

Privatizing a profit-making national oil company in India: Exploring the rationale and the challenges

Deepak Sharma and Haripriya Gundimeda

Presented by

Deepak Sharma

Dual Degree, MPhil + PhD Candidate

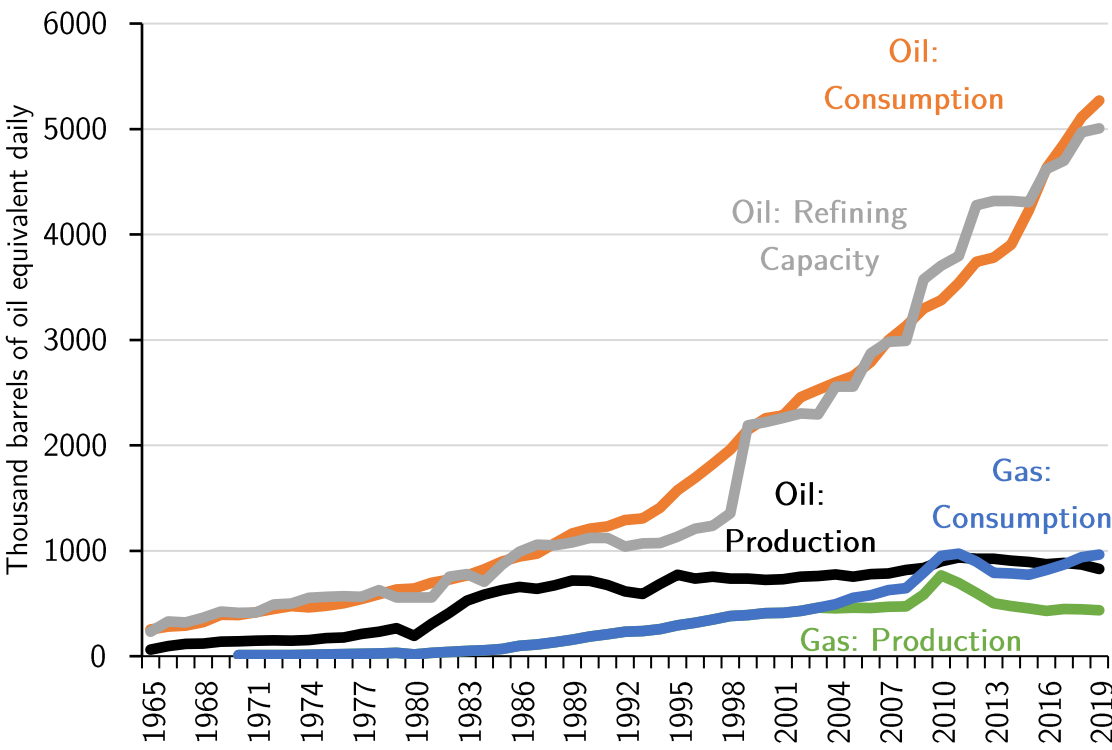
Department of Humanities and Social Sciences

IIT Bombay, Mumbai, India.

Email: deepak_sharma@iitb.ac.in

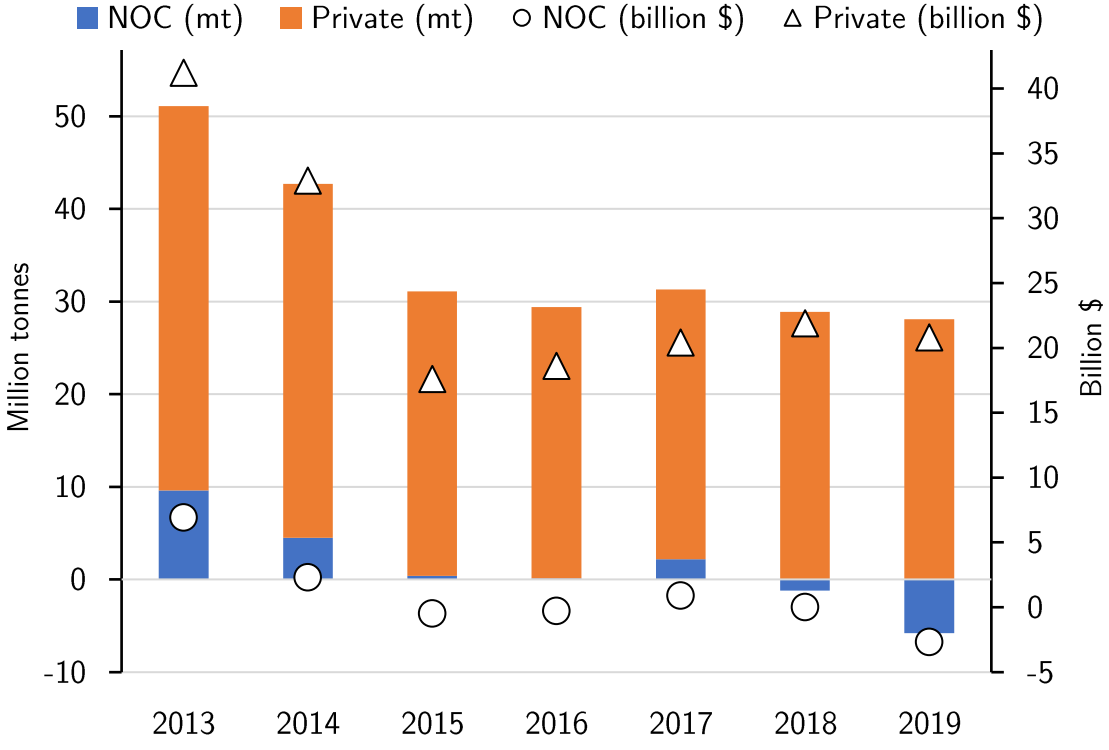
India faces a precarious situation of being heavily dependent on oil, gas and petroleum products imports and exposing itself to oil price volatility

