

REPORT

XVIII

DISINVESTMENT COMMISSION

MARCH
2003

'Trikoort - I', IInd Floor
Bhikaiji Cama Place, R K Puram
New Delhi - 110066

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Note: The Tables contained in this Report are based on information received from the management of the PSEs and other sources.

PART - A

1. INTRODUCTION

The Disinvestment Commission was reconstituted vide Government of India, Ministry of Disinvestment Resolution No.11012/1/2000-Admn. dated 24th July, 2001. So far, the Commission has submitted five reports (Report Nos. XIII, XIV, XV, XVI & XVII). Earlier, during 1996-1999, the Commission made recommendations in respect of 58 PSEs which had been referred to it by the Government.

This Report (XVIII) contains recommendations in respect of the following companies:

- (i) Central Mine Planning & Design Institute Ltd. (CMPDIL)
- (ii) Karnataka Antibiotics & Pharmaceuticals Ltd. (KAPL)

With this report, the reconstituted Commission has submitted fresh recommendations in respect of 17 companies and review recommendations for 4 companies. All these reports are available in Disinvestment Commission's website: www.disinvest.gov.in.

Currently, the following Public Sector Enterprises are under study:

1. Bharat Sanchar Nigam Ltd.
2. Brahmaputra Valley Fertilizer Corporation Ltd.
3. Central Cottage Industries Corporation Ltd.
4. Container Corporation of India Ltd. (Review)
5. Educational Consultants India Ltd.
6. Handicrafts & Handlooms Exports Corporation of India Ltd.
7. Hospital Services Consultancy Corporation Ltd.
8. Mahanagar Telephone Nigam Ltd.
9. National Film Development Corporation Ltd.
10. National Handloom Development Corporation Ltd.
11. National Mineral Development Corporation Ltd. (Review)
12. National Seeds Corporation Ltd.

13. North Eastern Electric Power Corporation Ltd.
14. Power Finance Corporation Ltd.
15. Rural Electrification Corporation Ltd.
16. State Farms Corporation of India Ltd. and
17. Water & Power Consultancy Services (India) Ltd.

STATUS OF DISINVESTMENT

The status position, as on 31.03.2003, on implementation of the recommendations of the Commission by the Ministry of Disinvestment is given below:

Sl.No.	Recommendations	Government Action
1.	Modern Food Industries India Limited (MFIL) – Sale of entire Government shareholding on an as-is-where basis.	Decision implemented
2.	Gas Authority of India Limited (GAIL) – 25% disinvestment through GDR <ul style="list-style-type: none"> • Autonomy under Strong Performer Criterion • Implement TL Sankar Committee Recommendations. 	Disinvestment in domestic and GDR markets completed during 1999. Government had decided to treat GAIL as a flagship company and hence would not reduce its holding to less than 51%.
3.	Indian Tourism Development Corporation (ITDC) – Handing over the hotels located in prime locations to established hotel chains to run on long term structured contract on lease cum management basis. The hotels in other locations may be demerged into separate companies and Government to sell 100% of its equity in those new companies.	Disinvestment process in 19 hotel properties completed. Process is on in respect of 5 hotels.

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Sl.No.	Recommendations	Government Action
4.	Bharat Aluminium Company Ltd. (BALCO) - Immediate disinvestment of 40% of the equity to a strategic partner with an agreement to dilute Government holding to 26% through public issue within 2 years. The Government to disinvest its balance holding of 26% in full at an appropriate time in future.	51% of Government shareholding in BALCO has been sold to a strategic partner in March, 2001.
5.	Bongaigaon Refineries and Chemicals Ltd. (BRPL) – Strategic sale of 50% of Government holding with an agreement to further dilute to 26% or below through public offer at a latter date.	Indian Oil Corporation has purchased the entire Government holding (74.46%) in BRPL.
6.	HTL Ltd. (HTL) – 3 options for disinvestment <ul style="list-style-type: none"> ● Sale of 100% shares in HTL along with ITI in the process of strategic sale ● 50% of shares of HTL may be offered to a strategic partner through a global competitive bidding ● If none of the above options is feasible, straight sale of assets of the company through competitive bidding. 	Government sold 74% of equity in HTL to a strategic partner in October, 2001.
7.	ITI Ltd. (ITI) – Immediate reduction of manpower through Voluntary Retirement Scheme and hiving off the Defence Division	Government has deferred the disinvestment in this case. This would be considered after the disinvestment in HTL is completed.

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Sl.No.	Recommendations	Government Action
	in Bangalore and merge with Bharat Electronics Ltd. followed by strategic sale of 50% of the shares with an agreement to reduce the Government holding to 26% through public offer to Indian institutions, small investors and employees later.	
8.	Madras Fertilizers Ltd. (MFL) – Recommended to initiate negotiations with National Iranian Oil Company to change the terms of agreement which would permit sale of 50% of the shares in the company to a strategic partner.	Decision being implemented.
9.*	Manganese Ore India Ltd. (MOIL) – Minimum of 51% of Government equity in MOIL should be disinvested to a strategic buyer. * Decision of the earlier Disinvestment Commission has been reviewed by the present Commission and the review recommendation is quoted above.	Decision being implemented.
10.	Container Corporation of India Ltd. (CONCOR) – 10 million shares offer to institutional investors and public and at a later stage the company could go in for fresh issue of 12.5 million shares thereby reducing the Government's share to 51%.	Million shares disinvested in the domestic market in favour of institutional investors.

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Sl.No.	Recommendations	Government Action
11.	<p>Kudremukh Iron Ore Company Ltd. (KIOCL) – Strategic sale of 30% and induction of the strategic partner in the management. There should be an agreement with the strategic partner for further dilution of Government equity to strategic partner and public offering within 2 years.</p>	<p>Government had deferred the disinvestment in KIOCL till the mining issues are sorted out.</p>
12.	<p>Mahanagar Telephone Nigam Ltd. (MTNL) - 60 million shares in DR market and 28.3 million sh. res in domestic market through book building. Financial restructure-by formation of a new company for raising funds for DOT. Grant Autonomy under Strong Performer Criteria.</p>	<p>40 million shares sold in 1997 in GDR market through book building.</p>
13.	<p>Oil India Ltd. (OIL) – Disinvestment and Company's IPO only after company's prospects are clearly established through the outcome of exploration activities in the North Bramhaputra area and Government's policy of APM.</p>	<p>On 23rd June, 2000, Government decided that Oil India Ltd. is not to be disinvested.</p>
14.*	<p>Oil and Natural Gas Commission Ltd. (ONGC) – Disinvestment after the organisational changes are in position and Government's policy on APM is known. * Disinvestment should be deferred until investor confidence in ONGC improves. Government and ONGC</p>	<p>Government has decided to treat ONGC as a flag ship Company and hence would not reduce its holding to less than 51%.</p>

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Sl.No.	Recommendations	Government Action
	<p>should take steps to improve investor perception. Thereafter disinvestment can take place in the foreign and domestic market up to 49% per cent when market conditions are favourable.</p> <p>* Earlier recommendation reviewed by the Commission in June, 1999.</p>	
15.*	<p>Rail India Technical & Economic Services Ltd. (RITES) - Minimum of 51% of Government equity may be given to the employees (both present and past) of RITES while Government should retain 25% of the equity. The balance equity may be distributed among reputed infrastructure consultancy organisations and infrastructure leasing and financing organisations after suitable prequalification.</p> <p>* Decision of the earlier Disinvestment Commission has been reviewed by the present Commission and the review recommendation is quoted above..</p>	<p>Recommendation — is — under examination.</p>
16.	<p>Hindustan Copper Ltd. (HCL)— Two options suggested: HCL to implement the expansion program and also restructure the ICC mining operations by closing down mines through Voluntary Retirement Scheme. Afterwards, Government to divest 51% of its</p>	<p>The Government has decided to disinvest entire equity through strategic sale.</p>

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Sl.No.	Recommendations	Government Action
	<p>holding through a strategic sale. The balance 22% to be disinvested through offer of sale to domestic institutions, small investors and employees.</p> <p>Immediately disinvest 51% through a strategic sale and after restructuring and expansion, disinvest balance 22% through offer of sale to domestic institutions, small investors and employees.</p>	
17.	<p>Pawan Hans Helicopters Ltd. (PHL) – Recommends writing off the Westland loans together with interest. Offer the entire Government holding to ONGC. If ONGC not interested, sell the entire holding of Government to an investor.</p>	No decision has yet been taken.
18.	<p>Power Grid Corporation of India Ltd. (POWERGRID) – Disinvestment only after entire electricity sector is fully restructured.</p>	Accepted
19.	<p>Shipping Corporation of India Ltd. (SCI) – Government to disinvest 40% of its holding to oil refineries, (30% to public sector and 10% to private sector refineries). This can be followed by the company's own equity raising.</p>	Government has decided to disinvest 51% of its equity through strategic sale. Decision being implemented.

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Sl.No.	Recommendations	Government Action
20	<p>Engineers India Ltd. (EIL) – Government of India to hold 26% for retaining the character as an Indian Consultancy company in strategic area; Government of India to disinvest 30% equity stake in the company along with appropriate role in management; 10% to employee under ESOP; 10% to public sector oil companies and other user PSUs; 24% through public offer to domestic investors after the strategic partner is inducted.</p>	<p>Government has decided to disinvest 51% of equity in EIL to a strategic partner and 10% to employees. The disinvestment is in progress.</p>
21.	<p>Engineering Projects (India) Ltd. (EPIL) - GOI firstly to try disinvestment of 74% of its holding as approved by Cabinet; in the absence of satisfactory response, closure and sale of asset.</p>	<p>Decision to disinvest 74% of equity is being implemented.</p>
22.	<p>Hindustan Prefab Ltd. (HPL) – Government of India to offer 74% of its holding to strategic buyer.</p>	<p>Closure of the company is under consideration of Ministry of Urban Development.</p>
23.	<p>IBP Ltd. (IBP) - Government of India to hold 26% and offer upto 33.9% of the company's equity out of Government of India holding of 59% to strategic buyer.</p>	<p>Disinvestment of 33.58% through strategic sale has been completed.</p>
24.	<p>National Thermal Power Corporation (NTPC) – No disinvestment presently.</p>	<p>Accepted</p>

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Sl.No.	Recommendations	Government Action
25.	NEPA Ltd. Immediate sale of 51% through a strategic partner which could go upto 100%	Government decided to disinvest 51% of the Company equity held by it through strategic sale.
26 & 27.	Ranchi Ashok Bihar Hotel Corporation and Utkal Ashok Hotel Corporation Ltd. – ITDC to disinvest 100% holding in favour of any private entrepreneur.	Under process; consultation with State Government is on.
28.	Electronics Trade and Technology Development (ET&T) – ET&T to discontinue all its operations with immediate effect and sale of assets of the company.	Government has decided for the closure of the company.
29.	Hindustan Zinc Ltd. (HZL) – 25% equity to be offered to strategic partner with role in management.	26% equity disinvested in favour of strategic partner with transfer of management control.
30.	Hotel Corporation of India Ltd. (HCIL) - The hotels at Mumbai and Delhi to be sold as separate units; Initiate dialogue with J&K Government for Centaur Srinagar and Air India to decide about the flight catering services.	3 hotel properties have been sold. In other cases, disinvestment is being pursued.
31.	National Hydroelectric Power Corporation Ltd. (NHPC) – No disinvestment presently.	Accepted
32.	Pyrites Phosphates & Chemicals Ltd. (PPCL) – Initiate action to sell Amjhore and Saladipura units to strategic buyers and close down Dehradun operations.	Company declared sick by BIFR on 20 th April, 2000.

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Sl.No.	Recommendations	Government Action
		On 18 th July, 2002, Government has decided to close/hive off Dehradun and Saladipura Units of PPCL including iron pyrites mines at Saladipura. VSS scheme to be extended to all employees of the above units.
33.	Rehabilitation Industries Corporation Ltd. (RICL) – With immediate effect discontinue all the operations and sale of assets.	Under implementation by Department of Heavy Industry.
34.	Fertilizer and Chemicals Travancore Ltd. (FACT) – Offer a minimum of 51% equity to strategic buyer along with management control.	Decision being implemented.
35.	Hindustan Latex Ltd. (HLL) – Offer a minimum of 51% equity to strategic buyer along with management control.	Government has decided not to disinvest its equity in this company.
36.	Indian Petrochemicals Corporation Ltd. (IPCL) – Offer 25% equity to strategic buyer along with management control.	26% equity disinvested in favour of a strategic partner in June 2002.
37.	National Aluminum Company Ltd. (NALCO) – Offer of sale up to 30% equity to retail as well as institutional investors including a GDR issue of 15%.	Government has decided for disinvestment of 20% equity in ADR market, 10% in domestic market and 29.15% through strategic sale.
38.	National Fertilizers Ltd. (NFL) – Offer a minimum of 51% equity to strategic buyer along with management control.	Decision being implemented.

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Sl.No.	Recommendations	Government Action
39.*	<p>Neyveli Lignite Corporation Ltd. (NLC) – “In case there is no legal hurdle to a power manufacturing company from becoming a strategic partner in NLC, Government could consider selling up to 51% of its equity to a strategic partner after the bidders have been suitably prequalified. If there is a legal hurdle, then at least 49% of the equity could be disinvested in the first instance”.</p> <p>* Decision of the earlier Disinvestment Commission has been reviewed by the present Commission and the review recommendation is quoted above.</p>	No decision taken.
40.	<p>Steel Authority of India Ltd. (SAIL) – No disinvestment, presently. Government assistance in writing-off IISCO’s losses and sale of IISCO. Conversion of SAIL’s SDF dues into equity.</p>	<p>Being implemented by the Ministry of Steel.</p> <p>Government approved on 15-2-2000, business and financial restructuring package for SAIL which, inter alia, included write up of loans and advance from SAIL to IISCO.</p> <p>In June, 2002, Government has approved revival package for IISCO which also includes grants for financing VRS.</p> <p>Restructuring package approved on 15-2-2000 had also allowed SAIL</p>

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Sl.No.	Recommendations	Government Action
		<p>to have minority shareholding in any joint venture contemplated for revival of IISCO.</p> <p>Government has waived loans advanced to SAIL from SDF to the tune of about Rs 5073 crore.</p>
41.	<p>Air India Ltd. (AI) – Infusion of Rs.1000 crore as equity, followed by strategic sale by issue of new shares reducing Govt. holding to 60%. Subsequently offer of sale of 20% to domestic investors.</p>	<p>Disinvestment process has not been restarted after the unsuccessful attempt made earlier.</p>
42.	<p>Central Electronics Ltd. (CEL) – Priority to CEL's performance improvement. One year to reduce manpower through Voluntary Retirement Scheme and another year to improve performance. If substantial surplus manpower reduction is not achieved, disinvest CEL through a trade sale after hiving off defence related operations.</p>	<p>A revised VRS introduced in 2002-03 and is under implementation.</p> <p>Various measures to improve CEL's financial performance are initiated and have yielded results in reducing operating losses in the last three years.</p>
43.	<p>Hindustan Steel Works Construction Ltd. (HSCL)- Government should try to close down the enterprise. If it does not find it feasible to do so, the only alternative would be to continue the enterprise by meeting recurring annual cash losses of around Rs.</p>	<p>Government decided to revive HSCL.</p> <p>With the approved financial restructuring package, HSCL has started the exercise of separating employees through VRS.</p>

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Sl.No.	Recommendations	Government Action
	60-70 crores per annum, after meeting statutory liabilities of Rs. 136 crores.	HSCL also diversified its activities into non-steel sector.
44.	State Trading Corporation (STC) – Offer of entire Government of India holding to a strategic buyer, after reserving 5% share for employees who opt for Voluntary Retirement Scheme at a discount to the strategic buyer's price. Manpower reduction through Voluntary Retirement Scheme should be undertaken simultaneously with the decision for disinvestment.	Government has decided to bring its equity down to 26% through strategic sale, of which upto 10% will be offered to employees.
45.	Minerals and Metal Trading Corporation of India Ltd. (MMTC) – Offer of 51% equity through strategic buyer along with reduction in employee strength through implementation of suitable Voluntary Retirement Scheme. Offer of sale to public, when the value of the residual equity holding of Government increases as a result of transfer of management control.	Government has decided to bring its equity down to 26% through strategic sale, of which upto 10% will be offered to employees. Proposal to be implemented after disinvestment of STC.
46.	National Mineral Development Corporation Ltd. (NMDC) - Offer of shares up to 20-25% to selected Joint Venture partner in return for joining hands with NMDC in their overseas venture(s). Subsequently disinvestment through offer of sale.	The Government has deferred the disinvestment in this case.

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Sl.No.	Recommendations	Government Action
	<p>If disinvestment of up to 20-25% to selected Joint Venture partner is not feasible; equity up to 49% should be sold in stages in domestic or international market.</p> <p>Government should retain 51% of the equity till an effective regulatory mechanism is put in place to regulate exploration and export of iron ore.</p>	
47.	<p>Paradeep Phosphates Ltd. (PPL) – Disinvest not less than 51% holding through strategic sale. The strategic sale should be initiated simultaneously with the implementation of ERS-II. Later, Government of India can disinvest its balance holding through public issue to realize better value for its remaining holding.</p>	Disinvestment completed.
48.*	<p>Projects & Equipment Corporation Ltd. (PEC)- Government should divest 100% of its shareholding...Since the assets of the company are mainly knowledge-based, Government could consider a management-employee buy-out in PEC. If this is not found feasible, Government could consider a strategic sale of 100% to any reputed international trading organisation. In case there is no investor interest in the</p>	Proposed to take up after the completion of disinvestment of STC.

