

## **A Case on Bharat Petroleum Corporation Limited (BPCL) Disinvestment**

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### **Abstract:**

*Disinvestment is essentially the sale of public sector units to private parties. It can take many different facets as a minority stake sale or strategic disinvestment or privatisation. The sale of public sector units is difficult because of the stakeholders involved in the process. BPCL disinvestment is going to be a challenge as it is not a sick unit as is the case with Air India limited, and the decision to disinvest is not purely commercial, the government has to deal with political and social aspects of it. The Department of Investment and Public Asset Management is facing challenges on account of the cost of the deal due to uncertainty over the fuel market, renewed thrust on renewable energy and resistance from the political spectrum. The hydrocarbon industry in India is dependent on foreign players so geopolitics also becomes a part of the process. The paper discusses various such challenges and the strategy of DIPAM to deal with them.*

**Keywords:** *Disinvestment, BPCL, PSU Sale, Maharatna, Fossil fuel Industry, DIPAM, Liberalisation, Privatisation, Net-Zero Carbon Emission*

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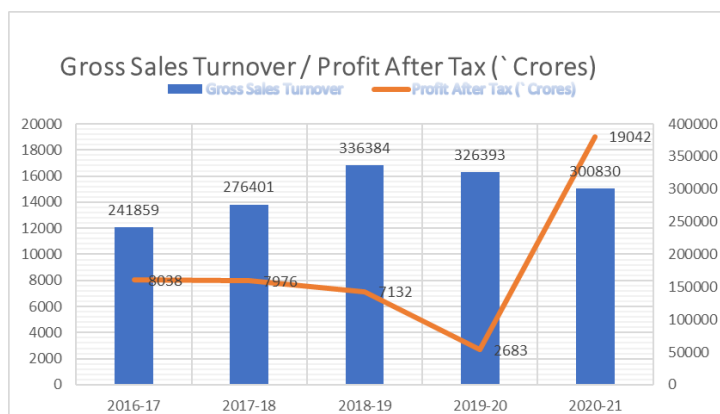
### **I. Introduction:**

The development of public sector units held by the colonial master before the independence was intended to achieve its objective of exporting raw material and importing finished products from their native country. Post-independence, India pursued a socialist framework that technically proposes more government control over the industrial units. This has led to the creation and acquisition of various public sector units to achieve its social welfare agenda. India's policy of liberalisation, privatisation, and globalisation had a policy focus on increasing private partnership in the industrial units. This called for transferring government control over the industries to the interested private parties. Privatisation had to be pursued so that the government can focus on more important aspects of governance.

#### **1.1. History of Bharat Petroleum Corporation Limited (BPCL)**

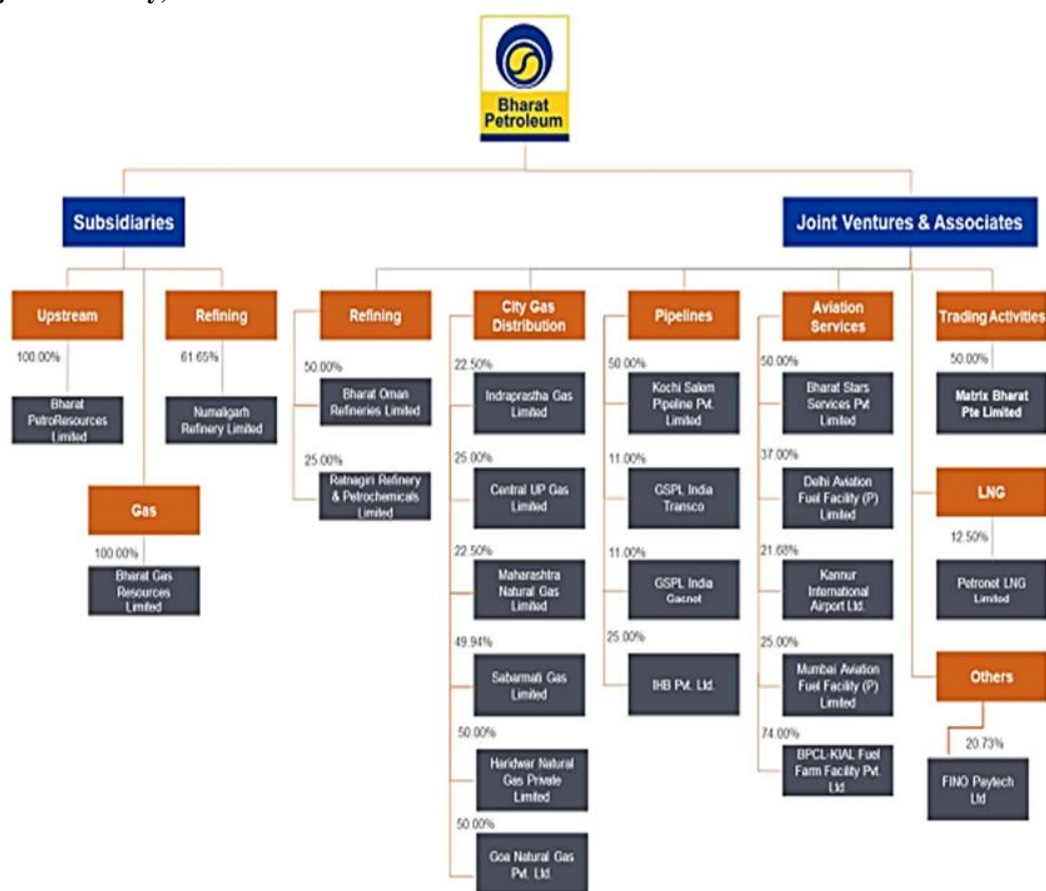
To market petroleum products in South Asia, the Asiatic Oil Company was formed in the year 1903 by a joint venture between Shell and Royal Dutch Oil Companies (*The Shell Brand / Shell India*, n.d.). Burma Shell company began its operations by importing kerosene oil and distributing it in the hinterlands of the country. It begins its first retail operation by setting up a fuel station in Mumbai India in 1928. The network has now reached more than 16,000 fuel stations fuelling more than 1,00,00,000 vehicles per day. A new era for Burmah Shell company began when it got acquired by the Government of India on 24th January 1976 (*Our Journey / The Story of Bharat Petroleum (BPCL)*, n.d.)

