

REPORT

I

DISINVESTMENT COMMISSION

FEBRUARY
1997

North Block
New Delhi-110001

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CONTENTS

	Introduction	1
Part A	1 Public Sector Overview	3
	2 Disinvestment : Strategy, Principles and Criteria	11
	• <i>Long Term Strategy for Disinvestment</i>	
	• <i>Approach to Disinvestment in loss making PSUs</i>	
	• <i>Principles of Disinvestment</i>	
	• <i>Framework for PSU analysis</i>	
	• <i>Criteria for Disinvestment</i>	
Part B	3 General Recommendations on Disinvestment	23
	• <i>Establish Disinvestment Fund</i>	
	• <i>Restructuring</i>	
	• <i>Recommendations on Corporate Governance and Autonomy</i>	
	4 Guidelines on Disinvestment in PSUs referred to Disinvestment Commission	35
	• <i>Formation of Standing Empowered Group</i>	
	• <i>Guidelines on modalities</i>	
	• <i>Guidelines on selection of intermediaries</i>	
	• <i>Retailing of Shares to small investors and Employees</i>	
PART C	5 Specific Recommendations	44
	• <i>Modern Food Industries (India) Ltd.</i>	
	• <i>Gas Authority of India Limited</i>	
	• <i>India Tourism Development Corporation</i>	
Annexure	A Terms of Reference of the Disinvestment Commission	61
Appendix	I List of 40 PSUs referred	63
	II Analysis of 40 PSUs referred	65

INTRODUCTION

The Disinvestment Commission has been set up with terms of reference which appear in Annexure 1. Government of India has referred 40 central PSUs to the Commission for Disinvestment.

Since inception, the Commission has had consultations with a wide cross section of persons and organisations interested in the disinvestment process. These include senior Government officers in the various Ministries, management experts, representatives of the Central Trade Unions and academicians. The Commission also organised two Conferences in Delhi and Mumbai focusing on the strategy and issues involved in the disinvestment process. The Commission has taken due note of the various views expressed during these meetings and the Conferences including experiences of other countries in disinvestment and privatisation.

In order to enhance enterprise value and maximise Government's capital receipts, the recommendations set forth in this and the forthcoming reports should be taken in totality. If recommendations as outlined in Parts B and C of this report are not implemented in full, it is felt that benefits may not be fully realised and hence may result in a loss to the exchequer.

PART A

1. PUBLIC SECTOR - AN OVERVIEW

1.1 Evolution of Public Sector Policy

Historically, public sector undertakings (PSUs) have played an important part in the development of the Indian industry. At the time of independence, it was felt that political independence without economic self-reliance would be detrimental to the country's sovereignty and autonomy in policy-making. Hence, the basic objectives of starting the public sector were :

- To build infrastructure for economic development and promote rapid economic growth and industrialisation of the country;
- To create employment opportunities and promote balanced regional development;
- To create a self-reliant economy through the development of local industries for import substitution and by encouraging and promoting exports;
- To generate investible resources for development by earning suitable returns; and finally
- To prevent / reduce concentration of private economic power.

In the sixties and seventies the Public Sector policy has been largely guided by the Industrial Policy Resolution of 1956 which gave the public sector a strategic role in the economy. Massive investments have been made over the past four decades to build a public sector which had a commanding role in the economy. Many key sectors of the economy are today dominated by the mature public enterprises that have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas.

As a result, the country's ranking in terms of industrialisation with other developing countries is quite high. India's comparative advantages such as a large pool of well-trained work-force, technical skills in manufacturing and chemical industries primarily stem from the public sector.

However, after the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems began to manifest themselves in many enterprises. Problems were observed in terms of low productivity, poor project management skills, overmanning, lack of technological upgradation, inadequate attention to R&D and low priority to human resource development.

1.2 New Orientation

These problems and other economic compulsions led to the adoption of a new approach towards the public sector. In July 1991, the Government issued a Statement on Industrial Policy which had the following decisions¹

- Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.
- Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.
- In order to raise resources and encourage wider public participation, a part of the Government's share-holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.
- Boards of public sector companies would be made more professional and given greater powers.
- There will be a greater thrust on performance improvement through the Memoranda of Understanding (MoU) system through which management would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MoU negotiation and implementation more effective.
- To facilitate fuller discussion on performance, the MoU signed between Government and the public enterprises would be placed in Parliament. While focusing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

The impact of these policy decisions on the performance of the PSUs is, as

¹ Statement on Industrial Policy, Govt. of India, Ministry of Industry, dated July 24, 1991

yet, debatable. As regards the private sector, the Government has granted freedom to add new capacities, delicensed some industries and has allowed investments in certain sectors. The public sector has to still obtain multi-level and time consuming clearances for such decisions and is accountable to multiple agencies. This lack of autonomy has created a somewhat unequal playing field for the PSUs in an increasingly competitive environment.

1.3 Common Minimum Programme

The Common Minimum Programme has stressed that PSUs will continue to be an important component of Indian industry. In a competitive and technology-driven economy, the public sector should conduct its business on commercial lines. For this, it has been acknowledged that the public sector requires to be reformed and restructured. Those PSUs which have comparative advantages to be global giants will be identified and supported. Other profit making PSUs will have to be further strengthened. The management of these PSUs will be professionalised and encouragement would be given to worker's participation in management. As regards sick or potentially sick PSUs, they will have to be rehabilitated through different options including handing over management to professional groups or worker's co-operatives.

1.4 Profile of PSUs

An overall profile of the central PSUs is presented in the table below.

Table 1 Profile of PSUs (Rs. '00 crores)

	FY 95	FY 94	FY 93	FY 92	FY 91	FY 90
Operation Units (No)	241	240	239	237	236	233
Net Profits	72.2	45.5	32.7	23.6	22.7	37.9
Profitable Units (No)	130	121	131	133	123	131
Net Profits	121.2	97.7	73.8	60.8	53.9	57.5
Dividend	14.4	10.3	7.9	6.9	4.1	3.2
Loss making Units (No)	109	117	104	102	109	96
Overall Losses	49.1	52.9	39.5	36.7	30.4	19.6

1.5 Composition of Public Sector Plan Outlays

An important aspect relating to the performance of the PSUs has been the incidence of budgetary support. Till the nineties, PSUs in general, had access to funds from the government in the form of budgetary support. Widening fiscal deficits since the early nineties has however led to a

sudden withdrawal of budgetary support for PSUs as is evident from the following table.

Table 2 Composition of Public Sector Plan Outlays (%)

	FY 95	FY 94	FY 93	FY 92	FY 91	FY 90
Net Internal Resources	46	34	41	39	34	34
Extra Budgetary Resources	41	52	45	42	42	34
Total Budgetary support	13	14	14	19	24	32
Plan Outlay	100	100	100	100	100	100

Budgetary support as a percentage of the total Plan outlay on the public sector has declined considerably from 32% in FY90 to 13% in FY95. This has been offset by the increased component of extra budgetary resources from sources other than the government which has grown from 34% to 41% during the same period.

In addition, increasing levels of deregulation and globalisation have ushered in an era of intense competition in the economy, the effects of which have been felt on certain PSUs. In some cases, even profitable PSUs have been adversely affected, while in some other cases, the losses of the loss making PSUs have compounded. This and the effect of sudden withdrawal of budgetary support have led to increased level of overall losses from about Rs. 1960 crores in FY90 to about Rs. 4910 crores in FY95 as shown in the table below:

Table 3 Profile of Loss making Units

	FY 95	FY 94	FY 93	FY 92	FY 91	FY 90
Total No. of Units	109	117	104	102	109	96
Total Loss (Rs. '00 Cr)	49.1	52.9	39.5	36.7	30.4	19.6
% Loss in Taken Over Units	20	24	24	15	16	24
% Loss in Other Units	80	76	76	85	84	76

The composition of the overall losses reveals that almost three-fourths of the overall losses are cash losses (as opposed to book losses). The percentage of cash losses have remained more or less constant over the five years and the extent of depreciation provision has also remained more or less constant (Table 4).

Table 4 Composition of Net Losses

(%)

	FY 95	FY 94	FY 93	FY 92	FY 91	FY 90
Cash Losses (a)	71	81	73	73	71	77
Depreciation (b)	33	23	34	30	40	39
Cash Profits (c)	4	4	7	3	11	16
Net Losses (a+b-c)	100	100	100	100	100	100

In the future, increasing globalisation and the orientation towards a market driven economy will bring more competitive pressures on these loss making PSUs. Thus it would be quite reasonable to conclude that unless a viable and a rational strategy is evolved for these companies, they will continue to be an increasing draft on the budget.

Further, it is interesting to study the composition of the losses in terms of the major sectors. As can be seen from Table 5, major losses were accounted in Fertilisers, Heavy Engineering and the Consumer Goods sector in FY95. These industries are characterised by the presence of a large number of players, most of them being in the private sector. The fully contestable nature of these markets has ensured fair competition and also provided a fair degree of protection to the consumer's interest.

Table 5 Sectoral Composition of Losses

(% of total losses)

Sector	FY 95		FY 94		FY 93		FY 92		FY 91		FY 90	
	No	%	No	%	No	%	No	%	No	%	No	%
MANUFACTURING												
Fertilisers	3	16	6	15	5	18	2	15	3	14.9	4	18.3
Consumer Goods	15	14	15	14	15	9.5	14	6.1	14	7.2	13	13.3
Heavy Engg.	8	11	8	9.6	9	6.2	8	7.4	8	5.5	7	3.9
Textiles	13	9	14	12	12	15	11	8.4	11	7.5	11	11.6
Steel	5	8.2	5	13	4	16	4	28	2	20.4	3	7.5
Coal	4	8.1	2	2	3	2.9	2	1.9	5	9.4	3	3.3
Medium Engg.	11	4.9	9	3.9	8	1.4	11	3	12	1.7	8	1.5
Transport Equip.	6	4.7	7	5.6	7	6.7	7	6.6	6	4.1	8	10.9
TOTAL	65	75.9	66	75.0	63	75.7	59	76.4	61	70.7	57	70.3
SERVICES												
Trans. Serv.	3	11	3	11	4	12	3	12	4	10.1	4	8.5
Contact & Const.	7	4.6	8	4.8	5	3.6	5	3.5	6	4.5	5	7.1
TOTAL	10	15.6	11	15.8	9	15.6	8	15.5	10	14.6	9	15.6
Others	34	8.5	40	9.1	32	8.7	35	8.1	38	14.7	30	14.1
GRAND TOTAL	109	100	117	100	104	100	102	100	109	100	96	100
Total Net Losses (Rs. '00 Crores)	49.1		52.9		39.5		36.7		30.4		19.6	

Thus, it may be worthwhile to determine whether public sector presence is required in markets which are fully mature. This understanding will, in turn, help determine areas in which public sector needs to have a strong presence.

1.6 Budgetary Support in 1996-97

According to the Expenditure Budget document of 1996-97, the Plan outlay for public sector amounted to Rs. 50,400 crores of which about Rs. 46,700 crores would come by way of internal accruals and extra budgetary resources and the balance of about Rs. 3700 crores by way of budgetary support. It is necessary to examine this figure in order to segregate the support for profitable and loss making PSUs. The Expenditure Budget classifies budgetary support to PSUs under two heads: Plan Investments and non-Plan outlays. Plan investments are taken up by both profitable and loss making PSUs while non-Plan loans are primarily meant for the latter.

1.7 Support to Loss making PSUs in 1996-97

The following table lists loss making units which have been provided with both Plan assistance and non-Plan loans in 1996-97.

Table 6 Support to Loss making Units (Rs. Crores)

Sl. No.	Name of PSU	Plan Assistance			Non Plan Loan	Total Assistance
		Equity	Loan	Total		
1	Nuclear Power Corp.	325		325		325
2	Fert. Corp. of India	19	20	39	277	316
3	National Text. Corpn.				243	243
4	Hindustan Fertilisers	4	5	9	144	153
5	National Jute Mfg. Corp				80	80
6	Delhi Transport Corp.		10	10	53	63
7	HEC	15	15	30	18	48
8	Cent. Inland Water Transpt.	6	7	13	8	21
9	Food Corporation	18		18		18
10	Cement Corp. of India	7	8	15	2	17
11	Hindustan Shipyard	8	7	15		15
12	HMT	5	4	9		9
13	Others	70	54	124	203	327
14	Naptha Jakri Power*	179	254	433		433
15	Tehri Hydro Electric*	170		170		170
Total		826	384	1210	1028	2238

* Enterprise yet to be commissioned.

The support from the budget in the form of Plan investment to loss making PSUs in the form of equity and loans amounted to about Rs.1210 crores and on account of non-Plan outlays amounted to about Rs.1028 crores. Thus, the total assistance provided to loss making units aggregated to Rs. 2238 crores.

