# 1. GENERAL ISSUES AND RECOMMENDATIONS ON DISINVESTMENT

## Review of Progress in Disinvestment

In its Fourth Report, the Commission had indicated, in the form of a Statement, the action taken by Government on its recommendations contained in its first three Reports. Since then, some more decisions have been announced by Government on the specific recommendations of the Commission as well as in continuation of ongoing public sector reforms. The Commission has taken note of the progress so far in implementing the recommendations of the Commission in its four Reports and once again it is presented in the form of a Statement.

Table 1 General Recommendations

| Recommendations | Government Action |
|---|---|
| Establishment of Disinvestment Fund (I:3.1) | According to Government communication Fund set up in September, 1996. Details as regards scope or purpose not available. |
| Formation of Standing Empowered Group (I:4.1) | Core Group empowered as recommended |
| Guidelines on -Offer of Sale - Book building for domestic and GDR issues (I:4.2) | Book building followed in GDR issues |
| Guidelines on selection of Intermediaries (I:4.3) | Accepted |
| Retailing PSU shares to small investors & employees (I:4.4) | Accepted |
| Recommendation on joining NSDL (II:1) | Accepted |
| Revamped Voluntary Retirement Scheme - Employee Pension cum Insurance Scheme (II:1) & (IV:1) | Decision Awaited |

Table 2 Corporate Governance: All PSUs (Other than Navratna Category)

| Recommendations for all PSUs | Government Action |
|---|---|
| * Professionalising the Board by induction of non-executive directors to be chosen by PESB (I:3.4) | Govt. to broadbase Boards of 97 PSUs by inducting at least three non-official part-time Directors and the number of 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). |
| Provision for Elected Directors (I:3.4)<br>* Selection of Top Management (I:3.4)<br>* Salaries and Incentives for Top Management (I:3.4) | Decision Awaited<br>Decision Awaited<br>Decision Awaited |
| * Autonomy in Price Fixation (I:3.4) | Decision awaited |
| * Accountability (I:3.4) | Accepted |
| * Setting up of Pre-Investigation Board (I:3.4) | Decision awaited |
| * Strengthening the Investor Interface (I:3.4) | Decision awaited |
| Moderate Performers<br>* Powers to dispose of Assets (I:3.4)<br><br>* Freedom of Investment within certain limits (I:3.4) | <br>Decision awaited<br><br>To incur capital expenditure on new projects, modernisation, purchase of equipment etc. upto Rs.300 crores or equal to their networth whichever is lower for category I PSUs, and Rs. 150 crores or upto 50% of their networth whichever is lower for Category II PSUs. |
| Strong Performers<br>* Powers to form Joint Ventures (JVs) (I:3.4)<br><br>[# *Category I PSUs* - PSUs who have made a profit in the last three years continuously and pre-tax profits should have been more than Rs.30 crores or more in at least on of the three years and should have a positive net worth. *Category II PSUs* - PSUs who have made profit for the last three years continuously and should have a positive net worth]<br><br>* Full freedom with regard to Investments (I:3.4) | <br>To establish JVs and subsidiaries in India - Should be limited to Rs. 100 crores in any one project, should not exceed 5% of the networth of the PSU in any one project or 15% of the networth of the PSU in all Jvs/subsidiaries put together for Category I PSUs[#] and Rs. 50 Crores in any one project, should not exceed 5% of the networth of the PSU in any one project or 15% of the networth of the PSU in all Jvs/subsidiaries put together for Category II PSUs[#].<br><br>To incur capital expenditure on new projects, modernisation, purchase of equipment etc. upto Rs.300 crores or equal to their networth whichever is lower for category I PSUs, and Rs. 150 crores or upto 50% of their networth whichever is lower for Category II PSUs. |

Table 2A Corporate Governance : Eleven Select PSUs (Navaratna Category)

| Recommendations for Strong Performers | Government Action |
|---|---|
| * Professionalising the Board by induction of non-executive directors to be chosen by PESB (I:3.4) | Govt. to broadbase Boards by inducting in the first instance at least four non-official part-time Directors and the number of such Directors should reach at least one-third of the total strength of the Board within six months. 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). |
| *Provision for Elected Directors (I:3.4)<br>* Selection of Top Management (I:3.4)<br>* Salaries and Incentives for Top Management (I:3.4) | Decision Awaited<br>Decision Awaited<br>Decision Awaited |
| * Autonomy in Price Fixation (I:3.4) | Decision awaited |
| * Accountability (I:3.4) | Accepted |
| * Setting up of Pre-Investigation Board (I:3.4) | Decision awaited |
| * Strengthening the Investor Interface (I:3.4) | Decision awaited |
| * Freedom of Investment (I:3.4)<br>* Powers to dispose of assets (I:3.4)<br>* Powers to form Joint Ventures (I:3.4) | Accepted<br>Decision Awaited<br>The PSUs have been allowed to set up financial joint ventures and wholly owned subsidiaries in India or abroad subject to (1) an equity limit of Rs. 200 crores in any one project, (2) 5 percent of the networth of the PSU in any one project and (3) 15 percent of the networth of the PSU in all joint ventures/ subsidiaries together. However, for entering into technology joint ventures and strategic alliances, the PSUs have to adhere to guidelines to be issued by Government from time to time. |

Table 3 Specific Recommendations for 19 PSUs

| Recommendations | Government Action |
|---|---|
| Modern Food Industries India Limited (MFIL) (I:5.1) Sale of entire Government shareholding on an as-is-where-is basis | Decided to reduce Government shareholding in Modern Foods from present 100% to 50% in Phase 1 |
| Gas Authority of India Limited (GAIL) (I:5.2) -25% disinvestment through GDR<br>Autonomy under Strong Performer Criterion<br><br>Implement TL Sankar Committee Recommendations | 24.84% (210 million shares disinvestment through GDR<br>Granted Autonomy under "Navaratna Status"<br><br>Implemented |
| 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. | Decided to appoint global adviser to evaluate four options as identified by Core Group<br>• Acceptance of the Disinvestment Commission's recommendations<br>• Acceptance of the view of the Ministry of Tourism (limiting disinvestment upto 49%)<br>• Reduction of Government shareholding to 50% in favour of strategic partner<br>• Reduction of Government shareholding to less than 50% in favour of strategic partner |
| 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 | Accepted |
| 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. | Decided to appoint global adviser to evaluate two options<br>• Disinvestment Commission's recommendations for a strategic sale<br>• Ministry of Petroleum's suggestion of merger of Oil India and BRPL to make it a integrated oil company and disivest Government holding to 50% or below in the merged entity |
| HTL Limited (HTL) (II:2.3) 3 options for disinvestment -<br>• Sale of 100% shares in HTL alongwith ITI in the process of Strategic Sale<br>• 50% of shares of HTL may be offered to a strategic partner through a global competitive bidding<br>• if none of the above options is feasible, straight sale of assets of the company through competitive bidding | Core Group broadly endorsed the recommendations, however waiting for the views of the Telecom Commission. |

Table 3 Specific Recommendations for 19 PSUs (Continued)

| | |
|---|---|
| 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 | Core Group broadly endorsed the recommendations, however waiting for the views of the Telecom Commission. |
| 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 | Approval for negotiations with NIOC along the lines suggested by the Commission |
| Manganese Ore India Limited (MOIL) (II:2.6) - No immediate disinvestment | Accepted |
| 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% | Disinvestment of 6 million shares approved along with fresh issue of 12.5 million shares - Distribution of issue between domestic and international market to be based on the market conditions |
| 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. | Decided to appoint global adviser to advise the Ministry of Steel and KIOCL on disinvestment and strategic sale. |
| 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<br>Financially restructure - by formation of a new company for raising funds for DoT<br>Grant of Autonomy under Strong Performer Criteria | Disinvestment 47 million shares along with fresh issue of 60 million shares - Distribution of issue between domestic and international market to be based on the market conditions<br>Decision awaited<br><br>Granted Autonomy under "Navaratna Status" |
| 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 |
| 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 |

Table 3 Specific Recommendations for 19 PSUs (Continued)

| | |
|---|---|
| Rail India Technical & Economic Services Ltd (RITES) (III:2.6) - No disinvestment | Accepted |
| Hindustan Copper Limited (HCL) (IV:2.1) - Two options suggested:<br>• 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<br>• 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 |
| 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 |
| Power Grid Corporation of India Limited (POWERGRID) (IV:2.3) Disinvestment only after entire electricity sector is fully restructured. | Decision awaited |
| 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 |

Arising out of this, the Commission would like to make the following general observations:

**Firstly, the Commission considers the establishment of the Disinvestment Fund to be extremely vital to the credibility and social acceptability of the disinvestment process and hence towards building a general consensus in the country in its favour. Government has communicated that a Disinvestment Fund was set up in September, 1996 - prior to the**

**Commission's recommendation.** However, in the view of the Commission, what is currently sought to be done is merely to earmark a small portion of disinvestment proceeds towards restructuring schemes of PSUs and specific VRS proposals. **The Commission would reiterate that there is urgent need for Government to consider the Commission's recommendations fully, keeping in mind the objectives to be achieved through the establishment of the Disinvestment Fund.** Later in this Report, the Commission has made some further remarks on the Disinvestment Fund.