In its effort to contain the rising fiscal deficit, the government has decided to raise funds by disinvesting in many government PSUs. It has always been considered wise to disinvest in an ailing government PSUs but some government entities have been earning for the government a handsome amount of dividend every year but are still being considered for disinvestment. One such unit is Bharat Petroleum Corporation Limited. The government announced its plans to sell entire 52.98% of its stake in Bharat Petroleum Corporation Limited (BPCL). It has been a bumpy ride since then.



(Energizing India's Growth Engines!, n.d.)

Major Subsidiary, Joint Ventures and Associates of BPCL



(Investor Presentation, 2021)

1.2. India's Energy Profile:

India is 3rd largest consumer of energy in the world after only China and the USA. (India 3rd in Renewable Energy Index - The Hindu BusinessLine, 2021). With 5.8 % of the total world's energy consumption, India's energy requirement is growing at the compound annual growth rate of 4.2 %. India currently has one-third of its energy requirement through fossil fuels. As per the data from the report of 2020 of the Ministry of Petroleum and Natural Gas, it has been reported that India is fourth in terms of binding capacity which stands at 249.36 mm TPA. Ministry has also taken up the task of developing a 13500 gas pipeline to complete the National Gas Grid (BP, 2020).

India holds 0.26% of proven oil reserves while accounting for more than 5.8 % of total consumption across the world. This makes it compulsory for the country to buy 83.7 % of its oil requirements from foreign countries. Excessive dependence on foreign parties for their energy consumption makes India vulnerable to many undesired geopolitical factors. Considering its implication, the country is moving faster towards

renewable energy, but oil and natural gas are still making up for more than 35.7 % of its primary energy basket which is a cause of concern for the government. In the recent past government has moved faster towards investing in renewable energy sources.

### **II.1. Why Disinvest?**

Public sector Units are marked by the under-utilisation of resources, problems related to labour, planning and management. Most of the time it has been observed that the price policy of public sector units is not commercially viable. Public Sector Units must deal with a lot of unnecessary social and political considerations. Government control over PSU's makes it difficult for them to maintain their autonomy.

It is also argued that a large number of public resources are locked up in PSU's which are not optimally used. More priority areas deserve these investments such as health, family welfare etc., hence opportunity cost of such investment is very high, and it is wise to go for disinvestment.

Sometimes it is found that some non-strategic companies are eating up a large number of public resources in trying to revive unviable public sector units. In such cases, it is in the public interest to let them go. By transferring public sector units to private players, the government also transfers the commercial risk involved in managing the industry thereby saving the public exchequer of the potential risk involved. Transferring such risk to interested private parties would also help in reducing the competent manpower for their services in essential areas.

An excessive amount of government patronage sometimes makes the industrial units incompetent. Privatization helps such industries become competent and follow market discipline to be self-reliant.

It can also become a way to distribute wealth by offering shares to small investors. As it is in the case of LIC of India Limited. The capital market can provide a more accurate benchmark for the evaluation of government stocks. The more floating shares in the market the better it is. It gives investors better choices and early exit options.

In a broader Outlook, it has the potential of increasing economic activity thereby increasing tax revenue and prosperity of the nation.