1.8 Budgetary Support to Profitable PSUs in 1996-97

The budgetary support provided as Plan assistance to profitable PSUs is as under.

Table 7 Support for Profitable Units (Rs. Crores)

Sl. No.	Name of PSU	Equity	Loan	Total
1	PFC		550	550
2	PGCIL*	8	313	321
3	NHAI		250	250
4	FACT*		240	240
5	NTPC*	70	152	222
6	NHPC*	50	99	149
7	NLC*		126	126
8	Singerani Collieries		119	119
9	IREDA		115	115
10	Coal India		100	100
11	HUDCO		51	51
12	Airport Authority		50	50
13	REC		50	50
14	MFL*		37	37
15	Paradip Phosphates		33	33
16	SCI*		30	30
17	DVC		20	20
18	Uranium Corp.		15	15
19	Semi Conductor		12	12
20	HLL*		1	1
21	MFIL*		1	1
	TOTAL	128	2364	2492

* Referred to the Disinvestment Commission.

1.9 Analysis of Budgetary Support in 1996-97

The following table summarises the position of budgetary support to PSUs in 1996-97.

Table 8 Composition of Budgetary Support (Rs.Crores)

Category	Plan			Non Plan	G. Total
	On-lending	Direct	Total		
Profitable	1114	1378	2492		2492
Loss making	254	956	1210	1028	2238
Total	1368	2334	3702	1028	4730

- It would emerge from the above table that support to profit making PSUs is limited to two counts. Firstly, external loans from multi-lateral agencies were on-lent to PSUs through the central budget. These PSUs were NTPC, NLC, Power Grid, PFC and the total amount of on-lending was about Rs. 1114 crores. It can therefore be concluded that these loans are not a draft on the budget. Thus, out of the total budgetary support of about Rs 2492 crores to the profitable PSUs, the net draft on the budget is limited to Rs. 1378 crores. This support has been provided to PSUs where normally, external assistance is not available.
- The budgetary support to loss making PSUs is about Rs. 2238 crores out of which Rs.254 crores is on-lend support to Naptha Jakri Power Ltd. Thus the actual draft on the budget is Rs.956 crores on the Plan account and Rs.1028 crores on the non Plan account. The total budgetary support to loss making PSUs is Rs. 1984 crores which constitutes about 60% of the total direct support to the PSUs.

1.10 Conclusions

The following conclusions can be drawn from the above study:

- **The losses of loss making PSUs have increased in the nineties due to withdrawal of budgetary support as well as increased competition. Most of these losses are cash losses and occur in sectors which have become fully competitive and where perhaps, PSUs have no special role.**
- **Losses in loss making PSUs account for about 60% of the total direct budgetary support and will in all probability, keep increasing each year. This will be a recurring draft on the budget.**

Keeping these conclusions in mind, the Commission has evaluated the likely consequences of the future support to be provided to loss making units and recommendations in this regard follow in Part B.

2. DISINVESTMENT: STRATEGY, PRINCIPLES AND CRITERIA

2.1 Need for a Long Term Disinvestment Strategy

The public sector in India continues to be an important component of the Indian industry even after liberalisation unlike the experience in many other countries which went in for wholesale privatisation. Therefore, the Commission reiterates that the PSUs in general, must be managed on sound commercial lines and must generate adequate surpluses and make contributions commensurate with the quantum of public resources invested in them. Specifically, in the strategic sector, the public sector is expected to have a commanding presence. PSUs will be called upon to play an important role in certain core sectors of the economy. However, this should be achieved with minimum dependence on budgetary resources while government policies should provide a level playing field for PSUs to compete with the private sector.

Government's withdrawal from non-core sectors is indicated on considerations of long-term efficient use of capital, growing financial unviability and the compulsions for these PSUs to operate in an increasingly competitive and market oriented environment. A large number of PSUs in these sectors is either marginally profitable or loss making. Budgetary support to these loss making PSUs has been a recurring feature over the last several years. Increased competitive pressures have adversely affected some PSUs which were earlier profitable. Growing financial stringency will reduce the capacity of Government to support them and consequently lead to their closure with loss of employment in large numbers. Thus, in all probability, loss making PSUs will continue to be an increasing drain on the budget unless a viable policy of disinvestment is evolved and implemented for them.

Viewed in this scenario, disinvestment has larger implications than just selling government equity at the best price in profitable enterprises, as this alone may not provide long term budgetary benefit unless the question of recurring budgetary support to loss making PSUs is also addressed. The essence of a long term disinvestment strategy should therefore be not only to enhance budgetary receipts, but also minimise budgetary support towards loss making units while ensuring their long term viability and sustainable levels of employment in them.

Disinvestment as a strategy should also aim at wide dispersal of Government shareholding in the domestic market and broadbase ownership in the process. This of course, will be subject to limitations of the capital market in its capacity to absorb the proposed disinvestment and the private sector's capital requirements from the same market. Sale of shares in the foreign markets may, therefore, also become necessary and the extent would be determined on a case to case basis depending on the market conditions etc.

2.2 Long Term Disinvestment Strategy

Accordingly, the Commission's long term strategy on disinvestment would revolve around four long-term objectives:

- Strengthen PSUs where appropriate in order to facilitate disinvestment;**
- Protect Employee Interests;**
- Broadbase ownership; and**
- Augment Receipts for Government**

The resulting long term strategies that arise out of the above objectives are:

Strengthen PSUs

- Strengthen profitable PSUs to promote greater competitiveness and profitability to enable payment of higher dividends to the Government and to enhance share values**
- Strengthen other marginally profitable PSUs and reduce their future dependence on the budget**
- Financially restructure and revive loss making PSUs to invite private capital for long term turn around**

Protect Employee Interest

- Sustaining long term employment by financial turn around of loss making PSUs**
- Providing adequate and fair compensation through VRS to surplus work force**
- Provide for employee participation in management.**

Broad Base Ownership

- **Enhance retail reach of PSU shares to small investor and offer at suitable price discount as compared to the institutional investor**

Augment Receipts for Government

- **Enhance Government receipts by disinvestment in profitable PSUs**
- **Eliminate the need for budgetary support for loss making PSUs**

2.3 Approach to Disinvestment of Loss making PSUs

The approach to disinvestment in profitable PSUs is fairly straightforward, subject of course, to restructuring where appropriate. The question of eventual disinvestment in loss making PSUs raises the issue of the funds required for revival and restructuring. As analysed earlier, the direct draft on the budget on account of loss making PSUs during 1996-97 is around Rs. 1984 crores under both Plan assistance and non-Plan outlays. This constitutes about 60% of the total direct support to PSUs under the budget. Assuming conservatively that this current draft remains constant over the next five years, the total budgetary support would work out to Rs. 9920 crores. The net present value of Rs. 9920 crores discounted at 12% works out to around Rs.7200 crores.

This figure needs to be compared with the one-time upfront expenditure which will be required to restructure and revive loss making but potentially viable PSUs and the cost of VRS in order to enable closure of other unviable PSUs after taking into account sale of assets, if any. If this one-time expenditure to be incurred in this process in the aggregate is less than Rs.7,200 crores, it may be financially prudent for the Government to initiate this process. This will eliminate the need for recurring budgetary support for the loss making PSUs.

Considering the above, it may therefore be worthwhile to undertake a comprehensive study of all loss making PSUs to classify them as follows:

- **Those in which Government could disinvest as a going concern on an as-is-where-is basis;**
- **Those which could be restructured and turned around before disinvestment; and**
- **Those which may need closure.**

In all cases, it will be important to protect the interests of affected labour by devising suitable schemes either for retraining, redeployment or for voluntary retirement with adequate compensation. The costs of such schemes could be met to varying degrees by the sale of assets of the companies concerned. The balance where necessary could be met from the Disinvestment Fund (suggested later in this Report) supplemented if needed in any particular year by a provision in the budget.

Since only 40, mostly profitable PSUs, out of the 245 have so far been referred to the Commission it is unable to undertake this detailed exercise. This exercise is however, urgently needed for evolving a rational strategy for all the loss making PSUs. The Commission will apply these principles with respect to disinvestment in the PSUs referred to it.

The advantages of the above long term strategy are:

- **This holistic view of disinvestment will tackle the larger problem of the drain on the budget from losses in PSUs which need as much attention as the profit making PSUs.**
- **The saving in recurring budgetary provisions towards loss making PSUs can then be released for investments in sectors like infrastructure, education and health. Retirement of debt from disinvestment proceeds can also be an option.**
- **Dispersal of ownership will exert necessary pressure on the PSUs to improve the performance, earn profits and declare dividends.**

2.4 Approach to Disinvestment Process

The approach to the disinvestment process is to evolve general principles and criteria encompassing all PSUs and apply them across different PSUs as and when they are referred. This will enhance the transparency of the disinvestment process.

In this regard, the Commission has evolved principles for the extent of disinvestment in PSUs by categorising them as strategic, core and non-core. The Commission has taken note of the Government policies and statements on this issue. The criteria for disinvestment will be based on these principles and the analysis of each PSU.

2.5 Principles for Extent of Disinvestment

The extent of eventual disinvestment in a particular PSU will depend on the classification of the PSUs as strategic, core and non-core. Since

public sector units were set-up with objectives relevant at different times, it has become necessary to review whether their continuation in public sector is justified at present.

In this context, it may be useful to trace the evolution of the policy relating to Public Sector since independence.

2.6 Evolution of Public Sector Policy

In the 1948 Industrial Policy Resolution, the manufacture of arms and ammunition, production and control of atomic energy, ownership and management of railways became the State monopoly. Six basic industries viz., iron & steel, coal, aircraft manufacture, ship building, mineral oils, manufacture of telephone, telegraph and wireless apparatus were to be developed by the State. All other areas were left open to private initiatives.

Within a decade of laying down the policy parameters in 1948, another policy statement was issued in April, 1956 by the Government to give a new orientation to the "mixed economy" concept. This Policy Resolution categorised industries into three groups.

- Industries exclusively reserved for development by the State viz., arms and ammunition, iron & steel, heavy castings and forging, heavy plant & machinery required for iron and steel production and mining, heavy electrical plant, coal and lignite, zinc, copper, lead, aircraft, ship building and telecommunication equipment.
- Industries which would progressively be State owned and in which the State will therefore, generally take the initiative in establishing new undertakings but in which private enterprise will also be expected to supplement the efforts of the State. These include aluminium, fertilisers, other minerals, machine tools, ferro-alloys and tools, basic and intermediate products required by chemical industries, antibiotics and other essential drugs, synthetic rubber, carbonisation of coal, chemical pulp, road transport and sea transport.
- The remaining industries were left open for private sector initiatives.

In the context of the significant changes in fiscal, monetary, trade and industrial policies, the need for a review of the continued presence of the public sector in a wide range of activity was felt in the nineties. A new strategy for the public sector was spelt out in the policy statement in July 1991 which marked a turning point in the policy guidelines as far as public sector was concerned. The philosophy behind the New Economic Policy

(NEP) was that the State should, by and large, leave industry and commerce to the private sector and concentrate on those areas where it had a special or unique responsibility.

The list of industries reserved for public sector was reduced from 17 included in the Industrial Policy Resolution of 1956 to only eight by the July 1991 policy statement. Subsequently in March 1993, two more items were dereserved. The six industries for exclusive operation in public sector are (i) arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships,(ii) atomic energy, (iii) coal and lignite, (iv) mineral oils, (v) minerals specified in the schedule to Atomic Energy (Control of Production and use) Order 1953, and (vi) railway transport.

Other developments since then are :

- De reservation of mining activity; as a result of which coal extraction has been permitted for captive use by user industries
- Invitation has been extended to private sector to invest in oil exploration and refining which is otherwise reserved for public sector as well as in infrastructure projects like roads, ports, telecom etc.
- Private sector venture in power generation even with 100 % foreign equity has also been allowed.

In the post 1991 scenario, it is necessary to refer to the Rangarajan Committee report on Disinvestment of Shares of Public Sector enterprises wherein targets level of disinvestment has been recommended. The Committee concluded that the percentage of equity to be disinvested should be generally under 49 % in industries reserved for the public sector and over 74 % in other industries.

2.7 Classification of Industry Groups

The perusal of public sector policy statements and other documents reveals that there is considerable amount of flexibility with respect to the definitions of strategic, core and non-core sectors and the extent of disinvestment in the corresponding sector. In the context of rapid globalisation and the significant investments by the private sector in many areas hitherto reserved for the public sector, a need to clearly demarcate these sectors has been felt.

The analysis of the public sector policy statements reveal that the emphasis of public sector investments has been in areas which are considered important from a national view point or where private sector

would find it unremunerative and thus can not be expected to take the lead in promoting investments. Accordingly, some industries have been exclusively earmarked for public sector investments while in some other areas, the private sector is expected to supplement the efforts of the State in promoting economic development.

