

**Dear Shareholders,**

**Good Morning to all of you,**

It is my privilege to extend a warm welcome to the esteemed shareholders on behalf of the Board of Directors, to the 67<sup>th</sup> Annual General Meeting of Hindustan Petroleum Corporation Limited. I thank you for your gracious presence.

It gives me great pleasure to share with you that during Financial Year 2018-19 your Company has continued its journey of excellence to new performance benchmarks. During the year, your Company has achieved the highest ever refining throughput, sales volume and EBIDTA. Profit after Tax exceeded the ₹ 6,000 crore mark for the third year in succession.

The breakthrough performance was achieved through collective endeavors of all the functions and business units to create value for all stakeholders. Your constant support and trust continues to inspire us in accelerating the performance momentum.

I am delighted to share that your Company's performance has been rated 'Excellent' for the 11<sup>th</sup> consecutive year in terms of the Memorandum of Understanding (MoU) for the financial year 2017-18. Based on 2017-18 performance, your Company featured amongst the top 10 profit making CPSEs in country for the 2<sup>nd</sup> successive year with improved ranking.

Since the last AGM, Shri Ram Niwas Jain is reappointed as Non-Executive Independent Director effective 20<sup>th</sup> November, 2018 on the Board of the Company. Shri Sunil Kumar, Joint Secretary (Refinery) in Ministry of Petroleum and Natural Gas is appointed as Government Nominee Director, effective 30<sup>th</sup> May, 2019 and Shri G. Rajendran Pillai is appointed as Non-Executive Independent Director, effective 15<sup>th</sup> July, 2019.

Now, with your permission, I would like to outline the major developments that have taken place in the Indian economy and hydrocarbon sector during 2018-19 before sharing the details of the performance and future plans of your Company.

## **Indian Economy**

Indian economy continues to be one of the fastest growing major economies in the world with an estimated GDP growth of 6.8% in 2018-19. The growth rested on higher growth in manufacturing and construction sectors compared to previous years. Services sector also maintained a steady growth. Key policy reforms taken by Government of India helped in strengthening business climate and boosting confidence in the economy. In World Bank's "Ease of Doing Business 2019" rankings, India is at 77<sup>th</sup> position, recording a leap of 23 ranks from previous year.

The growth outlook of the Indian economy remains positive due to robust consumption base in view of its large young population, increase in disposable income, upwardly mobile middle class and potential for increased per capita energy consumption. The structural reforms, with thrust on rural and infrastructural sectors, are expected to further drive economic growth. The GDP growth of the country is projected to be about 7% in 2019-20. India's energy demand is closely linked to economic growth. It is expected that energy needs and oil consumption will continue to grow in tandem with the economic growth and increase in per capita energy consumption.

## **Developments in Oil Sector**

2018-19 was a year of uncertainties for the global oil industry which had significant impact on crude oil price movement. Price of Brent crude saw high volatility during the year. Brent crude prices being at US\$ 67 per barrel in April 2018, recorded a peak of US\$ 86 per barrel in October 2018, then dropping to a low of US \$ 50 per barrel in December 2018 and recovering to US \$ 68 per barrel by the end March 2019. Various factors including economic sanctions on Iran by USA, political

instability in Venezuela & Libya, coordinated production cuts and increase by OPEC & some Non-OPEC oil producing countries, trade tensions between USA & China and signals of slowdown in global economic growth influenced the crude price movement throughout the year. Price for Indian basket of crude oil increased from an average of US \$ 56 per barrel in 2017-18 to an average of about US \$ 70 per barrel in 2018-19, an increase of about 25%.

High volatility in crude oil prices is expected to continue during the current financial year due to uncertainties in global economic scenario, geopolitical events, disruptions in supply & shipping and other factors.

Despite various externalities in oil market, domestic consumption of petroleum products continued to increase and reached 212 million tonnes in 2018-19 with a growth of 2.7% over previous year. Robust growth in petroleum products demand was enabled by increase in manufacturing & construction activities, rising mobility needs, growing urbanization and enhanced reach of petroleum products across the country.

