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ONGC-HPCL ACQUISITION – A LEGAL ANALYSIS

AUTHORED BY - MAITREYI SINGH

BA., LLB (Hons.), 4th Year

ABSTRACT

It is in the context of acquiring Hindustan Petroleum Corporation Limited (“HPCL”) by Oil and Natural Gas Corporation Limited (“ONGC”) in 2018 that it is appropriate to consider one of the biggest public sector acquisitions in the oil and gas industry in India. In contrast to a regular merger, in this case ONGC purchased the Government of India's 51.11% stake in HPCL at ₹36,915 crore and HPCL remained listed separately. The deal was planned as part of the Government's overall policy of rationalising the Central Public Sector Enterprises (“CPSEs”) and developing competitive, integrated oil companies on an international platform.

With this acquisition, ONGC's upstream exploration and production business were joined with HPCL's downstream refining and petroleum marketing business. It was therefore predicted to offer vertical integration, economies of scale, diversification of income, weather-stability of the prices for crude oil, and increased investment potential. The deal, however, also represented significant money being spent by ONGC, such as loans from commercial banks, and had raised doubts about valuation, minority shareholder rights, competition law and the efficiency of coming together two firms along two stages of the oil value chain.

This paper discusses the financial situation of ONGC and HPCL prior to acquisition, the acquisition procedure, provisions of the Companies Act, 2013 and Competition Act, 2002 and its impact on the shareholders, Government, creditors, employees and consumers. It also reviews the transaction based on the current financial and operational status of the companies. The analysis indicates that the acquisition has resulted in a more comprehensive energy platform for ONGC, but its financial performance will ultimately be dependent on investment discipline, operational integration and energy transition adaptation.

Introduction

M&A activities are essential processes used by corporations to grow their businesses, reduce risks, gain strategic resources, and gain economies of scale. However, in the public sector setting an acquisition could have other economic and policy goals. The ONGC–HPCL deal is one such significant deal since it not only was a private corporate deal, but also played a vital

role in the Government of India's policy of combining government units.

ONGC is India's leading Upstream firm in Oil and Gas exploration and production. It has traditionally focused its business on exploration, development and production of hydrocarbon resources. HPCL has long been a downstream oil company which focuses primarily on refining and marketing of petroleum products. Hence the two firms were in complementary roles in the petroleum value chain.

The Government's aim was to establish bigger, more closely-knit oil corporations that could face off with international and private sector energy concerns. The Government had announced its plans of consolidation among CPSEs in the Union Budget 2017-18. Thereafter, ONGC offered the Government to buy their majority stake in HPCL.

The deal was closed in January of 2018. ONGC took over 100% of Government's shares of HPCL at ₹473.97 per share, valued at ₹36,915 crore. The Government said the transaction will result in an integrated oil major and bring benefits due to vertical integration, economies of scale, diversification and enhanced investment capacity for large investments. Although HPCL remained independent of its corporate outlook and listing.

In reality, therefore, the transaction is not a merger, but rather the acquisition of a controlling shareholding and, accordingly, the terms of the transaction are more accurately characterized as acquisition of a controlling shareholding. ONGC became holding company with HPCL as a subsidiary while continues to run as an independent entity.

Background of the Financial Situation of ONGC and HPCL

a) Financial position of ONGC before acquisition

The financial position of ONGC prior to the acquisition was as follows.

Pre-acquisition ONGC was a mainly upstream company. Its revenues were heavily affected by quantities of crude-oil and natural-gas output and world commodity prices. This exposed them to crude price volatility as well.

A part of the Government's explanation for the purchase rested on the fact that there was a difference in the sensitivities of the upstream and downstream businesses. An increase in crude prices tends to ensure higher realisations for those at the upstream end of the industry while it can increase input costs for those at the downstream end. On the other hand, when the upstream margins are depressed, the downstream companies may enjoy a sugar-plum fairy spread of their refining margins. Vertical integration may thus offer some level of diversification.

It already had an interest in Mangalore Refinery and Petrochemicals limited ("MRPL")

thus giving it some downstream exposure in the case of HPCL.

The following financial statement shows that ONGC still maintained a financial strength. During FY 24-25, the standalone revenue from operations (SRO) of ONGC is about ₹1,37,846 crore with PAT as approximately ₹35,610 crore. It currently has a net worth of about ₹3.56 lakh crore.

The most recent available FY 2025-26 results disclose that ONGC's standalone revenues from operations stood at around ₹1,32,508 crore, while its standalone PAT came out to be around ₹32,894 crore. However, at the standalone level, the company still had a debt-equity ratio of merely 0.02:1.