Secondly, while Government has processed the recommendations of the Commission with regard to strategic sale of some PSUs and taken certain decisions, **there is some concern that the implementation of those decisions could be delayed if time-limits are not laid down for the Ministries concerned to implement the decision.**

Thirdly, while the Commission welcomes the further initiative taken by Government towards conferring autonomy to a large number of PSUs with a view to improving corporate governance therein, it hopes that this process will be carried forward in a comprehensive and co-ordinated manner, taking into account the Commission's recommendations made in its First Report. In particular, the Commission would like to emphasise the following:

**(i) The Commission has recommended autonomy for all PSUs categorised according to their performance (I:3.4).**

**(ii) The Commission's recommendations also include the setting up of Pre-Investigation Board, proper incentivisation of the top management**

**personnel, strengthening investor interface (I:3.4) and need for change in the perspective of audit by the C&AG and examination by Parliamentary Committees taking into account the changes in the commercial environment in which PSUs are now operating (I:3.3). These need to be considered urgently by Government, both for improving the investor perception of PSUs as also for creating the necessary climate for the Boards of Management of PSUs to exercise the greater powers now proposed to be conferred on them, without hesitation or fear.**

**(iii) Providing representation to minority shareholders in the PSUs where disinvestment has already taken place needs to be stressed. To start with, Government may consider providing such representation in PSUs where disinvestment has exceeded 25%. This step will greatly improve investor confidence in PSUs and will help the process of future disinvestment.**

## Terms of Reference

The terms of reference of the Commission, as notified in the Government Resolution No. 11013/3/96-Admn. dated 23 August, 1996, of the Department of Public Enterprises inter-alia include the following:

VI. To supervise the overall sale process and take decisions on instrument, pricing, timing etc. as appropriate.

VII. To select the financial advisers for the specified PSUs to facilitate the disinvestment process.

IX. To monitor the progress of disinvestment process and take necessary measures and report periodically to the Government on such progress.

Para 4 of the Government Resolution reads:

> "The Disinvestment Commission will be (an) advisory body and the Government will take a final decision on the companies to be disinvested and mode of disinvestment on the basis of advice given by the Disinvestment Commission. The PSUs would implement the decision of the Government under the overall supervision of the Disinvestment Commission."

The Commission has considered the terms of reference and is of the view that, in the light of para 4 quoted above, it will not be possible for it to act on items VI and VII of the terms of reference. In its First Report, the Commission, therefore, while recommending the establishment of the Standing Empowered Group (SEG) recommended that the selection of Financial Advisers, supervision of the overall sale process and decisions on instrument, pricing, timing, etc. as per terms of reference, items VI and VII may also be entrusted to the SEG. **Government has since taken decisions on the specific recommendations of the Commission relating to some PSUs and entrusted implementation to official groups. This would indicate that the Commission's interpretation of the terms of reference as above has been accepted by Government. In other words, the Commission will function as an advisory body and will not involve itself, as originally envisaged by**

**items VI and VII of the terms of reference, in the actual disinvestment process itself.**

The Commission in the First Report had also mentioned that "in order to enable the Commission to monitor the progress of the disinvestment process as per terms of reference IX, it is proposed that the SEG should keep the Disinvestment Commission informed of the various steps undertaken from time to time." According to the Government decision communicated to the Commission, "the recommendations of the Commission will be processed by the Ministry of Finance through the Core Group chaired by the Cabinet Secretary for obtaining the decision of the Cabinet thereon. The Core Group will also monitor the actual process of disinvestment in each case." **According to item IX of the terms of reference, the Commission is required to monitor the progress of disinvestment process and take necessary measures and report periodically to the Government of such progress. The Commission will, therefore, continue to take note of the Government decisions and monitor the progress of the disinvestment process with regard to the implementation of the Government decision with a view to maximising the benefits to the Government and the economy in general, accruing out of the disinvestment process.**

Government referred 40 PSUs to the Commission in September, 96, and ten more PSUs in March, 1997 (vide Appendix I). The Commission has arranged to have diagnostic studies of all these companies through professional consultancy firms prior to the consideration of disinvestment in them.

However, some of the administrative Ministries have raised objections to disinvestment in the PSUs under their purview, well after the PSUs were referred to the Commission by Government. For instance, the Department of Defence Production & Supplies in the Ministry of Defence has written to the Commission that the PSUs under its administrative control, namely, Bharat Earth Movers Ltd., Bharat Electronics Ltd., Garden Reach Ship Builders & Engineers Ltd., and Hindustan Aeronautics Ltd. need not be considered by the Commission. Government have since accepted this view and withdrawn these four PSUs from the Commission. Again, recently, the Ministry of Coal has expressed similar views regarding PSUs coming under its administrative control, namely, Northern Coal Fields Ltd., South Eastern Coal Fields Ltd. and Western Coal Fields Ltd. In respect of Air India, the Commission understands that separate studies have been initiated by the Ministry of Civil Aviation for restructuring the company including merger of Indian Airlines with it.

**The matter whether a PSU should be considered by the Commission for disinvestment or not should be sorted out between the administrative Ministry and the Core Group (SEG) before referring it to the Commission. Government should have the prima facie intention to consider disinvestment in a PSU before referring it to the Commission.** The Commission would then examine the PSU and recommend to Government whether there should be disinvestment, and if so, the timing and the modalities thereof. **Once a PSU is referred to the Commission, the concerned PSU and the administrative Ministry concerned should be directed to co-operate fully with the Commission. In the absence of such clear understanding on these issues, the Commission's time and effort and Government resources, will be needlessly wasted as has happened in the case of the**

**seven PSUs referred to earlier. Pending clarifications by Government, the Commission is unable to proceed further with the examination of the three PSUs under the Ministry of Coal.**

Among the 50 PSUs so far referred to the Commission, there are some which are subsidiaries of PSUs. These are:

Table 4 Holding companies

| Name of the Subsidiary | Holding Company |
|---|---|
| • Hotel Corporation of India Ltd | Air India |
| • Northern Coal Fields Ltd.<br>• South Eastern Coal Fields Ltd.<br>• Western Coal Fields Ltd. | Coal India Ltd. |
| • Ranchi Ashok Bihar Hotel Corporation Ltd.<br>• Utkal Ashok Hotel Corporation | ITDC |

The shares in such subsidiaries are held by the PSUs and not directly by Government. Disinvestment per se would relate to sale of shares held directly by Government. The case of subsidiaries, therefore, should not normally come under the purview of the Disinvestment Commission. **Government have also recently clarified that the off loading of shares in such subsidiaries would be decided by the Boards of Management of the concerned Public Sector holding company and in future would not be referred to the Commission. In so far as some of the subsidiaries have already been referred to the Commission and the Commission has also completed the studies with a view to examining them for the purpose of disinvestment, the Commission would be making recommendations in those cases even if proceeds from disinvestment of shares by the holding companies may not accrue directly to Government.**

## Disinvestment Fund

In its First Report, while recommending the offer of sale in GAIL, the Commission had mentioned that the price and the exact timing may be decided by the SEG depending on market conditions. In its recommendations for offer of sale in MTNL made in the Third Report, the Commission also reiterated among other things that the appropriate timing of the sale of shares will be decided by SEG keeping in view the market conditions.

These recommendations relating to market conditions have to be read along with that for setting up a Disinvestment Fund made in the First Report. It was pointed out that the separation of disinvestment proceeds from the other non-debt capital receipts in the Budget will prevent the short-term budgetary compulsions from obscuring the long-term benefits of disinvestment in loss making PSUs; and will help in highlighting the seriousness of the fiscal and revenue deficits and can compel actions to deal with them in the context of raising current revenues, and/or curtailing current expenditure.

**The essence of the Commission's recommendation is the delinking of disinvestment from the annual Budgetary exercise. Budget-driven disinvestment will have to be made under compulsion of the budgetary time-frame and may not allow the sales to be timed to suit favourable market conditions. Selling under the compulsion of the budgetary time-frame would encourage investors to bid lower prices particularly when market conditions turn unfavourable. The setting up of the Disinvestment Fund into which proceeds can be put in as and when disinvestment takes place would enable Government to undertake disinvestment at the most opportune moment in the market.**

The Commission would, therefore, suggest that in the light of the foregoing considerations, it is important to take an early and clear decision on the structure and utilisation of the Disinvestment Fund on the lines recommended in the First Report of the Commission.

## Strategic Sales - Some Issues

Strategic sale is one of the modalities recommended by the Commission to achieve disinvestment of Government shares in non-core PSUs. A strategic sale would involve selling a substantial stake in a PSU along with management control to a bidder who would complement the existing strengths of a PSU with a view to imparting long-term viability. The Commission has favoured an initial transfer of shares to the selected strategic buyer to the extent of 30 to 50% of equity and within an agreed time-frame, further dilution of Government equity through a combination of public offer and offer to the joint venture partner to enable him to acquire controlling interest in the company. The Commission has proposed that Financial Advisers be appointed to draw up the terms and conditions for inviting bids from potential strategic buyers with appropriate prequalifications. In its first four Reports, the Commission has recommended strategic sales as a mode of disinvestment in the following Companies: ITI, HTL, KIOCL, BALCO, ITDC, MFIL, BRPL, HCL & PHL. Government have since accepted either wholly or in part the recommendations of the Commission in respect of BALCO, BRPL and KIOCL and indicated that Financial Advisers would be appointed to pursue action therefor. It is important at this juncture to further elaborate on some aspects relating to strategic sales.