Domestic Oil and Gas Production has stagnated



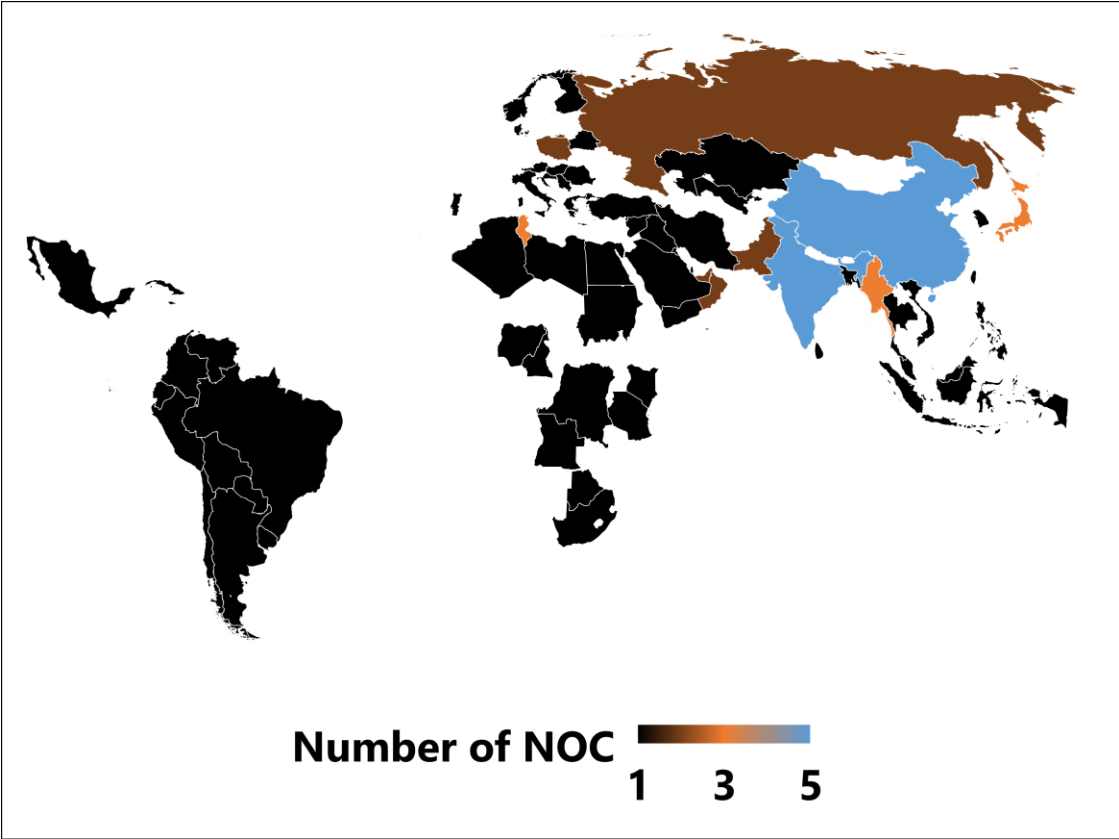
Source: Author, data sourced from BP Statistical Review Database (2020)

NOCs have become net petroleum product importer



Source: Author, data sourced from Annual Statistical Publication of Ministry of Petroleum and Natural Gas, Government of India

India and China have the largest number of NOCs



Source: Author, based on NOC data from Mahdavi (2014)