2.8 Strategic Group

At present as per the policy statements of Government, only four industries viz., (i) arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships,(ii) atomic energy, (iii) minerals specified in the schedule to Atomic Energy (Control of Production and use) Order 1953, and (iv) railway transport are the exclusive preserve of the public sector. A perusal of the above list would imply that these industries are important from the national security angle. Thus, it may be more appropriate to term these four industries as "Strategic". The question of disinvestment in such industries does not arise.

2.9 Core Group

In sectors which are capital or technology intensive, the most prevalent market structure may be an oligopoly. With the entry of private sector into these capital intensive areas, there may be a tendency towards an oligopolistic market structure. Examples are telecom, power generation and transmission or petroleum exploration and refining industries. It has been felt that the presence of the public sector will be necessary for sometime as a countervailing force and prevent concentration of private economic power. At the same time a proper regulatory mechanism should be put in place in order to regulate industries particularly in a non-competitive market for protecting interests of consumers.

In addition, it may be appropriate to look at basic industries with extensive and dispersed forward linkages. In some of these sectors, PSUs have a considerable market presence and the private sector is yet to mature fully. Hence it may be desirable to continue public sector presence in these basic industries till such time that the market becomes fully competitive.

By this analysis, such industries may be classified as "core" and public sector disinvestment be limited to a maximum of 49%. However, it may be noted that the composition of "core" industries may change over a period of time as further private investments make the market

fully competitive and PSUs may not be required to play a special role. In addition, it is expected that a proper regulatory mechanism would be in place to protect the interest of consumers. The question of disinvesting beyond 49% may be considered at that time.

2.10 Non-Core Group

Over the last four decades, private sector investments have grown considerably in many industries. The presence of a large number of players including matured private sector players, and the forces of competition in these industries have made these markets fully contestable. These would ensure that the consumer's interests are well protected. It can therefore be concluded that the initial objectives of the public sector in such industries have been met. Further investments in such industries will be driven more by demand - supply imbalances and Public investment may no longer be necessary. It may be useful to categorise such industries as non-core. The existing public sector in these industries may not have any unique or special responsibilities. Therefore, it would be desirable to disinvest upto 74% or more in such cases.

2.11 Industry Grouping

With this framework in place, the Commission has classified the 40 referred PSUs. These appear in the table below. The classification of Bharat Electronics Ltd. (BEL), Garden Reach Shipbuilders & Engineers Ltd.(GRSEL), Hindustan Aeronautics Ltd.(HAL), Rail India Technical & Economic Services Ltd. (RITES) and Engineers India Ltd.(EIL) will be considered by the Commission at a later date.

Table 9 Grouping of PSUs

Group	Name of the PSUs
Core	ONGC, OIL, BRPL, SAIL, MTNL, GAIL,
	AI, CONCOR, PHL, NLC, NCL, SECFL,
	WCFL, BALCO, NALCO, IBP,
	NTPC, PGCIL, NHPC, KIOCL,
	(20 PSUs)
Non-Core	SCI, ITDC, IPCL, FACT, NFL, MFL,
	HCIL, HTL, ITI, MFIL, HLL, BEML,
	HCL, HZL, MOIL
	(15 PSUs)

2.12 Framework for Analysing PSUs

In addition to the above, the approach to the disinvestment process will also centre on the analysis of specific PSUs. While the framework is outlined below, the actual analysis is available in Tables 10 to 17 in Annexure 3.

2.13 Analysis based on Net Profits

A useful starting point for analysis would be to segregate the PSUs on the basis of reported net profits or losses during the preceding five years. However, it has to be borne in mind that profits are determined by the accounting policies adopted. While PSUs in general have relatively more conservative accounting policies than their counterparts in the private sector, it will still be necessary to examine the extent of profitability by analysing the trend in gross margins and that of return on capital employed. In addition, a comparison of the return on capital employed with the company's cost of capital will help understand whether the company has earned adequate returns. Given the fast-changing economic scenario and the emerging competition, the past performance of a given PSU may not be necessarily sustainable. Therefore, in addition, it may be useful to add other analytical criteria, like the company's competitive position and the prospects for future growth in sales and net profits.

The above analysis will help classify PSUs into two broad categories. The first category of PSUs consists of **Strong Performers**, i.e, those which have reported consistent profits and are well positioned to grow strongly in the future. The second category of **Moderate Performers** would include those which have demonstrated profitability, but are positioned to grow moderately in the future.

2.14 Analysis by Industry Classification

The objective of the industrial classification is to understand the attractiveness of the industry in which the PSUs operate, as it is expected that the competitive and regulatory scenario in an industry will determine the interest of investors - especially institutional investors - in PSU stocks. This is especially true of PSUs which operate in commodity sectors such as metals and whose profitability is directly impacted by changes in international prices.

It may be noted that the PSUs referred have a presence in industries some of which may be attractive and some of which may not be currently

attractive. Therefore it may be necessary to further classify the industries on the basis of current attractiveness. Accordingly, the Commission has classified PSUs into three categories: those with **High, Medium or Low Potential**. This classification is based on the assessment of current and expected levels of business profitability, competitive nature of the market and impact of Government policies on the operations of the company.

The classification of a PSU may change over a period of time depending on changes in the business environment. It may be cautioned that the categorisation of a PSU as "High Potential" does not necessarily mean that there is no scope for further share value enhancement.

2.15 Analysis based on Paid-up Capital

Size is a criterion for classifying a group of companies. In the context of disinvestment size may be appropriately measured in terms of the paid-up share capital. The level of paid-up share capital and the current share holding of the Government will be important considerations in determining the phasing of the disinvestment programme.

2.16 Analysis based on Accumulated Reserves

In some cases, it may be necessary to understand the extent of accumulated reserves vis-à-vis the paid-up share capital. By capitalising reserves, companies can issue bonus shares to the government, which can then be disinvested. This has to be balanced with the dilution in the earnings per share and the increased dividend payout.

2.17 Analysis based on Listing & Trading

It is possible that in some of the PSUs referred to the Commission disinvestment has already occurred and the shares are listed on the stock exchanges. It may be useful to classify the PSUs as under:

- **Disinvested & Listed :** In case of liquid stocks, the stock price can provide a basis for valuation. In cases where trading volumes are insignificant, stock prices may not be appropriate for valuation.
- **Disinvested & not yet Listed :** These comprise those stocks which have been disinvested and which have still not yet been listed. In these cases, it may be necessary to ensure that this does not act as an impediment to the process of further disinvestment.
- **Not Disinvested so far :**

2.18 Criteria for Disinvestment

As a general principle the Commission recommends that where appropriate, PSUs should be restructured before disinvestment in order to enhance enterprise and the intrinsic share values. Given the rapidly changing economic scenario, it is possible that some PSUs may already have initiated such changes. In some other cases it is possible that the extent of restructuring required may be minimal.

2.19 Based on the above principles and specific analysis of PSUs, the Commission's recommendations for disinvestment will be based on the following considerations. :

- **Extent of Restructuring required and the potential for improving share values;**
- **The permissible extent of disinvestment with reference to the classification of industry as core or non-core;**
- **The size of the company and the phasing of disinvestment;**
- **Equity fund raising programme of the concerned PSU;**
- **Categorisation of the Industry as High, Medium or Low Potential;**
- **Alternative modalities of disinvestment**

PART B

3. GENERAL RECOMMENDATIONS ON DISINVESTMENT

3.1 Establishment of Disinvestment Fund (DF)

An issue that has been raised by a wide cross section of opinion relates to the use of the proceeds of disinvestment. Although this is not directly related to the terms of reference of the Commission, it has nevertheless an important bearing on the public awareness of the disinvestment process and on the protection of the interest of affected employees. Both these matters come within the purview of the Commission.

The conventional view stated about two decades ago in the context of British privatisation programme was that blue chip PSUs should not be sold to meet budgetary deficits as this would amount to "selling the family silver to pay the butler". It was argued that the proceeds of disinvestment should go towards retirement of Government debt and thereby reduce the burden of interest payment on the budget.

Another point of view expressed by the official agencies is that all monies in the budget are fungible and it matters little whether the proceeds of disinvestment are merged with capital receipts and used to reduce the fiscal deficit or to retire Government debt. The argument further points out that in a situation of Government having to borrow to meet the fiscal deficit, the use of disinvestment proceeds for this purpose would reduce borrowing. The capital receipts from disinvestment are therefore effectively used to reduce Government's capital liabilities and have the same effect as retiring Government debt.

It is necessary to examine both points of view in order to build public awareness on the need for an orderly disinvestment programme for profitable PSUs as well as loss making PSUs.

While the argument of fungibility of resources is plausible, it has to be examined with reference to budgetary practice and convention. Broadly, budgetary expenditures are classified as Plan and non-Plan, Revenue and Capital. Similarly, revenue and capital receipts are treated as Government income, apart from receipts in the public account. These conventional classifications in the budget are intended to inform Parliament and the public about the Government's sources of income and the purposes for which the funds are spent.

The various kinds of deficits in the budget indicate different aspects of budgetary imbalance. The revenue deficit indicates the excess of revenue expenditure over revenue receipts. The large interest payments which now run to around Rs.60,000 crores per year are the main cause of the revenue deficit. The budgetary deficit indicates the excess of total expenditure over total receipts. The fiscal deficit indicates the extent of Government borrowings from all sources necessary to balance the budget. The primary deficit is fiscal deficit minus interest payments. Thus, this classification is useful for bringing out both the fungibility of resources and for identifying areas of weaknesses in the budget. The revenue deficit highlights the need to bring down expenditure and broaden the tax net to augment revenue income. The fiscal deficit indicates the Government's need to borrow and encompasses the revenue deficit. It can be argued that the undifferentiated use of disinvestment proceeds to reduce the fiscal deficit will only obfuscate the need to focus attention on balancing the revenue budget. Moreover disinvestment proceeds arise from a one-time sale of Government shares in PSUs, while the revenue deficits and fiscal deficits can be recurring and even increasing on a long term basis.

As indicated in the overall approach to disinvestment in loss making PSUs, several of them need funds for financial restructuring and for downsizing the workforce through acceptable Voluntary Retirement schemes (VRS). Disinvestment only in the most profitable PSUs will be of temporary and limited benefit to the budget unless the recurring draft on the budget from loss making PSUs is eliminated on a long term basis. This would require an initial release of funds from the budget which can be recovered from later disinvestment after restructuring. In the absence of this initial funding, a large number of PSUs will remain unsuitable for disinvestment and may become a progressively increasing burden on the budget. It is therefore necessary to take a long term view of disinvestment instead of its being driven by immediate budgetary compulsions.

It could be argued that the funds for the financial restructuring and for VRS in loss making units prior to disinvestment could come from fungible resources of the budget. This would not, however, bring out clearly the interconnection between disinvestment proceeds and the long term relief to the budget by elimination of losses from the loss making PSUs. If the disinvestment proceeds from the currently profit making units in the first few years are used to revive and prepare potentially viable but currently loss making units for eventual disinvestment, this will eliminate the recurring draft on the budget and make a net positive contribution to the budget in

the long run. Additionally, this explicit link would help establish the credibility of the disinvestment process.

The advantages are not merely cosmetic. The separation of disinvestment proceeds from the other non-debt capital receipts in the budget

- will help in highlighting the seriousness of the fiscal and revenue deficits and can compel actions to deal with them in the context of taxation, subsidies etc.;
- will demonstrate that disinvestment in the profitable PSUs will initially go to take care of employee interests through VRS and other measures and for preparing the potentially viable PSUs in non-core and core sectors for eventual disinvestment;
- will prevent the short term budgetary compulsions from obscuring the long term benefits of disinvestment in loss making PSUs; and
- will provide greater public awareness of the justification for disinvestment as a long term solution to the problems connected with improving efficiency in the use of capital, reducing budgetary drain from loss making PSUs and persistent shortage of budgetary resources for accelerating growth, for alleviating poverty.

The Commission, therefore, recommends that the proceeds of disinvestment be placed separately in a Disinvestment Fund (DF) and not be fungible with other government receipts. The National Renewal Fund (NRF) should be merged with this fund. The resources in the Disinvestment Fund may be used for temporarily meeting the losses of some PSUs before disinvestment, where required, for a limited period during the process of short term restructuring or closure, for strengthening marginally loss making PSUs in preparation for disinvestment and for providing benefits to workforce found to be surplus during restructuring or closure. The savings to the budget on account of such recurring budgetary support to loss making PSUs could be diverted for investment in sectors like infrastructure, education and health and retirement of public debt. In addition, it is proposed that the funds for conducting the publicity campaign for the disinvestment of PSU shares be drawn from the Disinvestment Fund. Since the PSUs come under various administrative Ministries, it is proposed that the Disinvestment Fund be administered by the Ministry of Finance in order to facilitate better co-ordination and smoother administration.

