

A swot analysis of the energy sector



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The energy sector has witnessed mixed news during the current fiscal so far. While crude prices firmed up in the global market, the government's freeze on prices of petro-products affected margins of oil companies.

However, the government took a series of steps starting mid-June including excise duty reduction and price increases. This was followed by another series of duty cuts (this time excise as well as custom duties).

Given this backdrop, we feel that there is a compelling reason for a SWOT analysis on the oil sector at the current juncture.

Strengths

Consumption growth

(MMT)

FY01

FY02

FY03

FY04

Diesel

38

36.5

36.6

37.3

(%) change

-3.9%

0.3%

1.9%

Petrol

6.6

7

7.6

7.9

(%) change

6.1%

8.6%

3.9%

LPG

7

7.7

8. 4

9. 3

(%) change

10. 0%

9. 1%

10. 7%

· Developing economy: Historically, demand for petroleum products has traced the economic growth of the country. With GDP expected to grow at near 7% in the long-term, the energy sector would benefit from the same, going forward.

To put things in perspective, diesel sales grew by nearly 12% (which constitutes 40% of the entire petro-products basket), petrol sales by 9% and a double-digit growth in LPG (liquefied petroleum gas) in 1QFY05. While this rate is not likely to sustain, we expect the industry to witness a 4% growth in the entire product basket in FY05 and beyond.

· Government decisions: The recent price increases and also the decision to allow oil companies to increase prices within a band of 10% augurs well for the industry.

This step is likely to reduce government interference and provide some autonomy to oil companies when it comes to increasing petrol and diesel

prices in order to protect margins. Further, the duty cuts are also likely to result in reduced under-recoveries by way of subsidies on LPG and kerosene.

Customs duties

Excise duty

old (%)

new (%)

Petrol

26

23

Diesel

11

8

Kerosene

16

12

Excise duties...

Customs duty

old (%)

new (%)

crude oil

10

10

petrol

20

15

diesel

20

15

LPG

10

5

Kerosene

10

5

Weakness:

Crude prices: Nearly 70% of India's crude requirements are fulfilled by imports and this figure is likely to increase going forward. Crude prices have breached the \$45 barrier again and are likely to remain at around \$40 per barrel range.

As per IEA, India is one of the most inefficient countries among developing nations as far as energy usage is concerned. Such high crude prices are likely to impact margins of oil marketing companies. Given the political implications, retail prices may continue to lag the rise in input cost.

Lack of freedom: Although the government has decided to provide autonomy to oil companies to increase petrol and diesel prices within a 10% band, other products such as LPG and kerosene continue to remain under the government controlled price mechanism.

As per the current estimates, the subsidies on LPG amount to Rs 90 per cylinder after factoring in duty cuts and that on kerosene is over Rs 6 per litre.

While the government has managed to reduce its share in subsidies, select oil companies are being forced to absorb the losses.

Government: Hands-off

Year

Subsidies

(Rs)

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LPG/cylinder

Kerosene/litre

2002-03

67. 75

2. 45

2003-04

45. 17

1. 63

2004-05

22. 85

0. 81

Opportunities:

Equity Oil: Major oil marketing companies are now venturing into upstream exploration and production activities so as to secure crude supply.

To put things in perspective, IOC and OIL India are likely to jointly bid for oil fields abroad. At the same time, ONGC's wholly owned subsidiary, ONGC Videsh (OVL) has acquired stakes in over 9 countries in its quest to attain the 20 MMT (million metric tonnes) by 2020. This backward integration is an opportunity for IOC to secure at least 25% of its crude oil requirements for the refineries.

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Supply as a (%)

age of allocation

Supply

Power

52. 0%

Fertilizer

65. 0%

Others*

51. 0%

Natural Gas: Natural gas has the potential to be the fuel of the future with demand outpacing supply by more than two times. Such high scarcity of natural gas provides a big opportunity for oil companies. The below mentioned table indicates the allocation to the various core sectors and the shortage faced by them, thereby giving an idea of the potential for growth.

Although Petronet LNG has now started importing natural gas, the future holds promise as Reliance Industries' Krishna Godavari Basin goes into commercial production in FY06 and Shell commences its terminal at Hazira. More exploration activities are in the pipeline and this could reduce the country's dependence on crude in the long term.