(1) It is essential to clarify the role of Financial Advisers in this context. The appointment of Financial Advisers has been recommended for arriving at a proper valuation of the assets of the PSU and fix a realistic value of the shares to be offered to the strategic buyers; to finalise the terms and conditions of the bid to be invited from prospective strategic buyers; to arrive at norms for prequalification of bidders; and finally to advise the Government on the evaluation of bids received. The Commission while making recommendations takes due account of all the relevant factors specific to the PSU as well as general market conditions in the industry in which it is operating. Its PSU specific recommendations are given after careful deliberations, consultations and a close examination of the different options before the PSU in the light of its past performance and future prospects. **The Financial Advisers therefore are expected to advise and assist in the implementation of the decisions of Government on the recommendations of the Commission on strategic sale of select PSUs. Their role is not to evaluate the disinvestment options as recommended by the Commission. This needs to be clarified while appointing Financial Advisers and settling their terms of reference.**

(2) The essence of the strategic sale modality is the identification of a suitable strategic buyer who would contribute the required strengths to the PSU for its future viability and sustained operation in an increasingly competitive industrial environment. Such strengths could be in the areas of Finance, Marketing or Technology. **The importance of prequalification of bidders, as stressed in the Second Report, arises from the need to select a suitable strategic buyer who could add to the existing or potential strengths of the PSU in any one or more of the areas identified as vital to the PSU's future**

**and to avoid entry of others who may have intentions of merely reaping short-term gains.**

(3) After the strategic buyer has been identified, there is need for entering into an agreement with him spelling out the manner in which the control of the PSU would pass from Government to him. Initially, there would be an offer of a substantial stake in the PSU, to the extent of 30 to 50% as recommended by the Commission at the price determined on the basis of the competitive bidding. **In order to assure the strategic buyer that eventually Government would withdraw from the PSU, it is necessary that the agreement should spell out the details, including the time-frame, for further dilution of Government share holding. However, even at the time of the initial induction of the strategic buyer, Government should entrust management control to him as already recommended. The agreement should also spell out clearly the medium-term and long-term strategy of the strategic buyer to strengthen and improve the viability of the PSU.**

(4) Continued Government presence in the PSU with significant share holding exceeding the holding of the strategic buyer even as a transitional arrangement would deter prospective bidders. **The Commission, therefore, recommends that Government may keep its direct share holding below the level of the investment being offered to the strategic bidder by divesting some portion of its equity to institutions such as multilateral financing institutions, private Equity Funds, Mutual Funds and a few select PSUs who have business interest in the particular PSU being disinvested. Such sales would be at the same price as that paid by the strategic bidder. This will improve the response to Government's invitation for strategic partnership.**

**As already recommended by the Commission, 5% to 10% of the equity should also be earmarked for allotment to employees under the existing SEBI guidelines as also to a trust under an appropriate Employee Stock Option Scheme (ESOP).**

(5) **The response to strategic sales will also improve if Government takes some immediate action towards restructuring the PSU concerned. Immediate financial restructuring including waiver of past long standing loans, arrears of interest and penal interest, if warranted under particular circumstances of a PSU, should be undertaken. Also where ever the PSU has a problem of an unviable workforce size, it would be useful for Government to undertake essential rightsizing through VRS before inviting the offer for such strategic sales.** The Commission, in its earlier Reports, has already given its suggestions for making VRS effective and attractive. **Among other things, Government needs to announce a suitable long-term VRS with stable terms so that workers concerned have a clear idea of the compensation they would receive. Secondly, the Commission has also proposed that the VRS should be reformulated to combine the features of a monthly payment, an annual payment and insurance in the long-term interests of the employees opting for the scheme. Thirdly, the PSU concerned needs to be assured of the funds required for implementing VRS. The Disinvestment Fund proposed by the Commission will take care of such assistance to the PSUs. Fourthly, for those employees who may not opt for the pension scheme but would like to set up a commercial venture with the lumpsum VRS payment, the management of the PSUs in collaboration with organisations like the Industrial and Technical**

**Consultancy Organisation in the State should organise a counselling service so that they may be properly guided as regards alternative investment options like establishing a small business venture or retraining to seek alternate employment.** Both these measures, namely, financial restructuring and implementing the revamped VRS would maximise the returns to Government through strategic sales. If financial restructuring and VRS were to be left to the new strategic buyer, it is likely that he would discount the value of the shares being sold to him to take care of these measures and such discount could actually be higher than the cost to Government in undertaking them prior to sales.

## Audit of Disinvestment Transactions

Disinvestment in PSUs by Government over the last five years has attracted considerable public attention, especially after reports of audit of such transactions were completed by the C&AG and submitted to the Parliament. Experience world wide has shown that in spite of all the conceivable procedural safeguards, in retrospect it is possible to conclude in some cases that some of the disinvestment procedures could have been improved. **In order that disinvestment is implemented ultimately in the best interests of the public, while at the same time establishing a proper environment for decision making, it is essential that audit of each disinvestment by the C&AG is conducted thoroughly, expeditiously and with the involvement of professionals familiar with the working of the industry and the capital markets.**

The need for expeditious completion of audit cannot be exaggerated. Disinvestment is a continuous process of learning as it has been observed in

other countries. Delayed audit of performance would not serve this useful purpose of improving the disinvestment process and maximising the gains therefrom to the public exchequer. **It would be desirable that such audit should be carried out within six months of the completion of the disinvestment transaction. This would ensure that, the people involved in the transaction would be available for examination at a time when their memory would be fresh with regard to the action taken and decisions arrived at soon after the disinvestment transaction under audit. Also an early availability of audit reports on past transactions would provide opportunities for improving the quality of processing subsequent disinvestment transactions. Similarly, involvement of professionals with full knowledge of the working of the industry and the capital market in the process of audit is extremely vital. This would enable the process of audit to identify any deficiencies in decision making and in implementation of these decisions while, at the same time, protecting the officials concerned against action for bonafide decisions under conditions prevalent at that time.** This would improve the confidence of all concerned and enable the right kind of approach, attitude and commitment for implementing the disinvestment decision objectively and expeditiously in the ultimate interest of maximising the gains from disinvestment.

# 2. SPECIFIC RECOMMENDATIONS

## 2.1 Engineers India Limited

### Evolution

Engineers India Limited (EIL) was established in 1965 in collaboration with M/s Bechtel Corporation, USA mainly to establish consultancy capabilities in India with respect to petroleum projects such as refineries, oil field development and oil and gas pipelines.

Over the last three decades, the growth of EIL can be divided into four stages. In the first stage, EIL responded to the needs of the market by diversifying into new areas of business such as offshore exploration structures, oil/gas production systems, fertilisers, etc. In the second stage, the company set up its own technology development and research facilities in order to provide specialised skills in the areas of project engineering design, tendering, procurement. In the third stage of growth, EIL entered new markets by forming subsidiaries and joint ventures abroad. In the last stage - during the nineties - the company has focused on improving internal systems which has enabled it to obtain ISO 9001.

The company operates under the administrative control of the Ministry of Petroleum and Natural Gas. In FY'94, the Government disinvested 6% of the equity of Rs. 18 crores in favour of financial institutions, mutual funds and private parties at an average price of Rs. 585. EIL's shares are listed on the Delhi Stock Exchange. As on July 22, 1997 the share price was quoted at Rs. 650. Due to the limited public shareholding, the stock is illiquid with low trading volumes.

Industry & Business Analysis

Project Services & Role

EIL's services range from pre-feasibility studies to commissioning support for projects across a wide range of process industries (Table 1). EIL's competency across a range of process industries stem from the synergy available across industries in terms of designing and engineering practices, similarity of equipment and materials applicability of codes. However, EIL's presence in a sector is based on commercial considerations.

An analysis of the turnover of the past three years indicates that the sectoral share of business is dominated by Refineries, Petrochemicals and allied businesses which together constituted about 70% of the total turnover. EIL's role in projects may vary from that of a prime management contractor (PMC) to that of an engineering, procurement, construction (EPC) contractor.

Table 1 EIL's Project Services & Role

| Project Services | Project Role | Industries |
|---|---|---|
| • Project feasibility<br>• Basic engineering design<br>• Detailed engineering design<br>• Procurement<br>• Construction supervision<br>• Project management services<br>• Commissioning support | PMC<br>• Consultants involved from the feasibility stage (to basic design, award of contracts and subsequent monitoring of the project), operating on behalf of client.<br>• In some instances consultant also undertakes (rather than award to another contractor) specific packages like detailed designing, construction supervision etc. (Strictly termed as EPCM - i.e. engineering, procurement and construction management)<br><br>EPC<br>• Consultant undertakes all aspects (including engineering, procurement & construction) of the project (or a specific module of the project) right from design to procurement to construction (on a turnkey basis)<br>Consultant would assist in project funding (through its linkages with FIs) | • Refineries<br>• Oil & Gas<br>• Petrochemicals<br>• Fertilisers |

The financial terms on which projects are awarded vary from the cost-plus method to the Lumpsum Turnkey method as shown below:

Table 2 Financial Terms of Projects

| Method | Description |
|---|---|
| Cost plus or (Time plus & Material plus) | Consultant is re-imbursed for the actual effort based on a man-hour rate which has in-built margins |
| Lump sum fee | The entire consultancy effort is estimated and quoted for as one figure |
| Lumpsum Turnkey (LSTK) | Consultant is responsible for engineering, design, procurement, construction & commissioning within overall financial limits |

In the past, most of the projects executed by EIL were on a cost-plus or a lumpsum basis which had limited emphasis on time and costs and therefore had low financial risks. As a consequence, margins, though limited were protected

On the other hand, the trend abroad is that a significant number of projects are undertaken on a lumpsum turnkey basis (either the whole project or the project divided into two-three modules each of which is executed on a turnkey basis). Domestically too, it is expected that LSTK would be increasingly preferred over the other methods as the customer will benefit by way of reduced costs and on-time implementation.

