REPORT X

DISINVESTMENT COMMISSION

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

Part **A**

1 GENERAL RECOMMENDATIONS

1.1 STATUS OF PSUs REFERRED TO THE COMMISSION

In 1996 and 1997, Government had referred a total of 50 PSUs to the Commission. Government then withdrew seven PSUs, effectively leaving 43 PSUs for the Commission to examine and give its recommendations. The Commission had, in eight Reports, submitted its recommendations in respect of all these 43 PSUs. The VIII Report of the Commission was submitted in August, 1998. Ten PSUs were referred to the Commission in October 1998. Eight more PSUs were referred to the Commission in January, 1999 and another four in April, 1999. Out of these, five PSUs were already under reference to BIFR. Thus, out of 22 PSUs referred to the Commission in 1998 and 1999, five already stood referred to BIFR. Out of these 22 PSUs, the Commission had given its recommendations in respect of two PSUs, namely, HSCL and STC, in its IX Report submitted in March, 1999. In this X Report, the Commission has given its recommendations in respect of five PSUs including ONGC on which the Commission had earlier suggested that disinvestment be deferred. This leaves 11 PSUs (excluding five referred to BIFR) for examination by the Commission. The Commission is in correspondence with Government regarding the PSUs that are already referred to BIFR.

The list of PSUs referred to the Commission is given in Appendix I. The list of PSUs withdrawn from the Commission is given in Appendix II.

1.2 PROGRESS OF IMPLEMENTATION OF COMMISSION'S RECOMMENDATIONS

The Commission has so far submitted Nine Reports to the Government covering 45 PSUs referred to it. The gist of general recommendations and action taken by Government on them is given in Appendix III. The modalities of disinvestment recommended in respect of specific PSUs and action taken by Government is given in Appendices IV and V. The following Table indicates the action taken by Government on the recommendations of the Disinvestment Commission on individual PSUs.

Table 1: Action Taken[@] on Recommendations of Disinvestment Commission

Accepted	Decision Deferred	Decision Implemented	Decision being Implemented	Decision Awaited
1. RITES[^]	1. FACT	1. MTNL[&] (May.97)	1. GAIL (Feb.97)	1.ET&T(Dec.97)
2. MOIL[#]	2. NFL	2.CONCOR[*](May.97)	2. KIOCL(Mar.97)	2. RIC (Dec.97)
3. OIL[#]			3. MFIL (Feb.97)	3. NALCO (Mar.98)
4. ONGC[#]			4. EPIL (Nov.97)	4. HCL (Aug.97)
5. SAIL[#]			5. HTL (Apr.97)	5. NEPA (Nov.97)
6. NTPC[#]			6. EIL (Nov.97)	6. HZ L (Dec.97)
7. NHPC[#]			7. IPCL (Mar.98)	7. PHL (Aug.97)
8. PGCL[#]			8. HCIL (Dec.97)	8. AI (Aug.98)
9. NLC[#]			9.R.Ashok(Nov.97)	9. PPCL (Dec.97)
			10.UAshok(Nov97)	10. CEL[#] (Aug.98)
			11.BALCO(Apr97)	11. HVOC (Dec.97)
				12. SCI (Aug.97)
				13. IBP (Nov.97)
				14. HPL (Nov.97)
				15. HLL (Mar.98)
				16. ITI (Apr.97)
				17. BRPL (Apr.97)
				18. MFL (Apr.97)
				19. ITDC (Feb.97)
				20. HSCL (Mar 99)
				21. STC (Mar 99)

Note : Information given in brackets indicate month and year of the Commission's recommendations.

@ As per information communicated by Government (As on 1st February 1999).

Commission had recommended that disinvestment be deferred in these PSUs pending fulfilment of certain specified conditions.

& Implemented in December 1997.

* Implemented in November 1998.

^ The Commission had not recommended disinvestment in this PSU

It would be seen from this Table that out of 45 PSUs for which recommendations have been made to the Government, decision is yet to be taken in 21 cases. Out of 27 cases of strategic sale/trade sale recommended by the Commission (Appendices II and III), decision is awaited in 21 cases.

There has been no further progress in the implementation of recommendations of the Commission after it submitted its Ninth report in March, 1999.

Part **B**

MMTC Ltd

Evolution

MMTC was incorporated in September 1963 as *The Minerals and Metals Trading Corporation of India Limited* for the purpose of canalising import / export of metals and minerals in the country. MMTC was also made the sole canalising agency for the import of fertilisers and fertiliser intermediaries in 1971.

The Government disinvested its stake to the extent of 0.7% in the company in 1993, at an average value of Rs. 92 per share. This stake is held by institutions and other companies.

MMTC's facilities include 7 overseas offices, 52 domestic offices / site offices and a well-established storage and transportation network.

Industry Analysis

Global Trading Industry

In terms of nominal export value, the world trade in 1997 was about US$5.46 trillion.

Table 1 : Growth in Global Trade

	1997	1996	1995	1994
Growth in Global Trade (By Volume)	4.1%	6.2%	10.3%	10.2%
Growth in Global Trade (By Value)	3.4%	3.9%	19.7%	13.8%

Table 2 : Growth in Trade by Developed and Developing Countries

For the year 1997	Developed Countries	Developing Countries
Exports	US$3.63 trillion	US$1.83 trillion
Growth in Exports	*2.3%*	*5.8%*
Imports	US$3.62 trillion	US$1.97 trillion
Growth in Imports	*2.3%*	*8.0%*

Among the developed countries, US accounted for the major share of trade. Japan and the EU (with the exception of the U.K.) generally made only a small contribution to the expansion in world trade.

Indian Trading Industry

International trade in almost all commodities was canalised through the two government trading houses - STC and MMTC prior to liberalisation in 1991-92. This resulted in assured volumes and guaranteed operating margins for the company. However, with the decanalisation of trade and entry of international trading houses in the Indian market, the monopoly position of these companies has been eliminated.

Several players in the private sector including Adani Exports Ltd., Tata International Ltd., Ganapati Exports Ltd., etc. entered the business of trading in commodities in the last few years. With the end of monopoly status for the government owned trading corporations, the trading business has become competitive and less remunerative for the public sector units. MMTC is the largest trading company in India, despite large-scale decanalisation by the government.

Table 3 : Comparison of some Prominent Indian Trading Houses (Rs. Crores)

	MMTC	STC	Adani Exports	Tata International
	1997-98	1997-98	1997-98	1996-97
Gross Sales	4473.43	2866.96	2417.77	1693.60
Profit After Tax	17.35	2.57	76.97	20.50
Net Profit Margin	0.4%	0.1%	3.2%	1.2%
Return on Capital	4.9%	7.6%	20.9%	17.2%
Return on Networth	2.7%	0.6%	31.5%	20.3%
Total Debt/Networth	0.18	1.27	0.94	1.31

The Role of a Trading Company

The fundamental role of a trading company is to accurately grasp the needs of the buyers, to identify the goods and services they require, to find the suppliers for these products, and to ensure timely delivery of these goods and services to hedge against the risks associated with uncertainties in supplies and uncertain markets. General trading companies, like Mitsubishi, Mitsui, Marubeni, Itochu and Nissho, have now gone beyond simply offering mid-stream intermediary services for sellers and buyers. The current range of services of these trading companies include :

1. Moving up-stream into development and production of goods (for ensuring an assured and captive supply base)

2. Moving down-stream into actual transactions and sales (for ensuring an assured market)
3. Possessing captive/owned trade-related logistics and infrastructural facilities including intermodal transport facilities, warehousing, and material handling facilities to maximise distribution efficiency
4. Undertaking treasury and risk management functions

In the West, it is generally manufacturing companies that have been the engines behind trade expansion. Trade intermediaries have tended to diminish in importance as manufacturers acquire the skills to procure raw materials overseas and sell products in foreign markets on their own behalf.

In Japan, major commercial enterprises like Mitsui and Mitsubishi set up separate companies or divisions to handle external trade transactions for their affiliates. These companies have since become increasingly involved in downstream investment activities through international diversification and investment in a wide spectrum of industries. They are now involved into upstream activities such as mining and manufacturing and downstream activities such as retailing, catering, leisure and other service industries.

The growth of Chaebols (South Korean trading houses) has, however, been due to government's industrial expansion plans. Today, these chaebols trade in a number of commodities and have integrated backwards into manufacture of a number of products like cars, planes, machinery, electronics, textiles, chemicals, glass, etc. In India, large trading houses were set up in public sector predominantly to cater to the government's exports or imports. These have not diversified and have remained as trading companies only.

Business Analysis

MMTC is a "Superstar" trading house engaged in international trading operations and related activities. MMTC now trades mainly in minerals, fertilisers, gold/gems and jewellery, non-ferrous metals and agro products. The canalised products contributed to around 34% of MMTC's turnover in FY 98.

Table 4 : MMTC's Commodity-wise Turnover and Trading Profits(*)

(Rs. Crore)	**1997-98**			**1996-97**			**1995-96**		
	Turnover	Trading Profit	% margin	Turnover	Trading Profit	% margin	Turnover	Trading Profit	% margin
Canalised Exports									
Minerals	947	55	5.84%	848	58	6.81%	807	56	6.98%
Non-Canalised Exports									
Agro Products	75	2	2.14%	135	0	0.17%	198	2	1.10%
Minerals and Ores	33	3	9.96%	37	2	4.05%	21	2	8.32%
Others	132	5	3.76%	117	14	11.82%	351	-1	-0.20%
TOTAL EXPORTS	1187	65	5.49%	1137	73	6.45%	1376	60	4.33%
Canalised Imports									
Urea	562	2	0.37%	849	2	0.26%	1898	4	0.23%
Sugar				0	0		252	3	
Non-Canalised Imports									
Fertilisers	110	5	4.52%	203	-13	-6.34%	189	-7	-3.60%
Non-ferrous metals	272	5	1.78%	317	0	-0.09%	655	-2	-0.25%
Gold/gems and jewellery	2115	37	1.76%	2019	35	1.72%	1447	38	2.65%
Others	73	4	6.06%	18	1	7.65%	11	1	5.42%
TOTAL IMPORTS	3132	53	1.71%	3407	25	0.74%	4451	38	0.86%
DOMESTIC TRADE	155	-4	-2.53%	195	-12	-6.20%	398	-7	-1.67%
TOTAL TRADE	4473	115	2.57%	4738	86	1.82%	6224	91	1.46%

(*) Trading Profit = Total trading income less cost of sales, manufacturing cost etc. but doesn't include salary & wages, administrative expenses, overheads, interest and depreciation.

Gems, Jewellery and Gold Division

The main activities of this division are import of gold and export of jewellery. It has been one of the fastest growing divisions of the company and the sales of this division (excluding domestic sales) have increased from Rs. 793.8 crores in 1993-94 to Rs. 2156.20 crores in FY 98.

The operations of this division involves duty-free import of Gold and Silver for use by jewellery exporters in DTA /EPZ /EOU areas and import of gold and silver against Special Import Licence for domestic consumption. In FY 98 the company imported 49 tonnes of gold and 266 tonnes of silver.

Recently, the Government of India has also allowed 10 commercial banks to import gold into the country, which has created substantial competition for MMTC as these banks are able to transact the business at lower costs as compared to MMTC. These banks have advantages over MMTC of not having to incur remittance fees, vault rentals and some other incidentals, since they have access to banking facilities owned by them, while MMTC has to rely on other banks for these services.

Minerals Division

The main activity of this division is export of iron, chrome and manganese ore. Manganese and Chrome ore exports are relatively small as compared to the iron ore.

Currently, all iron ore with iron content over 65%, manganese and chrome ore is canalised through MMTC. Iron ore is mainly exported to manufacturers in Japan, Korea, China and Pakistan. For its exports to Korea and Japan, MMTC has entered into a long-term contract with Pohang Iron & Steel Company (POSCO) and Japanese Steel Mills Association and this agreement is valid till 2002. Around 60% of the iron ore export is through long-term contracts. These companies can source their requirement of high quality iron ore from other countries also. The sales to China and Pakistan are on a spot basis.

The ability of MMTC to continue exporting minerals is closely linked to the policy of canalisation being followed by the government. As per the new EXIM policy for 1997-2000, the policy of canalisation of Iron Ore with Fe content over 65% & above, Manganese Ore and Chrome Ore has been extended till 2002. As long as this policy of canalisation continues, MMTC is expected to have a role in export of high grade iron ore.

Fertilisers Division

MMTC's fertiliser division is engaged in three main areas of activity, namely, canalised import of urea, import of non-canalised fertilisers and intermediaries (DAP, MOP Sulphur and Rock Phosphate), and domestic distribution of fertilisers.

