INTERVIEW: SN SUBRAHMANYAN, CEO and MD, Larsen & Toubro

'Disruptive effects of reforms have worn off, signs of stability emerging'

While the government's structural reforms augur well for the long term, much would depend on a supportive macro environment and adaptiveness of businesses to the changes, **SN Subrahmanyan**, *CEO & MD, Larsen & Toubro, tells* **Shubhra Tandon**. *Excerpts:*

The year 2017 saw some significant reforms, the most important being GST. This also caused some disruptions to business. How do you view business activity now and what is your outlook for 2018?

In the last one year, the country has seen a slew of transformative reform measures that are likely to yield medium- to long-term macroeconomic gains. Structural changes like demonetisation, RERA, the Insolvency & Bankruptcy Code and GST will be growth enablers, facilitating a conducive business environment, widening the tax base and channelling investments to meet the infrastructure needs of the country. Many of these reforms have caused short-term adjustment pains, but they augur well for the economy in the long term.

My sense is that things have more or less fallen into place and signs of stability are emerging. It should get easier and more stable henceforth. Having said that, much would depend on a supportive macro environment and the willingness/adaptiveness of the business community to the changes.

L&T has said private capex recovery could happen only after 2019 and growth would be driven by government orders for now. By how much do you expect government spending to go up?

With the Union Budget of 2018-2019 pivoted on farm sector reform, housing and infrastructure growth, that is self-explanatory. The Budget has reiterated that infrastructure investment is the 'sine qua non' for sustained growth, with a long-term requirement of ₹50 lakh crore, drawn from the government and, more important, the private sector. Public infrastructure investments are set to increase by 21% to around ₹6 lakh crore while the railway capex is pegged around ₹1.5 lakh crore in 2018-19. There is a lot of stress on urbanisation through smart cities and smart infrastructure and investment in large linear transport projects like 'Bharat Mala', as also in the aviation and port sectors. These are the direct drivers. Reforms like adoption of the IBC, emphasis on recapitalisation of the banking system and strategic disinvestment targets reflect the government's long-term commitment to catalysing the 'structural drivers' that can 'crowd in' private investment and restart the capex cycle. The recovery of the capex cycle is predicated on this logic. However, one must bear in mind that 2019 would be an 'Election Year', making possible a delay in the award/tendering of some large-ticket infrastructure projects.

Are large public-sector enterprises like NTPC, ONGC, GAIL and SAIL committing to large capex plans yet? If so, what sort of opportunities would these present to L&T?

Certain opportunities have come up due to a revision in the emission norms for power plants; for instance, NTPC has released bulk tenders for emission control systems, which is a sizeable opportunity for us. The proposal to replace old and inefficient power plants with efficient super-critical power plants also holds promise for the coming years.

Are you sticking to your guidance of a nominal increase in orders in FY18 or can we expect an upward revision in this guidance?

We are sticking to our earlier guidance for the present.

Is there any improvement on the front of decision-making, which has been delaying the order flow?

Efforts are underway to accelerate the decision-making process by reducing the layers of approval, among other things. The process is also related to a mindset and it would be unrealistic to hope for overnight change, though India's unprecedented jump to the 100th place globally on ease of doing business does reflect forward movement.

What do you think are the issues the government could address to change this scenario?

We would like to stress three prerequisites for better/more efficient delivery of large infrastructure projects. First, a feasible timeline for delivery and an equi-balanced contract. Second, some hand-holding by the government to mobilise the huge resources required for timely delivery of such projects. Third, the availability of timely and good credit from financial institutions/banks.

West Asia continues to pose risks to the company, given the volatility in oil prices and the geopolitical situation there. How worried are you and what steps are you taking to mitigate the risks?

West Asia remains a market of uncertainty. The recent spike in crude oil prices, partly driven by robust global growth, is a favourable development but geopolitical tension in the region owing to the embargo against Qatar and political instability in some of the other economies are cause for worry. For us at L&T, the focus would be on timely completion of projects. While we are open to new mandates in the region, we will be extremely choosy, only taking up projects with safe margins. At the same time, we are exploring fresh geographies of potential like Africa and Far East Asia, having made decent inroads into those markets.

What is the update on the defence orders space? Can we expect some orders of interest to L&T in 2018?

Defence can be the real game changer for us. There are projects for which we have bid and, considering our inherent strengths, we seem well-placed to win some of them.

In light of the order size expected from the government, which are the most promising areas?

The government has been pushing infrastructure development over the last 3-4 years through projects like Bharat Mala, Amrut, mass housing programmes, smart cities, Swachh Bharat, electrification of railway lines, railway station redevelopment, high-speed rail, etc. Some of these projects have taken off well and are under implementation, while we expect the others to be rolled out in the coming year.

ECONOMIC TIMES, Delhi, 8.3.2018
Page No. 16, Size:(6.46)cms X (9.00)cms.