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Sl.No.	Recommendations	Government Action
	<p>company, there would be no option but to close the company after liquidating its assets”.</p> <p>* Decision of the earlier Disinvestment Commission has been reviewed by the present Commission, as quoted above.</p>	
49.	<p>MECON Ltd. (MECON) – Sale of a minimum of 51% along with an appropriate role in management to a strategic partner who has LSTK capability</p>	Decision being implemented.
50.	<p>MSTC Ltd (MSTC) - 100% disinvestment along with MSTC’s holding in FSNL.</p>	Government has decided to disinvest entire holding in the company
51.	<p>Mineral Exploration Corporation Ltd. (MECL) – Government of India to chose from three options:</p> <ol style="list-style-type: none"> 1. Implement Voluntary Retirement Scheme, allow MECL to continue and apply for PLs. 2. Sell 100% equity on as-is-where-is basis. 3. Closure. 	Disinvestment is to be considered after the company implemented VRS out of its own Fund and acquired Prospecting Licenses.
52.	<p>Sponge Iron India Ltd. (SIIL) - 100% disinvestment, after cleaning of Balance Sheet of the Company.</p>	Decision is being implemented.
53.	<p>Bharat Heavy Electricals Ltd. (BHEL) - Induction of Financial Institutions (FIs) as strategic partners through a disinvestment</p>	The matter is under consideration of Department of Heavy Industry.

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Sl.No.	Recommendations	Government Action
	<p>of 20% of BHEL's equity in their favour. In order to ensure enhanced funding capability in Rupee as well as Foreign Currency to enhance its competitiveness, it is recommended that domestic FIs may be offered equity stake of 10% and foreign private equity funds/FIs including multilateral institutions (foreign funds) be offered a further equity stake of 10% in the company with appropriate role in management to both Indian and foreign parties. The Government should enter into separate shareholder agreements with the strategic partners to ensure that, in the event of their exist from shareholding in BHEL, Government's prior consent or first refusal is taken, so that the new buyer is also acceptable to Government as a strategic partner.</p>	
54.	<p>Hindustan Insecticides Ltd. (HIL) – Government should offer a minimum of 50% of equity to a strategic buyer along with management control to enable it to diversify it product range with new technology and rational investment.</p>	<p>Disinvestment of 51% equity in HIL could not be completed due of lack of response.</p>
55.	<p>Hindustan Organic Chemicals Ltd. (HOCL) - Introduction of Voluntary Retirement Scheme to</p>	<p>Government has approved the disinvestment plan in the company and the process is on.</p>

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Sl.No.	Recommendations	Government Action
	reduce manpower. Disinvestment of 33% equity out of Government holding 59% to a strategic buyer while retaining 26% equity with Government.	
56.	Rashtriya Chemicals & Fertilizers Ltd. (RCFL) – Disinvestment of 51% of Government held equity in favour of a strategic buyer with transfer of management control. The selection of strategic buyer should be done through global competitive bidding.	The Government has deferred the disinvestment in this case.
57.	Rashtriya Ispat Nigam Ltd. (RINL) – Government of India should write off the entire accumulated losses of RINL against its entire ‘Share Money Pending Allotment’ and ‘Preference Share Capital’ and part of Equity Capital to keep the company from being referred to BIFR and to clean up its balance sheet. Simultaneously, the Government should initiate the process of disinvestment of not less than 51% of its remaining equity holding in RINL to a strategic buyer. The write-off of accumulated losses will not entail any cash outflow and would enable better realization from the strategic buyer. As the plant is port based and its	No decision has yet been taken.

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Sl.No.	Recommendations	Government Action
	<p>facilities are comparatively new and are operating efficiently, the Commission feels that there would be investor interest in acquiring RINL after the balance sheet is cleared up. The selection of the strategic buyer should be done through global competitive bidding by pre-qualification of bidders.</p>	
58.	<p>Hindustan Vegetable Oils Corporation Ltd. (HVOC) – Hiving off breakfast food division and sell off 100% ; Close down of operations in Vanaspati and packaging of refined oil.</p>	<p>Government has decided for the closure of the company.</p>
59.	<p>IRCON International Ltd. (IRCON) - In order to bring in efficiencies by way of greater focus on value drivers, strategic sale of 51% stake and transfer of management control in the company through a competitive bidding process is recommended, after having withdrawn necessary surplus from IRCON.....With a view to ensuring the retention of the employees on deputation from Indian Railways as well as other key employees of IRCON, suitable schemes of incentivization of employees such as Employee Stock Option Plan (ESOP)/Employees Stock Purchase Scheme should be</p>	<p>Recommendation is under examination.</p>

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Sl.No.	Recommendations	Government Action
	explored.....The government should undertake a phased dilution of equity, having ensured that the government's stake does not fall below 26% at least for 3-5 years.	
60.	Central Inland Water Transport Corporation Ltd. (CIWTC) - In view of the potential of Inland Water Transport that can be harnessed by private sector participants, the Commission recommends that the first option of selling entire equity of GoI to a strategic buyer may be pursued together with necessary capital restructuring. The restructuring package is to be finalised in consultation with prospective buyers. If, however, no buyer shows interest, assets of CIWTC may be sold and the company may be wound up following the prescribed procedure.	Government has approved disinvestment. EOIs have been invited.
61.	Cochin Shipyard Limited (CIL) - At least 51% control in CSL should be sold to a strategic partner who can bring in the required efficiencies as well as capital, to the extent needed. Given the upward potential of CSL, it would be desirable for GoI to retain some share for some more time.	The matter is under discussion with the Ministry of Defence.

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Sl.No.	Recommendations	Government Action
62.	<p>Hindustan Shipyard Limited (HSL) - Disinvestment of the entire GoI shareholding in HSL to a strategic buyer. The restructuring package, formulated in consultation with prospective buyers, should be concurrent with the disinvestment programme. This would help in bringing in productivity improvements and marketing ability needed to turn around HSL. In case the process of disinvestment does not succeed, owing to lack of interest from prospective buyers, closure of HSL may be inevitable.</p>	<p>The matter is under discussion with the Ministry of Defence.</p>
63.	<p>Dredging Corporation of India Ltd. (DCI) - GoI should disinvest at least 51% shareholding in DCI to a strategic partner after withdrawal of necessary cash surplus. GoI should hold at least 26% share for a minimum period of 5 years. While prequalifying the potential bidders, special care is to be taken to ensure that each of the potential bidders has the financial, technological and managerial capacity to add value to DCI to make DCI internationally competitive.</p>	<p>Recommendation is being processed.</p>
64.	<p>National Projects Construction Corporation Ltd. (NPCC) - A restructuring package, in</p>	<p>Recommendation is being processed.</p>

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Sl.No.	Recommendations	Government Action
	<p>consultation with prospective buyers, be formulated and the entire GoI stake disinvested in favour of a strategic buyer. The restructuring of NPCC and its total disinvestment should be concurrent. In case no strategic buyer shows interest, or in the event the cost of closure turns out to be much cheaper compared to the cost of revival and disinvestment, the option of closure has to be pursued.</p>	
65.	<p>Semiconductor Complex Limited (SCL) - Due to the strategic nature of business of SCL may need to be sustained in the national interest, the Commission recommends that SCL could be merged with a Public Sector company in a related line of business, like BEL. This merger would eventually result in a related line of business of BEL or a subsidiary.In case merger with BEL is not considered feasible, Government could explore the possibility of integration of Very Large Scale Integrated Circuits (VLSI) facilities of Bangalore (Society for Integrated Circuits Technology & Applied Research) and Gallium Arsenide Enabling Technology Centre (GAETEC), Hyderabad with SCL to achieve</p>	<p>Recommendation of the Disinvestment Commission is being processed.</p>

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Sl.No.	Recommendations	Government Action
	synergy and optimisation of resources as well as to strengthen the national capability in the field of semiconductor/micro-electronics.	
66.	<p>Telecommunications Consultants India Ltd. (TCIL) - A minimum of 51% of TCIL's equity, held by Government of India, be disinvested in favour of a strategic partner, after withdrawal of surplus cash reserves. Government should retain at least 26% equity for a period of 3-5 years. Continuation of technical workforce of TCIL on deputation from the Department of Telecommunications/BSNL, post privatisation, may be needed for a few years till the company builds up its own hightech human resources and becomes an international major on its own.</p> <p>The restructuring package, prior to disinvestment, has to be drawn up in consultation with prospective buyers.</p>	Recommendation is under examination.
67	<p>Cotton Corporation of India Ltd. (CCI) - "...If MSP continues, it is recommended that the GoI disinvests initially 51% of its shareholding in CCI in favour of a strategic partner, retaining the balance 49% for a minimum period of 3 years.If MSP is</p>	Recommendation is under examination.

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Sl.No.	Recommendations	Government Action
	discontinued, 100% disinvestment of CCI in favour of a strategic buyer is recommended.”	
68.	<p>Indian Medicines Pharmaceuticals Ltd (IMPCL) - “...Government of India holds 51% share and the balance is held by Kumaon Mandal Vikas Nigam Limited (KMVNL), a profit-making undertaking of the Government of Uttaranchal.....first offer to sell its equity to KMVNL at a negotiated price. In case KMVNL is not interested, GoI should sell its entire equity in IMPCL in favour of a strategic partner through a competitive bidding route. Should KMVNL be also interested to simultaneously exit from IMPCL, 100% equity of IMPCL may be disinvested in favour of a strategic buyer.”</p>	Recommendation is under examination.
69.	<p>Jute Corporation of India Ltd. (JCI) - “...In case Government continues the price support operations for jute, the Commission recommends that JCI should not be disinvested now.....In the event of MSP policy for jute being discontinued, the Commission recommends that the entire equity of JCI be disinvested in favour of a strategic buyer, together with</p>	Recommendation is under examination.

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Sl.No.	Recommendations	Government Action
	organisational and financial restructuring. In case disinvestment of JCI is not possible, owing to lack of interest of buyers or any other reason, closure/winding up of JCI should be pursued.”	
70.	National Buildings Construction Corpn. Ltd. (NBCC) - “...That upto 74% equity in NBCC, held by Government of India, be sold to a strategic partner through the competitive bidding route. The Commission further recommends that a financial and organisational restructuring package for NBCC be formulated in consultation with the prospective bidders and implemented at the time of disinvestment. At least 26% shares should be retained with the Government for a minimum period of 3 years.”	Recommendation is under examination.
71.	Hooghly Dock and Port Engineers Ltd. (HDPE) - Government of India should disinvest its entire stake in HDPE at the earliest to a strategic buyer, together with financial restructuring, details of which have to be finalised in consultation with prospective buyers. If disinvestment does not succeed, owing to lack of interest of suitable bidders or	Recommendation is under examination.

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Sl.No.	Recommendations	Government Action
	for any other reason, closure/winding up of HDPE is recommended.	
72.	<p>National Small Industries Corporation Ltd. (NSIC) - NSIC should immediately discontinue its financing activities, through sale or transfer of its loan portfolio to other institutions, such as SIDBI.</p> <p>Hive off, in a phased manner, the Technical Service Centres of NSIC to appropriate private agencies or State institutions, failing which sale of fixed assets etc. is to be effected while offering an appropriate compensation package to the employees (like VRS). This process should be completed within a time-schedule, not exceeding 3 years.</p> <p>NSIC, with suitable organizational and financial restructuring, should continue the marketing activities with enhanced focus. Since NSIC does not appear to have requisite expertise information/database and skills in the area of marketing, it would have to develop requisite expertise and capabilities, either by inducting competent professionals or by availing the services of the best professionals in the field, so as to</p>	Recommendation is under examination.

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Sl.No.	Recommendations	Government Action
	be able to extend more effective service to the SSI sector in India in the rapidly changing global context.	
73.	<p>Rajasthan Drugs and Pharmaceuticals Ltd. (RDPL) - The entire stake of IDPL in RDPL should be offered to a strategic investor through the competitive bidding route. In case RIICO is interested to exit simultaneously from RDPL, 100% disinvestment of RDPL's shares is recommended. ... since IDDPL is under the purview of BIFR, disposal of its holding in RDPL will require prior approval of BIFR.</p>	Recommendation is under examination.

Source : Ministry of Disinvestment, Government of India

PART - B

2. SPECIFIC RECOMMENDATIONS

2.1 CENTRAL MINE PLANNING & DESIGN INSTITUTE LTD. (CMPDIL)

INTRODUCTION

Central Mine Planning & Design Institute Limited (CMPDIL) was born out of the process of nationalisation and re-organisation of the coal industry during 1970s.

The management of all coking coal mines, except the captive mines of TISCO & IISCO, was taken over by GoI under the Coking Coal Mines (Emergency Provisions) Act 1971.

Further, in 1973, GoI took over the management of 711 coal mines and formed the Coal Mines Authority Limited to manage non-coking coal mines. CMAL was set up as a unitary body with four divisions, namely, Central Division (including the erstwhile National Coal Development Corporation), Eastern Division, Western Division, and Central Mine Planning & Design Institute.

In 1975, Coal India Limited (CIL) was formed as a holding company, and the CMPDIL came into existence as one of the wholly owned subsidiaries of CIL, which is under the administrative control of the Ministry of Coal (MoC). MoC has the overall responsibility of determining policies and strategies in respect of exploration and development of coal and lignite reserves, sanctioning important projects of high value and for deciding all related issues.

As on March 31, 2002, the authorised equity share capital of CMPDIL was Rs.500 Mn. (500,000 shares of Rs. 1000 each) and paid-up share capital was Rs.190.4 Mn., held entirely by CIL.

CMPDIL is a private limited company. Its Directors can be transferred from one company under CIL to another, depending on vacancies. As on 31.3.2002, there were 3486 employees on the roll of the company.

Activities of CMPDIL

CMPDIL provides consultancy service to CIL and its seven subsidiaries from conceptualisation to completion of a project. The major operations of CMPDIL

can be segregated into Exploration, Planning & Development, Environment Management, and other special services i.e. Ventilation & gas survey, controlled blasting etc.

The exploration services consisting of drilling, geotechnical studies, geophysical surveys, geochemical testing, coal quality assessments, geological modelling etc. account for a major part of the company's revenue. Of late, the environment management studies are being given high emphasis.

Technical and feasibility reports from CMPDIL are necessary for Public Investment Board (PIB) and CCEA clearances, required by CIL and its subsidiaries for incurring major capital expenditures. CMPDIL is an ISO-9001 company and is also the nodal agency for all Science and Technology (S&T) schemes funded by MoC and R&D schemes funded by R&D Board of CIL.

CMPDIL is a registered consultant with various multilateral agencies like World Bank and Asian Development Bank (ADB) and United Nations Development Programme (UNDP). It has entered into MoUs with reputed international consultants like IMCL (UK), Giprosakht (Russia), Montan Consulting GmbH (Germany), Rheinbraun, (Germany); and DMT (Germany), for working together in earth resource sector.

Most of the work with foreign collaborators has been carried out in India.

Headquartered at Ranchi (Jharkhand), the company operates through seven Regional Institutes (RIs) and the set-up at Ranchi. Each of the RIs caters to a subsidiary of CIL and is located at the Head office of the concerned subsidiary. The location of RIs is given in the table below:

Table-1 - Regional Institutes

RI	Location	Year of formation	Client
RI-I	Asansol	1975	Eastern Coalfield Limited (ECL)
RI-II	Dhanbad	1972	Bharat Coking Coal Limited (BCCL)
RI-III	Ranchi	1975	Central Coalfield Limited (CCL)

Contd...

RI	Location	Year of formation	Client
RI-IV	Nagpur	1975	Western Coalfield Limited (WCL)
RI-V	Bilaspur	1986	South Eastern Coalfield Limited (SECL)
RI-VI	Singrauli	1986	Northern Coalfield Limited (NCL)
RI-VII	Bhubaneshwar	1992	Mahanadi Coalfield Limited (MCL)

Source: CMPDIL

Each RI is headed by a Regional Director and undertakes virtually all the research & development requirements of the concerned subsidiary, and can be taken the R&D arm of the CIL subsidiary. The headquarters at Ranchi oversees the operations and is involved if there are some special projects i.e. any new project which may require the assistance from the manpower pool of the headquarters.

The corporate mission of CMPDIL is to 'Provide total consultancy in coal/mineral exploration, mining, engineering and allied fields as a premier consultant in India and leading one in international arena. It is engaged in the work of exploration, project planning, **detailed designing** of system and sub-systems, co-ordination and integration of **applied research** and development, absorption of new techniques of coal mining, **beneficiation** and utilisation of coal, perspective planning & demand assessment and **environment** related services. It caters to the total planning and designing needs of **new coal** projects and re-organisation of existing mines for optimal production of coal, with due attention to safety, conservation, quality and environment.