The turnover of this division has varied considerably in the past five years, in line with the variation in the level of the urea imports. Canalised imports of urea forms the largest portion of MMTC's fertiliser operations, accounting for between 70% to over 90% of MMTC's fertiliser operations. The fertilisers division has been making losses for the past three years on account of the high level of competition in the domestic and non-canalised segment.

MMTC is one of the canalising agencies for urea imports in the country, the other canalising agencies being Paradeep Phosphates Limited, National Fertilisers Limited and State Trading Corporation. Urea is the only item currently under canalisation, the import of other items such as MoP, DAP,

Sulphur and Rock Phosphate is decanalised.

In the non-canalised business, MMTC imports DAP, MOP, Rock Phosphate and Sulphur into the country and supplies the same to the domestic users of the products. The company also distributes the imported DAP within the country. In the domestic operations, MMTC bids for the distribution of imported urea into the country and supplies the same. In the both these business, the competition is very intense and MMTC's profit margins have been under pressure and have been fluctuating.

Agro Division

The main activities of this division are export of rice, Soya bean meal, wheat and pulses. The division also imports sugar on government account and also trades Agro products domestically. A substantial part of the turnover of this division in the past has come in from the import of sugar into the country. However, with the government not placing any orders for the import of sugar on MMTC in the past two years, and since import of sugar is placed under OGL from time to time, the turnover of this division has decreased considerably from Rs. 711.70 crore in 1994-95 to Rs. 133.70 crore in 1997-98. MMTC earns a commission of around 1-1.5% of the imported value of imported sugar. MMTC also exports Soya meal, rice and wheat and pulses through its Agro Division. The business prospects for MMTC on these commodities appears uncertain.

Non-ferrous metals

MMTC's Metals Division mainly imports copper, zinc, lead, tin and nickel. The turnover of the division has declined considerably in the past three years from Rs. 881.20 crore in 1995-96 to Rs. 286.90 crore in 1997-98. This decrease has been largely due to other importers entering the market which resulted in decline in the traded volumes and the declining prices of metals in these years. The profitability of this division has also varied in the past five years largely on account of the volatile movement in the metal prices.

MMTC imports metals at LME based prices and supplies the same to customers in India. MMTC imports both on its own account for trading purposes and against firm orders from end-users.

Financial Analysis

Table 5 : Financial Highlights (Rs. Crore)

	FY 98	FY 97	FY 96	FY 95	FY 94
Total Income	4,523.3	4,822.8	6,293.7	5,296.8	3,239.9
Operating Profit (OPBDIT)	14.2	1.2	25.4	53.5	26.6
Interest and finance charges	19.6	37.1	45.3	37.5	10.7
PBDT	-5.4	-35.9	-19.9	16.1	15.9
PBT	-8.0	-38.4	-22.4	14.2	14.0
Non-operating income	32.4	52.3	76.1	66.7	52.1
PAT	17.4	27.4	50.2	67.4	51.9
Equity Capital	50.0	50.0	50.0	50.0	50.0
Tangible Networth	634.9	636.4	628.5	593.4	540.9
Gross Margin (%)	0.3%	0.0%	0.4%	1.0%	0.8%
Net Margin (%)	0.4%	0.6%	0.8%	1.3%	1.6%
RONW (%)	2.7%	4.3%	8.0%	11.4%	9.6%
Earning Per Share	3.5	5.5	10.0	13.5	10.4
Dividend (%)	11.0	16.5	15.0	15.0	-

Immediately after decanalisation the turnover of the company decreased to Rs. 3217 crore in 1993-94, from approx. Rs. 8100 crore in the preceding year and has been fluctuating thereafter.

The operating margin has decreased continuously from 1% in FY 95 to 0.02% in FY 97 with a marginal improvement in FY 98 to 0.3% in FY 98. However, with the declining margins, the Profit after Tax (PAT) of MMTC has declined from Rs. 67.44 crore in FY 95 to Rs. 17.35 crore in FY 98. MMTC has been able to show a positive Profit after Tax, largely on account of the considerable non-operating income which also ranged from a level of Rs. 76 crore in FY 96 to Rs. 32 crore in FY 98.

In addition to its investments in its subsidiary companies, MMTC has made investments in units of UTI and public sector bonds.

Table 6 : MMTC's investments (As at March 31, 1998)

Particulars	Rs. Crore	
Subsidiary		
MMTC Transnational Pte. Ltd., Singapore		3.14
Affiliates		
Kings International Acqua ltd.	2.25	
Suvarna Acqua Farms & Exports Ltd.	2.40	
Indo French Biotech Ltd.	4.75	
Visaka Acqua Ltd.	1.15	
Classic Mushroom Ltd.	3.25	
Total Investment in Affiliates		13.80
Other Investments		
PSU Bonds	127.78	
UTI Units	41.76	
Total Other Investments		169.54
Total Investments		186.48

MMTC has no long-term loans outstanding as at March 31, 1998 and all its loans are short term in nature. The Debt to Equity ratio of the company has declined continuously from 0.50 as at March 31, 1995 to 0.18 as at March 31, 1998.

Strengths and Areas of Concern

Strengths

Large Network of over 50 domestic offices and 7 international offices providing sizeable infrastructure for its trading operations.

Over 30 year's Experience in the trading in the Metals, Minerals, Fertiliser, Gems & Jewellery and Agro Products.

Strong capital structure with a low Debt to Equity ratio of 0.18 providing leveraging opportunity for future funds requirement.

Areas of Concern

PSU Status - Inability to respond fast to opportunities in the trading environment on account of government procedures

High Dependence on Government - High level of dependence on government trade, to the extent of 35% of turnover and 50% of profits (1997-98).

Excess Manpower – Surplus manpower estimated at about 2000 out of the 3400 employees, leading to high employee costs.

Low Margins – MMTC is incurring losses (PBDT) in its operations as evident from the table shown in the Financial Analysis section.

Recommendations

In the liberalised scenario, where MMTC has to compete with private Indian and International Trading Companies, responsiveness, efficiency and cost control would be critical for successful trading operations.

It is to be noted that state trading, which was widely prevalent at one time, has been gradually phased out in most countries. India's export-import policies have also been liberalised in the last few years. This has led to significant loss of market opportunities for the government owned trading companies in India. **The Commission is of the view that no public purpose would be served by retaining MMTC under government ownership and control. Hence the Commission classifies MMTC as non-core.**

After the progressive de-canalisation and liberalisation of trade, MMTC's dependence on government related trade has decreased considerably, from about 50% to 33%. With the recent stiff competition from the 10 commercial banks, both turnover and profit of MMTC from the gold business would decrease. Hence the sustenance of mineral trade, of which iron ore exports account for 80%, assumes increased importance for MMTC's viability. However, the question of whether export of high grade iron ore should be canalised through MMTC or allow NMDC, which mines these high quality iron ore, to directly export is a matter to be decided by Government.

Moreover, MMTC has been incurring operating losses (after interest) on account of the low trading margins and the high employee related cost. MMTC's manpower strength of about 3,400 is substantially in excess of the sustainable level. The company has been reporting positive Profit After Tax (PAT) largely due to its non-operating income. In case the company wants to remain profitable, employee strength has to be reduced substantially for which a suitable VRS should be implemented on priority basis.

It is expected that in the foreseeable future the existing list of the canalised products will be pruned further resulting in further reduction in the turnover of the government trading agencies including MMTC. However, MMTC's expertise in trading and infrastructure that it has developed over these years could be of interest to a prospective buyer.

Keeping in view the above, the **Commission recommends reduction in**

employee strength through implementation of a suitable VRS and transfer of the management control in MMTC to a private partner by disinvestment of 51% of equity of MMTC through strategic sale. Before such strategic sale, the canalised export of iron ore will need to be transferred to another agency such as NMDC. The government could later sell the remaining equity holding in favour of public, when the value of the residual equity holding of government increases as a result of transfer of the management control.

In case there is no investor interest in the strategic sale, there would be no option but to close the operations of MMTC after transfer of canalised export of iron ore to NMDC.

National Mineral Development Corporation Limited

Evolution

National Mineral Development Corporation Limited (NMDC), was incorporated as a private limited company on November 15, 1958 and converted into a public limited company on May 5, 1993. NMDC was set up to develop and exploit mineral resources of the country other than coal, oil, natural gas and atomic minerals. Since 1958, NMDC has identified and developed various mineral deposits like iron ore, diamonds, copper, magnesite, dolomite, low silica limestone and rock phosphate. Many of these operations were later transferred to separate companies such as Hindustan Copper Ltd., Hindustan Zinc Ltd. and Kudremukh Iron Ore Company Ltd.

NMDC's current operations include mining of iron ore, limestone and diamonds. It is currently India's largest independent producer and exporter of high value iron ore, operating mines at Bailadila in Madhya Pradesh and at Donimalai in Karnataka. At current production levels of about 15million tons, NMDC's reserves of 896million tons can last 61 years. NMDC also operates India's only mechanised diamond mine at Panna in Madhya Pradesh.

The company's paid up share capital is Rs. 132.2 crore of which GoI holds 98.38%. GoI divested 1.61% in FY 93 to banks and FIs and 0.01% to employees in FY 98. NMDC's shares are listed on six stock exchanges. However, there has been negligible trading in its shares.

Industry Analysis - International scenario

Iron ore is the primary source of iron (Fe). Virtually all, 98.7% of it, is used in the steel industry. Most iron ores mined comprise iron oxide minerals, hematite goethite, limonite - a mixture of hydrated iron oxides, and magnetite. The quality of ore is determined by iron content, good mechanical strength, high reducibility and as little disintegration as possible during reduction.

Iron ore resources in the world are estimated at over 2 billion tonnes of which India has only a share of (approx.) 5.2%. India ranks sixth in iron ore production and seventh in iron ore reserves. However, Indian ore has a high iron content and therefore a higher economic value. India's competitors in high quality ore are Brazil, Australia and South Africa. China, the world's largest producer, has poor quality iron ore (Fe content 39%).

Traditionally, the blast furnace/basic oxygen furnace route has been used in steel making. In recent years Electric arc furnace (EAF) steelmakers, because of lower capital costs and superior quality control, have become important and are expected to constitute 34% of world steel making by 2000. Steel scrap, the raw material for EAFs, however, is likely to be inadequate according to projections made by World Steel Dynamics (A Paine Webber Publication). The sponge iron industry, which provides an alternate source of raw material for EAFs, has therefore witnessed a rapid growth.

Sponge iron plants require iron ore with higher iron content than blast furnaces. Indian ore, being of high quality, is expected to gain from the shift towards the sponge iron route of steel making.

In 1996, 435 million tons of iron ore, accounting for 39.7% of the world iron ore production was exported worldwide. Australia and Brazil dominate the international export market for iron ore. Japan was the largest importer, accounting for 27.7% of all iron ore imports, followed by China and Germany at 10.1% and 9.1% respectively.

Indian scenario

In FY98, India exported 46% of its iron ore production, consuming 36million tons domestically. With production of steel projected to rise from 24million tons in FY98 to 35million tons by FY2005, domestic demand for iron ore is expected to increase to 54mn tons.

Generally, iron ore prices are set on a yearly basis and negotiated directly between buyers and sellers. Export prices are set in US Dollars. The benchmark level in price negotiation is usually set by the major market players; either between Australian ore producers and the Japanese steel industry, or between Brazilian producers and German steelmakers. Other buyers then demand comparability with Japanese and German buyers. With its limited share of world trade in iron ore, India and NMDC have little possibility of influencing international price levels. With a downturn expected in the global steel industry in 1999, prices are expected to fall by about 10% in 1999 from 1998 levels and remain at low levels in 2000.

Domestic prices in India are negotiated between the main seller, NMDC, and the buyers, Vizag Steel plant, Essar and Ispat. SAIL and TISCO have captive

iron ore mines. Domestic prices do not necessarily follow the same trend as international prices as they are influenced also by the depreciation of the rupee against the US$.

Business Analysis

NMDC operates fully mechanized iron ore mines at Bailadila in Madhya Pradesh and Donimalai in Karnataka. It also operates India's only diamond mine at Panna in Madhya Pradesh. Besides, it is also involved in mining of limestone and magnesite. Iron ore mining was, however, the main activity of the company, accounting for about 98% of sales in FY98. NMDC's Bailadila mines have one of the best quality ore (Fe content of >65%) deposits in the world.

Reserves and Production

Table 1 : Reserves and Production (Million Tonnes)

Deposit	Reserves on 1/4/98	Production in FY98	Reserve/Production (*) years
Bailadila Dep 14/11C	130	6	22
Bailadila Dep 5	111	5	21
Bailadila Dep (#) 11A 11B	17 104	-	-
Bailadila Dep. 10(#)	220	-	-
Bailadila Dep 3(#)	80	-	-
Donimalai	55	4	15
Kumarswamy	179	-	-
Total	896	15	61

(*) based on FY 98 production
(#) unmined deposits

The Bailadila range consists of 14 deposits. NMDC has mining leases for all the 7 deposits where mining is economically feasible and currently mines Deposit 14/11c and Deposit 5. In Donimalai, NMDC operates one mine. All of NMDC's operating mines have a high iron ore content (Fe > 67%). The Bailadila deposits contain, chemically and metallurgically, some of the best quality iron ore in the world. Ore at Donimalai, however, has a high phosphorous content.