It's no surprise that the first quarter consolidated results for FY 2026–27 are equally massive. The consolidated revenue from operations for the quarter ended on June 30, 2026 stood at approximately ₹2,04,987 crore and profit attributable to owners of the parent stood at approximately ₹11,899 crore. The consolidated debt-equity ratio was 0.39.

b) Financial position of HPCL before acquisition

The major activities of HPCL were refining and marketing whereas those of ONGC were in the exploration and exploitation of oil and gas. Hence its financial performance greatly relied on refinery utilisation, gross refining margins (“GRMs”), demand for petroleum products, refining margins and crude-oil prices.

HPCL had substantial refining and marketing resources at time of acquisition. It was able to access the downstream segment much quicker to ONGC as it had refining capacity and a huge retail network.

The acquisition was not therefore just about buying assets, but an established business as well. It acquired HPCL's refining assets and pipelines, along with related businesses and its petroleum marketing network and customer service.

The results of HPCL's balance sheets are a testament to the volatility of its downstream business. For FY 2024-25, HPCL revenue from operations (after excluding the impact of changes in operating assets/liabilities) is estimated at ₹4,66,346 crore, while standalone PAT is estimated at ₹7,365 crore. The amount of this bank's standalone loans stood at around ₹63,323 crore as on March 31, 2025.

However, the performance of HPCL has improved significantly in FY 2025–26. Revenue from operations stood at around ₹4,78,543 crore and standalone PAT growth was at around ₹17,175 crore. The company's refinery throughput grew to a record 26.04mt and its standalone debt-equity ratio rose from 1.38 as of March 31, 2025 to

0.80 as of March 31, 2026.

Process of Acquisition by ONGC

The acquisition was not via a private-to-private acquisition, a hostile acquisition or a negotiated deal; instead, it occurred under a Government-led strategic sale.

The first step is the Government's consolidation policy.

Step 1: Government's Consolidation Policy.

The Government had been looking at amalgamating CPSEs with the aim of developing bigger, more competitive public sector organizations. The 2017-18 Budget had a particular emphasis on public sector enterprise consolidation and strategic combinations.

Step 2: Proposal by ONGC

ONGC had suggested to buy the Government's 51.11% stake in HPCL. The proposal received 'in-principle' approval from the Union Cabinet on July 19, 2017. An Alternate Mechanism headed by Finance Minister was formed to decide the price, timing and terms of the transaction.

Step 3: Valuation and approval

The Government's Alternative Mechanism accepted ONGC's price on Jan 20, 2018. ONGC agreed to buy the entire 51.11% Government stake in the company at ₹36,915 crore or ₹473.97 for every HPCL share.

Step 4: Share Purchase Agreement

On 20th January, 2018 the President of India signed a Share Purchase Agreement ("SPA") with ONGC.

Step 5: Completion

The closing of the transaction was on January 31, 2018. The amount paid by ONGC for the shares was ₹36,915 crore and the number of shares received by ONGC is 77,88,45,375 HPCL equity shares, which is equivalent to 51.11% of HPCL's total paid-up capital.

Step 6: Financing

Financing of the acquisition was provided by internal resources and borrowed funds. Internally, ONGC has utilized close to 1,2034 crore rupees, while the commercial bank loans made were in the tune of around 24,881 crore rupees.

Step 7: Post-acquisition structure HPCL did not cease to exist as a legal entity. It continued to be a separate unit, with its own board and management. The Government termed HPCL as continuing to keep "its distinction" and "its brand value".

Therefore, this was a share acquisition and not a statutory merger or amalgamation.

Relevant Provisions of the Companies Act, 2013

The transaction is relevant to a number of provisions of the Companies Act, 2013.

- a) Section 179- The powers of the Board of Directors are set out in section 179.

Thus, the investment of ₹36,915 crore by ONGC in HPCL needed to be authorized at the corporate level.

- b) Section 186- This section applies to loans and investments by the Company.

This is significant in the context of ONGC making a significant investment in another corporate entity in the acquisition of section 186.

The provision limits the value of investment and/or restricts a company's transactions involving the acquisition of securities of other corporate entities.

It was particularly significant that following the HPCL acquisition, these powers of borrowing and investing were complied with, due to the size of the acquisition itself.

- c) Section 180 – Restrictions on Powers of Board

This Section 180 restricts powers which the Board may have to exercise, including in relation to disposal of substantially the whole of an undertaking and borrowing limits. The financing structure was relevant as it was a disposal of the ONGC's borrowing power even though the acquisition was not a disposal of ONGC's undertaking.

