Privatisation of BPCL may clear decks for HPCL

ONGC may bring in a strategic private or foreign partner in its subsidiary

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The government's plan to privatise Bharat Petroleum Corporation (BPCL) is likely to clear the decks for Oil and Natural Gas Corporation (ONGC) to bring in a strategic private or foreign partner in its subsidiary Hindustan Petroleum Corporation (HPCL).

A core group of secretaries on disinvestment on September 30 gave its nod to sell all of the government's 53.29 per cent stake in BPCL.

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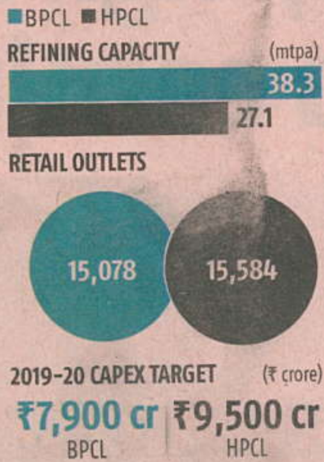
DIPAM KEEPS BALL ROLLING FOR STAKE SALE IN BPCL AND OTHERS

According to sources close to the development, the government is working on a Cabinet note for BPCL stake sale, and the matter is likely to be taken up by the Cabinet Committee on Economic Affairs in a month.

Offloading the BPCL stake will bring in, at the current market valuation, ₹56,400 crore to the government's kitty. The government in 2016 had repealed 187 "obsolete and redundant laws", which included nationalising Burmah-Shell, now BPCL.

The Supreme Court had in September 2003 ruled that BPCL as well as HPCL could be privatised only after Parliament amended the law it had passed to nationalise the two firms. This ruling had derailed the privatisation of these companies in 2003, but the 2016 a notification repealed this. Turn to Page 6 ▸

STEPPING ON THE GAS



BPCL: Bharat Petroleum Corporation
HPCL: Hindustan Petroleum Corporation
Mtpa: Million tonnes per annum
Capex: Capital expenditure

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A source close to the development told Business Standard the ONGC management was aware about the option to bring in a strategic partner. After the BPCL stake sale, there will be no obligation for HPCL to remain a public-sector undertaking or its subsidiary.

"Through this, if required, the company can think about bringing in a partner and give management control of HPCL too. Even if ONGC keeps about 25 per cent, it will be able to bring down its existing debt of around ₹13,000 crore now and make it debt-free," said an industry source.

ONGC acquired the Centre's 51 per cent stake in HPCL for ₹36,900 crore in 2017-18.

Together, BPCL and HPCL contribute around 47 per cent of the 65,554 fuel retail outlets in India, while Indian Oil Corporation's share comes to around 43 per cent.

Nayara Energy, Shell, and Reliance Industries run the rest.

BPCL and HPCL have a refining capacity of 38.3 million tonnes per annum (mtpa) and 27.1 mtpa, respectively, at present.

According to a report by Moody's Investors Service, a stake sale, whether to a private or a state-owned company, would mean a change of control for BPCL's bonds, and this will require the company to redeem its bonds within 45 days of the switch being triggered.

"There is no ratings condition attached to the put option for bondholders. A bond redemption will increase BPCL's refinancing risk significantly," it said. As of September 30, 2019, BPCL had $1.7 billion of foreign currency bonds outstanding.

It added that BPCL's liquidity is inadequate and redeeming the foreign currency bonds will expose BPCL to a significant refinancing risk.

As of March 31 this year, BPCL reported cash and cash equivalents of around ₹5,300 crore ($751 million), against ₹10,900 crore of debt maturing over the next 15 months (including the current portion of long-term debt), Moody's Investors Service added.