

Petroleum and indian oil corporation



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The objective of this study is to understand the strategies used in the acquisition of IBP Co Ltd by Indian Oil Corporation Limited. Indian Oil Corporation is the country's flagship Petroleum refining and marketing company of the Government of India and has presence in the entire range energy business. IBP Co Ltd was a standalone public sector petroleum products marketing company with presence in other diverse activities like explosives and cryogenics.

Here we discuss about the “ expensive” acquisition of IBP and its subsequent merger and the issues related to the integration of the businesses with IOC. The strengths and weaknesses of both the companies are compared. Though the price offered by IOC was thought to be very high, the reasons for the high bid were found to be justified. The post acquisition merger, though very prolonged (spanning 5 - 6 yrs), was one of the smoothest integrations. We also take a look at how the common businesses were streamlined making the best use of the infrastructures.

The most important aspect of how the human resources were managed during the integration phase. Reason for selection of the companies: Working as Dy Manager in IOCL at Cochin, I joined IOCL (Marketing Division) as officer (grade A) in 1998 when the disinvestment of PSU's was widely discussed. The entire process from disinvestment to integration of IBP from the year 2002 till 2007 was a matter that was debated and discussed among the officers of IOCL. This had created a curiosity in me to examine the acquisition and merger issue. Along with my colleague, who is from IBP, we have seen the synergy between the two organizations yielding results.

Introduction: The study is intended to understand the various strategies adopted by IOCL in its Acquisition, merger and integration of IBP Co Ltd. The problem: On the average stock market price of Rs 330 per share, IOCL quoted a price of Rs 1551. 10 per share to acquire a the government holdings in the company. Is the offer highly priced? Is merger and integration of IBP Co Ltd. , by Indian Oil Corporation Limited a good decision or should it continue retaining IBP Co Ltd as a separate group company like CPCL. What would be the method adopted for rationalizing the resources like physical infrastructure, employees etc?

Through this discussion we may conclude that the acquisition, merger and integration of IBP to IOCL was very professionally executed and was indeed successful. The study is divided in 5 sections. In section 1 the brief event of disinvestment of IBP Co Ltd and its purchase by IOCL is discussed. In section 2 the background of the two organizations is presented. The entire process can be viewed in 3 stages viz. , Acquisition, Merger and Integration. Section 3 deals with disinvestment process - the actual bidding and the pros and cons of the transactions, and IOCL's rationale for the acquisition.

Section 4 describes the merger process and section 5 covers the integration stage. 1. A brief over view of the three stages: 1 Government of India (GOI) finalized strategic sale of 33. 58% of the IBP's equity out of Government holding of 59. 58% on 5. 02. 2002. The total paid up equity of the company is Rs. 221. 5 Million, out of which Government holds shares of Rs. 132 Million. The equity sold to strategic partners would be of face value Rs. 74. 4 Million. The company was engaged in the retail marketing of petroleum products,

manufacture and marketing of industrial explosives and Cryo-Vessels for industrial and biological applications.

Unlike other PSU oil marketing companies it did not own any refining capacity and marketed products of other refineries. Interested investors submitted expression of interest (EoI) in February 2001. The short listed parties completed the due diligence exercise and the transaction documents were agreed upon, after a number of rounds of discussions with bidders. Thereafter, based on these documents, Govt. invited financial bids from the bidders on 31. 1. 2002. Seven bidders, including PSUs, national like Reliance and international bidders Shell, Kuwait Petroleum, Caltex etc. , submitted their bids.

The Cabinet Committee on Disinvestment, in its meeting on 5. 2. 2002 considered the recommendations of the Evaluation Committee, the IMG and CGD and approved the bids of Indian Oil Corporation for a price of Rs. 11536. 8 Million i. e. Rs 1551/- per share at a P. E. ratio of 63 IOCL has been consistently ranked as the topmost Indian company in the Fortune Global 500 by sales. IOCL's price of Rs 1551. 10 per share was a whopping 330% over the average stock market price of Rs 360 for the preceding half year and 194% over the highest recorded price of Rs 527 in the immediately preceding week.

This high bid raised a few eyebrows in the government circles. However, IOCL completed the process acquired management control over IBP on 19th February 2002. Subsequently IOCL also purchased 20% of IBP shares from the secondary market to comply with the regulations of SEBI. Further dilution

of GOI holding in IBP was made in March 2004 when it sold its residual 26% through public offer at a price of Rs 620 per share and a discount of 5% for retail bidders. In order to unlock the full potential of the acquisition, it was necessary that IOCL and IBP formally merged into a single entity.

Accordingly IOCL and IBP boards decided to merge or amalgamate IBP with IOCL with effect from 1st April 2004. After completing the various statutory formalities, the merger process was completed on 02 May 2007. Still largely at stake was the third stage of Integration of IBP with IOCL. Though steps were initiated for achieving operational and functional integration of IBP with IOCL, the legal tangles delayed the process. The integration phase involved assessing infrastructure for its necessity and retaining the same wherever necessary though there were infrastructures of both the companies and dismantling them wherever found redundant.

Apart from infrastructure, realigning of organizational structure and repositioning of about 2600 employees. The complete integration was over by November 2007.

2. Profile of the Companies: 2. 1 Indian Oil Corporation Limited is an Indian state-owned oil and gas company. It is India's largest commercial enterprise, ranking 125th on the Fortune Global 500 list in 2010. Indian Oil and its subsidiaries account for a 47% share in the petroleum products market, 40% share in refining capacity and 67% downstream sector pipelines capacity in India..