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ACQUIRING BHARAT Petroleum or HPCL or GAIL will avoid duplication of infra & logistics, move can also create common user facilities, says IOC's finance chief

IOC Sees More Synergy in Buying PSU Rivals than Oil Producers

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New Delhi: It would make more sense for Indian Oil (IOCL), the country's biggest refiner, to acquire rival Bharat Petroleum Corp. or Hindustan Petroleum Corp. or natural gas marketing company GAIL (India) Ltd. than a producer like Oil India as part of the government's plan to create a major state-owned energy company, the finance chief of IOCL has said.

"Broadly, there are just two potential acquirers — Oil & Natural Gas Corp. and Indian Oil — and there are four potential targets — BPCL, HPCL, GAIL and Oil India," AK Sharma, director (finance) of Indian Oil, told ET in an interview, while analysing combinations. "It's all very hazy right now. The government will take a final call on who should merge with whom."

The oil ministry has asked state-owned oil companies to indicate their preference for a partner in the proposed merger. The government indicated in the budget its intention to restructure state-owned oil

companies to form an integrated public sector 'oil major' that will match the performance of international and domestic private sector oil and gas companies. Each major state oil company must submit a separate plan to the oil ministry.

If Indian Oil were to acquire HPCL or BPCL, it would bring a lot of synergy, Sharma said. "Infrastructure and logistics duplication can be avoided. We can have common user facilities," he said, adding that combining two oil marketing companies can have an adverse effect on competition.

The merger must result in at least two state marketing companies, which along with private companies, will ensure fair play for consumers, Sharma said.

Of India's oil refining capacity of 230 million tonnes per annum, Indian Oil has 80 million tonnes, BPCL 30 million tonnes and HPCL 24 million tonnes. Reliance Industries, controlled by Mukesh Ambani, has a capacity of 60 million tonnes a year. Indian Oil has 45% of the 58,000 fuel retail outlets in the country, while BPCL and HPCL have a quarter each.

Acquiring GAIL is an option because it ties in with Indian Oil's gas business. Indian Oil is the second-largest gas marketer in the country, and, at the current rate of investment, its gas business can exceed that of GAIL's in the next few years, Sharma said.

"Merging Oil India with Indian Oil may not bring much technical synergy but can add to balance sheet strength," said Sharma.

Suboptimal Solution

ET VIEW

Indian Oil acquiring Bharat Petroleum or Hindustan Petroleum is sub-optimal from a public policy perspective. For it would amount to reduced brand presence in the market place, and reduced choice. It remains to be seen whether the Competition Commission of India would allow the merger of dominant oil marketers to go ahead. In sharp contrast, the merger of IOC and OIL would actually create an integrated oil major, with assets both in the upstream and downstream oil sectors. It should then be possible to gainfully tap synergy across the value chain, by leveraging the high risks and high returns upstream to seek volumes growth downstream.

Macquarie Initiates Coverage on PSU Oil Cos

Our Bureau

Mumbai: Macquarie initiated coverage on Indian public sector refining and marketing companies on Monday, with its top preference being Indian Oil Corporation, followed by Bharat Petroleum and Hindustan Petroleum. It cited a constructive outlook on Asia refining margins till 2020, positive structural trends in the Indian oil sector despite de-monetization led decline and a possible rise in marketing margins as triggers for its coverage.

Indian Oil Corporation rose 0.50% to Rs 424.50 on Monday while Bharat Petroleum and Hindustan Petroleum fell 0.64% to 726.20 and 0.14% to Rs 558.30 respectively.

In the earnings outlook for all three companies, the brokerage said clean earnings, adjusted for inventory impacts had increased by 2.3 times in the past three years. It said the performance was helped by refinery capacity expansions, an improvement in refining margins, and a declining debt burden.