INDUSTRY REVIEW

In 2001, the global mining industry produced over 6 billion tons of raw product valued at several trillion dollars. Downstream beneficiation and processing of these raw materials add further value as products are created to serve all aspects of industry and commerce, world-wide.

India is endowed with rich mineral resources, producing 89 minerals out of which 4 are fuel minerals, 11 metallic, 52 non-metallic and 22 minor minerals. The total value of mineral production was Rs.570 bn. in FY 2002. The metallic production is accounted for by iron-ore, copper-ore, chromites and/or zinc

concentrates, gold, manganese ore, bauxite and lead concentrates. Amongst the non-metallic minerals, more than 90 percent of the aggregate value is shared by limestone, magnesite, dolomite, barytes, kaolin, gypsum, apatite & phosphorite, steatite and fluorite.

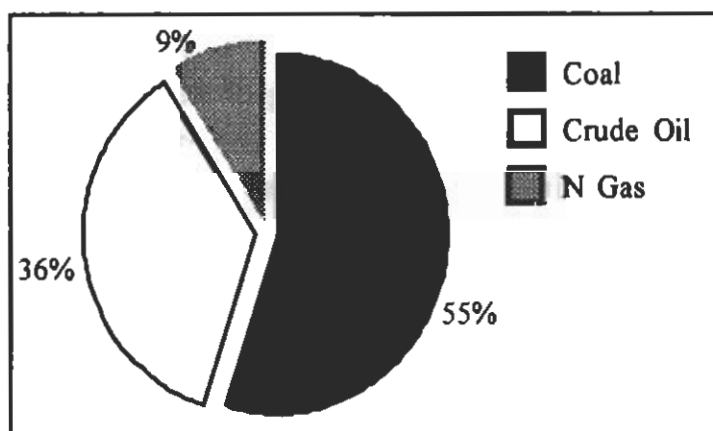
India is the world's largest producer of mica blocks and mica splittings. With the recent spurt in world demand for chromite, India has stepped up its production to reach the third rank among the chromite producers of the world.

Besides, India ranks 3rd in production of coal & lignite, 4th in iron ore and 6th in bauxite and manganese ore.

India's energy requirements

Coal is the main source of primary energy in India. The estimated source-mix for primary energy in India in 1999 is given in the table below:

Table-2 - Estimated source-wise energy in 1999



Source : Credit Analysis & Research Ltd (CARE)

The table above does not include energy sources such as nuclear, hydel, firewood and animal power.

Coal being the most important source of energy in the country, dependence on coal is unlikely to reduce in the foreseeable future. However, competition to domestic coal industry would arise from imports.

Natural gas is becoming an increasingly important source of energy. In the past one year, significant gas discoveries have been made after opening up gas exploration

to private sector. Private participation in the Petroleum sector will enhance competition to the established public sector oil companies. They will be forced to be more efficient in operations and to reassess the potential of a field after taking into account changes in technology and pricing mechanism.

Coal Industry

Demand for Coal

Depending on their moisture content, coal varieties are broadly divided into three major types as given in the table below:

Table 3 - Types of coal

Coal types	Moisture content	Share (#)	Locations (mainly)
Coking coal	Almost nil	9%	Jharkhand, W Bengal
Non-Coking coal	Less than 20%	84%	Jharkhand, W Bengal, MP, UP, Orissa, etc.
Lignite	Between 20-45%	7%	AP, Rajasthan, TN

(#) Share in total coal produced in India

Source: Statistical Outline of India, 2002-03, Tata Services Ltd. / CARE

Against the total coal consumption of 326 metric tonnes (mmt.) in the year 2001-2002, 23 mmt. were imported. The sectorwise consumption of coal is shown below:

Table 4 - Coal consuming sectors

FY 2002	Power	Steel	Cement	Others	Total
MMT	243	20	12	51	326
Percentage	75	6	3	16	100

Source : CARE

With about 75% share, power sector is the most important consumer of coal. In turn, more than 60% of total power generating capacity of utilities in India is coal based. Three important sectors - coal, power and railways (for carrying) - are inter-linked with common features of energy supply and Government ownership.

Indian Railways derives over 22% of its revenues (of over Rs.360 bn) from carriage of coal.

The power sector in India is dominated by State Government owned State Electricity Boards (SEBs). Owing to inability to realise revenues from their consumers and their own operating problems and inefficiencies, SEBs suffer from substantial cash losses and many of them are almost bankrupt. They are not in a position to make timely payments to their suppliers, including coal companies. This has adversely affected the cash flow and profitability of the coal sector. Dominance of SEBs and their financial weakness have adversely affected investment by private sector in electricity generation. This has in-turn reduced demand and investment in dependent industries such as coal. GoI and various State Governments have now started introducing reforms in the power sector to improve the viability of the sector.

Apart from regulatory hindrances, private investment in coal sector is also dependent on on-going reforms in the power sector. For example, if third party sales are allowed in the power sector, significant investment can be expected in captive mining projects or for supplying coal to Independent Power Projects (IPPs) that may come up.

At present, coal is used as a fuel in power plants. In future, coal may face competition from natural gas as a feedstock for power generation because of various advantages of natural gas, as summarised below:

- Natural gas is a clean fuel. Use of coal leads to high emission of air polluting substances and production of fly ash.
- The energy efficiency of coal based plants is much lower than that of gas based plants.
- Gas based plants can be used for intermittent generation, whereas coal based power plants are to be operated on a continuous basis. Thus, in a situation characterised by significant variations between peak and average demand, gas plants are likely to be more convenient.

However, currently the prices of natural gas are much higher than those of coal on the basis of equivalent energy content. As a result, it is unlikely that natural

gas can replace coal as the primary source of energy supply in India in the foreseeable future.

Coal Production

In India, the major coal producers are: CIL and its subsidiaries, Neyveli Lignite Corporation Limited, and Singareni Collieries Company (a joint venture with Government of Andhra Pradesh).

The total production of coal in the country during the last three years is shown in the table below:

Table 5 – Production of coal (mmt)

	2002-2003*	2001-02	2000-01	1999-00
CIL	205.73	279.65	268.14	260.58
SCCL	24.76	30.81	30.27	29.56
NLC	12.59	18.37	18.17	17.55
Others	9.27	17.18	15.23	9.84
Total	252.35	346.01	331.81	317.53

*Data for April-November 2002.

Source : Annual report of MoC / CARE

Besides, there are captive mines owned by companies in steel (TISCO), energy (Jindal Steel & Power), cement, etc. Of the total coal consumption in the country, CIL contributes over 81%. Thus, it virtually controls the coal industry.

Import and Export of Coal

Coking coal is being imported by SAIL and other steel sector manufacturers mainly to bridge the gap between the requirement and indigenous availability as also to improve the quality of overall blend for technological reasons. Pig-iron manufacturers and iron & steel manufacturers using mini-blast furnace are the main importers of coke. Coal based power plants, cement plants, captive power plants, sponge iron plants, industrial manufacturers and coal traders import non-coking coal. The imports for the year 2001-02 were to the tune of 23 mmt.. Coal is under Open General Licence (OGL) list.

The traditional buyers of Indian coal are Nepal, Bangladesh and Bhutan. The quantum of coal exported by CIL during 2001-02 to the neighbouring countries was modest at 0.016 million tonnes.

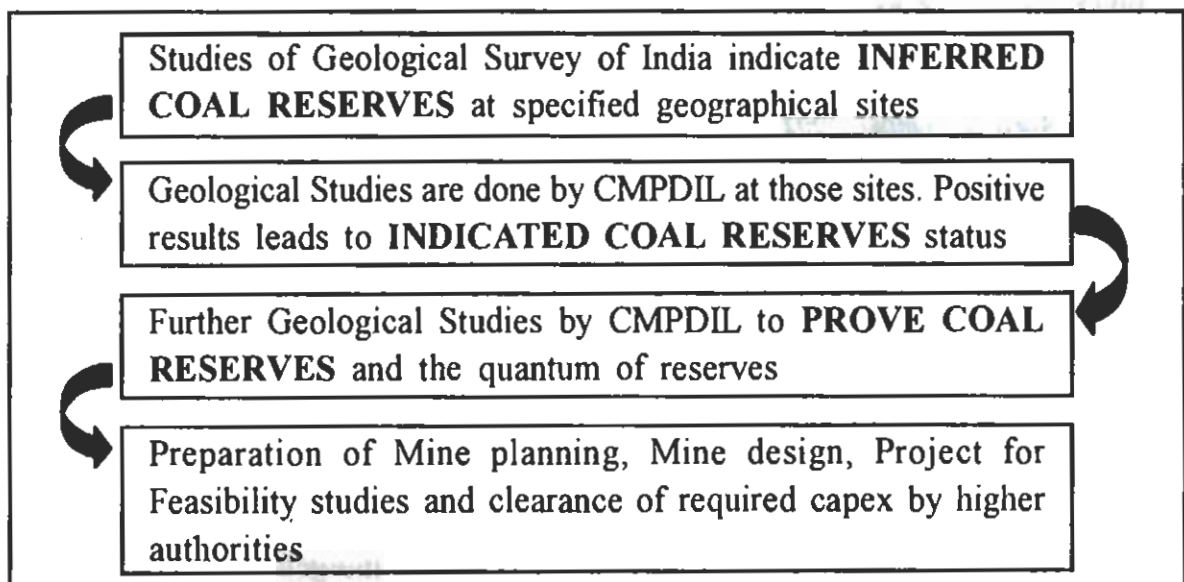
Inventory of Coal reserves

As a result of exploration carried out down to a depth of 1200m by the Geological Survey of India (GSI) and other agencies, a total of 220.98 billion tonnes of coal reserves have been identified in the country as on January 2001.

Coal Exploratory / Design Consultancy

Since the nationalisation of coal industry, the entire set-up for supporting coal industry grew around GoI. CIL provides key inputs for policy formulations by Government of India and is responsible for their implementation. CMPDIL is the dominant consultancy organisation for coal exploration and design consultancy as shown below:

Role of CMPDIL in coal exploration



Source : CARE

Mineral Exploration Corporation Limited (MECL), under the administrative control of the Ministry of Mines, also assists CMPDIL in detailed exploration for proving coal reserves.

Internationally, coal exploration and design consultancy are carried out by:

- In-house teams of large diversified mining companies such as Rio Tinto, BHP Billiton, etc.,
- Small scale prospectors, known as 'Junior Explorers' and
- Mid-sized and small specialised consultancy firms catering to the mining industry.

The services provided entail mining engineering, geology, geostatistics, mine design, mine operation, feasibility, due diligence, litigation support and training.

Coal India Limited

CIL and its subsidiaries are incorporated under the Companies Act, 1956. The names of the subsidiaries and their respective headquarters are shown below:

Table 6 - Subsidiaries of Coal India Limited

Subsidiary	Headquarter	State
Bharat Coking Coal Limited (BCCL)	Dhanbad	Jharkand
Central Coalfields Limited (CCL)	Ranchi	Jharkand
Eastern Coalfields Limited (ECL)	Sanctoria, Burdwan	West Bengal
Western Coalfields Limited (WCL)	Nagpur	Maharashtra
South Eastern Coalfields Limited (SECL)	Bilaspur	Chattisgarh
Northern Coalfields Limited (NCL)	Singrauli	Madhya Pradesh
Mahanadi Coalfields Limited (MCL)	Sambalpur	Orissa
Central Mine Planning and Design Institute Limited (CMPDIL)	Ranchi	Jharkand

Source: CARE

The coal mines in Assam and its neighbouring areas are controlled directly by CIL under the unit, North Eastern Coalfields (NECL) with headquarters at Margherita, Tinsukia district, Assam.

CIL and its subsidiaries collectively incurred a pre-tax profit of Rs.17.55 bn. in FY 2001-02 as against a pre-tax loss of of Rs.14.15 bn. in FY 2000-01. The performance of the subsidiaries for FY 2001-02 on various parameters is given in the table below:

Table 7 - Working results of units of CIL (Rs. Billion)

	Prodn (mmt)	Turnover	PBT	Networth	Dividend	Employee (‘000s)#
BCCL	25.25	24.47	-7.55	-27.37	0	114
CCL	33.81	27.43	-1.08	-3.29	0	78
ECL	28.55	35.03	-2.78	-19.38	0	127
WCL	37.01	34.37	3.10	9.82	0.54	78
SECL	64.12	46.54	7.69	20.94	2.15	96
NCL	42.46	35.54	13.87	24.73	0.38	17
MCL	47.81	23.15	7.20	16.47	0.20	23
CMPDIL	0.00	1.32	0.03	0.36	0	3.5
CIL	(*)0.64	9.28	5.62	(#)88.16	0	6
Total	279.65	237.13	26.10	110.44	3.27	542.5

(*) Production data for NEC division of CIL #Figures as at the end of FY 2001.

Source: CARE

Of the seven coal producing subsidiaries, three are loss making while the other four make significant profits. Financial results of CMPDIL, being essentially an in-house company, do not affect the overall profitability of CIL.

Corporate Management of CIL

CIL the holding Company with headquarters at Kolkata, is headed by a Chairman-cum-Managing Director (CMD). Each subsidiary company has its own Board of Directors headed by a CMD.

CMPDIL has four posts of functional technical Directors. However, there are no non-technical (i.e. Finance and Personnel) Directors on Board of CMPDIL and these functions are managed under active guidance of CIL.

Regulations

Before 1970's, the coal mining and related industries were guided by the general laws of the land, mainly those relating to:

- mines and mining;
- labour / labour welfare;
- plantations and land use; and
- pollution control.

The industry was controlled by the private sector. Some mines were owned by consumers such as steel companies while others were owned by mining firms.

In the early 1970's, due to various problems prevailing then in the industry, the Government of India nationalised the entire industry in two stages. First, the coking coal industry was nationalised and later the non-coking coal industry was also nationalised. Except for captive mines with consumers engaged in production of iron and steel, i.e. TISCO and IISCO, the entire sector was taken over by the Government. The prominent legislations related to nationalisation of the sector are: Coking Coal Mines (Emergency Provisions) Act, 1971 (64 of 1971); Coking Coal Mines (Nationalisation) Act, 1972 (36 of 1972); Coal Mines (Taking Over of Management) Act, 1973 (15 of 1973); and Coal Mines (Nationalisation) Act, 1973 (26 of 1973).

The other prominent coal related legislations are: Coal Mines Provident Fund & Miscellaneous Provisions Act, 1948; Mines Act, 1952 (35 of 1952); Mines Rules, 1955; Mines & Minerals (Regulation and Development) Act, 1957; Coal Mines Regulations, 1957; Coal Bearing Areas (Acquisition and Development) Act, 1957; The Coal Mines (Conservation and Development) Act, 1974 (28 of 1974); and Coal India (Regulation of Transfers and Validation) Act, 2000.

Under section 4 of the Coking Coal Mines (Nationalisation) Act, 1972, the specified mines were taken over by the Central Government (CG). Further, section 7 of that Act says that the right, title and interest in relation to a coking coal mine instead of continuing to vest in the CG, vest in the Government company

Under section 14 of the same Act, the Central Government may appoint an individual or a Government Company as a Custodian of the Mines.

Under Section 3 of The Coal Mines (Nationalisation) Act, 1973, the specified mines were taken over by CG. Coal mining was restricted to the following: CG; Company owned, managed or controlled by CG; Company carrying captive mining for producing iron and steel (later amended to include power and cement); and Person to whom a sub-lease has been granted by CG or CG owned company.

To grant a sub-lease, CG or CG company need to be satisfied that: the coal reserves are in isolated small pockets or not sufficient for scientific or economical development; and the coal produced does not require to be transported by rail.

The process of increasing Governmental control over coal was reversed for the first time in 1993. The private sector was allowed into coal business for:

- captive mining for power producers; and
- washing of coal.

In 1996, cement manufacturers were also allowed captive mining. Since 1997, Government has made efforts to bring in legislations to allow non-captive coal mining by the private sector. In 2000, a Bill was proposed to allow the State Government companies into coal mining. This too has not yet been passed by the Parliament.

The main pending legislation is a Bill for amendment of the Coal Mines (Nationalisation) Act. This seeks to allow decontrol of the sector, currently monopolised by CIL. Decontrol of the sector is likely to open up significant opportunities for development and operations of new mines by private companies. On the other hand, this would mean that CIL and its subsidiaries would have to undertake paradigm shift in operations and dealings with customers.

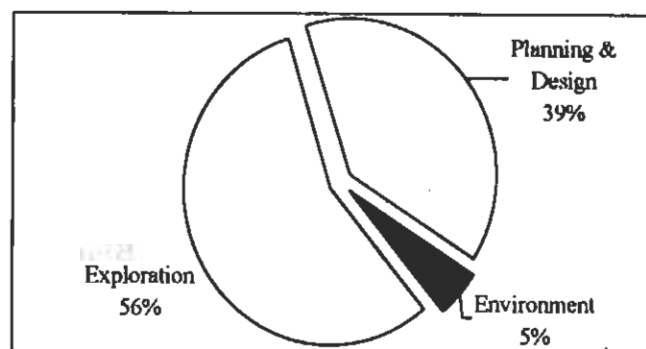
OPERATIONS OF CMPDIL

Principal operations of CMPDIL include exploration, project planning and design, and environment studies.