### **II.2 Bharat Petroleum Corporation Limited (BPCL) Disinvestment Case:**

The disinvestment of Bharat Petroleum Corporation Limited (BPCL) has been hitting various roadblocks. One of the important aspects is the cost of such holding, Government plans to disinvest around 52.98% of its stake. At a market capitalization of approximately Rs. 82500 cr as of December 2021, the cost of such disinvestment is a whopping amount close to 46200 cr INR. It is difficult to find buyers with such a deep pocket. There are very few business entities that can afford to invest in such a big deal. This is why companies are trying to find suitable partners to hold onto such a big investment (*BPCL Privatisation: BPCL Disinvestment: Top India Asset Sale Delayed as Suitors Strive for Partners - The Economic Times*, n.d.).

It has been reported that the companies are delaying the due diligence process to buy some time for finding the right partners for the sale (Roychoudhury & Ohri, 2021). It has been reported that Bharat Petroleum Corporation Limited (BPCL) management has received only a few basic queries ever since the company opened its records for due diligence. As of December 2021, only three companies have expressed their interest in going ahead with the acquisition of Bharat Petroleum Corporation Limited (BPCL), however, it has been reported that two big bidders namely, I squared capital and Apollo Global, were in touch with global energy giants and sovereign and pension funds to find strategic support from the deal which could not be materialised. BPCL had pledged to invest \$2.2 - \$2.4 billion in Rovuma offshore field 1 in Mozambique which is also one of the factors that increase the cost for potential buyers.

One of the important aspects in disinvestment is the cost of the deal, experts argue that the sale of entire 52.98 % of government equity would not be able to garner as much money as it would have in case, if the government had offered only 26% of its stake with management control to a private partner and sold rest of its holding afterwards.

The next consideration which is hindering the Bharat Petroleum Corporation Limited (BPCL) disinvestment process is the uncertainty on the part of the government. The government seems to be resolute on reducing import bills by bringing down total petroleum consumption in the country and it is taking every logical step to ensure that dependency on crude oil is reduced to its minimum, recent announcements in the areas of electric vehicles and renewable energy is also fuelling the uncertainty over the future of such corporate giants. The Ministry of Road Transport and Highways is pushing hard to move into electric vehicles and with its track record, it seems to be a matter of time. Feeling the wind, BPCL also plans to diversify its business into clean energy resources by an esteemed investment of Rs 25000 crore by 2040 (*Bpcl To Build 10 Gw Clean Energy Capacity By 2040 At Rs 25,000-Cr Investment: Report*, 2022).

One of the most disturbing aspects of disinvestment in public sector undertaking is its employee base, it has been experienced over the years that the trade unions and employee associations always hinder the process of disinvestment in any organisation and Bharat Petroleum Corporation Limited (BPCL) is no exception to it.

External factors such as geopolitics has also a role to play here. A recent call for a Net-Zero Carbon Emission target has also been keeping the investors in this sector at bay.

To proceed ahead with the sale, Bharat Petroleum Corporation Limited (BPCL), management would be required to take an approval letter from its borrowers which will take approximately three to six months. This has led to delays in the financial bidding.

The current uncertainty over oil prices due to pandemic has disturbed the equilibrium of this industry, this is one of the causes of concern for the investors. Investors are not willing to jump into such a sector where it is very uncertain to predict the demand in the short run.

The government has set an ambitious target of earning 2.16 lakh crore this financial year by disinvestment in various PSU's. Government is still behind the 1.75 lacs crore disinvestment target. With the delay in the Bharat Petroleum Corporation Limited (BPCL) sale, the government has its hopes high on the LIC IPO scheduled to be out in the last quarter of 2021-22 (Batra, 2021).

In a broader outlook, it has the potential of increasing economic activity thereby increasing tax revenue and prosperity of the nation.

### **III. Conclusion:**

The disinvestment process had halted during the UPA governments led by Congress and which started again with the National Democratic Alliance Government led by BJP coming to power in 2014. The hydrocarbon industry has been facing a lot of sustainability issues due to the increasing concerns on global climate change issues, not only the companies, but also the government dependent on hydrocarbons are diversifying into different areas to secure their future. It is reasonable to face challenges in the sale of such a corporate giant working in this area. The Department of Investment and Public Asset Management (DIPAM) is finding it difficult to find a suitable buyer who can invest such a heavy amount and is willing to take the risk of uncertainty over the oil prices. The events are still unfolding as the paper is in progress. Experts believe that the recent withdrawal of Saudi Aramco from the proposed 20 billion dollar deal to set up a mega refinery in collaboration with Reliance is said to be one of the important indications of the uncertain future of hydrocarbons in India. To make itself sustainable in the long run, BPCL is moving steadily into the natural gas and other renewable energy sources market. A recent announcement of Bharat Petroleum Corporation Limited's plan of setting up over 7000 Electric Vehicle (EV) charging stations is a step towards the same

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