GOVERNMENT OF INDIA
DISINVESTMENT
LOK SABHA

UNSTARRED QUESTION NO:240
ANSWERED ON:16.07.2002
DISINVESTMENT OF IPCL
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Will the Minister of DISINVESTMENT be pleased to state:

(a) whether Indian Petrochemicals Corporation Ltd. made a profit of Rs. 248.95 crore during 2000-01;

(b) whether IPCL had a reserve fund and surplus fund amounting to Rs.2,946.13 crore;

(c) whether the Government pursued the policy of `Discounted Cash Flow` and did not take into account the huge property of the company during sale of its 26% share;

(d) whether the charge of the management of the company was vested on Reliance;

(e) if so, whether Reliance was allowed to obtain monopaly in the petrochemical market; and

(f) the details in this regard?

Answer

MINISTER OF DISINVESTMENT AND MINISTER OF DEVELOPMENT OF NORTH EASTERN REGION (SHRI ARUN SHOURIE)

(a) The net profit for the year 2000-01 of Indian Petrochemicals Corporation Ltd. (IPCL) was Rs.248.90 crore.

(b) As on 31.3.2001, the funds available as `cash and bank balances` in IPCL were Rs.288.87 crore.

(c) No, Sir. Government fixed the reserve price after considering the valuation report of the Advisor to the Government. Valuations under the generally accepted valuation methods, namely, Discounted Cash Flow, Balance Sheet, Comparable Companies and Asset Valuation were all examined to arrive at the reserve price.

(d) The Strategic Partner, M/s. Reliance Petroinvestments Ltd. (Reliance Group) paid the sales consideration of Rs.1490.84 crore for 26% of the equity of IPCL on 4th June 2002 and took over the management control of IPCL.

(e) & (f) The issue of Reliance obtaining monopoly in the petrochemical sector consequent to the purchase of 26% of equity shareholding in IPCL was examined and Government concludedthat in the light of developments in the domestic and international markets in this sector and adequate fiscal and legal measures available with the Government, any possible eventuality of market manipulation by dominant players can be checked. There are four major Olefinic Complexes in India.These are with Reliance Industries Ltd. (RIL), Indian Petrochemicals Corporation Limited, Gas Authority of India and Haldia Petrochemicals Limited.The key result of `monopoly` is the pricing power of the leading player, which can affect the consumers` interest negatively. However this is unlikely to happen for a commodity like polymers due to the following reasons:

(i) In India, the Petrochemicals Industry is largely de-regulated.The licensing requirement for such products under the Industries (Development & Regulation) Act, 1951 has been mostly dispensed with. Import of Petrochemicals, including Olefins, Aromatics and fibre intermediates, is on OGL with different rates of duties. The tariff protection has come down in past 10 years, thus making imports much more affordable.

(ii) The physical import of products is quite easy. Unlike liquid or gaseous chemicals, polymers are stable and solid under normal temperature and pressure. This means, the import of polymers doesn`t require any large infrastructure. Also the `value/weight` ratio is quite high unlike cement or fertilizers and therefore the transportation cost is not very high. The handling and transportation cost of polymers works out to be much lower as against Petroleum products.

(iii) The ease of imports is also reflected in two ways- a) large quantum of imports have taken place in the past and b) the domestic players price their products below the landed costs, to safeguard their sales against imports.

(iv) Even if Reliance takes over IPCL, part of the domestic market needs would be contributed by Haldia Petrochemicals and GAIL Both of them enjoy substantial competitive strengths.

(v) In the market, petrochemical products, of indigenous and foreign origin, are tradable freely. The market forces, namely demand, supply and quality, determine the prices. The regional market is already surplus in ethylene and its derivative products like polyethylene and dumping threats will keep the local prices under check. Finally, foreign direct investments up to 100% of equity are allowed in petrochemical business in India.