It functions as a think tank of CIL and MoC. About 97% of the revenue of CMPDIL is estimated to be dependent on CIL and its subsidiaries. CMPDIL operates on a cost-plus basis for CIL and its subsidiaries. The costs allowed by CIL for CMPDIL are also affected by overall profitability of CIL and its subsidiaries.

The income composition of various divisions of CMPDIL is given below:

Table 8 - Income composition for FY 2001-02



Source: CARE

Exploration is the biggest activity in terms of revenues, capital employment and manpower deployment.

Exploration

CMPDIL undertakes detailed coal exploration for the CIL and non-CIL blocks besides taking up promotional (regional) explorations. It has completed over 500 coal exploration projects in all types of terrain and geological set-up. The fresh reserve proven is of the order of 80 bn tonnes of coal. Annually, CMPDIL carries out about 200,000 metres of drilling spread over six states in India through 23 drilling camps. The exploratory drilling is carried out departmentally as well as with the help of the resources of MECL and state governments of Madhya Pradesh, Chattisgarh and Orissa on contractual basis. For the work which CMPDIL out-sources on contract basis, it incurs contract expenses. The expenses incurred over the period are given in the table below:

Table 9 - Contractual Expenses

(Rs. Mn.)

	2002	2001	2000	1999	1998	1997
Drilling - MECL	95.58	151.43	18.64	129.60	144.44	119.26
Drilling - Others	9.62	8.98	12.71	14.59	15.78	17.31
Others	9.74	12.53	16.07	15.86	14.29	10.87
Total Contractual	114.94	172.94	47.42	160.05	174.52	147.44

Source: CARE

The payment to MECL for contract drilling forms over 80% of the total contractual expenses incurred by CMPDIL.

During FY 2001-02, drilling was undertaken on 79 blocks belonging to the CIL subsidiaries. The explorations in the CIL blocks are funded by subsidiaries of CIL. The overall performance of exploratory drilling by various agencies is given in the table below:

Table 10 - Exploration in CIL Blocks

(meters)

	2002	2001	2000	1999	1998
CMPDIL	196678	196194	196826	197561	185141
MECL	38518	48350	8925	67101	74385
SG	9125	8705	9065	12620	14336
Private Parties	0	43	928	558	918
Total	244321	253292	215744	277840	274780

Source: CARE

CMPDIL has partly rectified the decline in exploration business by reducing volume of outsourcing from MECL and private parties.

CMPDIL also does promotional exploration and exploratory drilling in non-CIL blocks. Both the promotional exploration and detailed drilling in the non-CIL blocks were started in FY 2000. The exploration in non-CIL & Promotional drilling is given below:

Table 11 - Non CIL and Promotional exploration

(meters)

	2002	2001	2000
Non CIL Drilling			
MECL	38518	47640	
CMPDIL	67778	28823	2960
Promotional Drilling – CMPDIL	13266	13992	7487

Source: CARE

CMPDIL also undertakes the development of Coal Bed Methane (CBM) in India. For this purpose, it has undertaken following activities: identification of CBM area, CBM recovery and commercial utilisation project and exploration/development of CBM recoveries.

Research & Development Projects

Research and development in the mining sector in India is promoted by funding from Ministries of Coal & Mines and R&D Board of CIL. CMPDIL acts as the nodal agency for projects funded by MoC and administered through its Standing Scientific Research Committee. It invites proposals to identify thrust areas from various implementing agencies and processes it for funding.

As on 31st March 2002, there were 42 projects going on as compared to 13 projects sponsored by the CIL Board, the rest having been sponsored by the Ministries of Coal & Mines.

Planning and Design activities

As mentioned earlier, CMPDIL prepares project reports for new as well as expansion/reorganisation of existing mines for building additional production capacity of CIL's subsidiaries. It provides consultancy services in the field of environmental management and monitoring, remote sensing, energy audit, controlled blasting & vibration studies, etc. CMPDIL assists CIL and MoC in planning for coal and energy.

The volume of the main activities of CMPDIL shows a steady decline. There is a steady and significant reduction in number of geological (exploration) and planning (project) studies over the years. The company is dependent on the subsidiaries of CIL which have reduced new mine explorations. They now operate less number of larger mines. Further, due to their deteriorating financial position, activities relating to fresh exploration have slowed down, affecting CMPDIL's operations.

CMPDIL is making attempts to rectify the situation by undertaking smaller assignments from subsidiaries of CIL and from outside companies. However, it

has not been fully successful in its endeavours, as reflected in the profitability of the company.

The total number of reports prepared has stagnated in the range of 250 to 260 over the years. The share of other studies was almost 60% in FY 2001-02. The other studies generally are assignments of low value requiring less time and less allocation of engineer days. They include small works in the different mines like the improvement in the ventilation, improving pumping, energy audits etc.

For venturing into (assignments of) new areas (hitherto not undertaken by the company), CMPDIL uses its existing engineers and other staff. In some cases, MoUs were entered into with technologically equipped parties outside the country.

Environment Services

CMPDIL has a well equipped environmental laboratory to undertake the entire spectrum of environmental studies. It also provides consultancy services on Base Line Data Generation, Environment Management Plan (EMP) and Environment Impact Assessment (EIA). This business has gained prominence in the recent past because of the current regulation requiring specific EIA/EMP approval in various cases like New/Re-organisation/Expansion projects, Ongoing Projects where production has exceeded the approved capacity, Extension of lease, and where fresh forest land has been acquired for the project.

The Environmental laboratories have been set up to cater to the demand of the subsidiaries of CIL.

In addition, CMPDIL also undertakes environmental monitoring and other types of special studies like fly ash disposal in mine voids etc.

Activities outside CIL

CMPDIL also provides consultancy services to clients outside the CIL fold. Outside consultancy assignments are lesser in number as compared to those from CIL subsidiaries. CMPDIL has undertaken an international consultancy job in Tanzania involving exploration, preparation of pre-feasibility study and feasibility study of an open pit mining project and linked thermal power station. The number of outside consultancy work done over the years is given below:

Table 12 - Consultancy assignments

	2002	2001	2000	1999	1998
Number	25	26	51	35	15
No of Organisations	16	17	39	28	13
Value (Rs mn)	25	27	22	15	19

Source: CARE

CIL and CMPDIL are at crossroads of business evolution. The proposed Bill to amend the Coal Mines (Nationalisation) Act intends to facilitate competition and enhance efficiency of operations. By allowing import of coal and captive mining by some consumer industries, limited competition has already been introduced. This is expected to impact the operations of CIL. As indicated earlier, CIL has already reduced its exploration activities.

With over 27 years of operations and data collection, CMPDIL has built up valuable technical skills and database. It offers consultancy in the coal industry on 'concept to conceptualisation' basis with operating skills in project planning & design and exploratory drilling. The company has also demonstrated its ability to apply its skills across various disciplines such as town and road planning, preparing water supply schemes, exploring other minerals, etc. The marketing activities of CMPDIL are, however, limited. In its operations, it is heavily dependent on CIL as a captive (and almost sole) customer. Its business development activities are, therefore, limited and not very successful.

FINANCIAL ANALYSIS

A summary of CMPDIL's Profit & Loss Accounts and Balance Sheets for the last five years is given below:

Table 13 - Profit & Loss Accounts

(Rs. Mn.)

Year to March 31	2002	2001	2000	1999	1998
Income from sale of services	1314	1560	927	993	974
Other incomes	7	19	9	7	8
Total income	1321	1579	936	1000	982

Contd...

Year to March 31	2002	2001	2000	1999	1998
Expenses					
Salaries & Wages	959	1231	651	601	525
Contractual Expenses	115	173	47	160	175
Overheads	94	91	87	82	91
Miscellaneous Expenses	106	99	97	99	99
Total Expenses	1274	1594	883	942	889
PBILDT	47	-15	53	57	93
Depreciation	22	30	27	24	25
PBIT	26	-46	26	34	68
Interest	3	3	3	5	43
Provision for doubtful debts	1	1	11	2	0
PBT	22	-50	12	27	26
Provision for taxes	29	7	7	2	11
Prior period adjustments	-6	-12	5	20	-7
PAT	-1	-45	0	4	22
Gross cash profit	21	-15	27	28	47
Dividend (incl. Tax)	0	0	0	0	0
Net cash profit	21	-15	27	28	47
Retained profit	-1	-45	0	4	22

Source: CARE

Table 14 - Past Balance Sheets

(Rs Mn.)

Year to March 31	2002	2001	2000	1999	1998
Fixed Assets					
Gross fixed assets	1181	1137	1033	989	949
Less : Depreciation	568	529	482	449	433

Contd..

Year to March 31	2002	2001	2000	1999	1998
Net fixed assets	612	608	551	540	517
Capital work in progress	43	36	121	116	147
Total Fixed Assets	655	644	672	656	663
Current Assets					
Inventories	34	37	38	40	45
Sundry debtors	862	962	259	215	201
Cash & bank balance	373	233	478	201	277
Other Current Asset	53	43	41	38	35
Loans and advances	118	109	106	116	186
Total Current Assets	1440	1386	923	610	744
Total Assets	2095	2029	1595	1266	1407
Current Liabilities					
Sundry creditors	176	225	159	208	252
Advance & Deposits	208	90	104	77	57
Government Grants	238	251	380	159	259
Employee remuneration	502	710	149	139	99
Current a/c bal -CIL & holding Cos	320	192	154	28	71
Provisions & Other Liabilities	82	31	30	43	75
Total current liabilities & Provision	1527	1498	977	654	813
Net working capital	-87	-113	-54	-44	-69
Operating capital employed	568	531	618	612	594
Total investments	0	0	0	0	0
Total capital employed	568	531	618	612	594
Term liabilities					
Secured Loans	0	0	0	0	0

Contd...

Year to March 31	2002	2001	2000	1999	1998
Unsecured Loans -CIL short term fund	18	18	18	22	16
Term liabilities	18	18	18	22	16
Share holders fund	550	513	600	590	578
Equity Share Capital	190	190	190	190	190
Reserve & Surplus					
Capital Reserve	197	159	185	173	170
General Reserve	22	22	22	22	22
P& L Account	176	177	231	230	227
Total	586	548	628	616	609
Misc. exp. not written of	35	35	28	26	31
Networth	550	513	600	590	578
Total Liabilities	2095	2029	1595	1266	1407

Source : CARE

A summary of operating profitability of CMPDIL, over the last five years, is given below:

Table 15 - Operating profitability

(Rs Mn.)

Year to March 31	2002	2001	2000	1999	1998
Total income	1321	1579	936	1000	982
(Growth on yoy basis)	(-16%)	(69%)	(-6%)	(2%)	(2%)
PBILDT	47	-15	53	57	93
(As % of sales)	(3.6)	(-ve)	(5.7)	(5.7)	(9.5)
PAT	-1	-45	0	4	22

Source: CARE

Fees for assignments of CMPDIL are paid by subsidiaries of CIL on a cost plus basis. Thus increase in staff costs in FY 2000-01 (due to arrear payments) resulted

in significant increase in total income. However, the number of assignments itself is showing a declining trend. The income of CMPDIL also shows an uneven pattern of growth.

CMPDIL's fixed assets comprise building properties and plant & machinery used for research. As a service organisation, CMPDIL operates on negative working capital. Debtors form over 60% of current assets and comprise group companies of CIL. The company is debt free, save a small unsecured loan from CIL. The networth has stagnated at about Rs.550 mn during the period. The company does not have significant contingent liabilities, except for those pertaining to income tax.

The key operating and other ratios of CMPDIL are given below:

Table 16 - Key Ratios of CMPDIL

Year to March 31	2002	2001	2000	1999	1998
Overall gearing ratio (times)	0.03	0.04	0.03	0.04	0.03
Current ratio (times)	0.94	0.92	0.94	0.94	0.91
Average Collection days	254	143	93	77	135
Creditor days	43	43	43	33	32
PAT/Total income (%)	-0.05	-2.87	0.02	0.39	2.28
ROCE (%)	8.61	-2.63	8.64	9.50	13.16
RONW (%)	-0.12	-8.13	0.03	0.66	3.97
Capital turnover ratio (times)	2.40	2.75	1.52	1.66	1.39

Source: CARE

As can be observed, the financial performance of CMPDIL has been poor with low returns on capital employed.

The collection period has risen substantially, mainly due to lack of funds with two important clients, i.e. BCCL and CCL. These funds are unlikely to be received soon, as these companies are incurring heavy losses.

As given in table below, the figures of cash earnings per share show a deterioration in operating results:

Table 17 - Equity share related data

(Figures per share of Rs. 1000/- each)

As on March 31	2002	2001	2000	1999	1998	1997
Earnings Per Share (Rs.)	-3	-238	1	20	118	99
Cash Earnings Per Share (Rs.)	111	-78	144	145	249	282
Book Value (Rs.)	2890	2696	3151	3097	3036	2897

Source: CARE

The additional salary payouts in FY 2000-01 only aggravated an existing trend.

As is evident, CMPDIL's operations and financials are centered around CIL, its sole equity holder and main loan provider. The clients and debtors are overwhelmingly CIL and its subsidiaries. Similarly, CIL and its companies also form majority of its creditors.

The total employee strength of CMPDIL as on March 31, 2002 was around 3500. The share of executives was around 25% while the total number of monthly rated and daily rated employees was around 2600. Though the company has offered Voluntary Retirement Scheme (VRS) to the employees, the acceptance rate is quite low. Till date, only around 25 executives have availed of VRS. The employee strength over the years is given below. The percentage of executive has remained around 25% of total employee strength.

Table 18 - Staff strength

	2002	2001	2000	1999	1998
Executives	876	916	931	960	992
Monthly Rated	1527	1601	1642	1682	1739
Daily Rated	1052	1083	1094	1105	1100
Total	3455	3600	3667	3747	3831
% Executives	25	25	25	26	26

Source: CARE

There is a continuous and regular intra group movement of employees among the subsidiaries of CIL.

Most of the activities of CIL's other subsidiaries relate to coal mining. The mindset, attitude and skill sets required for coal mining is substantially different from those required for consultancy in coal mine planning and exploration. These are specialised services with significant portion being desk jobs.

CIL faces stagnation in activities with increasing losses by subsidiaries. However, with new players expected in the private sector, new opportunities for CMPDIL would be thrown up. Substantial scope exists for business outside coal, in fields like infrastructure planning and implementation consultancy. CMPDIL could utilise its wealth of skills and database to market its services outside India as consultants and on Business Process Outsourcing basis.

The company is currently in a strong position. It is unlikely that CIL would be able to access alternate sources for services supplied by CMPDIL in the near term of one to three years. CIL has a stronghold over coal industry, which may decline over the years. With this advantageous position, CMPDIL needs to move aggressively into new areas and revenue sources. At present, it can take risks to develop new businesses.

Activities of CMPDIL will increasingly entail marketing and business development. The company now requires procuring business outside CIL. This means working on market driven rates, unlike the existing cost plus basis of billing.

To achieve higher growth with competitiveness, the staffing of CMPDIL has to be delinked from that of CIL. Present system of free transferability with CIL and its companies requires to be stopped completely. At the same time, CMPDIL needs to undertake manpower studies to identify excess staff. For CMPDIL to grow as desired and become an international major, it is essential that the shareholding of CMPDIL held by GoI, instead of by CIL.

Inter Firm Comparison

CMPDIL has only one main segment of business, coal mine planning and design. Further, it operates as a monopoly in its business. Hence, it is difficult to compare the operations with a peer group.

Since the company operates on a cost plus basis, the turnover is dependent on the costs of the company. Since cost recovery is assured, the company secures

new assignments (mainly from CIL/companies) and keeps its employees occupied. This is dependent on the overall profitability of CIL and willingness of Government of India to incur additional development expenditure in this sector. Due to the cost plus system, the efficiencies or inefficiencies in operations and cost structure of CMPDIL are not visible. And availability of fresh business is dependent mainly on an uncontrollable external environment. As noted earlier, the company has not yet been really successful in sourcing business outside CIL.

There are many large consultancy firms in India, in both private and public domain, in the construction sector. The large private sector consultancy firms, such as M. N. Dastur & Co., Development Consultants Ltd., etc. are closely held firms. Further, these firms operate in a highly competitive environment and are, therefore, not comparable with CMPDIL. The public sector firms include Metallurgical and Engineering Consultants (India) Limited (MECON) and Engineers India Limited (EIL). The brief operating parameters of these firms for FY 2000-01 are given below:

Table 19 - Operating Parameters of consulting firms

	EIL	MECON	EPIL	CMPDIL
Turnover (Rs. mn.)	9728	2745	2119	1560
PAT (Rs. mn.)	1239	-514	178	-45
No. of employees	3262	2853	625	3600
Business profile	Project management, EPC, etc.	Steel sector. 53% income from consultancy.	Turnkey construction	Coal sector consultancy

Source: CARE

Turnover of the above consulting firms, except CMPDIL, includes value of materials and equipment supplied as part of contracts executed by them. However, the above comparison indicates broadly the high employee strength and low profitability of CMPDIL.

