Managing M&A-From Strategic Intent to Integration: IOC's Acquisition of IBP and After

N. Venkiteswaran

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INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380 015
INDIA

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Abstract

This paper, in the nature of a case study, discusses the entire range of managerial issues addressed by Indian Oil Corporation Limited (IOC) in the acquisition, subsequent merger and post-merger integration of IBP Co. Limited (IBP) following IBP's disinvestment by the Government of India. The three stages of IBP transactions spanned a 5-6 year period from 2002 to 2007. The paper discusses from IOC's perspective, the strategic case for the IBP acquisition, rationale for what turned out to be an extremely aggressive bid price for IBP, the raison d'ệtre for subsequent merger, and the critical choices made by IOC management in post-merger integration of IBP. The paper also examines the controversies the IBP transactions generated in their wake and the corporate governance issues involved. We conclude that IOC appears to have handled the entire value chain of activities in the IBP transactions from acquisition planning and strategic evaluation through deal execution, post-acquisition merger, and to post-merger integration with a high level of professionalism, a balanced sense of priorities and a high degree of sensitivity, rarely seen in the Indian public sector milieu. We also believe that as Indian companies, particularly the larger state-owned enterprises, find themselves in the inevitable need to pursue M&A-based growth strategies, IOC's IBP experience should provide useful guidance in their endeavours.

Managing M&A-From Strategic Intent to Integration: IOC's Acquisition of IBP and After[1]

"The most important thing we have done is to address the people-related issues with extraordinary care and sensitivity.... As you know it is the people-issues that are typically responsible for such large scale failures seen so often in M&A.... IBP is a 100 year old company with its set of loyal customers and loyal dealers... why play with their sentiments? ....We wanted to ensure that the integration of IBP was seamless, decisive, and complete-and at the same time humane.... We also didn't want a repeat of the earlier AOD (Assam Oil Division) experience with regard to IBP...... On the contrary, we have been able to build on the same momentum [of IBP integration] to complete the integration of AOD that has been hanging for nearly 27 years..."

This is how Mr. V. C. Agrawal, Director (Human Resources) of Indian Oil Corporation Limited (IOC) summed up his experience in leading the successful integration of IBP Co. Limited (IBP) with IOC. Indian Oil or IOC is a Fortune 500 company and has been ranked as the largest Indian company by revenue for several years now. We believe that IOC's acquisition of a controlling interest in IBP in a competitive bidding conducted by the Government of India (GOI) as part of its disinvestment programme, IBP's subsequent fusion with IOC through a legal merger, and its seamless integration with IOC are unique in many ways, particularly from the perspective of management of state-owned enterprises (SOEs). The series of transactions involving IBP and IOC were also not without their share of controversies, inevitable in the Indian eco-political milieu. This case study captures the range of issues IOC management had to deal with: strategic case for an IBP acquisition, valuation and bidding strategy, managing the post-bid fall-outs, its subsequent merger with IOC and the post-merger integration. The case is also insightful from a corporate governance perspective as the IBP transactions brought into focus a range of corporate governance issues in their wake such as the role of the company Board in strategy formulation and implementation in SOE, conflict of interest issues, and recognition of a balanced, broader stakeholder perspective in post-merger integration.

This case study is analysed in 6 sections. Section 1 gives a brief summary of the events in the 3-stage IBP transactions, followed by a review of the backgrounds and profiles of the two companies in Section 2. Section 3 offers a critical analysis of IOC's successful, but controversial bid for IBP in 2002 in all its facets spanning strategic rationale, valuation and bid strategies, the controversies generated and IOC's management of the entire bid process and its fallouts. The next section (Section 4) deals with the 2nd stage of IBP transaction - the merger or fusion of IBP with IOC. The management of the post-merger integration process (PMI) by IOC is discussed in Section 5. The final section (Section 6) summarises key takeaways.

1. The Transactions in a Nutshell

The Government of India, in its off-on disinvestment policy, announced during 2000 that it would be disinvesting 33.58% out of its 59.58% of its shareholding in IBP Co. Limited, a predominantly a retail petroleum marketing company, along with transfer of management control, in a strategic sale through a competitive bidding process. IOC remains India's largest

[1] This case study has been developed by Professor N. Venkiteswaran, Indian Institute of Management, Ahmedabad based on data from company and public sources. The author would like to express deep gratitude to Mr. V. C. Agrawal, Director (Human Resources), Indian Oil Corporation Limited for encouraging and facilitating this study.

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company, and for several years was the only Indian company in the Fortune 500 list of leading global companies. IOC, keen to acquire IBP for strategic reasons, decided to participate in the bid for IBP which was completed by GOI in January/February 2002. When the bid results were announced early February 2002, IOC emerged as the successful bidder, outbidding competing bids from leading companies such as Kuwait Petroleum Company, the Shell Group and India's Reliance Industries Limited (RIL). IOC's bid price of Rs. 1551.10 per IBP share represented a significant premium of over 330% over the average stock market price of IBP (Rs. 360) for the preceding 26 weeks, and 194% premium over its highest price of Rs. 527 in the immediately preceding week. IOC's bid was also higher than the bids of the competitors by a wide margin. The apparently high bid price of IOC did generate controversy in certain circles in the government and elsewhere. Nonetheless, pursuant to the GOI's terms of disinvestment, IOC entered into a share purchase agreement with GOI and acquired the said 33.58% GOI holding and management control of IBP on 19 February 2002. IOC also acquired another 20% of IBP shares from the public in June 2002 in compliance with the mandatory public offer requirements under the Substantial Acquisition of Shares and Takeovers (SAST) Regulations of the Securities and Exchange Board of India (SEBI). Thus IBP became a 53.58% subsidiary of IOC, but retaining its own stock exchange listing.

In March 2004, GOI sold its residual 26% direct holding in IBP through a public offer for sale at a floor price of Rs. 620 per share, with a 5% discount (i.e., at a discounted price of Rs. 589) to the retail bidders through a book building process.

Even though IBP became a subsidiary of IOC with the latter controlling IBP Board, operationally IBP substantially retained its independence as heretofore. Attempts to completely align IBP's strategies and operations to IOC's at this stage would have raised corporate governance issues and questions of conflict of interest vis-à-vis IBP's non-IOC, 46% minority shareholders. To address such possible concerns and more importantly to unlock full strategic and operational synergies from the IBP acquisition, it was important that IBP and IOC be combined into a single legal entity through a formal merger. Accordingly IOC and IBP Boards decided in principle on 28 April 2004 to merge or amalgamate IBP with IOC under Section 391-394 of the Companies Act, 1956 with effect from 1 April 2004. Since IOC was a government company, the merger and the terms were subject to GOI approvals. The terms of the merger subsequently approved by the two Boards, *inter alia*, involved a swap or share exchange ratio (SER) of 125 IOC shares for every 100 shares of IBP, which was subsequently reviewed at the instance of GOI and eventually revised to 110: 100. After completing the various statutory formalities including shareholders' and creditors' approvals, the merger was completed on 02 May 2007.

Pending the formal completion of the merger, IOC had initiated steps for achieving vigorous operational and functional integration of IBP with IOC once the legal merger formalities were completed. The post-merger integration (PMI) involved meticulous and detailed planning across different functions and locations of IBP and IOC, dismantling duplicate facilities and infrastructure, re-aligning organisation structure and more importantly absorbing and repositioning IBP's nearly 2000 employees in the combined offices and facilities. Choices had to be made on a number of issues including retention of IBP brand in the petroleum business and IBP's non fuel businesses[2]. Concerns and fears of IBP's management and non-management staff, dealers and other stakeholders had to be addressed with utmost sensitivity and speed. Having initiated PMI steps well in advance, IOC completed the IBP integration by November 2007, within a few months of the completion of the statutory merger formalities.

These phases of the IBP transactions are discussed and evaluated in a holistic, integrated manner in the following sections.

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[2] Besides its dominant petroleum products business, IBP had also two other smaller businesses, viz., manufacture of explosives and cryogenic containers as explained subsequently.

2. Company Backgrounds and Profiles

Brief history and current profiles of IOC and IBP are given below so as to place the transactions in proper perspective.

2.1 Indian Oil Corporation Limited (IOC)

IOC was incorporated in 1959 under the name and style of Indian Oil Company Limited. Following the merger with Indian Refineries Limited with effect from 1 September 1964, the company was renamed as Indian Oil Corporation Limited. Though the company was listed on the stock exchanges, the ownership was fairly concentrated with the GOI directly holding about 82% of IOC's share capital. IOC's ownership structure is summarised in Exhibit 1.

IOC has been primarily operating on the downstream segment of the hydrocarbon value chain, involving refining and marketing of petroleum products such as aviation turbine fuel (ATF), petrol or motor spirit (MS), high speed diesel oil (HSD), liquefied petroleum gas (LPG) etc. It has fully integrated refining and marketing operations, consisting of refineries, pipelines for transportation of both crude oil and refined products and retail outlets- all spread across India. As of 2001, IOC had a combined refining capacity of 38.15 million metric tonnes (MMT) from 7 refineries and another 9.35 million tonnes through its subsidiaries, and about 6523 kms of on shore pipelines and 7549 retail outlets. See Exhibit 2 for a location map of IOC's refineries. IOC's sales of 47.80 MMT of petroleum products in 2000-01 represented a hefty 53.50% share of the market for petroleum products in India. IOC has been India's largest company in terms of revenue for many years now, and, until recently, the only Indian company figuring in the Fortune 500 Global list. IOC also had three subsidiaries viz., Indian Oil Blending Limited (IOBL), Chennai Petroleum Corporation Limited (CPCL) and Bongaigaon Refineries and Petrochemicals Limited (BRPL). CPCL and BRPL are standalone refining companies, and these two became IOC's subsidiaries by virtue of the GOI, their principal shareholder, divesting its holdings in favour of IOC on a nomination basis during 2000-01. IOC's key operating data and summarised financials are given in Exhibit 3 and 4 respectively.

2.2 IBP Co. Limited

IBP Co. Limited was incorporated in February 1909 under the name of Indo-Burma Petroleum Company Limited (Indo-Burma) in erstwhile Burma (now known Myanmar). The entire business of the Company was shifted to India in the aftermath of World War-II inflicted destruction of its properties, and the Company was registered in India in 1943 under the Indian Companies Act, 1913. In 1970, IOC acquired 59.67% of Indo-Burma's equity from the then controlling shareholders, the Steel Brothers Co. Ltd. for Rs. 1.00 crore. However in 1972 the GOI acquired the equity shares held by IOC thereby de-subsidiarising it, and creating an independent public sector enterprise in the process. Indo-Burma Petroleum Company was renamed as IBP Co. Limited in 1983.

IBP was primarily engaged in the business of storage, distribution and marketing petroleum products in India. IBP was also engaged in manufacturing and marketing of industrial explosives and cryogenic containers-these two accounting for just about 1%-2% of its sales. For the year to March 2001, (the financial year immediately preceding the year of GOI disinvestment), IBP had a total retail sales volume of 4.91 million kilo-litres (KL) of petroleum products, with about 4.5% market share. As of 31 March 2001, IBP had a retail outlet (RO) network of 1539 outlets, 376 Superior Kerosene Oil (SKO) dealerships and 25 liquefied petroleum gas (LPG) distributors. IBP sourced its (refined) products requirements largely from IOC.

Some of IBP's key operating data and summarised financials are given in Exhibits 5 and 6 respectively.