Restructuring fragmented NOCs through mergers

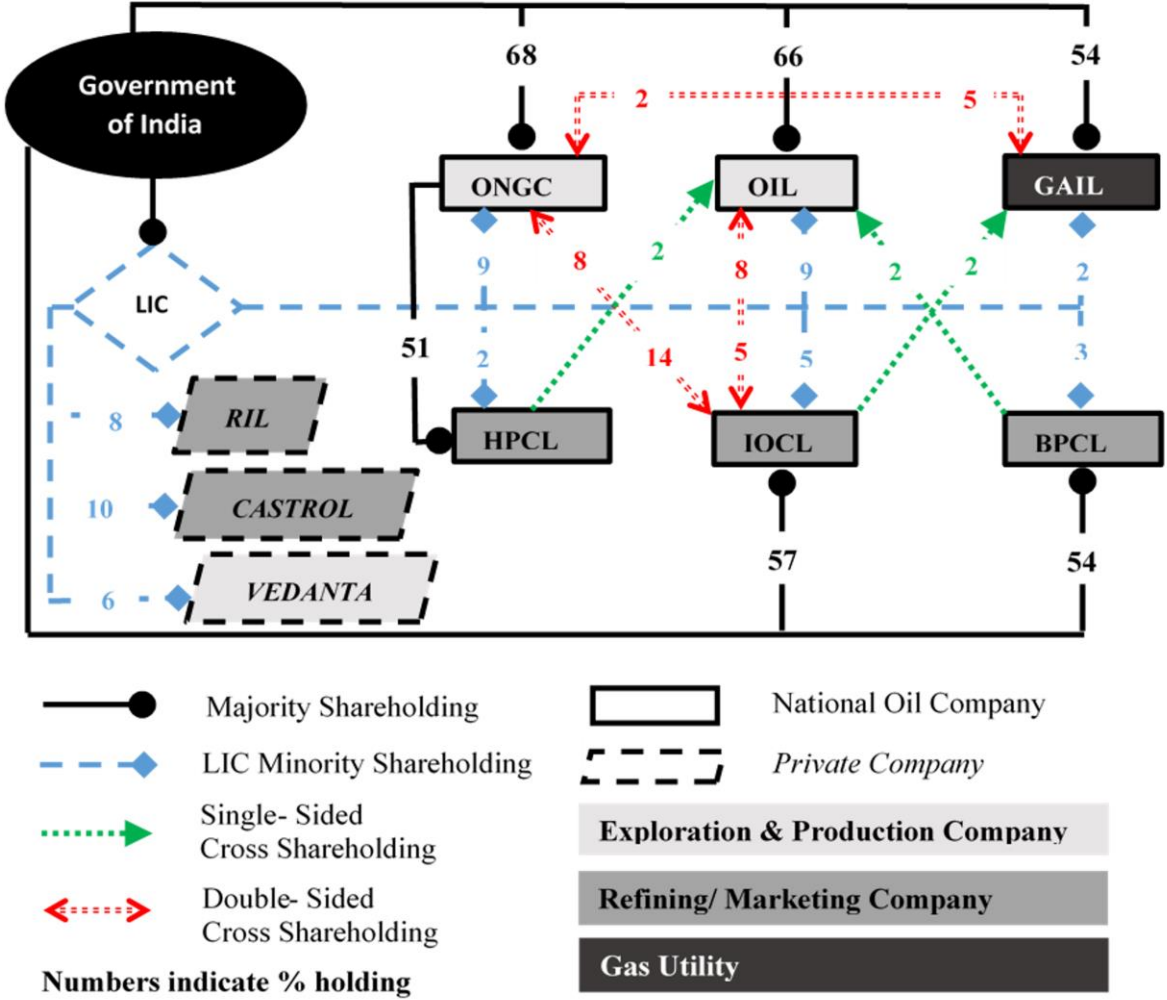
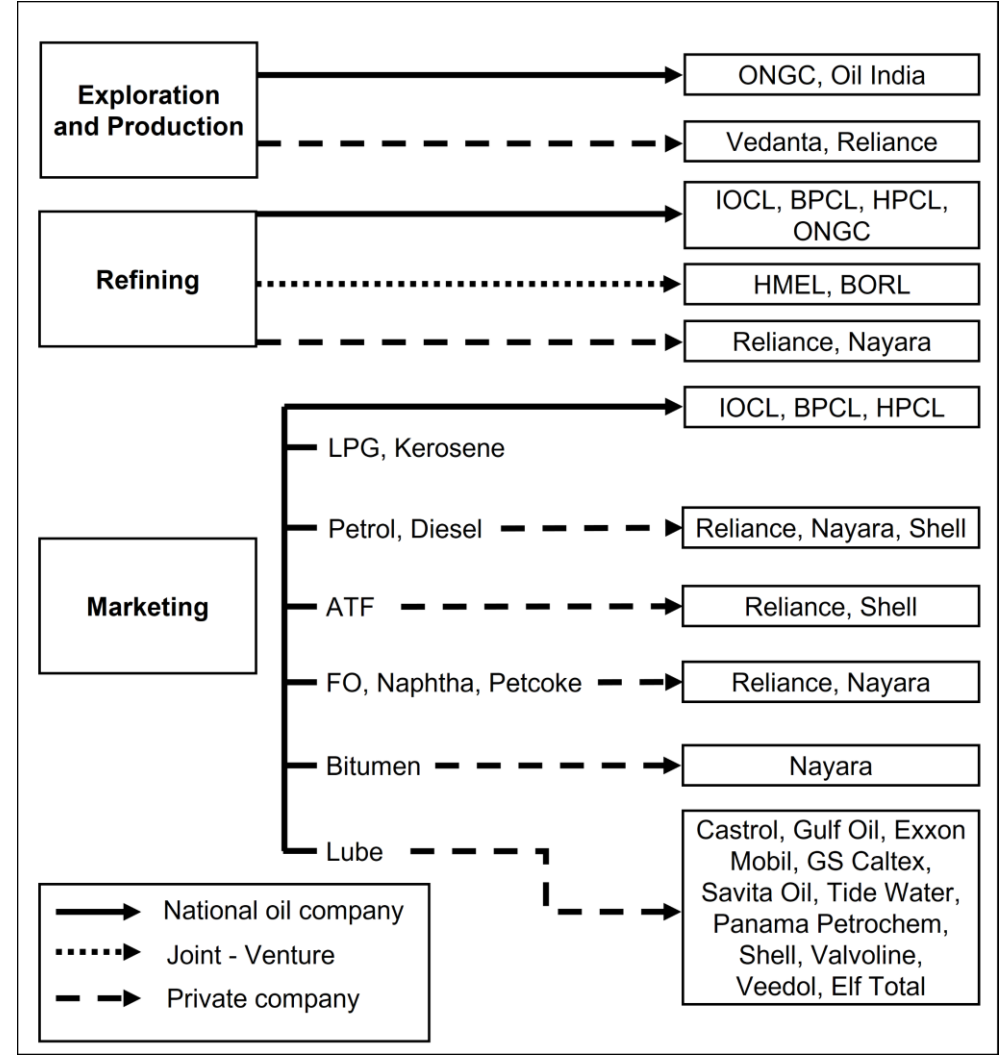
Type	Pre 1972	1972 – 2009	2009-2017	2018 -
Vertically integrated				ONGC
Exploration & Production	ONGC (1956)	ONGC OIL (1981)	ONGC OIL	OIL
Standalone Refining	CRL (1963) MRL (1965)	CRL MRL BRPL (1974)		
Refining & Marketing	IOCL (1964)	IOCL BPCL (1976) HPCL (1974)	IOCL BPCL HPCL	IOCL BPCL
Standalone Marketing		IBP (1972)		
Gas Utility		GAIL (1984)	GAIL	GAIL