The production grew from a level of (approx.) 10 million tonnes in FY 93 to approx. 15 million tonnes(approx.) thereby resulting in a CAGR of 6.6%. Similarly, Despatches grew from approx. 11.5 million tonnes(approx.) in FY 93 to X 15.6 million tonnes (approx.) in FY 98 resulting in a growth rate of approx. 6.2%.

NMDC exported all its iron ore upto FY91. Domestic sales began in 1990 with commissioning of Vizag Steel plant. In response to the setting up of sponge iron plants by Essar and Ispat, NMDC developed at Bailadila, Calibrated Lump Ores (CLO) which can directly be used in sponge iron making. However, with new domestic capacities in steel making coming up, GOI in 1991 placed export restrictions on Bailadila ore. From FY92 to FY97 only 2.4 mn tons of lumps and 1 mn ton of fines was allowed to be exported from the Bailadila sector,. This limit was relaxed partially in FY98 to 3 mn tons of lumps and 3.8 mn tons of fines. CLO exports are banned.

In the absence of an adequate domestic market, export restrictions place a constraint on the expansion of NMDC's production. This is why NMDC mines only three deposits in the Bailadila sector although it has mining leases for 7 deposits.

Further, NMDC does not have the right to market its ore in export markets. MMTC is responsible for marketing of the ore and all export has to be canalised through MMTC. The absence of direct on-going interaction with international steel buyers cuts off NMDC from competitive information; technology changes quality issues and even steel industry cycles. In an industry downturn, when steel makers reduce offtake of iron ore, they inform MMTC, which, in turn informs NMDC. MMTC is just an additional intermediary in the sales chain delaying the transmission of information. MMTC recovers all expenses relating to export sales from NMDC. In addition, it charges commission on sales. In FY 98, the domestic and export sales quantities were as given below:

Table 2 : Iron Ore Sales By NMDC in FY 98 (Mn Tonnes)

	Exports		Domestic		Total	
Bailadila	Qty	%	Qty	%	Qty	%
Lumps	2.4	39	3.8	61	6.2	100
Fines	1.3	23	4.4	77	5.7	100
Donimalai						

Lumps	1.1	82	0.2	18	1.3	100
Fines	2.4	99	0.1	1	2.4	100
Total	7.1	46	8.5	54	15.6	100

NMDC exported 93% of the production at Donimalai, while it exported only 31% of Bailadila ore. The large export of the former is due to the absence of the type of steel plants which can use Donimalai ore. Exports are mainly to Japan, China and Malaysia.

Prices

The current ore prices at the mine head (i.e. net of freight cost) are given below:

Table 3 : Ore Prices at Mine Head US$/ton

	Bailadila 14/11C		Bailadila 5		Donimalai	
	FY98	FY99	FY98	FY99	FY98	FY99
Lumps	9.63	8.82	9.78	8.99	8.42	7.72
Fines	6.65	6.02	6.83	6.19	5.14	4.61
CLOs	11.27	10.45	13.58	12.28		

Prices vary depending on the quality and type of ore; lumps, fines or CLOs. Bailadila 5 ore is considered the best, while Donimalai ore earns a lower value because of relatively poor chemical and metallurgical properties.

NMDC currently charges the same rate to domestic buyers as to international buyers. Considering freight costs, domestic steel manufacturers get ore at their plants at rates of about US$20/ton as compared to about US$40/ton for Japanese steelmakers. NMDC has thus priced its ore to give a competitive advantage to domestic steel makers.

Export prices follow international trends. NMDC has been unaffected by price declines in the past because of rupee depreciation. Like all commodity producers in India, NMDC raises prices for domestic buyers also in case of rupee depreciation.

Competitive Advantage

NMDC's mining costs at about US$4-4.5/ton are among the lowest in the

world. Mining costs are about US$5 for CVRD and US$6-6.5/ton for BHP and Rio Tinto. The reasons for NMDC's low mining costs are (a) superior ore quality and (b) low labour costs.

a) Ore quality: The richer the deposits of ore, the lower are the ore raising charges and the better the quality of ore, the lower are the beneficiating and blending costs. The NMDC ore is comparable to CVRD's ore from Carajas region and better than that of Rio Tinto (Hammersly) and BHP. Even after spending higher amounts on beneficiating and blending the ore, Rio Tinto and BHP are not able to guarantee Fe content as high as NMDC.

b) Labour costs : International companies have higher level of mechanisation than NMDC and earn a higher level of revenue per employee. NMDC's employee cost/sales percentage is however, lower at 14% to BHP's 19% and CVRD's 18%.

Freight Cost

NMDC's competitors manage logistics by owning and operating mine-rail-port systems. CVRD, in fact, owns a major railway network in Brazil. It operates terminals at three ports in Brazil, one at Los Angeles and has its own ships. BHP and Rio Tinto (Hammersly), Australia also own the rail links from mines to their self managed terminals at ports. LKAB, which is owned by the Swedish Government, has assumed control of ore-rail systems in Norway and Sweden and is developing the harbour at Lulea in Sweden. LKAB also gains from proximity to the markets of Western Europe.

NMDC, on the other hand, is adversely affected by deficiencies of the Indian Railways and Ports. The Vizag Port has an average pre-berthing detention time and turnaround time of 1.3 days and 6.0 days respectively as against, for example, a few hours in Australia. NMDC spends US$10/ton on transportation of ore from Bailadila to Vizag, a distance of 475kms, whereas CVRD (Brazil) spends US$8/ton on transportation of ore over a distance of 800kms from Carajas to the port of Ponta da Madiera, and BHP about US$7/ton to transport ore over a distance of 600kms.

NMDC's sales realization, net of freight cost, is therefore lower than that for its competitors. This is the main reason why inspite of having the lowest mining costs, NMDC has a lower profitability than CVRD and LKAB.

Royalty

On an average, royalty rates in India are 50% higher than international norms. Currently, NMDC at Bailadila pays a royalty of US$0.44/ton for lump ore and US$0.36/ton fine ore with Fe content greater than 65%. CVRD in contrast pays about US$0.25/ton.

In conclusion, NMDC has the potential for becoming a world leader in iron ore mining (in terms of profitability). It has quality ore and low mining costs, but suffers from the inefficient and high cost infrastructure in India.

Other Mining Activities

Diamonds are normally found in 'Kimberlite ore'. NMDC operates the only mechanized diamond mine in India at Majhgawan in Panna District, Madhya Pradesh. Bigger and better diamonds are sold by a tender process while smaller diamonds are sold through auctions at Mumbai. There is a variation in the average realizations and profits on a year to year basis, depending on the quality of diamonds found. Diamond mining operations of NMDC have been, by and large, loss making. The company expects that a higher level of mechanisation would improve production and profitability by FY2001.

Future Plans

NMDC has plans to incur a capital expenditure of approx. Rs.1900 crore during FY 99 to FY 2005 for expanding its activities in mining of iron ore, limestone, diamond, gold etc. Apart from these, the company proposes to invest in setting up of a pig iron plant using Romelt technology as a part of forward integration. The company is also considering a proposal to set up a pellet plant and pipeline in joint venture.

NMDC has plans to diversify its activities from iron-ore mining to mining of other metals. The company proposes to expand its operations for gold and diamond minings in Namibia, Madagascar, Angola etc. through joint ventures. This is in addition to its plans to explore more minerals in India itself either directly or through joint ventures.

Manpower

As on October 31, 1998, NMDC had a total employee strength of 6716 comprising of 1464 executives and 5252 workmen. The total employee

strength has been maintained at less than 7,000 over the last ten years, although production of iron ore increased from around 9-10 MMT to 15 MMT in FY98 and the diamond production has doubled. NMDC has not adopted the VRS notified by GoI in 1998, because it considers that there is no surplus manpower.

Financial Analysis

The financial analysis of NMDC for the past five years is as follows:

Table 4 : Financial Highlights (Rs. Crore)

	FY 98	FY 97	FY 96	FY 95	FY 94
Total Income	804.6	730.3	619.8	317.3	298.8
Operating Profit (OPBDIT)	263.3	223.2	189.6	141.0	132.6
PAT	175.0	129.9	95.5	72.2	70.7
Equity Capital	132.2	132.2	132.2	132.2	132.2
Tangible Networth	698.5	561.3	471.3	403.9	360.0
Gross Margin (%)	32.7	30.6	30.6	44.4	44.4
Net Margin (%)	21.8	17.8	15.4	22.8	23.7
ROCE (%)	41.7	38.8	37.5	30.0	33.6
RONW (%)	27.8	25.1	21.8	18.9	20.8
Earnings Per Share (Rs.)	13.24	9.83	7.23	5.46	5.35
Dividend (%)	25	25	20	20	20

Iron ore mining is the main activity of NMDC, accounting for 98% of sales in FY98. Sales were considered net of freight upto FY94. From FY96, the freight cost on export sales is included in the sales, while domestic sales do not include freight. Iron ore sales, net of freight cost, grew at a CAGR of 15.86% during FY94 to FY98, comprising a 25.28% growth in domestic sales and 3.36% growth in export sales. Domestic sales realizations increased at a CAGR of 10.15% while quantity sold increased by 14.49% during FY94 to FY98. On the other hand, export sales realizations (net of freight) and quantity sold increased at CAGR of 1.62% and 1.70% respectively. Growth in export sales realizations during FY94 to FY98, in rupee terms, was lower than rupee depreciation against the US$ at a CAGR of 4.02% since FY94. Growth in export realizations was lower because (a) increase in freight costs could not be passed on to buyers and (b) the proportion of fines in the total exports increased from 42% in FY94 to 52% in FY98. NMDC, being amongst the lowest cost iron ore producers in the world, has been able to

achieve high gross margins even in downturns.

Strengths & Areas of Concern

Strengths

Large reserves of high quality iron ore: NMDC's iron ore depoists are having very high Fe content of +67%. This gives the competitive advantage to the company in competing with other supplies both in domestic and international market. NMDC's iron ore reserves can last upto 61 years at the current level of production.

Low mining cost: As discussed in the Competitive advantage section, NMDC is having clear advantage in terms of cost when compared with its competitors.

Strong financial position. NMDC is a zero debt company with high gross and net margins which enables it to withstand business down cycles. This will enable the company to expand its operations in future as and when the demand for its products improve.

Mining Facilities – Mining facilities developed in Bailadila and Donimalai regions would facilitate opening new mines in these areas at lower cost than setting up of greenfield ventures.

Areas of Concern

Restrictions on export: After the decontrol of steel industry in 1991 and setting up of new steel plants, there has been quantative restrictions on export of ore from Bailadila sector.

Low domestic demand: Currently Indian steel industry is passing through recession which has resulted in lower offtake of iron ore from NMDC. This coupled with export restriction has put NMDC's operations under stress.

Compulsory canalisation of exports: Compulsory canalisation of high quality iron ore export through MMTC reduces NMDC's profitability.

Increased competition: The GoI has opened up the iron ore mining to private sector. This will result in increased competition in future.

Poor Transport Infrastructure : NMDC's freight cost per tonne of iron ore is higher on account of deficiencies of the Indian Railways and Ports and hence its sales realisation, net of freight cost, is therefore lower than that for its competitors.

Recommendations

NMDC mines and exports the best quality iron ore in India (Fe contents of more than 65%) apart from meeting the demand of domestic steel producers. The iron ore reserves of NMDC can last for 60 years at the current levels of production. The company has been making consistent profits for the past eight years and has been a foreign exchange earner for the country. The current Government policy allows exports of high quality iron ore only through the canalised agency i.e. through MMTC. The company feels that the present arrangement is inefficient because it deprives them of continued interface with the customer, adds to cost, cuts into their margins and thus reduces their profits. NMDC feels that they are fully geared to handle the export business on their own. This is the practice followed by iron ore mining companies in other countries. The Commission is of the view that there is considerable merit in the contention of NMDC. There appears to be a prima facie case for transfer of iron ore export to NMDC. It would, therefore, recommend serious consideration of this aspect by Government.

Given the large reserves and the quality of iron ore NMDC owns, its strategic importance to the Indian steel industry and the absence of effective regulatory mechanisms in exploration and export of this mineral, the Commission categories NMDC as 'core.'