Petrol and Diesel consumption registered growth of 8.1% and 3% respectively on the back of expansion of vehicle fleet along with increased manufacturing and infrastructure development activities. LPG consumption recorded strong growth of 6.8% on account of enhanced LPG coverage facilitated by Pradhan Mantri Ujjwala Yojana and other LPG programs initiated by Government of India. Kerosene consumption registered a de-growth of 10.1% mainly due to transition to LPG as a cooking fuel. ATF consumption increased with a strong growth of 9.1% on the back of continued high growth in domestic passenger traffic facilitated by Government of India's efforts for augmenting aviation infrastructure and regional connectivity.

Year 2018-19 saw a number of far-reaching policy reforms in India's hydrocarbon sector, centered around the crucial goal of ensuring universal access to affordable

and sustainable energy. To accelerate shift towards clean fuel based cooking, large scale implementation of Pradhan Mantri Ujjwala Yojana was continued during the year. Major clean fuel policy initiatives including major thrust on City gas distribution, notification of National Policy on Biofuel-2018 and launch of SATAT (Sustainable Alternative Towards Affordable Transportation) program were undertaken by Government of India to increase the access and usage of clean fuels in country.

In addition to Delhi, supply of BS VI grade auto fuels has been extended to 12 NCR districts and city of Agra. Rollout of BS VI compliant auto fuels across the country is slated from 1<sup>st</sup> April 2020.

## **HPCL Performance**

With great pride and satisfaction, now I present to you the details of the financial and physical performance of your Company for the Financial Year 2018-19.

### **Financial**

During 2018-19, your Company recorded highest ever gross sales of ₹ 2,95,713 crore with high growth of 22%. Net profit for the year 2018-19 stood at ₹ 6,029 crore and the Gross Refining Margins (GRM) averaged at US \$ 5.01 per barrel.

The outstanding financial performance led to a strong earnings per share of ₹ 39.56 for the year 2018-19.

Your Company has proposed final dividend of ₹ 9.40 per share in addition to the interim dividend of ₹ 6.50 per share paid in February 2019, resulting in total dividend payout of ₹ 15.90 per share for the year 2018-19.

Net worth of your Company significantly increased during the year to reach ₹ 28,175 crore as of 31<sup>st</sup> March, 2019 as compared to ₹ 23,948 crore as of 31<sup>st</sup> March, 2018.

All operating Joint Ventures and Subsidiaries of your Company performed well during 2018-19 and helped your Company register a consolidated Net profit of ₹ 6,691 crore.

I am happy to share that your Company continues to obtain strong credit ratings from various reputed international and national credit rating agencies.

Your Company is assigned credit rating of “Baa2” by “Moody’s Investors Service” and credit rating of “BBB-” by ‘Fitch Ratings’. The credit ratings are at par with sovereign rating and indicate ‘Stable’ outlook.

The outstanding performance during 2018-19 has reinforced our confidence to further accelerate the growth momentum and scale greater heights.

### **Physical Performance**

The year 2018-19, saw the refineries register exemplary physical performance with continued thrust on reliability and operational excellence. For the second consecutive year, both the refineries at Mumbai and Visakh recorded their individual best ever throughput, which helped HPCL achieve the highest ever combined refining throughput of 18.44 million tonnes with a capacity utilization of 117%.

Highest ever production of LPG, Bitumen and Lube Oil Base Stock (LOBS) was achieved at the refineries. The refineries, continued to improve energy efficiency performance and recorded the lowest ever combined specific energy consumption in 2018-19.

In marketing of petroleum products, your Company achieved highest ever overall sales volume of 38.7 million tonnes with a growth of 4.9% over previous year.