During 2001-02, IBP's non-core investment of 61.80% shareholdings in its subsidiary, Balmer Lawrie & Co. Limited, was demerged into a new standalone company, Balmer Lawrie Investments Limited (BLIL), in preparation for IBP's eventual disinvestment. The shares of BLIL were pro-rata distributed (for free) to the shareholders of IBP and BLIL was also listed on the stock exchanges. During 2001-02 IBP also became a debt-free company, having repaid the borrowings of Rs. 441 crores outstanding at the beginning of the year.

3. The IBP Disinvestment and IOC's Successful Bid

The Government of India, as is known, has been pursuing an "on-off-on" disinvestment programme to sell or divest (part of) its holdings in several enterprises promoted and owned by it. The disinvestment programme turned out to be very selective and somewhat ambivalent, and often floundered at the altar of political and trade union opposition. The actual disinvestments, thus, often turned out to be expedient, short-term exercises in funds mobilisation for budgetary rather than driven by broader efficiency or eco-political considerations. Consequently various governments at the Centre ended up disinvesting small parcels of the GOI stakes in different companies through a variety of routes such as sale to government owned mutual funds, public offer for sale, sale to other SOEs on a nomination basis, and to a lesser extent strategic sale to the private sector. However the appointment of Arun Shourie as the Minister for Disinvestment in the Vajpayee government in 1999 brought to the floundering disinvestment programme an ardent champion with strong philosophical commitment to go forward, despite continuing political opposition from a number of opposition parties. The Disinvestment Ministry identified a few SOEs in what could be called the non-strategic sectors in which strategic sale of large block of GOI's shareholdings along with transfer of management control was envisaged. IBP was one such company.

In the nineties, the GOI, as part of its larger economic reform and deregulation programme, had drawn up roadmaps for deregulation and opening up of the petroleum sector which was entirely in the government sector and also subjected to host of controls including regulated pricing through what had come to be euphemistically known as Administrative Price Mechanism (APM)[3]. The government's presence in the petroleum sector historically was through a number of focused companies, each one typically specialising one or more parts of the hydrocarbon value chain consisting of exploration and production (E&P), refining and marketing (R&M), transportation and pipelines and downstream processing such as petrochemicals. The list of these companies and their scope of operations are given in Table A below.

[3] Under the APM, prices in the hydrocarbon sector were controlled at four stages viz., crude production, refining, distribution and marketing on the principle of compensating normative cost and allowing a pre-determined return on investments. For example, in the refining and marketing operations, the refining and marketing units were allowed a post-tax return of 12% on their net worth, besides their operating costs (including the costs of crude). The entire administered pricing system is operated through a complex oil industry pool account which was used to (a) cross-subsidise consumer prices of different petroleum products (b) pool the different prices allowed to various operating entities and (c) even out or balance the inflows and outflows. APM effectively provided a mechanism to implementing the government policy of regulating consumer prices of different products.

Table A - Central Government Owned Companies in the Hydrocarbon Sector-2002

Sr. No	Name of the SOE	Dominant Business in the hydrocarbon value chain
1	Oil and Natural Gas Corporation Limited (ONGC)	Exploration and Production (E&P)
2	Indian Oil Corporation Limited (IOC)	Refining and Marketing (R&M)
3	Bharat Petroleum Corporation Limited (BPCL)	R&M
4	Hindustan Petroleum Corporation Limited (HPCL)	R&M
5	GAIL (India) Limited (GAIL)	Gas transportation and marketing
6	Oil India Limited (OIL)	E&P
7	IBP Company Limited (IBP)	Marketing
8	Chennai Petroleum Corporation Limited (CPCL)	Refining
9	Kochi Refineries Limited (KRL)	Refining
10	Bongaigaon Refinery and Petrochemicals Limited (BRPL)	Refining
11	Numaligarh Refinery Limited (NRL)	Refining
12	Indian Petrochemicals Corporation Limited (IPCL)	Petrochemicals

During the year 2000, the GOI made a series of announcements signifying its intent to disinvest a substantial chunk of its equity in IBP culminating with its advertisements in January 2001 seeking Expression of Interest (EOI) from interested parties. Even before these announcements, IOC had, in its submission to the Dr. Nitish Sengupta Committee on Restructuring of the Downstream Sector in February 1999, sought the (re)transfer of GOI's equity in IBP. IOC had followed this up, with its Chairman Mr. M. A. Pathan writing similar letters of request to the Ministry of Petroleum and Natural Gas (MOPNG), both in April 1999 and July 2000. In the meanwhile, in anticipation of possible disinvestment, IOC management also obtained the necessary approval of the IOC Board in November 2000 to submit its expression of interest and participate in any GOI programme for sale of IBP. The Board also constituted a special Committee of Directors consisting of three of its full-time, functional directors and one independent director to spearhead its efforts in the matter.

3.1 IOC's Strategic Rationale for an IBP Acquisition[4]

As IOC saw in late 2000, an IBP acquisition offered the following strategic benefits in the evolving petroleum industry environment.

- Even though IOC's overall market share of all the petroleum products combined around 2000 was about 54%, its share in the retail segment was much lower at about 35% in MS (Motor Spirit) and about 41% in HSD (High-Speed Diesel) oil. Retail market share was proportionate to the share of retail outlets (ROs). With a share of MS and HSD ROs at about 40%-41% of the total outlets, IOC felt that it suffered from disproportionately low share of ROs leading to lower market share in retail sales. Increased retail presence was considered strategically important as the retail segment offered greater stability in an environment of increased competition for large, bulk customers and their huge bargaining power..

- The erstwhile Indian arms of the MNCs Shell, Esso and Caltex and also IBP had created defensible first mover advantage, having entered the Indian market long before IOC, capturing lucrative retail sites in key metropolitan and urban markets. The early entrants concentrated on these markets to maximise the profitable MS sales. After nationalisation of the MNCs' Indian operations, the successor companies

[4] Company sources

BPCL and HPCL, and also IBP continued to sustain their early mover advantages to date. As a result, though having 45% of the over all market share, BPCL, HPCL and IBP had, between them, controlled nearly 60% of the ROs-that too predominantly located in lucrative urban markets. In the case of IOC, its 40% share of retail outlets is further skewed in favour of locations on the high ways, small towns, semi-urban and rural areas. Thus IOC found itself to be at a serious disadvantage vis-à-vis its competitors, especially for MS retail sales.

- Post-nationalisation (of BPCL and HPCL), the GOI introduced the concept of shared growth amongst all the public sector oil companies. As a result, IOC's own share of the ROs increased only by 1.81% over a 10 year period (spanning the 1990s) from about 39.02% to 40.83%.

- IBP in particular enjoyed a distinct advantage in the retail market. Against an overall market share of 4.5% for all products combined, IBP's market share in MS retail was 7.8% and HSD retail 9.2%. This was mainly because of IBP's share of 8.8% in MS ROs and 8.5% in HSD ROs. IBP's ROs also enjoyed excellent location advantages in metropolitan and urban markets where IOC was, as noted earlier, somewhat handicapped.

- IBP had been focusing on the retail segment since inception, and had built up considerable experience and expertise in the segment. By acquiring GOI's stake in IBP, IOC expected to improve its retail market share by leveraging on IBP's retail expertise and achieving certain amount of skills transfer to IOC.

- The GOI had announced a road map for dismantling the administrative price mechanism (APM), the decades-old regulated pricing regime for the petroleum sector, effective 1 April 2002. In the emerging post-APM scenario of pricing freedom, and the high growth potential in the Indian market, it was expected that leading multinational giants would enter the Indian market. Given their deep pockets and global scale integrated operations, the MNCs could pose severe competitive threats to the established players like IOC. The Indian private sector companies led by the Reliance Industries Limited (RIL) were also seeking to emerge as significant players in the Indian petroleum industry. RIL had already set up a massive 27 million metric tonne (MMT) state of the art refinery at Jamnagar on the Gujarat coast, without any retail roll out as yet. It would be a fair assumption that RIL and the MNCs would be very keen to acquire an existing company like IBP with strong retail network which would help them overcome the high entry barriers in retail, on one swoop. IOC's acquisition of IBP, if successful, would also help to delay, and increase the time and cost of, entry by these potential competitors.

- In addition, IOC was currently supplying from its refineries the bulk of the product needs of IBP. If IBP were to be acquired by a competitor, IOC faced the prospect of losing a high volume, dependable customer which it could ill-afford. An IBP acquisition would thus help IOC to protect its market share, and also capture the value in the retail side of the value chain.

- Additionally IBP and IOC had significant overlap in retail marketing with duplicate infrastructure with significant cost implications. Acquiring IBP would offer IOC the opportunity and potential to capture significant cost synergies from eliminating duplicate infrastructure by integrating and optimising the two operations.

Thus IOC management felt fully convinced about the compelling strategic logic and the potential benefits from an IBP acquisition and IBP's own excellent strategic fit with it.

3.2 The Disinvestment Process and IOC's Management of the Bid Process

The GOI put the IBP disinvestment on the fast track when it appointed HSBC Securities and Capital Markets (India) Ltd. (HSBC) as Advisor for the transaction in December 2000. Following this, the GOI in February 2001 invited expression of interest (EOI) from the interested parties for 33.58% stake in IBP out of its total holdings of 59.58%. The Government short-listed parties which met certain pre-specified criteria. These short-listed companies completed their due diligence, and the transaction documents were agreed upon between the Government and the potential bidders after several rounds of discussions. Financial bids were invited from the short-listed bidders with submission deadline fixed for 31 January 2002. Seven bidders including MNCs such as the Royal Dutch Shell Group and Kuwait Petroleum Corporation; the Reliance Group from the Indian private sector and PSUs such as IOC, BPCL and HPCL submitted their financial bids. The bids were evaluated by an Evaluation Committee and the Inter-Ministerial Group (IMG). Based on their recommendations, the Cabinet Committee on Disinvestment (CCD) approved on 5 February 2002, the bid of IOC which emerged as the highest bidder with a bid amount of Rs. 1153.68 crores for the 33.58% IBP stake.

IOC's Management of the Bid Process

In view of the fact that the GOI was going to follow a "single sealed bid" process for IBP's disinvestment and the given nature and seriousness of competitive interest in IBP, IOC's Board of Directors (see Exhibit: 7) recognised the importance of ensuring utmost confidentiality and speed in respect of its IBP bid strategy. To achieve this, as mentioned earlier the Board had formed a small Board Sub-committee of four directors. This Committee of Directors (CoD) consisted of Professor S. K. Barua, an Independent Director as the Chairman, and three, full-time, functional directors, viz., Director (Planning and Business Development), Director (Finance) and Director (HR) as members. The CoD was delegated complete authority to formulate IOC's bid strategy and finalise the bid price and submit the financial bid, without reference to the Board or any other authority. The Committee was assisted by two external advisors, Ernst & Young in valuation and financial matters and Luthra & Luthra in legal aspects. The advisors along with internal multi-disciplinary teams conducted due diligence of IBP. The Special Committee extensively evaluated a wide-range of possible bid values in a variety of competitive and operational scenarios developed by the financial advisors. The various factors that were considered in the evaluation included "*tangible issues such as possible loss in the market share should IBP be acquired by an aggressive competitor, erosion in refinery production pursuant to which some of the refineries were to be operated at low capacity as well as denial of strategic space to competitors*"[5]. The Committee was conscious of the fact that there was significant competitive interest in IBP, and each bidder was being allowed to submit only a single sealed-bid. The CoD met several times to evaluate and review the iterative inputs provided by the advisors and internal teams, but refrained from taking any firm call on the bid price until the very last so as to ensure utmost confidentiality and integrity of their process. Finally the Committee met very early on the morning of 31 January 2002, just before the submission deadline, finalised IOC's bid price, and the members directly went to the office of the Disinvestment Ministry to personally submit the sealed offer documents.