The operations of NMDC have been consistently improving and have improved its networth substantially over the last five years. Based on its improved performance, the company has drawn large capital expenditure plans. The company proposes to get into exploration and mining of metals other than iron-ore in African countries. Given the financial requirements of such ventures overseas, the Commission feels that NMDC should get into these activities through joint ventures with overseas parties. This will enable NMDC to get the required financial support from the overseas partner and can use its technical expertise that it has developed over these years. This will also enable NMDC to expand its operations to more countries.

In order to attract one of the best mining companies globally to join hands with NMDC in their overseas ventures, the Commission is of the view that GoI could offer up to 20 - 25% of NMDC shares to such a foreign partner in return for joining hands with NMDC in their overseas venture(s). This will enable NMDC to gain understanding of the latest technologies and

management practices in mining industries on an ongoing basis.

The Commission recommends disinvestment up to 20-25% of NMDC shares to the selected JV partner on the lines suggested above, preferably after transferring the work relating to export of iron ore from MMTC. The selection of JV partner should be undertaken through a transparent competitive global bidding process after pre-qualification of the bidders. This arrangement will enable GoI to realise better value for its shares in NMDC. Subsequently, GoI should disinvest its partial holding in NMDC through offer of sale under favourable market conditions. If disinvestment of up to 20-25% to selected JV partner is not found to be feasible, equity up to 49% should be sold in stages either in domestic or international market under favourable market conditions. In either case, Government should retain 51% of the equity till such time as an effective regulatory mechanism is put in place to regulate exploration and export of iron ore. At that stage, the question of further disinvestment may be considered.

Oil & Natural Gas Corporation Limited (ONGC) - Update

The Government has requested Commission to review its recommendations on ONGC in the light of the Government's announcement regarding dismantling of Administered Pricing Mechanism (APM) and New Exploration and Licensing Policy (NELP) legislation.

Commission's Recommendations on ONGC in Report III

> "The Commission recommends that disinvestment in ONGC be considered after the organizational changes are in position and the new pricing policy is known. That would be the time to clearly assess ONGC's own requirement of funds and to plan the disinvestment of Government shares and the company's IPO requirement in a co-ordinated matter. Any disinvestment prior to this could result in a loss to the exchequer, as an announcement regarding the dismantling of APM would significantly improve share values. The Commission would review the position from time to time and make its recommendations at the appropriate time."

Industry Scenario – Exploration and Production (E&P)

The Government has been giving active encouragement to participation of foreign and Indian companies in the exploration activities, to meet the widening gap between supply and demand. Government offered exploration blocks in six successive rounds of bidding between 1991 and 1995. These fields were awarded during the period September 1994 to December 1996, subject to finalisation of Production Sharing Contracts (PSC). In May 1998, Government decided to sign PSCs for 18 blocks and signed PSCs for 6 blocks covering an area of 20,970 sq. km in June 1998 and another 7 blocks covering 26,905 sq. km in July 1998. The trend in production and import of crude over the last five years are as follows:

Table 1 : Trends in production and import of crude (Million MT)

Particulars	FY 94	FY 95	FY 96	FY 97	FY 98
Public Sector – Onshore	11.65	12.01	11.85	11.37	11.49
- Offshore	15.38	20.23	22.66	20.18	19.86
Private /JVCs			0.65	1.35	2.48
Total Production	27.03	32.24	35.16	32.9	33.83
Imports	30.88	27.35	27.34	33.9	34.49
Total Crude demand	57.91	59.59	61.9	66.8	68.32
Domestic Share (%)	46.7	54.1	55.8	49.2	49.5

In line with the recommendations of R-Group, Government announced phased dismantling of APM in November 1997, as a result of which, the market determined price mechanism for petroleum products came into effect from April 1, 1998. Following the decontrol, the scope of operations of the oil pool accounts would be restricted to the five controlled products, i.e. Petrol, High Speed Diesel (HSD), Aviation Turbine Fuel (ATF), Superior Kerosene Oil (SKO) and Liquefied Petroleum Gas (LPG). As part of the dismantling process, the cost plus normative return pricing of crude has been withdrawn and price receivable by national oil companies would be linked to international levels in a phased manner. The national oil companies will get 75%, 77.5%, 80% and 82.5% of the weighted average FOB price of actual imports of crude oil during the year FY 99, FY 2000, FY 2001 and FY 2002 respectively. Government has also fixed a floor price of Rs. 1991 per tonne, based on the international crude price of USD 12 per barrel. In the event of international price falling below USD 12 per barrel, the oil pool account would provide for a subsidy to crude producers. The floor price will continue till the deregulation process is completed in FY 2002.

The Government has introduced The Oilfields (Regulation and Development) Amendment Bill, 1998 on July 1998. The adoption of the bill would enable Government to implement the NELP. Some of the salient features of this policy are as follows:

- No mandatory state participation through national oil companies (ONGC and OIL). In the earlier rounds of bidding for exploration blocks, the national oil companies had to necessarily be one of the JV partners.
- ONGC and OIL to compete for obtaining petroleum licences along with other companies of the private sector.

- Freedom to market crude oil and gas domestically
- Royalty payment @ 12.5% Ad Valorem for on-land areas and @10% for off-shore areas.
- Cess, which was earlier levied on crude production, to be abolished for blocks offered under NELP.

Business Analysis

ONGC's production is concentrated in six sedimentary basins, out of which a major part comes from offshore installations in Bombay High. The other installations are in the Cambay, Kutch, Saurashtra and North-Eastern regions.

Table 2 : Trends in production and share in domestic production

Particulars	FY 98	FY 97	FY 96	FY 95	FY 94
Crude -Domestic (MMT)	33.83	32.90	35.16	32.24	27.03
- ONGC	29.22	29.20	31.63	29.36	24.22
% age to Domestic	86.4	88.8	90.0	91.1	89.6
Natural Gas – Domestic (BSCUM)	24.72	22.75	22.31	19.38	18.34
- ONGC	23.71	21.29	20.88	17.95	16.81
% age to Domestic	95.9	93.3	93.6	92.6	91.7

The fall in production in FY97 was on account sub-optimum reservoir design, necessitating change in technology to achieve optimum production, in the Western Offshore Region (Bombay High and Neelam). Most of the ONGC oil fields are at the plateau stage requiring secondary recover process for extracting hydrocarbons. There has been no new significant discovery of hydrocarbon after the discovery of Neelam Oil Field in 1987. The Reserve Replacement Ratio has been below 1.0 since FY92 except for 1.1 in FY96 and has been 0.33 and 0.3 during FY97 and FY98 respectively.

ONGC proposes to drill four deep-water wells in the potentially prospective regions in the Krishna-Godavari, Cauvery, Kerala-Konkan and Kutch basins. ONGC's Joint Venture arrangements (with 40% participating interest) with private companies for the development of mid-sized fields of Panna & Mukta, Mid and South Tapti and Rava have commenced production.

ONGC has promoted Petronet LNG Ltd. in association with GAIL and others for setting up LNG terminals and Dahej and Cochin. ONGC is also in the process of setting up 300MW power plants each with NTPC and IOC at Hazira and Panipat respectively.

Financial Analysis

The financial performance of ONGC for the past four years is indicated in the table below:

Table 3 : Financial Performance (Rs. Crore)

	FY 98	FY 97	FY 96	FY 95
Operating Income	15,306	13,282	13,436	13,614
Operating Profit	7,491	6,383	6,376	6,618
Profit After Tax	2,678	2,034	1,945	2,345
Equity Capital	1,426	1,426	1,426	1,426
Tangible Net Worth	22,323	20,035	17,601	15,448
Gross Margin (%)	48.9	48.1	47.4	48.6
Net Margin (%)	17.5	15.3	14.5	17.2
ROCE (%)	14.4	13.0	13.3	17.9
RONW (%)	12.6	10.8	11.8	14.2
Earnings Per Share	18.78	14.26	13.64	58.1
Dividend (%)	25	20	14	14

In FY97, the total operating income declined by 1.2% over FY96 due to fall in crude oil sales by 8%. This was primarily on account of rectificatory measures taken at Bombay High field. During FY9, the total operating income grew by 15% mainly due to increase in natural gas sales by 12% and on account of receipt of arrears of Rs. 831 crore for price revision. Even though the operating income increased only by 15%, PAT grew by 32% due to lower growth rate in expenses, fall in interest expanses and increase in non-operating income.

The Government of India still holds 96% of shares in ONGC. The current market price of ONGC shares at the Bombay Stock Exchange (BSE) is Rs. 153 (4th June, 1999) with a yearly high/low of Rs. 321/105.

Recommendations

In recent times, investor perception of ONGC has not been very good. Some of the important contributing factors are listed below.

1. Low and Declining Reserve Replacement Ratio due to no new significant discovery of reserves since 1987.
2. Though administrative pricing will be gradually phased out, the full realisation of international oil prices would be possible only after 2002.
3. General negative investor perception for PSU stocks arising from recent crossholding exercises in the hydrocarbon sector.

Investor perception is not likely to turn positive unless the following issues are addressed by the Company and Government.

1. The oil pool account is reported to be owing ONGC, even now, an amount of Rs. 1300 crores.
2. The increase in international oil prices in the last few weeks are not being passed on to the consumers at least till October 1999. ONGC, according to the time table for dismantling the APM, should be getting 77.5 per cent of the current oil prices. The refineries will be unable to pay this amount, as they are unable to recover the amount from consumers. The oil pool account will have to absorb these substantial increases and will be in deficit by owing the refineries and ONGC amount equivalent to price increases not passed on to consumers.
3. After the NELP offered the most prospective areas to the international bidders, the ONGC has been left with the less prospective areas on which it is spending a substantial amount on exploration. Even then, ONGC does not get the same terms as the bidders in NELP.
4. Exploration by ONGC has been expensive without yielding any significant results. With reduced outlays on exploration, ONGC can share both outlay and risk with high tech strategic partner for deep sea exploration not only in Indian waters but also elsewhere.
5. ONGC manpower is sought to be reduced by bringing down the retirement age from 60 to 58 years which have been approved by the Board of Directors of ONGC. This is awaiting Government approval for the last several weeks.

In the light of the above, the Commission feels that there is urgent need for improving investor image of ONGC prior to disinvestment. **The Commission**

recommends that the disinvestment in ONGC should be deferred until the investor confidence in ONGC improves. Both the Government and ONGC would have to develop specific action plans to enable achievement of this objective. Thereafter disinvestment can take place in the foreign and domestic market up to 49 per cent when market conditions are favourable.

Paradeep Phosphates Limited

Evolution

Paradeep Phosphates Limited (PPL) was incorporated on 24 December 1981 in Bhubanseswar, Orissa. The company was set up with the objective to develop additional capacity of phosphatic fertiliser in the country to meet the progressive increase in demand of phosphatic fertilisers. The company was entrusted with the task of setting up the Asia's largest DAP ((Di-ammonium Phosphate) fertiliser plant along with the sulphuric acid plant (SAP), phosphatic acid plant (PAP) and captive power plant (CCP). The entire project was constructed in two phases. Phase I comprised the DAP plant and its offsite facilities with an annual capacity of 720,000 tonnes. Phase II consisted of the SAP, PAP, CPP, material handling systems etc.

The company paid up capital is Rs. 331.65 comprising of Rs. 214 crore of equity and Rs. 117.65 crore of preference share capital. It is 100% owned by GoI. Initially, the company was set as a 51:49 joint venture between the Government of India and Government of Nauru respectively. However, in June 1993, the Government of India acquired the entire shareholding of its joint venture partner.

Industry Analysis

Agriculture is the mainstay of Indian economy and constitutes approx. 33% of Indian GDP. Fertilisers have played a key role in the transformation of Indian agriculture, making India self-sufficient in food grain production. In fact, of the total increase in food grain production during the last 20 years, nearly 55% can be attributed to the increase in use of fertiliser. Interestingly, India's fertiliser consumption level is at a low of 74 kg per hectare as compared to 370 kg for China and 345 kg for Egypt. Fertiliser includes organic fertilisers, bio-fertilisers and chemical fertilisers. Fertilisers are classified on the basis of their nutrient content. Primary nutrients are nitrogen, phosphorous and potassium, which is required in large quantities and are normally supplied through chemical fertilisers. Secondary nutrients, required in smaller quantities than primary nutrients, include calcium, magnesium and sulphur.