Source: Author, based on shareholding data

Rationale and Challenges of Privatising a Profitable National Oil Company

- Complete privatisation of NOCs successful in developed countries but largely untested in developing countries. *(Argentina an exception but failed!)*
- For 30 years, India is trying to restructure its fragmented structure of multiple NOCs operating in various functional segments. *(Complete privatisation of NOC a significant breakthrough)*
- Academic literature points to necessary pre-conditions of well functioning competitive markets and independent regulation to ensure privatisation is equitable and efficiency enhancing. *(Are these pre-conditions easy to achieve?)*

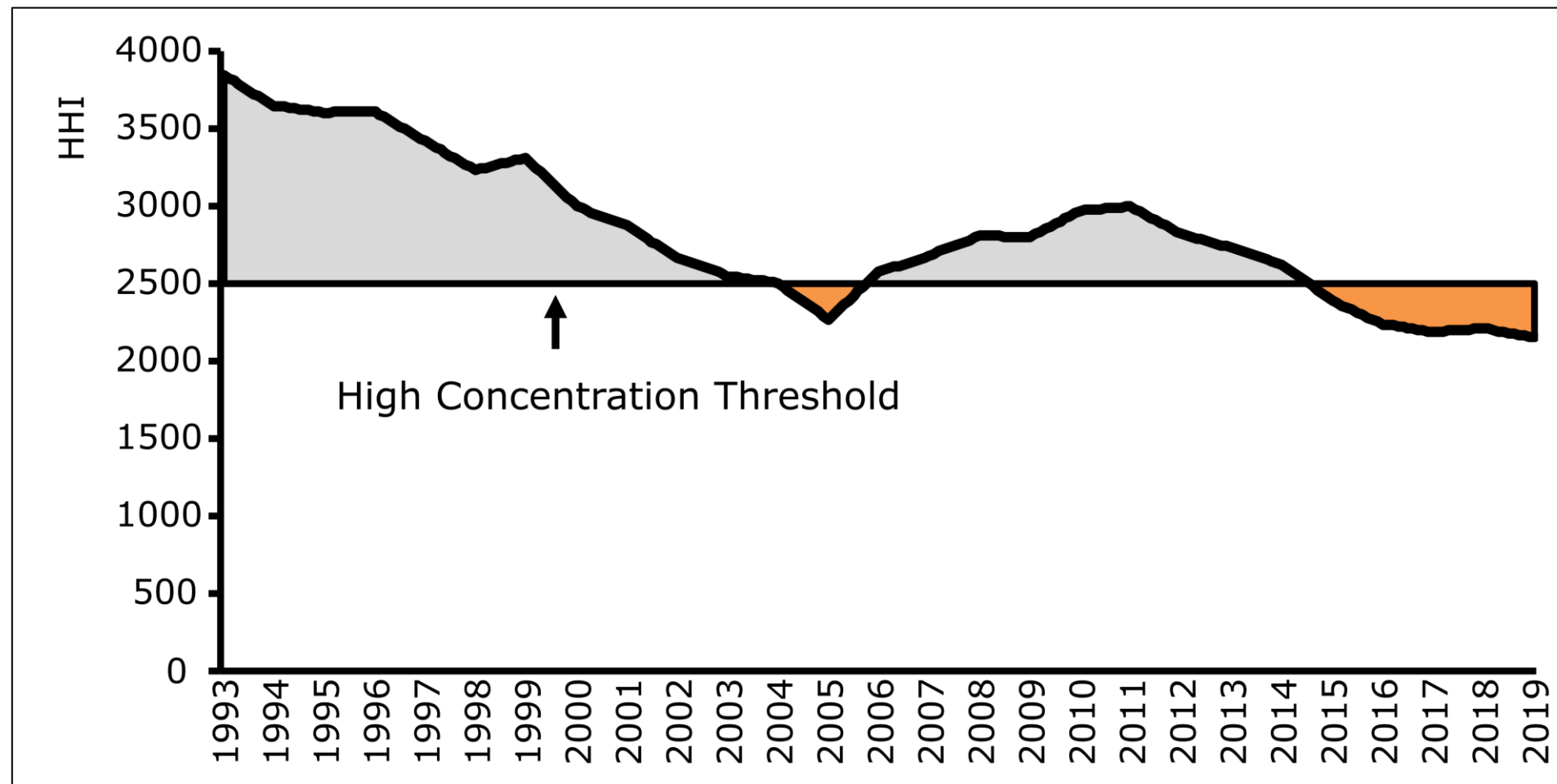
Dominance of NOCs in every functional segment with fringe private sector competition