The Cabinet Committee on Disinvestment (CCD) met on 2 February 2002 and considered the recommendations of the Inter-Ministerial Group (IMG) and the Core Group on Disinvestment and approved the bid of IOC for a total consideration of Rs. 1153.68 crores for the 33.58% holdings in IBP, a price of Rs. 1551.10 per share. This was significantly higher than the reported bids from other competing players including the Royal Dutch Shell Group, Kuwait Petroleum Corporation Limited, the Reliance Group and the public sector companies, BPCL and HPCL. It was reported that the other bids were in the range between Rs. 460 crores and

[5] Company sources.

595 crores.[6] IOC's bid price represented a price to earnings (P/E) multiple of 63 for IBP, while the market multiples (P/E ratios) as on 31 January 2002 were 5.2 for HPCL, 10.2 for BPCL and 4.7 for IOC.[7]

Following the successful bid, IOC entered into separate Shareholders and Share Purchase Agreements with the GOI on 08 February 2002. In terms of these Agreements, IBP's Board was reconstituted on 19 February 2002 to induct four IOC nominees. With IOC taking over effective management control of IBP, M. A. Pathan Chairman of IOC, was also elected as Chairman of IBP.

3.3 Reactions and the Bid Price Controversy

As could be expected, IOC's successful bid, that too what was certainly at an aggressive price, generated mixed reactions. According to the *Business Line*[8],

> *This [IBP acquisition] calls for a lot more planning in terms of logistics," was the immediate reaction of a senior IOC official to IOC's acquisition of IBP. "It means managing another 1,500 or so retail outlets..." over and above IOC's 10,000-odd spread across the country.*
>
> *"But we are excited. The retail infrastructure that comes with IBP would have otherwise taken us a minimum of 5-6 years to develop. This definitely underlines the synergy we earn out of the acquisition," said a senior Marketing Manager. "And there won't be any cultural conflict as both companies are used to the public sector environment," he added.*
>
> *Although some industry analysts were critical of the Rs 1,551-per share offer price, IOC officials defended the price.*
>
> *"We supply over three million tonnes of products to IBP and this would have been affected if the company had been acquired by some other corporation. Also, post-deregulation, this will translate into higher margins, both in marketing and refining," said an official.*
>
> *Another rationale offered for the high price has been that Indian Oil will not bid for Hindustan Petroleum or Bharat Petroleum when the companies are put on the disinvestment block later this year.*
>
> *"But this still is too high a price to offer," said an analyst with a foreign investment bank. "I believe IOC has overbid at least 20 to 25 per cent," he said.*
>
> *According to some officials, the price offered may well be a reasonable price for earning "breathing space" before private sector competition knocks at the oil major's door post-April 2002.*
>
> *Officials from other public sector oil companies also support this view. "We had put in support bids for the acquisition. It makes more sense for PSUs to keep private sector competition out at the moment.*
>
> *IBP would have offered a big respite to private players," said a Hindustan Petroleum Corporation official".*

It appeared that there were differences even in the Government circles with some sections maintaining that a public sector company (IBP) being acquired by another public sector company (IOC) was no disinvestment. The high price offered by IOC was also subject of

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6 *The Hindu Business Line*, 06 February 2002.

7 Press Release of Department [Ministry]of Disinvestment, 05 February 2002, (http://www.divest.nic.in/pvtpsu/ibp.htm)

8 "IOC acquisitions will mean higher margins for IOC", *The Hindu Business Line,* 07 February 2002

controversy. We feel that much of the criticism was unjustified. Should a public sector company be denied to pursue its strategic intent and goals based on its assessment of the competitive threats, merely because this involved acquiring another PSU? IOC had expressed its keenness to acquire IBP-rather to get IBP restored to it-fairly early in the day, as evident from its representations to the government in 1999 and 2000. As for the price controversy, one should recognise and accept the well-known maxim that value was always in the eyes of the beholder. IOC, on its part, had established an unexceptionable and robust Board process for putting forth its bid. The Board Committee, on its part, did a totally professional job of fulfilling its mandate from the Board. Nonetheless, IOC's management had to come public with the logic and rationale behind the Board Committee's decision on the bid price. According to a report in *The Hindu Business Line*,[9]

"…. ….

The aggressive bid of Indian Oil Corporation (IOC) for acquiring a controlling stake in IBP was based on the recommendation of its consultants, Ernst and Young, according to industry sources.

The consultants had recommended a valuation of Rs 1,300-1,350 per share to IOC for the purchase of 33.58 per cent of the Government's stake in IBP.

IOC bid aggressively at Rs 1,551 per share to acquire management control in IBP in the recently concluded bids for the purely petro marketing company that has 1,554 retail outlets.

The bid of IOC was over twice the prevailing market price and over thrice the reserve price of Rs 455 per share fixed by the Government.

The next best bid came from multinational oil major, Shell, at Rs 804 per share.

The IOC Chairman, Mr M.A. Pathan, had earlier defended IOC's aggressive bid stating that the other bidders had "undervalued the stock".

Ernst and Young's valuation was based on numerous factors. First, the potential loss incurred by IOC in case it lost the bid.

In such an event, existing refining capacity to the tune of five million would have turned idle.

Currently, of the four million tonnes of petro products sold by IBP, 2.8 million tonnes is sourced from IOC.

The rest is supplied from Reliance Petroleum Ltd's Jamnagar refinery (less than 0.5 million tonnes), Mangalore Refineries and Petrochemicals Ltd (MRPL), etc.

In the event of IOC bagging the IBP stake, it would also find market for 1.2 million tonnes of products from its refineries.

Secondly, the acquisition would provide a boost in terms of expansion of marketing network.

9 "E&Y advice clinched IBP deal for IOC", *The Hindu Business Line,* 08 February 2002

Currently, IOC's marketing network grows at 300 retail outlets per annum. A third of IBP's 1,539 outlets are located in `A' class cities …. …. …. …"

When the stock market opened on 5 February 2002, the first day after the GOI announcements regarding the successful bid, IOC's stock price shot up by 20%. This was contrary to the general stock market responses to acquisition announcements whereby the acquirer's stock price typically experiences a decline, reflecting market's scepticism from possible overpayments and/or integration difficulties. Thus despite IOC paying a significant premium for IBP's shares, at least the stock market still saw the IBP acquisition as value creating for IOC. IBP stock price also went up by the maximum 20% upper limit permitted under the circuit-breaker. Both HPCL and BPCL shares also received significant boost in prices on the expectation that they would fetch very attractive prices in the event of disinvestment. In general, IOC's bid along with other disinvestment outcomes (such as VSNL) announced at the time led to a significant re-rating of PSU stocks on the Indian stock exchanges. See Exhibit 8 for stock price behaviour of IOC and IBP before and after the successful bid.

In accordance with the SEBI's Takeover Regulations[10] , IOC made a public offer to acquire 20% of IBP's shares from the public at the same disinvestment bid price of Rs. 1551.10. The public offer was completed in June 2002 at a cost of Rs. 687.05 crores.

IOC financed the total cost of Rs. 1841 crores for the two stage IBP acquisition through a combination of borrowings and internal accruals.

4. Merger of IBP with IOC

During 2003-04, the GOI decided to divest its remaining 26% holdings (i.e., 57,58,290 shares) in IBP, and the disinvestment through a book building process was completed by 31 March 2004. The offer price was fixed at Rs. 620 per IBP share for institutional investors and Rs. 589 per share (i.e. discount of 5%) for retail investors. Under the terms of the Shareholder Agreement executed between IOC and GOI as part of IBP's strategic sale in 2002, GOI sought, and was granted IOC's consent for the aforesaid second stage divestiture. Thus following IBP's second stage disinvestment, IBP's public (i.e., non-IOC, non-GOI shareholdings) increased to 46.42%, from the earlier 20.42%. Very soon thereafter, IOC decided to initiate the process of merging or amalgamating IBP with itself, and in a meeting held on 28 April 2004, IOC's Board of Directors decided "in-principle" to pursue the merger, and authorised a Committee of the Board to "do all such acts, deeds and things deemed essential for the matter and thereafter submit a detailed scheme of amalgamation to the Board after receiving the approval of the Government of India".

4.1 The Rationale for the Merger

Though IOC had acquired majority holding in IBP, and had effective management control since the first quarter of 2002, this was still not enough for fully realising the strategic intent of the acquisition. For all practical purposes, IBP continued to operate as a near-independent company, retaining its stock exchange listing, even though it was a subsidiary of IOC which itself was listed. This arrangement as the listed subsidiary of a listed holding company was seldom quite "neat", and raised several governance issues that would require to be addressed sooner or later. Besides there were also unresolved business issues that would have to be dealt with without further delays. For example:

[10] Securities and Exchange Board of India: *SEBI* (*Substantial Acquisition of Shares and Takeovers) Regulations 1997*

- Both IOC and IBP were engaged in the identical business of storage, distribution and marketing of petroleum products both in the retail and direct consumer segments, thus competing with each other.

- In many locations, both IOC and IBP had overlapping infrastructure and facilities with attendant duplication of operations and maintenance costs.

- Several of IOC and IBP's retail outlets or auto fuels dispensing stations were located contiguous to each other, leading to intra-group competition and sales cannibalisation.

The best way to address these issues would be through a merger or amalgamation of IBP and IOC. A merger or complete legal fusion of IBP and IOC would help forge a common corporate purpose, optimise utilisation of assets, facilities and manpower, and generate substantial cost and investment synergies. Thus a merged entity would have integrated, synergistic and cost effective operations. It may be noted that so long as the two remained separate legal entities, even with IBP under the management of IOC, integration of business and facilities cannot be optimally accomplished for regulatory and corporate governance reasons.

We feel that there were a number of benefits from a business combination of IBP and IOC, as summarised below.

- IOC's very large investments for IBP acquisition appeared as financial assets in IOC's standalone balance sheet as "*investments in subsidiary".* The investments were financially ungainly in the sense that the investments were in IOC's balance sheet, while only *its share* of the dividend declared by IBP was reflected in IOC's income statement. This vitiated IOC's standalone financial results, and financial ratios. A merger of IBP and IOC would help IOC to transform financial assets in its balance sheet to the operating assets of IBP, and incorporate the entire profits/cash flows of IBP in its financials in stead of merely *its share* of IBP's dividends.

- So long as IBP remained an independent entity with its own listing, there could always questions of conflict of interest-potential and real-between IBP's minority shareholders and its majority shareholder, IOC. For example, if IBP were to aggressively seek market share or growth, this might have positive impact for IBP's minority shareholders, but not for its majority shareholder IOC, if IBP's growth were to be achieved at the cost of IOC! Thus pursuing independent value-maximising strategies by IBP and IOC could lead to conflict of interest, and end up as value destroying at the *group* level. If, on the other hand, IBP's operations were to be so managed as to subserve the interest of IOC and its shareholders, this would be considered less than fair to IBP's 46% minority shareholders. A legal merger between the two would address these corporate governance issues inherent in the existing structure, and help formulate unified strategies for the combined entity.