Gujarat Refinery to Put ₹24kcr in New Projects

Vadodara: Indian Oil-owned Gujarat Refinery will invest about ₹24,174 crore in new projects and expansions in the next five years, a senior company official said on Wednesday.

These include capacity expansion to 18 MMTPA, at a cost of ₹15,034 crore, oxo-alcohol petrochemical project (₹4,157 crore), Linear Alkyl Benzamine revamp project (₹288 crore), Gujarat Refinery executive director, Sudhir Kumar said. —**PTI**

Record ethanol procured for petrol blending, says Pradhan

PRESS TRUST OF INDIA
New Delhi, March 7

A RECORD 140 crore litres of ethanol will be blended with petrol this year as the government pushes for use of agri-extracts to cut dependence on imports to meet oil needs.

The government has allowed blending of up to 10% ethanol extracted from sugarcane, in petrol but supplies have remained a concern and targets never achieved.

"With supply of 66.5 crore litres of ethanol in 2016-17, we had 2.1% blending in petrol," oil minister Dharmendra Pradhan said at the European Union-India Conference on Advanced Biofuels.

The availability in the ethanol supply year 2016-17 (December 2016 to November 2017) was lower due as drought in Maharashtra and Karnataka hit cane, molasses availability. For the 2017-18 supply year, over 139.5 crore litres of ethanol has been assured.

"This will help us achieve 4 per cent blending," he said. This is highest ever ethanol procured for blending in petrol.

Ethanol supply was 38 crore litres during supply year 2013-14, which improved to 111 crore litres in 2015-16. Pradhan said use of bio-fuels will help achieve the target of reducing oil imports by 10% by 2022. India currently imports 80% of its oil needs. It imported 77% in 2015-16 when Prime Minister Narendra Modi gave a call for cutting import dependence by 10% by 2022.

To augment supplies, non-molasses based ethanol as well as that from crop residue and municipal solid waste is being encouraged, Pradhan said adding for blending in diesel, non-edible oil from plants like Jatropha would be used.

The government will very soon come

out with a new National Biofuel Policy that will provide for feedstocks that can be used for extracting oils for blending in petrol and diesel, he said.

State-owned oil companies will guarantee offtake of biofuels, he said.

Also, a dozen bio-refineries are being set up to produce second-generation (2G) ethanol. "We are also setting up commercial plants based on advanced biofuels," he said.

"To attract investments from other potential investors, oil marketing companies have agreed to provide guaranteed offtake of 2G ethanol from suppliers for a period of 15 years," he said adding oil PSUs are also exploring possibilities of commercial production of bio-CNG from municipal solid waste, sewage water and crop residue.

Ethanol has higher octane than petrol, burns slowly and completely. Its blending with petrol helps in reducing emissions. The quantity to blended helps in substituting imports.

MILLENNIUM POST, Delhi, 8.3.2018
Page No. 13, Size:(17.30)cms X (18.96)cms.

Record ethanol bought for petrol blending: Govt

NEW DELHI: A record 140 crore litres of ethanol will be blended with petrol this year as the government pushes for use of agri-extracts to cut dependence on imports to meet oil needs.

The government has allowed blending of up to 10 per cent ethanol extracted from sugarcane, in petrol but supplies have remained a concern and targets never achieved.

"With supply of 66.5 crore litres of ethanol in 2016-17, we had 2.1 per cent blending in petrol," Oil Minister Dharmendra Pradhan said at the European Union-India Conference on Advanced Biofuels.

The availability in the ethanol supply year 2016-17 (December 2016 to November 2017) was lower due as drought in Maharashtra and Karnataka hit cane, molasses availability.

For the 2017-18 supply year, over 139.5 crore litres of ethanol has been assured. "This will help us achieve 4 per cent blending," he said. This is highest ever ethanol procured for blending in petrol.

Ethanol supply was 38 crore litres during supply year 2013-14, which improved to 111 crore litres in 2015-16.

Pradhan said use of bio-fuels will help achieve the target of reducing oil imports by 10 per cent by 2022.

PIC/NAVEEN SHARMA

India currently imports 80 per cent of its oil needs. It imported 77 per cent in 2015-16 when Prime Minister Narendra Modi gave a call for cutting import dependence by 10 per cent by 2022.

To augment supplies, non-molasses based ethanol as well as that from crop residue and municipal solid waste is being encouraged, Pradhan said adding for blending in diesel, non-edible oil from plants like Jatropha would be used.

The government will very soon come out with a new National Biofuel Policy that will provide for feedstocks that can be used for extracting oils for blending in petrol and diesel, he said.

State-owned oil companies will guarantee offtake of biofuels, he said.

Also, a dozen bio-refineries are being set up to produce second-generation (2G) ethanol. "We are also setting up commercial plants based on advanced biofuels," he said.

"To attract investments from other potential investors, oil marketing companies have agreed to provide guaranteed offtake of 2G ethanol from suppliers for a period of 15 years," he said adding oil PSUs are also exploring possibilities of commercial production of bio-CNG from municipal solid waste, sewage water and crop residue.