India has failed to meet its disinvestment targets regularly

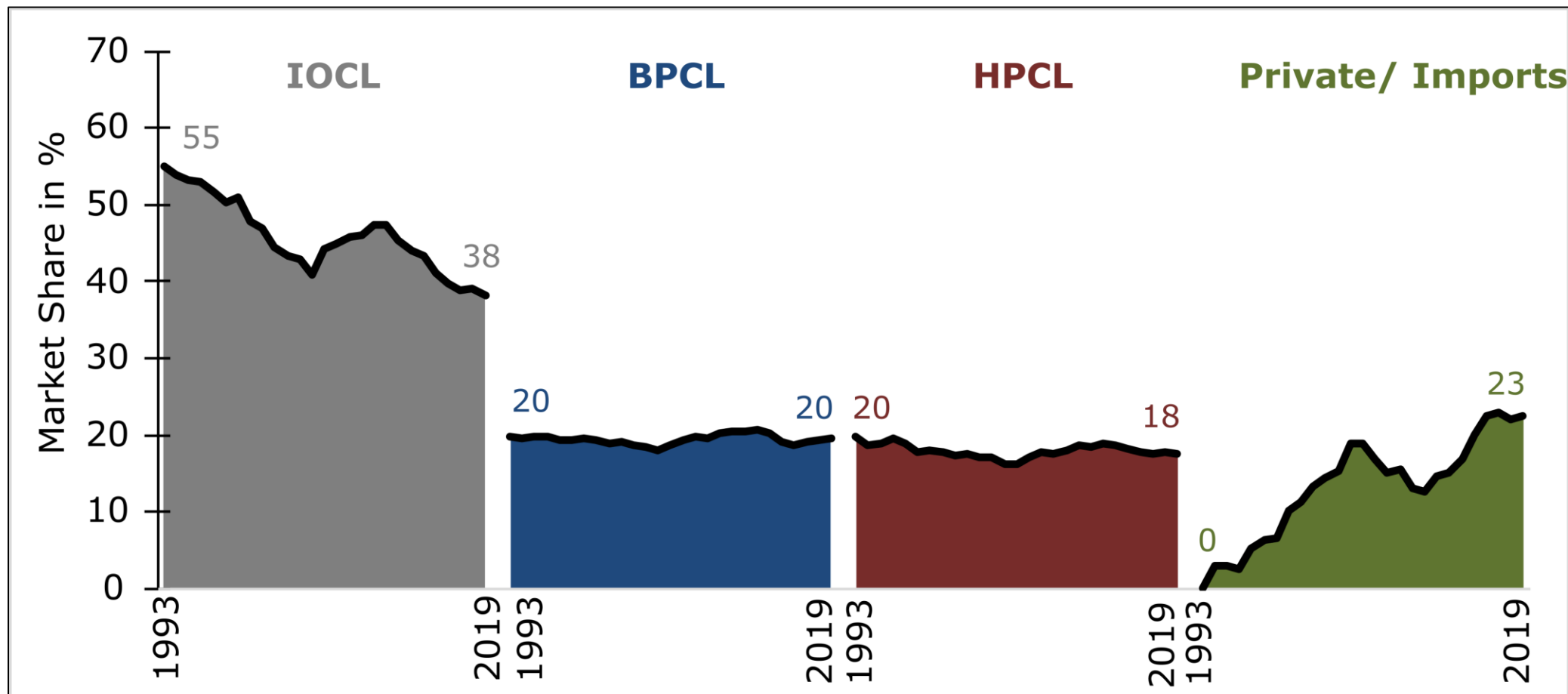
- Against target of Rs. 10,97,725 Crore, disinvestment proceeds of Rs. 519792 Crore (47% achievement) during the period 1991-2021.
- Ambitious disinvestment targets through complete privatisation in recent years.
- Majority of the disinvestment targets achieved through public offers of minority holdings (46%) and CPSE to CPSE (16%) sales
- 19% of the total disinvestment proceeds from the petroleum sector through NOC-to-NOC sales (52%) and sales of minority holdings (37%)

Hirschman-Herfindahl Index of NOCs in marketing segment close to high concentration threshold indicating high market power