- d) Section 188 – Related Party Transactions

The transaction was associated with the related party risk as both ONGC and HPCL were Government controlled companies and the President of India as the final shareholder/Controller in both companies.

ONGC then requested for shareholder approval of the transaction. As per the contemporary disclosures, the Government transaction had been treated as "related-party considerations" transaction by ONGC and it had also cited the impracticability in getting prior approval as the final price had been settled only immediately prior to execution of the transaction by the parties.

But statutory exemptions/ Government-company provisions play crucial role in defining the detailed application of Section 188 in such transactions.

- e) Section 230-232- Compromise, Arrangement, Merger and Amalgamation

The statutory provisions for Schemes of compromise, arrangement, merger and amalgamation sanctioned by the National Company Law Tribunal are laid out in Sections 230-232.

No such scheme for transfer of the undertaking and assets of HPCL to ONGC and transfer of its liabilities. Rather, ONGC picked up HPCL's stake.

Thus, the transaction was made primarily through a set of provisions other than Sections 230-232. This transaction was essentially a share purchase as opposed to a merger under Section 232.5. Relevant Provisions of the Competition Act, 2002

Relevant Provisions of the Competition Act, 2002

The Competition Act 2002 is the normal means of regulation of mergers, acquisitions and combinations that exceed the thresholds provided for in the statute.

a) Section 5 – Combination

A “combination” is defined in Section 5 as acquisitions of shares, voting rights, assets or control which satisfy certain criteria, mergers or amalgamations.

An acquisition of 51.11% of a listed company would usually be deemed to be an acquisition of control and be covered by the combination regime.

b) Section 6 – Regulation of Combinations

Section 6 is the section in the India Act which controls combinations, which are likely to or have an appreciable adverse effect on competition in India. A transaction would normally be required to be notified to and examined by the Competition Commission of India (“CCI”) if it is a qualifying transaction.

c) Sector-wise exemption from ONGC–HPCL.

An important aspect of the ONGC–HPCL deal was sector-specific exemption by the Government.

The Central Government on November 22, 2017 issued Notification S.O. 3714(E), exempting combinations between two or more CPSEs, including their wholly/partly owned subsidiaries operating in the oil and gas industry, from the operation of Sections 5 and 6 of the Competition Act for five years.

The exemption thus came into effect in the completion of the transaction by ONGC–HPCL in January 2018.

The acquisition would have otherwise triggered combination control issues due to the size of the transaction but it was not because of the temporary, sector-specific exemption offered by the Government. It thus did not pass through the regular “CCI combination-notification” process.

The transaction was not beyond the purview of combining companies; instead, the Government had explicitly carved out qualifying combinations of oil and gas CPSEs from the scope of Sections 5 and 6 during the critical period.

d) Effect on competition

On the substantive side of the competition, the acquisition brought together an upstream producer and a downstream refiner/marketer. It was not as effective at destroying a competitor at the same point in the value chain as a horizontal merger would have been at destroying one of the same type at the same stage of the value chain.

The deal was therefore of a somewhat vertical nature, and not horizontal. However, if a vertically integrated entity can exclude competition from the essential inputs and/or infrastructure use or from markets, then vertical integration can impact competition. Unlike non-exempt transactions, these issues were not reviewed under the ordinary pre-combination CCI review that would apply to non-exempt transactions.

Financial Implications of the Acquisition on Stakeholders

a) ONGC shareholders

On GC's shareholders, the concern was with the acquisition cost of a whopping ₹36,915 crore. Around ₹24,881 crore came from commercial bank loans, adding to the financial pressures.

The potential benefit was diversification. However, ONGC had become less at the mercy of the upstream revenues as it now had a big downstream company under its control. This can help to smoothen out group cash flows throughout the oil cycle.

The deal also added to the ONGC portfolio and ensured access to the refining and marketing companies without the need to build the equivalent downstream capacity from scratch.

The price paid, however, and the financing expenses meant that the benefits from synergy had to be large enough to compensate for the capital committed.

b) HPCL shareholders

Minority HPCL shareholders were left with their shares as ONGC had bought just 51.11% of the Government's stake in the company.

This kept HPCL separate and enabled minority shareholders to continue to participate in the performance of HPCL in the future.

The transaction also raised an interesting matter of the law of takeovers. The acquisition being more than the usual 25% for a listed company, doubts were raised about whether ONGC should make an open offer.

