factors. The quantum of imports of oil and oil intensity of the economies. Most of the emerging economies use oil intensive technologies, and hence are more affected than the industrial economies. It is therefore, pertinent to know whether the current upward trend is a sustained increase or a mere glitch for that would determine the recovery of the world economy after a long recession.

The reasons for the recent increase in crude oil price are many. The major reason being that the demand for crude oil is now at its highest point since the last 16 years. The high demand in Asian countries such as China and India is due to their expanding economies. The rise in demand in US due to the possibility of economic recovery has helped the crude oil prices to rise.
Crude Oil production and Throughput Statistics:

<table>
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<tr>
<th></th>
<th>Crude Oil prod</th>
<th>Crude Oil prod</th>
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Consumption of Petroleum Products: April - May

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<th>(Million tonnes)</th>
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<th>% Change</th>
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<td>Diesel</td>
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<tr>
<td>Kerosene</td>
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<td>LPG (cooking gas)</td>
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<td>Petrol</td>
<td>1.26</td>
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International Effect on the India Economy :-

In 1991 when oil prices shot up due to the Gulf war, India was not exposed to the external shock as its dependence on imported oil was very limited. India then imported less that one-third of its oil requirement. Oil produced domestically just served to meet the demand. But now the situation has reversed and India imports nearly three fourth of its crude oil requirement since the crude oil produced domestically is insufficient to meet the demand. Therefore, the rise in crude oil prices is making the economy more vulnerable to economic shocks. The Reserve Bank of India has estimated that for every one dollar rise in the price per barrel of crude oil, the Indian import bill increases by around $600mn (approximately Rs. 28bn). Apart from a rise in the import bill, there are more adverse impacts from the rise in oil prices. On the day when oil prices reached their highest level in August 2004, the Indian inflation also peaked to touch almost 8% the highest in three and a half years. The rising inflation is bound to increase domestic consumption and diminish savings and investments.

Locally, Indian oil refining and marketing companies in the country had increased the prices of petroleum products since June 2004. The new government was forced to raise the petrol prices by Rs. 2 per litre and diesel prices by Rs. 1.42 per litre.

As an immediate consequence, the cost of many manufactured and primary goods and services have increased tremendously. The prices of essential industrial inputs like steel, aluminium, copper and cotton have also increased. Rise in prices of petrol and diesel led to a like in transportation charges. This in turn has increased the prices of wages and mass consumption goods to levels not known to Indian consumers earlier. Thus the Indian consumer was heavily burdened. The effect of oil price hike can be even looked at from another angle: as crude oil accounts for a significant proportion of India’s import bill, the rise in crude oil prices would definitely impact the demand for and supply of dollars. If the dollar value of oil goes up, India importers would have to spend more rupees to buy the same quantity of oil. This leads to an increase in demand for dollars in India, implying more outflow of dollars from India. Increased outflow of dollars tends to deplete the foreign exchange reserves, reducing the supply of dollars in the market.

Oil prices in the international markets have been rising & sending shock waves across
the world. The price of Brent and WTI the leading benchmark types of physical crude oil crossed the $30 per barrel mark in the early 2004. From then oil prices increased continuously and almost reached $50 per barrel. Rising price also bothering India only because of its excessive dependency on oil import as the domestic production does not sufficient to meet the requirement, if requirement increases regularly it would drain the foreign exchange reserves owing to the large imports. Too much dependency on imports also brings in risks of disruption in supplies and may have serious repercussions on the economy because of inelasticity of demand for other energy sources.

In the light of volatile crude oil prices and highly unstable political conditions of the oil exporting nations, unless the Indian govt. plans for intensive domestic exploration efforts to add to the oil reserve base, the high dependency on oil imports is a matter of great concern to the Indian economy.

Impact of Higher Crude Oil Prices

Oil prices increase does add to the cost of production of all kinds of goods and hence is inflationary in nature. On the other hand. It would mean greater income for the oil producers. In the global context following are the impact of higher oil prices:

- The oil producing countries would benefit, and therefore, their income and consumption levels would go up. On the other hand due to significant feedback effects, consumers tend to lose more and the overall the global demand for various goods and services would decrease.

- The oil intensity in the production process in each country would determine the amount of the feedback affect on the the general price level. In developed countries which have shifted to alternative sources of energy, the intensity is low, so they are less affected. On the other hand, the less developed countries or the emerging economies still use oil on a higher scale. So they are more affected through higher level of cost push inflation.

- The increase in price levels would affect the real income or purchasing power of people. In the emerging economies the decline in purchasing power will be higher as the prices increase is more. This might create a wage prices spiral wherein prices and wages keep increasing as the workers demand higher wages to compensate for increase in prices, which would further fuel the prices.

- The financial markets will also be affected as the bond prices and currency exchange rates are affected due to change in the economic activity and future earnings due to higher oil prices.

- Higher oil prices provide an incentive for oil producers to produce more if they expect continued increase of oil prices in future and the consumers of oil would reduce their oil consumption.
Budget impact on the Indian Oil and Gas Industry

The following initiatives were taken by the Government in the Budget

• Custom duty on crude oil reduced from 10% to 5%.
• Both custom duties and excise duties on LPG and SKO brought down to nil.
• Custom duty on other petroleum products brought down from the range of 15-20% to 10% and the excise duty structure to be a mix of specific duty and advalorem to compensate for the loss on revenues on back of decrease in custom duties.
• Service tax being levied on pipeline services.
• Decrease in customs duty and excise duty for LPG and SKO will convert into lower subsidy losses on the two products. However, the FM mentioned that the strategy would be revenue neutral, leading to increase in excise duties for MS and HSD.

