

F. No. 5/2/2016-Policy
Government of India
Ministry of Finance
Department of Investment and Public Asset Management
(DIPAM)

Block No. 14, CGO Complex
Lodhi Road, New Delhi-110003
Dated the 28th March, 2018

OFFICE MEMORANDUM

Subject:- Enforcement and Monitoring of the Guidelines on Capital Restructuring of CPSEs dated 27.05.2016 by the subsidiaries/JVs of CPSEs.- regarding.


The undersigned is directed to refer to this Department's Office Memorandum of even number dated 01.02.2018 on the above mentioned subject, wherein all Administrative Ministries/Departments have been requested to take necessary steps for ensuring the enforcement and monitoring of provisions related to payment of dividend by the subsidiaries/JVs of CPSEs as stipulated under the "Guidelines on Capital Restructuring of CPSEs" dated 27.05.2016 and share a quarterly report with DEA/DIPAM. Copy of the communication is enclosed for ready reference.

2. From the reports received in respect of some subsidiaries/JVs of CPSEs regarding compliance of the Guidelines on Capital Restructuring of CPSEs dated 27.05.2016, it has been observed that:

- (i) Reports in some cases have not been routed through and examined by the concerned Administrative Ministries/Departments.
- (ii) Subsidiaries/JVs in some cases have not complied with the Capital Restructuring Guidelines for various reasons.

3. In view of the above, Financial Advisers are also requested to kindly ensure compliance of the provisions of the Guidelines on Capital Restructuring of CPSEs dated 27.05.2016 by the subsidiaries/JVs of CPSEs, under their respective Administrative Ministries/Departments and provide their inputs when such reports are sent to DIPAM.

Encl: As above


(G. Parthasarathi)

Director to the Government of India
Tele. No. 24366523

To,
Financial Advisers in the Ministries/Departments, Government of India
(As per the list enclosed)

F. No. 5/2/2016-Policy
Government of India
Ministry of Finance
Department of Investment and Public Asset Management
(DIPAM)

Block No. 14, CGO Complex
Lodhi Road, New Delhi-110003
Dated the 1st February, 2018

OFFICE MEMORANDUM

Subject:- Enforcement and Monitoring of the Guidelines on Capital Restructuring of CPSEs dated 27.05.2016 by the subsidiaries/JVs of CPSEs.- regarding.

This Department issued "Guidelines on Capital Restructuring of CPSEs" dated 27.05.2016 which comprehensively deal with the inter-related issues on payment of dividend, buy back of shares, issue of bonus shares and splitting of shares. The objective of these guidelines is to optimize return from the investment made by the Government with emphasis on direct expenditure/ Capex by CPSEs for business activities and leveraging their net-worth & assets for higher investment in economic activities.

2. As per para 4.1 of the Guidelines, the guidelines are applicable to all 'corporate bodies' where Government of India and/or Government controlled one or more body corporate have 'controlling interest'. The relevant provisions related to definition of CPSEs covered the under the Guidelines are as under:

4.1.1 'Body corporate' shall include body incorporated under the provisions of the Companies Act, 1956 or the Companies Act, 2013, or under any other Act as may be applicable except Limited Liability Partnership.

4.1.2 'Controlling interest' means control over the composition of the Board of Directors; or exercise or control over more than one-half of the total share capital or able to exercise more than 50 per cent voting rights in the meeting of the members, Board of Directors or any other similar executive structure, e.g., Governing Body, Executive Committee, etc.

4.1.3 A body corporate in which Government of India and/ or CPSEs including their subsidiaries controls the composition of the Board of Directors; or exercises or controls more than one-half of the total share capital shall be deemed to be a body controlled by Government of India.

3. Regarding the payment of dividend by CPSEs, the following criteria have been stipulated under para 5 of the Guidelines:

"5.2 Every CPSE would pay a minimum annual dividend of 30% of PAT or 5 % of the net-worth, whichever is higher subject to the maximum dividend permitted under the extant legal provisions.

5.3 Nonetheless, CPSEs are expected to pay the maximum dividend permissible under the Act under which a CPSE has been set up, unless lower dividend proposed to be paid is justified after the analyses of the following aspects on a case to case basis at the level of Administrative Ministry/Department with the approval of Financial Advisers.

(i) Net-worth of the CPSE and its capacity to borrow;

- (ii) Long-term borrowings;
- (iii) CAPEX/Business Expansion needs;
- (iv) Retention of profit for further leveraging in line with the CAPEX needs; and
- (v) Cash and bank balance.

5.4 The analysis should confirm that the retention of funds augmenting its net-worth is being optimally leveraged to ensure higher investment by the CPSEs. The report for exemption, if any, in this regard will be submitted by the CPSEs through their Administrative Ministry to Secretary, Department of Economic Affairs and Secretary, Department of Investment and Public Asset Management (DIPAM) before the end of second quarter of the financial year."

4. At present, as per para 9.3 of the Guidelines, the Administrative Ministry are responsible for ensuring the compliance of the guidelines. In case the CPSEs are unable to comply with any of the provisions, they approach DIPAM through their Administrative Ministry/Department for exemption.

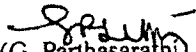
5. Some proposals for exemption by subsidiaries of CPSEs have also been received from Administrative Ministries/Departments. Such proposals were examined by the CMGIC and it was decided that considering the subsidiaries status, concerned Administrative Ministry/Department may suitably advise the parent companies (holding CPSEs) to ensure compliance of the guidelines by the subsidiary companies.

6. However, there is no specific provision under the Guidelines for ensuring the enforcement of guidelines and monitoring of payment of dividend by the subsidiaries/JVs of CPSEs as stipulated under the Guidelines.

7. In the above background, it is requested that all Administrative Ministries/Departments may take the following steps for ensuring the enforcement and monitoring of provisions related to payment of dividend by the subsidiaries/JVs of CPSEs as stipulated under the "Guidelines on Capital Restructuring of CPSEs" dated 27.05.2016:

- (a) To ensure payment of dividend by subsidiaries of CPSEs, in accordance with the Guidelines on "Capital Restructuring of CPSEs dated 27.05.2016".
- (b) To also ensure payment of optimum dividend even by subsidiaries/JVs in which CPSEs have minority stake, in accordance with the Guidelines on "Capital Restructuring of CPSEs dated 27.05.2016" before the decision of the dividend payment by the CPSE in the AGM.
- (c) Administrative Ministries/Departments to be responsible for regular monitoring and suitably advising the respective parent companies (holding CPSEs) accordingly.
- (d) A quarterly report regarding compliance of the Guidelines by subsidiaries/JVs of CPSEs may be shared by the Administrative Ministries/Departments with DEA/DIPAM, as per the enclosed format.

Encl: As above


(G. Parthasarathi)

Deputy Secretary to the Government of India
Tele. No. 24366523

To,

Secretaries to the Ministries/Departments of Government of India
(As per list)