3.2 Restructuring

As a general principle the Commission recommends that, where appropriate, PSUs should be restructured before disinvestment in order to enhance enterprise value and intrinsic share value. This should be done by balancing the potential benefits to be achieved vis a vis the costs and time involved in restructuring. The three broad areas of restructuring would be Corporate Governance, Business and Technological Restructuring.

Recommendations in respect of Corporate Governance apply to all PSUs and are dealt with in detail in succeeding paragraphs. In some cases, it may be necessary to restructure businesses in order to provide a focus on the core competency of the PSU. Business restructuring will involve hiving off businesses which are no longer attractive from the view point of returns or are a drag on the other profitable operations. In addition, business restructuring will also encompass workforce restructuring and financial restructuring of the Balance Sheet. Technology upgradation will be an important factor for PSUs which operate in industries where access to latest technology is a key success factor. Restructuring could also involve de-mergers and mergers with other PSUs. It could also include exchange of technology between PSUs to strengthen synergy in operations. Recommendations on business and technological restructuring will be specific to each PSU and will be covered under specific recommendations.

3.3 Corporate Governance and Autonomy

Recent international studies have clearly established that a majority of investors attach considerable importance to the quality of Corporate Governance in a company and are even willing to pay a premium for better managed companies. In order to enhance intrinsic share value, it is recommended that the PSUs should be restructured in terms of corporate governance prior to disinvestment.

It is expected that with disinvestment, the share holding of the Government will decline steadily. Hence there is need to establish systems and procedures in PSUs to promote the interests of minority shareholders and also enhance long term enterprise value.

This issue assumes importance due to the following reasons:

- The present MoU system has, in reality, failed to distance the Government from the PSUs.

- As part of the disinvestment programme, Government as a shareholder will approach the capital market repeatedly in the future and hence will have to create confidence in the minds of the investors with regard to the quality of Corporate Governance in PSUs.
- Strategic investors will be interested in picking up sizeable stakes only if they can have management control or at least a voice in the management.
- The rapidly changing economic scenario has already put considerable competitive pressure on PSUs. They have to respond to rapidly changing market conditions and technological developments which will require prompt decision making. Therefore it is essential that PSUs are granted managerial autonomy in their operations failing which there could be erosion in their margins which can lead to industrial sickness.
- Disinvestment of PSUs is expected to lead to a significant dilution of Government shareholding in some cases. Hence, the importance of other share holders on the Board of the PSU is expected to grow steadily and would assume overriding proportions in cases where Government's disinvestment would go beyond 49%.

It is recommended that there be greater autonomy to the Boards of PSUs along with proper delineation of accountability. To begin with, it is recommended that all strategic and important decisions concerning PSUs be taken by the Board and not by the Government. Government's role should be limited to the issue of written directives concerning broad policy matters. The Board should be the final forum for all corporate decisions and Government as the majority shareholder should exercise its right only through its representatives on the Board. Over a period of time, as disinvestment proceeds beyond 50% in some cases, Government's role as the single largest shareholder in the company will have to be substantially redefined to reflect its reduced shareholding interests.

The audit by the Comptroller and Auditor General of India (CAG) and the examination of PSUs by the Committee on Public Undertakings (COPU) may need to take into account the changing commercial environment in which PSUs are operating and the need for PSU management to take quick entrepreneurial decisions to promote the interest of the company and the shareholders. Government may initiate necessary dialogue with these authorities to achieve this objective.

3.4 Delegation of Powers to PSUs

It is proposed by the Commission that the delegation of autonomy may be on a graded scale with greater delegation to the better performing PSUs. For this purpose the Commission's recommendations use the classification suggested in Section 2.13 of Part A. For Strong Performers, it is recommended that the delegation of powers be maximum. In case of Moderate Performers, the delegation of powers would be more restricted than those given to the strong performers in order to induce them to improve their operations and graduate into the strong performer category. It is presumed that both these categories of PSUs do not depend on the budget except in cases where the Government has to subscribe to rights issue in order to maintain its equity stake and in cases where multi-lateral funding has been made available for on-lending. For All PSUs including even loss making PSUs, it is recommended that there should be a minimum level of delegation of powers which would be more restricted than the delegation of powers to Moderate Performers. The actual delegation of powers and its extent will be specific to each PSU and will be detailed in the specific recommendations.

The advantages of such an approach are

- Government's acceptance of this recommendation itself would give a strong signal to potential investors and will lead to an enhancement in equity valuation of those PSUs which are being considered for disinvestment
- The delegation of greater powers to better performing PSUs will act as an incentive to other PSUs to improve their performance and qualify for greater autonomy in operations.

Recommendations applicable to all PSUs

1. Professionalising the Board

At present the Board of Directors of PSUs by virtue of their being fully owned Government companies have CEOs and Functional Directors appointed by the Government. While the CEOs and Functional Directors are selected by the PESB and on that basis appointed by the Government, the other non-executive Directors are generally appointed on an ex-officio basis from the administrative and Finance Ministries. The Commission recommends that the Government initiate necessary steps to select experts and professionals from outside the Government as non-executive Directors on the Board of Directors of PSUs. The Government may

request the PESB to expand the scope of its activities to prepare a comprehensive list of professionals who are willing to serve on the Boards of PSUs. From this list, the Government could make a selection and get them elected as non-executive Directors on the Boards of different PSUs. In order to promote effectiveness of the non-executive Directors, the Government should restrict the number of elected directorships held by each person in the PSUs.

2. Provision For Elected Directors

The Government would need to recognise the role of the legitimate institutions of Corporate Governance such as the Boards and the general body meetings of the shareholders. The composition of the PSU should also reflect the changing pattern of shareholding. As long as the Government continues to remain the single largest shareholder in a PSU even after disinvestment, the Government should, in the interest of efficient management of the PSU, enable election of Directors who would represent the minority shareholders in the PSUs. The number of such Directors should be in proportion to the extent of non-government share holding. The Government should also enable election of employee representatives on the Board of Directors in proportion to the extent of employee share holding.

3. Selection of Top Management

The selection of CEO and other functional directors also needs to be streamlined and should be time bound to ensure that vacancies are filled up without any delay. Care should be taken that the new incumbent is appointed reasonably ahead of time particularly if he is an outside candidate. **The recommendation of the Public Enterprises Selection Board (PESB) should, as a rule, be accepted by the concerned ministry without having to go to the Appointments Committee of the Cabinet (ACC). PESB itself should be more broadbased with the induction of professionals and management experts.**

The tenure of the Functional Directors needs special mention. It is reasonable to expect that Functional Directors and the Chief Executives are given sufficient time to evolve and implement plans and demonstrate results; however, it should be made clear that the continuation of contracts will be specifically linked to performance. **The Commission recommends that the initial contract of appointment for CEOs and Functional Directors should be for a minimum tenure of five years and the age of superannuation be relaxed, if necessary for this purpose.**

It is recommended that the above provisions relating to composition of elected board, and the term of the CEOs and Functional Directors should be applied to companies prior to disinvestment even where the government holding will continue to be 51% or more even after disinvestment.

4. Salaries and Incentives for Top Management

With increasing opportunities being available in the private sector, the public sector has, of late, witnessed exodus of manpower at the senior and middle levels. One widely accepted reason is that the remuneration of PSU managers is generally poor across the board. Specifically, the remuneration (salary and allowances) of PSU Chief Executives is significantly lower than that for the corresponding position in the private sector. In order to attract and retain talent for these important posts, it will be necessary that the salary (basic plus allowances) of CMDs in Schedule (A) post be raised to at least Rs. 50,000 per month immediately and should be reviewed and brought in line with industry in a gradual fashion. In addition other normal perquisites such as housing, conveyance etc. should be admissible. The salaries of Officers in Schedule B & C should also be suitably raised. Further, the top management should be entitled to incentives and bonuses linked to performance parameters. The appointment should be on contractual terms and should be liable for termination within the contract period for proven non-performance. The Board of Directors should be empowered to take decisions on incentive measures for all levels including the Functional Directors.

5. Autonomy in Price Fixation

Several PSUs today are subject to non-statutory Government control in the matter of pricing of their products and services. In the interest of the commercial functioning of the PSUs, the Commission recommends that the PSUs be fully empowered on par with the private sector units to determine the prices of their products and services. This will be subject to any price regulatory mechanism that the Government may establish for the industrial sector as a whole.

6. Accountability

As has been pointed out in the earlier sections, the MoU system has failed to distance the Government from the operations of the PSUs. The present MoU system is an adaptation from the South Korean model but differs in

many crucial areas. One of the drawbacks of the present system is that the annual targets set for each PSU are independently assessed by a third party. As a result there is an incentive to deliberately set low targets so that the performance of the PSU as well as the administrative ministry is rated as "excellent". **It is therefore recommended that the MoU system be revamped in order to measure the performance of PSUs more qualitatively with reference to meaningful and challenging targets. Performance assessments should be carried out at routine intervals by a joint team of the Secretary of the Ministry, CEO and an outside senior professional.** Failure to live upto expectations should be brought to the notice of the officer concerned, and inability to perform over a period of time should lead to discharge.

7. Setting up of Pre-Investigation Board

The multi dimensional accountability of PSUs to various agencies such as COPU, CAG, CVC., etc. have considerably constrained the risk taking ability of the top managers of PSUs. Considering the fact that PSUs must respond to changing opportunities, it is desirable to provide a system that would seek to encourage entrepreneurial decision making and yet minimise personal risks to senior managers and Board level officers. It is necessary to provide an environment to the Boards in which decisions involving normal commercial risks are taken without inviting unwarranted allegations of malfeasance. It is also necessary to install a mechanism to deal with cases of prima-facie malfeasance. **The Commission, therefore, recommends that an independent specialised institution viz, the Pre-Investigation Board be set up to evaluate the instances of malfeasance in Public Sector enterprises. It is proposed that the Pre-Investigation Board should evaluate all questionable commercial decisions at the Board of Directors level to determine whether the decisions were taken with malafide or corrupt intent. In cases where it is proved so, the Pre-Investigation Board in turn, should refer such cases to the CBI/ CVC. Unlike under the present system, CBI/CVC may not institute any investigations or proceedings against the Board level PSU executives without the prior determination by the Pre-Investigation Board. In cases of decisions taken below the Board of Directors level, it is proposed that the Board of Directors should be empowered to evaluate questionable decisions before referring them to investigating agencies. The members of the Pre-Investigation Board could include among others retired top executives from the Financial sector, former CEOs of leading PSUs and professionals with relevant business experience. The setting up of such**

a Pre-Investigation Board should instil confidence in the Board of Directors of PSUs and encourage genuine risk-taking abilities and provide protection for bonafide intentions.

The PSUs on their part should lay down transparent systems and procedures for decision making especially in vital areas like procurement, tendering and sales in the interest of the officers and the organisation. While most of the business will be conducted according to the systems and procedures, such of the commercial decisions which are unique to occasions or opportunities should be justified in the special context of the prevailing circumstances and recorded in writing at the earliest and brought to the notice of the next higher level in the decision making process. The vigilance set up in the PSUs should also be suitably strengthened.

8. Strengthening the Investor Interface

As part of improved corporate governance, it is recommended that the PSUs should be transparent in sharing information and in reporting to the investor community. This will enhance the confidence of minority share holders and small investors to feel comfortable in investing in the shares of these PSUs. Investor relations and information sharing are crucial and may have a bearing on the prospects of accessing the markets for future disinvestment by Government and equity fund raising by the PSUs. PSUs in general should also equip themselves to meet the requirements of the investors in terms of issue of share certificates, transfer of shares, etc. prior to disinvestment.

Additional Autonomy to Moderate Performers

In addition to the above minimal but essential grant of autonomy to all PSUs under the Central Government, it is proposed that the following additional areas of autonomy be granted to this category of **Moderate Performers**.

1. Powers to Dispose of Assets

The Board of Directors of a PSU should be empowered to transfer assets to a subsidiary or for the purpose of outright sale, without requiring Government approval. Government's representatives on the Board can reflect government's views on such matters. These PSUs can take appropriate action to dispose of such assets and the proceeds can be used in strengthening their business.

2. Freedom of Investment within certain limits

Investment proposals of PSUs beyond certain limits currently require multiple clearances such as those from the Administrative Ministry, the Public Investment Board and the Cabinet Committee on Economic Affairs. It is the view of the Commission that these clearances are time consuming and have often resulted in heavy cost and time overruns to the PSUs implementing these projects. As a result, the project viability is often eroded. In any case, lending agencies appraise investment proposals of PSUs and hence Government clearances could be dispensed with. **It is recommended that in cases where banks or institutional lenders have appraised and financed the projects, the Government should fix up fresh limits. The investment limits for each PSU could be fixed on the criteria of the company's turnover and requirement of funds in the medium term. Any investment proposals upto this revised limit should not require prior clearance from the Government.**

Further Autonomy to Strong Performers

Over and above the foregoing set of recommendations on the grant of autonomy, it is proposed that the following additional areas on autonomy be granted to **Strong Performers**.