Indian fertiliser industry has expanded rapidly over the past two decades, with substantial capacity additions in the period. Demand has however outstripped supply and in order to bridge the gap between demand and supply

of fertilisers, India has been importing fertilisers. Competition fuelled by perceived threat of imports, and continuous increase in demand has led to capacity addition and increase in operational efficiencies. Production, imports and consumption of urea, DAP and MoP are given below:

Table 1 : Production, Imports and Consumption - Trends (Lakh MT)

Years	UREA			DAP			MoP		
	Prodn	Imp.	Cons.	Prodn	Imp.	Cons.	Prodn	Imp.	Cons.
1991-92	128.28	3.91	140.04	28.65	20.77	45.18		20.40	17.01
1992-93	131.22	18.57	149.05	25.95	14.51	40.52		17.66	9.74
1993-94	131.48	27.83	158.1	19.68	15.69	34.80		14.67	10.52
1994-95	141.43	28.70	171.12	28.23	8.65	35.86		18.48	12.70
1995-96	158.20	37.85	179.08	26.47	15.15	34.46		21.92	14.37
1996-97	156.20	23.03	190.25	27.59	5.34	36.26		10.21	11.98
1997-98	185.02	23.89	205.57	33.29	14.60	52.84		20.20	17.56

DAP : Di-Ammonium Phosphate; MoP : Muriate of Potash

The key issues facing the fertiliser industry are: (I) retention pricing, (2) farmgate prices, (3) raw material costs, (4) freight and distribution and (5) nutrient content and soil imbalance.

In setting the retention pricing scheme (RPS), the manufacturers will be providing a guaranteed return on their investment. Retention prices are fixed taking into account the cost of variable inputs, conversion costs, selling expenses and capital related charges. RPS provided a security and healthy environment to the producers. However, the system is non-competitive, administered in nature and has a combination of norms and actuals. The system gives over-emphasis on cost claiming rather than cost control resulting in inflated capital costs and RPS is computed on the prevailing net fixed assets, hence, retention price for older units has declined over the years.

Farmgate prices (FP) have always been a sensitive economic and political issue.Over the years, FP has increased but not to the same extent as that of cost of inputs. This difference is borne by the Government and paid to the manufacturer in the form of subsidy or ad hoc concessions. Since 1990-91, the subsidy has increased at a rate of 16.5% but the FP has increased at a rate of 5.5%, which is not sufficient to offset the increase in the costs.

The increasing cost of raw material is another issue faced by the fertiliser industry. With inadequate deposits of minerals and natural salts in the country, the decontrolled fertiliser industry is dependent on imported raw

materials to a large extent. The imported inputs like phosphoric acid and rock phophate account for almost 80% of sales realisation of decontrolled fertiliser manufacturers. Secondly the volatility of Indian rupee vis-à-vis other currencies has a significant impact on the cost of production. Increased dumping of DAP in the country is forcing domestic manufacturers to extend heavy discounts. The major DAP units in India along with their installed capacities are given below:

Table 2 : Major DAP Capacities in India (Lakh Tonnes)

Name/Location	Product	Comm.	Inst.cap.
FACT, Kochi	DAP/NPK	1960	4.85
GSFC, Vadodara	DAP/NPK	1967	1.08
MFL, Madras	DAP/NPK	1976	7.24
ZACL, Goa	DAP/NPK	1973	3.00
IIFCO, Khadala	DAP/NPK	1975	8.00
SPIC, Tuticorin	DAP	1975	3.12
HLL, Haldia	DAP	1986	1.54
PPL, Paradeep	DAP/NPK	1986	7.20
MCFL, Mangalore	DAP/NPK	1986	1.38
GSFC, Sikka	DAP	1987	3.26
Godavari Fert.	DAP/NPK	1988	4.73

In a bid to reduce the mounting fertiliser subsidy, the Government decontrolled phosphatic and potassic fertilisers with regard to price, distribution and movement in 1992. This was followed by decanalisation of DAP imports. Decontrol was, however, not total with the Government introducing an ad hoc on-time subsidy of Rs. 1000/tonne on domestic DAP. In 1993, Ministry announced continuation of this ad hoc subsidy scheme. Ad hoc subsidy was increased to Rs. 3000/tonne in 1996. The existing subsidy was not adequate to cover cost of production and industry demanded increases in selling prices. Later in February 1997, ad hoc subsidy was increased by Rs. 750/tonne. In January 1998, concessions on DAP was once again reduced by Rs.450/tonne for domestic DAP and Rs.250/tonne for imported DAP. In August 1998, acute shortage of fertilisers prompted Government to increase the domestic DAP concessions from Rs.3500/tonne to Rs.4000/tonne and imported DAP from Rs.2000/tonne to Rs.2500/tonne. This increase in the concession amount will continue upto March 2001.

With the existing policy, any improvement in the industry's prospects is limited. However, if the company's adopt strategies such as backward

integration into manufacture of phosphoric acid, ammonia and better utilisation of by-products can help producers insulate their earning to some extent from fluctuations in international prices of phosphoric acids. DAP trading could also provide some insulation against losses on domestic manufacture.

Business Analysis

PPL has one of the largest DAP production facility in the industry with an all India market share of about 21% in FY 98. The DAP plant has an installed capacity of 7.2 lakh tonnes and was commissioned before schedule in February 1986. Capacity utilisation over the last decade has been erratic. The primary reason for this drop in capacity utilisation was due to shortfall in supply of raw materials. Import of phosphoric acid was earlier regulated by the Department of Fertilisers and the co-ordinating agencies were IFFCO for phosphoric acid and RCF for ammonia. In late eighties, the task was entrusted to STC and MMTC. The phase II plant comprising of SAP and PAP were commissioned in 1990 but suffered technical problems. SAP was finally shutdown for a whole year in 1993-94, for overhaul, which further aggravated the problem due to corrosion in plant equipment.

The details of capacity, production, capacity utilisation and sales of major products of PPL for the past four years are as follows:

Table 3 : PPL's Product Mix – Trends

Particulars	FY 95	FY 96	FY 97	FY 98
Installed capacity (MT)				
DAP	720000	720000	720000	720000
Phosphoric acid	225000	225000	225000	225000
Sulphuric Acid	660000	660000	660000	660000
Production (MT)				
DAP +NPK	704845	640920	492610	799695
Phosphoric acid	2255	52292	37214	90006
Sulphuric Acid	78020	179687	138041	302440
Capacity Utilisation (%)				
DAP +NPK	98	89	68	111
Phosphoric acid	1	23	17	40
Sulphuric Acid	12	27	21	46
Sales (MT)				
DAP	628098	549593	574021	715590
NPK	347	30139	71524	53427

Particulars	FY 95	FY 96	FY 97	FY 98
Avg. price realisation (Rs/MT)	2714	2942	2642	2218

In addition to manufacturing activities, PPL also trades in products like Muriate of Potash (MOP), gypsum, urea as well as DAP and NPK from time to time in order to augment profitability.

PPL markets/sells its products mainly through institutional agencies and a network of private dealers. The company has strong presence in the states of Orissa (85% market share), Maharastra (44%), Uttar Pradesh (21%), Madhya Pradesh (36%) etc.

PPL employs 1059 employees as at March 1998 comprising 394 executives and 665 non-executives.

Financial Analysis

The financial analysis of PPL for the past five years is as follows:

Table 4 : Financial Highlights (Rs. Crore)

	FY 98	FY 97	FY 96	FY 95	FY 94
Total Income	1256.4	585.4	896.1	988.3	392.6
Operating Profit	-18.6	-2.5	44.0	61.9	138.3
PAT	-105.5	-60.6	2.2	27.7	47.4
Equity + Pref. Capital	331.6	331.7	356.9	356.9	357.0
Tangible Networth	75.1	180.8	241.3	239.1	211.4
Gross Margin (%)	-1.6	-0.3	5.6	7.1	36.2
Net Margin (%)	-9.0	-7.9	0.3	3.2	12.4
ROCE (%)	-5.9s	-4.3	2.5	5.4	17.1
RONW (%)	-31.8	-18.3	0.6	7.8	13.3

In 1992-93, the company's net worth was almost wiped out and PPL was on the verge of being declared sick. The Government of India stepped in with a financial restructuring package which involved conversion of government loan to equity and preference shares. Interest and repayment holiday was extended for a period of 3 years. The details of the Financial Restructuring Package is as under:

1. Conversion of Rs. 54.70 crore GoI loan into equity
2. Conversion of Rs. 35.30 crore advance against equity into equity
3. Conversion of Rs.117.65 crore outstanding interest into 7% non-

cumulative redeemable preference share capital

4. Waiver of Rs.146.39 crore penal interest and compound interest on the outstanding interest liability and principal amount by the GoI
5. Repayment of balance outstanding loan of Rs.230.28 crore in ten equal annual instalment with effect from 1st April, 1997
6. Interest holiday on Rs. 230.28 crore for three years with effect from 1st April 1994.

Due to the implementation of Financial Restructuring package, equity share capital of the company was increased from Rs.120 crore to Rs. 214 crore, and preference share capital went up to Rs. 117.65 crore. The accumulated losses of PPL as at 31st March 1994 came down to Rs. 145.54 crore.

However, these measures did not yield any improvement in the performance of PPL. PPL's accumulated losses as at 31st March, 1998 of Rs. 256.5 crore resulted in erosion of networth to Rs. 75.1 crore. In order to save PPL out of BIFR, a new proposal for Financial Restructuring (FRS-II) is currently under way. The salient features are as under:

1. Write down of face value of existing Rs. 1000 per equity share to face value of Rs. 10 per share. This will reduce the equity base of the company from Rs. 214 crore to Rs. 2.14 crore and will be set off against accumulated losses of Rs. 256.48 crore.
2. Conversion of plan loan of Rs. 230.28 crore from GoI into equity. This will restore the equity share capital of PPL to Rs. 232.42 crore.
3. Waiver of interest and penal interest on Plan Loan accrued till 31.3.98 amounting to Rs. 43.92 crore and interest amounting to Rs. 3.66 crore on MoP purchased by the company from GoI under German Soft Loan Scheme.
4. Waiver of interest on GoI Plan Loan.
5. Interest holiday on balance outstanding Plan Loan of Rs. 37 crore for 3 years.

6. Infusion of cash by GoI to the extent of Rs. 70 crore as Plan Loan and non-Plan Loan to meet the company's working capital gap and capital expenditure required for revamping of acid plants and pollution control measures.

Strengths & Areas of Concern

Strengths

Wide marketing network: PPL has substantial presence in almost all major states. This will enable the company in adverse *market* conditions in any particular State. Further the company is making attempts to increase its presence in the states of West Bengal, Orissa, Bihar and Andhra Pradesh. This will give locational advantage and with lower freight, PPL can improve its profit margins.

16-20% market share: PPL 's market share of 16-20% in the total DAP market is second to SPIC. Moreover, the company is making all out efforts to enables the company to increase its *capacity* utilisation which would further enhance the market share.

State of art plant technology: PPL has state of the art production facility which was set up in 1986. Due to *improved* performance, the company is currently operating at more than 100% capacity utilisation. Moreover, it has set up production facility for meeting its raw material requirement which will substitute imports.

Areas of Concern

Government controlled DAP farmgate price and adhoc concessions: The price of output of PPL is controlled by Government. Since the company has suffered high capital *cost* and cost overruns, its cost of production is high compared with its competitors. This has resulted in poor margins and losses.

Plant location – far from high demand markets: PPL's production facility is located farther from the *actual* consumption centres for its products. The major fertiliser consumption centres are the states of Uttar Pradesh, Madhya Pradesh, Punjab, Haryana etc. This has put PPL in a disadvantageous position and the company has to incur high freight costs for transportation of its products to the high demand markets.

Competition: DAP fertiliser industry is highly competitive and only

producers who are cost competitive can only survive in the long run. The industry is represented by players mostly from private sector and co-operative sector.

Single product strategy: PPL is the largest stand-alone DAP unit while majority of its competitors have multiple product portfolio. This will enable its competitors to withstand industry downcylces.

High manpower: PPL's manpower is quite high. The total numbers of contract labourers are more than the total number of permanent labour. This has resulted in overmanning.

Recommendations

PPL was set up to augment the progressively increasing demand for phosphatic fertilisers in the country through a joint venture between GoI and Government of Nauru, which later became a 100% GoI company. Even though the project of setting up of the fertiliser plant was completed well ahead of schedule, the phase-II commissioning of acid plants (both SAP and PAP) were delayed substantially which resulted in cost over-runs. These plants also suffered from technical problems which have affected the production of fertiliser. Due to all these reasons, the company was making losses, which resulted in erosion of its networth in 1994. GoI's implementation of a financial restructuring package did not help the company in the long run since its operational improvement plan did not fructify. This has resulted in huge losses and by 31st March, 1998, the company has once again eroded its networth. The company has again approached GoI to implement the second financial restructuring package(FRS-II detailed above). This is presently under the consideration of GoI.

In order to reduce the mounting fertiliser subsidy, Government decontrolled phosphatic and potassic fertilisers in 1992. However, the Government had to re-introduce adhoc subsidies later. The Hanumantha Rao Committee has recommended free-float pricing which will mean that domestic products would have to compete freely with imports.

The Commission classifies PPL as "non-core" because of market structure of the DAP fertiliser industry. There are large number of players both in private sector and co-operative sector who are engaged in the manufacture of DAP. Further, Government control on the prices and distribution of this fertiliser will continue in the foreseeable future. Therefore, Government ownership of production facilities is neither necessary nor justified.

