

# Govt may offload entire BPCL stake

Indian Oil likely suitor as Centre counts on mega PSU merger to meet divestment targets

ARUP ROYCHOUDHURY  
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The Centre is planning to offload its entire stake worth a little more than ₹40,000 crore in Bharat Petroleum Corporation (BPCL), most likely to fellow state-owned oil-marketing company Indian Oil Corporation (IOCL), a deal that will go a long way in the Narendra Modi government meeting its highest-ever disinvestment target of ₹1.05 trillion.

If it goes through, an IOCL-BPCL merger will be the third mammoth amalgamation of state-owned companies, excluding banks, in three years — after Oil and Natural Gas Corporation (ONGC)-Hindustan Petroleum Corporation (HPCL) in 2017-18 and REC (formerly Rural Electrification Corporation)-Power Finance Corporation (PFC) in 2018-19. Both deals had a major role in helping the Centre garner record divestment proceeds.

As of Friday's closing prices, the market capitalisation (m-cap) of BPCL is ₹77,030 crore. The government owns a 53.29 per cent stake in the company, valuing that stake at around ₹41,049 crore.

"There are two tracks being explored — whether BPCL can be privatised by selling it to a non-public sector undertaking (PSU), or whether the Centre's stake should be acquired by IOCL," said a top official aware of the deliberations, adding that the second option seemed more likely.

The possible IOCL-BPCL merger has been discussed by officials of the Ministry of Petroleum and Natural Gas, Department of Investment and Public Asset Management (DIPAM), Department of Economic Affairs, and the Prime Minister's Office.

The senior leadership in the government has given its go-ahead to divesting the entire stake, *Business Standard* has learnt.

Very soon, the official process will begin, with the preparation of a Cabinet note, approval by the Cabinet, hiring transaction and legal advisors, etc, officials said.

At the current BPCL share price, a deal to sell the government's stake could account for 39 per cent of the 2019-20 disinvestment target of ₹1.05 trillion.

If IOCL does acquire a majority stake in BPCL, it will create an energy giant, with



Fiscal year	2017-18	2018-19	2019-20
PSU M&A	ONGC-HPCL	REC-PFC	IOCL-BPCL
Deal size (₹cr)	36,900	1+,500	41,000*
Deal size (as % of divestment proceeds)	36.9	17.0	53.3
Divestment proceeds (₹cr)	1,00,045 (actual)	₹4,972 (revised)	1,05,000 (budgeted)

PSU M&A: Public sector undertaking merger and acquisition; ONGC: Oil and Natural Gas Corporation; HPCL: Hindustan Petroleum Corporation; REC: (Formerly) Rural Electrification Corporation; PFC: Power Finance Corporation; IOCL: Indian Oil Corporation; BPCL: Bharat Petroleum Corporation  
\* Likely outcome at current prices Source: [indiabudget.gov.in](http://indiabudget.gov.in)

42,855 outlets (as of July), or 66 per cent of the retail outlets in India. The entity will also have a combined refining capacity of 104.5 million tonnes per annum (mtpa) — including 69.2 mtpa of IOCL and 35.3 mtpa of BPCL. This will be 42 per cent of the installed refining capacity in the country.

In addition, the entity will have 173 aviation fuel stations of the 248 in India. It will also have 18,020 liquefied petroleum gas (LPG) distributors.

At current valuations, IOCL's m-cap is ₹1.19 trillion, with the Centre's 52 per cent stake in the company valued at around ₹62,000 crore. In March this year, IOCL's debt stood at ₹86,359 crore, including subsidy dues from the government, while the debt of BPCL stood at ₹29,099 crore. For the current fiscal year, IOCL has targeted capital expenditure of ₹25,084 crore, against ₹7,900 crore by BPCL.

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To date, the Centre has garnered ₹12,357.5 crore, with seven months to go. The divestment target was raised in the Budget, from the ₹90,000 crore projected in the Interim Budget.

In 2017-18, ONGC acquired the Centre's 51 per cent stake in HPCL for ₹36,900 crore, and helped DIPAM garner a record ₹1 trillion in divestment proceeds. In 2018-19, PFC acquired the Centre's 52.63 per cent stake in REC for ₹14,500 crore, which was 17 per cent of the year's divestment proceeds of ₹84,972 crore. Apart from these two mega PSU mergers, there have been a number of acquisitions among PSUs in the infrastructure space. These have been relatively small, totalling a few thousand crores.

Alongside the mergers, the biggest contributors to the last

two years' divestment proceeds have been the government's successful exchange-traded funds (ETFs), namely Bharat 22 ETF and Central Public Sector Enterprises ETF. That is likely to be the case this fiscal as well, with follow-on offerings of the two ETFs and launching of more such instruments, the first of which is expected to be a financial sector ETF.

Given the fiscal situation, it is imperative that the divestment targets be met, officials say. Though the RBI's decision to hand over its extra surplus to the government leads to a windfall of ₹58,000 crore, that amount could be used to make up for the shortfall in tax revenues. Hence, the Centre cannot come up short in non-tax revenues and non-debt capital receipt items like disinvestment.