1. Powers to form Joint Ventures

The Board of Directors of these PSUs should be empowered to form Joint Ventures without prior approval of the Government. As compared with the private sector, no extra or special permission should be required for these PSUs to form joint ventures, with Indian or foreign companies so long as the other partner holds less than or equal stakes with the PSUs. Joint ventures with foreign parties will necessarily be subject to approvals of FIPB as is applicable to the private sector.

2. Full freedom with regard to Investments

It is also recommended that the category of Strong Performers be granted complete autonomy with respect to investment decisions subject to the condition that these projects are appraised and financed by banks or institutional lenders or where the total requirements of funds are met from internal accruals.

In summary, the following table highlights the recommended areas of autonomy to different categories of PSUs.

STRONG PERFORMERS	MODERATE PERFORMERS	1 2 3 4 5 6 7 8 9 10 11 12	Professionalising the Board	ALL PSUs
			Provision for Elected Directors	
			Selection of Top Management	
			Salaries & Incentives for Top Management	
			Autonomy in Price Fixation	
			Accountability	
			Setting up of Pre-Investigation Board	
			Strengthening the Investor Interface	
			Power to Dispose of Assets	
			Freedom of Investment within certain limits	
			Power to form Joint Ventures	
			Full freedom with regard to Investment	

4. GUIDELINES ON DISINVESTMENT IN PSUs REFERRED TO THE DISINVESTMENT COMMISSION

The Commission after due deliberations has evolved guidelines on modalities of disinvestment and on different aspects of the disinvestment process. The objective of evolving these guidelines is to enable consistent application across all PSUs and also enhance the transparency of the disinvestment process. These are detailed below. The guidelines on modalities will be applied by the Disinvestment Commission while formulating specific recommendations for each PSU. It is recommended that the broad guidelines with respect to selection of intermediaries and strategic partners be followed by the Standing Empowered Group.

4.1 Formation of Standing Empowered Group (SEG)

In view of its advisory nature, the Commission will bring out recommendations on disinvestment in each of the PSUs referred to it. To ensure smooth implementation, the Commission recommends the formation of a Standing Empowered Group (SEG). The SEG could comprise the Cabinet Secretary, Secretaries of the Ministry of Finance, Department of Public Enterprises, Administrative Ministry of the PSU alongwith the CEO of the concerned PSU. This Group will provide continuity to the whole process of disinvestment in various PSUs. It is necessary to provide for such continuity for learning from experience and to bring about refinement in the process. The selection of financial advisers, supervision of the overall sale process and decisions on instrument, pricing, timing, etc. as per Terms of Reference VI & VII may also be entrusted to the SEG. The SEG should ensure that the proposed disinvestment should be widely publicised and should draw funds from the Disinvestment Fund for this purpose. This group should undertake all the activities of the disinvestment process on the lines recommended by the Commission. In order to enable the Commission to monitor the progress of the disinvestment process as per Terms of Reference IX, it is proposed that the SEG should keep the Disinvestment Commission informed on the various steps undertaken from time to time.

4.2 Guidelines on Modalities

1. Offer of Sale

This measure involves a total or a partial change of equity ownership through a direct sale of shares at a fixed price or by a book-building

process. Depending on the size of the offer and the state of the capital markets, the process may need to be phased over a period of time. The need of the PSU for additional capital will also be taken into account.

2. Strategic Sale

A strategic sale alternative for select PSUs may involve selling a substantial stake with management control or a minority stake supplemented by technology transfer arrangements. The joint venture route could also be an alternative in some special cases. In all these cases, the original share holding of the Government could be diluted either by negotiation with joint venture partners or by shortlisting partners through the process of auction. Necessary guidelines for selection of partners/buyers is given later in this report.

3. Sale of Units after Corporate Restructuring

This option has to be explored if a holding company structure has to be devised in order that the operating companies under the holding company could be disinvested. This is also applicable in cases where a multi-unit organisation could be spun off into independent companies which could then be disinvested.

4. Leasing and Management Contract

Leasing of assets is an attractive method of disinvestment in cases where it may not be feasible to value the underlying assets of the PSU.. This would involve leasing out certain assets of a PSU to the best bidders, so that the Government retains the benefits of ownership, but the operational efficiencies are improved due to leasing. Another modality for disinvestment to be followed in some of the units may be management contract. In the case of leasing of assets, management contract will automatically follow while in the case of management contract alone, it may not be necessary to lease the assets.

4.3 Guidelines on Selection of Intermediaries

For any successful disinvestment programme, intermediaries play an important role. The role of merchant bankers in case of offer of sale, the role of financial consultants in strategic sale and role of specialist consultants in business and corporate restructuring assume importance.

1. Selection of Merchant Bankers/Global Co-ordinators

An offer of sale can be done either in the domestic or in the international market or in both. The selection of intermediaries for each of these should be separate. A two stage process of selection of merchant bankers/investment bankers is recommended. The selection should be PSU specific and will depend upon the suggested mode of disinvestment.

Since there are a large number of merchant bankers/investment bankers operating, an initial shortlisting may be necessary. The initial shortlist may be based on the following factors.

- *Experience and capabilities.* The track record of the intermediary in terms of the major debt and equity issues handled over the past five years should be assessed. In case of international merchant bankers, the experience of managing issues in the concerned industry from emerging market countries should also be considered.
- *Commitment to India.* In case of international merchant bankers, their local presence either independently or in strategic alliance with a local partner will assume importance in view of the close interactions that will be required during the process.
- *Research Capability.* It is reasonable to expect that the selling of equity especially in the international market should be backed by research. The research strength of the intermediary in terms of the industry analysis, the operations of the PSU and the continuing coverage of India's economic development will assume importance.
- *Qualification of Personnel.* The composition of the team which will be managing the proposed issue and the overall manpower strength should also be assessed. The size of the marketing set up and their global coverage in case of international floatations have to be assessed.
- *Marketing Strategy.* The intermediary's strategy in terms of investor perception for the stock, potential market for the proposed offering under current market conditions, proposed syndicate structure and plans of post issue market operation for the specific PSU should be taken into account.
- *Conflict of interest.* The commitment of the intermediary becomes important in case the intermediary is undertaking any other major floatations. Such details on pending transactions from either the same industry or the country should be assessed before final shortlisting.

The final selection of the intermediary should be made taking into account fees and expenses in a transparent manner. An additional factor for the final shortlist would be the willingness of the intermediary to undertake hard underwriting at a pre-determined price. In these cases, the fee quoted by the intermediary could be higher.

In order to facilitate better co-ordination, it is recommended that the selection of co-leads and co-managers should be decided by the global co-ordinator(s) in case of international floatations. However, before the syndicate is finalised, the SEG should retain the right to ask for any change in the syndicate structure where necessary.

2. Selection of Strategic Partners

While the procedure for selection of global co-ordinators for straight forward disinvestment of around 10 to 25 per cent of Government holdings in profit making Undertakings can be made on a competitive basis in a transparent manner on the lines indicated above, a more elaborate procedure is necessary in the case of PSUs considered appropriate for strategic sale.

Strategic sale implies sale of a substantial block of Government holdings to a single party which would not only acquire substantial equity holdings of upto 50 per cent but also bring in the necessary technology for making the PSU viable and competitive in the global market. It should be noted that the valuation of the share will depend on the extent of disinvestment and the nature of shareholder interest in the management of the company. Where Government continues to hold 51 % or more of the share holding, the valuation will relate mainly to the shares of the companies and not to the assets of the company. On the other hand, where shares are sold through strategic sale and management is transferred to the strategic partner, the valuation of the enterprise would be different as the strategic partner will have control of the management. In such cases, the valuation of land and other physical assets should also be computed at current market values in order to fix the reserve price for the strategic sale.

To get best value through strategic sales, it would be necessary to have a transparent and competitive procedure and to encourage enough competition among viable parties.

The following steps should be necessary for the process :

1. (a) One or more global financial advisers with or without association with Indian advisers has to be selected in a transparent and competitive manner. Parties with experience in this field will have to be pre-

qualified and bids on fees related to the sale value have to be obtained. These advisers will have to work with the PSUs for some months for drawing up the terms and conditions for obtaining a large number of bids from viable parties, evaluating these bids and making appropriate recommendations to the seller i.e. the Government. Quotations should also be obtained alongwith the bids on fees for the initial expenses of the advisers, to be paid only in the case of the sale not going through owing to unacceptably low bids, and to be absorbed in the fees in the event of a successful sale.

(b) For going through this first step of selection of financial advisers for strategic sale, bids have to be obtained from the financial advisers in a transparent manner. For this purpose, it would be useful to have the services of an internationally experienced team of one or two Consultants for whom separate fees will have to be paid. These consultants will draw up the terms of reference for the financial advisers, invite bids and advise the SEG on the selection of the financial adviser.

2. The financial advisers selected through the step one process can then be utilised for actually putting through the strategic sale. Detailed rules of competitive bidding have to be drawn up with specific reference to the PSU under the terms of the strategic sale. There will be, apart from the bid for the block of shares to be sold, arrangements for other matters such as sharing of management between the existing majority share holders e.g. Government and the strategic partners, the terms for induction of new technology from the strategic partner or others and subsequent sale of shares by the Government to foreign and domestic investors which should be covered. The selected financial advisers for the strategic sale will have to draw up these terms to the satisfaction of SEG and the PSU management. It would also help if these draft terms are also discussed with the potential strategic bidders to test the acceptability of these terms and to avoid the need for post bid clarifications and variations. Thereafter, the SEG will authorise the selected financial advisers to canvass the strategic sale and to obtain sealed bids in accordance with these detailed terms. These bids will be opened by the SEG. The financial advisers will, thereafter evaluate the bids and give their advice to the SEG on the best evaluated bid. To minimise subjectivity in the evaluation and to make the whole process transparent, it may be necessary to indicate in the invitation to bid the criteria for evaluation and the weightage to be given for

different aspects of the bids. The SEG can then either accept the best evaluated bid or reject it, if it is considered low in financial terms or unacceptable in other ways.

3. For further disinvestment by the Government as agreed with the strategic partner at the time of the latter's selection, the same financial advisers can be engaged if there has to be a GDR sale. There is an advantage in this process as the financial advisers would already be familiar with the PSU. In this arrangement initial quotation of fees from financial advisers can be obtained for strategic sale and subsequently for the GDR book building sale. This will enhance competition, lower fees and speed up process.

In the alternative, a fresh selection of financial advisers / global coordinators will have to be made for the subsequent GDR sale and substantial fees will have to be paid for the services of the global coordinators.

4. It would also be desirable to offer Government shares in the rejuvenated PSUs, with a strong strategic partner, to the Indian investors also. At this stage, the company's own needs for IPO will have to be taken into account in consultation with the strategic partner.

4.4 Retailing of PSU Shares to Small Investors and Employees

In line with the objectives of the disinvestment strategy to disperse PSU shares widely in the domestic market, the Commission recommends reservation of a sizeable quantity of shares for offer to the small investors and PSU employees. Such offer will be made at a price upto 10% below the issue price to Indian institutional investors or investors in the GDR market. When GDR is not involved, the offer of shares to the small investors in the domestic market may be undertaken first and, at a later date, the balance remaining could be offered to the institutional investors at an appropriate price. A ceiling of 200 shares is recommended for such allotment to small investors.

Since it is considered desirable that the employees of the PSUs should also become share holders, it is proposed that preferential allotment be made to employees, with a ceiling of 200 shares per employee at the same price as the small investor. A separate ceiling of 500 shares may be fixed for preferential allotment to the employees. Where the shareholding exceeds 200, there will be a lock-in period for three years for such preferential allotment. In the case of high price shares, the

tradable lots would need to be reduced to enable the small investors to participate in the sale. In the case of employees, they may also be permitted to pay in instalment upto a maximum of two.