As far as the consulting companies are concerned, project execution on LSTK basis will involve the ability to conceptualise, monitor and implement projects by adhering to time and cost schedules. If the project has not been properly estimated in terms of organisational effort and time, the consulting company could face penalties. Thus, taking on large projects on LSTK basis may be riskier for a consultancy company. In addition, the consultant may be required

to provide funds for temporary periods during project implementation. Also the ability to arrange long-term finance for execution of the projects assumes importance.

In addition, strong bidding skills and strong linkages with suppliers /sub-contractors /technology licensers will also be important. Presently, EIL's capability to take on projects on a LSTK basis is relatively limited. The company is in the process of improving internal systems in order to progressively switch over to this method.

## Competition

The ongoing liberalisation programme of the Government has lead to a redefinition of the client base in EIL's traditional areas of operation with a resultant impact on business. The refinery sector which was hitherto reserved for the public sector has been opened up for private sector participation. Unlike public sector refineries, private sector refineries are free to choose engineering consultants other than EIL. Recently, the Government has proposed substantial autonomy to nine large PSUs; four of these are in the Oil sector and are important clients for EIL. With the delegation of autonomy, the driving factor in consultant selection for these PSUs would be commercial. Thus, EIL may no longer expect preferential treatment.

The industry has seen the entry of foreign companies such as Kvaerner Powergas, Betchel, Flour Daniel, Chemtex, etc. in the large and mega projects segment. Foreign consultants have been preferred in cases where the projects have to access overseas funds.

However, EIL's experience in handling large projects and the depth of technical expertise is expected to help the company to face competition. In fact, EIL currently has a good-mix of clients in the public and private sector. The average client-wise and sector-wise break-up for the past three years indicates that the public sector accounted for 56%, private sector 24% with the balance 20% coming from overseas clients. Within the public sector, the Oil sector companies comprising refining, oil and gas, petrochemicals dominated with more than 80% of EIL's turnover.

EIL's acceptance with its customers - both in the public and private sector - is quite high given its credibility, range of experience and expertise in handling mega projects. Industry feedback indicates that EIL has a good standing in the industry in terms of project management capabilities, high quality of manpower and technical services. In the hydrocarbon sector, the track record and the brand equity of the company is particularly high.

A number of significant investments are likely to take place in the Ninth Five Year Plan in the refineries, pipelines, petrochemicals sectors both by the public sector as well as the private sector. These investments present attractive growth opportunities for EIL as well as its competitors. If EIL has to cash in on these emerging opportunities, it is imperative that the company should prepare itself for taking on new projects on a LSTK basis.

## Access to Technology

In the majority of down stream secondary and tertiary processes (e.g. Naphtha crackers) where technology is largely licensed, EIL has worked with most of the major technology suppliers in the world. Typically, EIL evaluates and

recommends technologies to the client who takes the final decision. In general, EIL's acceptability to technology licensers has been quite high in the past in terms of detailed design capabilities.

A new trend which seems to be emerging is that global engineering consulting companies have started acquiring specific technologies in order to create entry barriers. Therefore it is perceived that access to technology will become increasingly important in future. Anticipating these changes, EIL has already entered into strategic alliances with specific suppliers for specific technologies. These would allow EIL to enhance its business through access to new markets and exposure to latest technologies. However, it is more likely to be available along with equity participation.

## Financial Analysis

The financial performance of the company over the past five years is presented in the table below:

Table 3 Financial Performance (Rs.Crores)

| | FY 96 | FY 95 | FY 94 | FY 93 | FY 92 |
|---|---|---|---|---|---|
| Operating Income | 260 | 235 | 224 | 157 | 105 |
| Other Income | 31 | 24 | 20 | 17 | 13 |
| Total Income | 291 | 259 | 244 | 174 | 118 |
| Operating Profit | 83 | 86 | 85 | 41 | 25 |
| Profit after Tax | 68 | 60 | 60 | 29 | 26 |
| Equity Capital | 18 | 18 | 2 | 2 | 1 |
| Tangible Networth | 320 | 256 | 200 | 142 | 115 |
| Gross Margin (%) | 32.0 | 36.5 | 37.8 | 25.9 | 24.0 |
| Net Margin (%) | 26.3 | 25.5 | 26.9 | 18.7 | 24.7 |
| ROCE (%) | 33.9 | 40.7 | 49.7 | 37.5 | 29.7 |
| RONW(%) | 21.3 | 23.3 | 30.1 | 20.7 | 22.6 |
| Earnings per Share (Rs.) | 38(*) | 32(*) | 302 | 147 | 259 |
| Dividend (%) | 25.0 | 20.0 | 100.0 | 100.0 | 100.0 |

(*) on enhanced equity

EIL's income from services has shown a consistent increase in the past five years with a sharp increase in FY'93 and FY'94. This was primarily due to large increases in domestic income, large increases in overseas income and a higher contribution on foreign businesses. EIL's expenditure essentially comprises of salaries and wages paid to employees. With most of the premises owned by the company, rental outgo is relatively low. As a result, gross margins have also been quite healthy and are above 30%. Since EIL has no borrowings, the net margins of the company are equally high in the region of 25%. EIL's ROCE compares very favourably due to high level of internal accruals. The EPS have been impressive in the past five years.

## Strengths and Areas of Concern

Based on the above business and financial analysis, the strengths and areas of concern for EIL are as below:

## Strengths

*Strong Business Position* EIL is the only Indian consultancy organisation which is capable of taking up large and mega projects in a wide range of process industries for execution. In addition, it is the only company to have undertaken all aspects of refinery projects including basic design. The company has thus built up an unparalleled track record and has a high brand equity with both technology suppliers and end users.

*Flexibility to work Across Areas* EIL possess expertise in a wide range of industries by availing of the synergy available across a wide range of industries in terms of designing and engineering practices, similarity of equipment and materials and applicability of codes. This has helped EIL to diversify business risk so that downturns in any one industry would not unduly affect EIL's income.

*Human Resources* EIL's main capital is intellectual in nature. Among all companies including foreign MNC consultants, EIL has the largest manpower base which is rated quite high in terms of capability.

*Strong Financial Position* EIL has demonstrated consistent profitability since inception which have contributed to a high level of internal accruals. As on date, the company has no borrowings. The reserves as at March 31, 1997 are substantial at around Rs. 385 crores against an equity capital of Rs. 18 crores.

*Bright Growth Prospects* The Indian hydrocarbon sector has been opened up to private sector participation. This is expected to increase the level of investments thus opening new growth opportunities for EIL.

## Areas of Concern

*Changing Business Scenario* In the past, EIL had a near monopoly position due to various reasons. The liberalisation measures initiated by the Government have brought about a change from cost plus method of bidding to the LSTK method of project management. EIL currently does not have enough experience in terms of bidding for projects on a LSTK basis.

*Increased Competition* The entry of private sector participants in the Refinery sector coupled with the liberalisation measures initiated by the Government have seen the entry of a number of established multi-national companies into India. These companies are expected to increase the competition levels for EIL.

*Access to Technology* Increasingly, global engineering consulting companies have started acquiring specific technologies in order to create entry barriers. Therefore it is perceived that access to technology will become increasingly important in future. In such a scenario, EIL ability to source technology will become important.

## Recommendation

As can be seen from the above analysis, EIL is a profitable enterprise and has been a consistent performer with a healthy ROCE. The Company has played a major role in providing engineering consultancy support to the growth of refinery and petro-chemical industries in the country. However, the recent changes in the economy requires a long-term business strategy that would enable it to build on its current business strengths and complement them through strategic partnership, with other capabilities to cover areas of weakness, so that it could benefit from emerging opportunities and combat the competition of global consultancy companies. It has also the potential to become a global consultancy firm through such partnerships. This effort would

be necessary not merely for EIL to expand the scope of its operations in global terms but also to sustain its position in the domestic sector. The opening of the hydrocarbon sector for private investment will see a large number of private sector and joint sector refinery companies coming up and EIL will have to compete with international players to secure the contracts on the basis of competitive bidding. Two other developments which need to be addressed by EIL are the change in business preference from EPC contracts to LSTK contracts and the consequent need to access cost effective funds for project management from domestic or international agencies and multilateral funding agencies. EIL would need to take urgent action to consolidate its own internal strengths and forge a strategic partnership to sustain its presence in this fast changing business environment.

Another dimension of EIL that has emerged from the analysis is its strong manpower base. It has a large pool of qualified technical manpower. This pool is likely to be the target of new players, particularly the international consultancy companies and EIL has to address HRD with positive measures, building up employee loyalty and commitment.

The field of consultancy services over the years has become increasingly competitive. There is also entry of a large number of international companies. Viewed from this angle, a consultancy company could be said to belong to the non-core sector. Disinvestment in EIL, however, is not viewed from the standpoint of budgetary resource-raising or Government exiting from a sector where its presence no longer serves a public purpose. Disinvestment in EIL is aimed at strengthening EIL as an important domestic consultancy company which has played a prominent role in the industrial growth of the country and is

seen to have a similar role in the vital infrastructural sectors in the future. **The Commission, therefore, recommends a mix of disinvestment modalities which would enable EIL to continue to function as a major consultancy company in the field of hydrocarbons, petrochemicals and fertilisers as also in the new emerging sectors of power and natural gas.**

1. **EIL may scan the market for a suitable strategic partner who may be offered upto 30% equity stake in the Company alongwith appropriate role in the management. Such a partner should be able to add to EIL's strengths in terms of project management particularly LSTK capabilities, global acceptance and access to international funds, without, at the same time, eroding its strong domestic brand equity.**

2. **EIL may also establish an Employee Stock Option Plan (ESOP) and assign 10% equity towards this purpose. The available models of ESOP would need to be closely studied and modified to suit EIL's own HRD requirements, particularly the need for providing incentive and motivation to the middle and top level technical personnel.**

3. **10% of EIL's equity may be offered to public sector oil companies, as also to SAIL, GAIL and NTPC in view of EIL's expertise in providing services to these companies.**

4. **Already 6% of EIL's equity is with the public and this may be increased to 24% through an offer to domestic investors, at an appropriate time, after the strategic partner is inducted. Through this process, Government may reduce its equity holding to 26% and maintain it at**

**that level with a view to ensuring that EIL retains its main character as an Indian Consultancy Company in strategic areas.**

Government may appoint a Financial Adviser to effect the strategic sale as recommended above. The Adviser would also need to identify strategic requirements of EIL which will form the basis of the pre-qualification norms for the selection of the strategic partner.

