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OWNER TO GET INDIRECT CONTROL OVER JVs OF PSU OIL CO

BPCL Acquirer may have to Launch Open Offers for IGL, PLL

PSU holds 12.5% and 22.5%, respectively, in joint ventures Petronet LNG and Indraprastha Gas

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New Delhi: The acquirer of the government's majority stake in Bharat Petroleum Corp. Ltd (BPCL) may have to launch two open offers apart from the one it will have to compulsorily make to shareholders of the company. BPCL is one of the promoters of joint ventures Petronet LNG (PLL) and Indraprastha Gas Ltd (IGL)–holding 12.5% and 22.5% of these companies, respectively.

The entity that takes over BPCL as part of the privatisation plan will get indirect control of IGL and PLL, which could trigger a mandatory open offer to the public, people familiar with the matter said, as there will be a change in promoter ownership.

The government has approached the Securities and Exchange Board of India (Sebi), the market regulator, seeking clarity on whether the acquirer could be exempted from open offers in the case of IGL and PLL, said the people cited above. The government is concerned that the BPCL acquirer would be able to get a dominant shareholding in these two companies, something that it wants to avoid, they said.

If Sebi does not grant exemption, the government may direct BPCL to sell its shares in PLL to other public sector units (PSUs) to retain control over the company, regarded as critical to India's plans for a gas-based economy, they added.

BPCL, ONGC, Indian oil, and GAIL own equal stakes of 12.5% each and are promoters of Petronet LNG, the board of which is chaired by the petroleum secretary. BPCL owns 22.5% of IGL and is a promoter along with state-run GAIL, which owns an equal stake.

The government owns another 5% stake in IGL but is not a promoter. PLL and IGL are not public sector enterprises but are largely guided by the government. The government may permit an open offer in the case of IGL, said the people cited above.

BPCL VENTURES

IGL: BPCL, GAIL promoters with 22.5% stakes each

Petronet LNG: BPCL, GAIL, Indian Oil, ONGC promoters with 12.5% stakes each

M-CAP

IGL ₹36,000 cr | Petronet ₹34,000 cr

BPCL ₹94,000 crore

COST OF 53% STAKE IN BPCL
₹50,000 crore

COSTS OF ACQUIRING 26% VIA OPEN OFFERS

BPCL	24,000
IGL	9,400
PETRONET	8,800

(In ₹ Crore)

Acquisition Costs to Rise ▸▸ 10

Acquisition Costs to Rise

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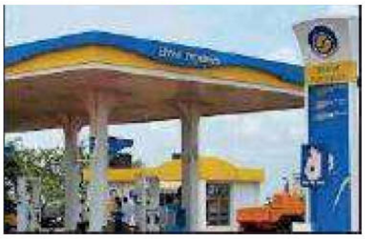

The government may permit an open offer in the case of IGL if GAIL offers to buy out BPCL's shares.

If Sebi grants exemption, the acquirer may become co-promoter in both IGL and PLL without making an open offer – a less likely event, said those cited above.

Another possibility under consideration is that BPCL declares itself a non-promoter before the sale of the government stake, which can probably help the acquirer escape the open offer obligations for PLL and IGL, an industry executive said. IGL, which operates city gas distribution networks in Delhi and other cities, is valued at Rs 36,000 crore while Petronet LNG, the country's largest natural gas importer, is valued at Rs 34,000 crore. The combined market value of the two companies is three-fourths of BPCL's Rs 94,000 crore.

At current prices, the government's 53% share in BPCL would cost Rs 50,000 crore and an open offer for acquiring an additional 26% would cost another Rs 24,000 crore. On top of this, if the acquirer has to make an open offer for both IGL and PLL, it would have to shell out about Rs 18,000 crore more.

The open offers for both IGL and PLL will raise acquisition costs for the BPCL buyer but Rs 18,000 crore for control of two highly profitable gas-based businesses would be an attractive option, the executive said. Natural gas is cleaner than oil and is therefore predicted to have a bigger influence on future energy mix globally as well as in India.