Threats:

Competition: Until FY04, oil-marketing companies had complete control over the downstream marketing business while private sector players were restricted to only refining.

However, with entry of private players such as Reliance, Essar Oil and Shell (in the waiting), the sector is likely to witness increased competition going forward. The oil PSUs had hitherto developed a fortnightly pricing mechanism, which is likely to discontinue.

The price of petrol and diesel is artificially kept high so as to cross-subsidize LPG and kerosene. Since private players will not be bound to provide for these subsidies, PSU marketing players are likely to suffer from lower throughput per outlet.

Continuing government interference: During the first six months of the current fiscal year, the oil marketing companies were refrained from increasing product prices due to political reasons.

This affected margins of downstream players. Going forward, if the government interference continues, oil-marketing companies will be at a disadvantage.

Although we believe the industry is likely to witness increased competition, the initial retail rush by private sector players has slowed down. PSU marketing companies have already stepped up their expansion plans and to that extent, have created significant entry barriers for private players.

Although throughput per outlet (sales per outlet) is likely to decline in the future, we believe that any substantial entry of the private players would indirectly benefit the PSUs, as the government's pricing policy will not hold much water and the market forces would determine pricing.

BHARAT PETROLEUM

About The Company:

The 1860s saw vast industrial development. A lot of petroleum refineries came up. An important player in the South Asian market then was the Burmah Oil Company Ltd. Though incorporated in Scotland in 1886, the company grew out of the enterprises of the Rangoon Oil Company, which had been formed in 1871 to refine crude oil produced from primitive hand dug wells in Upper Burma.

The search for oil in India began in 1886, when Mr. Goodenough of McKillop Stewart Company drilled a well near Jaypore in upper Assam and struck oil. In 1889, the Assam Railway and Trading Company (ARTC) struck oil at Digboi marking the beginning of oil production in India.

While discoveries were made and industries expanded, John D Rockefeller together with his business associates acquired control of numerous refineries and pipelines to later form the giant Standard Oil Trust. The largest rivals of Standard Oil – Royal Dutch, Shell, Rothschilds – came together to form a single organisation: Asiatic Petroleum Company to market petroleum products in South Asia.

In 1928, Asiatic Petroleum (India) joined hands with Burmah Oil Company – an active producer, refiner and distributor of petroleum products, particularly
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in Indian and Burmese markets. This alliance led to the formation of Burmah-Shell Oil Storage and Distributing Company of India Limited. A pioneer in more ways than one, Burmah Shell began its operations with import and marketing of Kerosene. This was imported in bulk and transported in 4 gallon and 1 gallon tins through rail, road and country craft all over India. With motor cars, came canned Petrol, followed by service stations. In the 1930s, retail sales points were built with driveways set back from the road; service stations began to appear and became accepted as a part of road development. After the war Burmah Shell established efficient and up-to-date service and filling stations to give the customers the highest possible standard of service facilities.

From Burmah Shell to Bharat Petroleum

On 24 January 1976, the Burmah Shell Group of Companies was taken over by the Government of India to form Bharat Refineries Limited. On 1 August 1977, it was renamed Bharat Petroleum Corporation Limited. It was also the first refinery to process newly found indigenous crude Bombay High, in the country. Today Bharat Petroleum Corporation Limited has got three refineries at Mumbai, Kochi and Numaligarh. They are also on the verge of commissioning another refinery at Bina in Madhya Pradesh.

Bharat Petroleum Corporation Limited (BPCL) is one of India's largest PSU companies, with Global Fortune 500 rank of 287 (2008). Its corporate office is located at Ballard Estate, Mumbai. As the name suggests, its interests are in petroleum sector. It is involved in the refining and retailing of petroleum products. Bharat Petroleum is considered to be a pioneer in Indian petroleum industry with various path-breaking initiatives such as Pure for Sure