Given the financial health of PPL, Commission is of the opinion that implementation of FRS-II is a must to avoid referral of PPL to BIFR. The financial restructuring package will enable the company to write off its accumulated losses. FRS-II also envisages infusion of cash to the extent of Rs.70 crore which will enable the company to meet its working capital and capital expenditure for revamping of acid plants etc. **The Commission therefore, recommends the implementation of FRS-II without any further delay which will enable PPL to start its operations on a clean**

slate.

Since PPL is non-core, the Commission recommends disinvestment of not less than 51% GoI holding in PPL through a strategic sale. The strategic sale action should be initiated simultaneously with the implementation of FRS-II by inviting bids through a transparent competitive bidding process after suitably pre-qualifying bidders.

This will enable GoI to recover its investment in PPL as the Commission feels that there would be investor interest in acquiring majority stake in PPL. This is primarily because of the comparatively new plant and machinery PPL owns and the improvement in operations which PPL has currently been able to show. Further, once the revamping of acid plants is complete, the company's dependence of imported raw material also will reduce.

After the strategic sale is completed, GoI could disinvest its balance holding through public issue under favourble market conditions, once the company starts performing consistently under the new management. This will enable GoI to realise better value for its remaining holding.

PEC Ltd

Evolution

Projects & Equipment Corporation Ltd. (PEC) was originally created as a division of State Trading Corporation of India Ltd. for undertaking export of railway wagons, engineering equipment and turnkey projects. PEC became a subsidiary of STC in 1971.

Initially, the exports of railway equipment were canalised through PEC, but after liberalisation in 1991, canalisation was discontinued. Consequently, PEC was allowed to diversify into exports of products and commodities other than projects and engineering equipment.

Currently, the company is involved in trading of commodities such as wheat, rice and sugar. Recently, PEC has also diversified into import of gold bullion and export of defence equipment. In view of the change in activity profile of the organisation, the name of the company was changed to 'P E C LIMITED', effective from 25th November 1997.

The entire paid-up capital of the company of Rs. 1.50 crores, consisting of 1,50,000 shares of Rs. 100/- each, is held by the Government of India.

Business Analysis

PEC's major markets are Bangladesh, Sri Lanka, Vietnam, Myanmar, CIS countries, Iran, Ethiopia and some other developing countries. PEC's mainly exports agro-commodities such as rice and wheat, electrical conductors, line hardware, transformers, flour mills, tea machinery, textile machinery, defence exports etc. and import of industrial raw materials and bullion.

Table 1 : Sales turnover and profit of PEC for the last 5 years (Rs Crores)

YEARS	**1997-98**	**1996-97**	**1995-96**	**1994-95**	**1993-94**
Sales Turnover	448.71	235.87	485.57	241.73	202.31
Net Profit / Loss	0.91	0.62	0.93	0.66	0.46
ITEM-WISE EXPORTS (%)	**1997 -98**	**1996 –97**	**1995 –96**	**1994 –95**	**1993 –94**
Export of Agro-Products	30.68	46.17	71.15	42.40	-
Export of Engineering Equipment	14.45	31.00	8.47	13.60	31.85
Project Exports	1.05	5.46	2.78	20.80	20.54
Defence Exports	3.59	2.68	5.50	3.90	2.84
Pharmaceuticals	0.05	0.40	1.48	0.70	2.21

Others	0.13	0.27	0.45	-	16.69
Railway Equipment	-	-	-	3.90	6.67
Textiles	-	-	-	1.70	0.40
Domestic	-	-	1.50	-	0.10
Imports – General	00.57	02.68	8.67	11.00	18.70
Bullion – Imports	49.48	11.34	-	-	-
TOTAL	100.00	100.00	100.00	100.00	100.00

The Project Exports of PEC include Cement Plant, Textile Plant and Tea Processing Plants. PEC's government agency status benefits it in its project export business. Over the years business profile of PEC has been changing with greater emphasis on commodity trading, while project exports have been reducing. The project exports from India are not considered viable both on account of obsolete technology and inability to offer suitable financial packages, as compared to the competitors.

PEC has been assisting in exports from the small and medium industries to the developing countries. This constitutes about 2.75% of the total SSI engineering goods exports from the country and about 3.5% of the PEC's turnover in FY 98. This shows that PEC has not been able to make much headway in garnering exports business from the SSI sector.

Most of the PEC's business comes through bidding against open tenders and in most of the deals, either the buyer or the seller is a government entity.

In the year 1996-97, PEC entered into the business of importing gold / silver through special import licenses and did a turnover of Rs. 27 crores. However, since last year gold imports have been placed under OGL and due to increase in the competition, the profit margin in this business for PEC has declined to 0.2 % from 2% earlier.

PEC covers a small part of the value chain and value added by it is fairly small as PEC is only an intermediary and generally does not trade on its own account.

PEC benefits from its public sector status as it is one of the agencies identified for canalisation of key commodities like bullion and cotton as well as for undertaking defence export from India. It also gets priority allocation of railway wagons and shipping berths. PEC has also been able to leverage the

lines of credit being offered by the Government of India to other developing countries e.g. Vietnam and Sri Lanka etc. Recently, PEC has shifted its focus on securing business from the developing countries that are receiving aid from the World Bank and other international funding agencies, where a government agency is more likely to secure orders.

It is estimated that out of the existing employee strength of 238, more than half is in excess of the sustainable level.

Financial Analysis

Table 2 : Financial Highlights (Rs. Crores)

	FY98	FY97	FY96	FY95	FY94
Operating Income	449.13	236.98	485.57	241.97	202.39
Operating Profit	-0.64	-2.53	-0.07	-1.56	-1.87
Non-operating Income*	2.76	5.97	7.21	5.98	4.36
Profit After Tax	0.92	0.62	0.93	0.66	0.46
Equity Capital	1.50	1.50	1.50	1.50	1.50
Tangible Networth	18.57	17.98	17.69	16.51	-16.08
Debt-Equity Ratio	0.14	0.18	0.21	0.41	0.55
Gross Margin (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Net Margin (%)	0.20%	0.26%	0.19%	0.27%	0.23%
ROCE (%)	2.21%	3.58%	2.64%	1.07%	1.55%
RONW (%)	4.93%	3.47%	5.27%	3.98%	-2.84%
Earning Per Share	61.0	41.6	62.1	43.8	30.4
Dividend (%)	20%	20%	20%	15%	11%

** Includes interest from Bank and Other Sources*

The company has been incurring operating losses for the last 5 years and has been able to achieve positive PAT due to non-operating income. The poor profitability of the company also reflects on the low Net Margin, ROCE and RONW in the above table.

Company is very comfortably leveraged with a Debt to Equity ratio of 0.14 as on March 31, 1998.

About one-third of the company's receivables of Rs. 19.66 crores are more than above 3 years old and about a half are less than one year old.

Strengths and Areas of Concern

Strengths

Experience of trading **-** Over the years PEC has successfully executed trade deals, both imports and exports, in several commodity items and equipment with different countries, though mainly in developing world.

Contractual Abilities **-** Knowledge of frequently changing rules and regulations relating to export and import trade and drafting of contract agreements with buyers and sellers is another positive strength of the organisation.

PSU Status **-** Since PEC is a wholly owned government company, it gets a fair share of government directed business from India and abroad.

Areas of Concern

Low risk taking ability – The PSU nature of PEC restricts its risk taking ability leading to a low margin business with safe position.

Surplus Manpower – It is estimated that PEC has about 150 employees who are surplus out of total strength of around 238 employees.

Absence of second and third tier of professionals - Most of the business skills are concentrated in the senior management. There is hardly any attempt to spread the skills to middle and lower levels.

Dependence on Government – PEC's business depends heavily on the government policies and the Government mandated trade.

Recommendations
In the liberalised scenario, where the government owned trading companies have to compete with private Indian and International trading companies, responsiveness, efficiency and cost effectiveness would be critical for successful trading operations.

It is to be noted that State Trading, which was widely prevalent at one time, has been gradually phased out in most countries. This has led to loss of significant market opportunities for the government owned trading companies in India. **The Commission feels that no public purpose would be served by PEC being under the government ownership and control. Hence the Commission classifies PEC as non-core.** Further, its viability as an enterprise under government ownership and management is doubtful.

PEC has presence in some developing countries like Vietnam, Myanmar, Bangladesh, Sri Lanka, CIS countries and Ethiopia. PEC's government agency status benefits it in its project export business. Over the years business profile of PEC has been changing with greater emphasis on commodity trading, while the project exports have been reducing.

PEC has been incurring trading losses on account of the low trading margins and the high administrative costs and has been reporting positive PAT largely due to its non-operating income from investments.

PEC has not been able to make much headway in garnering exports business from the SSI sector. Since this is the only public sector organisation besides NSIC dealing with project exports of SSI units, there would be a need to suitably reorganise PEC to be able to fulfil its raison d'être. The commission, therefore, feels that there is considerable scope for PEC to play a useful role in promoting exports from small and medium scale industries in the country by capitalising on PEC's existing trading links in Asia and Africa. This would only be possible if the Department of Small Scale Industries were to lend its support to PEC by introducing them to the small scale industries in the country through concerned Government departments, NSIC, associations of SSI units, etc. so that such units which cannot undertake sustained exports on their own could make use of PEC's expertise and contacts.

Hence the **Commission recommends that Government should consider enlarging the scope of exports from the small and medium scale**

industries through PEC by suitable co-ordination between NSIC, SIDBI and other agencies representing or dealing with small and medium scale industries. The Commission also feels that aggressive and imaginative management by PEC is necessary in this field which should be backed up by proper co-ordination between the funding agencies and other organisations concerned with development of small and medium scale industries for improvement of quality standards, etc. This suggestion is worth trying since sale of Government equity in PEC is unlikely to fetch substantial revenue to the Government, given the size of the company. There is, therefore, no urgency for proceeding with disinvestment of Government equity in PEC.

In case there is no significant increase in the turnover and profitability of PEC from the exports from the small and medium scale industries within a period of two years, the Government should offer 100% equity in the company to a strategic buyer. In the absence of investor interest in PEC, there will be no alternative but to close the company.

Appendices

APPENDIX I

List of PSUs referred to the Commission

First List - September, 1996

S No	Name of the PSU	
1	Air India	AI
2	Bharat Aluminium Co. Limited	BALCO
3	Bharat Earth Movers Limited	BEML
4	Bharat Electronics Limited	BEL
5	Bongaigaon Refineries & Petrochemicals Limited	BRPL
6	Container Corporation of India Limited	CONCOR
7	Engineers India Limited	EIL
8	Fertiliser & Chemicals (Travancore) Limited	FACT
9	Garden Reach Shipbuilders & Engineers Limited	GRSEL
10	Gas Authority of India Limited	GAIL
11	Hindustan Aeronautics Limited	HAL
12	Hindustan Copper Limited	HCL
13	Hindustan Latex Limited	HLL
14	Hindustan Zinc Limited	HZL
15	Hotel Corporation of India Limited	HCIL
16	HTL Limited	HTL
17	IBP Co.Limited	IBP
18	India Tourism Development Corporation	ITDC
19	Indian Petrochemical Corporation Limited	IPCL
20	ITI Limited	ITI
21	Kudremukh Iron Ore Co. Limited	KIOCL
22	Madras Fertilisers Limited	MFL
23	Mahanagar Telephone Nigam Limited	MTNL
24	Manganese Ore (India) Limited	MOIL
25	Modern Food Industries (India)Limited	MFIL
26	National Aluminium Co.Limited	NALCO
27	National Fertilisers Limited	NFL
28	National Hydro Power Corporation	NHPC
29	National Thermal Power Corporation Limited	NTPC
30	Neyveli Lignite Corporation Limited	NLC

31	Northern Coal Fields Limited	NCF
32	Oil India Limited	OIL
33	Oil & Natural Gas Corporation	ONGC
34	Pawan Hans Helicopters Limited	PHL
35	Power Grid Corporation of India Limited	POWERGRID
36	Rail India Technical & Economic Services Limited	RITES
37	Shipping Corporation of India Limited	SCI
38	South Eastern Coal Fields Limited	SECF
39	Steel Authority of India Limited	SAIL
40	Western Coal Fields Limited	WCF

Second List - March, 1997

1	Hindustan Vegetable Oil Corporation Limited	HVOC
2	Nepa Limited	NEPA
3	Electronic Technology & Trade Dev. Corpn. Limited	ET&TDC
4	Hindustan Prefab Limited	HPL
5	Ranchi Ashok Bihar Hotel Corporation Limited	R-ASHOK
6	Pyrities, Phosphates & Chemicals Limited	PPCL
7	Central Electronics Limited	CEL
8	Engineering Projects (India) Limited	EPIL
9	Utkal Ashok Hotel Corporation Limited	UL-ASHOK
10	Rehabilitation Industries Corporation Limited	RICL

