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BID TO SHORE UP FINANCES

Govt Seeks ₹19,000 cr Dividend from Oilcos

Demand not in sync with profitability, cos may need to borrow, say executives

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New Delhi: The government is seeking a record ₹19,000 crore in dividend from state oil companies — about 5% more than last year — to shore up its finances, according to people familiar with the matter. ONGC and Indian Oil, the biggest in the club, have been asked to pay about 60% of the total.

The finance ministry has demanded that oil companies should maintain or increase the dividend payout this year. Company executives say the demand is being made even though profits have have fallen from last year.

Executives also complained that the government is seeking high dividend even though its stake in the companies have come down.

While ONGC has been asked to pay a dividend of about ₹6,500 crore, Indian Oil is expected to shell out ₹5,500 crore, BPCL ₹2,500 crore, GAIL ₹2,000 crore, Oil India ₹1,500 crore and Engineers India ₹1,000 crore, according to people with knowledge of the matter.

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Govt has sought high dividend in a year of low profit

(Profit in ₹ Cr)

	H1 FY20	H1 FY19	% Change
Indian Oil	4,159	10,078	-59
GAIL	2,352	3,222	-27
BPCL	2,783	3,511	-21
Oil India	1,252	1,565	-20
ONGC	12,167	14,408	-15.50
Engineers India	192	184	4

COUNTERPOINT

Companies say demand is steep given low profits

They will have to cut back on capex	May need to borrow to fund expansion

Illustration: ANIRBAN BORA

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Cos Resisting Move

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Companies are resisting the move and negotiating with the government to bring down these targets and so the final outgo may be a bit lower, the persons said.

Companies may have to borrow to pay high dividends, executives said. "What they are asking for is not in sync with the profits reported so far this year," said a company executive. Except EIL (4%), all state oil companies have reported a drop in half-yearly profit: ONGC (-15.5%), Indian Oil (-59%), Oil India (-20%), BPCL (-21%) and Gail (-27%).

"Higher dividend outgo means you either cut down on your own planned spending or borrow more, which raises your finance cost," said another executive whose company plans to raise debt for dividend.

However, an executive at another company, which too will have to borrow to pay dividend, says it's okay for the government to demand steep dividend. "Shareholders have expectations of certain return on their investments and the management should try and meet that, irrespective of the annual profit. For large oil companies, borrowing some amount to pay dividend is not a bad idea," he said.

Since March 2018, the government's stakes have fallen in all oil companies, including ONGC (-5%), Indian Oil (-5%) and Oil India (-6.5%) but its demand for dividend has only risen, executives say. "You are asking for more or demanding the same amount year after year even while selling stake each year," an executive said. The government has been selling shares to meet divestment target. Last year, the government forced ONGC, Indian Oil and Oil India to undertake a combined Rs 9,500 crore share buyback programme in which the state's shares were offloaded. Some shares were sold via exchange-traded funds.