On the other hand, the Government and ONGC argued that it was not up to them to make an offer as the actual Government interest was not subject to change. The

exemption was granted by SEBI under the applicable takeover regime, exempting the prospect of public announcement of the acquisition. The exemption is recorded in the contemporary legal reporting under Regulation 10(1)(a)(iii) of SEBI Takeover Regulations.

This maintained the continuity of the Government's indirect control, but did not allow minority shareholders to benefit from the opportunity of a traditional mandatory open offer.

c) Government of India

As part of the deal, the Government got ₹36,915 crore in consideration for its HPCL shares. This transaction, in other words, created "massive immediate proceeds" in favour of the government and the government could keep indirect control over HPCL via ONGC.

It was also a consolidative measure within the public sector – the ownership of HPCL was transferred from direct to indirect control.

This enabled the Government to gain from its HPCL stake and have simultaneously been working on achieving its policy objective of formation of bigger integrated oil companies.

d) Creditors and lenders

Commercial banks contributed around ₹24881 crore towards the acquisition.

The strength of the balance sheet of ONGC gave lenders a significant comfort level. The acquisition did, however, give rise to an extra burden of debt and interest charges to the acquirer.

The financial restructuring over the last few years appears to have led to a better financial position for ONGC, indicating that the acquisition did not adversely affect ONGC's standalone leverage. This does not, however, imply that the later improvement was caused by the acquisition itself since the impact of commodity prices, production, dividends, investments and other corporate decisions also had an impact on financial performance.

e) Employees

HPCL did not break up as part of the acquisition. HPCL maintained its identity and brand name and independent management. This meant that the initial impact on employment as a result of a complete merger was minimized.

Meanwhile, integration could provide possibilities for technology, procurement, logistics and managerial sharing. There may also be long term restructuring pressures

from potential duplication of functions.

f) Consumers

Potential gains in consumers may be increased integration of supply chain and economies of scale. There may be an opportunity to better harmonize upstream production with downstream refining and marketing activities of ONGC.

But the international prices of crude, taxes, exchange rates, refining margins, and domestic pricing policies and market conditions all affect consumer prices of petroleum products. Hence, it is wrong to pin the blame of the change in retail fuel prices on the acquisition alone.

Analysis: Did the acquisition constitute a good measure considering the current situation of the companies?

The deal can be evaluated on a number of objective finance and strategic considerations.

a) Strategic diversification

Diversification is one of the best reasons to go along with the sale.

Historically, the only thing ONGC was exposed to was exploration and production. HPCL enhanced its refining and marketing activities. The resulting group thus span a wider part of the petroleum value chain.

This was especially important as both the upstream and downstream businesses react differently to changes in commodity prices. Integration can then offer a natural hedge however not get rid of commodity cost risk.

b) Economies of scale

One of the key benefits identified by the Government in the transaction was economies of scale.

They can be related to procurement, logistics, technology, finance, infrastructure utilisation, crude supply and petrochemical operations.

Economies of scale are not guaranteed, though. They need tangible integration of procurement systems, procurement chains and of investments. However, the transaction has not resulted in the same degree of operational integration as a full merger, because the two companies were still separated. But because of the continued distinct corporate identity of HPCL, the transaction has not brought about the same degree of operational integration that a full merger would have brought.

c) Financial performance after acquisition

The current financial standing shows that the two firms are still strong operating companies.

The performance of HPCL under FY 2025 – 26 was very good. The standalone PAT jumped to ₹17,175 crore, while revenue touched around ₹4.79 lakh crore as well as a debt-equity ratio of 0.80 and refinery throughput of 26.04 MMT.

ONGC is also very well endowed in terms of finances. The standalone PAT for FY 25-26 was around ₹32,894 crore and the standalone debt-equity ratio was around 0.02:1.

The numbers show the post-acquisition firms were fairly sizable, retaining strong financial resources. But correlation is not causation, as HPCL's better performance is due to better refinery utilisation/ refining margins, refinery volumes, capital investment as well as market conditions – and not only because of the ownership by ONGC.

d) Continuing volatility

The risks inherent in the oil industry have not been removed by the acquisition.

This is demonstrated by the first quarter of FY 26-27. Despite favourable refinery performance, the company's profitability fell significantly due to poor market and geopolitical conditions, at HPCL. The standalone loss was reported at about ₹11,526 crore for the quarter that ended on June 30, 2026.

This indicates that the vertical integration is no hedge against commodity price, geopolitical or refining-margin risk.

The group's consolidated results for Q1 FY 2026–27 also indicate that the earnings are still reliant on the performance of various segments. The refining and marketing segment had a segment loss prior to tax and interest in that quarter and the upstream segments had segment profits.