Direct retailing by the Government for each PSU would increase cost of distribution and would also not be effective in terms of reach. It would be practical to use intermediaries such as mutual funds of public institutions like UTI/LIC/GIC for this purpose. As this is a new mechanism for distribution to small shareholders the framework has been broadly dealt with below :

If provident funds (PF) are allowed to deploy a part of the funds in mutual fund schemes for investment in PSU shares, an amount of Rs. 2000 crores can be initially be invested with UTI. It is proposed that UTI float a new scheme called "PSU Provident Fund Scheme" and receive PF monies. The scheme will invest these funds in acquiring PSU shares which will be offered at a discount to the institutional price. In turn UTI will retail these shares in marketable lots at cost to individual small investors . Any unsold shares can be sold to the institutions at the institutional prices. It is expected that good PSU shares will be made available to individual investors over a period of a month of retailing. The money recouped from these investors could be reinvested in acquiring shares of other PSUs offered through disinvestment. Thus the corpus can act as a revolving fund enabling disinvestment of other PSU shares. In the interregnum between disinvestment, UTI will deploy the funds in equity and debt and the earnings will be given as return to the Provident Fund Account. In order to protect the interests of the provident funds, Government may underwrite to the scheme any shortfall in annual returns compared to the average earnings now accruing to the provident funds. A higher return net of scheme expenses can be shared between the fund and the Government.

If however, provident fund monies are not available for investing in mutual funds, the above procedure can be modified as follows. Government shares for sale can be initially deposited with a mutual fund like UTI which will undertake to retail the shares to small investors over a suitable period of time. The monies realised through such a scheme can be paid back to the Government. The unsold shares if any, can be sold to institutional investors at the institutional price and can be repatriated back to the Government. However, in both these cases there may be a time lag between the deposit of shares and the realisation of proceeds to the Government.

A part of the shares proposed for disinvestment in a PSU could be dematerialised and placed with the National Securities Depositories Limited (NSDL) in the account of the mutual fund. The mutual fund in turn could retail the shares to small investors who are members of the depository participants and in this process they save on stamp duty on transfer and acquire instant tradeability. However, in the initial stages the extent of such sale may be restricted till the number of depository participants of the NSDL and investors linked to them increases.

In all the above cases it would be worthwhile to conduct a suitable publicity campaign for ensuring wide advertisement for the proposed sale of shares. The expenses incurred in this could be offset from the proceeds of disinvestment.

PART C

5. SPECIFIC RECOMMENDATIONS

5.1 Modern Food Industries (India) Limited

Evolution

The company was incorporated on 1st October, 1965 as Modern Bakeries India Limited (MBIL) with the main objective of popularising wheat consumption and to set up model bread production facilities with emphasis on hygiene and nutrition. It started its commercial production in 1968 with four plants at Bombay, Madras, Ahmedabad, Cochin and Delhi. By 1979, the company had established thirteen bakery units spread all across the country.

In 1979, MBIL started manufacturing non-bakery products with the setting up of Rolling Flour mill at Faridabad. In 1980, Food Corporation of India (FCI) handed over the solvent extraction plant at Ujjain and Government of India (GoI) its Fruit Juice Bottling Plant at Delhi to MBIL. With these diverse operations under its wings and in order to reflect the changed nature of its operation, the name of the company was changed as Modern Food Industries (India) Limited (MFIL) in 1982.

In 1985, MFIL set up a Mango Pulping facility at Bhagalpur and a Pineapple Pulping facility at Silchar. Later in nineties, MFIL started supplying energy foods/extruded foods/care foods under the various Social Welfare Programmes of various State Governments and under the aegis of World Food Programme. The Ujjain Plant has been closed down, though thanks to a court stay, workers are being paid their salaries. The Silchar facility has also been closed down while the Bhagalpur facility has been re-organised to produce nutrient food.

Production Facilities

At present, MFIL is having 14 manufacturing facilities for manufacturing bread and other bakery products, 4 facilities for energy food and one unit manufacturing extruded food. In addition, it has 17 fanchisees and eight ancillaries. All these manufacturing units are located all across the country.

Installed Capacities and Capacity utilisation

The following table gives the Installed Capacities and Capacity utilisation for the past three years.

Table 1 Installed capacities and capacity utilisation

Particulars	Installed capacity	Capacity Utilisation %		
		FY 94	FY 95	FY 96
Bread/Bakery (mn. S.L.)	268.6	66	72	90
Energy food & Care food (MT)	36000	37	110	115
Extruded Food (MT)	1500	96	99	130
Fruit juice & Drinks (lakh litres)	191.28	3	3	4

Industry Profile

The bakery industry is a low tech and low margin industry. In 1977, Govt had reserved bread industry for Small Scale Industries (SSI). Accordingly, 60-70% of the total production today comes from the unorganised sector. Because of this SSI Status, existing players cannot expand their operations and hence MFIL adopted the strategy of indirect expansion through franchising and ancillarisation.

The total market size of this industry is 15 billion standard loaves (SL) or 1.5 million tonnes. The current growth is around 5-6% per annum and is expected to remain in the same level in the medium term. Since this industry is reserved, 35-40% of the total production comes from small scale sector with about 1500-1800 units in operation. The organised sector accounts for 25-30% of the total production. The balance production comes from the traditional bakery units operating under cottage/tiny sector numbering approx. 65000 units. The two major players in this sector are MFIL and Britannia Industries Ltd (BIL) and are having a market share of 10-12% and 7-8% respectively. Apart from these two, there are a few large regional players such as Spencer's in South India, Vibbs in Maharashtra, Harvest Gold and Perfect in Delhi etc.

Regional consumption and demand patterns indicate that Southern States consume 32% of the total bread consumption while Northern, Western and Eastern States consume 27%, 23% and 18% respectively of the total consumption.

Key Success Factors in the Bakery Industry

- As bread is consumed by a wide cross section of the society, there should be a strong retail distribution net work in order to service the customers.
- Large players with established brand names are preferred by the middle/ upper segments. Hence, establishing a brand name is another essential factor.
- As bakery industry is a low margin business, cost control would be crucial in sustaining profitability in the long run.
- Packaging of the product is very important as the product is a perishable commodity and quality, hygiene etc. have to be maintained.
- Access to raw materials like wheat and sugar which are agro based and whose production is dependent on the monsoon is another important factor.

MFIL - SWOT analysis

Strengths

- Production facilities are spread across the country. It has one of the largest and dispersed manufacturing set up. This will help cater to a wide cross section of consumers.
- Fairly well established brand across the country. Modern Bread is an established brand and has the single largest market share.
- Fairly wide distribution network. MFIL uses a combination of distributor-wholesaler-retailer network and also uses its own vehicles to supply to retailers. 80% of its total sales is through the above network.

Weaknesses

- Under utilisation of production facilities. The capacity utilisation of all product lines of MFIL is low.
- Large workforce and relatively low labour productivity compared to its competitor. MFIL has 14 workers per line as against 8 workers elsewhere for the same comparable capacity. Employee costs as a percentage of total income is in the range of 15-17% over the past five years where as it is 7-8% for comparable competitors. The main reasons for this are comparative overmanning, high rates of absenteeism, low productivity and overtime payments.

- Acquisitions /setting up of businesses under Government persuasion in the past have not provided synergy and have adversely affected the overall performance.
- MFIL has limited flexibility in decision making to respond to market changes and use marketing tools like discounts, rebates etc. in a highly competitive, low margin bakery industry.
- Poor public image as compared to organised competitors. Especially in the North Indian market.

Opportunities

- Existence of a large market
- Per capita consumption in India very low. significant opportunity to increase market shares and volume.

Threats

- Removal of subsidies will affect the financial performance in the future. MFIL in the past had a wheat allocation quota from FCI on preferential basis without being affected by aberrations of the market prices of wheat. This facility was withdrawn in FY 89. Like wise, GoI was offering wheat to MFIL at subsidised rates (Re.1/- per kg less than the PDS release price). This scheme was withdrawn from November, 1996. This will affect the financial performance of the company as the resulting higher input prices cannot be passed on to the consumers fully.
- Supply of nutritional/energy products under Social Welfare Programmes is vulnerable to variations in budget allocations at a time when the sales contribution by this division is increasing.
- Fragmented nature of the market and competition from the organised and unorganised sector. Increasing competition from a large number of small units with niche market segments, especially if Abid Hussain Committee recommendations to increase the investment limit for SSIs to Rs.3 crores is accepted.
- Presence of a number of non-functional and loss making units acting as a drag on the operations and profits.

Financial Performance

The sales contribution of the major Products for the past three years are as follows:

Table 2 Sales

Division-% of Net Sales	FY 94	FY 95	FY 96
Bakery Activities	84	68	65
Non Bakery Activities -			
- Energy Food	14	27	27
- Care/Extruded Food	1	5	5
- Others	1	0	3
Total (Rs. Million)	800	1109	1378
Average Sales Realisation			
- Bread (Rs. S.L.)	3.79	3.90	3.72
- Energy Food (Rs./MT)	10332	11045	11244
- Care Food (Rs./MT)	6300	6300	5860
- Extruded Food (Rs./MT)	8109	8108	9608
Gross Profit Margin (%)	4.0	8.3	11.1

The financial analysis for the past five years are given as under :

Table 3 Past Financial Analysis

(Rs.Million)

Particulars	FY 92	FY 93	FY 94	FY 95	FY 96
Total Income (Rs. Mn)	647	817	809	1121	1393
Operating Profit (Rs. Mn)	-33	20	-3	59	109
Profit after Tax (Rs. Mn)	-28	24	1	63	61
Op. Profit Margin (%)	-5.1	2.5	0.4	5.2	7.8
Net Profit Margin (%)	-4.4	3.0	0.1	5.6	4.4
Equity Capital (Rs. Mn)	85	90	96	96	111
Tangible Networth	96	115	128	179	248
ROCE (%)	-	22.3	7.7	28.7	46.2
Cost of Capital (%)		12.2	9.0	9.4	13.6
RONW (%)	-	23.0	0.8	40.9	28.7
EPS (Rs.)*		270.7	10	656	553.2
Book Value (Rs.)*	1133.2	1280.4	1336.4	1871.9	2239.0

(*) Face value of share is Rs.1000

The Company's operating profit margins fluctuated during the past five years mainly due to the losses incurred in non-bakery operations and rise in prices of major raw materials for bread, which could not be passed on to the consumer because of the competitive markets. As can be seen from the above table, the equity capital of MFIL has gone up from a level of Rs.85 million in FY 92 to Rs.111 million in FY 96. This is because of Government funding. Government has been providing funds to the tune of around Rs. 10 million every year (50% as equity and 50% as loan).

Recommendations

Based on the above SWOT analysis, the future outlook of MFIL in terms of financial performance as a public sector undertaking does not appear to be promising. The potential to improve share valuation through restructuring may not also be significant.

Extent of Disinvestment

According to the principles for the extent of disinvestment evolved by the Commission, MFIL falls under the non-core sector in which disinvestment can go upto 74% or more. It is recommended that the Government should disinvest 100% of its shareholding in this company for reasons already stated.

Modality of Disinvestment

The Commission evaluated the overall operations of the Company and it was felt that better realisation would accrue to the Government if all the units were sold together. The size of MFIL in terms of assets and operations is not large. It has a large number of small units. It may not be necessary to attempt any de-merger exercise before sale on a unit by unit basis. It is also felt that if the company is sold as a whole, potential buyers who could consolidate and run the operations would be interested.

On these considerations, a sale of the entire Government shareholding on an as-is-where-is -basis is recommended. The appointment of financial advisers, selection of buyers etc. through the mechanism of competitive bids should be undertaken by SEG. Guidelines for sales are given in Part B of this report.

5.2 Gas Authority of India Limited

Background

The Gas Authority of India Limited (GAIL) was incorporated in 1984 with the objective of engaging in all post exploration activities such as transportation, processing and marketing of natural gas. The first project of the GAIL was the construction, operation and maintenance of the Hazira Bijaipur Jagdishpur (HBJ) pipeline with an installed capacity of 18.2 million standard cubic metres per day (MMSCMD) of natural gas, covering a total distance of over 1700 kms. As on today, the company has expanded and diversified its activities to other related areas such as LPG production. The company is in the process of completion of another major diversification programme for production of petrochemicals.

The major share of sales of GAIL comes through the business of transportation of natural gas through the HBJ pipeline. GAIL has also set up gas processing facilities at Vijaipur and Vaghodia for production of LPG, Propane, Pentane, and SBP. The details of GAIL's sales break up for the last three years from different operations are given below :

Table 1 Sales Break-up

	FY 96		Fy 95		Fy 94	
	Rs.Mn	%	Rs. Mn.	%	Rs. Mn.	%
Natural Gas	38633	92.2	31461	93.6	29029	93.0
LPG	2783	6.6	1831	5.4	2056	6.6
Others	494	1.2	336	1.0	119	0.4
Gross Sales	41910	100.0	33628	100.0	31204	100.0

At present, the company's paid up share capital is Rs.8453 million, out of which the Government has disinvested 3.37% during 1995-96 to institutional investors at a price of Rs.67 per share. In addition, the company has allotted 200 shares to employees at a price of Rs.18 per share in January 1997.

