Pandemic Dents Oil PSUs' Capex Plans

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New Delhi: State-run oil companies spent just a fifth of the annual capital expenditure target of nearly ₹1 lakh crore in the first four months of the year as the pandemic slowed down project execution and forced some firms to cut capex.

Of the ₹98,522 crore targeted for 2020-21, oil companies spent ₹19,569 crore in the April-July period, official data showed.

The government is pushing state-run firms to accelerate capital spending in a bid to revive the economy, which is facing a contraction due to Covid-19 and an extended lockdown. Finance minister Nirmala Sitharaman has been regularly monitoring the spending by state companies.

Oil and gas companies, the biggest spenders among state-run companies, are facing execution challenges ranging from slow return of migrant workers to project sites to mobility restrictions and supply chain issues constraining the availability of experts, equipment and materials.

ONGC Videsh, the Oil and Natural Gas Corporation (ONGC) arm which invests in overseas projects, spent at the fastest clip among state-run oil companies. It used up 28% of its planned spending of ₹7,235 crore in April-July.

Bharat Petroleum Corporation Ltd (BPCL), which is being privatised by the government, has been the slowest in its capex execution. In the first four months of the fiscal year, it spent just about 14% of its annual target of ₹9,000 crore for the year. BPCL has cut its planned capex for the year to ₹8,000 crore.

ONGC, the largest spender among state-run oil companies, has cut its capex target by 15%. It has so far spent 22% of its planned capex of ₹32,500 crore for the year.

Hindustan Petroleum Corporation Ltd (HPCL) is the second from the bottom on the spending chart. It exhausted just 16% of its annual target of ₹11,500 in April-July. Activity at HPCL's project sites picked up following the easing of lockdown restrictions but not all workers had returned to work yet, HPCL chairman MK Surana said earlier this month.

Indian Oil Corporation spent 18% of its target of ₹26,233 crore in the first four months while GAIL, the operator of largest gas pipeline network in the country, exhausted a fifth of its allocation.

Falling Short

COMPANY	2020-21 (TARGET) ₹ CR	% SPENT IN APR-JUL
ONGC Videsh	7,235	28
Oil India	3,877	26
ONGC	32,502	22
GAIL	5,412	20
Indian Oil	26,233	18
HPCL	11,500	16
BPCL	9,000	14

● NO SPEEDY RECOVERY

Weak oil refining margins to put pressure on OMCs: Fitch

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FITCH RATINGS ON Monday said state-owned oil refiners IOC, BPCL and HPCL may see longer than previously expected time to recover refining margins, increasing downside risks to their credit profiles.

Also, the push for capital spending and demand for dividends from the government will put pressure on their financial profits, it said.

"Fitch Ratings believes that Indian oil marketing companies' gross refining margins (GRMs) will take longer than previously expected to recover, which increases the downside risks to the standalone credit profiles (SCPs) of Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Limited (BPCL), while headroom for Indian Oil Corporation's (IOC) SCP remains limited," the rating agency said.

It, however, expected stronger marketing margins during financial year ending March 2021 (FY21) to moderate the risk.

"The three companies' continued capex and demand for dividends from their main shareholder, the Indian state, will also put pressure on their financial profiles," it said.

"The Issuer Default Ratings of the three companies are driven by linkages to the state, which remain intact."

Marketing margins of the three oil marketing companies' (OMCs) increased significantly during April-June quarter of 2020-21 and boosted Ebitda compared with the fourth quarter of FY2020.

Marketing margins rose despite a hike in excise duty on auto fuels, as the fall in crude oil prices was not fully passed on to consumers.

"Despite lower petroleum product sales, we expect the OMCs' FY21 marketing profit to benefit from high marketing margins in Q1FY21 and price increases to partly cover investments for complying with new emission standards," Fitch said.

In contrast, the OMCs' refining throughput and domestic petroleum product sales both fell by around 25% in the April-June quarter from a quarter earlier, when the coronavirus-related lockdown started. Export sales increased by 4%, but were not enough to offset weak domestic sales as exports form only 5-8% of overall sales.

Fitch expected volumes to gradually improve over the rest of FY2021 as lockdown measures are relaxed, with full-year volumes down by 10-15%.

"We expect demand to gradually improve to pre-coronavirus levels in FY22 as the economy recovers," it said.

GAIL's weaker Ebit highlights US LNG price risks: Fitch Ratings

STATE-OWNED GAS UTILITY GAIL India's 82% plunge in pre-tax profit (Ebit) to ₹480 crore in the first quarter of the financial year ending March 2021 reflects price risks under the firm's long-term Henry Hub (HH)-linked LNG contracts from the US, Fitch Ratings said on Monday.