- Another important factor would be potential synergies from a taxation perspective. Under the Indian income tax laws, every company is a separate assessee, subject to corporate and related taxes on its standalone, unconsolidated income. Thus even a wholly-owned (i.e., 100%) subsidiary is a *separate* taxable entity just like its parent, and consequently losses, if any, incurred by one cannot be set off against profits of the other. If the subsidiary is a profit making company, the only legal manner in which the parent could access the profits/cash flows of the subsidiary is through dividends. As for the parent's shareholders, enjoying the profits of the subsidiary would require two levels of dividend distribution-by the subsidiary to the parent in the first place, and by the parent to its shareholders. Since a tax was also payable on distributed profits or dividends, there was incidence of multi-point tax on distributed

profits at both the stages as the tax provisions stood then.[11] Thus a merger of IBP and IOC into a single entity would lead to greater efficiencies from a taxation perspective.

- As two separate legal entities with independent listing, both IBP and IOC would incur duplicate expenses-both direct and indirect-relating to regulatory and public sector-related compliance requirements in respect of company administration, stock exchange listing, parliamentary committees relating to official language, public undertaking etc. Many of these entity-driven requirements could be consolidated and combined for a single, merged entity.

- IBP, as an unmerged standalone legal entity, had become extremely vulnerable because of its smaller size and absence of backward integration, on account of the increased competitive threat in a deregulated environment, and volatile prices for petroleum products. A legal combination of IBP and IOC would help address IBP's vulnerability coherently. Thus a merger would offer a safety net to IBP's minority shareholders.

To sum up, a merger of IBP and IOC would help create a larger, better integrated company by removing the corporate barriers between IBP and IOC, thereby permitting seamless and unhindered leveraging of common financial and managerial resources in pursuit of a unified strategy.

4.2The Merger Process and Transaction Structuring

A merger, referred to as amalgamation or arrangement in legal terms, of IBP and IOC involved lengthy processes. These included prior approval of the GOI (on account of government ownership), appointment of Attorneys and Valuation experts, preparation of a scheme of amalgamation spelling out the terms including the share exchange ratio (SER), approvals thereof by the Boards of Directors of IBP and IOC, information dissemination to the stock exchanges, creditors and shareholders, approvals by the various classes of creditors, lenders and shareholders with 75% majority etc. The whole process would be overseen and finally approved by the Department/Ministry of Company Affairs (DCA/MCA), Government of India[12]. The entire procedure is governed by Sections 391-394 of the Companies Act 1956. In the case of IBP-IOC merger, it took almost 3 years from intent (April 2004) to final approval by the MCA (April 2007).

Merger Structuring

The merger was structured as a normal merger with IBP merging into/with IOC, with IBP as the transferor (amalgamating) company and IOC as the transferee (surviving) company. The broad terms of the merger as spelt out in the Scheme of Amalgamation and communicated to creditors and shareholders are summarised below.

- The appointed date (the transaction date) was fixed at 1 April 2004.

- All assets and liabilities of IBP as of this date would stand transferred to and vested with IOC. Similarly all the licences, permissions etc. held by IBP and all the legal suits by or against IBP would also stand transferred and vested with IOC.

[11] This situation has since been partially corrected whereby set-off of tax on distributed profits (TDP) paid by an immediate 100% subsidiary can be set of against the TDP of its immediate parent.

[12] Some of these legal processes are different for Government Companies (within the meaning of Section 617 of the Companies Act, 1956) such as the IOC, as compared to private sector/non-government companies. For example for non-Government Companies, amalgamation or merger is overseen by High Courts vis-à-vis the DCA/MCA for Government Companies.

- On completion of the merger process after the necessary approvals, IBP would stand dissolved without being wound up.

- All the employees of IBP would stand transferred to IOC without any dilution in their service conditions.

- Based on Valuation Report of independent valuers, Deloitte, Haskins and Sells, Chartered Accountants, a swap ratio or fair share exchange ratio (SER) of 125 IOC shares for 100 IBP shares was fixed. In other words, IBP's shareholders were to receive 125 IOC shares for every 100 IBP shares held by them. A joint Board Committee consisting of IBP and IOC Directors after carefully considering the valuation and the SER, recommended the same for acceptance. Subsequently, both J. M. Morgan Stanley and HSBC India, the Merchant Bankers retained by IOC and IBP respectively submitted their fairness opinion confirming that the SER of 125: 100 was fair from a financial point of view.

- Treatment of IOC's shares in IBP: Since IOC already held 11,867,262 (53.58%) shares of IBP, the issue regarding the treatment of the same had to be addressed in the context of the proposed merger. IOC, advised by their Legal Counsels, Amarchand Mangaldas, Suresh Shroff & Co. and Investment Bankers, considered two options. One involved extinguishing the entire holdings of 11.87 million shares held by IOC, as these would be substituted by the net operating assets of IBP. IOC's acquisition cost of about Rs. 1841 crores would be written down, and the reserves of IOC would stand reduced with consequential financial reporting implications. Besides IOC also would also run the risk of not being able to avail of the potential tax benefits from the substantial capital loss arising from the treatment. The second option involved transferring the entire 11.87 million IBP shares into a Trust to which IOC's shares would be allotted in lieu of IBP shares, in the same manner as other IBP shareholders, and at the same share exchange ratio. The Trustees of the said Trust would hold the shares (Trust Shares) for the benefit of IOC, the beneficiary. In the second alternative, the Trustees could monetise the IOC shares held in Trust at appropriate time(s) and remit the proceeds to IOC. Also IOC would be able to avail of the tax benefits of the capital loss as per the Income Tax Act, including carry forward and set-off benefits of unabsorbed capital losses. Another consequence of the extinguishing option would be an increase, though small, in the proportionate holdings of the GOI in the post-merger IOC. After carefully evaluating the two options, the Committee of Directors constituted by the IOC Board favoured the "Trust Shares" route, and this was accepted by IOC Board.

IOC Board finally approved IBP's merger into IOC and the draft Scheme of Amalgamation at its Board Meetings held on 22 December 2004, *subject to the approval* by the Ministry of Petroleum and Natural Gas, Government of India (MOPNG).

The Valuation Controversy

Following the Board approval, IOC Chairman wrote on 31 December 2004 to the Secretary, MOPNG, in accordance with the relevant guidelines/norms applicable to SOEs, for GOI's formal approval for the merger and also for the terms of the merger including the fair SER. The draft Cabinet Note was circulated by MOPNG to the various Ministries of GOI in April 2005. Certain clarifications were sought by some of the Ministries which were duly provided by IOC by 20 May 2005. The Note to the Cabinet was finally circulated by the MOPNG in September 2005. The Union Cabinet while according its approval for the merger of IBP and IOC and Scheme of Amalgamation in October 2005, directed that the swap or share exchange ratio (SER) be finalised by a Committee of Secretaries (CoS) after taking into account all the relevant factors. The CoS met in December 2005 and proposed a revision in the proposed

swap ratio of 125:100 by suggesting changes in some of the valuation parameters such as the relative weights assigned to the various valuation models applied in estimating the average values of IBP and IOC's shares underlying the swap ratio or SER. Following this, the swap ratio was revised to 110:100, i.e., 110 IOC shares for every 100 IBP shares held. This decision of CoS, while perfectly plausible in the government approval process, raised issues relating to corporate governance such as the role and business judgement of Company Boards and the overpowering role of the Government which is also the majority shareholder. The debate centred round the following aspects.

- The appropriateness of a group of senior government officers reviewing and revising the merger exchange ratio fixed on the basis of valuation carried out by independent valuers in the form of a reputed firm of Chartered Accountants, confirmed by Merchant Bankers, vetted by a Special Joint Committee of Directors of IBP and IOC (including Independent Directors) and approved by the Boards of the two companies.

- The issue of conflict of interest involved, in as much as the revised ratio of 110: 100, fixed on the basis of intervention by a presumed "interested party" would be favourable, howsoever small, to the IOC shareholders (particularly its principal shareholder, the GOI) vis-à-vis IBP's minority shareholders.

- The fairness in changing the original swap ratio of 125: 100 for no substantial reasons, considering that information regarding the same was in the public domain for nearly a year since the Board approvals in December 2004.

Eventually the merger scheme was revised and approved based on the revised swap ratio of 110: 100. A few shareholders of both IOC and IBP (who were also former employees) raised several objections when the merger petition came up before MCA (the Ministry of Company Affairs), the authority to approve the merger; this caused further delays in completing the merger process. All the objections were dismissed, and with the MCA issuing the final merger order on 30 April 2007, the merger of IBP with IOC, though with effect from 1 April 2004, was completed on 2 May 2007. Thus the entire process took nearly 3 years, from the date of "in-principle" approval of the Company Boards way back in April 2004, till the completion in May 2007.

IOC's shareholding pattern before and after IBP merger is given in Exhibit 9.

5. Post-Merger Integration of IBP

5.1 The Challenge of Integration Management

For IOC's top management, it was important that IBP and IOC's operations were smoothly integrated as soon as the statutory merger formalities were completed, so that the potential synergies from the original IBP acquisition, though belated, were substantially realised. IBP integration posed several challenges both at the planning and at the operational levels. These included:

- Both IBP and IOC were state owned enterprises (SOEs); SOE's in India seldom, if any, had experience in management-driven, strategic M&A, and even lesser track record in effective, successful post-merger integration (PMI).[13]

- In IOC's own case, there was very little integration of its past acquisitions, and hence very little organisational experience or memory to build from. For Example, IOC itself

[13] Though have been a number of instances of mergers and acquisitions by the Indian SOEs, they were more often than not initiated by the Government to bail-out weak companies under its ownership or otherwise. Post-acquisition or merger integration in these cases was seldom effective or smooth.

had not integrated the Assam Oil Company for a variety of reasons; Assam Oil Division (AOD) still remained a near-independent division, competing with IOC in the Eastern Region even after nearly 28 years of its merger with IOC in 1981.

- Empirical studies relating to M&A point to the fact that only about 20%-30% of all M&A transactions *actually* tend to create value for the acquirers. One of the principal factors for such high failure rate (70%-80%) in M&A is failure on the integration front. Thus a likely integration failure is routinely presumed in most M&A, and IOC's management had a task cut out in the face of such overwhelming empirical evidence.

- In most M&A transactions, integration is initiated almost immediately after deal-closing; this is a period when employees would be psychologically prepared for major changes. In the case of IBP, for over 4 years after the initial acquisition by IOC in 2002, the company was run with minimal changes to its operating ways, even under IOC's management control. This had lead to a general expectation amongst IBP stakeholders, particularly employees, about the continuance of the *status quo* at IBP. Initiating IBP integration at this stage, though understandable in the context of the merger-related delays, would have dented employee assumptions, and heightened their concerns.

- IBP had nearly 2000 employees and 13 employee unions/associations. Since the labour unions in India are typically affiliated to one or the other political parties, there could be political opposition which may delay, if not scupper the integration. Opposition could also come from IOC's own employee associations from perceived sense of loss of opportunities.

IOC top management, conscious of the integration challenges, decided to initiate advance action during the period when the legal processes were underway and prepare a blueprint for IBP integration that could be put in motion once legal formalities were completed. It was decided that Mr. V. C. Agrawal, Director (Human Resources), IOC, would take additional charge as the Managing Director of IBP on 1 July 2006 on the retirement of the incumbent, Dr. N. G. Kannan, who was also IOC's Director (Marketing). This ensured a single point responsibility for coordinating integration both from the IOC and the IBP sides, and signified the importance IOC accorded to the HR aspects of the integration.