campaign, Petro card, Fleet card etc. BPCL's growth post-nationalization (in 1976) has been phenomenal. One of the single digit Indian representatives in the Fortune 500 & Forbes 2000 listings, BPCL is often referred to as an "MNC in PSU garb". It is considered a pioneer in marketing initiatives, and employs "Best in Class" practices. Bharat Petroleum Corporation Limited (BPCL) specializes in refining, processing, and distributing petroleum products. It offers petrol, diesel, aviation fuel, liquefied petroleum gas (LPG) and lubricants. The company primarily operates in India, where it is headquartered in Mumbai and employs about 13,968 people. The company recorded revenues of INR1,112,431 million (approximately \$27,632.8 million) in the fiscal year ended March 2008, an increase of 13% over 2007. Its net profit was INR17,696 million (approximately \$439.6 million) in fiscal 2008, a decrease of 17.5% compared to 2007.

HISTORY.

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FROM BURMA SHELL TO BHARAT PETROLEUM

Burmah Shell Refineries was incorporated as a company in 1952, and established a refinery in Mahul . On 24 January 1976, the Burmah Shell Group of Companies was taken over by the Government of India to form Bharat Refineries Limited. On 1 August 1977, it was renamed Bharat Petroleum Corporation Limited. It was also the first refinery to process newly found indigenous crude Bombay High, in the country.

BHARAT PETROLEUM “ then and after”

The company installed microprocessor based digital integrated distributed control systems in catalytic reformers and introduced a new solvent unit to replace the pneumatic control system in 1993. The company also installed an advanced control system for its catalytic control unit. The company then incorporated a joint venture company, Bharat Oman Refineries, in 1994

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There after BPCL signed a memorandum of understanding (MOU) with Bank of Baroda in 1995 to launch the first co-branded credit card in the country. In 1998, BPCL entered into a joint venture with Petronet (India) for the construction of a 308 km pipeline from Kochi in Kerala to Karur in Tamil Nadu.

The following are a few achievement achieved by BHARAT PETROLEUM CORPORATION LTD:

-McDonald’s made an agreement with BPCL to open and run restaurants at selected petrol pumps across the country in 2000. Quicky’s, the global coffee chain, followed suit in 2001, and began to offer its services at BPCL stores.

- BPCL launched Speed '93, its own brand of petrol, in 2003. In the following year, BPCL diversified its operations. The company entered into a business to business e-commerce arrangement with IDBI Bank to provide an automated payment and purchase process to BPCL’s corporate and industrial clients.

The company also tied up with Tata Consultancy Services to provide medical advisory and counselling services at Ghar, the highway retailing initiative of BPCL.

-Bharat Petroleum Corporation Limited and GAIL formed another joint venture company, Central UP Gas, for implementation of City Gas Projects in Delhi and Kanpur in 2005.

- In 2006, the Government of the Sultanate of Oman signed an Exploration and Production Sharing Agreement (EPSA) for the on land exploration block 56 with the consortium comprising BPCL, Oilex (Operator), Hindustan Petroleum Corporation Limited, GAIL India and Videocon Industries. In the same year, the company acquired a 20% interest in an exploration block in Australia.

-In September 2008, BPCL and Videocon Industries Ltd acquired 50% stake in Brazil's EnCana Brasil Petroleo Limeade.

-BPCL and GAIL (India) Limited announced to form a joint venture company, God's Own Gas Company, for marketing compressed natural gas (CNG) and piped gas in Kerala and Karnataka, in March 2008

.-In April 2008, BPCL announced the formation of joint venture Company in consortium with other companies, Shapoorji Pallonji Co Ltd and Nandan Biomatrix Ltd for establishment of Bio Diesel Value Chain in Uttar Pradesh, India. In the same month, BPCL and GAIL (India)

Limited signed an MOU for cooperation in transmission and distribution of natural gas, LPG pipelines and city gas.

-In August 2008, Punjab Energy Development Agency (PEDA) signed a MoU with BPCL to setup one M/W Solar Photovoltaic Power Plants at Lalru in Punjab, India.

Products

Bharat Petroleum produces a diverse range of products, from petrochemicals and solvents to aircraft fuel and speciality lubricants and markets them through its wide network of Petrol Stations, Kerosene Dealers, LPG Distributors, Lube Shoppes, besides supplying fuel directly to hundreds of industries, and several international and domestic airlines.

