



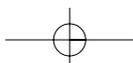
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Crude at \$200 a barrel? Perhaps it's that prospect that has convinced a clutch of Indian businessmen that exploring and producing this commodity that's getting scarcer by the minute is a lucrative venture. But how many of them will hit pay dirt?

ANAND ADHIKARI



The Great Indian Oil Rush



THE HUNT BEGINS NOW

It's all about synergies with energy.

HDIL

CORE BUSINESS: Real estate development

OIL & GAS INITIATIVES: Set up a separate subsidiary for oil & gas; bid in the New Exploration Licensing Policy (NELP) VII round in June 2008 but failed to get any oil blocks. Now open to acquiring existing blocks both in India and abroad.

MERCATOR LINES

CORE BUSINESS: Shipping

OIL & GAS INITIATIVES: Got two blocks in the NELP VII June round. Placed an order for new generation jack-up rig.

GMR

CORE BUSINESS: Infrastructure

OIL & GAS INITIATIVES: Keen on downstream opportunities in the oil & gas space. Also rumoured to be partnering with ONGC for its Rs 31,000 crore refineries and petrochemical plant in Kakinada.

GVK

CORE BUSINESS: Infrastructure

OIL & GAS INITIATIVES: Partnered with mining major BHP Billiton and got seven blocks in the NELP VII June round. Will soon start seismic 2D and 3D studies.

JINDAL DRILLING

CORE BUSINESS: Supplier of drilling equipment

OIL & GAS INITIATIVES: Studied the auction of a few land and shallow water oil blocks in the NELP VII June round, but stayed away from bidding. Now open to acquiring existing blocks in the open market.

JAYANTA NARAYAN SAHA

SUITE 310, 605-1ST STREET S.W. Calgary, Alberta, Canada, is the head office of GeoGlobal Resources Inc., a six-year-old oil & gas exploration start-up that is listed on the American Stock Exchange. Last fortnight, GeoGlobal's share price sputred by over 80 per cent from \$2 (Rs 86) per share in early July to \$3.75 (Rs 161) per share. The trigger for that appreciation lies in India—more precisely, in the Krishna-Godavari (K-G) Basin on the east coast.

Since its inception in August 2002, GeoGlobal has been on the hunt for oil & gas in India. The company, in a partnership with Gujarat State Petroleum Corporation (GSPCL), has yet to earn a single paisa from its Indian operations. In late-July, however, the duo's efforts finally seemed to be set to pay off, with GSPCL announcing that it has found large reserves of natural gas in the K-G Basin.

GeoGlobal's story is unique in that, unlike other global majors in India like NIKO, Cairn, Hardy, Santo, Newbury and Petronas, it has no prior experience in oil & gas exploration. It's also an inspiring story for many in the global marketplace to follow. To be sure, of late, a number of Indian firms have begun to follow in GeoGlobal's footsteps by plunging into the high-gestation, high-risk area of 'upstream oil & gas exploration' for the first time. The reason for their enthusiasm is clear-cut: there is plenty of oil & gas waiting to be explored. Some 8 billion metric tonnes of oil & gas reserves have already been discovered; but there's still an estimated resource base of 22 billion metric tonnes in the K-G, Cambay, Deccan Syneclise,

and Rajasthan basins that are still up for grabs.

RIL Leads the Way

Mukesh Ambani's Reliance Industries (RIL) has been leading the charge with the largest oil & gas acreage of close to three dozen domestic exploration blocks covering an area of about 337,000 sq. km. Till date, RIL has made more than two dozen discoveries, and many more are expected. A few early birds like Videocon, the Tatas and Selan Exploration have been at it for over a decade now, and the Dhoots of Videocon at least have been raking in the profits (see *At the Deep End*).

The fundamental difference in the economic climate in those days in the mid-90s was that oil prices were in the \$15-20 per barrel bracket. Such low prices—oil stayed under \$30 per barrel till 2003—didn't exactly encourage players to scale up or new entrants to venture into this sector.

The past four years have brought along dramatic change, with oil prices hitting an all-time high of \$147 (Rs 6,321) a barrel in the second week of July. RIL's string of gas discoveries in the K-G Basin over this period has also stirred the interest amongst private players (see *A Sea of Opportunity*). As a result, a host of players with interests that range from real estate to power to shipping has announced plans to explore and produce oil & gas. Ramashish Rai, Deputy Director General of Directorate of Hydrocarbons, which has been inviting private participation in oil & gas blocks, says corporate interest has been growing rapidly. "We had received as many as 100 bids for a single land block in the recent NELP (New Exploration Licensing Policy) VII round," says Rai.

