

**MANGALORE REFINERY AND PETROCHEMICALS LIMITED**  
**27<sup>th</sup> ANNUAL GENERAL MEETING**  
**CHAIRMAN'S SPEECH**

Dear Members,

I have great pleasure in welcoming you all to the 27<sup>th</sup> Annual General Meeting of your Company. I thank you for your continued trust, encouragement and support.

The 27<sup>th</sup> Annual Report containing AGM Notice and Board's Report for the financial year 2014-15 along with the audited financial statements was sent to all the members. With your permission, I would like to take them as read. An unqualified report from the Statutory Auditors and a 'Nil comments' certificate from the C&AG for the 13<sup>th</sup> year in a row is really a tribute to the transparency in preparation of financial statements by your Company.

Your Company's headline performance continued to be excellent, in spite of challenges posed in the year 2014-15:

- Highest ever Crude processing of 14.65 MMT in 2014-15, higher than the previous best of 14.55 MMT in 2013-14.
- Highest ever LPG production of 502.4 TMT and dispatch of 497.6 TMT during the year 2014-15.
- Highest ever HSD Production of 5.68 MMT in 2014-15 against 5.50 MMT in the previous year 2013-14.
- Highest ever product dispatch of 3.143 MMT through PHMBPL pipeline, in the year 2014-15 against 3.076 MMT in the year 2013-14.

**The Economy:**

The impact of the current external environment on the business cycle is known to everyone. Developing economies are facing two transitions this year i.e. low commodity prices and high financing cost which is slowly down the growth. Long-term prospects of ample supply from unconventional, non-OPEC oil production suggests that prices will continue to remain low, constrained by the marginal cost of unconventional sources.

Past episodes of significant oil price decline were often preceded by global growth slowdowns and followed by relatively weak recoveries in high-income and developing countries, mostly as a result of financial market stress.

The year 2014-15 saw the forces and fortune throw major challenges in our direction, all of them were surmounted one by one. Globally, Oil & Gas business

is a volatile sector and no one in this business remains insulated from the unpredictable crude price variations.

### **The Industry:**

With progress made on the Iran nuclear deal framework, your Company is expected to benefit from import of Iran crude. There are hopes that lower crude oil prices would lead to lower under recoveries for OMCs and presents an opportunity for your Company to foray into retail markets.

Your Company has enhanced its capabilities, with the commencement of operations of all Units of ambitious Phase-III Expansion and Upgradation Project and the downstream integration carried out through the Polypropylene Unit. Now, further exciting business opportunities await us.

Your Company is geared up to produce and deliver Euro IV quality auto fuels to cater to the market, as per the Auto Fuel Policy of the Government of India.

The Polypropylene Unit built with an investment of around Rs 1800 Crore, inaugurated by Shri Dharmendra Pradhan, Hon'ble Minister of State (Independent Charge), Petroleum & Natural Gas, Government of India, on 5<sup>th</sup> April 2015, has commenced commercial production.

Polypropylene is one of the fastest growing sectors in India and one of the most widely traded polymers in the world after Polyethylene. In South India, the annual Polypropylene demand is about 500,000 tonnes and MRPL's Polypropylene Unit is the only producing unit which can meet the entire demand in this region.

We have developed strategies and defined roadmaps in the short-term to meet the expectations of stakeholders and to insulate the company from hard-landing risks by increasing Refinery Profitability through crude procurement strategy and widening crude basket, skimming the market and maximise revenue from polymers being produced from Polypropylene unit by creating a pull in the market for its brand "**Mangpol**". MRPL plans to establish its retail trade and its presence in the market with plans to setup around 100 retail outlets in the short-term.

Considering the realistic market prospects and bounce back of the automotive fuel sales, your Company has devised a mid-term plan to retain the edge by increasing its refining capacity to 18 MMTPA through a low cost revamp. Investments are also planned to ready ourselves to supply Euro-V / Euro VI quality fuels to the Nation.

**OMPL's proposed Amalgamation into and with MRPL:**

Your Company has initiated downward integration by amalgamation of ONGC Mangalore Petrochemicals Limited (OMPL) with your company. OMPL has recently commissioned a state-of-the-art Aromatic Complex with 914 KTPA capacity of Para-Xylene and 283 KPTA capacity of Benzene adjacent to your refinery.

A Scheme of amalgamation of OMPL with your company has been proposed for approval of various regulatory authorities.

The synergy between OMPL and MRPL will provide higher returns for stakeholders, adding further value to the product streams of your refinery and flexibility to increase its GRM, optimal utilization of the plants of MRPL. The Amalgamation will ensure optimal utilisation of resources due to pooling of management, administrative and technical skills of various resources of both the companies, better administration, and cost reduction, including reduction in managerial, administrative and other common costs as well as better alignment, coordination and streamlining of day to day operations of both the companies, leading to improvement in overall working culture and environment.