In countries with active mining operations like Australia, United Kingdom, Germany, South Africa and USA, there are many entities, both companies and partnerships,

that offer services similar to those offered by CMPDIL. It appears that in most of these entities, the operations appear to be pre-dominantly entrepreneur driven. In consultancy, they usually specialize in related sectors with a significant focus on financial appraisal and feasibility studies.

Since many of them offer other services like manufacturing of mining equipment, valuation of mines, beneficiation of minerals, operation of mines etc. a comparison of operational and financial performance with CMPDIL may be misleading. Some of them, especially those from South Africa, also have a substantial presence in precious minerals like gold. Brief particulars of some of the foreign entities are given in the table below. The list is not exhaustive and is only a sample to indicate the profile of foreign companies engaged in activities similar to CMPDIL.

Table 20 - Brief Parameters of some foreign entities

Country	Company	Activities	Overseas presence
United Kingdom	IMC Group	Management Consultancy and economic development, mining and minerals, geophysical exploration, engineering and project management, energy, environment, etc.	Project experience in over 150 countries - Africa, Europe, Australia, Asia & N America
	John T. Boyd Company	Mine planning and design, equipment selection, mining evaluations, geology and reserve valuations, marketing, privatization of mineral properties, strategic planning, financial analysis, transportation alternatives, expert witness services, environmental assessments, contract evaluations and negotiations, and various other consulting services related to mining.	Limited presence
	AMCO Robertson	Member of AMCO Corp. providing a diverse range of construction, property development, engineering and manufacturing services throughout UK and world. Mining activities include geology and exploration, resource assessment and evaluation, mine and metallurgical engineering, hydrogeology and geotechnical engineering	Limited overseas presence – Norway, Australia, Egypt

Contd...

Country	Company	Activities	Overseas presence
	CSMA Consultants Ltd	Preliminary exploration planning through reserve estimation, mine design and financial appraisal to provision of a bankable final feasibility study.	Limited presence in Africa, CIS countries, West Asia
	Geo solutions	Exploration, mining, renewable energy and environmental related projects.	Presence in Russia, Europe, West Asia
Australia	Minserve Group	Exploration, technical and feasibility studies, project development and operational solutions.	France, USA, Indonesia
	Australian Mining Consultants	Broad range of Mining Engineering, Geotechnical, Geological and Corporate consulting services to the exploration, mining and financial services industries.	Europe, New Zealand, Africa, PNG, SE Asia, the South Pacific, the Americas, Russia and CIS countries.
Germany	Deutsche Montan Technologie GmbH (DMT)	Geotechnical measuring and investigation, stability calculation, mine planning and design, mineral processing, seismic exploration and geographical information systems. Also have presence in automotive engineering, mechanical engineering and construction technology	EU Countries, Central and Eastern Europe, CIS Countries, Asia, Africa, South America, Australia
	DBT Mining Engineers (DBT)	Planning, engineering, developing, supplying systems and operational support to underground mines producing coal, lignite, phosphate and other minerals. Also engaged in design and manufacture of mining equipment	International market share exceeds 50% of total operating incomes
South Africa	Murray & Roberts	Engineering design, manufacturing, construction and project management skills to all stages of the value chain from the extraction of natural resources, to the manufacture of engineered products in our own facilities.	Serves more than 50 countries around the world.
	Twinshead van der Walt & Partners (TWP)	Mining and quarrying, mechanical, structural, civil and electrical engineering through to project management, as well as cost control, procurement, QA/QC and expediting bankable feasibility	Limited presence

Contd...

Country	Company	Activities	Overseas presence
		documents, engineering design, and operational strategies, as well as executing a wide range of diverse mining and mineral beneficiation projects.	
USA	Washington Mining Group International Inc (WMGI)	The company is organised into five operating units: Power, Infrastructure & Mining, Government, Industrial/Process and Petroleum & Chemicals capabilities include design/build/operate (DBO) contracts, technical services in support of its engineering construction and contract mining activities including feasibility studies, resource evaluations, permitting, start-up, commissioning, reclamation and closure services	International subsidiaries in Indonesia, Germany, Romania, Peru, and Venezuela.

Source: CARE

Starting with coal mine design projects in their home countries, most of the players have diversified into other sectors. Most have diversified into other consultancy operations within coal as well as outside coal industry. Some have also diversified into equipment manufacturing and execution of projects. Many players have diversified into other countries.

SWOT ANALYSIS

Strengths

- Nodal Agency for implementation of R&D projects in Coal & Lignite sectors.
- Fully owned by CIL which in turn is fully owned by GoI.
- Role in planning of the coal requirement as well as in perspective planning for the country. Thus, the companies in general are receptive to CMPDIL.
- Leading specialised institution for mining exploration & mine design.
- Proven ability to diversify into related areas without significant external assistance.

- Repository of large data base and technical skills required for exploratory drilling, mine planning and related activities. Currently, there is almost no competition to CMPDIL in its core activities.
- Management of CMPDIL is drawn from coal producing companies. Hence, they have practical experience to guide development work of the company.

Weaknesses

- CIL's subsidiaries now face declining availability of funds due to operating losses and lack of access to budgetary sources. As a result, their activities for drilling and promoting new mines and related capital expenditure are declining. This has resulted in reduced market for CMPDIL. Thus, CMPDIL now faces a declining market in its traditional customer base. This has already started affecting the profitability of CMPDIL.
- Company is funded on cost plus basis and it does not have to compete for business. This has made the company's business development activities insular. As a result, it has not been successful in accessing new clients who can compensate for decline in business from CIL and its companies.
- Concentration risk attributed to catering to only one sector. The company is fully dependent on CIL's performance and CIL's perception of CMPDIL's performance.
- Having worked since inception under an assured cost recovery scenario, the organisation of CMPDIL is not yet geared towards working in a market price driven situation. The company's ability to work towards revenue maximisation with cost control is yet to be tested.

Opportunities

- CMPDIL operates as a technical consultant for outsourcing design and planning requirements by CIL and state government bodies. It can leverage on its existing market base, technical skills accumulated over the years and low manpower costs to enter the global markets for similar outsourcing requirements of companies outside India. It can tie-up with these companies to process their requirements of drawings, project reports, specialized data

entry, data analysis, etc. at costs much lower than what they hitherto pay in their own countries.

- Diversify nationally to meet requirements of new entrants and establish new relationships with emerging players in the mining and infrastructure industries.
- New business opportunities to cover the entire range of activities in the mining sector. In future, it can become one stop-consulting unit in the whole mining sector. Similarly, it can diversify significantly into related sectors of infrastructure such as environment analysis, water supply schemes, construction, IT related activities, etc.
- Can diversify into coal and minerals prospecting on its own strength.

Threats

- Changes in the regulatory structure. With declining importance of CIL and Government controls in the coal sector, the importance of CMPDIL is also bound to decline. CMPDIL will be increasingly exposed to competition from domestic and foreign players for business.
- Internationally, the competition in the field of exploration is acute and there are small specialised firms. In future, even in India, exploration may be undertaken by private firms (which are small in size) or by large MNCs themselves like Rio Tinto, BHP Billiton, etc.
- Decrease in the allocation of funds for explorations may result in sharp decline in revenue that would further affect CMPDIL's profitability. Besides, liquidity problems of CIL's subsidiaries are bound to affect the liquidity position of CMPDIL.
- Over 35% of income of CMPDIL is dependent on planning and design of mines. This is a dynamic subject with changing requirements and technological improvements. The company needs to be continuously evolving and improving its ability to deliver the required services.

The stated mission of the company is to provide total consultancy service in coal/mineral exploration, mining, engineering and allied fields as a premier consultant

in India and leading one in international arena. Though, the vision statement of the company aims at being a leading player in the international arena, CMPDIL has confined itself to providing consultancy service, from conceptualisation to project completion, to CIL and its seven subsidiaries. Though the company has signed MoUs with some of the leading consultants in the world, it has undertaken limited consultancy assignments outside India. While CMPDIL has received limited benefits from MoUs with foreign consultants, the foreign companies have utilised the same to make inroads into the Indian market.

The importance of CMPDIL lies in the fact that, at present, it is the only consultancy firm that undertakes coal-mine planning and design in India. CMPDIL's strength lies in its technical expertise and the large database on Indian coal sector developed over the years. CMPDIL has been able to attain its current status due to the protection it enjoyed over the years.

Being dependent on CMPDIL and its RIs, CIL and its subsidiaries have not developed high quality exploration and mine planning/design skills that a coal mining company is expected to possess. Currently, CMPDIL operates with a two-tier structure:

- Each RI caters to a subsidiary of CIL. Its knowledge base, equipment and working environment is designed to cater to the requirements of the subsidiary.
- The HO operates as a repository of special skill sets and a central consultancy organisation for CIL and MoC.

DISINVESTMENT CONSIDERATIONS:

While considering the disinvestment prospects of CMPDIL, the following issues are important.

Decline of jobs within CIL

CMPDIL remains a single client company with CIL (including subsidiaries) being its major client. CIL's requirement has been steadily declining over the years. This decline is evident in both the major spheres of activity of CMPDIL, i.e. exploration and planning & design activities. Further, in the recent past, the overall profitability and financial position of CIL has deteriorated sharply. The

reduction in activity level and losses of CIL have already started affecting the profitability of CMPDIL.

Importance of CIL

Currently, CIL is in a strong position in the coal industry. It has a near domestic monopoly in mining of coal. The company has strong linkages with its main consumers. However, in case the proposed amendment to Coal Mines (Nationalisation) Act (CMN Act) is passed by the Parliament, CIL is likely to lose its monopoly status. Even now, with a monopoly status, the company is facing pressures on pricing due to:

- increasing use of imported coal for domestic consumption;
- increasing availability of domestic and imported natural gas; and
- rising freight charges.

As a result, while CIL as a whole made a profit in FY'2000-01, the operations in FY 2001-02 resulted in significant losses. CIL's ability to dictate prices to its customers is getting increasingly diluted. This is affecting its marketing capability. Further, delay in implementation of reforms in the power sector is hurting the demand for coal with adverse impact on its profitability.

CMPDIL needs to diversify in other sectors like mineral exploration and strive to become a single window consultancy for all the important minerals. It may also explore possibilities of diversifying into other areas like infrastructure planning & design. To expand its business vision and develop the required marketing skills, CMPDIL would have to think beyond operations of CIL.

Lack of marketing skills

Despite being a leading consultancy firm, CMPDIL has not attempted to expand its market beyond CIL. The company lacks the market savviness and business development skills. Having a steady source of income, CMPDIL has become averse to taking risks necessary for developing new business sources. Further, the senior staff of the company is freely transferable to other divisions/companies under CIL. Hence, they may not be willing to undergo the discomfiture usually associated with non-captive business.

Technology

CMPDIL signifies the level of technical preparedness of CIL. Most of the mining & exploration activity in India was hitherto controlled by GoI & PSUs and was not exposed to competition. The companies were not compelled by market forces to adopt industry best practices in terms of efficiency and technological preparedness. As a result, the industry needs to make considerable progress to reach international standards.

CMPDIL has internalised the requirements of Indian coal industry based on available technology and more or less meets its demands. However, the industry itself is dependent on foreign equipment suppliers and consultants for latest technologies, which are then adopted and adapted by CMPDIL. This affects CMPDIL's ability to compete effectively in overseas markets, despite it having on its roll some highly skilled staff and the inherent price advantage enjoyed by the country in technical manpower.

Past experience

CMPDIL is GoI's consultancy and technical organisation for coal mining industry. Similarly, for providing design and engineering consultancy for the steel sector, GoI had promoted MECON Ltd. MECON Ltd. possesses substantial skills in its area of operations. However, its business is on the decline due to the downturn in metallurgy sector, especially in the steel sector. As a result, MECON Ltd. was bereft of a market in its area of core competence. Now the company has turned its attention towards design of civil infrastructure, town planning, etc. to gainfully occupy its employees, but it has not been very successful in its efforts. This can happen to any company, including CMPDIL, which is focussed only in one sector. Hence, CMPDIL should aggressively look towards diversification and expansion of operations, when it is in a strong position. Developing market-oriented culture within the company is a time consuming process. It is desirable for CMPDIL to attempt the transition, when it is strongly positioned, so that it can aspire to become more competitive.

Uncertainty on change in environment

With any change in the present arrangement, both CIL and CMPDIL would face uncertain prospects. No assessment has yet been made of the market value of

these services provided by CMPDIL. Officials of CIL feel that if CMPDIL were to be paid on market rates, its current billing to CIL will increase manifold, especially as far as planning functions are concerned. They also feel that if the ownership is changed, the new owners may not be willing to continue to service with the present arrangement and rates. With no other player in the Indian market currently, the rates may need to be benchmarked with international firms, which are reportedly much higher. But CMPDIL may have to control costs on some other assignments where the market rates could be much lower.

Since CMPDIL is totally dependent on one client, its mind-set and organisation culture is moulded accordingly. There is movement of personnel from CMPDIL to CIL and its subsidiaries and vice versa. Any change in the present arrangement without CIL and its clients finding cost effective alternatives and CMPDIL finding alternate business opportunities might affect the coal sector as a whole. CIL and its subsidiaries may be able to find alternatives from abroad. But it may be difficult for CMPDIL to survive, as it will have to identify alternate business opportunities. In the long run, however, given its skill sets, data bank and infrastructure, CMPDIL is expected to remain an economical least cost option.

RECOMMENDATIONS

CMPDIL is GoI's technical resource for the vital coal sector. Hence, a decision regarding any change in CMPDIL's ownership structure has to consider the structural position of the coal sector and alternatives available to GoI.

An important issue that has a bearing on all entities in the coal sector is the proposed de-nationalisation of the coal sector. Passage of pending amendment to CMN Act is expected to alter the industry dynamics. In case of any delay in passing the amendment, the pace of change would be slower. Hence, any major and decisive change in ownership of CMPDIL needs to be calibrated along the progress of reform in the coal sector.

Till the CMN Act is amended to allow non-captive ownership of coal mines, the *status quo* would continue in terms of regulated monopoly for CIL. In such a scenario, continued availability of technical resource and database on coal sector in possession of CMPDIL needs to be assured till alternate sources are developed. This is vital for operation of the overall coal sector when the industry is almost fully controlled by GoI. CIL and its subsidiaries will continue to require services

currently rendered by CMPDIL. Developing alternate sources for such services is a long drawn process, especially in the Government sector. But a sudden disruption in ownership and management of CMPDIL may affect operations of CIL/subsidiaries. It is, therefore, necessary that the alternative considered should continue to make available services of CMPDIL to entities in the coal sector while providing for emergence of CMPDIL as an internationally competent consultant in the mining sector. For this, CMPDIL needs to develop commercial and marketing skills to be successful in competitive markets. Also, it needs to develop skills necessary for non-coal sectors. While CMPDIL develops skill sets for survival in a competitive environment, it is also necessary for CIL and its subsidiaries to prepare for the future without total dependence on CMPDIL.

CIL may need to build its organisation to undertake departmentally some of the functions currently being carried out by CMPDIL, while other functions would continue to be outsourced. CIL should aim at procuring services of CMPDIL at competitive terms. For emergence of CMPDIL as a competent international consultancy organisation, not only in the Coal sector but in the whole of mining sector, it is necessary that CMPDIL be delinked from CIL. Thereafter, a minority share may be sold initially to a company with relevant technical expertise.

The private sector partner is expected to

- facilitate diversification into other areas;
- upgrade technical skills;
- enable CMPDIL's entry into other countries; and
- bring in commercial savviness and market orientation, to make CMPDIL internationally competitive.

Since the coal sector will continue to require the services of CMPDIL for some more time, it is desirable that for the initial period, majority holding in CMPDIL is held by GoI. Usually, per share price realised on sale of minority holding is less than that in case of sale of majority stake, due to the absence of a control premium. But this is being proposed after considering the following issues:

- Coal is vital to the economy. The availability of technical resources on the sector currently possessed by CMPDIL should be available to GoI, as long as the sector is controlled by GoI or alternative sources are developed.

- Paid-up capital of CMPDIL as on March 31, 2002 was Rs.190 million and networth was Rs.550 million. The size of the company and probable receipt on sale are not very large. Even the total amount of control premium may not be exceedingly high.
- Currently, the cash flow of CMPDIL is determined by CIL and is not driven by market determined pricing. It is expected that by developing commercial orientation and market determined revenue streams, the value of CMPDIL would be enhanced at a later stage. Sale of controlling premium at that stage may, therefore, yield higher revenues.

To minimise any disruption in the transition period, CMPDIL may enter into a medium term agreement with CIL at previously agreed rates and perhaps just allowing for inflation. This would give CMPDIL an assured business as well as MoC/CIL time to plan alternate sources of consultancy. To interest prospective bidders, the transaction documents should clearly indicate the time-frame by which the company will be fully privatised.

Based on the analyses above, a three-stage disinvestment process is recommended, as indicated below:

Stage I – Sale of shares by CIL to GoI

As discussed earlier, the potential of CMPDIL has not been fully realised owing to its sheltered existence under CIL. To facilitate CMPDIL's emergence as an internationally competitive organisation, in both coal and non-coal mining sectors, the Commission recommends that CMPDIL should be made independent of CIL. The entire shareholding of CIL in CMPDIL should be sold to GoI.