Ethanol has higher octane than petrol, burns slowly and completely. Its blending with petrol helps in reducing emissions. The quantity to blended helps in substituting imports. PTI

गेल GAIL

MINT, Delhi, 8.3.2018

Page No. 10, Size:(17.53)cms X (24.94)cms.

We see healthy margin in Q4: HPCL

BY SONIA SHENOY, LATHA VENKATESH & ANUJ SINGHAL
CNBC-TV18

M.K. Surana, chairman and managing director of Hindustan Petroleum Corp. Ltd (HPCL), comments on earnings outlook, demand and refining margins. Edited excerpts:

Right now how is the business looking, you have of course the refining and the marketing both parts tell us how is it shaping?

So, let us start from crude. Crude is more stable than what is used to be one year back. Basically, because of strong compliances from Organization of the Petroleum Exporting Countries (OPEC) side to keep it not going much below. At the same time strong supplies from US, US supplies has also gone I think almost at around 10.8 million barrels a day. So, right now crude prices are stable. We expect it to be stable at least through March because the Asian refineries shut down seasons are right now on which checks the demand under control.

In the second quarter, probably the demand will improve, the Asian refineries will be back, Ramadan season will be there, driving season then we can see some strength on the crude side. As far as cracks are concerned, right now because of the refinery shut down period the cracks are stronger. Liquid petroleum gas (LPG) prices are lower and likely to be weaken because of the more supplies from the US. But gasoline and gas oil cracks should be good that is my feel on this.

When you say cracks are good, can you give us an idea as to what they are at and your own margins, can we be reasonably sure that they will be higher this quarter and how much better than last quarter?

M.K. Surana, chairman and managing director of Hindustan Petroleum Corp.

As far as gasoline is concerned it is in the range of let us say $11-12 or 13-14 maybe and gas oil in $14-16 because the gas oil, the inventory base is low and demand is good. As far as gasoline is concerned right now because the refineries are shutdown so the demand will be there. Then the driving seasons, etc. will start in Q2 season. So, the gasoline cracks should be in the range of $13-14 and gas oil cracks in the range of $14-16.

North American Free Trade Act (NAFTA) cracks are slightly softer because of the weaker LPG because this goes to crackers and there are some of the crackers are also under shutdown. So, NAFTA cracks are lower.

INTERVIEW

As far as the oil marketing companies are concerned right now because of the crude prices have come off from the higher side the cracks are good. So, the business at our side specially the companies who have got refinery in marketing portfolio should be good and we expect to post a healthy margin in Q4.

When you say healthy margins what would you be looking at because the trend for retail fuel margins has been on the upside for a while? What kind of an average are we looking at going ahead?

I won't be willing to probably give a specific numbers to the marketing margins etc. but there are two components, the gross refining margins (GRMs) are good right now as I mentioned and Q4 I expect to be strong GRMs. Marketing margins we are able to recover the cost and the expenses which we have, so there are no under recoveries to that extent and we should be able to do good.

How are volumes doing?

Volumes are good, this year especially 2017-2018 the overall demand growth has been quite good. MS (motor spirit or petrol) had been almost from let us say April to February almost 10.5% growth, diesel is around 8% growth, LPG is around 8% growth, so overall all products if you put together it is almost in the range of 6.5%. Even the same thing is backed by the demand in the auto sector, two-wheeler sectors. Almost the total product consumption in the country has crossed 200 million metric tonnes. So growth has been quite good and it is sustaining. In fact, the MS has put up almost 2 million tonnes every month additional, so it is quite strong and the momentum is continuing as well.

HPCL expects crude prices to be stable at least through March, says Surana

Two part question on this ONGC issue? Do you expect integration to be smooth and the relationship between the two companies does it remain at arm's length or does HPCL gets a bit of a preference in terms of the crude oil sourcing from ONGC?

We are still working out the synergies. As far as crude oil is concerned it remains at arm's length because in our country as per the contracting arrangements which we have what we call production sharing contracts in that the government has got a right to allocate the crude. So, even today also if a company has got a crude oil wells and also processing arm they do not automatically have the right of the crude for themselves. Except for the concessions are newer, rounds which are coming there are certain more liberalisation has been done especially like gas in the high pressure high temperature zones are with the small field rounds where there is a freedom to supply the crude to anybody and at the price which is market driven. So, as far as ONGC-HPCL is concerned the present supply fields it is arm length. The other synergies we are working out.

We are even more interested on the HPCL Mangalore Refinery and Petrochemicals (MRPL's) situation. Can you give us some update on what are the acquisition plans if any and if it is an acquisition is it cash, is it share?

We are working out the overall synergies between the two companies because there are multiple points where we can create synergies and MRPL is one of the items in that and we will be discussing that. So, once more concrete thoughts are available and we have worked out the thing then we will definitely let you know. But otherwise right now it will be slightly premature to define the contours.