The following would be the impact of the above initiatives

• Decline in customs duty on crude oil – positive for HPCL, BPCL and IOC (improvement inmargins); negative for ONGC (lower realizations).
• Decline in custom duty on SKO and LPG – positive for HPCL, BPCL and IOC negative for pure refiners like Kochi Refineries Ltd (KRL), Chennai Petroleum Corporation Ltd (CPCL) (lower gross refining margins).
• Cut in excise duty on SKO and LPG – Positive for HPCL, BPCL, IOC, ONGC and GAIL (lower subsidy burden).
• Service tax for pipeline – negative for GAIL and Petronet LNG.
• Major beneficiaries from the cut in corporate tax rate – HPCL, CPCL, MRPL, IPCL and ONGC.

Crude oil above US$56/bbl

The OPEC meet in January did not alter the production levels and expectations of a mild winter converted into crude oil price moving into a price band of US$42-45/bbl in the month of January.

However, the prices northward journey gained pace in the month of February on back of 5% reduction in exports from Oman to Asia. Further fuel was added by the IEA report that revealed a decline in OECD commercial crude stocks, revised its 2005 global demand upwards and adjusted its 2005 non-OPEC supply estimates downwards. The upward movement gained further momentum when EIA made an announcement that any output cut would deplete the US crude oil inventories.
Findings based on Customers survey:

• Market Shares of Various companies:

  According to the results Castrol is a leading brand in the market and Servo brand lubricant is having second position. Gulf is on number three and then comes others including Elf, Motul, Lal Ghoda etc.

• Product Feature:

  On the basis of the results we can say that the performance of the product plays a vital role in marketing favorite brand amongst customers. Second factor product price also plays dominant role in making brand favorite amongst customers. Company image is also an important factor.

• Modification:

  44% customers recommended modification in the product although 66% replied in positive way, but there is scope for the product modification. In the subsection of this question when I asked suggestions regarding product modification then most of the customers suggest about packaging side, they suggested that the packaging should be of such type in which wastage could be minimized, and few of their suggested for product up gradation.

• Disliking in product:

  When I asked suggestions about disliking then, most of them mentioned about price fluctuation and high price sensitive product, some of them says that they don’t know about the quality of product so if they are cheated by company the result could be find approximately in one year which is a very long time and this could damage the engine on large scale.

• Brand ranking:

  Castrol lubricant has got No. one position in the ranking given by the customers, Servo brand oil gets second position and Gulf gets third position in the ranking, HP Miley & others has got fourth position.

• Buying decision factor:

  Product quality plays a crucial role in buying decision-making, then comes the price factor which also play a dominant role in buying decision oil advertising comes on 3rd while purchasing the product in last but not least, nearly 10% customers purchase the product on others advice other include mechanic & friends.

• Fuel consumption:

  Mostly in case of two wheelers we find that customers include only engine oil they don’t give importance to the brake oil, clutch oil etc., in case of four wheelers the customers give due importance to engine oil brake oil, clutch oil etc equally.

• Brand Positioning:

  Castrol advertising is very strong and occupy position in the mind of large number of customers, Servo has got second position in positing the brand image through effective advertising, then comes Lal Gohoda and Gulf on 3rd position equally.
• **Brand Loyalty :-**

The brand loyalty amongst the customers is moderate and not very much high, if they couldn’t find the favorite brand then they will wait for some time otherwise they will purchase the another brand.

**Suggestions from customers :-**

When I asked suggestions from customers, following suggestions they have given on price fluctuation: Most of the customers (nearly 40%) suggested that price of lube oil fluctuate rapidly once or twice within six month and this makes the product costly, which should be prevented.

**On packaging :** 25% customers suggested that the packaging of the lubricant should be in the form which could minimize the waste and easy to handle for the customers.

**On quality :**— 20% customers replied that the product quality should be improved as compare to the existing product.

**Findings based on Dealers & Distributors survey :-**

• **Follow company recommendations :-**

A card of recommendations has been given by the company to dealers / distributors for technical guidance while selling product, I asked him do you follow recommendations while selling the product than 67% replied Yes and 33% replied No. From the data we can say that most of the dealers/distributors follows the recommendations given by the company but 33% refused to applying recommendations which is also the large number of respondents who do not apply the recommendations.

• **Main competitors :-**

For finding major competitors amongst various private & public sector companies, I asked them who are the main competitor of you company them most of the company opted for Castrol and Servo brand lube oil following are the results :-

55% mentioned Castrol, 40 mentioned Servo, 3% mentioned Gulf, 2% mention others including etc. Lal Ghoda etc.

• **Promotional Package :-**

On the basis of results that the promotional package designed by various companies is found very effective because most of the respondent replied positively.

• **Suggestions from Dealers / Distributors :-**

30% replied promotional schemes could not delivered properly by whole seller to dealers/distributors, 22% replied company assigned heavy targets which is the tough task to achieve, 12% replied product packaging should be improved, 36% replied price fluctuation i.e. 3-4 times increase within a same years should be controlled.