Deal to Cover 40% of Divestment Target

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The combined market value of ONGC and HPCL would be $42 billion, comparable with Russian energy giant Rosneft's $56 billion, but much smaller than global giants such as ExxonMobil ($340 billion), Shell ($220 billion), Total ($128 billion) or BP ($114 billion).

The proceeds from the deal will cover about 40% of the government's divestment target of Rs 72,500 crore for 2017-18. "This is great news since it holds potential to bridge the fiscal deficit," said Deepak Mahurkar, consultant at PwC.

By turning HPCL into its subsidiary, ONGC, which produces 60% of the country's crude oil, will also become the nation's third-largest refiner controlling over 40 million tonnes per annum of refining capacity. ONGC already controls a 15-million-tonne refinery through its unit MRPL. The deal would also give ONGC control over HPCL's 14,500 filling stations, or about a quarter of the country's petrol pumps.

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GOVT WILL TRANSFER ITS SHARES IN HPCL TO ONGC

ONGC Set to Create Energy Giant with Control of HPCL

What the Merger Means

ET reported about the impending deal between the energy PSUs on Feb 27

ONGC may have to shell out Rs 30,000 crore, or $1.6 billion, for the deal at current market prices. It would have to dip into its $2.5 billion cash reserve, as well as borrow or sell some investments to fund the deal.

Sarraf said the funding plan had not been finalised.

Ahead of the expected cabinet decision on Wednesday, the shares of HPCL, valued at $9 billion, closed 4.14% up while that of ONGC, valued at $32.5 billion, ended up 0.8%. Since the beginning of 2017, the HPCL stock has run up 30% while ONGC has slipped 15%.

Sarraf said the two companies would combine well. "There is synergy between MRPL and HPCL, but a decision on their integration will have to be taken by the boards of the two companies," he said.

Analysts are keenly watching how the two state-run firms would integrate. "One of the important aspects to watch out for is how ONGC adds value to this new company in the fold. An otherwise busy and occupied management and board of ONGC will be taking on more commitment of HPCL governance," said Mahurkar of PwC.

Some analysts were concerned about HPCL's shareholders. "There is not much synergy between ONGC and HPCL. The acquisition could mean interference by ONGC and dilution of a high-performance culture at HPCL," said Ritesh Gupta, analyst at Ambit Capital. "Some HPCL shareholders will be disappointed with no open offer and we might see a negative reaction to HPCL share price," he said.

Finance Minister Arun Jaitley had unveiled the plan to restructure oil PSUs in his Budget speech.