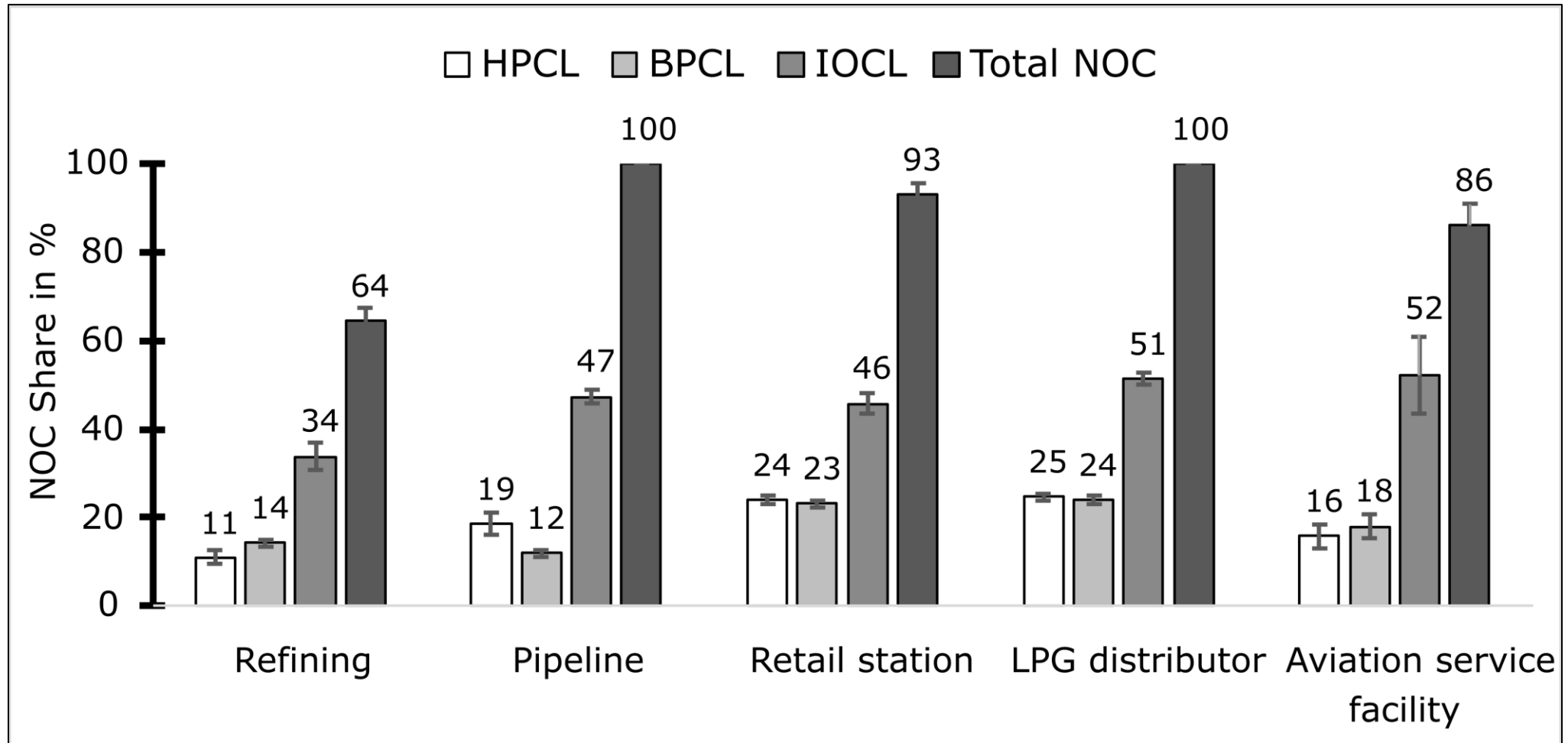


Source: Author's calculation based on market share data of NOCs from the Ministry of Petroleum and Natural Gas Annual Statistical Report

BPCL and HPCL (the 2nd and 3rd largest player) do not provide any competitive constraint to IOCL's market share