GAIL's regulated gas transmission segment was the least affected by the coronavirus pandemic-related lockdowns and helped generate an overall positive Ebit margin over the quarter, it said. —PTI

POINT**COUNTER**POINT

WAS INFORMED BY RAHUL GANDHI PERSONALLY THAT HE NEVER SAID WHAT WAS ATTRIBUTED TO HIM. I, THEREFORE, WITHDRAW MY TWEET.
—LAWYER AND CONGRESS LEADER
KAPIL SIBAL

YES, WE ALL NEED TO WORK TOGETHER IN FIGHTING THE DRACONIAN MODI RULE RATHER THAN HURTING EACH OTHER AND THE CONGRESS.
—CONGRESS COMMUNICATION CHIEF
RANDEEP SINGH SURJEWALA

Snap the stranglehold

The only way to avoid delay and expedite the process of privatisation of Central PSUs is to unshackle them from bureaucratic red tape

UTTAM **GUPTA**

Finance Minister Nirmala Sitharaman has announced the broad contours of the Narendra Modi Government's plans on privatisation of Central Public Sector Undertakings (CPSUs). A CPSU is defined as an undertaking in which the Union Government has shareholding of more than 50 per cent and by virtue of this, exercises majority ownership and control (there were 249 operating CPSUs as on March 31, 2019). Its privatisation means the shareholding of the Centre will be brought down to below 50 per cent. Before we look at the plan and how the Government goes about implementing it, it may be worthwhile to review what it has already done on this front and its outcome. Under the Modi dispensation, this is not the first time that the privatisation of CPSUs has been put on the table.

In early 2016, the NITI Aayog had recommended to the Government a "strategic" sale (a sophisticated nomenclature for selling more than 50 per cent of the Government's shareholding) of over two dozen CPSUs. Meanwhile, the then FM, Arun Jaitley, had set targets for sale proceeds from this route at ₹28,500 crore (2015-16) and ₹20,500 crore (2016-17). Against this, during 2015-16, there was not even a single case of strategic sale whereas for 2016-17, the target itself was lowered to a meagre ₹ 5,500 crore. During 2017-18, the Government sold 51.11 per cent of its shareholding in Hindustan Petroleum Corporation Limited (HPCL) to Oil and Natural Gas Corporation (ONGC), yielding about ₹37,000 crore. In 2018-19, it sold 52.63 per cent of its stake in Rural Electrification Corporation (REC) to Power Finance Corporation (PFC) to yield ₹13,000 crore. But, the sale of shares in HPCL to ONGC or in REC to PFC (i.e. from one PSU to another) cannot be termed as strategic as even after relinquishing 51 per cent plus shareholding, the Government continues to exercise full control (albeit indirectly) over HPCL/REC by virtue of being majority owner in the acquirer, namely ONGC/PFC.

During 2018-19, Air India (and its subsidiaries) were also put on the block but didn't elicit any interest. During 2019-20, besides resurrecting that offer, the Government also took up sale of all of its shareholding in Bharat Petroleum Corporation Limited (BPCL) at 53.29 per cent; Containers Corporation of India (ConCor) at 30 per cent; Shipping Corporation of India (SCI) at 63.75 per cent; North Eastern Electric Power Corporation (NEEPCO) at 100 per cent and THDC India Limited at 75 per cent. Sans NEEPCO and THDCIL, which were sold to National Thermal Power Corporation (NTPC) — a CPSU in the power sector — others made no progress.

In January 2020, even as the Finance Ministry was pretty confident that the sale of BPCL, ConCor and SCI, besides Air India *et al*, would materialise during 2020-21 (this is also reflected in the ambitious target of divestment proceeds at ₹2,10,000 crore of which the revenue from strategic sale is over ₹1,00,000 crore), the devastation triggered by COVID-19 changed everything. From the above, it is abundantly clear that the privatisation initiative pursued during the last five years has not taken off. There are two major reasons for this failure.

First, the exercise all through has been linked to garnering revenue (albeit non-tax) to meet fiscal targets, which drives the efforts and not privatisation *per se* which ought to be the way forward. Second, the Government's moves in this direction are hamstrung by an inherent desire to remain in the driver's seat even after the so-called strategic divestment. A clear indication of this is available from what Sitharaman said in her Budget speech for 2019-20. She stated that the intent was to change the extant policy of the Government "directly" holding 51 per cent or above in a CPSU to one whereby its total holding, "direct" plus "indirect", is maintained at 51 per cent.