While Mr. Agrawal would oversee integration, a Steering Committee consisting of the IOC Chairman, Director, Marketing and Mr. Agrawal as the Director HR would closely monitor and review the progress of IBP integration, and take important decisions to smoothen the integration process. Other initiatives in managing the integration process included the following:

- Separate Functional Integration Committees were constituted consisting of senior executives of IOC and IBP for identifying critical integration issues in each function/business (such as retail marketing, finance, HR etc.) and developing implementation road maps.

- The Functional Integration Committees were to function under the direct supervision of the Steering Committee.

- Periodic review by the Steering Committee (SC) on the progress of integration; the SC would meet as often as required, but at least once every month.

- The SC would, during the review meetings, also resolve differences that may have cropped up on specific aspects.

- Thus the process of preparation for integration was started before the legal formalities were completed on 02 May 2007.

5.2 IOC's Approach to IBP Integration

While formulating its approach to integration, IOC identified the following objectives/outcomes.

a. Integration should help IOC realise maximum intended synergies from IBP acquisition and its eventual merger by optimisation of physical and manpower resources.

b. Integration should, as far as possible, be seamless and painless to the various stakeholders.

c. Integration should not lead to disruption in the post-merger operations that would nullify the anticipated merger gains.

There was also adequate appreciation of the fact that in view of the inherent conflicts amongst these objectives, trade-offs would have to be made at every stage, balancing the costs and benefits of alternative options including sequence of implementation and implementation time frame.

Integration Philosophy: IBP as a Division Vs. Full Functional Integration

The first level issue to be decided was whether IBP should be retained as a near autonomous division within IOC or be integrated fully across functions. Retaining IBP as a division would help achieve the goals of seamless and painless integration and minimise disruption, but at the cost of not realising merger synergies from elimination of duplicate facilities and infrastructure. And the AOD (Assam Oil Division) model was not helpful. Consequently IOC decided very early that IBP would be integrated with IOC as completely as practicable, but with sensitivity, rather than being operated as a Division within IOC. IOC's overall approach to IBP integration is summed up in the following words of Mr. V. C. Agrawal who spearheaded the integration efforts.

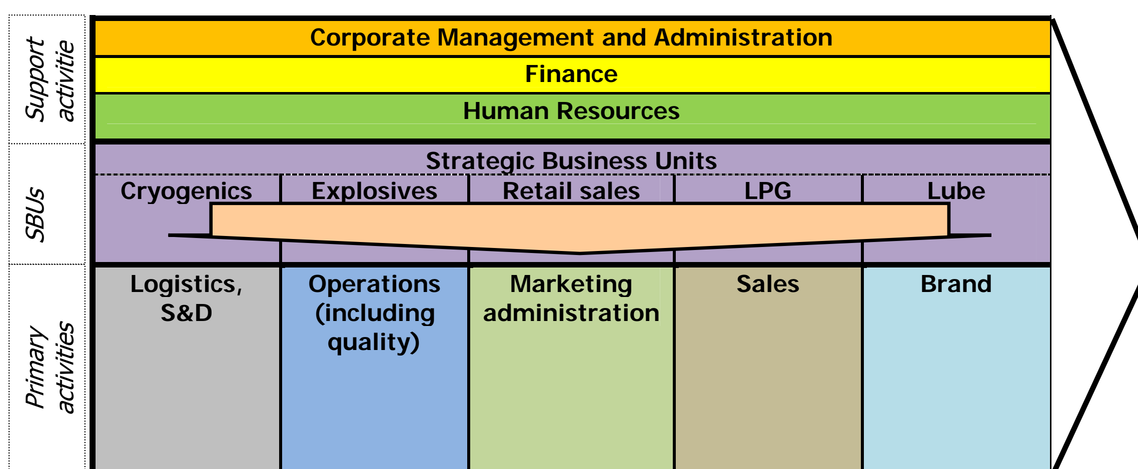
"*As you know IBP had three businesses, one was the retail petroleum, second one was cryogenic containers and the third one being explosives. The latter two, cryogenic and explosives businesses were of much smaller size and there were no such businesses in IOC. So there is no scope of integration of those businesses with any businesses in IOC. But there were substantial scope and opportunities for integration of the retail petroleum business of IBP with IOC's retail business. From the day I took (additional) charge as the MD of IBP, I made up my mind that we won't keep this business as a separate division because we had a none-too-happy experience with AOD (Assam Oil Division). AOD came about following the acquisition in 1981 of an Assam-based company with petroleum marketing set up in India's North Eastern states. Since 1981 till date AOD was operating its marketing set up in the North East in parallel with the Marketing Division of IOC, though both were in the same company! So we were having two parallel set up in the seven North Eastern states. And whenever we tried to integrate AOD in the past, we could not succeed because of so many sentimental issues, political issues. Therefore, from day one, when I took over as the MD of IBP, I decided that there was no question of keeping IBP as a separate division because if we had to keep it as a separate division, then we won't derive the benefits of the merger. And we would be able to derive merger benefits only when we integrated, when we were able to optimise the physical as well as the manpower infrastructure. Otherwise there was no use of merger; it would be only a merger of the balance sheets. So I was very clear that as far as the retail petroleum business is concerned, this was going to be integrated with Indian Oil Marketing Section…., fully and seamlessly. As far as the brand of IBP is concerned, we debated*

whether the brand of IBP should be maintained, or it should be discontinued. And we came to the conclusion that the brand of IBP should be maintained, The RO's (retail outlets) of IBP should carry the IBP logo; so from the public point of view the IBP RO is still IBP RO and IOC RO is still IOC RO but from our point of view all the ROs are same….."

Functional Integration with Balancing Diverse Stakeholder Interests

From a conceptual perspective, post-merger integration typically involves integration or consolidation of the *value chains* of the combining entities-both across their *primary* and *support* activities. A highly simplified diagram of IBP's value chain is given below (Figure-1) highlighting the areas of integration with IOC's operations.

Figure 1- IBP Value Chain



After careful study of the value chains and extensive iteration and evaluation of various options generated by the integration team led by Mr. Agrawal, the following integration model emerged.

Table B - Integration Model

Sr. No	IBP's SBUs and/or value chain activities	Integration choice	Rationale
1	Cryogenic containers	Retain with minimal integration	No synergies/overlap with IOC
2	Explosives	Retain with minimal integration	No synergies/overlap with IOC
3	Petroleum retail	High level of integration	High synergies/overlap with IOC
4	LPG	Full integration: unification-complete IBP withdrawal from LPG marketing	High synergies/overlap with IOC; IBP's negligible presence in LPG
5	Lube	High level of integration-IBP Red brand discontinued	IBP "Red" is a weak brand
6	Human resources function	High level of integration: unification	Redundant support function
7	Finance	High level of integration: unification	Redundant support function
8	Corporate Management	High level of integration: unification	Redundant support function

Thus integration should span the primary and support activities across overlapping businesses and functions in IBP and IOC as highlighted below.

- Consumer sales
- Retail sales, including management of retail outlets system

- LPG operations
- Lubes, including lube blending plants
- Operations-Terminals and Depots
- Logistics: supply and distribution (S&D)
- Quality control
- Human resources, and
- Finance and corporate management

At the same time, while formulating integration plans the integration team led by Mr. Agrawal recognised the importance of balancing the diverse and often conflicting interests of the different stakeholders, as summarised below.

Table C - Stakeholder Perspective

Sr. No	Stakeholders	Dominant Interest
1	Dealers and distributors	Continued business relationship
2	Employees (including families)	Employment, benefits and self-esteem
3	Customers/public	Continued availability of "IBP" products.
4	Shareholders	Increased earnings (from synergy realisation)
5	Suppliers and service providers	Continued business opportunities
6	Government	Tax revenue/dividend; no controversies

It was also agreed that integration plan and initiatives should not result in any *major* disruptions to the established relations with and long-cherished expectations of various stakeholders; this could call for a high level of flexibility, selectivity and course corrections at the ground level.

Balancing the stakeholder interests as above meant carefully evaluating the merger fall-outs across various functions/businesses, and taking a conscious call on elements that may not be disturbed, sequencing of roll-outs, and positioning of employees. IOC's flexible and non-dogmatic approach to IBP integration is epitomised in the following decisions and processes.

Brand Strategy: IPB's Petroleum Business

As mentioned earlier, IOC resisted temptation of discontinuing IBP brand across the board, despite the fact IBP sales were only about 7%-8% of IOC's sales. It was obvious that IBP's lube brand, **IBP Red**, was significantly weak vis-à-vis IOC's powerful **Servo** brand, and hence it was decided to discontinue IBP Red. At the same time, it was evident that IBP brand as such, as well as RVI (Retail Visual Identity) on its retail outlets, enjoyed strong consumer loyalty amongst certain customer segments. After intense debate, it was decided not to disturb, but to retain the IBP brand and its logo for the present.

While retaining the IBP brand, IOC was also conscious of the fact that many of IBP's dealers had decade-long association with IBP, and IBP brand had strong emotional appeal to them. IOC respected their sentiments. From a business perspective, IOC assessed that dropping the IBP brand might lead to some loss of sales in the short run at least, all of which may not automatically flow back to IOC's outlets. Thus IOC was cautious in avoiding negative synergies from likely loss of sales from brand discontinuance, a situation reportedly faced by *Coca-Cola India,* which discontinued brands like Thums-up following its acquisition of Parle's soft drinks business in India, only to relaunch the brands later. According to Mr. Agrawal, "*IBP had loyal customers, loyal dealers; they have strong affinity and sentiments towards this 100 years old company. So why play with the sentiments of these people unnecessarily and why lose that brand?"*

IBP's Cryogenic and Explosives Businesses

The Cryogenic and Explosive businesses, accounting for just about 1% of IBP's sales, were unique to IBP, with no overlap with IOC. Consequently the decision was to manage these businesses as independent SBUs within IOC for the time being, but simultaneously undertake periodic evaluation of their long-term viability and potential within IOC.

Following such a review, it was decided to close down the operations of the Cartridge Explosives plant at Korba and the IPB's Explosive R&D unit at Manesar. About 100 employees at the Korba plant were to be redeployed. IBP's ten Bulk Explosive plants in various locations and the Cryogenic unit at Nashik continued to operate profitably.

Integration of IBP's Retail Business Network

Since IBP's retail business (i.e., retailing of petroleum products) was the cornerstone of IOC's acquisition and merger rationale with maximum synergy potential, integration of the retail businesses was accorded the highest priority. Retail integration was planned and implemented along the following lines.