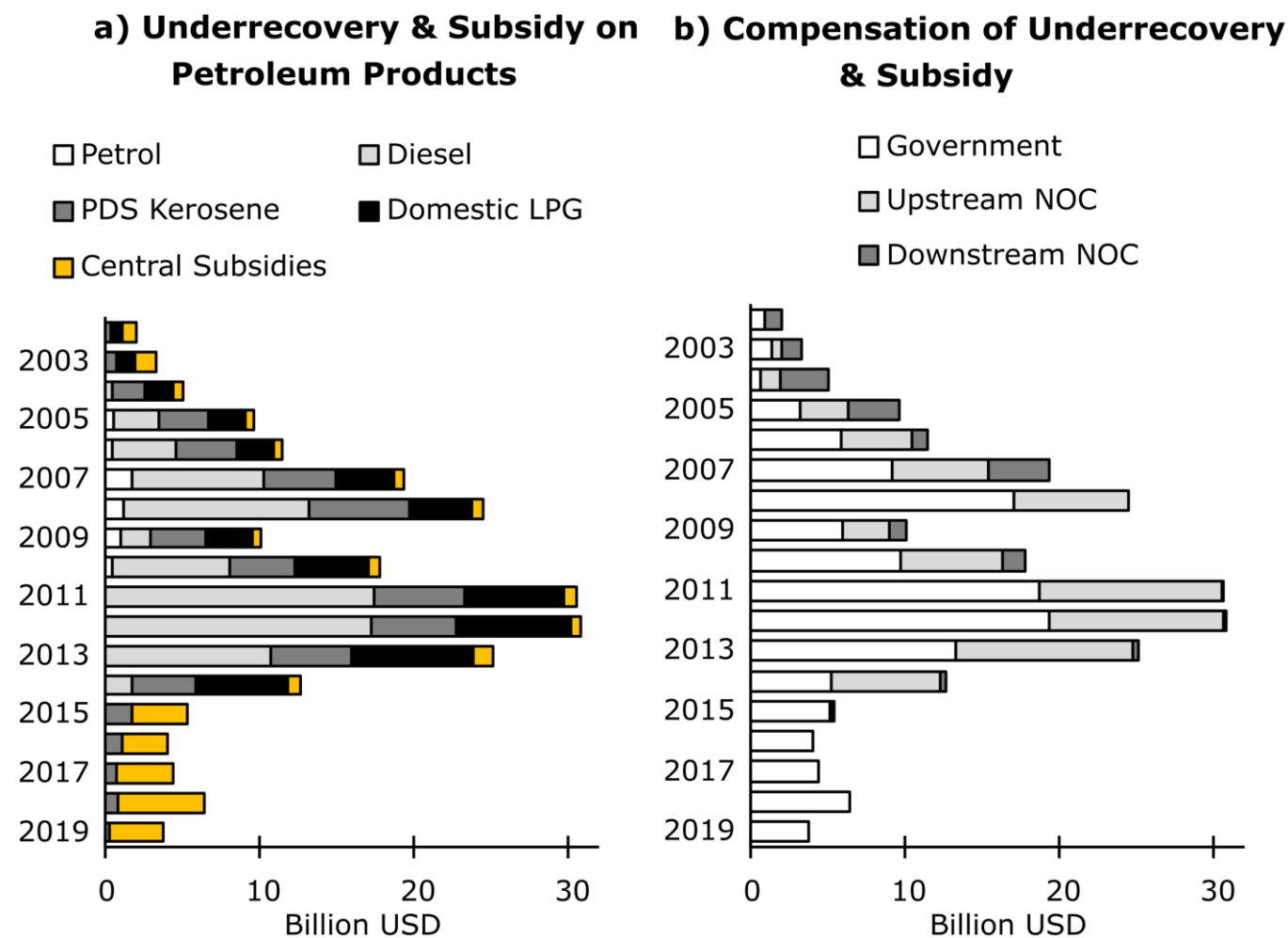


High entry barriers and Co-ordinated expansion of infrastructure



Source: Author's calculation based on market share data of NOCs from HPCL, BPCL and IOCL Annual Reports

Continued price reforms has lessened the burden on NOCs to administer and compensate for subsidies and under recoveries



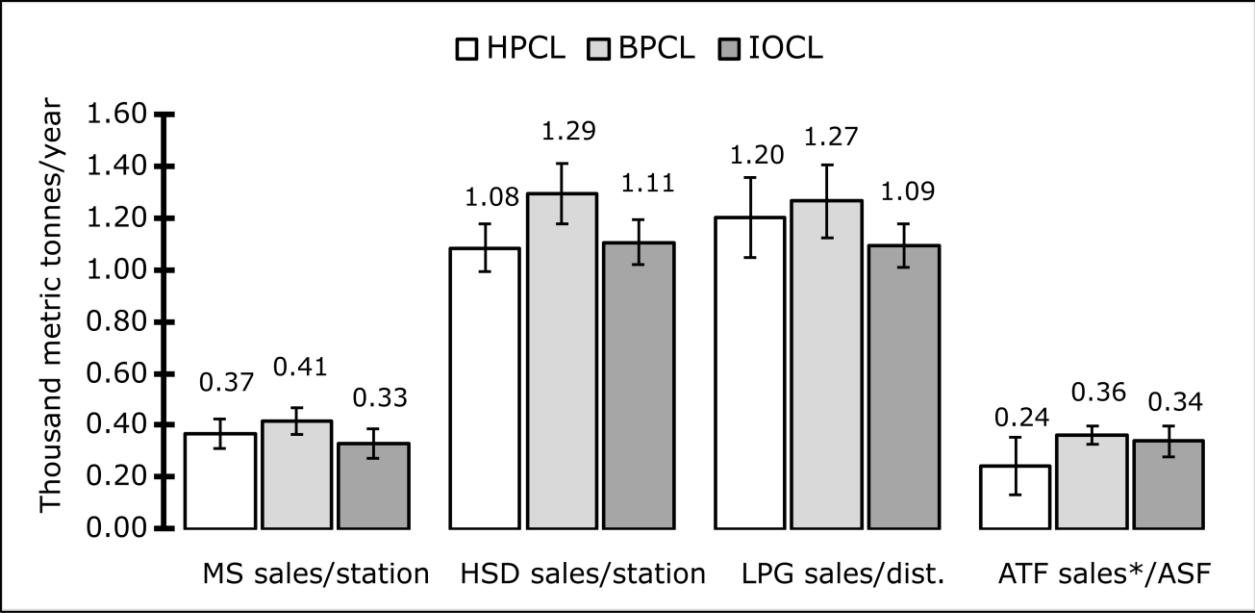
Source: Author's depiction based on data from MOPNG Annual Statistical Publication

BPCL has the best financial and operational performance among the Indian NOCs

Comparison of IOCL, BPCL, and HPCL profits and return on invested capital from 2005-2019

	Profits (in Million Dollars)		Return on Invested capital (%)	
	Mean	Std. Dev.	Mean	Std. Dev.
IOCL	1657	873	8.2	3.9
BPCL	633	442	8.7	4.6
HPCL	476	403	7.8	6.4
Peer group	847	1237	8	7

Ratio of product sales to the number of infrastructure facilities by HPCL, BPCL, and IOCL from 2005-2019



Source: Author’s calculation based on data from Platts 250 energy companies ranking database

