BPCL conundrum: Centre sure of good returns, but says it's race against time

Govt officials and industry experts confident that the Centre's stake in BPCL can be sold at a premium of 20-30%

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The planned privatisation of Bharat Petroleum Corporation (BPCL) has led to a problem for those in the government tasked to execute a deal.

While officials are confident that BPCL has the attractiveness to garner proceeds at a healthy premium for the exchequer, they are less so when it comes to the deal being completed before March 31, 2020 and, hence, being counted in 2019-20 divestment proceeds.

Last week, the Union Cabinet cleared the sale of the government's entire 53.29 per cent stake in BPCL. The plan excludes BPCL's 61.65 per cent stake in the Numaligarh refinery in Assam. That will be taken by some other state-owned oil company, ensuring Numaligarh stays with the Centre, Finance Minister Nirmala Sitharaman had said.

Government and oil industry officials, as well as sector analysts, are confident that the Centre's stake in BPCL could be sold at a premium of 20-30 per cent. They point to its strong fundamentals, oil marketing network and attractiveness of other core businesses like refining, pipelines and petrochemicals. BPCL investments include stakes in Indraprastha Gas, Petronet, and Oil India.

Saudi Aramco, Reliance Industries, Total and Exxon Mobil are among the entities expected to be keen on BPCL.

At Friday's closing price, the Centre's stake in BPCL is valued at around ₹58,863 crore. A premium of 20-30 per cent at that price could take the deal value to around ₹70,600-76,500 crore.

Premium pricing

"For any global oil major, BPCL is an attractive proposition, given the access it provides to the Indian markets at a time when the country's energy needs are only increasing," said an official who has been involved with the process since the sale was first mooted within the government. The official said that was sometime in February.

A Mumbai-based analyst told *Business Standard* the value of BPCL is likely to have a 20 per cent premium on the current market price. Based on one estimate, the target price is likely to be around ₹590 a share — of which ₹448 comes from the core business and ₹142 for investments in Indraprastha Gas and Petronet LNG.

"With Numaligarh being kept out, the prospects for BPCL seem good. It has some good investments in Petronet and Indraprastha Gas, and also a good gas vertical and E&P (exploration and production) presence," said K Ravichandran, senior vice-president at ratings agency ICRA.

Of the total of 249.4 million tonnes per annum (mtpa) refining capacity in India, BPCL's across its Mumbai, Kochi and Bina refineries is 35.3 mtpa; Numaligarh is 3 mtpa. The company has 15,289 retail outlets in the country.

By the end of the first half of this financial year, BPCL's borrowings were ₹31,756 crore. For the year, it has targeted a capital expenditure of ₹7,900 crore, of which ₹4,464 crore was achieved in the first seven months.

The department of investment and public asset management (Dipam) has been given its highest ever divestment target for a year, of ₹1.05 trillion. So far, it has garnered ₹17,400 crore, with a little more than four months left.

Thus, if the BPCL deal can be concluded before March 31, that will be a huge boost for the government, counting on divestment targets being met or even exceeded to offset some of the tax revenue shortfall expected in a year of economic slowdown.

'Deal can't be rushed'

This is where officials are being realistic, especially since the prime minister's office has made it clear that BPCL's will be a proper divestment to a private company, not a sale to another public sector undertaking (PSU).

"Apart from NEEPCO and THDC, which are being sold to NTPC, all the other PSUs up for privatisation should be sold to non-government entities. That message is clear from the top. Otherwise, it becomes a futile exercise of taking money from one government entity and putting it into another, just to meet divestment targets on paper," a second official said.

Officials say that had the Centre's stake in BPCL been earmarked for sale to another PSU, as the ONGC-Hindustan Petroleum deal in 2017-18, the transaction would have concluded much faster, since due-diligence would have taken less time. In the case of BPCL, the process of appointing transaction and legal advisors and asset valuers is ongoing, with the last date for bids extended till Monday, November 25. After appointment of these entities, there will be roadshows and Dipam will issue preliminary information memoranda, to invite Expressions of Interest from potential buyers. The queries that these bidders have will be addressed, and the final buying company or consortium will then be identified.

"The process takes time. Given the strategic importance of the deal, one cannot rush with it. It is about balancing between meeting divestment targets or getting the best value for the exchequer out of BPCL," said the first official quoted earlier.

Officials say if the deal is to be carried out and concluded in the best possible manner, then yearly targets should not be the consideration, and the proceeds might reflect in next year's divestment targets.