Many of those bidders are



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A SEA OF OPPORTUNITY

Why a host of private players is taking the plunge.

- Crude oil prices spiralled from \$30 a barrel in early 2004 to an all-time high of \$147 a barrel in July 2008

- A huge demand-consumption gap in oil in India; consumption stands at 140 million tonnes as against production of 35 million tonnes

- Ample opportunity to hunt for oil as only about 8 billion metric tonnes of reserves have been discovered so far of an estimated resource base of a little over 30 billion metric tonnes

- 100 per cent foreign direct investment has been permitted for oil & gas exploration under the automatic route

- Incentive in the form of a seven-year income tax holiday beginning from the year of commercial production

- Oil import dependency is expected to increase to 90 per cent by 2025 from the current level of 70 per cent

- The decade-old New Exploration Licensing Policy (NELP) offers a smooth bidding process to encourage private sector participation

Source: Government statistics

total rookies in the exploration & production (E&P) arena. Take, for instance, the Mumbai-based realtor HDIL (Housing Development and Infrastructure Ltd), which has been active in the residential, commercial and infrastructure space for three decades but which got listed on the stock exchanges just a year ago. Like its peers DLF and Unitech, HDIL, too, has chosen to diversify away from real estate. However, whilst DLF has spread its wings into financial services and modern retail and Unitech into telecom, HDIL has chosen oil & gas exploration. Hyderabad-based infrastructure conglomerate, the GVK Group, which has been building airports, highways and power units, has also entered the fray. Others include shipping company Mercator Lines and oil & gas equipment supplier Jindal Drilling. Experts explain that the experience of the existing players has also contributed to the interest of the new entrants. "Videocon and Selan have good discoveries to

their credits," says Rai of Directorate of Hydrocarbons.

It's All About Synergies

Interestingly, almost every new entrant says that its E&P foray is synergistic with its existing operations. In the case of Jindal Drilling, which makes drilling equipment, the integration is evident. "We are looking at shallow water and land blocks that are not too expensive to drill," says Naresh Kumar, Managing Director, Jindal Drilling. The company has a long association with public sector giants in the upstream business, like ONGC (Oil and Natural Gas Corporation) and Oil India. "It's a logical next step for us to forward integrate into oil & gas exploration," explains Kumar.

For other firms, the synergies may be less obvious, but they're there, insist their promoters. Sarang Wadhawan, Managing Director, HDIL, sees synergies between the energy sector and his core business of real estate. "Power shortages can play a spoilsport in

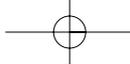


UNESH GOSWAMI

Sarang Wadhawan/ Managing Director/ HDIL

"We are looking at the energy sector in a big way as there are synergies with our core real estate business"





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any large real estate project,” says Wadhawan. A wholly-owned subsidiary, HDIL Oil & Gas, has been floated (although it couldn't win any blocks in the recent NELP VII). If HDIL is able to explore and produce oil & gas, it can be utilised to generate power, which, in turn, will light up its real estate projects. Adds G.V. Krishna Reddy, Chairman, GVK Group: “Power is going to be an important commodity in the next 10-20 years. We are also looking at getting into LNG (liquefied natural gas).” The GVK Group has plans to put power capacities of close to 2,000 MW. A diversification into gas can be considered a backward integration.

GVK Energy, a wholly-owned subsidiary of the group, recently got rights for deep water blocks on the west coast in the NELP VII round. Reddy has decided to concentrate on the west coast. “There is no point managing bids at different locations as development requires various seismic studies. It is easy to cover a huge area of over 35,000 sq. km at one place,” reasons Reddy.

Mercator, too, sees synergies between oil & gas and marine transport. The 25-year-old Mercator, which has the state-



A. PRABHAKAR RAO

G.V. Krishna Reddy/ Chairman/ GVK Group

“We have allocated \$35-40 million for 2D and 3D seismic studies. Exploration requires an investment of \$100-200 million”

owned refining behemoths as its clients, won two land blocks in the south Cambay Basin in the NELP VII round.

