Business Standard
Volume XXVI Number 100
NEW DELHI | WEDNESDAY, 4 SEPTEMBER 2019

Disinvestment blues

Purchase of BPCL by IOC would hurt the sector

The government is reportedly planning to sell its stake in state-controlled petroleum major Bharat Petroleum Corporation Ltd (BPCL) to Indian Oil Corporation Ltd (IOC) — which, like BPCL, is a state-controlled oil-marketing company. The sale will produce an oil-marketing behemoth, controlling fully two-thirds of the petrol pumps in India and over 40 per cent of India's refining capacity, as well as a majority of the aviation fuel stations. However, the government does not seem to be interested in the economies of scale. What it needs is the money it will receive from IOC in return for its 53 per cent share in BPCL. At current prices, this share would be worth about ₹40,000 crore — which would vastly help the government in its attempt to raise ₹1.05 trillion from disinvestment in the ongoing fiscal year. This deal has precedents from the recent past. In 2017-18, the Oil and Natural Gas Corporation (ONGC) acquired its fellow state-owned petrochemicals major, Hindustan Petroleum Corporation Ltd (HPCL), for a similar amount of money. Then as now, the thinking was more about achieving the disinvestment target than in increasing efficiency in the sector.

This is no way to run either a disinvestment programme or a public-sector company. It is claimed that the government is interested in making public-sector units run efficiently, but it appears that it sees them as little more than giant cash cows to fund its spending programmes. Shares of both IOC and BPCL slipped on the exchanges in response to the news of the sale, reflecting investors' views on whether this is a good idea for the companies. Decisions like this and overall poor management have resulted in significant value destruction in the public sector over the years. It should be clear that any such decision about a merger should have been taken with the companies' interests in mind, in particular what else could be done with IOC's reserves and its borrowing capacity.

IOC's debt now is more than ₹72,000 crore and its cash balance is minimal. It has planned a capital expenditure of ₹25,000 crore for this year — which may, in fact, be less than what is needed. IOC's chairman had said earlier this year that the company sought to invest ₹2 trillion over the next five to seven years. Does building up further debt in order to buy BPCL fit in with this capital investment agenda? If not, how can the government justify this purchase from the context of creating an efficient petrochemicals sector? This will clearly affect capital expenditure in the sector.

In essence, this is an attempt to use IOC's borrowing capacity — and its quasi-sovereign guarantee — to transfer funds to the exchequer instead of borrowing directly. This is similar to what it has done with the build-up of contingent liabilities in other state-owned institutions, such as the Food Corporation of India, in order to meet government expenditure. This serves neither the cause of reducing crowding out private investment nor of increasing the efficiency of the public sector. It is unfortunate that it seems to be becoming a habit.