Third List – October, 1998

1	Minerals and Metal Trading Corporation	MMTC
2	State Trading Corporation of India Ltd	STC
3	Project & Equipment Corporation of India Ltd.	PEC
4.	Hindustan Steel Works Construction Ltd.	HSCL
5.	Metal Scrap Trade Corporation Ltd.	MSTC
6.	Metallurgical and Engineering Consultants (I) Ltd.	MECL
7.	National Mineral Development Corporation Ltd.	NMDC
8.	Sponge Iron India Ltd.	SII
9.	Paradeep Phosphates Ltd.	PPL
10.	Mineral Exploration Corporation Ltd.	MEC

Fourth List – January, 1999

1.	Heavy Engineering Corporation Ltd.	HEC
2.	Hindustan Organic Chemicals Ltd.	HOCL
3.	Hindustan Insecticides Ltd.	HIL
4.	Indian Drugs & Pharmaceuticals Ltd. (BIFR)	IDPL
5.	Hindustan Antibiotics Ltd. (BIFR)	HAL
6.	Bengal Immunity Ltd. (BIFR)	BIL
7.	Smith Stanistreet & Pharmaceuticals Ltd. (BIFR)	SSPL
8.	Bengal Chemicals & Pharmaceuticals Ltd. (BIFR)	BCPL

Fifth List – April, 1999

1.	Bharat Heavy Electricals Ltd.	BHEL
2.	CMC Ltd.	CMC
3.	Rashtriya Chemicals & Fertiliers Ltd.	RCF
4.	Rashtriya Ispat Nigam Ltd.	RINL

APPENDIX II

List of PSUs withdrawn from the Commission

1. Bharat Earth Movers Limited	BEML
2. Bharat Electronics Limited	BEL
3. Garden Reach Shipbuilders and Engineers Limited	GRSEL
4. Hindustan Aeronautics Limited	HAL
5. South Eastern Coal Fields Limited	SECF
6. Western Coal Fields Limited	WCF
7. Northern Coal Fields Limited	NCF

APPENDIX III

General Recommendations by the Commission and action taken thereon by Government.

A. General Recommendations

1. Establish Disinvestment Fund (I:3.1, II:1, V:1 and VII:I)
The proceeds from the disinvestment may be placed separately in a 'Disinvestment Fund' and the National Renewal Fund should also be merged with this Fund. The resources of the Fund may be primarily used for

- temporary funding of losses of some PSUs in preparation of disinvestment,
- for providing benefits to workforce found to be surplus
- for conducting the publicity campaign for the disinvestment of PSU shares

The Fund would also help the government in undertaking disinvestment at the most opportune time in the market for maximum realisations.

A reasonable percentage of Disinvestment Fund should be earmarked for funding social infrastructure for promoting rapid growth of the economy.

Action Taken :According to Government communication, Fund had been set-up in September 1996. Details regarding the scope or purpose are not available.

2. Delink the disinvestment process from the Budgetary Exercise of Government (IV:1)
Linkage of the implementation of disinvestment with the budgetary exercise may hinder achievement of the larger objective of the disinvestment exercise.

Action Taken : Decision awaited.

3. Standing Empowered Group (I:4.1)
Given the advisory nature of the Commission, the Commission recommends formation of a Standing Empowered Group (SEG) to ensure smooth implementation of its recommendations. SEG may also be entrusted with the selection of Financial Advisors, supervision of the overall sale process and decisions on instrument, pricing, timing, etc. SEG could comprise the Cabinet Secretary, Secretaries of the Ministry of Finance, Department of Public Enterprises, Administrative Ministry of PSU alongwith the CEO of the concerned PSU.

Action Taken : Core Group has been empowered as recommended.

4. Transfer of Management (V: 1)
While selling a substantial stake in the Undertaking, management would be transferred to the strategic buyer and the time frame for a further dilution of its share holding, where necessary, as agreed with the strategic buyer.

Action Taken : Decision Awaited.

5. Reduction of Government Equity (V: 1)
The Commission also recommended that in the interest of establishing credibility with the strategic buyers, the Government may, where necessary, keep its direct share holding below the level of investment being offered to the strategic bidder by divesting some portions of its equity to multilateral financing institutions, private equity funds, mutual funds and a few select PSUs, who have business interest in the particular PSU being disinvested.

Action Taken : Decision Awaited.

6. Referral of PSUs to the Commission (V:1)
The matter whether a PSU should be considered by the Commission for disinvestment or not should be sorted out between the SEG and the administrative ministry before the referral to the Commission. This would avoid wastage of the Commission's time and efforts and Government resources. Also, the subsidiaries of PSUs should not be referred to the Commission, as the decision in this regard would have to be taken by the Boards of Management of the concerned parent PSU.

Action Taken : Government has decided not to refer subsidiaries of PSUs to the Commission.

7. Voluntary Retirement Scheme (II:1 and IV:1)
Commission recommends that Government should frame a clear cut policy statement on the terms of VRS on a stable and long term basis and also suggest a modality for the implementation of VRS. A pension cum insurance scheme could be thought of as an alternative to a one-time payment.

Action Taken : Decision awaited

8. Disinvestment without reference to the Commission (III:1 and IV:1)
Disinvestment of the PSUs whether through Joint Venture participation or

strategic sale not referred to the Commission, is likely to deny the benefits of detailed consideration by an independent body. Therefore, Government should review the position and decide whether such cases should be kept outside the purview of the Commission.

Action Taken : Decision awaited

9. Public Offer of equity by the PSUs referred to the Commission (III:1)

Primary issue by any PSU referred to the Commission, without involvement of the Commission, would be inconsistent with the terms of reference of the Commission to take a co-ordinated view or to recommend a mix between primary and secondary disinvestment.

Action Taken : Decision awaited

10. Disinvestment Package (IV:1)

The Commission reiterates that undertaking disinvestment without implementing the general recommendations of the Commission, - in particular those relating to corporate governance, managerial autonomy, managerial remuneration, accountability, incentives, professionalising the Board of Management and restructuring where necessary - would result in undervaluation of Government shares and loss to the national exchequer.

Action Taken : Decision awaited

11. Restoration of Monitoring and Supervision Powers (VII:1and VIII:1)

The Commission is of the view that the disinvestment process can be an important instrument for building up a lean and strong public sector and for providing funds for development. The amendment dated 12 January 1998 of the terms of reference of the Commission has considerably diluted the role of the Commission in the disinvestment process. It limits even its advisory functions apart from removing overall monitoring and supervisory functions. The role of Commission as an advisory body without powers of monitoring and supervision of the overall disinvestment process renders the Commission ineffective. Therefore, the powers of monitoring and supervision as envisaged in the earlier Government notification dated 23 August 1996 should be restored.

Action Taken : Decision awaited

12. Setting Up of Full-time Implementation Machinery (VII:1 and

VIII:1)
In order to get the best prices for the shares disinvested by Government, particularly in the undertakings that will remain in the public sector, it is essential to time the sale under favourable market conditions. Timely action to select the financial advisers and a close watch on market conditions are necessary to get the best results. The Commission therefore recommends that a full time **implementation machinery** under the Ministry of Finance including public sector merchant bankers be set up under Government with a clear mandate. This machinery will select financial advisers and put through the sale of shares, either through offer of sale or by strategic sale and get the best price for the shares within a reasonable price band, that should be approved in advance by Government.

The implementation group should seek the advice of the Commission whenever necessary and be subject to the overall supervision of the Commission.

Action Taken : Decision awaited

13. Presenting the Commission Report in its entirety before the Cabinet (VII:1)

The Commission is not aware if all its recommendations have been taken before Cabinet for decision. The Commission would emphasise that both its general and specific recommendations should not be filtered by official groups but should be placed before the Cabinet in their entirety to enable Government to appreciate the interconnected strategy of the various recommendations and take decisions thereon. The Chairman of the Commission may be invited, wherever necessary, to the meetings of the Cabinet, to offer clarifications on the recommendations of the Commission.

Action Taken : Decision awaited

14. Disinvestment through Strategic Sale to optimise realisation under the present state of Capital Markets (VIII:1)

In view of the present state of the Indian and Overseas Capital Markets, offerings in these markets may not achieve optimum realisation. The Commission, therefore, suggests giving a big push to strategic sales of PSUs

recommended by the Commission. At the present juncture, the advantages of such a big push operation for strategic sales are many. They are :

1. Since strategic sales depend not on capital market conditions but on the intrinsic value of the concerned enterprises, they can be undertaken straightaway.
0 The response to the offer of strategic sales will send the right signals about the confidence of the international community in the Indian economy. This will also stimulate foreign direct investment in India.
1 Substantial amounts of foreign exchange can be earned to strengthen our foreign exchange reserves.
2 Successful strategic sales will boost the confidence of the Foreign Institutional Investors and induce their increasing support to the Indian capital market. This will also encourage domestic investors. Even the GDR market is likely to pick up as a result of successful strategic sales.
3 Government's realisation from proceeds of disinvestment would be substantial.

Action Taken : Decision awaited

B. Guidelines on Modalities

1. Offer of Sale (I:4.2 and II:1)

"Book building" process similar to that followed in the international market for GDR issue should be followed for Domestic Offer of Sale to institutions also.

Action Taken : Book Building followed in GDR issues.

2. Strategic Sale (I:4.2 and V:1)

Detailed and transparent procedure for the selection of strategic partners recommended including the selection of Financial Advisors for strategic sale. In order to ensure that the strategic partner brings in necessary technological and financial inputs the selection should be made through a process of pre-qualification.

The Government should assure the strategic buyer of its commitment to withdraw from the PSU by spelling out the details, including the time frame. The restructuring and VRS measures should be implemented before inviting the offer for strategic sale for realising the efficiency gains in the disinvestment proceeds.

The Commission recommends that the Government may keep its direct share holding below the level of investment being offered to the strategic bidder by divesting some portion of its equity to multilateral financing institutions, private equity funds, Mutual funds and a few select PSUs who have business interest in the particular PSU being disinvested.

Action Taken : Process for selection of global financial advisors for the strategic sale of BALCO and KIOCL has been initiated.

3. Selection of Intermediaries (I:4.3 and V:1)

Detailed and transparent procedure for the selection of all intermediaries for the Offer of Sale of shares either in domestic or international market. The financial advisors need not evaluate the disinvestment options recommended by the Commission.

Action Taken : Accepted

4. Retailing of PSU shares to Small Investors and Employees (I:4.4)

Detailed procedure for offer of shares to small investors and employees has been recommended by the Commission. The Commission has also recommended on the maximum number of shares and the discount to be offered to small investors and employees.

Sale of shares of the PSUs, especially the profit making ones, to the small investors would broad base the shareholding.

Action Taken : Accepted

5. Recommendation on Joining the NSDL (II.1)

In order to enable the PSUs to prepare for meeting the demands of the capital market, Commission recommends that all PSUs which were earlier disinvested and which are proposed for disinvestment to join the NSDL.

Action Taken : Accepted

6. Audit of Disinvestment Transactions (V:1)

It would be desirable to conduct an audit of the disinvestment transaction within six months by C&AG with the involvement of professionals familiar with working of the industry and capital markets. This provides opportunities for improving the quality of subsequent disinvestment transactions.

Action Taken : Decision Awaited

C. Recommendations on Delegation of Autonomy

Commission has recommended delegation of autonomy on a graded scale as given below :

1. Professionalising the Board of Directors (I:3.4)

The Commission recommends that the Government initiate necessary steps to select experts and professionals from outside the Government as non-executive Directors on the Board of Directors of PSUs.

Action Taken : Government has decided to broadbase Boards of PSUs by inducting at least three non-official part-time Directors (four for Navratna PSUs). Government has also specified that such Directors should be at least one-third of the total strength of the Board. These Directors would be selected by Search Committee comprising of Chairman, PESB; Secretary, DPE; Secretary of the Administrative Ministry; and some eminent non-official(s).

2. Provision for Elected Directors (I:3.4)

Government, in the interest of efficient management of the PSU, should enable election of Directors who would represent the minority shareholders in the PSUs. Also the Government should enable election of employee representatives on the Board of Directors in proportion to the extent of employee shareholding.

Action Taken : Decision Awaited

3. Selection of Top Management (I:3.4)

The Commission recommends that the Public Enterprise Selection Board (PESB) should be broad based. PESB has to be given more powers to select the CEOs and other functional directors without going to the Appointments Committee of the Cabinet. Minimum tenure of five years for the CEOs and Functional Directors are

recommended and the age of superannuation be relaxed, if necessary, for this purpose.

