BPCL divestment likely to trigger bidding war

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With the Centre deciding to go for a strategic sale of its entire stake in Bharat Petroleum Corporation (BPCL), speculations are rife about aggressive bidding by international majors.

Companies such as Saudi Aramco, French major Total, BP Plc, ExxonMobil, Reliance Industries (RIL), and Adani Group are all likely frontrunners for BPCL. State-run Indian Oil Corporation (IOC) may also be keen on increasing its market share through the acquisition of its peer.

"The advantages of each one of them buying BPCL may be different. For example, the strength of Saudi Aramco will be the synergy it will make with its crude supply. On the other hand, for BP, it will be the refinery expertise while that for Total will be its retail presence," said a senior industry official.

The Centre on Wednesday decided to go for sale of its entire 53.29 per cent stake and transfer of management control in BPCL to a strategic buyer, excluding the Numaligarh refinery.

The last foreign major to enter the refining and retail space in India was Russian giant Rosneft, through the acquisition of 49.13 per cent stake in Essar (now Nayara Energy) in August 2017 for over $12 billion.

Earlier this year, Saudi Aramco had announced its plans to pick up 20 per cent stake in the oil-to-chemical business of RIL. Similarly, RIL and BP, too, had decided to extend their oil and gas sector tie-up to the retail business. If Aramco acquires BPCL, its deal with RIL and plans to acquire stake in the West Coast refinery are likely to be under shadow.

At present, BPCL has total refining capacity of 38.3 million tonnes per annum (mtpa), and 15,177 fuel retail outlets across the country.

However, industry experts are not on the same page regarding the BPCL deal. One of the major reasons for nationalisation of the oil industry in 1976 was the reluctance of private oil firms to supply enough oil to the defence sector during the 1971 war.

38.3 million tonnes per annum: Total BPCL refining capacity

15,177 Total fuel retail outlets of the company

"BPCL is like a family treasure. Its strategic value cannot be measured in monetary terms. Replacement value of its assets is exponentially higher than its market cap. One has to go back to the rationale of nationalising oil companies. A similar situation may arise in future too," said R S Sharma, former chairman of Oil and Natural Gas Corporation.

He added that in times of volatility in crude prices, OMCs were instrumental in providing stability in product prices through subsidy mechanism. "The government also relies on IndianOil, BPCL, and HPCL for its welfare schemes like Ujjwala," he said.

When asked about the government's decision to privatise BPCL, S K Joshi, former finance director of the company, said: "The move may bring in more competition into the sector, which could trigger an aggressive pricing system. On the other hand, if any major global crude producer comes to the scene, it will ensure energy security for our refineries."

Joshi added that out of every ₹100 that OMCs were making, around 90 per cent was going as crude cost, leaving only a minimal margin with the companies. "It is not a highly profitable business in India," he added.