- A five member *Synergy Committee* was constituted in November 2006 to crystallise and develop a road map to realise the synergies in the retail business.
- The Committee developed a pilot model for integrating the UP State Office (UPSO), and presented the same before the Steering Committee on 30 November 2006.
- Similarly State-wise Integration Sub-groups were constituted for formulating detailed integration plans for each state.
- The state-wise integration plans were reviewed and approved by the Steering Committee on 8 February and 30 April 2007.
- It was decided to create 16 new Divisional Offices (DOs) and 158 Sales Areas on an all India basis in the post-merger IOC, while rationalising IBP's 30 DOs and 125 Sales Areas.
- The existing premises of 30 overlapping Divisional Offices of IOC and IBP were reviewed to utilise the better of the two.
- Following the Board approval for restructuring the retail network in May 2007, IBP's 30 Divisional Offices were closed and integrated with effect from 1 August 2007. Similarly its 4 Regional Offices were closed effective 1 November 2007, and IBP's corporate/registered offices from 1 April 2008.
- As indicated earlier, it was decided to retain IBP brand and RVI at the IBP retail outlets.
- IBP officers handling marketing activities in IBP Regions were to be preferably posted in IOC State Offices so as to bring IBP retail knowledge to the IOC system.
- Similarly, at least one IBP officer would be preferably posted in every Divisional Office.
- Rationalising and consolidating IBP's retail outlets *per se* was not envisaged at this stage, as this cannot be meaningfully attempted in isolation without regard to the broader IOC/industry context.

- As for lease contracts and contracts with service providers such as transporters, IOC had started reviewing outstanding contracts even before the merger, and advised all concerned about the need to take fresh calls whenever these contracts came for renewal.

The overall post-merger retail business organisation would appear as follows.

Table D - Retail Field Organisation (Summary)

Sr. No	Field Office	Pre-merger set-up (As of 31-12-2006)			Post-merger	
		IOC	IBP	IOC+IBP	No.	Change
1	Divisional Offices	49	30	79	63	-16
2	Sales Areas	315	125	440	468	+26
3	Retail Outlets	11948	3485	15433	15433	0

Operations and Supply and Distribution (S&D)

The integration team laid considerable importance to the integration of the Operations and S&D functions of IBP and IOC; these were not direct customer-facing, and offered significant opportunities for rationalisation. The important measures initiated towards this end include the following.

- IOC switched over to sale/purchase model in respect of its product supplies to IBP from the earlier hospitality arrangement, resulting in savings sales tax.

- Several IBP terminals were closed down in phases; in a few cases IOC's facilities were relocated to better suited IBP premises.

- Handling contractors of IBP in IOC's locations were disengaged, and transportation arrangements and tenders etc. were integrated with the relevant IOC set-up.

- IBP personnel were redeployed in IOC with attendant changes in reporting relationships.

Communication Strategy

It is said that key to successful integration is *Communication, Communication and Communication.* From the very beginning, Mr. Agrawal maintained a philosophy of open, transparent communications. As Director (HR) of IOC, any unresolved people problem from IBP integration would end only up in his desk. Mr. Agrawal says, *"I used to tell the IBP people that I have the duel responsibility. Even after integration, I am your Director, HR. Today I am your MD, but after the merger integration, I will remain your Director of HR. So I cannot afford to have any unresolved problems for you and send them to IOC, because there also I only will have to address them. Thus if there are any issues, I only have to resolve them whether it is here and now or there and later. So better let us do this today. As it turned out the master stroke was that the Director (HR) of IOC was made the MD of IBP before merger".*

As part of its stakeholder communication strategy, the following initiatives were taken.

- Separate meetings with the Officers' Association of IOC and IBP in which the logic and the processes of integration were articulated.

- Employees were constantly reassured that their interests would not be adversely affected.

- Similar face-to-face communication strategy sessions were followed vis-à-vis the 12 IBP non-management staff Unions in which the integration details were shared and employee concerns addressed and clarified.

- Close interactions were initiated with the IOC Workers' unions highlighting the proactive role they could play in the integration process.

- Meetings with the IBP management and non-management staff in different locations, and addressing their concerns.

- Written reassurances to nearly 3500 IBP dealers individually reassuring them that their business interests would not be jeopardised in any manner, and seeking to strengthen the bond with them.

In formulating its communication strategy, IOC, consistent with its direct, heart-to-heart approach, decided to handle the same internally, rather than through external consultants or agencies.

Examples of Mr Agrawal's communications with IBP employees and dealers are given in Exhibits 10-A and 10-B.

Human Resources (HR) Strategy

IBP had about 2000 employees on its rolls, consisting of about 800 officers and 1200 non-officer employees. And IBP had 13 employee unions/associations compared to 4 for IOC's Marketing Division employees. As indicated earlier, the HR dimensions of integration were accorded highest priority, and handled with great sensitivity. In particular, the following approach was followed.

- A task force was constituted in July 2004-soon after the merger proposal was announced-consisting of three General Manager level HR executives to indentify the various HR issues to be addressed, and generate and evaluate possible alternative solutions.

- Employee cadres, *inter-se* seniority, and promotion systems were not disturbed. According to Mr. Agrawal, IOC made a clear distinction between business integration and people integration, and IOC did not want the business integration being derailed by people issues. Consequently IBP employees were generally absorbed in the corresponding IOC offices with minimum fuss, but not necessarily in the same level of responsibility. It was impressed upon IBP employees that given the smaller size of IBP operations they might not have the necessary breadth of experience to handle IOC's scale of operations in various locations immediately. This was generally well understood and accepted by IBP employees.

- Employee designations were maintained. In one instance, it was found that IBP had a complement of 4-5 executives at the General Manager level, designated as Executive Directors (EDs). These executives could not be designated as EDs at IOC, a very senior position, given their profile vis-à-vis their peer group at IOC. Re-designating them as General Managers at IOC would have hurt their sense of self-esteem. IOC came with an interesting response to this problem by proposing to designate them as ED (IBP) at IOC. This symbolises the great care and sensitivity with which IOC handled the HR issues, even in cases involving only a handful of managers.

- As indicated, as far as possible, employees were not to be disturbed at the time of redeployment, with every positioning carefully vetted at the highest level at IOC.

- Individual employees, irrespective of their level or cadre, were free to share their grievances and concerns directly with Mr. Agrawal, IOC Director (HR), and as noted earlier, also the Director-in-charge of IBP. Their concerns were addressed promptly and in several instances, Mr Agrawal personally met the employees concerned during his visits to their locations. *"Whenever I visited IOC locations, I specifically sought out to meet employees who came from IBP to find out their difficulties, if any, in the IOC system"* Says Mr. Agrawal. *"I felt that this was important, because such things are seldom visible, and you never get to know unless explicit efforts are made…. Reaching out to these (ex) IBP employees give them an avenue… ….helps to build their confidence in our system*".

- Personnel policies and employee benefits at IBP were realigned with those of IOC.

- A Voluntary Retirement Scheme (VRS) was introduced and kept open during the period of redeployment for the benefit of those IBP employees who might want to retire.

- Steps were also initiated to streamline IBP's employee related funds such as Provident Fund, Gratuity Fund etc.

- In terms of culture, IOC being a larger company has more robust systems and processes and a more formal culture. IBP had a culture that gave greater space for individualism. IBP employees were sensitised about more formal IOC system during the communication sessions so that they were psychologically better prepared for the cultural change at IOC.

- As regards IBP employee unions, their leaderships were clearly told that IBP as a standalone marketing company would find it hard to survive in the prevailing industry environment; the merger with IOC was the only viable option to protect their long term interests. While the local union leaders sought to retain their leadership positions that would not have been possible in the changed scenario. So IOC encouraged its own union leaderships to reach out to IBP employees and welcome them to join the IOC union ranks. Since IOC unions were much larger in size, IBP employees naturally found it advantageous to join the IOC unions.

Mr. Agrawal sums up IOC's approach to the HR aspects in the following words.

> *"I was very clear in my mind from very beginning that as far as business is concerned, we will do the seamless merger of the business of IBP with IOC, but as far as people issues are concerned, their seniority, their cadre, their promotion systems etc, would not be disturbed. We will not integrate them unnecessarily. As such people are already disturbed when one company gets merged or integrated with another company; so why to create another problem for them by merging their seniority, their cadre, their promotion system and so on? So we have retained them as they are … … and did not disturb any of these aspects."*

Merger Synergies and Benefits

Merger synergies realised through integration, though may not be considered significant in the context of IOC's scale of operations, were estimated at about Rs. 111 crores per annum, primarily from the integration of the retail business. The synergies were on account of cost savings from the closure of now redundant Depots and Terminals, Divisional and Regional

Offices, LPG Delhi office, Mumbai and Kolkota offices of IBP. Estimates synergy benefits, net of the expenses in respect of the new Divisional Offices opened, are summarised below.

Table E - Estimate of Merger Synergies

Sr. No.	Details	No. of offices closed	Estimated pre-tax cost savings per annum (Rs. Crores)
1	Depots	6	1.55
2	Divisions-Net (Closed 30 Less New 16)	14	13.53
3	Regions	4	66.37
4	LPG Delhi Office	1	1.09
5	Mumbai Office	1	4.59
6	Kolkota Office	1	24.05
	TOTAL		**111.18**

In addition, there would also be some tax savings; this was estimated at Rs. 39 crores in the first year following merger.

While the initial acquisition of IBP, its subsequent merger and integration with IOC were driven by strategic and business considerations discussed above, IBP also had significant and valuable properties and real estate. IBP's large free-hold properties include 27 acres of land in Panipat, 26 acres in Rewari, about 208 acres in Manesar (all in Haryana); about 16 acres in Meerut and 14 acres in Mathura (both in UP); 130 acres of land in Nagore (Tamil Nadu). With the completion of the merger, IOC is well-positioned, and has taken initiatives for effective and optimal utilisation of these assets and/or unlocking of value therein.

6. Reflections and Conclusions

It may be noted that in the months following the completion of the IBP-IOC merger in May 2007, the oil marketing companies such as IOC went through financially difficult times on account of government imposed constraints in increasing consumer prices of refined products in India in line with sharp increases in the global prices of crude and petroleum products[14]. Thus the pricing freedom and dismantling of the APM envisaged earlier, that were the cornerstone of IOC's IBP strategy, never took effect on the ground. Have these subsequent events made the IBP transactions irrelevant? We do not think so. While IOC's basic assumptions underlying the IBP acquisition might appear to have gone wrong, we believe this is a short-run phenomenon, and the strategic case for the IBP transaction remains intact from a long-term, competitive perspective.

A stakeholder analysis of IOC's IBP transactions summarised below indicates that the various stakeholders of both IOC and IBP would appear to have gained on the whole, at every stage of the transaction.

[14] For example, IOC posted its highest ever operating loss of Rs. 7047 crores for the quarter ending 30 September 2008 during which price of crude oil touched a peak of USD 147 a barrel (from the levels of USD 30-40 during 2004 and USD 35-60 in 2005), even as the global oil majors such as Exxon reported record profits.