## 2.2 Engineering Projects (India) Limited

### Evolution

Engineering Projects (India) Limited (EPIL) was established in 1970 as "Indian Consortium for Engineering Projects" by seven Public Sector Undertakings under the Ministry of Heavy Industry viz., Instrumentation Limited, Heavy Engineering Corporation, Hindustan Steel Construction Limited, Bharat Heavy Plates and Vessels Limited, Bharat Heavy Electrical Limited, Mining and Allied Machinery Corporation Limited and Triveni Structurals Limited. Subsequently, it became a PSU under the same Ministry.

The company's main line of activities include preparation of project reports, feasibility studies, detailed engineering, supply of plants and equipment, civil and structural work, erection, trial runs and commissioning of operations etc. in the areas of civil and structural work, material handling systems, metallurgical sector, chemical process plant, environment and pollution control etc. EPIL undertakes turnkey implementation of major industrial and infrastructural projects both in India and abroad.

The paid up capital of EPIL is Rs. 8 crores and Government of India (GoI) owns 98% of the total share capital with the balance being held by the 7 PSUs.

### Industry Analysis

An analysis of the income of the past three years indicates that EPIL mainly operates in the engineering contract and civil construction sector. Engineering contracts are driven by the level of investments in the steel and non-ferrous metals. These industries are experiencing a slow down in investments over the past few years. Most of these industries are now in a consolidation phase and

new investments or investments in modernisation and upgradation are not forthcoming. The market for contracts is thus shrinking.

In addition, EPIL also faces tough competition from peer PSUs such as Metallurgical & Engg. Consultants (India) Limited (MECON), DCPL etc. apart from units in the private sector. Many foreign companies have also set up their operations in India and are bidding for domestic contracts. Thus, the level of competition in the engineering contracts segment is quite high. In the civil construction sector, EPIL faces competition from peer PSUs like National Building Construction Corporation Limited (NBCC), NPCC etc. apart from a host of medium sized companies in the private sector.

## Business Analysis

EPIL has long experience in implementing multi-disciplinary projects on turnkey basis in India and abroad with expertise in detailed design and engineering, quality control, project construction management etc. EPIL's business activities and their percentage share in the total turnover for FY 97 is as under.

Table 1 Break-up of Business Activities

| Sl.No. | Sector | % share |
|---|---|---|
| 1 | Civil Construction | 27.8 |
| 2 | Engineering Contracts | |
| | • Material Handling | 36.8 |
| | • Metallurgical sector | 25.0 |
| | • Water Supply & Miscellaneous | 10.4 |
| | Total | 100.0 |

The major works under civil construction handled by EPIL are integrated townships, large public building/high rise Reinforced Concrete Cement (RCC) structures etc. EPIL has work experience in the material handling systems for coal, ore, food grain, fertiliser etc. EPIL has specialised in the metallurgical sector in the areas of Reheating & Heat Treatment Furnaces, Electric Arc Furnaces, Processing & Finishing Lines, Lime Kilns, Foundries etc. EPIL has also set up sugar/chemical plants, ore benefaction plants etc. In the field of pollution control and environment management system, EPIL has set up water supply & sewage treatment plants, effluent treatment plants etc. for their clients.

In order to gain a competitive edge, EPIL had from time to time, entered into term specific and project specific collaborations with foreign technology suppliers such Mannesmann Demag of Germany, Stein Heurtey of France etc. Through these collaborations, EPIL could successfully implement a number of projects involving state of the art technology for integrated steel plants of SAIL, TISCO, Essar Steels apart from integrated aluminium producers such as NALCO, BALCO etc. However, most of the technological tie-ups have expired and only two collaborations viz., one in the field of industrial lime & dolo Calcination plants, and other in the field of setting up Nitric Acid plant and Sulphuric Acid plant are currently valid.

The Engineering Contracts division is the only division of EPIL which is currently profitable. This was because of all the major steel plants and non-ferrous units have undertaken massive modernisation and expansion programmes in the eighties. However, the business from this segment is on the decline.

Apart from the domestic assignments, EPIL had undertaken various project works in Iraq and Kuwait. However, due to the Iran-Iraq war, EPIL suffered heavy losses as many of its projects which were in the midst of completion got delayed. Payments on these contracts have not materialised. Even though the company had completed all the projects, there are still outstanding dues receivable from the Iraqi clients. Some claims have already been settled against which EPIL had received bonds issued by the RBI amounting to Rs.75 crores. Similarly, EPIL had lost about Rs. 55 crores due to Kuwait war.

The total manpower strength of EPIL as at 31st August, 1997 was 643. EPIL has 209 engineers, while its finance wing has 92 employees and other services like personnel, administration have 342 support staff. The proportion of non-technical staff to the total employee strength appears to be on the higher side for a project consultancy organisation.

## Financial Analysis

The financial performance of EPIL for the past five years is given below:

Table 2 Financial performance (Rs. Crores)

| | FY 97 | FY 96 | FY 95 | FY 94 | FY 93 |
|---|---|---|---|---|---|
| Operating Income | 155.0 | 125.0 | 130.9 | 135.0 | 101.4 |
| Operating Profit | 4.8 | -3.7 | -8.6 | -2.7 | -17.2 |
| Profit after Tax | -48.8 | -61.2 | -66.8 | -61.6 | -59.8 |
| Equity Capital | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Tangible Net Worth | -708.2 | -655.8 | -591.1 | -569.7 | -508.2 |

*Note : The ratios have not been presented as they are all negative*

The company's operating income has remained more or less constant over the past five years. At the operating level, the company's performance in FY'97 improved and showed profits unlike the previous years. However, due to

increased burden of interest costs, the net losses remained in the range of Rs. 50 crores. The Government loans to EPIL as at 31st March, 1997 amounted to Rs. 225 crores and the interest accrued on the same amounted to Rs. 621 crores resulting in a total outstanding payable to GoI amounting to Rs. 846 crores. Due to the poor financial position, EPIL has not been in a position to pay interest on the Government loans. Due to the above, the company has a negative networth of Rs. 708 crores as at 31st March, 1997.

The margins in civil construction contracts has been very low because of strong competition from both private and public sector companies. EPIL was making better margins on its engineering contracts but this business is cyclical in nature. The company made consistent profits from this sector of business during the past decade except in FY 96. However, at the overall operating level, the company still made losses.

## Strengths and Areas of Concern

Based on the above business and financial analysis, the strengths and areas of concern for EPIL are as below:

## Strengths

*All India presence* EPIL has offices in all project sites which is spread across the country. Its operations are controlled from four zonal offices. This wide geographical presence has helped the company to address a large number of clients.

*Own Construction Equipment* EPIL has its own construction equipment which are depreciated fully.

*Extensive network of vendors and contractors* Over a period of time, EPIL has been able to develop its own network of suppliers and sub-contractors.

*Specialised professionals* Due to various technological tie-ups in the past, the EPIL professionals have acquired experience and expertise in various disciplines.

## Areas of Concern

*Surplus manpower* As mentioned above, the large component of non-technical staff has resulted in higher employee cost.

*Unattractive Balance Sheet* The unpaid loans together with accumulated interest makes the balance sheet of EPIL unattractive and will limit the ability of EPIL to raise funds from the market for new investments.

*Competition* EPIL is mainly in the business of construction contracts where the company has to face competition from both private sector and public sector. Moreover, multi national companies have already started their operations in India.

*Technical collaborations* In the past, EPIL executed all projects with the technical collaborations from world class licence holders with state-of-the-art technologies. However all such agreements have expired. Currently EPIL has only two technology agreements. Given the nature of the sector in which it operates, technology agreements with world class licence holders is a must for sustaining future business.

## EPIL - Current Position

**EPIL as it stands today does not have any significant strengths in the area of civil construction. It has to face competition from other PSUs. In spite of having an early presence in the Middle East region, the company had to withdraw from these projects as a result it had to incur substantial losses. Due to this adverse financial performance, Government had to step in and provide budgetary support periodically.**

**In the other main areas of its operations, i.e. engineering contracts, EPIL had some strengths in the form of technical collaborations. However, new investments in these sectors are unlikely to materialise and EPIL may not also be able to bid for projects given its poor financial strength.**

## Recommendation

EPIL was set-up at a time when major investments were being planned by the Government in metallurgical industries such as steel and non-ferrous metals. Its primary role was to provide engineering and construction support to its seven promoter PSUs over a period of time, the Government set-up other PSUs such as MECON with similar lines of activities.