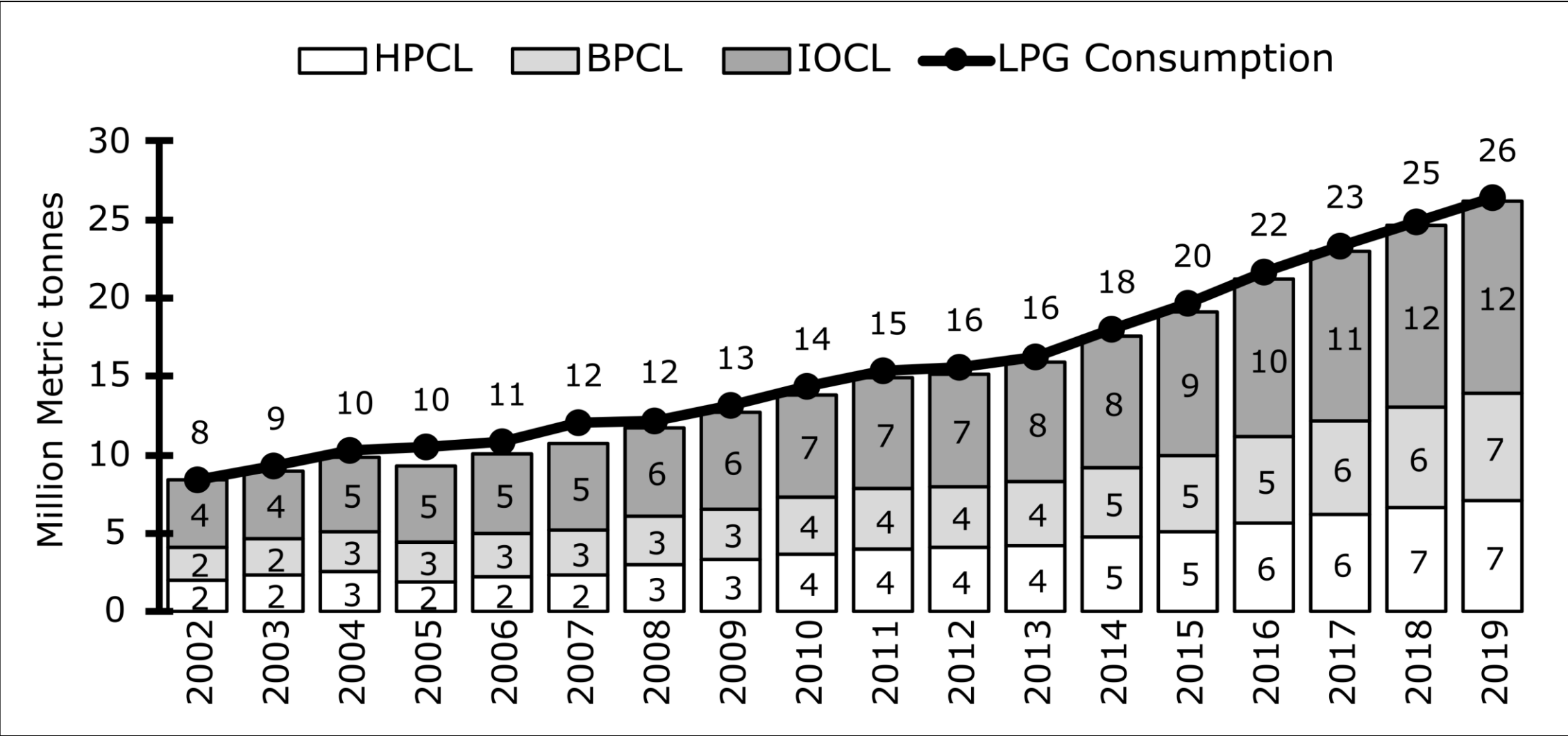
Source: Author’s calculation based on data from Annual Reports of IOCL, BPCL, and HPCL and Right to Information Reply

Undervaluation of BPCL Assets

Infrastructure	HPCL	BPCL	ESSAR
Refining Capacity (MMT)	24	30.5	20
Nelson Complexity Index	8.9	7.6	11.8
Market Sales (MMT)	35.9	39.5	21.4
Retail Station (No)	14412	13983	4692
Product Terminals	83	78	—
LPG Bottling Capacity (TMT)	4047	3933	—
Aviation Fuel Station (No)	42	52	—
SKO/LDO Agencies	1638	1001	—
Other Assets	—	—	Vadinar Port, Power Plant
Stake Sale (%)	51.11	53.29	98.26
Acquiring Company	ONGC	?	Rosneft- Trafigura
Deal Value (Rs, Crore)	36915	55000 — 74000 (Expected)	83000

Source: Author’s compilation based on data from Annual Reports of BPCL, HPCL, and Essar Oil and Newspaper Reports

Social Obligation void in supplying clean fuels to rural areas



Source: Author's depiction based on data from the Ministry of Petroleum and Natural Gas (2018)

Divergence between Government's stated intent and reality

- Reregulation of petroleum product pricing after deregulation
- Adhoc intervention in pricing petrol and diesel during central and State elections in 2018 after introducing market-determined daily price revision (Das, 2019)
- Creating HPCL as a subsidiary of ONGC instead of an operationally integrated NOC
- No international major oil and gas company has shown interest in acquiring BPCL.

Conclusion

- Privatised BPCL will not suffer the infrastructural disadvantage of a new firm and the shackles of public sector governance and obligations. Thus, the privatised BPCL can induce much-needed competition and value addition in the marketing segment.
- Main challenges for the Government
 - Slowing the growth of LPG penetration in the rural economy and
 - Ensuring that independent regulators act in creating and maintaining competitive markets post-privatisation.

Thank you

Feedback and Suggestions

Email: deepak_sharma@iitb.ac.in