IN THE PRESENT SCENARIO, INSTEAD OF GETTING BOGGED DOWN WITH DRAWING A LINE BETWEEN STRATEGIC AND NON-STRATEGIC SECTORS, ANY DECISION TO PRIVATISE A PSU SHOULD BE TAKEN ON THE MERIT OF EACH INDIVIDUAL CASE. IT SHOULD COME FROM THE MANAGEMENT OF AN INDIVIDUAL PSU INSTEAD OF BEING THRUST ON THEM UNDER A TOP-DOWN APPROACH. FOR COORDINATION AT THE MACRO LEVEL AND PROVIDING GUIDANCE, THE GOVERNMENT MAY CONSTITUTE A PANEL OF EMINENT PROFESSIONALS

To illustrate, let us take the case of Indian Oil Corporation Limited (IOCL). In addition to its direct stake of 51.5 per cent, the Union Government holds more than above 51 per cent in other PSUs, which in turn, hold shares in IOCL. Thus, Life Insurance Corporation (LIC), which is 100 per cent owned by the Government, holds 6.5 per cent shares in IOCL. Oil and Natural Gas Corporation (ONGC), which is 63 per cent Government-owned, holds 14 per cent shares in IOCL. Likewise, Oil India Limited (OIL), which is 60 per cent owned by the Union Government, holds five per cent shares in IOCL.

The "indirect" stake of the Union Government in IOCL via LIC/ONGC/OIL being 25.5 per cent, it can reduce its direct stake in IOCL to 25.5 per cent (sending a message that it has been privatised) and yet, including the "indirect" control, it will still have majority stake of 51 per cent. This approach can be a big bottleneck in the way of successfully executing strategic divestment plans.

Now, under a big bang approach to privatisation, CPSUs are divided into two broad categories *viz.* "strategic sector" and "non-strategic." In strategic, the Government has identified 16 sectors, including among others petroleum refining and marketing, crude exploration, power generation, coal and metals, atomic energy, space, heavy and medium engineering sector and so on. On the other hand, the non-strategic sectors include hotel and tourist services, transportation vehicle and equipment, industrial and consumer goods, trading and marketing and transport and logistics and so on.

As per the plan, all PSUs in the non-strategic sector will be privatised. In the strategic sector, too, the Government will be open to privatisation with the caveat that at least one undertaking (and a maximum of four) will be retained in the public sector.

When seen in the backdrop of the Union Government having made an indiscriminate entry in almost every conceivable business activity, including areas such as hotel and tourist services, where it had no business to be present (look at the Indian Tourism and Development Corporation which runs a chain of hotels and restaurants), any initiative aimed at exiting from all of these is welcome. This has the potential to unlock value and generate huge revenue because of the high valuation that the real estate and properties — many of these in prime locations — under these PSUs command.

Coming to the strategic sector, though the Government does not rule out privatisation, the caveat of retaining a maximum of four undertakings in the public sector can defeat the purpose. For instance, currently there are around 12 oil PSUs ranging from upstream oil producers, like ONGC and OIL, to downstream oil refining and fuel marketing firms, like IOC, BPCL and HPCL to gas transporter GAIL India Limited and engineering firm Engineers India Limited. These 12 could be consolidated into four behemoths through a process of merger and amalgamation leaving no space for privatisation whatsoever. Why does the Government want to put this caveat? What does it fear from? Sans this, will it compromise national interest? In the above example, consider an extreme scenario, in which there is not even one PSU and the entire oil and gas space is occupied by private enterprises. Are we to infer that this will compromise India's energy security? If this were to be the case, then why not reserve this sector exclusively for PSUs? Why allow even one private company? This line of argument is bizarre.

For ensuring security in strategic items, the critical requirement is to have a minimum number of companies to ensure there is adequate competition and supplies in the market. Who those firms are — whether owned by private promoters or the Government — should not matter. In the 70s and the 80s, when India needed to develop these sectors and the private sector was unwilling to come, it made eminent sense for the Government to take the lead. Since then, a lot of water has flown down the river Ganga. Currently, there is considerable interest among private investors and the Government itself is inviting them. Therefore, any arbitrary restriction should be avoided.

In the present scenario, instead of getting bogged down with drawing a line between strategic and non-strategic sectors, any decision to privatise a PSU should be taken on the merit of each individual case. It should come from the management of an individual PSU instead of being thrust on them under a top-down approach. For coordination at the macro level and providing guidance, the Government may constitute a panel of eminent professionals.

The process of strategic sale should be delinked from the Centre's resource-mobilisation exercise. This will give the much-needed flexibility to the PSU management to decide the contours and timing of the divestment, taking into account market conditions so as to maximise the proceeds from sales.

The only way to avoid delay and expedite the process of privatisation is to unshackle it from bureaucratic red tape.

(*The writer is a Delhi-based policy analyst*)