Helping Hand a Must

For these new kids on the E&P block, a helping hand from global giants is a must. The government has allowed 100 per cent foreign direct investment in exploration,

and that has paved the way for a number of alliances. HDIL has allied with Pan Oriental of Canada, and GVK with BHP Billiton, the world's biggest miner. The Melbourne-headquartered BHP has oil & gas assets in Algeria, Australia, Pakistan, Trinidad and Tobago, United Kingdom and the United States. It has picked up a 26 per cent stake in GVK Energy, with an

AT THE DEEP END They've been at it for more than a decade now...

PRIVATE PLAYER/ YEAR OF ENTRY	OIL & GAS SITES	RETURNS
Selan Exploration Technology/ 1992	Has three oilfields in Gujarat with proven oil & gas reserves. Two more fields under active exploration	Revenues of Rs 34 crore and a net profit of Rs 13 crore in 2007-08. Stepping up efforts to develop more oil fields
Videocon Industries/ 1994	Ravva oil & gas fields in the Bay of Bengal in Andhra Pradesh	Profits from the Ravva oil field pegged at Rs 400 crore in 2007-08
Essar Oil/ 1993	Nine onshore and three offshore blocks for oil & gas	E&P revenues of Rs 3.88 crore in 2007-08
Tata Petrodyne/ 1993	Five oil & gas blocks and also JVs with international oil & gas companies for exploration overseas	Revenues of Rs 212 crore with a post-tax profit of Rs 95 crore in 2006-07 (2007-08 results not available)
Jubilant Energy/ 1995	Eight oil & gas blocks with an operating interest in four	Financials not available as it is a closely-held company

Source: Company websites, BSE





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...and Reliance leads the charge amongst the more recent players.

PRIVATE PLAYER	BLOCKS UNDER COVERAGE	EXPLORATION STATUS
Adani Welspun Exploration	Two exploration blocks each in India and Thailand	Undertaking seismic surveys and studies
Reliance Industries	RIL has 33 domestic exploration blocks. Also has interests in three exploration blocks in Yemen, two each in Oman and Columbia, one each in East Timor and Australia	Oil & gas production to commence in the third calendar quarter of 2008

Source: BT Research

option to go up to 49 per cent. "We have been talking to BHP for the last one year. They have been surveying the Indian market for long," says Reddy.

A section of analysts is sceptical about the chances of many of the players, particularly those who have bagged land and shallow water blocks. "Most of the blocks awarded in the NELP rounds are not worth exploring," says one analyst. If RIL has been successful, it's because it's exploring in deep waters. This calls for substantial investments, in skilled talent, sophisticated equipment and high

technology. For many of the entrants, such expenditure is prohibitive, which may explain why they're beginning small. Mercator Lines has set aside \$28 million (Rs 120 crore) to develop land blocks. "This is our first foray and hence we have opted for the less-expensive land blocks," says Nitin Kolhatkar, Vice President (Finance), Mercator Lines. The GVK Group is one of the few to venture into deep waters, which is why it's willing to invest up to \$200 million (Rs 860 crore) in its exploration foray. Reddy says the chances of finding oil & gas in

deep waters are high.

Aggressive Bidding

There's also a feeling that in the eagerness to bag exploration blocks, promoters have bid aggressively. Reddy, who has allocated \$35-40 million (Rs 150-172 crore) for 2D and 3D seismic studies, thinks otherwise. "Our bids have been reasonable. Exploration requires investments of \$100-200 million (Rs 430-860 crore)," he says. The upside in the business is, after all, huge. Equity analysts have been closely tracking RIL's discoveries, and expect many more to be announced. A report put out a few months ago by SSKI-IDFC pegs a best-case valuation for RIL's E&P portfolio at a whopping \$48.9 billion or Rs 2,10,270 crore (at peak cash flows).

It dreams of such big bucks that are keeping players in the hunt, including those who weren't successful in the recent round of bidding. "We are open to JVs under the SPV model for exploration in the domestic as well as overseas markets," says Wadhawan of HDIL. Adds Jindal Drilling's Kumar: "We are open to taking a stake in an existing block."

It will be at least another four-to-five years before it becomes clear which of the upstream players hits pay dirt. What the price of oil will be by then is, of course, anybody's guess. ■



JAYANTA NARAYAN SAHA



Naresh Kumar/ Managing Director/ Jindal Drilling

"It's a logical next step for us to forward integrate into oil & gas exploration"

