ONGC - HPCL merger

What is the issue?

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- The government is prodding ONGC to buy HPCL (both are PSUs) to improve efficiency in the oil and gas sector.
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- But the move seems to lack logical thinking and a vision
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What are the issues with this integration?

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- Many of the world's oil majors are integrated companies that are involved in extraction as well as refining.
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- While integration does offer advantages, merely merging PSUs isn't going to significantly change anything.
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- Large mergers are always tricky and many have failed.
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- Also, merger would've made sense if either ONGC or HPCL was more efficient than that of their private sector rivals, which isn't the case.
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- Significantly, they are bound by various rules and procedures that restrict their performance, just like all other PSUs.
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What are the contradictions?

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- **Disinvestment -** There is very little competition in the oil marketing space and hence, privatising HPCL would have been a much better idea.

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- But the government hasn't considered it, as ONGC's buying program will itself help to meet the disinvestment targets without actual privatisation.
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- **HPCL's Valuation -** Significantly, ONGC has done an internal evaluation of HPCL that values it at 45% more than what its market capitalisation is.
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- This effectively means that ONGC's valuation experts think that HPCL is more valuable than Reliance Refineries, which is odd.
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- Notably, apart from its more modern refineries that have better processing capabilities, Reliance also has a robust crude sourcing profile.
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- **ONGC's Profile -** While the government is asking ONGC to acquire HPCL, it is taking away some of ONGC's oil/gas fields and giving them to private firms.
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- Thus, while the government thinks that an ONGC takeover will increase HPCL's profitability, it also feels that ONGC isn't doing its current job well.
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Source: Financial Express

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