Policy impetus for Indian Oil likely ahead of follow-on offer: Chairman in an interview

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BM Bansal
Chairman
Indian Oil Corportaion Ltd

The government and the Indian Oil (IOC) have started consultation to find quick and practical policy solutions that would help the state owned refiner to realise better value for its shares whit goes for a follow on public offer this fiscal end.

The department of disinvestment, the petroleum ministry and IOC have set up a panel to examine various policy amendments to be taken before the public offer that would fetch better value for the refiner's shares, IOC chairman BM Bansal told FE. These mainly include finding a permanent formula for sharing the losses arising from selling diesel and cooking fuel below cost a institutionalising a framework for natural gas producers to discover price from the market. The government hopes that the diversifying refiner would command more value if policy constrain that affect its cash flow and profitability are addressed. IOC has already diversified into the upstream oil exploration and production business and enhanced its petrochemical capacities.

So far this year, upstream firms ONGC, GAIL and Oil India have given Rs 10,200crore discounts to IOC, HPCL and BPCL, which is roughly a third of the Rs 31,000crore losses they incur from selling fuel below cost. A decision on the remaining two third is awaited. Refiners will have to bear a part of it after government decides how much subsidy burden it can share.

When asked about the intrinsic value of IOC shares, Bansal said, "It would be above Rs 1,000." On Tuesday, IOC scrip closed trading at Rs 403.35 on the National Stock

Exchange. Bans vision is to expand IOC as "the energy company" of the nation with full integration into upstream hydrocarbon exploration and production and into downstream petrochemicals business agas trading. It is also keenly interested in regasifiedLNG business, which Bansal believes, does have a future.

Bansal said the firm would invite expressions of interest from merchant bankers in a day or two for the proposed FPO. Meanwhile, the Centre has started looking for another three to find ependent directors for the company's board (which has a current strength of 14), which already has six IDs.

The company would use the proceeds from the issue of 10% fresh equity partly for reducing its debt. "We would keep our debt equity ratio at 0.9 to a maximum of 1," Bansal said. To get with the 10% sale of government stake, the FPO is expected to generate about Rs 19,000 crore.

Bansal said once the constraints are addressed through policy measures, the company's cashflow would improve. That is vital because its overseas expansion in the downstream sector wohinge on cash flow position. The company was looking at setting up refineries in Nigeria and Turkey, before the oil price spiral in 2008.

"The cash flow constraint, however, would not affect oil and gas exploration abroad," Bansal said. IOC has earmarked a minimum $1 billion to be spent over the next few years. If the company’s strikes oil or gas, it would invest more to develop that field, he said.