

OIL & GAS

The oil and gas industry has been instrumental in fuelling the rapid growth of the Indian economy. The petroleum and natural gas sector which includes transportation, refining and marketing of petroleum products and gas constitutes over 15 per cent of the country's gross domestic product (GDP).

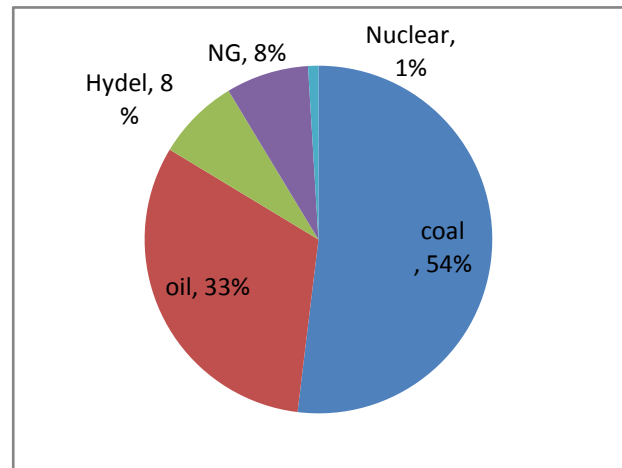
India's domestic demand for oil and gas is also on the rise. As per the Ministry of Petroleum, demand for oil and gas is likely to increase from 176.40 million tonnes of oil equivalent (mm ton) in 2007-08 to 233.58 mm ton in 2011-12.

India's primary commercial energy consumption (including coal, oil and gas) was 423 mm ton in 2006, making it the fourth largest consumer in the world with a four per cent share of the global primary commercial energy consumption. The primary commercial energy consumption in India grew at a compound annual growth rate (CAGR) of 4.5 per cent during 1996-2006, which is more than double the global CAGR during the same period. Of the total primary commercial energy consumption in India, oil constitutes 28 per cent and natural gas 8 per cent. Coal continues to be the dominant fuel accounting for 57 per cent of total energy consumption.

Domestic production of crude oil has been increasing steadily. While production grew by 5.6 per cent in 2006-07 to 33.98 million tonne (MT) from 32.19 MT in 2005-06, it has increased to 34.11 MT during 2007-08.

Energy consumption in India

coal	54%
oil	33%
Hydel	8%
NG	8%
Nuclear	1%



The total energy requirement including oil, gas, coal, nuclear and hydro energy in the country by 2032.

Year	Crude Oil (MMT)		
	Demand	Supply	Gap
2001-02	99.7	32.03	67.67
2002-03	114.3	33.05	81.25
2005-06	140	33.98	106.02
2011-12	199.6	33.47	166.13
2024-25	376.5	614	315.1

The demand of crude oil will outstrip supply by huge extent in 2024-25. The gap is increasing between the demand and supply year by year and it will make a huge gap in year 2024 by 315.1.

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Global Refining Hub

India is emerging as the global hub for oil refining as it enjoys competitive cost advantage, with capital costs lower by as much as 25 to 50 per cent over other Asian countries. India is fifth largest in refining and also planning for expansion in the refining. India is likely to boost its refining capacity by 45 per cent or 65.3 mtpa over next five years. Indian companies plan to increase their refining capacity to 242 mtpa by 2011-12 from about 149 mtpa in 2007.

Expansion plans of various companies

- Indian Oil Corp (IOC) plans to increase its refining capacity from 60.2 mtpa to 80 mtpa.
- The two public sector undertakings, GAIL (India) Ltd and Indian Oil Corporation Ltd (IOCL), are looking at setting up a US\$ 2.09 billion petrochemical plant at Barauni, which would be of a minimum 3 lakh tonnes capacity.
- ONGC plans to scale up its refining capacity up to 45.5 million tonnes by 2009-10 from about 13 mtpa in 2006.
- Reliance Industries Ltd is constructing a new refinery in the Jamnagar SEZ with a capacity of 29 mtpa.
- Nagarjuna Oil Corp is planning a new refinery at Cuddalore with a capacity of 6 mtpa to be operational by 2011 at an investment of US\$ 1.05 billion.
- Essar Oil plans to more than triple the capacity at its refinery at Vadinar to 34 mtpa from the current 10.5 mtpa at an investment of US\$ 6 billion.
- Hindustan Petroleum Corporation plans to invest US\$ 2.5 billion in expanding its Visakhapatnam refinery capacity to 16 million tonnes.

Gas

Gas demand in India is dominated by the power and fertilizer sectors which account for 66 per cent of the current consumption. In 2006, the total gas demand was estimated to be 152 million standard cubic metres per day (MMSCMD). The gas demand is projected to grow at a CAGR of 8.6 per cent during 2007-08 to 2016-17 to reach a level of 320 MMSCMD, which is more than double the existing demand. Significantly, the share of natural gas in the overall fuel mix is expected to increase from 8 per cent in 2006 to 20 per cent by 2025.

Year	Natural Gas		
	Demand	Supply	Gap
2001-02	151	81.4	69.6
2006.-07	231	94.84	163.16
2011-12	313	158.05	154.95
2024-25	391	170	221

More than 71% of natural Gas is used for energy purpose. For non energy purpose, the major industries that are users of natural gas in India are fertilizers and petrochemicals.

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Government Initiatives

Government have been taking up initiatives to boost up the investment in this sector.

- The Petroleum and Natural Gas Regulatory Board Bill, 2005 was passed by the Parliament in 2006. The bill envisages setting up of an independent regulatory mechanism with the objective of regulating the refining, processing, storage, transportation, distribution, marketing and sale of petroleum production and natural gas.
- Allowing 100 per cent FDI in private refineries through automatic route and 26 per cent in government-owned refineries.
- Implementation of the New Exploration Licensing Policy (NELP) in 1997.
- Abolition of the administered pricing policy.
- 100 per cent FDI is also allowed in petroleum products, exploration, gas pipelines and marketing/retail through the automatic route.

Current Scenario

For Asia refiners, we believe the prospect of increasing supplies, more global demand disappointment, and increasing spare refining capacity, could lead to a long-lasting downturn. Hence until the market has better visibility on an upturn in demand or evidence of meaningful delay in capacity to help bring Asia operating rates back up, valuations may not be reflective of long-term potential. For the current year and next year it's necessary to have good demand the demand is slowing down due to economic downturn in US, UK and even Japan. Due to the downturn the revenues of company are getting affected and in future if the market goes well the things will improve.

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