This is crucial as it demonstrates the positive and negative side of integration: the profitability in one segment of the value chain can be partly offset by the weakness in the other—however, the business as a whole will still be vulnerable to the economy of the industry.

e) Energy transition

Another challenge is the gradual transition from traditional hydrocarbons.

ONGC, in turn, has ventured into renewable energy and HPCL has invested in CNG, compressed biogas, renewable energy, green hydrogen and other transition-related activities. Therefore the combined group has increased financial and infrastructural resources for the diversification effort other than the traditional petroleum industry.

This could be one of the biggest of the long-term upside of the deal. Changing the energy supply is not easy, and it takes significant amounts of capital, technology and infrastructure, capabilities that integrated energy groups might have in abundance.

f) purchase price and financing

From a financial viewpoint, the main objection that can be made is with regard to the amount of capital which has to be used at the time of the acquisition.

ONGC paid ₹36,915 crore of which about ₹24,881 crore was raised through bank loans. Now, therefore, it was a fair amount of opportunity cost. The money might have been used on exploration and production improvement, renewable energy, technology, or some other strategic investment.

The financial justifications of the acquisition can only be justified if the cash flows, strategic benefits and risk diversification resulting from the acquisition outweighs the cost of the acquisition and the financing burden.

g) Corporate structure

There are also pros and cons for not merging all of HPCL.

Separate listed HPCL will retain its brand, management and access to the capital markets. Even so, it reduces the disruption to the organisation caused by a statutory merger.

However, the full legal integration may not result in the best synergies to be realised. Coordination between parent and subsidiary is thus very important to the success of the acquisition.

Conclusion

Oil India's tie-up with ONGC-HPCL is an important instance of strategic public sector acquisition and vertical integration in India. The deal by which ONGC acquired the 51.11% stake in the Government of India (GoI) in HPCL for a whopping ₹36,915 crore was finalized on January 31, 2018. HPCL did not merge itself with FMCG—its legal identity, listing and brand and management were all retained.

The key thinking behind the deal was that the combined company "should be an integrated energy business with ONGC's upstream expertise and HPCL's downstream refining and marketing business. The transaction could potentially have offered a measure of diversification and scale, enhanced supply-chain integration and an ability to better navigate the volatility in various points of the petroleum value chain.

This transaction is also important from a legal point of view as it helps to distinguish between

an acquisition and a merger under Indian company law. There was no statutory amalgamation and this was not the main method used through Sections 230-232 of the Companies Act, 2013. Rather, the transaction was accomplished by acquiring shares of the company and taking control of it. The sections on board powers and investments, and borrowing and other related transactions were of relevance to the corporate authorisation and financing.

The transaction would normally have been subject to Section 5 and 6 of the Competition Act, 2002 given that it included an acquisition of control of a large listed enterprise. But the Central Government made an exemption for 5 years on November 22, 2017 for the combinations of oil-and-gas CPSE that fulfil these conditions.

The financial aspect was a big investment of ONGC and a lot of loans taken. HPCL's success is, therefore, not to be judged by its continuing profitability only. Instead, it needs to be judged within the context of the overall performance of the integrated group, in terms of the synergies realised, capital efficiency and the extent to which it can diversify into new businesses in the energy sector.

The current financial situation is mixed but in general good. ONGC remains well-financed, whereas the profitability of HPCL and a drop in leverage are impressive for FY 2025–26 that saw the oil major reach a new level of refinery throughput. Meanwhile, the volatility seen in the first quarter of the current financial year from the Q1 of FY 2026–27 of HPCL highlights its inherent risk levels in the petroleum industry.

In fact, the ONGC–HPCL acquisition can be described as a transaction of a strategic nature, and whose value won't be simply counted based on ownership, but will depend on execution. The main advantages are: Diversification, Scale, Integrated infrastructure, Financial strength to engage in the changing energy industry. Its biggest challenges are acquisition price, financing, operational difficulties, commodity price fluctuations, and adapting to the energy transition.

HPCL's separate identity will continue and the transaction should not be evaluated as a typical merger transaction. It is more an enterprise-level strategy over a long period of time, rather than one in which ONGC holds control over a big downstream subsidiary, but both groups maintain significant operational independence. Performance since the acquisition shows that both companies are still very much major enterprises and make a significant contribution to the financial results, but it does not prove that all the benefits anticipated from the acquisition have been realised.

The overall experience of the acquisition is a relevant study of the potential of corporate acquisitions in the scope of ownership restructuring and also in the terms of industrial

consolidation, risk diversification and formation of integrated national energy enterprises by the governments.

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