Currently, EPIL operates in the civil construction and engineering contracts sector. **This business is characterised by low entry barriers in the form of low initial investments and the lack of any proprietary knowledge or skill base.** As a result, the number of companies operating in the segment - both from private and the public sector - is quite high. **This high level of competition has made the market fully contestable. On these grounds, the Commission classifies EPIL as non-core.**

The poor financial position of the company is a major cause of concern. **It is understood that the company does not come under the purview of the Sick Industries (Companies) Act, 1985 despite erosion of its networth many times over. The company is currently in a deep financial crisis and given the current competitive situation, a complete turnaround under Government management and ownership seems uncertain.**

The commission has noted that the Department of Heavy Industry has already obtained approval of the Government for the sale of equity upto 74% in the company to a strategic buyer. Not much headway has been done, however, in the matter of identifying a suitable buyer. **The Commission recommends that the Government should pursue the decision already taken. In the absence of a satisfactory response from prospective bidders, the Commission recommends closure and sale of the assets of the company, after proper valuation through a transparent competitive bidding process, and after giving fair and equitable compensation to the employees.** For this purpose, the Commission recommends that Government should appoint a Financial Advisor immediately. The procedure for appointing Financial Advisers for strategic sales and conducting the sale has been outlined in Part B of the First Report of the Commission (pp 38-40).

## 2.3 Hindustan Prefab Limited

### Evolution

Hindustan Prefab Limited (HPL) was set up in 1950 as Hindustan Housing Factory and was taken over by Government in 1955. The company's name was changed in 1978. The company was set up primarily to provide cheap houses using light weight concrete panels for the displaced persons from West Pakistan. However, due to various reasons, the initial objectives could not be achieved and the company diversified its activities. It started manufacturing prestressed concrete (PC) railway sleepers , PC electric poles, PC fence poles, pavement slabs etc. Since the early nineties, company started site construction work which has currently become the principal activity.

HPL is a 100% Government owned company with an equity capital of Rs. 6.97 crores.

### Industry Analysis

The construction sector plays a vital role in the growth of any economy. In India, it represents about 6% of the GDP. However, the companies in this sector are highly fragmented as the entry barriers are low. Secondly, the construction sector generates considerable employment.

The pre-fab segment of the construction industry in India is still in a nascent stage of evolution. Large construction companies have traditionally concentrated on the higher end of the pre-fab segment where the products are used for building bridges etc. In the lower end, such as PC railway sleepers, PC electric poles, the industry is again heavily fragmented due to low entry barriers. The existing companies are mostly set up in the unorganised sector.

The current government policies are also not favourable for the development of pre-fab industry in the organised sector. As such, majority of the work of this nature is done at the construction site itself.

## Business Analysis

The principal activities of HPL and their share in the total business for FY 96 are as follows:

Table 1 Principal activities (Rs. in lakh)

| SL No. | Products/Activities | Sales Value | % age to total |
|---|---|---|---|
| 1 | PC Electric Poles | 142 | 5 |
| 2 | PC Railway Sleepers | 503 | 17 |
| 3 | RCC & Vayutan | 295 | 10 |
| 4 | Site work | 1888 | 65 |
| 5 | Land Development | 86 | 3 |
| | Total | 2914 | 100 |

The business operations of HPL can be divided into two segments viz., manufacturing of pre-fab products and managing turnkey construction projects. Even though, HPL started its operations with manufacturing, currently the construction segment has over taken the manufacturing activities as is evident from the above table. However, the contribution margins from the construction segment is low when compared to the pre-fab segment mainly because of the fact that HPL uses sub-contracting.

The product segment such as PC electric poles and PC railway sleepers, PC slabs are low value, low tech items. The principal buyers of these products are State Electricity Boards, Railways etc. The market growth rates are static;

moreover, the competition from the unorganised sector, the cost impact due to duty structure have contributed the poor profitability of HPL.

The technology in use in HPL is called the "long line" method which is more costly than the cost effective method of "stress bench" which is used by many of the competitors of HPL. This together with the duty structure has put HPL in a disadvantageous position when compared to its competitors. However, the company has plans to upgrade its technology and diversify its product mix.

Apart from these activities, HPL has an integrated wood processing plant including that for seasoning and termite treatment. The plant is lying idle for the past several years due to the ban of use of timber in construction of government buildings. The company is making efforts to revive this plant by taking up the work for furniture industry.

The company currently employs 699 people. The total salary and wages bill account for 50% of the total fixed cost. The company received Rs. 6.42 crores from the National Renewal Fund for payment of voluntary retirement (VR) benefits and during April' 94 to March' 96 369 employees accepted VRS. The company intents to bring down the surplus manpower in future.

## Future plans

In the circumstances mentioned above, the company is in the process of shifting its business focus and is planning to take up the manufacture of prefab products for the construction sector and undertake such construction projects which predominantly use prefab building blocks. In order to enable this project, the company requires investments in plant and machinery.

The company is located in an area of around 30 acres in Delhi. The factory alongwith a developed township occupies part of the area. The company intends to develop a part of this land into commercial complexes and realise money for meeting the liabilities and future investment. For this purpose, the company has already initiated the process of getting approvals from the competent authorities.

## Financial Analysis

The financial performance of HPL for the past five years is given below:

Table 2 Financial performance (Rs. Crores)

| | FY 96 | FY 95 | FY 94 | FY 93 | FY 92 |
|---|---|---|---|---|---|
| Operating Income | 32.86 | 30.62 | 31.82 | 32.43 | 26.09 |
| Operating Profit | -2.42 | -0.49 | 0.67 | 2.20 | 0.74 |
| Profit after Tax | -4.35 | -1.98 | -1.57 | 0.62 | 0.46 |
| Equity Capital | 6.97 | 6.97 | 6.97 | 6.96 | 6.96 |
| Tangible Net Worth | -9.20 | -4.84 | -2.87 | -1.30 | -1.93 |

*Note : The ratios have not been presented as they are all negative*

Even though the company's operating income remained almost constant during the past four years, the operating profit has gone down substantially. This has resulted in erosion of networth and as at 31st March, 1997 the company's networth stood at Rs.13.96 crores (Provisional). The Government has given a loan of Rs.11.13 crores to HPL and on the same interest accrued and due till 31st March, 1996 amounted to Rs. 18.37 crores. The annual interest liability on the loan exceeds Rs. 2 crores and the same is expected to go up keeping in view the poor financial position of the company. There are no signs of improvement in the performance of HPL.

## Strengths and Areas of Concern

Based on the above business and financial analysis, the strengths and areas of concern for HPL are as below:

## Strengths

*Government Departments as Client* The major clients for HPL products are railways, Electricity Boards etc. Moreover, HPL is taking up construction activities for Government. HPL can, at best expect some preferential treatment by virtue of being a Government owned company.

*Diversified Business Activities* HPL has diversified into small site based construction management activities. The anticipated investments in infrastructure will benefit HPL.

## Areas of Concern

*Competition* HPL operates in those segments where the industry is fragmented and is in the unorganised sector. HPL has to face competition from the small local pre-fab manufacturers who normally meet the demand of the customer at the site.

*Limited Customer Base* HPL's main customers are only Railways and a few State Electricity Boards. The company never tried to expand their business beyond these two agencies.

*Technology* The technology used by the competitors of HPL in the manufacture of pre-fab products are cost effective. This has put HPL at a disadvantageous position vis-à-vis its competitors.

*Differential Duty* Conventional building products as well as prefab building components, if made at site of construction, do not attract excise duty, whereas

if made at a factory premise attracts excise duty. This has discouraged increased use of factory produced prefab building blocks.

*Surplus Manpower* The current manpower strength of the company is 699. It is estimated that for similar sized operations, only half of the existing strength is required.

*Lack of project management expertise* HPL uses sub-contracting for the site construction work and as such does not have expertise in the project management area due which there are cost and time overruns. This sub-contracting results in reduced contribution also.

## Recommendation

HPL was set up with a view to providing cheap housing for displaced persons during the partition. **However, due to various reasons, it could not achieve its initial objective and diversified into other business of construction, manufacturing of concrete railway sleepers, concrete electric poles etc. These businesses have low entry barriers and are highly competitive; consequently the returns are also low.** Moreover, the unorganised sector has the advantage of lower fixed overheads and the exemption from paying excise duty. **As a result, the competitive scenario is getting increasingly tougher for HPL in its business activities.**

Since the lower end of the construction sector is competitive and highly fragmented, there is no public purpose served by Government's presence in these sectors. **On these considerations, the Commission classifies HPL as non-core.**

Due to the increased competitive pressures, HPL currently is working at a loss. Till date, Government has supported the operations of HPL by providing budgetary support in the form of loans. As on March 31, 1997, the loan and the accumulated interest amounted to Rs. 29.50 crores. As of the same date, the company had a accumulated losses of Rs. 21 crores on an equity base of Rs. 10 crores. It is understood that the company does not come under the purview of BIFR inspite of the complete erosion of its networth.

The company's operations are located in the heart of Delhi and are spread over an area of 30 acres. **The Commission is of the view that some of the land held by the company could be used for developing commercial/residential complexes. If the commercial complexes are developed by HPL, the company's financial position would improve substantially which will enable the company to venture into new value added products such as pre-fab building blocks. These products have bright industrial and construction demand. In fact, a number of companies in the private sector are contemplating entry into this product line.**

In this regard, HPL has already submitted a turnaround plan to the Ministry of Urban Affairs and Employment. According to this plan, the company has proposed the manufacture of value added items. In order to finance these plans, the company proposes to develop a part of its land holding into commercial complexes. The company is in the process of getting the requisite approvals from the competent authorities.

