

## Reliance Industries Limited out performs the Singapore complex benchmark. GRM for first quarter FY 2007 -08.

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Reliance Industries Limited (RIL) has once again announced good results for the first quarter of FY2007-08. The GRM for the first quarter was US\$ 15.4 /bbl as against US\$ 12.4 / bbl in the corresponding period of the previous year.

This performance is a result of a highly complex refinery along with most efficient liquid port, location advantage and following sound economics of buying cheap and selling premium products. The complex refineries allows RIL to buy and process some of the heaviest and sour crude the world has seen and which only a handful of refineries have the capability to process. The refinery regularly tries out crude from new sources, which are both cheaper and challenging to process.

During the last quarter RIL tried out crude with an API of 21 - 24. API is an indicator of how heavy, sour and difficult the crude is to process. The differential in light and heavy margins has been growing in the past few quarters and today it stands at US \$ 5 - 5.5/bbl

With RIL refinery converted into EoU the company has focused on exports with reducing sales in the local market where it is incurring losses as government refuses to give RIL subsidy at par with what it gives to the PSU oil companies.

For a long time now RIL has outperformed the Singapore complex benchmark GRM by a wide margin. In fact the margin has become so wide that there is no point in comparing RIL's refining margins with the Singapore complex benchmark. The factors that have contributed to high GRMs are

Cost of sourcing crude oil

Manufacturing reliability and efficiency

Ability to produce quality transportation fuels

Flexibility of crude oil receipt and product evacuation infrastructure

The highly complex configuration of the RIL refinery gives it the ability to process heavy and sour crude. The incremental oil supply through new discoveries is also in this category. Further, many of these crude are in the "challenged" category and require unique technical capabilities for processing. These factors continue to support high levels of light heavy differentials and provide a unique advantage to the refineries who possess the capability to process heavy and sour crude oils. During the quarter RIL processed 4 new crude which it procured at a substantial discount.

The RIL refinery continues to reap the benefits of access to world class logistical infrastructure. This

allows the refinery to import up to 100 percent of its crude oil requirement in VLCC's (Very Large Crude Carrier) capable of bringing up to 2 million barrels in each shipment. This reduces the freight costs considerably and optimizes the overall landed cost of crude oil. The product evacuation infrastructure again provides the flexibility to evacuate the products in varying parcel sizes and optimizes the supply chain costs of the buyers. This again results in higher realization to RIL for its products

RIL continues to demonstrate its superior manufacturing capabilities by continuing to run its refinery in a smooth, safe and flexible manner. While worldwide refinery outages have led to spikes in margins, RIL refinery has maintained its reliable operations to take advantage of these opportunities. Efficiencies in energy consumption, ability to swing production and quality at short notices, readiness and adaptability to accept different crude blends on a continuous basis, adjusting operating parameters, blending management and several other factors all add up to a significant contribution to RIL's GRM.

Growing concerns on the environmental front have lead to most countries making their fuel specifications stringent. As RIL is critically dependent on export markets, it continuously optimizes its product pattern to maximize netbacks to the refinery. This is done while feeding fuels to suit requirements of different quality conscious markets across the world on the one hand and simultaneously making its crude slate heavier and sourer and maximizing "bottom of the barrel" conversion.

In summary while market condition have remained favourable, the large scale, flexible and complex configuration, path breaking efficiency in operations, innovation around crude procurement and the structural advantages of the refinery have uniquely positioned RIL to take advantage of the unfolding opportunities in the refining sector.

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