

It's a big deal: Govt moots merger of oil PSUs to create global behemoth

Navratnas To Be Retained, Focus On Smaller Cos

TEAM TOI

It's official. After more than a decade of on-again-off-again debate, the government has finally waved the green flag for creating entities with global scale by merging public sector oil firms.

"The Budget has laid the policy. Integration is the need of the hour. Globally, M&A (mergers and acquisitions) is the trend in the oil industry. With the policy in place, companies will chalk out mergers and acquisitions in accordance to their strength and weaknesses. We will see M&A activities in the public sector oil industry in coming days," oil minister Dharmendra Pradhan told TOI.

But don't expect to see all petrol pumps run by state-run fuel retailers to don the same colour as a result of the proposed merger. The idea is that the major brands, considered the country's family silver, will be retained. It will be the small-



| | Revenue | Profit | | Revenue | Profit |
|-------------------|---------|--------|-------------------|---------|--------|
| CNPC* | 299 | 12.7 | ExxonMobil | 246 | 16.2 |
| Sinopec Group | 294 | 6.3 | BP | 226 | 5.9 |
| Royal Dutch Shell | 272 | 3.8 | RIL** | 44.7 | 4.2 |
| | | | All govt oil cos# | 139 | 6.9 |

*China National Petroleum Corp; **Indian pvt sector co; # Proposed combined PSU oil giant; All figures for 2015; Source for top 5: Fortune 500 Global list 2016

er and standalone ventures that will be merged to fit the missing links in the hydrocarbons value chain of each brand.

"The proposal will provide scale and muscle, which can be leveraged in the global market," GAIL chairman B C Tripathi said. ONGC chairman D K Sarraf said the new entity could have a market capitalisation of about \$80-90 billion and compete with global giants on its own.

The merger route — whether by creating a holding company like in the case of Coal India

Ltd or individual M&A — is yet unknown and will have to take into account the different culture, expertise and compensation of each. There are 13 oil PSUs at present. The top eight listed PSUs have a combined market cap of \$80 billion, and a merged entity would become the ninth largest globally.

A merger plan involving the five biggies — IOC, ONGC, BPCL and HPCL and GAIL — was first tossed around informally during the A B Vajpayee government's tenure when Ram

Naik was the oil minister. Subsequently, Mani Shankar Aiyar revived the plan under UPA-I.

But in September 2015, a panel on recast of PSU oil companies did not favour mergers, and instead suggested greater autonomy by transferring government shareholding to a professionally managed trust. The Advisory Committee on Synergy in Energy, headed by V Krishnamurthy, said M&A worldwide occurred during times of low oil prices and were instruments of eliminating excess workforce and duplicate facilities.

Away from the big-ticket merger announcement, the Budget gave a fillip to energy security by sanctioning two more strategic oil reserves at Chandikhole in Odisha and Bikaner in Rajasthan to take the reserve capacity to 15.33 million tonnes. This will raise India's storage to 90 days' consumption, on a par with the international benchmarks.

The idea of a gas-based economy received a boost in reduction of basic customs duty on liquid gas imported in ships (LNG) from 5% to 2.5%. "This will benefit power, fertiliser consumers," Tripathi said.