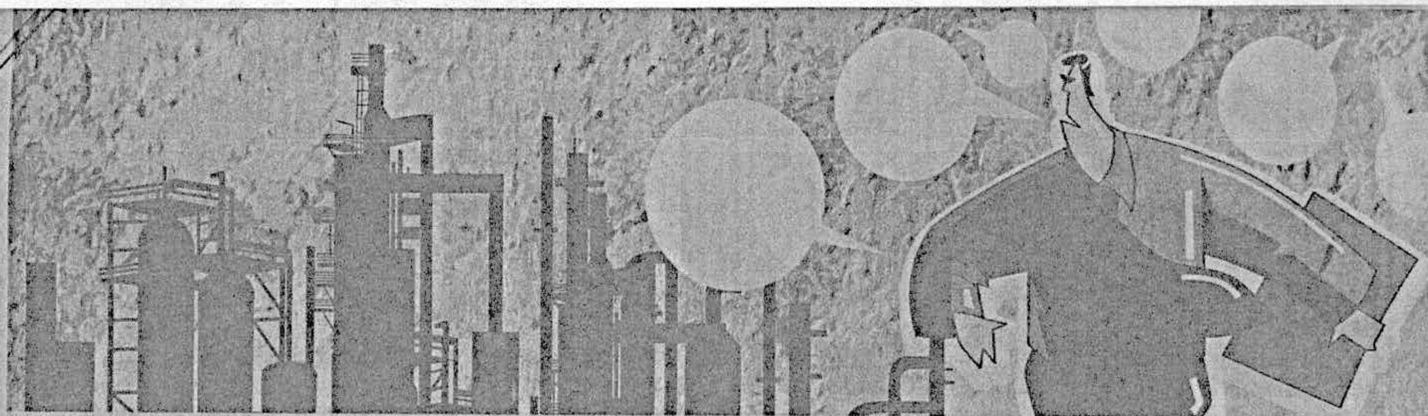

MERGER IN OIL & GAS SECTOR

MINIRATNAS TO CREATE BIG ENTITIES

Two or three mega companies likely to be created through the merger of 13 oil PSUs

SHINE JACOB
New Delhi, 2 February

The oil and gas sector would have two or three mega companies and not one single entity through the merger of 13 oil public sector undertakings, which was announced in the Budget.

Finance Minister Arun Jaitley had on Wednesday said the government was planning to merge all the public sector undertakings in the oil and gas sector to create an integrated company. When asked about this, an official close to the development said, "It may lead to the merger of several miniratnas into Maharatnas and Navratnas to form at least three or four big companies." The new companies are likely to be integrated oil and gas majors. Industry experts were not too enthusiastic about the Budget announcement to go for a mega merger and form a single entity.

"It may create cultural issues," said R S Sharma, former managing director of ONGC. "I am of the opinion that there should be a single holding company rather than a mega merger. It may give huge revenue to the government in the form of disinvestment and will also lead to cost savings of at least 10-15 per cent through sharing of infrastructure and manpower."

Companies might get to decide which one would merge with what. "We want to create a synergy, so that the international fluctuations in oil prices will not affect our exploration and production companies and marketing companies," added the official.

If all the companies are joined together, it would create the biggest company in India and the biggest in the sector globally.

The idea was first mooted by former petroleum minister Mani Shankar Aiyar back in 2005. The list of oil industry maharatnas include Oil and Natural Gas Corporation (ONGC), Indian Oil Corporation Ltd (IOCL) and Gas Authority of India Ltd (GAIL). According to the proposal, upstream companies like ONGC and Oil India and downstream majors like IOC, HPCL, BPCL and even companies like GAIL India and Engineers India were supposed to merge and become a single entity. The list of oil industry navratnas include Bharat Petroleum Corporation Ltd (BPCL), Hindustan Petroleum Corporation (HPCL) and Oil India Ltd (OIL).

THE TASK AT HAND

Business Standard looks at the eight major listed public sector oil companies, how they fare in terms of market capitalisation, net profit and revenue earned in FY16. The numbers show the proposed oil mammoth would be able to compete with domestic private companies, but would not be able to match global majors. With a total market capitalisation of about $104 bn, the new oil major would be on a par with BP Plc, which has market capitalisation of $116.72 bn. The top four global listed oil companies by market capitalisation each have a market cap that is two to three times higher than that of the combined might of the eight public sector undertaking oil companies. The proposed oil major will have a long road ahead to turn relevant on the global map. Industry experts say the merger will be a mammoth task in itself and may turn out to be a long-drawn process. Here is a status check:

Where they stand now: Eight major listed PSU oil companies (₹ crore)

Name	Net sales	PAT	Market cap*
IOC	3,62,881.03	11,219.22	1,85,835.48
BPCL	1,88,651.36	7,981.51	1,01,137.79
HPCL	1,87,078.80	4,921.49	56,036.04
ONGC	1,31,497.88	14,123.81	2,57,819.69
GAIL (India)	54,887.66	2,251.62	60,500.03
MRPL	39,766.82	709.56	18,314.66
CPCL	26,319.87	790.30	5,038.42
Oil India	9,884.11	2,003.91	27,259.51
TOTAL	10,00,967.53	44,001.42	7,11,941.62

PAT: Profit after tax; * As of February 2
Sources: Capitaline, Bloomberg

Compiled by: BS Research Bureau

What they may become: Proposed oil major ($ billion)

Grand total	Net sales	PAT	Current market cap
Oil major	151.08	6.64	104.69

Market capital for indian companies converted at ₹68/$
Net sales and profit for Indian companies converted at curreny rate as on March 31, 2016
Financial performance of indian companies for FY16

How they compare to private oil companies in india ($ billion)

Grand total	Net sales	PAT	Current market cap
RIL	41.74	4.17	49.83
Essar	7.91	0.32	

How they compare to the top four global listed oil companies by market cap ($ billion)

Grand total	Net sales	PAT	Current market cap
Exxon Mobil Corp	205	8	344
Royal Dutch Sh-A	265	2	225
Petrochina-H	275	6	220
Chevron Corp	103	0	210

Financial performance for global companies for latest calendar year available

COMMENT Core sector concerns ignored

RAVI UPPAL
MD & Group CEO
Jindal Steel & Power

One thing for which the government deserves full credit is the consistency in its policies. The budgetary proposals reaffirm the government's unflinching commitment to what others have set out to do. The Budget once again has a strong focus on infrastructure, housing, employment generation, digitisation and increasing consumption levels of the economically weaker sections. The proposals are also focused on improving the economic lot of the rural poor, women and senior citizens.

While a hefty increase in infrastructure and defence spending will spur demand for goods from core sector industries like steel, cement and construction, the government did not mention anything on royalties and freight costs to improve the competitiveness of domestic companies.

Private sector investment in the core sector remains low and has declined over the last five years. With huge amounts blocked in non-performing assets in power, steel, mining and cement industry, the private investment would remain tepid until the government intervenes actively to make these assets productive. Sadly, the corporate tax rates for large companies were not reduced. Although tax concessions for MSMEs is a positive move, it is the large companies that invest in intensive core industries and their problems cannot be ignored.