Stage II – Induction of a partner

Immediately after CMPDIL becomes an independent public limited company, GoI should sell upto 49% of the equity of CMPDIL to a partner in the private sector, with adequate management participation, through the competitive bidding route. The balance (not less than 51%) should be retained by GoI for some time.

Stage III – Sale of balance stake

The balance stake of CMPDIL may be sold after a transition period, not exceeding five years. Meanwhile, if GoI decides to sell controlling interest in coal mining subsidiaries owned by CIL to private parties, depending on the passage of the pending Bill for amendment of Coal Mines (Nationalisation) Act, the balance stake in CMPDIL may be sold immediately to the strategic buyer, even before the end of the five year period.

2.2 KARNATAKA ANTIBIOTICS AND PHARMACEUTICALS LTD. (KAPL)

INTRODUCTION

During 1980s, Hindustan Antibiotics Ltd. (HAL) was the main supplier of life saving drugs to Government Institutions across the country. Supply to State Government Institutions was irregular owing to limited capacity of HAL. The Haathi Committee constituted to resolve this issue recommended establishment of a separate company under the Companies Act 1956, in each State so that the latter could get quality drugs for its hospitals from its own company. It was decided that HAL would set up a JV in collaboration with Government of Karnataka (GoK) to meet requirements of State Government Institutions. Accordingly, a MoU was entered into between GoK and HAL and on March 13, 1981 KAPL was incorporated as a JV. The company started commercial production in August 1984. Thus, the basic objective of setting up KAPL was to make available life saving drugs of consistently good quality to Government hospitals and other institutions in Karnataka.

The manufacturing units and the registered office of the company are located at Bangalore. KAPL also has 16 branch offices located at major cities across the country. The manufacturing facilities of KAPL are equipped to produce wide range of formulations in various dosage forms such as Dry Powder Parenterals (DPP), Small Volume Parenterals (SVP), tablets, capsules, dry syrups and suspensions. The company currently manufactures generic as well as branded (generic branded) formulations. The major therapeutic product range manufactured and marketed by KAPL includes Antibiotics, Anti-inflammatory drugs, Iron preparations, Anti-TB and Veterinary drugs. KAPL is also engaged in trading of medical kits and immunodiagnostic equipment. Its export division supplies products to international organisations like United Nations Children's Fund (UNICEF), and International Dispensary Association (IDA). Further, KAPL also takes up contract manufacturing for other pharmaceutical companies in India.

KAPL is a profit making company. For FY 2002, the company achieved gross sales of Rs.766.9 Mn and a PAT of Rs.28.5 Mn and was ranked as one of the top ten best performing PSUs in the Central Public Sector.

The authorised and paid-up share capital of KAPL as on March 31 2002, were Rs.40 million and Rs.14.9 million respectively.

HAL holds 59% of the total equity shares of the company and GoK through Karnataka State Industrial Investment and Development Corporation (KSIIDC) holds rest of the equity shares (41%). HAL is a sick industrial unit and was referred to BIFR in 1997. KAPL is an unlisted company. It has over 502 persons on its rolls, as on December, 2002.

The company, as a subsidiary of HAL, functions under the administrative control of the Department of Chemicals and Petrochemicals, Ministry of Chemicals & Fertilizers, Government of India. The Drug Controller of Karnataka is the Licensing Authority and operations of the company are governed by the Drug and Cosmetic Act 1940. In case of exports, KAPL requires to get registration from the respective regulatory authorities of destination countries. For manufacturing agrochemical products, KAPL holds license from Central Insecticide Board, Faridabad. Further, to store and sell agrochemicals in each State, permission is required from Director of Agriculture of respective States.

INDUSTRY ANALYSIS

The contribution of Pharmaceutical industry towards growth, development and building a strong human capital of the country is evident from the improvement in life expectancy, a leading health and economic indicator, from 41.3 years in the sixties to 62.9 years in 1998-99. Moreover, with the increased availability of medicines and healthcare facilities, the infant mortality rate has decreased from 146 per thousand births in 1960-61 to 69 per thousand births in 1998-99.

Pharmaceuticals are medicinally effective chemicals, which are converted to dosage forms suitable for human consumption.

In its basic chemical form, allopathic pharmaceuticals are called bulk drugs.

Bulk drugs are derived from four types of drug intermediates (raw materials):

- plant derivatives (herbal products);
- animal derivatives (e.g. insulin extracted from bovine pancreas);
- synthetic chemicals; and
- biogenetic (human) derivatives (e.g. human insulin)

The profit margins in the bulk business are typically lower than in the formulation business. Bulk drug discovery requires intensive and expensive research. The inventors, to ensure commercial gains on their R&D investment, patent new drugs. Bulk drugs can be broadly categorized as:

- Under patent;
- Off patent or generic.

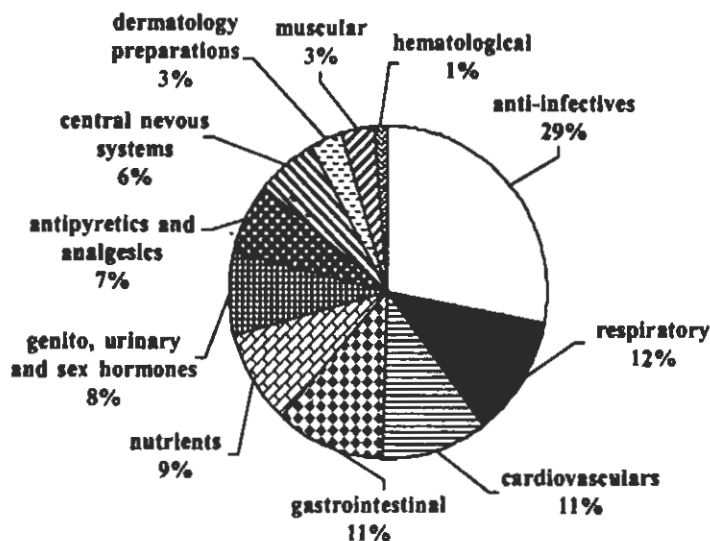
Formulations are the finished dosage forms of one or a combination of bulk drugs. To prevent misuse/incorrect administration, most formulations are disbursed by pharmacies only under medical prescription and these are called ethical products. However, some formulations such as pain balms, health tonics etc. do not require prescription by doctors. These are called Over-The-Counter (OTC) products.

Bulk drugs and formulations are classified into different segments as per their therapeutic effectiveness against a particular disease or ailment. They can be broadly classified into four segments:

- anti-infectives segment (antibiotics, anti-protozoals, anti-helminthics and anti-malarial);
- antipyretics and analgesics segment;
- life-style related drug segment (gastrointestinal, cardiovascular, diabetic, respiratory, central nervous system and such other related problems); and
- vitamins segment.

Market share of various therapeutic segments (in terms of value) in India is given in the table below:

Table 1 - Segment-wise market share in India



Source: Credit Analysis & Research Ltd. (CARE)

In developed nations, lifestyle related drugs command a higher market share as opposed to anti-infective drugs in developing nations. In India, the anti-infective is the largest segment and accounts for almost 29% of the total therapeutic market. However, growth rates for new drugs in the anti-infective segment and other segments such as cardiovascular and central nervous system are high, while growth rates for older antibiotic drugs such as penicillin have declined. This is a reflection of India's changing demographics and several lifestyle alterations that have been taking place during the last decade. This has caused pharmaceutical companies to restructure their product portfolio.

Industry Structure and Financials

The Indian pharmaceutical industry is highly fragmented with more than 23,000 licensed pharmaceutical manufacturers in the country and most of these are private players. However, almost 90% of the market share is with top 100 players. Recent trend shows some consolidation amongst the organised sector players. But, there is little consolidation at the lower end of the market. The large number of players has made the industry highly competitive. The players in the Indian pharmaceutical industry belong to one of the four major segments:

- large and medium scale domestic pharma companies;
- multinational pharmaceutical companies(MNCs);

- small scale industrial units; or
- manufacturers of alternative medicines like ayurvedic, homeopathic, siddha and unani systems.

The Indian pharmaceutical industry caters to about 70% of the domestic bulk drug requirements and manufactures almost the entire range of formulations. The net sales of Indian pharmaceutical industry (including MNCs) were approximately Rs.210 bn in FY 2001. Formulations accounted for around 81 percent of the total sales and bulk drugs for the balance. Over the past five years, domestic sales have grown at about 12% per annum compared to 5-6 % growth rate in developed countries. The growth of Indian pharmaceutical industry has been predominantly volume driven rather than price driven, which is a reflection not only of the severe competition but also of the impact of Drug (Price Control) Order (DPCO) on prices in the domestic market. The table below gives details of top five players of Indian Industry for year ended March 31, 2002:

Table 2 - Details of Industry Leaders

Company	Sales (Rs. Mn.)	Technology	PBDIT margin(%)	PAT margin(%)
Ranbaxy Laboratories Ltd [^]	23624.7	Applied research-High Basic Research-High	10.93	5.74
Dr. Reddy's Laboratories Ltd	17118.2	Applied research-High Basic Research-High	32.25	26.35
Cipla Ltd	14008.1	Applied research-High Basic research-Low	21.92	14.82
GlaxoSmithkline Pharma [^]	11210.9	Applied research-High Basic Research-High	11.67	4.38
Aurobindo Pharma Ltd @	10384.7	Applied research-High Basic research-Low	14.50	6.60

@Primarily a Bulk Drugs company. [^]Results for the year ended December 2001.

Source: CARE

Indian pharmaceutical industry is a net foreign exchange earner for the country. Exports now form a significant part of the sales of leading Indian companies. India's pharma exports, comprising formulations and bulk drugs, were Rs.87 bn

in FY 2001. Exports are mainly to developing countries in case of patented drugs and to the developed nations in case of generics. The imports in FY 2001 were to the tune of Rs.17 bn. Many affiliates/subsidiaries of MNCs in India import bulk drugs from the parent company. Also, local players who export formulations avail of duty free imports.

Indian companies have benefited from the process patent regime, which allowed them to reverse-engineer drugs at a fraction of the original cost. The policies of the Government also favoured Indian companies. The market share of Indian companies has gone up steadily from 20% in FY 1971 to nearly 64 % in FY 2001.

The investment in research and development for Indian companies as a percentage of sales is approximately 1.5-2% compared to 15-20% for MNCs. The Indian companies have a significant cost advantage in production as well as product development costs as compared to their counterparts in advanced countries. However, Indian companies lack the financial strength necessary for basic research. Of late, the trend has been to discover new molecules and license them out to global drug majors for further development.

Indian companies have started moving up the value chain and have been successful in making inroads into the US generic markets. More than 25 Indian companies have obtained USFDA approval and the industry is increasingly getting accreditation abroad. The key for success in generic markets in developed countries is the ability to tackle the regulatory environment, getting approvals for the generic versions of the patented drugs, marketing tie-ups, approvals for domestic manufacturing facilities from regulatory bodies like USFDA and a thorough understanding of the legal environment.

Regulatory Framework:

The pharmaceutical industry is one of the highly regulated industries in India. Regulatory measures have played an important role in determining the competitive scenario of the Indian pharma industry. These regulations and controls work at three different levels: patents, pricing and quality.

Indian Patent Act, 1970

Indian Patents Act, 1970 was introduced to encourage indigenous research in the industry. This Act regulates patents for products processed or manufactured in

India by providing 'product patents' for non-chemical items and 'process patents' for items like pharmaceuticals, agro-chemicals and food products.

'Product patents' recognise the product and thereby provide the inventor (and/or his successor) the exclusive right of utilising the benefits of the invention for a specified period. 'Process patents' on the other hand, recognise the process to manufacture a product and the patent holder (and/or his successor) has the exclusive right of utilising the benefits of the process during a specified period.

GATT/WTO

India is a signatory to General Agreement on Tariffs and Trade (GATT) and now is a member of WTO. As per WTO terms, India is required to change its current intellectual property laws to recognise product patents. Further, the terms of the patents would also have to be extended from present five years from the date of granting (or sealing of patent) or seven years from the date of application, whichever is shorter, to 20 years. India has time till the year 2004 to comply with these terms. Post 2004, WTO requirements would come into full force.

In the mean time, India has, with an amendment in 1999 to the Indian Patent Act, allowed acceptance of applications for product patents for drugs and medicines, except for chemical substances which are intermediaries in the preparation or manufacture of medicines or drugs. However, such applications will be processed only after the year 2004. But, Exclusive Marketing Rights (EMRs) can be obtained for a period of five years from the date of obtaining the marketing approval in the country, or until a product patent is granted (or rejected), whichever period is shorter. In effect, EMRs are recognition of product patents even before they have been examined under any country's laws for their eligibility. EMRs provide exclusive rights only for sale of the product while product patents provide exclusive rights both for manufacture and sale.

Although India is a member of WTO, it has raised concerns regarding the impact of WTO terms on public health. The Doha Declaration on Trade Related Intellectual Property Rights (TRIPS) and Public Health has reaffirmed that public health considerations will supercede commercial interests; however, the mechanisms for remedying the problem of availability and accessibility of patented drugs have not yet been fully addressed.

The conduit to achieve this is supposedly through the Compulsory Licensing System. It means a developing country may ask a patent holder to supply the drug at a cheaper rate to its market and if the company does not heed to the request, the country can authorize a local player to manufacture the drug for the market.

Drugs (Price Control) Order (DPCO)

DPCO was first introduced in 1970 with the objective of keeping the prices of life-saving and essential drugs under control. The National Pharmaceutical Pricing Authority (NPPA) is the regulatory body responsible for issuing DPCO and its implementation. Initially, the list included 347 bulk drugs, which were governed by this order. The list was progressively pruned to 145 in 1987. Presently, under DPCO, 1995 there are 74 bulk drugs and their formulations under price control covering approximately 40% of the total market. The profitability of a company operating in Indian markets is significantly affected by the composition of its product portfolio. A significant percentage of products falling under DPCO can adversely affect the profitability of any drug company.

Drug and Cosmetics Act, 1940

The drug regulatory norms in India are derived from the Drug and Cosmetics Act, 1940, and the same are enforced through the office of the Drug Controller of India. This office is the highest authority for overseeing the conduct of clinical trials and for the maintenance of quality control norms in the drug production process.

New Pharmaceutical Policy, 2002

GoI had announced the New Pharmaceutical Policy in February, 2002. The main issues emphasised in the policy are reduction in number of drugs under DPCO, support to indigenous Research and Development (R&D) and establishment of a Central Drug Standard Control Organisation (CDSCO) to ensure high standards of quality, safety and efficacy of drugs and pharmaceuticals.

Outlook

Indian pharmaceutical industry has made enormous progress during the last decade. India has achieved self-sufficiency and is targeting to get a bigger share of

international market. Domestic pharmaceutical companies have managed to show a better performance based on process patent regime and low cost advantage. Post 2004, Indian pharmaceutical companies will not be able to reverse engineer-patented products and this may significantly impact their performance. However, factors like relaxation on DPCO front, low cost advantage, process re-engineering skills, manufacturing facilities compliant with international regulatory standards, availability of a large pool of skilled professionals are considered strong positives for the industry. In the next few years, many drugs would go off patent. Also, contract manufacturing and contract research are emerging fields and Indian pharmaceutical industry is well placed to capitalise on this. Integration with international markets is expected to impose major changes in the functioning of domestic players. Domestic players will have to increase their expenditure on the R & D front, establish marketing/technical tie ups with global majors and develop detailed understanding of regulatory environment of the developed countries to ensure success in international markets. However, in the absence of strong research base, manufacturing facilities compliant with International standards and strong financials, small players may find it difficult to survive in the future.

OPERATIONS OF KAPL

KAPL's manufacturing facilities are located at Peenya Industrial area in Bangalore, on free hold land allotted by GoK. Various sections in which KAPL's manufacturing facilities are organised are as follows:

- Dry Powder Parenterals (DPP) - Betalactum and non-Betalactum;
- Small Volume Parenterals (SVP) - Liquid form; and
- Tablets, Capsules and other Oral Preparations.

KAPL is one of the few companies in India having a Betalactum DPP facility. This facility has approval from agencies like UNICEF, IDA, Societe Generale de Surveillance, Belgium, etc.

The facilities for non-Betalactum dry powder, SVP, tablets, capsules, syrups and suspensions are located in the old building. The manufacturing facilities in the old building are conventional and semi-automatic. Inspection of finished products is carried out manually. The installed capacity in various sections and capacity utilisation during the last five years are given in the table below:

Table 3 - Manufacturing Capacity

(Unit in lakh)

Sr. No.	Item	Installed capacity	Capacity Utilisation (%)				
			FY 02	FY 01	FY 00	FY 99	FY 98
1.	Dry Powder Vials	617.50	66	56	67	60	89
2.	Liquid Parenterals	137.00	103	56	81	73	66
3.	Tablets	1350.00	68	80	86	64	75
4.	Capsules	378.00	118	134	99	161	136

Installed capacities are subject to variation depending upon product-mix.

Installed capacities in respect of vials are on double shift basis and others on single shift basis.