**In view of the indifferent financial heath of the company, the Commission is of the view that the turnaround plan may not be effectively implemented**

**by the company itself. Hence in order to take up the turnaround plan and also induct new technologies, the induction of a strategic buyer is desirable.**

**The Commission therefore recommends that the Government may offer upto 74% of the shares of the company in HPL to a strategic buyer. The choice of the strategic buyer should be done carefully so that the project of development of commercial sites as well as the diversification of the company's operations into higher value added products are both undertaken. However, this can only be possible if Government approval for the change of land use for a part of HPL land holdings is granted before the sale.**

**Prior to the strategic sale, it is recommended that the Government announce a stable VRS policy along the lines indicated by the Commission in its Fourth Report which will help the company to rightsize the workforce.**

As already recommended by the Commission, the Government should appoint a Financial Adviser to effect disinvestment through a strategic sale. The modalities for strategic sale have already been indicated by the Commission in its First Report and further elaborated in this Report.

## 2.4 IBP Company Limited

### Evolution

IBP Company Limited (IBP) was first incorporated in Burma in 1909 and later in India in 1942. The company was taken over by Government in 1970 and was made a subsidiary of Indian Oil Corporation. In 1972, IBP was demerged and established with its own identity under the Ministry of Petroleum and Natural Gas.

Traditionally, the principal business of the company has been marketing of petroleum products. Since the early sixties, the company diversified into engineering activities such as cryogenic and industrial containers, etc. The company later diversified into the manufacture of industrial explosives.

As a backward integration move, IBP set up a plant for lube blending which was later transferred to a joint venture company formed with Caltex Oil Corporation. As part of the same backward integration move, the company is also in the process of setting up the Numaligarh Refinery Limited jointly with Bharat Petroleum Corporation Limited and Government of Assam. IBP is also in the process of setting up a joint venture for the provision of terminalling services within the country.

Balmer Lawrie and Co. Ltd. (BLCL) which is 61.8% owned by IBP, is in the business of industrial packaging, grease and lubricant manufacturing, leather and oleo chemicals, marine freight containers, tea exports and travel and tour business.

The equity capital of IBP as at 31st March, 1997 was Rs. 22.14 crores. This has gone up from Rs. 14.76 crores as at 31st March, 1996 due to a bonus issue of 1:2 in FY' 97. The shareholding pattern of IBP as at 31st March, 1997 was as follows:

Table 1 Shareholding pattern

| Shareholder | % holding |
|---|---|
| Government of India | 59.6 |
| Fin. Institutions & Banks | 23.0 |
| Employees | 1.0 |
| Non-residents | 0.4 |
| Others | 16.0 |
| Total | 100.0 |

The shares of IBP are listed on all major stock exchanges. As on 7th November, 1997, the stock was quoted at Rs. 117/25 on the Bombay Stock Exchange.

## Industry Analysis

IBP's three main lines of business are: marketing of petroleum products, manufacture of industrial explosives and manufacture of cryogenic and industrial containers.

## Petroleum Products Marketing

The petroleum sector in India can broadly be segmented as follows:

- Crude oil exploration and production (ONGC & OIL)
- Integrated refining cum marketing companies (IOC, HPCL & BPCL)
- Exclusive refining companies (MRL, CRL & BRPL)
- Exclusive product marketing companies (IBP)

Currently, the petroleum sector continues to be regulated although the Government has announced a phased decontrol. The production and marketing of petroleum products are controlled by the Oil Co-ordination Committee (OCC). Under the current administrative regime, the oil refining companies are not allowed to sell their products freely. The market shares of oil companies are controlled by the Sales Plan Entitlement (SPE). Until FY' 89, SPE allocation varied with each year. Subsequently it was pegged to the market share of each company at the FY 90 level. As such, all marketing companies are allowed a uniform growth of sales so as to share the incremental trade on the basis of the prevailing market share. The market share as per SPE of the product marketing companies are as follows:

Table 2 Market Share

| Company | % share |
|---|---|
| Indian Oil Corporation | 55 |
| BPCL | 20 |
| HPCL | 19 |
| IBP | 5 |
| Others | 1 |
| Total | 100 |

Every month, the OCC makes an industry supply plan for ensuring supplies to all refining companies. These companies are allowed to sell their products throughout the country as they are not bound by any territorial restrictions. The cost of products made available to the marketing companies at various supply locations is the same, irrespective of the source, ownership and mode of transportation upto the destination.

The Product Exchange Agreement (PEA) allows the oil companies to sell products of other companies by matching regional demand with their storage and distribution facilities. Under this agreement, one company can sell products directly to another oil company. This arrangement has been devised to avoid cross haulage of products, minimise transportation costs and optimise usage of facilities.

The petroleum products are normally sold through distribution networks. The Oil Selection Board appoints retail outlet dealers and distributors. Currently more than 60% of the outlets are dealer owned and dealer operated. The balance outlets are company owned but dealer operated. In case of LPG and Kerosene Oil, the entire sales are made through dealer operated outlets. The company wise retail sales infrastructure is as follows :

Table 3 Share of Retail Outlets and Tankages

| Company | Outlets (No.) | Share (%) | Tankage (Mill.KL) | Share (%) |
|---|---|---|---|---|
| IOC | 6723 | 40 | 7.25 | 52 |
| HPCL | 4310 | 26 | 2.44 | 18 |
| BPCL | 4363 | 26 | 2.61 | 19 |
| IBP | 1439 | 9 | 0.2 | 1 |
| Others | | | 1.34 | 10 |
| Total | 16835 | 100 | 13.84 | 100 |

The dealer commission is fixed by the Government and in the case of petrol and kerosene, dealers are allowed a slab based commission. For kerosene sales, commission is based on the volume sold.

The prices of petroleum products are administered by the Government. There is substantial variance between the international and domestic prices of

petroleum products due to the system of cross subsidy used for balancing the under recoveries on subsidised products.

## Industrial Explosives

The mining industry has seen a gradual shift from underground mining to open cast mining, as is the trend globally which has resulted in bulk explosives becoming increasingly popular. There has also been a gradual phasing out of harmful nitro-glycerine explosives in favour of site mixed slurry (SMS). As a result, the explosives industry can broadly be divided into two categories viz., bulk and cartidged explosives. The market for both types of explosives is fragmented with about 32 manufacturers in operation. As at March 31, 1997 the total licensed and installed capacity of SMS and cartidged explosives in the industry was 523 tonnes and 498 tonnes respectively

The two major manufacturers in this industry are ICI Ltd. and IBP who together account for 24% of the licensed capacity of the industry. Competition for explosives is expected to remain high as the total installed capacity is much higher than current demand and future demand projections.

As Coal India is the single largest buyer, the prices are determined by the price paid by CIL to its suppliers.

## Engineering Products

The major customers for the cryogenic containers produced by IBP are State Governments. The other users are scientific and biological laboratories and research establishments. The industrial containers are used for storage and transportation of liquefied oxygen, argon and nitrogen.

IBP dominated the cryocan industry till FY' 96 when Indian Oxygen Limited entered the market and has gained a 14% market share. In case of industrial container industry, there are four major manufacturers and IBP's market share is only 6 %. Competition for industrial containers is expected to remain high as the total installed capacity is much higher than current demand.

## Business Analysis

*Petroleum Products Marketing* IBP has a market share of around 4.5% and correspondingly, its scale of operations is much smaller when compared to Indian Oil Corporation, Hindustan Petroleum Corporation Limited and Bharat Petroleum Corporation Limited. The company has traditionally been a marketer of HSD, motor spirit and Superior Kerosene Oil, which together constitute around 94.5% of its total petroleum product sales, and are sold through the company's retail outlets (ROs) spread across the country. Under the present regulated environment, development of the retail marketing network is also decided by the Ministry of Petroleum & Natural Gas (MoPNG) through annual marketing plans. In the past, the company had been affected by a lack of storage facilities for IBP has been focusing on development of retail network and storage and distribution facilities and investments on account of these are being funded by loans from Oil Industries Development Board (OIDB) and internal accruals. During 1994-95, it commissioned its major marketing terminal in Tamil Nadu viz. the Cauvery Basin Marketing Terminal (CBMT) and additional storage facilities at Wadala, near Bombay. These would enable the company to increase sales and improve its market position leading to improved profitability in the future.

*Industrial Explosives* IBP is a dominant player in the industrial explosives market and in 1996-97, the group attained market leadership with a 23.5% market share. This was achieved by an increase in its production on the one hand, and the closure of Nitro glycerine (NG) based explosives by ICI Limited, IBP's main competitor, on the other. Currently, there is an over supply situation in the industrial explosives industry with Coal India and its subsidiaries being the only major consumer. This does not enable the company to pass on cost increase to the desired extent. In view of this, the performance of this business group has remained unsatisfactory in the past. However, the company is strategically changing its product-mix, by shifting to the production of site mixed slurry explosives and the more environment friendly emulsion explosives, which are likely to yield higher margins.

*Engineering* The products of this business group, excepting for cryo-containers, do not find a favourable market currently. The sales performance of this group is dependent upon the budgetary allocation by the various state governments, since the major customers are the animal husbandry departments of the various states. This business group would continue to contribute marginally to the turnover of the company and consequently would not have any significant impact on the overall financial performance of the company.