**Corporate Social Responsibility (CSR) and Sustainable Development Initiatives:**

As a responsible corporate citizen, Your Company's social welfare and community development initiatives focus on the key areas of education, health care and overall development of basic infrastructure in and around its operational areas. The details on CSR activities are furnished in Boards' Report and are also available on the website of the Company.

Your Company is creating wealth for the stakeholders, through Sustainable and Organic growth as a technologically advanced refiner in India.

Your Company has taken up Refinery Performance Improvement Programme through Shell under the auspices of Centre for High Technology, Ministry of Petroleum and Natural Gas, Government of India. The Refinery Performance Improvement Programme is aimed at identifying opportunities for improvement by adopting best operating practices in the areas having a bearing on profit margin including optimizing operation, energy and utilities consumption, minimizing hydrocarbon loss and improving maintenance and inspection practices.

Engaging stakeholders in order to understand, acknowledge and address their concerns is intrinsic to the idea of sustainable development and corporate sustainability.

Finally, it is the human capital which propels the future growth of your Company. To nurture future leaders, your company has undertaken an innovative Advanced Strategic Leadership Program, named "**Project Uttisht**", in collaboration with IIM Udaipur. 25 mentors and 75 mentees are undergoing this experiential based transformation leadership program.

I am delighted to inform you that, your Company has won several awards and has been recently awarded as the Top exporter Premier Trading House, non-MSME sector, western region, by Federation of Indian Export Organisation. It has also bagged the SRISHTI Green Governance Award.

### **Risk & Concerns:**

Your Company operates in a business environment fraught with multiple risks and concerns impacting the business.

Refineries are susceptible to the risk of timely supply of crude oil for smooth production to avoid shortage of crude which may result into reduction in throughput. Your Company has been continuously diversifying the sources of procurement of crude by adding additional countries as well as grades of crude. Your Company has term contracts for procurement of crude with various suppliers and is proposing to increase the basket with additional suppliers. Your Company has also supply agreement with its parent, ONGC for procurement of crude from its oil field in Bombay High and its partnered Ravva oil field on arm's length basis.

The Refinery profitability is dependent on the margin between crude oil prices and refined petroleum product prices for profitability. Your Company has adopted a conscious business strategy for procurement of crude oil by keeping proportion of spot/ trial crude oils at optimal levels to have cost effective crude purchase in the projected market scenario. To mitigate price risks, your Company enters into long-term contracts as well as open international markets to source crude oil at competitive prices.

Operating efficiency and access to crude oil of the required quantity, quality and price has a significant impact on the Company's performance. While refined product normally tracks changes in feedstock prices, there is a lag which can impact short-term working capital requirements and profitability. Increased production efficiency through technological advances and reliable operation is another ongoing mitigating factor.

## **Acknowledgements:**

Before I conclude, on behalf of your Directors let me acknowledge the contribution of our stakeholders.

- I sincerely thank the Government of India, Ministry of Petroleum and Natural Gas, Ministry of Finance, Ministry of Corporate Affairs, Department of Public Enterprises, Ministry of Environment and Forests, Ministry of External Affairs, Ministry of Shipping, Ministry of Home Affairs and other Departments of the Central Government, for their valuable support, guidance and continued co-operation.
- Our special thanks go to the Government of Karnataka and its various Departments and agencies for their continued co-operation.
- I gratefully acknowledge the support provided by Oil and Natural Gas Corporation Limited, our parent Company and Hindustan Petroleum Corporation Limited, one of the joint promoters of the Company.
- I also thank other PSU oil marketing companies - IOCL, BPCL, our joint venture companies - Shell MRPL Aviation Fuels and Services Limited, PMHBL, our valued customers, for the continued patronage extended by them. MRPL strives to ensure that the company delivers to our customers the best satisfaction in terms of all aspects of the product including quality.
- I acknowledge the continuing co-operation and support received from New Mangalore Port Trust, Financial Institutions, Banks and all other stakeholders such as vendors, customers, contractors, and transporters.
- I wish to sincerely thank you, the valued shareholders again for your continued confidence and unstinted support for your Company.
- I also wish to place on record our appreciation for the commendable performance of the employees who despite challenges are marching ahead and taking your Company to newer heights of excellence.

**Thank you,**

**Jai Hind!**

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### **Note:**

Excerpts from the Chairman's speech at the 27<sup>th</sup> Annual General Meeting held on 8<sup>th</sup> August, 2015 at Mangalore.

This does not purport to be a record of the proceedings of the Annual General Meeting.