Refineries

BPCL has refineries at Mumbai and Kochi (Kochi Refineries) with a capacity of 12 Million Metric Tonnes (MMT) and 9.5 MMTPA respectively for refining crude oil. BPCL's subsidiary at Numaligarh has a capacity of 3 MMT. One more refinery i. e. Bina Refinery is coming up and is expected to get commissioned in the current financial year. It would operate at 6 MMTPA for the first year.

Brand ambassador

Mahendra Singh Dhoni signed on as the Brand Ambassador for BPCL in 2006. Narain Karthikeyan is one other Brand Ambassador for BPCL.

Strength:

Bharat Petroleum Corporation Limited (BPC). The Group's principal activities are to refine store, market and distribute petroleum products.

It offers petrol, diesel, aviation fuel, liquefied petroleum gas (LPG) and lubricants. The Group retails LPG under the ' Bharatgas' as well as supplies LPG through a pipeline network.

It also offers various industrial services, which comprise customer advisory services, energy audits, E-banking, consultancy and technical services, fuel management system, online ordering, and bunkering.

As of 31-Mar-2009 the Group's marketing network consisted of 23 aviation service stations, 8402 retail outlets and 2117 LPG distributors.

Other points are:

High foreign exchange debt.

Largest retail network all over india.

Highest market share

Expertise in oil & gas industry

Foreign subsidiaries and joint ventures

In-house training centers

Weakness:

Stringent corporate policies

Lack of marketing efforts

Promotion policy

Tender process

Opportunity:

Exploration and Production

Threats:

Entry of Big Private players

MARKETING.

Bharat petroleum understands people's need as customers and relentlessly work towards fulfilling them, working consciously towards providing added value in fuel and non-fuel areas. The Corporation offers products and services that have been designed to meet the need gaps of its customers. It is not easy as BPCL's customer base is a diverse one demanding of them to perform better and satisfy the needs of some of their customers who fly in the air to the larger Indian populace who survive on 'Kerosene' as their cooking fuel.

FUELLING AUTOMOTIVES.

Vehicle owner's are always on the lookout for new offerings as well for tips & pointers to keep their vehicles in top shape. BPCL understand their requirements and have consistently tried to satisfy their needs. Information about all the high-class fuels for vehicle as well as the lubricants is always updated to keep wheels running smoothly.

OFFERING WORLD CLASS FUELS.

Since 2002, BPCL have introduced new generation branded fuels Speed, Hi Speed Diesel and Speed 97, being the pioneers to introduce premium fuel brands in the Country. These specialized products BPCL launched in line with global trends and keeping pace with the technological advancements in the <https://assignbuster.com/a-swot-analysis-of-the-energy-sector/>

automobile industry leading to introduction of new generation vehicles. Speed brand of petrol contains multi-functional fuel additives that prevent formation of harmful deposits and help clean existing deposits, thereby improving vehicle performance. SPEED has been the market leader in the branded fuels category. BPCL has also introduced a high-end Octane 97 variant Speed 97 catering to the requirement of vehicles at the upper end of the tier. To meet the growing needs of the diesel passenger car segment, BPCL also introduced Hi-Speed Diesel which is a blend of diesel and world-class multi-functional additive which uses the internationally renowned Green Burn Combustion Technology. This multi-functional additive enables the high performance vehicles to deliver their designed outputs by removing harmful deposits from all fuel metering systems and components. This also reduces particle level, black smoke and provides longer engine life.

SERVICING THE CUSTOMER'S NEED.

BPCL recognized the customer need for pure quality and correct quantity of fuel for their vehicles and launched the flagship initiative of Pure For Sure (PFS) offering the guarantee of pure quality and correct quantity of fuel to our customers. The petrol pumps displaying a prominent ' Pure For Sure' signage have become landmark destinations as the movement has gained momentum across our Retail Network. BPCL now offer a robust and automated network of retail outlets, which leverage technology to deliver the assurance of quality and quantity promise, ensure integration of payment with fuelling and improves the service efficiency at the forecourt of the petrol pump.