Source: CARE

Installed facilities of KAPL are multipurpose and can be used according to orders for a particular product line. Over the years, there have been substantial orders for capsules and the same has been met by adjusting the production facilities accordingly. This is evident from the high capacity utilisation of capsule section.

KAPL heavily depends on institutional sale, which is unpredictable. Because of this, no proper planning and scientific forecasting techniques have been evolved. This has resulted in a wide gap between supply and demand. In most of the cases, demand is less than capacity, as in the case of dry powder vials. However, the strength of the company is in the area of DPP, which mainly goes as institutional sales. Tablets and capsules form a large part of trade sales.

Technology

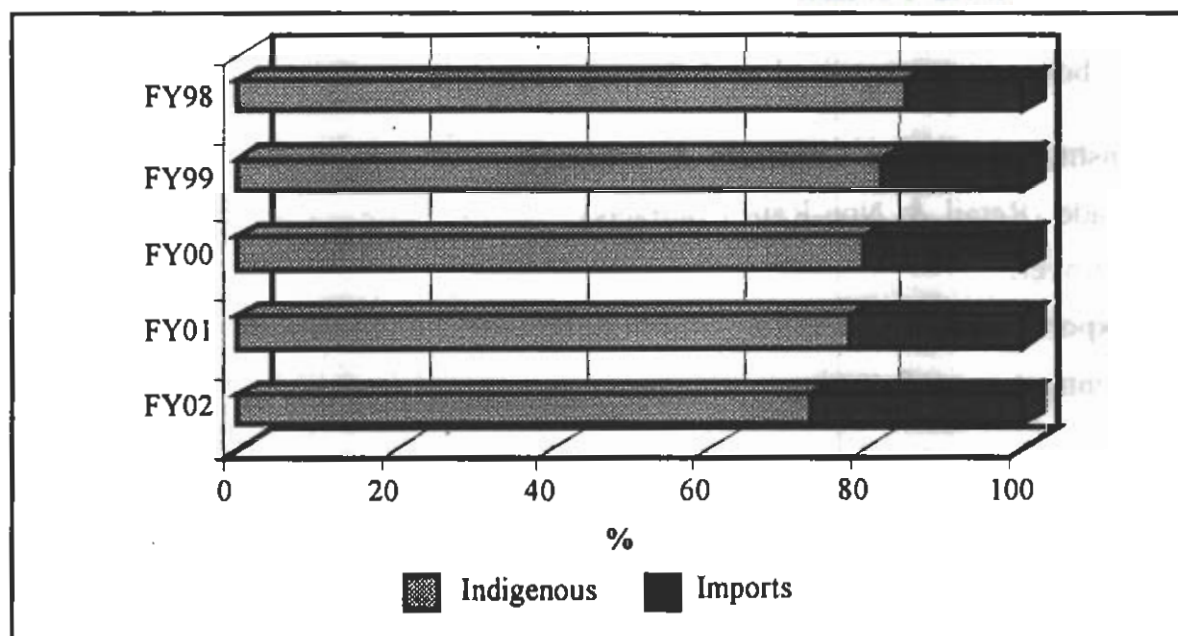
KAPL manufactures drug formulations. It follows manufacturing procedures defined in Pharmacopoeias for manufacturing various formulations. Main pharmacopoeias referred to by KAPL are Indian Pharmacopoeia (IP), British Pharmacopoeia (BP) and United States Pharmacopoeia (USP). Plant and machinery employed by KAPL are in accordance with the procedures laid down in various pharmacopoeias. KAPL's manufacturing facilities are flexible and can be used for manufacturing a wide range of formulations. The company is not having any collaboration for sourcing the technology.

Raw Materials

The major raw materials (RMs) used by KAPL consist of bulk drugs like Cefotaxime Sodium, Amoxicillin Trihydrate, Fortified Procaine Penicillin, Ciprofloxacin, Gentamycin Sulphate, Tetracycline, Benzathene Penicillin, etc. Approximately 35% (by value) of the bulk drugs used by KAPL are under DPCO control. The major suppliers of indigenous RMs are Alembic Limited, Baroda, Aurobindo Pharma Limited, Hyderabad, DSM Anti Infection Limited, Chandigarh, Torrent Gujarat Biotech Limited, Ahmedabad, and Wockhardt Limited, Ankaleshwar.

KAPL also imports bulk drugs like Chloramphenicol S.S, Streptomycin Sulphate, Ampicillin Sodium St., Benzyl Penicillin, etc. and utilises the duty drawbacks available on exports. Some of the drugs like Tetracycline and Streptomycin are imported from China. The share of imports (by value) in total RMs consumed for last five years is shown in the table below:

Table 4 - Indigenous v/s imported RMs (%)



Source: CARE

Imports as a percentage of total RMs consumed has increased over the years. This is mainly due to increase in exports against which company gets duty exemption for imports.

RMs are purchased directly from the market or through dealers. KAPL has an approved item-wise vendor list.

Quality Control (QC)

KAPL has a well-equipped QC department run by qualified staff. The quality control begins at raw material stage. This includes testing of incoming bulk drugs, excipients and packing material. The produced drugs are tested at three stages namely, during process, final product stage and at packing stage. For every batch, a sample is preserved for a period exceeding one year after the expiry date of the product. KAPL claims that so far, the Drug Authorities have not declared any of its products as substandard. KAPL follows Good Manufacturing Practice (GMP) requirements recommended by the Drug Control Authorities. The manufacturing facilities of KAPL are also WHO-GMP certified. KAPL is one of the few Indian pharmaceutical companies with ISO-9001 Certification from KPMGQR, United States of America.

KAPL's Business Portfolio

KAPL business is organised in following segments:

- institutional (Rate Contracts & Trading);
- trade (Retail & Non-Rate Contracts);
- agrovet;
- exports; and
- contract manufacturing.

Institutional Segment

Institutional segment can be further divided into sale through Rate Contracts (RCs) and trading of Immuno Diagnostic Equipment and Medical Kits.

RCs are contracts entered into by KAPL and SGIs/Other Institutions wherein the SGIs/Other institutions agree to give purchase/price preference on certain products manufactured by KAPL valid for a maximum period of two years. In case of price preferences, the sales are made at negotiated rates between KAPL and SGIs/other institutions. In case of purchase preferences, KAPL gets order only if it matches the lowest quote by others.

GoK has been extending preferential treatment in purchasing drugs from KAPL. GoK has directed GHs in Karnataka to purchase the products of KAPL on priority basis in case of antibiotics, injectables and non-injectables. In case of products falling under the purview of DPCO (controlled products), prices cannot exceed 77% of the ceiling price as notified periodically by National Pharmaceutical Pricing Authority (NPPA). Prices for non-controlled drugs are agreed mutually between KAPL and GoK.

The 'Karnataka Transparency In Public Procurement Act' dated December 10, 2000 provides for ensuring transparency in public procurement of goods and services by streamlining the procedure in inviting, processing and acceptance of tenders by Procurement Entities and for matters related thereto. However, in case of procurement from Public Sector Undertakings (PSUs), exemption from applicability of this Act for two years from the date of enactment was granted. The aforesaid exemption ended on October 3, 2002. GoK has extended the purchase preference to KAPL by one year i.e. till October 3, 2003. Once this exemption ends, the operations, and consequently the profitability, of KAPL would come under severe strain.

In addition to Karnataka, KAPL enjoys purchase/price preferences from Government of Rajasthan, Government of Andhra Pradesh, Employee State Insurance Corporation (ESIC), Central Government Health Services and other Government Institutions (GIs). Majority of the sales to institutions is of DPP.

The turnover achieved by sales through RCs for the last three years is shown in the table below:

Table 5 - RC Turnover (Rs.Mn)

Year	GMS	KNRC	Other RCs	Total RC turnover	Total Sales turnover	% of sales turnover
FY 2002	101.0	38.9	83.6	223.5	766.9	29.1
FY 2001	81.9	54.3	19.8	156.0	636.3	24.5
FY 2000	98.4	50.8	40.4	189.5	580.3	32.7

GMS : General Medical Stores;

KNRC : Karnataka Rate Contracts;

Source : CARE

For FY 2002, sales through RCs constituted approximately 29% of the total sales. The share of RCs from other states has increased considerably in FY 2002. In case of withdrawal of purchase preference currently enjoyed by KAPL, it may have to compete with others on price basis and that may affect turnover from this segment. Further, margins would come under pressure and adversely affect the performance of KAPL.

KAPL is also engaged in trading of medicine kits and diagnostic medical equipment. KAPL sources its requirements from surgical dealers and marketing associates. The equipment and medical kits are sold to GIs across the country.

Income from trading activity has increased to 16% of total sales turnover in FY 2002 from 8% in FY 2000. The driving force behind the trading activity is the comfort level enjoyed by GIs in dealing with KAPL due to the latter's status as a CPSU. If privatised, KAPL may lose its dominance in this segment.

Trade

The trade segment can be divided into sale through Non-Rate Contracts (NRCs) and Retail sales.

NRCs include sales to Government Hospitals (GHs) as well as private hospitals where KAPL does not enjoy any price/purchase preference. In this market, KAPL has to compete with unorganised/organised sector and even MNCs, resulting in reduction of margins. The table below shows the turnover achieved through NRCs for the last three years:

Table 6 - NRC turnover

(Rs.Mn)

Year	NRC	Total sales Turnover	% of sales turnover
FY 2002	122.9	766.9	16.0
FY 2001	102.4	636.3	16.1
FY 2000	85.3	580.3	14.7

Source: CARE

In case of NRCs, approximately 75% of the sales are to GHs and the remaining to private hospitals. KAPL's status does play a major role in sales to GHs.

The dynamics of retail market are entirely different from those for institutional sales. Success in retail market depends on the marketing and distribution network of a company and the portfolio of its products. Companies follow different strategies to ensure success in the lucrative branded segment. Some companies identify niche markets (therapeutic segment) and supplement the same with an established marketing and distribution network. Some companies lay stress on introducing a wide range of products enhancing their product portfolio over a period of time. With impending application of World Trade Organisation (WTO) norms, companies have been aggressively introducing new products thereby reducing the product lifecycle of existing products in the same therapeutic segment.

The marketing and distribution channels include traditional distribution network viz. distributors/retailers and influencers viz. doctors. The products are distributed from the central warehouse to Branches/Clearing & Forwarding (C&F) agents in 19 locations across the country. The Branches/C&F Agents distribute the products to stockist and retailers obtain it from stockists. The margins of stockists and retailers are governed by the existing trade practices. It has a network covering almost all states of the country, with a strong presence in the southern region of the country. KAPL has a field staff strength of 143 Professional Sales Representatives (PSRs). The attrition rate of PSRs has been high over the years. There have been instances where people selected for the posts have left the organisation during the initial training period. KAPL has not been able to retain its PSRs due to absence of a well structured incentive scheme in line with its private sector counterparts.

The product profile of KAPL is shown in the table below:

Table 7 - Product Profile of KAPL in Retail Market

Therapeutic Segment	No of Brands	No of Products
Antibiotics & Antimicrobial	3	8
Anti inflammatory	7	13
Anti allergic and allied drugs	2	4
Haematinics	3	4
Gastro Intestinal disorders	4	6
Tropicals	4	5
Cardiovascular	2	3
Haemostatics	1	3

Source: CARE

KAPL has been able to make only a limited impact in the retail market due to intense competition from established domestic players as well as MNCs.

The turnover in retail segment for the last three years is shown below:

Table 8 - Retail sales turnover

(Rs. Mn)

Year	Retail Sales	Total Sales turnover	% of sales turnover
FY 2002	122.7	766.9	16.0
FY 2001	122.6	636.3	19.3
FY 2000	112.0	580.3	19.3

Source: CARE

As is evident from the table above, retail sales as a percentage of total sales have come down from 19% in FY 2000 to 16% in FY 2002.

KAPL started production of veterinary medicines from 1987. In the case of veterinary medicines, the dosage forms are generally based on body weight of animals. For selling veterinary products, KAPL does not enjoy any price/purchase preference from any GIs across the country. The veterinary market is highly competitive and demand is seasonal. KAPL faces competition from companies with national presence in this market like Sarabhai Zydus Animal Health Ltd., Glaxo SmithKline, Pfizer, Intervet, Wockhardt and Ranbaxy. The veterinary market is huge and rural oriented. Most of the customers are located in rural interiors and the margins are low. The total size of veterinary market is approximately around Rs.9000 mn, out of which the total volume of veterinary medicine sales of KAPL was only Rs.81.3 mn for FY 2002. The percentage of KAPL sales to all India Veterinary Market is about 0.9% and hence it has a small presence in the above business.

KAPL also manufactures and sells an agrochemical product with the brand name K-cycline (combination of Streptomycin Sulphate & Tetracycline Hydrochloride). K-cycline is an antibacterial used for protection of crops such as rice, cotton etc, and is manufactured in-house. Ayurvedic veterinary product under the brand

name 'Suruchi', a digestive, is marketed by KAPL. Though the sales have increased in absolute terms, in terms of percentage of sales turnover, it has remained stagnant at approximately 11%.

Exports

The export business is largely driven by the export of injectable and oral antibiotics. Exports are made to countries such as Ethiopia, Philippines, Netherlands, Germany, Denmark, Belgium, Tanzania, Malaysia, etc. Accreditation of ISO and UNICEF approval of the plant over the years has improved acceptability of KAPL's products in the export markets. Exports through multilateral agencies like UNICEF and IDA form a substantial part of the total exports. The company recently got approval from the regulatory agency of Belgium for export to that country. KAPL is in the process of getting approval from the Medical Control Consulate (MCC) of South Africa and a few other countries. However, long term success in export markets would depend upon the ability of KAPL to provide quality products at competitive rates and a thorough understanding of international regulatory environment.

The sales performance of export for the last three years is shown below:

Table 9 - Export turnover

(Rs.Mn)

Year	Export turnover	Total sales turnover	% of sales turnover
FY 2002	86.5	766.9	11.3
FY 2001	71.7	636.3	11.3
FY 2000	72.7	580.3	12.5

Source: CARE

To improve capacity utilisation, KAPL has made its spare capacities available to other pharmaceutical companies like Glaxo and Orchid Chemicals. The Betalactum DPP facility is used by these companies. The table below shows income from contract manufacturing for the last three years:

Table 10 - Income from contract manufacturing*(Rs.Mn)*

Year	Income from contract mfg.	Total sales turnover	% of sales turnover
FY 2002	5.3	766.9	0.8
FY 2001	6.5	636.3	1.0
FY 2000	11.7	580.3	2.0

Source: CARE

Income from contract manufacturing has also declined over the period from 2% in FY 2000 to less than 1% in FY 2002.

FINANCIAL ANALYSIS

The summary of Profit & Loss Accounts and of the Balance Sheets of the company for the last five years is given below:

Table 11 - Profit & Loss Accounts*(Rs.Mn)*

For the Year ended	31/03/02	31/03/01	31/03/00	31/03/99	31/03/98
Gross sales	766.86	636.28	580.32	537.56	524.34
Less: Excise duty	57.00	48.85	42.40	30.25	16.87
Net Sales & transfers	709.86	587.43	537.92	507.31	507.47
Increase/(decrease) in stock	17.48	15.09	11.11	9.50	-7.08
Other Operational income	4.75	8.97	3.24	2.35	3.26
Total Income	732.09	611.50	552.27	519.16	503.64
a. RM, stores & other cons (net)	427.77	347.21	302.54	291.27	303.95
b. Salaries & Wages	113.38	101.98	95.74	84.79	70.41
c. Power & Fuel	8.99	6.88	7.73	7.11	7.51
d. Factory OH	10.50	9.27	7.67	8.93	9.63
e. Admn, Selling & Dist: OH	117.24	101.25	94.13	86.28	74.08
Total Cost of Production	677.88	566.59	507.81	478.37	465.59

Contd...

For the Year ended	31/03/02	31/03/01	31/03/00	31/03/99	31/03/98
Gross Profit PBILDT	54.21	44.91	44.46	40.79	38.06
less : Depreciation	4.82	3.55	3.21	3.93	4.12
PBILT	49.39	41.36	41.25	36.86	33.94
less : Interest	8.36	7.46	7.30	11.16	10.23
Profit from Operations	41.03	33.90	33.94	25.70	23.71
add : Other Income (non opnal)	0.47	0.52	0.53	2.43	1.49
Profit Before Tax	41.50	34.42	34.47	28.12	25.20
Tax	13.00	14.60	12.80	13.20	8.80
Profit After Tax	28.50	19.82	21.67	14.92	16.40
Prior year adjustment	1.09	3.17	-1.41	0.01	-1.99
Surplus brought forward from previous year	0.33	0.63	0.03	0.37	0.89
Adjusted PAT	29.92	23.62	20.29	15.31	15.29
Gross Cash Accruals	34.75	27.17	23.50	19.24	19.41
Dividend (Amount) (incl.Div. Tax)	3.73	3.28	3.67	3.28	3.28
Retained Profit	26.20	20.33	16.63	12.03	12.02
Net Cash Accruals	31.02	23.88	19.84	15.96	16.13

Source: CARE

Table 12 – Balance Sheets

(Rs.Mn)

As at	31/03/02	31/03/01	31/03/00	31/03/99	31/03/98
Liabilities					
Paid up Capital	14.90	14.90	14.90	14.90	14.90
Reserves & Surplus	172.40	146.54	126.83	110.24	98.58
Borrowings					
Bank borrowings	41.94	17.48	19.77	6.86	28.24
Term Loans	10.02	12.99	16.98	20.00	18.50
Current Liabilities & Provisions	221.13	215.03	190.75	164.37	122.59
Total	460.39	406.93	369.23	316.37	282.80

Contd...