Table F - Stakeholder Impact Summary

Sr. No	Stakeholder	IOC		IBP	
		Impact	Comments	Impact	Comments
	Stage 1: Acquisition				
a	Respective Companies	*Positive*	Competitive advantage	*Positive*	Overcoming strategic weaknesses
b	Shareholders	*Positive*	Positive market response	*Positive*	Significant acquisition premium
c	Employees	*Neutral*		*Positive*	
d	Government (common to IOC and IBP)	*Positive*	Large cash proceeds	*Positive*	Large cash proceeds
e	Lenders/creditors	*Neutral*		*Positive*	Support of a strong parent in IOC
	Stage 2: Merger				
a	Respective Companies	*Positive*	Full benefits	*Positive*	Financial strength
b	Shareholders	*Positive*	Higher cash flows	*Positive*	Protection from IBP's vulnerability
c	Employees	*Neutral*		*Positive*	Larger company
d	Government (Common)	*Negative or Neutral*	Lower tax	*Negative-Neutral*	Lower tax
e	Lenders/creditors	*Neutral/positive*		*Positive*	Exposure to the bigger IOC
	Stage 3: Post-merger integration				
a	Respective Companies	*Positive*	Synergy benefits	*Positive*	Synergy benefits
b	Shareholders	*Positive*	Synergy benefits	*Positive*	Synergy benefits
c	Employees	*Neutral*		*Neutral or Positive*	Higher benefits/greater security at IOC
d	Government (Common)	*Neutral*		*Neutral*	
e	Lenders/creditors	*Positive*	Higher cash flows	*Positive*	Higher cash flows

In the end IOC appears to have handled the entire value chain of activities in the IBP transactions from acquisition planning and strategic evaluation through deal execution, post-acquisition merger, and to post-merger integration with a high level of professionalism, a balanced sense of priorities and a high degree of sensitivity, rarely seen in the Indian public sector milieu. IOC management has, through the different phases of the IBP saga, demonstrated aggressiveness in its strategic intent, thoroughness in deal execution and flexibility in post-merger integration. In particular, IOC has taken care to avoid the "winner-takes-all" and "one-size-fits-all" approaches, so common amongst acquirers. IOC has also demonstrated that it might be necessary to balance the interest of various stakeholders in M&A integration; this could call for delaying, if not denying, the realisation of *some* of the M&A synergies, so long as the bigger, broader goals are not lost sight of. As Indian companies, particularly the larger SOEs, find themselves in the inevitable need to pursue M&A-based growth strategies, IOC's IBP experience should provide useful guidance in their endeavours.

Exhibit-1

Shareholding Pattern of IOC

(As of 14 February 2002)

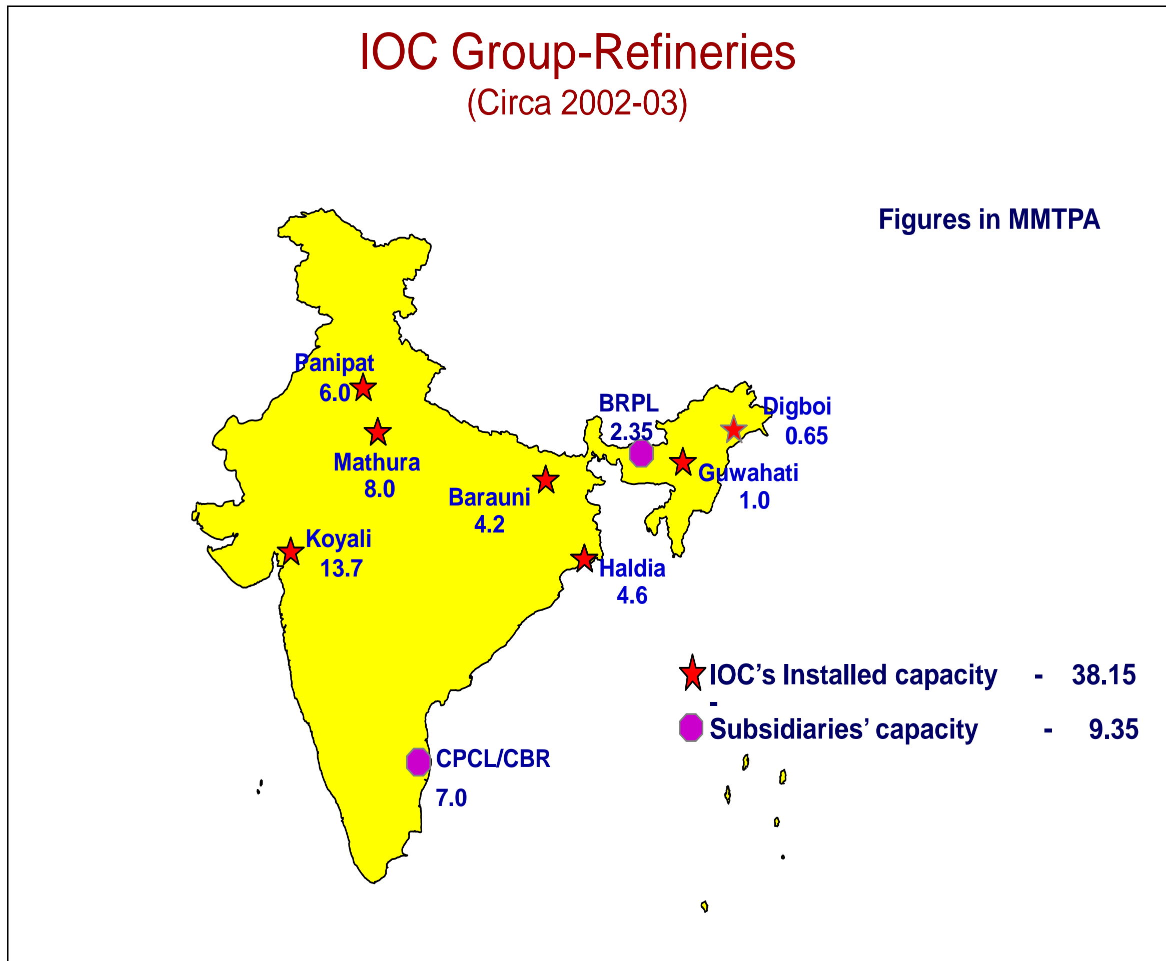
Sr. No.	Shareholder Category	No. of shares held	% holding
1	Promoter/GOI	63,87,18,570	82.03%
2	Institutional investors@	3,59,25,910	4.61%
3	Companies ##	7,15,78,764	9.19%
4	Public	3,24,51,566	4.17%
5	Total Paid-up capital (Rs. 10/- each)	77,86,74,800	100.00%

@ Institutional Investors include foreign and domestic institutional investors, mutual funds and banks.

Includes ONGC (the government-owned upstream exploration and production company) with 9.11% holding of IOC's capital

Source: IOC's IBP Offer Document dated 21 March 2002

Exhibit-2



Source:

IBP Co. Limited-Final Sale Document dated 3 March 2004 in connection with the Offer for sale by the President of India

Exhibit-3

Indian Oil Corporation Limited
Key Operational Data (excluding subsidiaries)

Sr. No	Operational characteristics	Unit	As of/for the year to March		
			2001	2000	1999
1	Refineries	No.	7	7	7
2	Refining capacity	MMT	38.15	35.55	31.50
3	Inland pipelines	KMs.	6523	6453	6268
4	Retail outlets	Nos.	7549	7239	6954
5	Superior Kerosene Oil (SKO) dealership	Nos.	3436	3430	3422
5	LPG Bottling Capacity	MMT	3.01	2.34	1.90
5	LPG distributors	Nos.	3424	3251	2977
6	LPG connections (consumers)	Million	29.6	23.9	19.2
7	Product sales	MMT	47.80	48.79	46.05
8	Market participation (share of market)	%	53%	55%	55%
9	Refineries Throughput	MMT	33.22	32.42	30.36
10	Pipelines Throughput	MMT	39.44	39.50	34.01
11	Employee strength	Nos	32266	34059	33515

Note:

During the year 2000-01, IOC acquired the entire shareholdings of the GOI in Chennai Petroleum Corporation Limited (CPCL) and Bongaigaon Refineries and Petrochemicals Limited (BRPL) representing 51.81% and 74.46% of the respective companies' capital. These two companies had refining capacity of 7.0 MMT and 2.35 MMT respectively. These are not included in the aforesaid figures.

Source: IOC's Annual Reports

Exhibit-4

Indian Oil Corporation Limited
Financial Summary

(Rs. Crores, unless otherwise stated)

A	**Profit and Loss Account**			
		For the year ended March 31		
		2001	2000	1999
	Income from Operations	118390	95824	63662
	Other Income	1194	547	1067
	Total Incomes	**119584**	**96371**	**64729**
	Total Expenditure	**113724**	**90399**	**59736**
	Profits before Depreciation, Interest and Tax (PBDIT)	**5860**	**5972**	**4993**
	Depreciation	1224	1995	1058
	Interest	1674	1006	1202
	Profits before Tax (PBT)	**2962**	**2971**	**2733**
	Provision for Tax	242	527	519
	Profits after Tax (PAT)	**2720**	**2444**	**2214**
B	**Key Indicators**			
	Earnings per Share (Rs.) @	34.94	31.38	28.43
	Dividend per Share (Rs.) @	9.50	7.50	6.50
	Return on Net worth	17.21%	17.37%	18.04%
	Book Value per Share (Rs.) @	202.96	180.62	157.56
	@: Adjusted for the 1:1 bonus issue made during 1999/20			
C	**Balance Sheet (As of March 31)**			
	Assets Employed			
	Net Fixed Assets (incl. Capital Work-in-progress)	22089	18193	15166
	Investments	3444	3149	5568
	Net Current Assets	10908	7440	1597
	Miscellaneous Expenditure not written-off	166	0	0
	Total Assets	**36607**	**28782**	**22331**
	Financing			
	Paid-up Capital	779	779	389
	Reserves and Surplus	15192	13286	11880
	Sub-total: Net worth	**15971**	**14065**	**12269**
	Secured and Unsecured Loans	20636	14717	10062
	Total Financing	**36607**	**28782**	**22331**

Source: IOC's IBP Offer Document dated 21 March 2002

Exhibit-5

IBP Co. Limited
Key Operational Data

Sr. No	Operational characteristics	Unit	As of/for the year to March		
			2001	2000	1999
1	Retail outlets	Nos.	1539	1504	1448
2	Superior Kerosene Oil (SKO) dealership	Nos.	376	376	375
3	LPG distributors	Nos.	25	17	
4	Market participation (share of market)	%	4.38%	4.53%	4.53%
5	Employee strength	Nos	2626	2639	2723

Source: IBP's Annual Reports

Exhibit-6

IBP Co. Limited
Financial Summary

(Rs. Crores, unless otherwise stated)

A	Profit and Loss Account			
		For the year ended March 31		
		2001	2000	1999
	Income from Operations	8620	6630	4898
	Other Income	52	57	49
	Total Incomes	**8672**	**6687**	**4947**
	Total Expenditure	**8495**	**6529**	**4822**
	Profits before Depreciation, Interest and Tax (PBDIT)	**177**	**158**	**125**
	Depreciation	33	34	17
	Interest	83	76	67
	Profits before Tax (PBT)	**61**	**48**	**41**
	Provision for Tax	7	6	6
	Profits after Tax (PAT)	**54**	**42**	**35**
B	**Key Indicators**			
	Earnings per Share (Rs.)	24.48	18.83	15.91
	Dividend per Share (Rs.)	10.00	4.60	4.30
	Return on Net worth	14.69%	12.29%	11.37%
	Book Value per Share (Rs.)	166.63	153.16	139.94
C	**Balance Sheet (As of March 31)**			
	Assets Employed			
	Net Fixed Assets (incl. Capital Work-in-progress)	639	552	445
	Investments	64	229	295
	Net Current Assets	107	180	125
	Miscellaneous Expenditure not written-off	0	0	0
	Total Assets	**810**	**961**	**865**
	Paid-up Capital	22	22	22
	Reserves and Surplus	347	317	288
	Sub-total: Net worth	**369**	**339**	**310**
	Secured and Unsecured Loans	**441**	**622**	**555**
	Total Financing	**810**	**961**	**865**