FOSTERING LOYALTY

BPCL share rewarding relationships with their customers and building loyalty has been a centre of focus with them. Recognizing the need of their customers to make life more convenient and rewarding and introduced the first loyalty-cum-rewards program, Petro Bonus. Equipped with Smart Card Technology, the Petro Card program combines convenience in payment along with an inbuilt rewards program that rewards the customer with Petromiles every time he fuels. A similar program, Smart Fleet was launched for Fleet Owners. The SmartFleet Programme offers the fleet owner an unbeatable convenience, security and a host of privileges such as cashless transactions, vehicle tracking, Credit Option for Fleet Owners and Cash Management System.

CARING FOR CUSTOMER'S VEHICLE NEED

BPCL also aim to provide service centre facilities through their V-CARE (Vehicle Care) Centres across the urban network. The V-Care Centres provide customers with reliable, transparent and value for money services for the basic vehicle care needs. BPCL have tie ups with Hero Honda and General Motors for being their authorized After Sales Service Centres apart from the other brands of cars and two-wheelers. With BPCL'S reach to the nook & corner of the country they are always near to their customers.

PARTNERING HIGHWAY JOURNEY.

On the highways, BPCL offer a home away from home to the truckers and the tourists in the form of the GenerationNext OSTs/OSTTs (One Stop Truck cum Tourist Shop) branded as GHAR. These outlets are built on a minimum of 3 to 5 acres plot sizes and house dedicated and fully automated MS/HSD

petrol/ diesel Fuelling facilities to fuel all kinds and sizes of vehicles besides the specially designed offerings for the highway travelers, that include a Food Court for Tourists and a Dhaba for truckers, a dormitory with beds, a Safe, Secured and Spacious parking for trucks and cars, a vehicle wash facility, Saloon, Laundry and Tailor shop, a Kirana shop, Bathing facilities, dedicated toilets for Truckers and dedicated toilets for Tourists (Gents, Ladies & Handicapped), Children's Play area, Amphitheatre for entertainment, Health care centre, Smartfleet Customer service centre , Sanjha Chula for self cooking and captive power generation. Assuring a network of outlets on the highway shows our commitment to serve our highway customers with as much care as in the key cities.

AUTO L. P. G.- THE INTRODUCTION OF LPG AS AUTO FUEL

With the menace of rising vehicular pollution, use of LPG as an auto fuel was proposed as a pollution abatement measure. LPG being a clean environmentally friendly fuel, will reduce air pollution to a great extent if the vehicles are fuelled with LPG. Bharat Petroleum was

the first Oil Company to take the initiative for setting up of an Auto LPG Dispensing Station (ALDS) and run vehicles on LPG as a pilot project in Delhi in October 1999. BPCL today have over 70 Auto LPG Dispensing Stations (ALDS) in various cities (including metros) in the country

BRAND MANAGEMENT.

In the highly competitive scenario, it has become imperative to own dominant brands. The Brand Management team at Bharat Petroleum

endeavours to build and manage a strong brand image reflecting Bharat Petroleum's core values of being ' INCARE', viz. INnovative, CARing and RELiable. Emphasis is laid on continuously understanding customer behaviour, tracking their changing needs and expectations, and meeting these needs in the most cost-effective manner

STRATEGY DEVELOPMENT.

Bharat Petroleum recognizes that all strategic initiatives must conform to the overall vision of the Corporation and improve the economic value. The Strategy Development effort at the corporate level achieves better focus in the new organizational structure, besides facilitating the SBUs in developing their respective strategies that lead to an integrated Corporate Strategy. A Business Planning process has been put in place that not only provides opportunities for the SBUs to pursue their visionary goals in consonance with the Corporate Vision, but also continuously monitors trends and identifies strategic opportunities for the Corporation.

“ ON 16TH APRIL, 2009 BPCL LIFTED MARKETING COMPANY OF THE YEAR AWARD AGAIN AFTER 2008.”

Reliance Petroleum Limited(RPL)

Mission Statement:

Refining Life Redefining Growth.

Goal:

To harness an emerging value creation opportunity in the global refining sector.

About the Company:

1991, Reliance industries set up a new subsidiary, Reliance Refineries Private Ltd. The subsidiary later changed its name to Reliance Petroleum Limited, and in 1993 launched a public offering, which at that time was India's largest ever IPO.