In Retail sales, your Company achieved total sales volume of 24.54 million tonnes with a growth of 3.3% and market share gain of 0.17% amongst PSU OMCs in

combined Petrol and Diesel sales. This performance has been achieved through effective implementation of various customer centric initiatives, judicious expansion of retail network and effective deployment of information technology towards automation of key processes. A new initiative, 'HP Fuel Connect', was launched by HPCL during the year for doorstep delivery of Diesel to select commercial customers at their premises.

Your Company continues to be the 2<sup>nd</sup> largest LPG marketer in India. Your Company achieved the highest ever LPG sales volume of 6.55 million tonnes with a strong sales growth of 7.1%, focusing on initiatives in enhancing customer satisfaction, strengthening of infrastructure and improved rural reach. During 2018-19, over 1 crore customers were enrolled in PMUY taking the total number of PMUY beneficiaries at HPCL to about 2 crore. To ensure safe and sustainable usage of LPG, over 34 Lakh people were sensitized by conducting over 27,000 Pradhan Mantri LPG Panchayats.

In the highly competitive domestic lubricants market, your Company continues to be India's largest lube marketer for the 6<sup>th</sup> consecutive year with total lubricants sales of over 650 TMT. This excellent performance was achieved through consistent focus on OEM partnerships, expansion in Bazaar & MSME segments and development of new lubricant grades & specialties. I am happy to share that your Company has significantly expanded its footprints in various overseas lubricants markets and is supplying lubes to 11 countries. Your Company's overseas subsidiary 'HPCL Middle East FZCO' has commenced business operations at Dubai for catering to various growing markets in Middle East and Africa.

In Industrial & Consumer sales, your Company concentrated in maximizing the sales of Fuel Oil, Diesel and Bitumen by focusing on key accounts and MSME segment. It helped in achieving over 1 million tonne sales in each of these products

for the 4<sup>th</sup> consecutive year and helped in exceeding 6 million tonnes sales volume in overall B2B sales with a growth of 7%.

In the rapidly growing aviation fuel segment, your Company recorded a sales volume of 875 TMT with an impressive growth of 20%. Effective utilization of the wide network of Aviation Service Facilities at all major airports in the country was instrumental in this achievement.

The various milestones achieved in Market Sales were on the back of excellent performance by supply chain functions. Highest ever throughput of 52 million tonnes in liquid fuels was achieved by effective and efficient management of network of depots and terminals. To further enhance the operational efficiency, some of the supply locations were converted into 'SMART' terminals through complete automation and seamless integration of various processes.

Pipeline network continues to be the backbone of product transportation and has been a key competitive strength of your Company. Highest ever pipeline throughput of 21.5 million tonnes was recorded during the year which helped in significant reduction of logistics cost and carbon footprint.

In downstream Natural Gas business, your Company scaled up its presence by commencing CGD projects in geographical areas of Kolhapur and Ambala-Kurukshetra through newly created joint venture company, HPOIL Gas Pvt. Ltd. Your Company is also setting up CGD networks in Jind & Sonipat districts of Haryana. I am happy to share that in the 10<sup>th</sup> CGD bidding round by PNGRB, your Company has been authorized for development of CGD networks in 9 new geographical areas which is one of the highest number of geographical areas allotted to a single entity in bidding round. With this, your Company has authorization for CGD networks in 20 geographical areas across 9 states on its own and through its JV companies. In addition to CGDs, your Company is also investing in large scale Natural Gas infrastructure projects. Environmental

clearance is received for development of 5 MMTPA LNG regasification terminal at Chhara port in Gujarat being developed through JV Company.

In the area of renewable energy, your Company has generated 190 million units of electricity from its wind farms in Maharashtra & Rajasthan and has set up a number of captive solar power plants at operating locations during the year.

### **Projects Completed during the year**

To achieve growth and cater to the increasing fuel demand, your Company is strategically investing in infrastructure across various segments of energy value chain. With the highest ever capital expenditure of ₹ 12,438 crore, a number of capital projects were completed during the year 2018-19 and many other projects are under implementation.