As at	31/03/02	31/03/01	31/03/00	31/03/99	31/03/98
Assets					
Gross Block	118.97	89.27	90.66	86.44	85.24
less : Depreciation	51.10	46.83	43.39	42.30	38.40
Net Block	67.87	42.44	47.28	44.14	46.85
Capital WIP at cost	1.89	17.20	0.05	0.01	0.00
Investments at cost	4.45	4.48	4.97	4.97	4.99
Current Assets, Loans & advances	386.17	342.81	316.93	267.25	230.96
Total	460.39	406.93	369.23	316.37	282.80

Source: CARE

Operating profits

Operating profitability of KAPL during period FY 1998 to FY 2002 is given in the table below:

Table 13 - Operating profitability-Past

(Rs Mn.)

Year ended March 31	2002	2001	2000	1999	1998	CARG (%)
Total Income	732.1	611.5	552.3	519.2	503.6	9.8
Total Expenses	677.9	566.6	507.8	478.4	465.6	9.9
PBDIT	54.2	44.9	44.5	40.8	38.1	9.3
(% of Total Income)	7.4	7.3	8.0	7.9	7.6	—
PAT	28.5	19.8	21.7	14.9	16.4	14.8
(% of Total Income)	3.9	3.2	3.9	2.9	3.3	—
Dividend (incl. Tax)	3.7	3.3	3.7	3.3	3.3	—
Net Cash Accruals	31.0	23.9	19.8	16.0	16.1	—
Retained profit	26.2	20.3	16.6	12.0	12.0	—

CARG - Growth p.a. between FY1998 to FY2002.

Source : CARE

In past, the operations of KAPL have exhibited a stable growth on almost all parameters. During the period FY 1998 to FY 2002, both income and expenditure

grew at CARG of around 10% resulting in stagnant PBDIT margins at 7.5%-8%. However, the PAT margin of KAPL has improved marginally from 3.3% in FY1998 to 3.9% in FY 2002 mainly due to a reduction in interest expenses as a percentage of total income. KAPL is a dividend paying company and has consistently declared dividend of 20% for the last five years.

Financial Ratios – Past

Financial ratios for KAPL are given below:

Table 14 - Financial Ratios – Past

For the year ended/ As at	2002	2001	2000	1999	1998
Debt Equity Ratio (times)	0.1	0.1	0.1	0.2	0.2
Current Ratio (times)	1.5	1.5	1.5	1.6	1.5
PBIDT / Total Income (%)	7.4	7.3	8.0	7.9	7.6
PAT / Total Income (%)	3.9	3.2	3.9	2.9	3.3
Return On Investment (ROI) (%)	24.5	24.1	25.7	24.4	22.9
Return on Networth (RONW) (%)	16.3	13.1	16.2	12.5	15.2
Capital Turnover Ratio (times)	3.6	3.6	3.4	3.4	3.4
Average Collec. Period (days)	78.4	84.5	81.6	78.1	66.7
Average Inventory (days)	57.4	59.2	55.4	46.9	47.6
Average Creditors (days)	141.9	162.1	157.8	136.6	113.7
Book Value (face value Rs.100)	1257.1	1083.5	951.2	839.8	761.6
Earnings per share (face value Rs.100)	191.3	133.0	145.4	100.1	110.1

Source: CARE

As on March 31, 2002, Debt/Equity ratio of KAPL was 0.1. Over the years the company has financed its capital expenditure through **internal accruals**. With the current ratio of 1.5 as on March 31, 2002, its liquidity position can be considered comfortable. KAPL has very low net and gross profit margins mainly due to coverage of some of its products under DPCO and also due to institutional sales. The average collection period of KAPL is around 80 days. The high level of debtors is mainly due to delay in payments by Government institutions. During

the period under consideration, the average credit period was around 140 days. This reflects on the ability of KAPL to get relatively high credit period from its suppliers. During the period under review, the book value of KAPL's share (face value Rs.100) increased from Rs.761 per share as at the end of FY 1998 to Rs.1257 per share as at the end of FY 2002. During the same period EPS increased at a CARG of 14.8%.

Contingent Liabilities

Contingent liabilities as on March 31st 2002, which have not been provided for by the company include the following:

- Difference in Sales Tax of Rs.28.23 mn for non-receipt of statutory forms.
- Liability towards Sales Tax of Rs1.18 mn relating to earlier years. The matter is under appeal with various appellate authorities.
- Letter of Credit of Rs.8.25 mn.
- Bank Guarantee of Rs.4.47 mn.

These are liabilities that may arise during normal operations of any business.

SWOT ANALYSIS

Strengths

- Price/purchase preference from Government, semi-Government and other health care institutions.
- Good financial health - KAPL is almost a debt free company, which is in good financial health. It has been meeting its capital expenditure requirements to a great extent from internal resources.
- Flexible manufacturing facilities - KAPL is basically a formulation unit. It employs general-purpose machines, which can be used interchangeably for manufacturing different products. This enables the company to change its product-mix according to requirements of its customers.
- Operationally stable company – The growth in sales turnover has kept pace with the increase in the cost of production. The net profit margin has remained stable over the years.

- Export constitutes over 11% of KAPL's turnover. ISO-9001 certification and accreditation from UNICEF for its Betalactum dry powder facility have helped the company to boost export sales.
- Diversified business portfolio – Around 40% of KAPL's revenues comes from trading activities, export turnover, contract manufacturing and sales of veterinary medicines. The diversified business portfolio provides a cushion to an extent against the fluctuating institutional sales.

Weaknesses

- Weak promoter - KAPL is promoted by HAL, which is a loss-making PSU and is under the purview of BIFR. As a result, it is unlikely that KAPL will get any financial support from its parent for future expansion plans.
- Limited R&D facility - KAPL has limited research and development facility.
- Limited brand equity – As already mentioned, KAPL has been unable to establish its brand in the markets.
- Difficulty in augmenting management talent and quality sales force in competition with private sector pharmaceutical companies as the company is bound by the policies and procedures laid for PSUs.

Opportunities

- Product diversification – KAPL's manufacturing facilities are flexible and, therefore, it can diversify into lifestyle segment, which is growing at a higher rate.
- Increase institutional sales by targeting more and more states.
- KAPL is almost a debt free company. With satisfactory performance of the past, KAPL is well placed to leverage on its networth and finance future capital expenditure by raising debt.
- In the next few years, many drugs are likely to go off patent. It is estimated that between 2002-05, \$42,000 mn of branded products will lose their patent protection. KAPL can export some of these products to non-regulated markets.

Threats

- Closure of HAL - As mentioned earlier, HAL is a sick company and has been referred to BIFR. HAL is the majority shareholder in KAPL. Any

decision to wind up the operations of HAL may affect future expansion plans of KAPL.

- Institutional sales – Majority of KAPL's sales are to institutions. Withdrawal of price preference by these institutions may affect financial performance of the company.
- Intense competition from better placed companies during the post - WTO era - Organised companies with strong R&D base, market and distribution network will act as a deterrent to KAPL's operations, which is relatively weak on the above fronts.

DISINVESTMENT CONSIDERATIONS

KAPL is primarily a pharmaceutical formulations manufacturing company, with a consistent track record. As discussed earlier, the Indian pharmaceutical industry is highly fragmented with more than 23,000 licensed pharmaceutical manufacturers and 90% of them produce formulations. Formulations account for around 81 % of the total sales of the industry and bulk drugs account for the balance. Presence of large number of players has made the industry highly competitive. However, almost 90% of the market share is with the top 100 companies.

The strength of Indian companies lies mainly in reverse engineering the new products of MNCs in developed markets and introduction of variants of these products in the domestic market.

As per WTO terms, India will start recognising product patent from January 2005. After this, Indian companies will not be able to do reverse engineering of patented products and this may affect their portfolio of products significantly. At the same time, MNCs are likely to introduce some of their main products (in other parts of the world) in India. Therefore, to consolidate their position, there is a rush among the big and mid sized Indian companies to introduce large number of new products in the domestic market before 2005. Even after January 2005, due to adoption of new patent laws under WTO terms, the medium sized companies are expected to continue to concentrate on manufacturing generic products, according to industry experts. This will make the generic products market extremely competitive in future. Though as per ORG Marg survey (2002), KAPL ranks 180 (by value) in the domestic pharma industry, the company faces certain inherent disadvantages, which may affect its growth prospects or even make its survival difficult in future.

Sale of formulations contributes around 80% of KAPL's total turnover. For selling majority of formulations, KAPL heavily depends on Government Institutions. Also due to inadequate marketing and distribution network, its product reach is restricted mainly to the southern and partly to the central states of the country. So far, sale to GoK is a steady business but it faces competition in other states from other pharmaceutical PSUs such as HAL, RDPL, etc. The institutional sale accounts for a large part of KAPL's operations.

The basic objective of setting up KAPL was to make available life saving drugs of consistently good quality to government hospitals and other institutions in Karnataka. This resulted in company's focus on institutional sales. The operations of the company also remained organised to cater to these requirements. Over the years, KAPL ventured into other business activities such as retail-pharma, exports, trading of medical equipment and agro-veterinary products. However, this has not resulted in any significant reduction in business risk (heavy dependence on GIs) because large part of sales of these business segments comes from institutions. Concentration of institutional sales in various business segments of KAPL for FY 2002 is given below:

Table 15 - Institutional sales – FY 2002

(Rs.Mn)

	Business Segment	Institutional	Trade	Total
A	Pharma-Institutional	223.5	0.0	223.5
	<i>% of total Pharma-Institutional sales</i>	<i>100</i>	<i>0</i>	
B	Pharma - Trade	122.9	122.7	245.6
	<i>% of total Pharma-Trade sales</i>	<i>50</i>	<i>50</i>	
C	Agrovet	48.9	32.4	81.3
	<i>% of total Agrovet sales</i>	<i>60</i>	<i>40</i>	
D	Trading	124.5	0.0	124.5
	<i>% of total Trading sale</i>	<i>100</i>	<i>0</i>	
E	Total (A+B+C+D)	519.8	155.1	674.9
F	Total KAPL sales	766.9		
G	Institutional sales as % of total sales (E/F)	68		

Source: CARE

The table shows that main business segments of KAPL heavily depend on institutional sales. In FY 2002, institutional sales contributed around 68% of total turnover of KAPL. In Karnataka, KAPL enjoys purchase and price preference under which few items are bought from KAPL on priority basis. In most of the other States, KAPL does not enjoy such preferences. Due to this, business from institutions is not regular, making it difficult for the company to employ through scientific planning and forecasting techniques. This has resulted in wide gap between demand and supply. Presently, for some of KAPL's product lines, the demand is less than the installed capacity (e.g. DPP).

Government hospitals normally cater to poorer sections of the society and being the largest customer of KAPL, they exercise significant influence over KAPL's product profile. GHs normally buy Antibiotics and Anti-TB drugs from KAPL. Though the product range of KAPL covers wide range of antibiotics, the concentration is mainly on the old generation drugs such as Penicillin and Ampicillin. Most of these drugs and their raw materials are under DPCO control resulting in lower profit margins. Due to this, MNCs and big Indian pharma companies do not prefer to manufacture these medicines on their own and if required, they resort to contract manufacturing practices.

As mentioned earlier, supply of medicines to GHs in Karnataka takes place under GoK Order. For controlled products (products under DPCO control) supplied by KAPL, the ceiling price is 77% of price fixed under DPCO. For non-controlled product, it is the price agreed under RC. In case of KAPL, the raw material cost is around 60% of total production cost. The duration of RCs is normally two years and therefore, in case of non-controlled products, any upward movement in raw material prices may have adverse impact on KAPL's profitability. Normally, manufacturers including SSIs, MNCs, big Indian companies and other PSUs participate in Government tenders for RCs. This makes the institutional market highly competitive resulting in heavy discounts to get the orders.

With liberalisation of economy, the market of Government institutions, which was earlier the monopoly of PSUs, is slowly and steadily opening up for private participation through competitive bidding route. In the pre-liberalisation era, majority of the States used to offer preferential treatment (price and purchase) to PSUs. Over the period, this preference has diminished in most of the states. In case of Karnataka, preferential treatment is expected to end from October

2003. Thus heavy dependence on institutional sales may result in huge concentration risk for KAPL.

In spite of diversifying into retail pharma and export business, KAPL has not been able to consolidate its position in these businesses to an extent to compensate it for any business loss from institutions. The dependence on institutional sales has made the company more production-cum-sales-driven rather than marketing-driven.

The existence of a large number of product segments in the industry makes it difficult for any player to garner significant share of the total market. Most of the players concentrate on a few product segments and try to attain the top position in them. These players employ aggressive marketing and distribution strategies to sell their products in the market. To supplement this, companies also employ extensive distribution network. Sometimes these networks are segregated on product basis. As far as institutional sales are concerned, the orders are normally decided on the basis of lowest quote and marketing has little role to play. To support its trade sales in retail pharma segment and agrovet segment, KAPL employs manpower strength of around 250. However, considering KAPL's target customers who reside in semi-urban and rural (far-flung areas), even with such a strength, it is very difficult for the company to reach its markets on regular basis. KAPL is also finding difficult to augment management talent and quality sales force in competition with private sector pharmaceutical companies as the company is bound by the policies and procedures laid for PSUs. All the above factors are affecting KAPL's sales in open market. In FY 2002, KAPL registered negligible growth in retail sales.

Most of the products offered by KAPL are products for which many alternatives are available in the market from different pharmaceutical companies. In such type of products, the brand image of company plays a very important role. The PSU status of KAPL sometimes acts as a disadvantage for the company in marketing its products in urban areas. This results in shifting its target customers to rural and semi-urban areas.

In order to sustain growth rate of their brands, mid-sized and large pharmaceutical companies are introducing large number of variants in the market. Owing to its limited R&D set-up, new product introduction capability of KAPL is also very

restricted. Besides, the market share of KAPL's leading brand in its therapeutic segment is negligible reflecting on its poor geographical coverage.

Some of the factors determining success of any pharmaceutical company in the open market are as follows:

- cost competitiveness;
- extensive distribution network;
- branded products; and
- ability to introduce new drugs quickly.

KAPL depends on a few key suppliers for RMs. As volumes are low, discounts are difficult to get and orders are given lower priority by the manufacturer.

KAPL does not fare well on most of the above parameters. In order to face the challenges of future and take advantages of opportunities, KAPL requires substantial investment in technology, manufacturing facilities and distribution network and therefore, financial strength of KAPL will be crucial in deciding the future course of action.

Considering the present state of its majority shareholder i.e. HAL (a sick company), it seems that, in future, KAPL will have to depend on its other promoter i.e. KSIIDC for funding expenditure. The operations of HAL are closed except for marginal production in some units. Though the company was referred to BIFR for revival in 1997, till the end of January 2003, BIFR has not been successful in finalising a rehabilitation package for HAL. This underlines KAPL's dependence on KSIIDC for future investments. However, Government of Karnataka has conveyed to the Department of Chemicals and Petrochemicals, Government of India, in December, 2002 that GoK has taken a decision that PSEs whose activities are commercial in nature or which provide consumer goods and in which there is a strong private sector presence would be restricted through privatization or closure and that no further infusion of funds from state budgetary resources would be made in such PSEs for the purposes of modernization, expansion or taking up new activities. GoK also conveyed that conversion of KAPL into a state PSU may not be possible and requested for suitable action to divest GoK's entire

shareholding [held through KSIIDC] along with Government of India's share holding [held through HAL].

It is felt that, in view of the fairly developed stage of domestic formulations industry, involvement of GoI in the drug manufacturing activity may not be necessary. The continued involvement of GoI in companies like KAPL is also inconsistent with the policy of restricting Government ownership to sectors of strategic importance only.

Also, in the event of sale of HAL's assets or winding up of HAL's operations, HAL would be required to divest its holding in KAPL. Sale of HAL's investment in KAPL will require approval of BIFR. Since HAL's shareholding in KAPL is an asset of HAL, BIFR will be concerned with realising fair value for the assets.

RECOMMENDATIONS

In view of the factors analysed above, it is evident that the entire stake of HAL in KAPL should be divested immediately.

KAPL is a joint venture between GoI (through HAL) and KSIIDC. As an ethical business practice, when a shareholder in a JV seeks to exit, the first right of refusal is given to the other shareholder. In this case, in light of the communication from the Government of Karnataka to Government of India, the Commission recommends that the entire equity of KAPL may be divested to a strategic buyer, through the competitive bidding route.

The factors which may distract interested parties from acquiring the company are overstaffing, out-dated machinery and absence of successful brands. However, land owned by KAPL has considerable value. A proper valuation of assets needs to be carried out carefully before the sale is conducted.

As mentioned earlier, since HAL is under the purview of BIFR, disposal of its holding in KAPL will require prior approval of BIFR.