Source: *Offer Document dated 21 March 2002*

Exhibit-7

IOC's Board of Directors at different phases of the IBP transaction

As on 31-03-2002 (IBP Acquisition)		As on 31-03-2004 (IBP Merger Decision)		As on 31-03-2006 (IBP Integration)	
Shri M.A. Pathan	Chairman	Shri M.S. Ramachandran	Chairman	Shri Sarthak Behuria	Chairman
Shri M. S. Ramachandran	Director (Planning and Business Development)	Shri P. Sugavanam	Director (Finance)	Shri A. M. Uplenchwar	Director (Pipelines)
Shri A.K. Arora	Director (Refineries)	Shri A.M. Uplenchwar	Director (Pipelines)	Shri Jaspal Singh	Director (Refineries)
Shri A.K. Bhatnagar	Director (R&D)	Shri P.K. Agarwal	Director (Human Resources)	Shri B. M. Bansal	Director (Planning and Business Development)
Shri P. Sugavanam	Director (Finance)	Shri N.K. Nayyar	Director (Planning and Business Development)	Shri S. V. Narasimhan	Director (Finance)
Shri A.M. Uplenchwar	Director (Pipelines)	Shri N.R. Raje	Director (Research & Development)	Dr. N.G. Kannan	Director (Marketing)
Shri P.K. Agarwal	Director (Marketing)	Shri Jaspal Singh	Director (Refineries)	Shri V. C. Agrawal	Director (Human Resources)
Shri A.K. Mitra	Director (Human Resources)	Dr. N.G. Kannan	Director (Marketing)	Shri P. K. Sinha	Director
Shri Naresh Narad	Director	Shri M.S. Srinivasan	Director	Prof. S. K. Barua	Director
Shri Shivraj Singh	Director	Shri Prabh Das	Director		
Dr. R.K. Pachauri	Director	Shri Badal K. Das	Director	Shri Vineet Nayyar	Director
Shri M. Kalyanasundaram	Director	Prof. S.K. Barua	Director	Shri V. K. Agarwal	Director
Prof. S.K. Barua	Director	Shri Vineet Nayyar	Director	Shri V. Ranganathan	Director
Shri Vineet Nayyar	Director	Shri V.K. Aggarwal	Director	Shri P. M. Sinha	Director
Shri L. Sabaretnam	Director	Shri V. Ranganathan	Director	Shri R. S. Sharma	Director
Shri R.S. Sharma	Director	Shri P.M. Sinha	Director		
		Shri R.S. Sharma	Director		

Exhibit-8
Stock Market Response

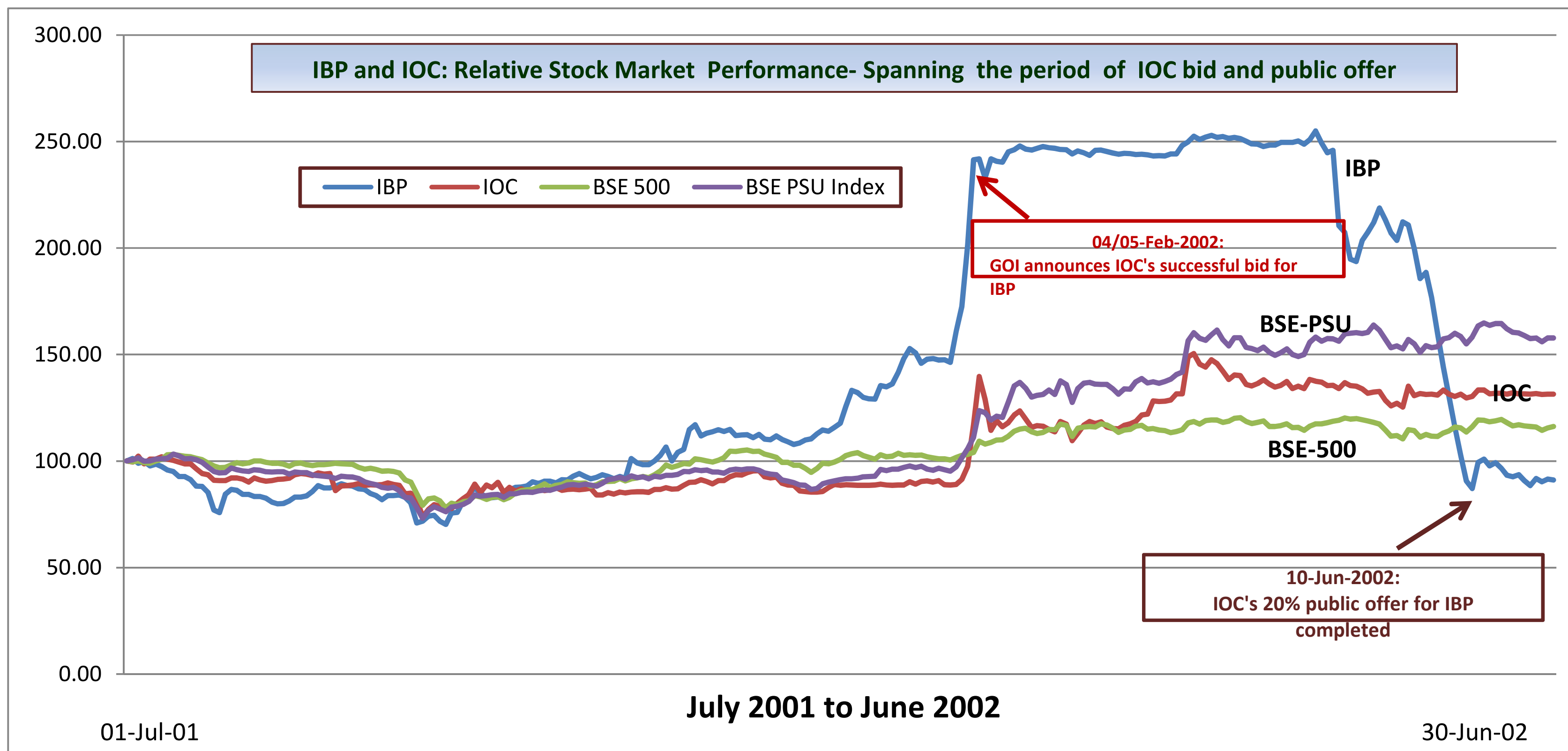


Exhibit-9

IOC's Shareholding Structure (Post-IBP Merger)

Sr. No	Category	As on 30-June-2004 (Post-IBP merger Announcement)		As on 30-June-2007 (Post-IBP merger completion)	
		No. of shares	%	No of shares	%
1	Government of India	958,077,855	82.03	958,077,855	80.35
2	ONGC	10,645,3095	9.11	106,453,095	8.93
3	Government of Gujarat	1,350,000	0.12	1,350,000	0.11
4	IOC-IBP Merger Scheme Trust	0	0	13,053,988	1.09
5	Domestic Institutional Shareholders	47,867,229	4.10	50,602,030	4.36
6	Foreign Institutional Shareholders	11,857,731	1.01	24,992,588	2.10
7	Others	4,240,6290	3.63	37,844,750	3.17
8	Total	1,168,012,200	100.00	1,192,374,306	100.00

Source: *Stock Exchange Filings in respect of Shareholding Pattern*

Exhibit-10-A: Communication to IBP Employees

Sharing Values, Sharing a Vision

1st July 2006

My dear Colleague,

Let me first express my pleasure in taking over as the Managing Director of IBP Co. Limited. It is indeed a privilege to head an organization that everyone in the Oil Industry admires for its professionalism and dedication and for setting new benchmarks, each passing day in the petroleum retail market. Personally, I have watched with much interest, the several landmarks that IBP has achieved in the Indian petroleum sector. And for a company with close to a century old heritage, IBP is indeed truly an integral part of our country's industrial tradition.

Consequent to the acquisition of IBP by IndianOil, several measures to attain mutual synergies were initiated between the two companies. Competency sharing, optimization of marketing operations, skill transfers, coordinated short term tactics and long term strategies are just few of these measures that have gone a long way in ensuring the smooth integration of IBP into the IndianOil fold. The first phase of integration was largely successful due to the "Shared Values and Vision" that binds both IndianOil and IBP.

The saliency and equity that IBP has earned in nearly a century is an asset that we should build to its next level. IBP as a brand therefore will continue to be a priority and will remain a vital weapon in the strategic arsenal of the IndianOil-IBP combine.

IBP being exclusively a retail company, doesn't have the benefits of integrated companies, which are better equipped to withstand the volatility of both the domestic and international market forces. IBP today is faced with this constraint and has turned into a non-profit entity on account of factors beyond its control. Merger with IndianOil, an integrated company, is therefore the right step forward. After the shareholders' nod, which was obtained recently, the merger process now moves to the next step. We hope to complete this process before the end of 2006.

While for IndianOil, the merger is an opportunity to further tap IBP's retail strength, for IBP it opens the door to gain access and exposure to IndianOil's integrated operations across the entire hydrocarbon value chain. Areas like Petrochemicals, Gas Marketing and Globalisation of Marketing Operations are new avenues of growth which IBPians will have exposure to, after the completion of the merger. In short, IBP will have the opportunity to be part of the "Entity Leadership" position that the parent company, IndianOil has set to achieve.

My wife Alka joins me in wishing all IBPians and their families the very best in all their endeavors. I also look forward to receive your comments, suggestions and feedback, on how to further strengthen the shared vision of IBP-IndianOil. You can mail me at agrawalvc@ibpoil.com
Jai Hind.

V. C. Agrawal
Managing Director

Exhibit-10-B: Communication to IBP Dealers

V. C. Agrawal Date: 09.05. 07
Director (Human Resources & Director-in-charge (IBP Division)

Dear Business Partner,

Warm greetings to you on the historic occasion of the amalgamation of IBP Co. Limited with the parent company – IndianOil.

On behalf of IndianOil, I have great pleasure in wholeheartedly welcoming you into the IndianOil family of dealers and distributors. As you become part of IndianOil's countrywide marketing network, you bring with you decades' old association with IBP, a company with a glorious record in petroleum retailing in India. It was your untiring efforts in winning over customers with personalised service and your innovative approach to business that brought IBP nationwide recognition as a premier oil marketing company.

Induction of IBP as an IndianOil group company in February 2002 led to enhanced customer service and optimum utilisation of resources. In the past five years, both IndianOil and IBP worked jointly to exploit new and emerging opportunities in the marketplace, simultaneously focussing on optimisation of infrastructure, operations and retail network. With your joining as dealers, IndianOil will further gain in terms of cost and competitive advantage.

Similarly, all of you are set to derive advantage from joining IndianOil, the flagship, integrated national oil company with dominant presence in the downstream sector. With over 60 million tonnes per annum capacity each in refining and pipeline transportation, a widespread and well-established marketing infrastructure and a countrywide retail network today, IndianOil as set its sight on attaining US$ 60 Billion revenues by the year 2011-12 and US$ 300 Billion by the year 2030 from current earnings of US$ 41 Billion. Towards this, it has also launched major initiatives for vertical integration across the hydrocarbon value chain – forward into petrochemicals and backwards into exploration and production of oil – and diversification into natural gas business, besides globalisation of downstream operations. This would bring new and enhanced opportunities for growth for all our business partners.

As a step towards achieving smooth and seamless integration of erstwhile IBP with IndianOil, a new 'IBP Division' has been created with immediate effect. We are working towards integrating the marketing group of erstwhile IBP with the Marketing Division of IndianOil at the earliest so as to achieve the objectives of synergy, consolidation and optimisation of resources.

My best wishes to you as you join the fraternity of IndianOil dealers.

Yours sincerely,

V. C. Agrawal