Project for Capacity expansion of Ramanmandi Bahadurgarh Pipeline (RBPL) from 4.71 to 7.11 MMTPA is completed within approved cost and schedule. Other ongoing pipeline projects are at various stages of completion to further expand the cross country pipeline network from 3,370 Km to 5,131 Km.

In addition to ongoing major expansion of Mumbai and Visakh refineries, a number of process improvement initiatives were implemented to enhance capabilities of refinery units and achieve significant gains in energy efficiency, safety and reliability.

Supply network of depots and terminals was augmented during the year with commissioning of new railway tank wagon gantry at Visakh black oil terminal and revamp of the existing tank wagon facility at Jabalpur depot. Aviation fuel infrastructure was strengthened with commissioning of new Aviation Service Facilities at Amritsar, Bhubaneshwar, Raipur and Kolhapur airports.



To enhance LPG supply and distribution capabilities, bottling capacity of 330 TMTPA was added during the year at existing bottling plants. A new LPG bottling plant was also commissioned in Warangal district in the state of Telangana with bottling capacity of 60 TMTPA.

HPCL is the first Oil Marketing Company to own LPG rakes under Liberalized Wagon Investment Scheme (LWIS) of Ministry of Railways for transportation of LPG from source to bottling plants and has procured 4 LPG rakes during 2018-19. It has helped HPCL reduce logistics cost and ensured safe and easy transportation of LPG.

To reduce carbon footprint from electricity consumption, captive solar power projects were commissioned at various locations during the year with total power generation capacity of over 11 MW.

## **Research & Development (R&D)**

Your Company continues to lay strong emphasis on innovation and R&D to consistently enhance competitive strength. R&D division of your Company has created significant value through development of new technologies & products and improvement in operations of existing processes. HPCL's Corporate R & D center at Bengaluru has developed and demonstrated 17 innovative technologies & products. Grant of 12 patents during the year including 6 international patents is a testimony to your Company's extensive efforts in R&D.

Our focus on R&D will not only help in giving an edge to your Company in existing operations but will also open horizons for wide scale commercialization of newly developed technologies and products.

## **HSE and Sustainability**

Safety and Sustainability continue to be at the core of all our business activities

with equal focus on occupational health and environmental preservation. During 2018-19, your Company significantly scaled up its efforts on sustainable development by implementing several initiatives in the areas of energy conservation, energy efficiency, renewable energy, waste management, water conservation and green belt development.

Your Company is actively participating in National Biofuels Program to promote low carbon growth and energy security. Your Company achieved highest ever percentage blending of Ethanol in Petrol during the year with an all India blending average of 5.5%. Your Company has also initiated efforts for marketing of Compressed Bio-Gas under Government of India's Sustainable Alternative Towards Affordable Transportation(SATAT) program.

Your Company is reporting its performance on Environmental, Social and Economic aspects through publication of Annual Sustainability Reports since last 7 years. The 8<sup>th</sup> Sustainability Report for the year 2018-19 based on GRI standards and duly assured on AA1000 assurance standard has been published.

### **Corporate Social Responsibility**

Your Company is committed to synergize the business growth with social responsibility and strives to augment social capital of the nation through impactful CSR initiatives. Your Company has effectively contributed to enrich lives of about 2 lakh less-privileged people through programs in the area of Childcare, Healthcare, Education and Skill Development with an overall CSR spend of about ₹ 160 crore during 2018-19.

Under Swachh Bharat Abhiyan, your Company has constructed more than 500 toilets in schools in 2018-19. In addition, new toilets having separate facilities for male, female and divyangs were constructed at 1,639 retail outlets during the year. To increase awareness towards cleanliness, large number of initiatives were taken across the country.

## **Internal Control and Risk Management**

Your Company has a comprehensive and well defined Risk Management Framework with robust internal control processes for conducting the business in a smooth manner. Risks including crude supply disruption, crude price volatility, foreign exchange exposure, intensity of competition, climate change concerns etc. are regularly reviewed for suitable risk mitigation plans and interventions.