Action Taken : Decision Awaited

4. Salaries and Incentives for Top Management (I:3.4)

In order to attract and retain talents, the salaries and allowances for CMDs in Schedule (A) post should be raised to Rs. 50,000 per month immediately and should be reviewed and brought in line with industry in a gradual manner. Similar revision should be undertaken for all in other Schedules.

Action Taken : Decision Awaited

5. Autonomy in Price Fixation (I:3.4)

PSUs should be fully empowered on par with the private sector units to determine the prices of their products and services.

Action Taken : Decision Awaited

6. Accountability (I:3.4)

Present MoU should be revamped in order to measure the performance of PSUs more qualitatively with reference to meaningful and challenging targets. Performance assessments should be carried out at routine intervals by a joint team of the Secretary of Ministry, CEO and an outside senior professional.

Action Taken : Accepted

7. Setting up of Pre-Investigation Board (I:3.4)

An independent specialised institution viz., the Pre-Investigation Board is to be set up to evaluate the instances of malfeasance in PSUs. It should evaluate all questionable commercial decisions at the Board level to determine whether the decisions were taken with malafide or corrupt intent. The members of the Pre-Investigation Board could include among others retired top executives from the financial sector, former CEOs of leading PSUs and professionals with relevant business experience.

Action Taken : Decision Awaited

8. Strengthening the Investor Interface (I:3.4)

PSUs in general should equip themselves to meet the investor queries by setting up investor relations group. This group should regularly communicate with the investors and update them with the performance of the PSU.

Action Taken : Decision Awaited

Apart from the recommendations in respect of corporate governance, mentioned above, which are applicable to all PSUs, the Commission recommends additional autonomies to Moderate Performers and Strong Performers.

9. Moderate Performers

(i) Powers to Dispose of Assets (I:3.4)

Board of Directors should be empowered to transfer assets to a subsidiary or for the propose of outright sale, with requiring Government approval.

Action Taken : Decision Awaited

(ii) Freedom of Investment within certain limits (I:3.4)

The Government should enhance the investment limits in cases where banks or institutional lenders have appraised and financed the projects and link the limits to the turnover and requirement of funds in the medium term.

Action Taken : Category[*] I PSUs have been allowed to incur capital expenditure on new projects, modernisation, purchase of equipment, etc. upto Rs. 300 crores or equal to their networth, whichever is lower while Category[*] II PSUs have been given a limit of Rs. 150 crores or upto 50% of their networth, whichever is lower.

10. Strong Performers

(i) Powers to form joint ventures (I:3.4)

The Board of Directors of these PSUs should be empowered to form joint ventures with Indian or foreign companies so long as the other partner holds less than or equal stakes, without prior approval of the Government other than the regulatory approvals as applicable to private sector.

Action Taken : Category I PSUs have been empowered to establish JVs and subsidiaries in India by investing upto Rs. 100 crores or 5% of their networth in any one project or 15% of their networth in all JVs/subsidiaries put together. Category II PSUs can invest upto Rs. 50 Crores or 5% of their networth in any one project or 15% of their networth in all JVs/subsidiaries

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[*] *Category I PSUs* are PSUs that have made a profit in the last three years continuously and earned pre-tax profits of more than Rs.30 crores or more in at least one of the three years and have a positive net worth. *Category II PSUs* are PSUs that have made profit for the last three years continuously and have a positive net worth.

put together to establish JVs and subsidiaries in India.

(ii) Full freedom with regard to investments (I:3.4)

The Commission has recommended complete autonomy to these PSUs with respect to investment decisions subject to the condition that these projects are appraised and financed by banks or institutional lenders or where the total requirements of funds are met from internal accruals.

Action Taken : The autonomy granted to strong performers is same as that granted to the moderate performers.

APPENDIX IV

Recommendations for 45 PSUs and Action Taken by Government

	Recommendations	Government Action
1.	Modern Food Industries India Limited (MFIL) (I:5.1) Sale of entire Government shareholding on an as-is-where-is basis	Decision being implemented
2.	Gas Authority of India Limited (GAIL) (I:5.2) -25% disinvestment through GDR Autonomy under Strong Performer Criterion Implement TL Sankar Committee Recommendations	Decision being implemented
3.	Indian Tourism Development Corporation (ITDC) (I:5.3) 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.	Decision awaited
4.	Bharat Aluminium Company Limited (BALCO) (II:2.1) 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	Decision being implemented
5.	Bongaigaon Refineries and Petrochemicals Limited (BRPL) (II:2.2) Strategic sale of 50% of Government holding with an agreement to further dilute to 26% or below through public offer at a later date.	Decision awaited.
6.	HTL Limited (HTL) (II:2.3) 3 options for disinvestment - • 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	Decision being implemented

	Recommendations	Government Action
7.	ITI Limited (ITI) (II:2.4) Immediate reduction of manpower through VRS and hiving off the Defence Division in Bangalore and merge with Bharat Electronics Limited 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	Decision awaited.
8.	Madras Fertilisers Ltd (MFL) (II:2.5) 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 awaited.
9.	Manganese Ore India Limited (MOIL) (II:2.6) - No immediate disinvestment	Accepted
10.	Container Corporation of India Limited (CONCOR) (III:2.1) -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 Govt's share to 51%	Decision implemented.
11.	Kudremukh Iron Ore Company Limited (KIOCL) (III:2.2) 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.	Decision being implemented.
12.	Mahanagar Telephone Nigam Limited (MTNL) (III:2.3) - 60 million shares in GDR market and 28.3 million shares in domestic market through book building Financially restructure – by formation of a new company for raising funds for DoT Grant of Autonomy under Strong Performer Criteria.	Decision implemented.

	Recommendations	Government Action
13.	Oil India Limited (OIL) (III:2.4) - 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 on APM	Accepted.
14.	Oil and Natural Gas Commission Ltd. (ONGC) (III:2.5) -Disinvestment after the organisational changes are in position and Government's policy on APM	Accepted.
15.	Rail India Technical & Economic Services Ltd (RITES) (III:2.6) - No disinvestment	Accepted.
16.	Hindustan Copper Limited (HCL) (IV:2.1) - Two options suggested: • HCL to implement the expansion programme and also restructure the ICC mining operations by closing down mines through VRS. Afterwards, Government to divest 51% of its holding through a strategic sale. The balance 22% to be disinvested through offer of sale to domestic institutions, small investors and employees • 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	Decision awaited.
17.	Pawan Hans Helicopters Limited (PHL) (IV:2.2) - 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.	Decision awaited.
18.	Power Grid Corporation of India Limited (POWERGRID) (IV:2.3) Disinvestment only after entire electricity sector is fully restructured.	Accepted

	Recommendations	Government Action
19.	Shipping Corporation of India Ltd (SCI) (IV:2.4) 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.	Decision awaited.
20.	Engineers India Limited (EIL) (V:2.1) GoI to hold 26% for retaining the character as an Indian Consultancy company in strategic areas; GoI to disinvest 30% equity stake in the company along with appropriate role in management; 10% to employees 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.	Decision being implemented.
21.	Engineering Projects (India)Limited (EPIL) (V:2.2) 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	Decision being implemented.
22.	Hindustan Prefab Limited (HPL) (V:2.3) GoI to offer 74% of its holding to a strategic buyer	Decision awaited.
23.	IBP Limited (IBP) (V:2.4) GoI to hold 26% and offer upto 33.9% of the company's equity out of GoI holding of 59% to strategic buyer	Decision awaited.
24.	National Thermal Power Corporation (NTPC) (V:2.5) - No disinvestment presently	Accepted
25.	NEPA Ltd. (NEPA) (V:2.6) Immediate sale of 51% to a strategic partner which could go up to 100%	Decision awaited.
26. & 27.	Ranchi Ashok Bihar Hotel Corporation and Utkal Ashok Hotel Corporation Ltd. (V:2.7,2.8) ITDC to disinvest 100% holding in favour of any private entrepreneur	Decision being implemented.
28.	Electronics Trade and Technology Development Corporation (ET&T) (VI:2.1) ET&T to discontinue all its operations with immediate effect and sale of assets of the company	Decision awaited.

	Recommendations	Government Action
29.	Hindustan Vegetable Oils Corporation Ltd. (HVOC) (VI:2.2) hiving off breakfast food division and sell off 100% ; Close down of operations in vanaspati and packaging of refined oil	Decision awaited.
30.	Hindustan Zinc Ltd. (HZL) (VI:2.3) 25% equity to be offered to strategic partner with role in management	Decision awaited.
31.	Hotel Corporation of India Ltd. (HCIL) (VI:2.4) The hotels at Mumbai and Delhi to be sold as separate units; Initiate dialogue with J&K government for Centaur Srinagar and AI to decide about the flight catering services	Decision being implemented.
32.	National Hydroelectric Power Corporation Ltd. (NHPC) (VI:2.5) No disinvestment presently	Accepted
33.	Pyrites Phosphates & Chemicals Ltd. (PPCL) (VI:2.6) Initiate action to sell Amjhore and Saladipura units to strategic buyers and close down Dehradun operations	Decision awaited.
34.	Rehabilitation Industries Corporation Ltd. (RICL) (VI:2.7) With immediate effect discontinue all the operations and sale of assets	Decision awaited.
35.	Fertiliser and Chemicals Travancore Ltd. (FACT) (VII:2.1) Offer a minimum of 51% equity to strategic buyer along with management control	Decision awaited.
36.	Hindustan Latex Ltd (HLL) (VII:2.2) Offer a minimum of 51% equity to strategic buyer along with management control	Decision awaited.
37.	Indian Petrochemicals Corporation Ltd. (IPCL) (VII:2.3) Offer 25% equity to strategic buyer along with management control	Decision being implemented.
38.	National Aluminium Co. Ltd (NALCO) (VII:2.4) Offer of sale of upto 30% equity to retail as well as institutional investors including a GDR issue of 15%	Decision awaited.
39.	National Fertiliser Ltd (NFL) (VII:2.5) Offer a minimum of 51% equity to strategic buyer along with management control	Decision awaited.
40.	Neyveli Lignite Corporation Ltd (NLC) (VII:2.6) No disinvestment, presently.	Accepted

	Recommendations	Government Action
41.	Steel Authority of India Ltd (SAIL) (VII:2.7) No disinvestment, presently. Government assistance in writing –off IISCO's losses and sale of IISCO. Conversion of SAIL's SDF dues into equity.	Accepted
42.	Air India Ltd (AI) (VIII:2.1) Infusion of Rs. 1000 crore as equity, followed by strategic sale by issue of new shares reducing Government holding to 60%. Subsequent offer of sale of 20% to domestic investors.	Decision awaited.
43.	Central Electronics Ltd (CEL) (VIII:2.2) Priority to CEL's performance improvement. One year to reduce manpower through VRS 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.	Decision awaited.
44.	Hindustan Steel Works Construction Ltd. (HSCL) (IX:2.1) 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. 60-70 crores per annum, after meeting statutory liabilities of Rs. 136 crores. In such a case, there should be no fresh recruitment or replacement of retiring employees.	Decision awaited.
45.	State Trading Corporation (STC) (IX:2.2) -offer of entire GOI holding to a strategic buyer, after reserving 5% share for employees who opt for VRS – at the rate of not more than 200 shares per employee – at a discount to the strategic buyer's price. Manpower reduction through VRS should be undertaken simultaneously with the decision for disinvestment.	Decision awaited.

APPENDIX V

Disinvestment Modalities Recommended in Report I to IX and Action Taken by Government

Modalities of Disinvestment	No.	Names of PSUs	Status of Government Decision				
			Accepted	Deferred	Implemented	Being implemented	Awaited
Trade Sale	6	ITDC, MFIL, HCIL, R-Ashok, U-Ashok, PHL				MFIL, HCIL, R-Ashok, U-Ashok	ITDC, PHL
Strategic Sale	21	HTL, ITI, BALCO, BRPL, KIOCL, MFL, EIL, HPL, IBP, NEPA, HZL, PPCL, NFL, FACT, IPCL, HCL, SCI, HLL, AI, HSCL, STC		NFL, FACT		HTL, BALCO, KIOCL, EIL, IPCL	ITI,BRPL, MFL, HPL, IBP, NEPA, HLL, PPCL, HCL, HZL,SCI, AI, HSCL, STC
Offer of Shares	4	GAIL, CONCOR, MTNL, NALCO			CONCOR, MTNL	GAIL	NALCO
No Disinvestment	1	RITES	RITES				
Disinvestment deferred*	9	OIL, ONGC, MOIL, NTPC, NHPC, NLC, POWERGRID, SAIL, CEL	OIL,ONGC, NTPC, MOIL, NHPC, PGCL, SAIL, NLC				CEL
Closure/sale of assets	4	EPIL, ET&T, HVOC, RICL				EPIL	ET&T,HVOC, RICL
Total	45		9	2	2	11	21

* Pending fulfilment of certain specified conditions.