Industry Overview

1. Natural Gas Transportation

The natural gas production in the country is owned by two public sector companies viz., Oil & Natural Gas Commission Ltd (ONGC) and Oil India Limited (OIL). GAIL has a near monopoly position in the marketing and

distribution of natural gas in the country. The market share of GAIL is close to 94 % and there are only four other small companies who operate only on regional basis. The natural monopoly characteristic of the pipeline distribution business consolidates GAIL's position. GAIL owns 19 of the 49 onshore gas pipelines in the country amounting to 89% of the overall approx. 3200 km pipeline length. GAIL also owns 3 of the 11 offshore gas pipelines accounting for 57 kms of 679 kms.

Use of natural gas in the overall energy consumption accounts for only 7%. The major consumer of gas supplied by GAIL are units in power sector and fertiliser sector who together account for more than 80% of the total gas sales.

Factors crucial for success in the Natural Gas Transportation

- Long term availability of natural gas is essential as the spot market is practically non-existent.
- Construction of processing plant, LNG plants and pipelines are capital intensive, sourcing of cheap capital is critical for company's profitability.
- Since all the facilities are capital intensive, effective utilisation of the capacity and achieving economies of scale are other key success factors.

Government Policy

The pricing of natural gas and natural gas products which include LPG, ethane and propane are administered and assure a 12% post tax return on networth. There are location specific subsidisation for North-east sector. Free import of liquefied natural gas is allowed. Transportation charges are also administered and are expected to increase from Rs.850/TCM to Rs. 1150/TCM in 1997-98 as per the T.L Sankar Committee recommendations. The allocation of gas is controlled.

2. Liquefied Petroleum Gas

The LPG producers in India include ONGC, IOC, HPCL, BPCL, GAIL, OIL, CRL, MRL, MRPL and BRPL. The LPG covered under the administered pricing mechanism is marketed by IOC, HPCL, BPCL and OIL.

GAIL has an appropriate 13% share in overall LPG production in the country and about a 32% share in gas based LPG production. From 1998-99, its capacity will increase to around 1.3 MMT from the present 0.48 MMT on account of ongoing expansions. This would add considerably to its current market share.

Factors Crucial for Success in the LPG Industry

- Under the Administered Price Mechanism
 - Increasing capital expenditures through internal accruals
 - Better performance than the standard laid down by Oil Co-ordination Committee for the refinery.
 - Being a net recipient from the oil pool accounts
- Under Decontrolled Price Scenario
 - Long term availability of gas is crucial for LPG production. Consequently, effective negotiations in the various long term contracts are essential
 - Adequate LPG extraction facilities and logistics for distribution
 - Integrated operations with upstream and downstream petrochemicals and power generation
 - Ability to source cheap capital

Financial Analysis

The past financials of the GAIL are as under:

Table 2 Past Financial Analysis

(Rs.Million)

	FY 96	FY 95	FY 94	FY 93	FY 92
Operating Income	41648	33447	31118	27779	10412
Cost of Sales	35172	28101	25677	22849	6915
Operating profit	6476	5346	5441	4930	3497
Profit After Tax	5155	3676	3205	2105	942
Gross margin (%)	15.5	16.0	17.5	17.7	33.7
Net Margin (%)	12.4	11.0	10.3	7.6	9.0
ROCE (%)	21.1	18.1	18.8	15.5	10.9
RONW (%)	24.7	22.2	24.0	20.0	38.0

Recommendations

Based on the analysis of the company performance and the outlook of the industry, the classification of the industry in terms of the framework evolved by the Commission, is "High Potential" The PSU is operating in a near monopolistic environment as regards its main business and has future

expansion plans in the main business. Moreover, GAIL's future financial performance is expected to be on an upswing, as all their new projects will be implemented in the next couple of years.

Extent of Disinvestment

According to the principles for the extent of disinvestment evolved by the Commission, GAIL falls under the core sector. On this basis, it is recommended that the Government can disinvest upto 49%.

Restructuring

At present, no business or technological restructuring is warranted. However, in order to enhance enterprise value and the share value, it is recommended that the delegation of powers to the Board of Directors be maximum in accordance with definition of Strong Performers as given in Part A of the report. Since GAIL will continue to be in the public sector even after disinvestment, adequate delegation of powers will instil confidence in the minds of the prospective investors that the management of the company will be run on professional lines.

Modalities of Disinvestment

The PSU's strong finances and its near monopoly position in business will help attract both institutional as well as small investor interest. Keeping in mind the capital structure and the availability of investible resources in the Indian Capital Market, disinvestment to the extent of 25% of the total equity capital is recommended and this should be distributed between the domestic market and international market depending upon the market conditions. The price and exact timing may also be decided by Standing Empowered Group depending upon the market conditions.

The selection of global co-ordinators for the GDR issue should be done by the Standing Empowered Group. Guidelines for this have been evolved by the Commission and are available in Part B of the report.

As regards the domestic issue, the Commission has evolved guidelines for retailing the shares to small investors and are available in Part B of the report.

5.3 India Tourism Development Corporation

Evolution

With a view to developing tourism in the country, the Government of India set up two separate undertakings namely India Tourism Transport Undertaking Ltd. and India Tourism Corporation Ltd. Subsequently these were amalgamated in 1966 which led to the emergence of India Tourism Development Corporation Ltd. (ITDC). The erstwhile Ashok Hotels and Janpath Hotels were also merged with ITDC in 1970.

Present Activities

The main activities of ITDC include the following:

- *Construction, management and marketing of hotels and restaurants:* ITDC operates 26 hotels which can be classified into three categories on the basis of facilities and services offered. These are:

Table 1 Categories of Hotels

Segment	Service	No. of Hotels	Rooms Number	% of total
Elite	Luxury	6	1326	37%
Classic	Budget	15	1234	34%
Comfort	Economy	5	1049	29%
TOTAL		26	3609	100%

- *Provision of shopping facilities in the form of duty/tax free shops:* ITDC operates 30 shops in six locations in airports; but the bulk of the turnover is from two shops in Delhi and Mumbai Airports.
- *Provision of tourist transport facilities:* Ashok Tours and Travels provides travel and tourist services and exists mainly to add synergy to the hotel operations rather than as a profit centre on its own.

Business Analysis

As mentioned above, a major part of ITDC's income comes from the hotel chains and the duty free shops. These businesses are analysed below:

Hotels:

The 26 strong hotel chain of ITDC has a presence in various segments ranging from luxury to economy class. A brief description of these categories is given below:

Table 2 Break-up of Hotel Business

Category	Hotels	Description	Turnover 1995-96 (Rs. Cr.)	% to total	PBT 1995-96 (Rs. Cr.)	% of total
Elite	6	Luxury	116.7	63	35	79
Classic	15	Budget	50.7	27	8.5	19
Comfort	5	Comfort	17.3	10	0.9	2
Total	26		184.7	100	44.4	100

As may be observed from the table, the elite category is the most remunerative and profitable of all the hotels. This is in line with the industry trends which indicate that the luxury hotels are typically more profitable than lower standard categories.

The nature and quality of facilities are not at par with those provided by hotels in the corresponding competing categories. As a result the occupancy levels of the hotels are much lower than the corresponding occupancy levels of the competing hotels.

The overall occupancy levels at ITDC have more or less remained stagnant except in metro locations which have seen an increase. However, this increase has not been commensurate with the increase experienced by the other major players. This can be explained by the fact that though ITDC has 75% of its owned rooms in the metros, there is a fair proportion of budget and economy class hotels in this geographical segment. This is in contrast to its competitors who operate only luxury segment hotels in the metros.

The relative weak brand image of the ITDC and the lower standards of facilities and services as also its presence in the budget and economy segments of hotels has led to lower average room rents compared to its competitors.

Out of the 26 hotels only three hotels have computerised systems. As a result the control on guest billing, guest communication, material procurement, etc. is probably not as effective as with computer based

systems. Therefore it is reasonable to conclude that there is scope for cost reductions in operations. All these factors have resulted in lower net profits.

Duty Free Shops (DFS)

Till 1992-93, the hotels and the tour divisions of ITDC were posting meagre profits or losses. Nearly all the net profits of ITDC were being contributed by the DFS division. In 95-96, DFS division contributed 38% of the net profits of ITDC.

The lease on the DFS of ITDC is due to expire in May 1997. There is some uncertainty regarding the renewal of the license from the Airport Authority of India (AAI). If renewed, AAI is likely to increase the license fee. This may adversely affect the profits of the company. In case the license is not renewed in May 1997, it may have a significant downward impact on the profits of ITDC.

Employee Costs

Employee costs in ITDC are significantly higher than its competitors. This is attributed to the presence of ITDC in various travel related operations like Tours and Travels which employ a significant number of staff.

Further, this level of employee costs is expected to increase in the future due to two reasons. Firstly, the implementation of the Fifth Pay Commission will have an impact on the salaries of those staff who are employed at the Central Government pay scales. Secondly the wage agreement with the workers under the Industrial Disputes Act has expired on December 31st 1996 and is due for negotiations this year.

Financial Analysis

The present capital structure of ITDC has an equity share capital of Rs.67.5 crores with a tangible net worth of about Rs. 1480 crores. The company has a very low proportion of debt in its operations and all financing of projects in the past has been done by internal accruals.

Financially the company's performance has improved over the last four years primarily due to improved performance in the hotel business. The gross and the net margins have shown a consistent improvement as shown in the table below:

Table 3 Financial Highlights of ITDC

Rs. Crores	95-96	94-95	93-94	92-93	91-92
Gross sales	135.83	111.2	83.63	67.45	63.71
Operating Income	288.88	233.56	189.74	160.34	140.78
Cost of sales	219.08	190.76	160.92	141.46	126.33
Profit After Tax	47.75	28.36	12.21	10.05	5.59
Total Assets	316.25	259.51	218.69	185.92	175.69
Net profit margin (%)	16.51	10.74	6.36	6.25	2.19
Gross profit margin (%)	24.16	16.93	15.19	11.17	10.26

The company's return on capital employed has shown a consistent upward trend over the past five years increasing from about 8% to about 39%. ITDC's ROCE is higher than all the other hotels in the hotel industry with the exception of Asian hotels. This is mainly on account of the company's duty free business which is not capital intensive and has a high turnover.

The key favourable and unfavourable issues which arise from the above analysis are as follows.

Areas of Strength

- ITDC operates a chain of hotels in different locations as compared to some other players in the industry who operate either one or two hotels. This can be considered as a strength as a chain provides easy access to both the business and tourist travellers and thus has a multiplier effect on revenue.
- ITDC owns properties in prime locations in Delhi and other places which provide an easy and convenient access to both business and tourist travellers. Given the scarcity of land in prime locations, this is a major factor in favour of the company. Some of these properties are on lease hold land.
- The demand for hotel rooms is dependent on the growth of the business and tourist travel. This is expected to grow at a healthy pace over the medium term.

Areas of Concern

- ITDC's presence in all the segments of the hotel industry viz., luxury, budget and economy has weakened the image among the business travellers. As a result, the luxury hotels of the group experience lower occupancy levels. However, given the prime location of these properties,

there is considerable scope for increasing turnover per room in the Elite category of hotels.

- Employee costs are high in ITDC. While it is acknowledged that the hotel industry is by itself a labour intensive industry, significant overmanning exists in ITDC which also provides labour using add-on services like travel and tours. The contribution to profits from these divisions is quite low.
- Unlike other major competitors, ITDC does not have the flexibility with regard to employee compensation which is considered essential if good talent has to be attracted to the company. Similarly, lack of autonomy at the Board level has adversely affected the decision making process. As the company operates in a highly competitive industry, some flexibility is considered necessary to enable the company to quickly respond to the changing needs of the market.

Extent of Disinvestment

According to the principles established by the Commission, ITDC falls in the non-core category and hence disinvestment can go upto 74% or more.

Recommendations

It is evident from the above analysis there is some uncertainty about the operations of Duty Free Shops which have contributed significantly to the profits of the company in the past. At the same time there is considerable scope for improvement in the profitability of hotels which are situated in prime locations. One of the key success factors in the hotel industry is the ability to provide high quality of service especially in the luxury segment. It is felt that public sector is handicapped in providing this high quality of services in the luxury segment.

On the other hand, public sector as a whole does not have to play a role in providing hospitality services in metro locations where the private sector has established adequate presence in the market. In non-metro and other locations where the private sector hotels are yet to establish a presence, the public sector may be better suited to play the role of a facilitator rather than direct provider of services.

On these considerations, the Commission recommends that the ITDC should be suitably restructured in terms of its operations for the purpose of disinvestment. The restructuring proposed is as follows:

1. In respect of the hotels situated in prime locations like Delhi and Bangalore, they may be handed over to established hotel chains through a competitive bidding process to run on long term structured contract on lease-cum-management basis. This will mainly take care of the problems of transfer of property in case of lease hold lands on which the hotels are situated. It would be ideal if a tripartite agreement between ITDC, trade unions and the concerned parties is concluded in each case to take care of the interests of the labour. The terms of contract and procedure for competitive bidding may be determined by the SEG with the help of financial Advisers and Consultants. The contract could have up-front fee and annual fee with an in-built indexation for annual revisions. Such fees should be significantly higher than the current level of profits of each of the hotels. The realisation on account of the up-front fees and annual fees will accrue to Government in the form of taxes and dividends.

