

ONGC may buy CCDs of its unit

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Oil and Natural Gas Corp. Ltd (ONGC) may buy ₹5,615 crore worth of compulsorily convertible debentures (CCDs) of ONGC Petro additions Ltd (OPaL) after failing to find an equity investor for its petrochemicals arm, said two people directly aware of the matter.

The planned tranche of CCDs issued in 2016 is part of a ₹7,286-crore CCD programme of OPaL, a joint venture between ONGC (49.4%), GAIL (India) Ltd (49.2%), and Gujarat State Petroleum Corp. Ltd (1.4%). OPaL used the proceeds to partially finance project expenditures and repay loans.

CCDs are financial instruments that have the feature of compulsory conversion into equity as per terms and are treated as quasi-equity.

The CCDs have an unconditional and irrevocable mandatory put option on OPaL's sponsors, ONGC, for the buy-out of the CCDs at the end of the 35th month from the deemed date of allotment, as well as the undertaking to fund the coupon payment, according to the terms of issuance.

The sponsor would also have the right to buy out the CCDs at the end of the 24th, 30th, and 35th months from the deemed date of allotment, according to corporate filings. The CCDs have a tenor of 36 months from the deemed date of allotment and do not have any conversion option for the period it is held.

The ONGC board could, however, also consider extending the tenor of the CCDs, said the people cited above.

"Extending the tenor of the CCDs is also being deliberated upon. In case it is not approved by the board, ONGC may have to exercise the put option. CCDs will allow OPaL to maintain status quo on its equity structure and equity investor process induction process bringing in an investor by selling stake in the company will smoothen," said one of the persons mentioned above on condition of anonymity.

For more than three years, ONGC has maintained that it is in talks with interested potential petrochemical companies to sell a 25% stake in OPaL. The process has, however, faced unexplained delays.

"The potential investors are carrying out due diligence, including site visits and management interactions with OPaL and ONGC. However, the equity induction transaction may take time because of which ONGC has to buy back the CCDs," said an official from a professional services firm, requesting anonymity.

ONGC did not reply to an email sent on 19 June. An ONGC official dealing with the matter did not comment.

"There could be concern regarding valuation. Plus for Indian petrochemicals companies cost of capital is high and there is a lack of adequate infrastructure which puts our petrochemical manufacturers at a significant disadvantage compared to

their counterparts in other countries," said the second person cited above, requesting anonymity.

OPaL is a \$4.5 billion mega petrochemical project located at Dahej, Gujarat. It started production in 2016-17 and has been ramping up its production in phases. OPaL's petrochemical complex houses India's largest greenfield single-location, dual-feed cracker unit.

It has a capacity of cracking gaseous and liquid feed to produce 1,100 kilo tonnes of ethylene per annum (ktpa), which can produce a wide spectrum of chemicals.

OPaL competes with Indian Oil Corp. Ltd, Reliance Industries Ltd, ONGC Mangalore Petrochemicals Ltd (OMPL), and Haldia Petrochemicals Ltd, which export petrochemical products in the international market. Reliance Industries is among the world's largest producers of petrochemicals.

Petrochemicals account for nearly 30% of the Indian chemicals industry. An increase in consumption of plastics has lifted domestic demand in the past decade with a compound annual growth rate (CAGR) of 8-9%.

In the past five years, domestic demand has logged a 7-8% CAGR amid healthy demand from end-use applications such as packaging, automobiles, and electricals and electronics.

India needs to actively encourage foreign direct investment in the petrochemical sector instead of free trade agreements to utilise growing domestic demand to create value within the country, according to a white paper titled Impact of Free Trade Agreements on Indian Petrochemical Industry, released in May by the Federation of Indian Chambers of Commerce and Industry.