# Acquisition deal between ONGC-HPCL

## Why in news?

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Oil exploration company ONGC has made a share purchase agreement with oil refining and marketing company HPCL

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## What is the agreement about?

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- Oil and Natural Gas Corporation (ONGC), has entered into a share-purchase agreement for acquiring 51.11% equity in oil refining and marketing company, Hindustan Petroleum Corporation Limited (HPCL).
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- The transaction will be completed by the end of January 2018, converting HPCL into a wholly-owned subsidiary of ONGC.
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- This deal is different from ONGC acquiring an 80 per cent stake in one of the gas blocks of the Gujarat government-controlled GSPC in the Krishna-Godavari basin in December 2016.
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## What are the expected outcomes of the merger?

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- A shortfall in non-tax revenues and indirect tax receipts has raised concerns over the government’s ability to meet its fiscal deficit target of 3.2 per cent of the gross domestic product in the current year.
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- The deal has provided a boost to the government’s disinvestment proceeds by over Rs 369 billion, which will help the government meet its fiscal deficit numbers.
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- It is also expected ONGC an integrated oil conglomerate, could absorb the volatility of crude oil prices and gain from the diversification of its cash flows to midstream and downstream sectors.
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## What are the concerns with the deal?

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- ONGC and HPCL are two companies that are run on vastly different management styles, such that cultural synergies between the two companies need to be kept in mind.
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- Earlier acquisition transactions of ONGC were not profitable, it also pertains to the credibility of the government’s fiscal consolidation exercise.
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- Thus this deal could bail the government out from a difficult fiscal situation but cannot be a sustainable strategy for staying on the path of fiscal consolidation.
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**Source: Business Standard**

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