2. Other hotels may be demerged into separate corporate identities. Shares will be issued in these companies to Government and other shareholders, if any, in exchange for ITDC Shares. The disinvestment in the new companies will be through sale of 100% Government share holdings in them. The SEG may again carry out this process with the help of Financial Advisers for proper valuation and terms of competitive bidding.

3. ITDC may continue to operate the business of duty free shops and travel and tours business subject to the viability of the operations. This should be decided by the Board of Directors of the Company.

ANNEXURE/APPENDICES

MINISTRY OF INDUSTRY
(Department of Public Enterprises)

RESOLUTION

New Delhi, the 23rd August, 1996

No. 11013/3/96-Admn. - In pursuance of the Common Minimum Programme of the United Front, Government hereby constitutes a Public Sector Disinvestment Commission, initially for a period of three years.

2. The composition of the Commission will be as follows :-

1. Shri. G.V. Ramakrishna, Full-time Chairman
2. Shri. Dipankar Basu, Part-time Member
3. Shri. M.R.R. Nair, Part-time Member
4. Dr. Suresh Tendulkar, Part-time Member
5. Dr. D.M. Nanjundappa, Part-time Member

The commission will have a full-time Secretary who will be appointed separately.

3. The broad terms of reference of the Commission are as follows :-

- I. To draw a comprehensive overall long term disinvestment programme within 5-10 years for the PSUs referred to it by the Core Group.
- II. To determine the extent of disinvestment (total/partial indicating percentage) in each of the PSU.
- III. To prioritise the PSUs referred to it by the Core Group in terms of the overall disinvestment programme.
- IV. To recommend the preferred mode(s) of disinvestment (domestic capital markets/international capital markets/auction/private sale to identified investors/any other) for each of the identified PSUs. Also to suggest an appropriate mix of the various alternatives taking into account the market conditions.

- V. To recommend a mix between primary and secondary disinvestments taking into account the Government's objective, the relevant PSU's funding requirement and the market conditions.
 - VI. To supervise the overall sale process and take decisions on instrument, pricing, timing, etc. as appropriate.
 - VII. To select the financial advisers for the specified PSUs to facilitate the disinvestment process.
 - VIII. To ensure that appropriate measures are taken during the disinvestment process to protect the interests of the affected employees including encouraging employees' participation in the sale process.
 - IX. To monitor the progress of disinvestment process and take necessary measures and report periodically to the Government on such progress.
 - X. To assist the Government to create public awareness of the Government's disinvestment policies and programmes with a view to developing a commitment by the people.
 - XI. To give wide publicity to the disinvestment proposals so as to ensure larger public participation in the shareholding of the enterprises; and
 - XII. To advise the Government on possible capital restructuring of the enterprises by marginal investments, if required, so as to ensure enhanced realisation through disinvestment.
4. The Disinvestment Commission will be an advisory body and the Government will take a final decision on the companies to be disinvested and mode of disinvestment on the basis of advice given by the Disinvestment Commission. The PSUs would implement the decision of the Government under the overall supervision of the Disinvestment Commission.
 5. The Commission while advising the Government on the above matters will also take into consideration the interests of stakeholders, workers, consumers and others having a stake in the relevant public sector undertakings.

List of PSUs Referred to the Commission

Sl. No.	Name of the PSUs	
1	Air India	AI
2	Bharat Aluminium Co. Limited	BALCO
3	Bharat Earth Movers Limited	BEML
4	Bharat Electronics Limited	BEL
5	Bongaingaon Refineries & Petrochemicals Ltd	BRPL
6	Container Corporation of India Ltd	CONCOR
7	Engineers India Limited	EIL
8	Fertiliser & Chemicals (Tranvancore) Ltd	FACT
9	Garden Reach Shipbuilders & Engineers Ltd	GRSEL
10	Gas Authority of India Limited	GAIL
11	Hindustan Aeronautics Ltd	HAL
12	Hindustan Copper Limited	HCL
13	Hindustan Latex Limited	HLL
14	Hindustan Zinc Limited	HZL
15	Hotel Corporation of India Limited	HCIL
16	HTL Limited	HTL
17	IBP Co. Ltd	IBP
18	India Tourism Development Corporation	ITDC
19	Indian Petrochemical Corporation Ltd.	IPCL
20	ITI Limited	ITI

21	Kudremukh Iron Ore Co. Ltd	KIOCL
22	Madras Fertilisers Limited	MFL
23	Mahanagar Telephone Nigam Ltd	MTNL
24	Manganese Ore (India) Ltd	MOIL
25	Modern Food Industries (India) Limited	MFIL
26	National Aluminium Co. Limited	NALCO
27	National Fertilisers Limited	NFL
28	National Hydro Power Corporation	NHPC
29	National Thermal Power Corporation Ltd	NTPC
30	Neyveli Lignite Corporation Limited	NLC
31	Northern Coal Fields Limited	NCF
32	Oil India Limited	OIL
33	Oil & Natural Gas Corporation	ONGC
34	Pawan Hans Limited	PHL
35	Power Grid Corporation of India Ltd	PGCIL
36	Rail India Technical & Economic Services Ltd	RITES
37	Shipping Corporation of India Ltd	SCI
38	South Eastern Coal Fields Limited	SECF
39	Steel Authority of India Limited	SAIL
40	Western Coal Fields Limited	WCF

Analysis of the Referred PSUs

Analysis on Net Profits

PSUs have been segregated on the basis of consistent profits or fluctuations between net profits or losses reported during the preceding five years from FY91 to FY96. Consistent profits indicates that category where the PSU has not slipped into losses during the last six years.

Table 10 PSUs with consistent profits

Category	Name of The PSUs
Consistent Net Profits Between FY91 and FY96	ONGC, OIL, BRPL, SAIL, MTNL, GAIL, SCI, EIL, ITDC, HAL, AI, CONCOR, IPCL, FACT, NFL, PHL, NLC, NCF, HTL, BEML, BEL, GRSEL, BALCO, HZL, NALCO, IBP, NTPC, PGCIL, NHPC, RITES, KIOCL, MOIL (32 PSUs)

In the other category, companies which slipped into losses in one or more years in the referred period are presented below:

Table 11 PSUs with Inconsistent Profits /Losses

Category	Name of the PSUs
Fluctuation between Net Profits or Losses during FY91 To FY96	Hindustan Copper Ltd, South Eastern Coal Fields, Western Coal Fields, Madras Fertilisers Ltd., Modern Food Industries (India) Ltd., Hotel Corporation of India Ltd., ITI Ltd., and Hindustan Latex Ltd. (8 PSUs)

Out of the above eight, ITI is a special case as the company has posted increasing losses since 1994-95 and has currently initiated steps for application to the Board for Industrial and Financial Reconstruction (BIFR)

under the provisions of the SICA. The above PSUs may require additional preparation for them to be taken up for disinvestment.

Analysis by Industry Classification

The DPE survey classifies all the 245 central PSUs into 21 industry segments. The PSUs referred belong to 14 industry segments out of this total of 21. 28 PSUs belong to the manufacturing sector, with the remaining 12 in the service sector.

Table 12 Analysis by Industry Classification

Industry	No	Companies
MANUFACTURING		
Fertilisers	3	FACT, NFL, MFL
Petroleum	5	ONGC, OIL, GAIL, BRPL, IBP
Chemicals	1	IPCL
Coal & Lignite	4	NCF, SECF, WCF, NLC
Power	2	NTPC, NHPC
Minerals & Metals	6	HZL, HCL, BALCO, NALCO, KIOCL, MOIL
Steel	1	SAIL
Medium & Light Engg.	3	BEL, HTL, ITI
Transportation Equip.	3	BEML, HAL, GRSEL
SERVICE		
Telecom Services	1	MTNL
Transportation Services	4	AI, PHL, SCI, CONCOR
Ind. Dev. & Tech. Consultancy	3	EIL, RITES, PGCIL
Tourist Services	2	ITDC, HCIL
Consumer Goods	2	HLL, MFIL
Total	40	

Analysis on Paid-up share Capital

The 40 PSUs referred to the Commission have a wide range of share capital. A frequency analysis on this parameter is presented in the table below.

Table 13 Analysis of Share Capital

(Rs. Crores)

Range of Share Capital	No.	Name of the PSUs
(> 5,000)	1	NTPC
(2,500 - 5,000)	3	SAIL, PGCIL, NHPC,
(1,000 - 2,500)	5	NLC, ONGC, NALCO, NCF, SECF
(500 - 1,000)	4	GAIL, WCF, KIOCL, MTNL,
(250 - 500)	6	NFL, BALCO, HZL, FACT, HCL, SCI
100 - 250	7	IPCL, BRPL, AI, MFL, GRSEL, HAL, PHL
< 100	14	OIL, EIL, ITDC, CONCOR, HCIL, HTL, ITI, IBP, BEML, BEL, MFIL, HLL, RITES, MOIL
Total	40	

Analysis on Accumulated Reserves

For all the 40 PSUs, an analysis of the accumulated reserves with share capital was carried out in order to understand opportunities for capitalisation of reserves. The following table compares the accumulated reserves as a multiple of the paid up share capital. Only companies where the multiple is more than 8 have been included. In all other cases the above multiple was significantly lower.

Table 14 Accumulated Reserves

(Rs. crores)

Sl. No.	Name of PSU	Share Capital (a)	Total Reserve (c)	Times (c)/(a)	GoI holding
1	RITES	1.00	90.78	90.78	100.00
2	OIL	71.33	1782.21	24.79	100.00
3	BEML	36.86	536.16	14.30	61.10
4.	IBP	14.76	205.41	13.92	59.62
5	EIL	18.00	238.19	13.23	100.00
6	ONGC	1525.92	16932.88	11.10	97.94
7	IPCL	248.95	2242.17	8.59	62.40
8	A. INDIA	153.84	1335.54	8.42	100.00

It is evident that in at least eight companies, there are significant opportunities for capitalisation of the reserves.

Analysis on Trading & Listing

Table 15 Stocks Disinvested and Listed

Sl. No	Name of PSU	Share Capital (Rs. crs)	Price*	GoI Holding (%)	Other Major Share holders
1	FACT	354.77	NA	87.35	
2	ONGC	1525.92	175.00	96.13	
3	NALCO	1288.62	38.00	87.15	FIs
4	SAIL	4130.40	22.25	85.82	UTI
5	SCI	282.30	32.00	80.12	UTI
6	CONCOR	64.99	375.00	76.92	M. Stanley
7	ITI	88.00	NA	76.67	FIs
8	HZL	422.53	15.85	75.92	FIs
9	BEL	80.00	NA	75.86	FIs
10	MTNL	600.00	237.00	65.73	FIs & FIIs
11	IPCL	248.95	131.50	62.4	FIs
12	BEML	36.86	141.50	61.1	FIs
13	IBP	14.76	103.75	59.62	FIs
14	GAIL	845.32	100.00	96.63	
15	BRPL	13.75	13.75	74.76	FIs & MFs

* Price as on 18th February, 1997 on the Bombay Stock Exchange

Table 16 Stocks Disinvested but not yet Listed

Sl. No.	Name of PSU	Share Capital	GoI Holding (%)
1	NFL	490.58	97.65
2	HCL	330.20	98.88
3	NLC	1796.78	94.19
4	EIL	18.00	94.01
5	ITDC	67.52	90.00*
6	KIOCL	634.51	98.99

* The other major share holder is the Indian Hotels Ltd

Table 17 Stocks not Disinvested so far

Sl. No.	Name of PSU	Share Capital	GoI Holding (%)
1	NTPC	7334.97	100
2	PGCIL	2972.24	100
3	NHPC	2832.48	100
4	NCF	1178.47	100 by CIL
5	SECF	1121.00	100 by CIL
6	WCF	711.00	100 by CIL
7	BALCO	488.85	100
8	AI	153.84	100
9	MFL	137.37	69.78 ¹
10	GRSEL	123.84	100
11	HAL	120.50	100
12	PHL	113.76	78.46
13	OIL	71.33	100
14	HCIL	40.60	100 by AI
15	MOIL	15.33	81.54 ²
16	HTL	15.00	100
17	HLL	13.65	100
18	MFIL	9.58	100
19	BITES	1.00	100

¹ Balance held by National Iranian Oil Company

² Balance held by State Governments of Maharashtra (9.62 %) and Madhya Pradesh (8.81 %)