"BPCL is waiting for directions from the government. Asset, legal and transaction advisors for the deal are likely to be finalised on Monday," said a source. The government has given 50 days for asset valuing, which means the report in this regard must come within the first half of January. After this, price bids may be invited from potential buyers. Some indicate the company might also exit from the Bina refinery, in which Oman Oil Company holds 50 per cent, before the stake sale — the foreign major has the first right of refusal in such a case.

ASSESSING THE WORTH

53.29%
Government stake in BPCL

₹58,863 crore
Value of the stake based on current market cap

35.3 MTPA
Capacity from Mumbai, Kochi and Bina refineries, excluding Numaligarh

15,289
Retail outlets by BPCL

₹7,900 crore
Planned capex for 2019-20

PSUs must bid for int'l projects as consortium: Report

To enhance their geo-strategic reach, public sector enterprises should bid for international projects as a consortium, work with the government to design WTO-smart subsidies and enhance exports, according to a Confederation of Indian Industry (CII) report.

The CII report, titled 'Can the Indian public sector enterprises (PSEs) enhance their Geo-strategic reach', presents a road map to expand exports and geo-strategic reach of PSEs by 2022. It also points out several domestic and external barriers which are inhibiting the PSEs' ability to enhance exports. Lack of autonomy, multiple procedures and management gaps, among others, lead to loss of potential business opportunities, it pointed out.

Setting up a High-Level Export Strategy Committee will implement the five-point agenda set out by the Prime Minister for enhancing the competitiveness of Indian PSEs by 2022.

"A short-term (5 years) and long-term (10 years) road map for the PSEs, clearly laying down exports and growth targets, is the order of the day to enhance their geo-strategic reach," said Chandrajit Banerjee, Director-General, CII.

The report recommends PSEs bid for international projects as a consortium, leveraging each other's mutual competence, experiences and strengths. PTI

Land trouble in Kochi may hit BPCL stake sale

SHINE JACOB
New Delhi, 24 November

The central government's plan for strategic stake sale of Bharat Petroleum Corporation (BPCL) to private entities could mean a legal tussle with the Left government in Kerala over a clause on land lease related to the company's Kochi refinery.

According to documents that *Business Standard* got access to, in transfer of the refinery's land, prior approval has to be come from the state government. The CPI(M)-led government has already spearheaded the formation of 'human chain' in Kochi against BPCL's privatisation. And, is unlikely to give its nod if such a clearance is required.

Sources add that the government and employee unions are likely to approach court to disrupt the divestment procedure by citing this.

"The company shall not be entitled to transfer the acquired land or any part thereof by sale, mortgage, gift, lease or otherwise, except with the previous sanction of appropriate government under section 44A of the Land Acquisition Act 1894 (Amendment Act 1984)," goes one of the lease agreements between the Kochi refinery and the state.

"Regarding any public sector undertaking in Kerala, our stand is that it should be first discussed with the state government. If the state government is able to acquire it, we will do it," says E Chandrasekharan, state revenue minister.

He added that any transfer of ownership must be based on the existing lease agreement. A similar legal issue is likely to crop up in the case of the 7.8 million tonne Bina refinery in Madhya Pradesh; the first right of refusal is with Oman Oil Company.

At least 25 unions have already called a nationwide strike on Thursday, protesting against the government move to privatise BPCL. "This clause is applicable for a stretch of 600 acres that was allotted for expansion of the refinery in the late 1980s. The unions and the state government will approach the court, as the land cannot be transferred to the private sector without the state's consent," said Aji M G, general secretary of the Cochin Refinery Workers' Association, who is working there as a plant operator.

The unions have already stated that they will not allow any physical asset valuation at the refineries. An official close to the divestment process said such legal issues will be looked into only after the appointment of legal and transaction advisors, likely on Monday. However, legal experts do also say the said Section 44A might not cause suffice to stop transfer of government stake in BPCL.

At least 25 unions have already called a nationwide strike protesting against the Centre's move to privatise BPCL

"What the government intends to do here is to sell the shares held by it in BPCL; it does not intend to sell the assets of BPCL by strip sale/slump sale. It is settled law that shares are assets of the shareholder and not of the issuing company. Thus, even if it is assumed that the said provisions are applicable to the Kochi refinery, it does not restrict the transfer of shares by the government in BPCL," said Girish Rawat, partner, Dhir & Dhir Associates.

Kishore Nair of the Bharat Petroleum Technical and Non-Technical Employees Association in Mumbai said a major concern for employees is on job security and also whether the private entity will close any loss-making operations.