Reliance continued to pioneer financing channels in India. In 1993, for example, the company became the first Indian company to raise capital on the foreign market, through a Global Depositary Receipt (GDR) issue in Luxembourg. The company completed a second successful GDR issue in 1994. The company used the new capital in part to expand its petrochemicals wing, building the world's largest multi-feed cracker at the Hazira site. The company also added production plants for monoethylene glycol, polyethylene, and purified terephthalic acid. The new units launched production in 1998.

Reliance's opportunity for entry into petroleum refining came in 1997, when the Indian oil industry reached a state of near collapse. Unable to fund further exploration operations, and lacking the capital to expand its existing production, the government was forced to liberalize the sector. In that year, Reliance announced a plan to build one of the world's largest and most modern petroleum refining complexes in Jamnagar, Gujarat, at a cost of some \$6 billion. The government agreed to the plan, and granted the company the right to import petroleum directly, rather than going through Indian Oil, which helped Reliance greatly drive down operating costs.

Constructed in record time, the Jamnagar site was commissioned in 1999. The site's production capacity was double that of any other Indian refinery and ranked among the top five in the world. The addition of the new facility also placed Reliance at the top rank of the country's private-sector companies. In 2002, Reliance Petroleum was merged into Reliance Industries, which then became one of the country's top three companies, including state-owned entities.

Breaking Up in 2006:

Dhirubhai Ambani died in 2002, and the Ambani brothers took over as heads of the company. In that year, the company increased its dominance of the country's petrochemicals sector through its acquisition of main private-sector rival Indian Petrochemicals Corporation. Also in 2002, Reliance launched a diversification effort, targeting the telecommunications sector, especially the fast-growing cellular phone market. Reliance set up its own phone service, Reliance Infocomm, in that year.

Yet the petroleum industry remained the company's major growth focus. In 1999, the Indian government auctioned off 25 blocks for exploration; bids were given in the form of royalty percentage offers. Reliance won 12 of the blocks and promptly set in place its own team of exploration experts, backed by oilfield services from Halliburton and Schlumberger. Reliance's investment quickly paid off with the discovery of natural gas reserves estimated at some 14 trillion cubic feet, the largest natural gas field discovered in India in decades, in the Krishna-Godavari Basin in the Bay of Bengal. In 2004, the company struck again, locating a new gas field in the Bay of Bengal, off the Orissa Coast.

Buoyed by its successful exploration efforts, Reliance unveiled an ambitious expansion program for the second half of the 2000s. The company's plans included a \$6 billion extension of the Jamnagar site, doubling it in size and making it the world's largest and complex refinery by 2009. The company also announced that it intended to spend \$10 billion on further oil exploration efforts, targeting the international market. In this way, the company hoped to increase its production tenfold by the end of the century. At the other end of the petroleum market, the company launched a \$1.5 billion expansion of its Reliance gas station chain, with the goal of 6,000 stations. The company also expanded internationally, becoming the world's leading manufacturer of polyester yarn with the acquisition of Germany's Trevira. In addition, the company boosted its telecommunications wing, acquiring U. K.-based FLAG Telecom, an operator of a 50,000-kilometer underwater fiber-optic cable network.

In the meantime, rising tensions between Mukesh and Anil Ambani came to a head in late 2005, when a long-simmering disagreement over company strategy broke out into an open and highly publicized feud. In the end, a truce was brokered by the brothers' mother, who proposed a breakup of Reliance Industries into two roughly equal components. Mukesh Ambani remained as head of the company's petroleum, petrochemical, and textiles operations, and Anil Ambani regrouped the company's telecommunications, energy, capital finance, and other operations into a new company. The breakup of the company took place in 2006. As a result, Reliance Industries emerged as a focused and highly integrated petroleum and petrochemicals challenger to the global heavyweights.

Employees: 12, 540(in 2006-07)

Employee growth: 3. 5%

India and Reliance

India and Reliance Industries rely on each other. The company is India's largest petrochemical firm and among the country's largest companies (along with the likes of Indian Oil and the Tata Group). Oil refining and the manufacture of polyolefins (polyethylene, polypropylene, PVC, etc.) account for near