## **Corporate Governance**

Your Company remains committed to operate with the highest standards of Corporate Governance. All business activities are conducted with strict adherence to regulatory framework and under the core values of ethics, accountability, transparency, integrity and professionalism. Your Company believes in nurturing the trust and confidence and ensuring sustained value creation for all stakeholders.

All the mandatory provisions stipulated in SEBI listing regulations relating to the Corporate Governance requirements have been complied.

## **Human Resources**

The strength of your Company continues to be its employees who are skilled, competent and dedicated. All our professional endeavors are guided with the motto to create value for the stake holders. It is your Company's continuing endeavor to create an environment where employees strive to deliver excellence. Your Company has taken number of initiatives for enhancing employee engagement, capability building and leadership development. Competencies of the workforce are constantly upgraded to equip them to meet the future challenges.

I take this opportunity to acknowledge the contribution of all our employees and

proactive support by the unions and associations in ensuring safe & efficient operations and maintaining a healthy industrial climate.

## **Awards and Recognitions**

For its all-round excellence, your Company has been recognized at various forums with a number of prestigious awards and accolades during the year including 'Oil Marketing Company of the Year' award by Federation of Indian Petroleum Industry (FIPI) for the third consecutive year, 'Best Navratna in Manufacturing, Processing and Generation Sector' award by Dun & Bradstreet and 'Vigilance Excellence Award 2018' by Central Vigilance Commission.

## **Strategy & Business Plans**

The performance of the Company during the year 2018-19 is testimony to the faith and loyalty reposed by customers and firm support of all the stakeholders. Your Company will strive to ensure that it remains on the trajectory of sustained profitable growth and continue to maximize value for its stakeholders.

Your Company is focused on strengthening the core business of refining and marketing through expansion of refining capacities, supply chain capabilities and customer reach. In addition, thrust is on creating new levers of growth by establishing strong presence in petrochemicals, scaling up footprints in Natural Gas business and expanding marketing presence in overseas geographies.

To enhance production capabilities in tandem with the growing demand of petroleum products, your Company has undertaken capacity expansion projects for refineries at Visakh and Mumbai.

Visakh Refinery Modernization Project (VRMP) being executed at a cost of ₹ 20,928 crore will enhance the refinery capacity from 8.33 MMTPA to 15 MMTPA. The project includes facilities for bottom upgradation and production of BS VI

compliant motor fuels. Capacity of Mumbai Refinery is being enhanced from 7.5 MMTPA to 9.5 MMTPA with capability to produce BS VI motor fuels at a cost of ₹ 5060 crore. The completion of these projects will enhance the profitability of the refineries.

During 2018-19, both Visakh Refinery Modernization Project (VRMP) and Mumbai Refinery Expansion Project (MREP) have recorded significant progress and achieved a number of milestones.

I am happy to share that HPCL Rajasthan Refinery Limited, a Joint Venture of HPCL and Government of Rajasthan, has achieved significant progress for setting up a 9 MMTPA Refinery-cum-Petrochemical project at Pachpadra in Barmer district of Rajasthan. Technology selection has been completed for all the 13 process units. Engineering activities are in progress and site construction activities have commenced. Financial closure has also been achieved for this project. The project is being implemented at a cost of ₹ 43,129 crore.

Your Company is laying strong thrust on petrochemicals business and has developed a robust strategy and action plan for marketing of petrochemicals. Focus is on building petrochemical marketing capabilities and establishing presence in downstream petrochemicals even before commencement of production from the integrated petrochemical complex at Barmer in Rajasthan.

Pipeline network expansion and augmentation continue to be a key thrust area for the Company. Ongoing pipeline projects with total estimated investment of ₹ 5,555 crore are in various stages of completion. This includes Mundra-Delhi Pipeline (MDPL), Visakh-Vijayawada-Secunderabad Pipeline (VVSPL), Vijayawada-Dharmapuri Pipeline (VDPL), Palanpur-Vadodara Pipeline (PVPL) and Uran-Chakan / Shikrapur LPG Pipeline.

I am happy to share that HPCL has received the authorization from PNGRB for

laying of LPG pipeline from Hassan in Karnataka to Cherlapalli in Telangana with capacity of 2.2 MMTPA. Capacity expansion of the existing Mangalore-Hassan-Mysore-Yediyur LPG Pipeline is also planned along with the project.

Your Company is also partnering with IOCL and BPCL for execution of the country's longest, 2,757 km long, LPG pipeline project from Kandla in Gujarat to Gorakhpur in Uttar Pradesh. A Joint Venture Company has been incorporated in the name of 'IHB Private Limited' in July 2019.

To further increase the supply chain strength, a number of marketing projects including new LPG plants, Depots, Terminals and Aviation Fuel Stations have been undertaken along with augmentation of existing infrastructure. Your Company is also setting up a new LPG cavern of 80 TMT storage at Mangaluru.

Your Company is investing in downstream gas infrastructure facilities including 3 Natural Gas pipelines and a 5 MMTPA LNG Regasification terminal at Chhara in Gujarat through joint ventures. Focus is on expansion of CGD business through development of CGD networks in allotted geographical areas and active participation in future CGD biddings.

Your Company is also planning to increase its presence in Bio-fuels segment by building second generation (2G) ethanol production facilities and marketing of Compressed Bio-Gas through retail outlets.

A capital expenditure of about ₹ 74,000 crore is envisaged over the next five years for various projects.

Your Company continues to leverage technology advancements to improve productivity, safety, cost efficiency and customer experience. A comprehensive digital strategy and roadmap are being developed to harness the potential of emerging digital technologies across all spheres of business.

To leverage technological advances and support innovation, your Company has engaged with 18 Startups under 'HPCL Startup India' scheme.

As India enters a new era of economic development, domestic energy demand is expected to grow. Rising climate change concerns and energy security challenges will influence the shape of energy transition and interplay between various forms of energy. However, considering the demand growth projections, expected penetration levels, infrastructure availability and customer preferences; it is expected that the new energy sources may be able to cater only to a part of the incremental demand and hydrocarbons are expected to continue as the mainstay of end use energy consumption in India in the near future.

Your Company is well positioned to adapt to the changing energy landscape through judicious expansion of its portfolio, infrastructure capability, strong customer focus, innovation centric culture and talented pool of employees.

Your Company will continue to pursue current & future opportunities in the areas of Refineries & Petrochemicals, marketing Infrastructure, Natural Gas, Bio fuels, Renewable Energy and new age technologies to create further value for the stakeholders.

## **Acknowledgements**

Ladies and Gentlemen, before I conclude, I on behalf of the Board of Directors, would like to thank the Ministry of Petroleum & Natural Gas, other Ministries and Departments of the Government of India and various State Governments for their valuable guidance and counsel and look forward to their continued support. We also acknowledge the support received from the various local authorities, other regulatory & statutory authorities, banks & financial institutions in smooth conduct of our business.

My fellow Directors and I are thankful to all the shareholders for their support and confidence reposed in us. I thank you for taking time to be with us today.

I thank all our customers, dealers, distributors and all business associates who are an integral part of our business. I sincerely thank all our employees for their unwavering commitment and tireless efforts.

I wish to acknowledge the contribution made by Shri Sandeep Poundrik and Ms.

Sushma Taishete who were the ex-officio Government Nominee Directors on the Board of the Company. I also wish to acknowledge the contributions of Shri J. Ramaswamy, previous Director-Finance and Shri S. Jeyakrishnan, previous Director-Marketing who have superannuated during the year. I also take this opportunity to thank my colleagues on the Board for their mature counsel.

I look forward to the continued involvement with all stakeholders and collaborative working with them to keep alive our legacy of touching lives and be a Company that delivers happiness.

**Thank You,**

Place: Mumbai  
Date: August 21, 2019

**Mukesh Kumar Surana**  
Chairman & Managing Director