## Financial Analysis

The financial performance of IBP for the past five years is indicated in the table below:

Table 5 Financial Performance (Rs.Crores)

| | FY 97 | FY 96 | FY 95 | FY 94 | FY 93 |
|---|---|---|---|---|---|
| Operating Income | 3884.2 | 3243.1 | 2929.6 | 2517.6 | 2139.7 |
| Operating Profit | 94.5 | 91.8 | 76.7 | 59.0 | 54.0 |
| Profit after Tax | 25.5 | 33.9 | 31.7 | 18.9 | 17.4 |
| Equity Capital | 22.2** | 14.8 | 14.8* | 7.4 | 7.4 |
| Tangible Networth | 259.8 | 239.5 | 220.2 | 112.1 | 95.4 |
| Gross Margin (%) | 2.4 | 2.8 | 2.6 | 2.3 | 2.5 |
| Net Margin (%) | 1.2 | 1.9 | 2.0 | 1.4 | 1.5 |
| ROCE (%) | 3.6 | 6.1 | 6.7 | 4.7 | 5.3 |
| RONW(%) | 9.8 | 14.1 | 14.4 | 16.8 | 18.2 |
| Earnings per Share (Rs.) | 11.53 | 22.93 | 21.45 | 25.67 | 23.66 |
| Dividend (%) | 30.0 | 35.0 | 32.0 | 30.0 | 27.0 |

** Conversion of fully convertible debenture*

*** Bonus Issue*

IBP's operating margins have been traditionally low on account of its primary business being marketing of petroleum products. Since, the purchase price, sale price and margins are fixed by the Oil co-ordination Committee (OCC), an improvement in the profitability of the company is invariably dependent on the revision in the fixed prices and margin by OCC, which is done once in three years. Also, IBP is required to surrender its margins on sales made over and above its Sales Plan Entitlement. The improvement in IBP's operating margin in 1995-96 over 1994-95 is partly due to the updation in the margins by the OCC and partly due to the improvement in profitability of the chemicals and engineering business. During FY '97, the company's margins were under pressure because of increased costs, specially those of storage and distribution.

With an increase in OIDB loans, which were availed of by the company for funding its APT programmes and investments in JVs, IBP's gearing, as defined by Total Debt/ Total Networth, has increased from 1.10 as at March 31, 1994 to 1.72 as at March 31, 1997.

The share capital of the company has doubled from Rs. 7.4 crores to Rs.14.8 crores in FY 95 on account of conversion of fully convertible debentures at a premium of Rs.110 per share of Rs.10. This has resulted in a substantial increase in reserves of the company. Later during FY 97 the company issued bonus shares on a 1:2 basis further increasing the equity of the company.

In addition, the company has invested in projects which have not yet started yielding returns. The investments of the company have increased from Rs.18.59 crores in FY 94 to Rs. 61.75 crores in FY 95 due to its investments in subsidiary companies and joint venture companies viz., BLCL, NRL, ICL.

## Strengths and Areas of Concern

Based on the above business and financial analysis, the strengths and areas of concern for IBP are as below:

## Strengths

*Strong presence in North India* IBP has a strong retail presence in North India. Almost 50% of its total retail outlets are located in this region.

*Joint Venture tie-up* IBP has recently tied up with Caltex Oil Company which is a multi-national oil major with a global presence. This will enable IBP to capitalise on opportunities when the sector gets liberalised.

*Quality customer service* The retail outlets are perceived to deliver better service and good quality products when compared with other retail outlets of other oil companies. This is largely because of the fact that the company is focused on marketing only.

## Areas of Concern

*Insignificant market share* The market share of IBP is only 5% as against 55% of IOC. In a market determined pricing mechanism scenario, the market share could shrink further due to the entry of new entrants.

*Lack of adequate infrastructural facilities* IBP lacks certain marketing related infrastructural facilities when compared to other oil marketing companies. It does not have exclusive control over pipelines/port facilities. At present, these facilities are availed from other PSUs. In a decontrolled scenario, these may not be available to the company.

*Large investments Ahead* In order to meet the future requirements under the market determined pricing mechanism era, the company will need significant funds to expand the existing retail outlets and for setting up additional storage and terminalling facilities.

*Not an integrated oil company* Since IBP is not an integrated oil company, the company may have to face the risk of supply side problems such as high input costs and competition for domestic products under the market determined pricing mechanism.

## Recommendation

The key points which emerge from the above analysis are:

- New private sector investments in the petroleum sector which will reduce the erstwhile dominance of the public sector;

- The phasing out of the Administered Price Mechanism over a two-three year period as announced by Government will considerably enhance the contestability in the oil industry as a whole;

- IBP's principal business activity is marketing of petroleum products which contributed to more than 90% of its turnover and net profits in the past. This is expected to continue in the future too. When compared with other oil-sector PSUs, IBP's share in the marketing of petroleum products is relatively low at 5% and its operations are not currently backward integrated. In terms of number of retail outlets, IBP is also relatively smaller.

**On the basis of the above, the Commission recommends that Government's disinvestment could exceed 51%. However, considering IBP's existing linkages with other oil-sector PSUs and the relative importance of the oil sector as a whole, the Commission recommends that Government should continue to hold a minimum of 26% in the equity of the company.**

The Commission has evaluated various modalities of disinvestment in case of IBP. **Given IBP's current competitive position vis-à-vis other companies in**

**the oil sector and considering its competitive position in a de-controlled scenario, the need to induct a strategic partner who could bring in new strengths is clearly evident. This is especially needed in a situation when the annual requirements of petroleum products will not be available on an assured basis as is currently the case under the SPE arrangement. IBP needs to make arrangements for assured access to products in such a scenario. In addition, the ability to raise resources and invest in new projects to meet the challenges of competition will also be an important factor.**

However, the induction of a strategic partner will depend on the extent of shares available for disinvestment.

In the light of the above, the Commission finds it difficult to understand the recent reported decision of Government to permit IBP to go for a public issue to raise about Rs. 60 crores and consequently bring down Government's direct holding to 51%.

The Commissions regrets that in spite of Government having referred IBP to the Commission to examine the possibility of disinvestment, a decision on the public issue has been taken without waiting for its recommendations. According to the terms of reference of the Commission (Item V), the Commission is "to recommend a mix between primary and secondary disinvestments taking into account Government's objective, the relevant PSU's funding requirement and the market conditions". The Commission has already expressed its views in this regard in its Third Report where it had stressed on a

co-ordinated view being taken on public offer of shares by PSUs and disinvestment of current holding by Government.

The analysis of the Commission shows that the immediate need of funds can be met by encashing Units - 64 to the extent of about Rs. 90 crores, cash receipts from the Oil Pool Account and additional borrowings if necessary, from the OIDB. **By the process, not only can the company's own need for funds be met but Government could realise substantial amount even upto Rs. 400 - Rs. 500 crores by a strategic sale of 33.9% of shares while still retaining 26% share holding. This would be possible only if Government's present holding is maintained at 59% without dilution through the proposed public offer.** If Government share is reduced to 51% as a result of the public issue, it would not be feasible to offer 25% to a strategic buyer with Government retaining 26%. As mentioned earlier, retaining 26% may be desirable for the present in view of IBP's various activities and its commitment in the Numaligarh Refinery.

Further, the postponement of the IPO could lead to significant advantages for both the company as well as Government. Firstly, Government could offer about 33.9% of the equity to a strategic partner instead of 25%. This increase of 8.9% together with the promise of management control will help substantially improve Government realisation as mentioned above. Secondly, the induction of a strategic partner at this stage itself will strengthen IBP to face increased competition and prepare the company for the impending oil sector reforms. Given the current poor capital structure of IBP and the fairly large requirements of funds over the medium term, it is essential to induct a strategic partner who

could pump in equity funds and help the company to raise additional debt funds.

In any case, the present condition of the primary markets may not provide the opportunity to IBP to get the expected premium. This is especially the case after the recent turbulence in the international stock market has percolated to the Indian stock markets as well.

**The Commission would therefore recommend that the decision on the proposed public offer by IBP be reviewed and 33.9% of company's equity be offered to a strategic buyer while retaining 26% by the Government. This stake of 33.9% may be offered to an Indian oil company or joint sector oil company or foreign oil companies through an international global bidding process.**

The disinvestment through strategic sale may be undertaken on the following lines:

- **Government may offer to the strategic buyer upto 33.9% percent of the company's equity out of Government holding of 59%.**

- **In accordance with SEBI's take over code, the strategic buyer has to acquire shares from the public also. He can, if he so desires, acquire the Government offer of 33.9% in addition to what he may take from the public offer.**

- **In case the strategic buyer wants to acquire less than 33.9% percent of Government shares after acquiring the public shares, he may do so. In such a case, Government may sell the remaining shares out of the 33.9% percent of the initial offer to equity funds, multilateral institutions and others at the accepted bid price for the strategic sale as suggested in Part-A of this Report so that Government's holding falls to the stipulated level of 26%.**

IBP has substantial investments in a number of ventures and has also an subsidiary in Balmer Lawrie which would be an added attraction for strategic buyers. The Commission would, at this stage not recommend any restructuring of the company to improve valuation. However, the financial advisers appointed for this sale will have to value these investments in joint ventures and subsidiaries before fixing a reserve price. The procedure for appointing financial advisers as well as inducting strategic partners has been outlined in the Commission's First Report.

## 2.5 National Thermal Power Corporation

### Evolution

National Thermal Power Corporation (NTPC) was set up by the Government in 1975 as a central power generating company with the objective of developing the planning, design, construction and operations of thermal power plants in the country. As of date, NTPC has 11 coal based power stations and 5 gas based power stations spread across the country. Apart from its own power plants, the company manages the captive thermal power plant of Bharat Aluminium Co. Ltd. and the Badarpur Thermal Power Plant for the Delhi Vidyut Board.

The company has an equity share capital of Rs. 7335 crores and currently the entire share capital is held by Government.

### Industry Analysis

Power plays a vital input in the infrastructural development of any economy; India is no exception. The country's power position has improved substantially over the past five decades from an installed capacity of 1,362 MW in the pre-independence era to 83,288 MW as on March 31, 1996. The current installed generating capacities from all the three modes viz., hydro, thermal and nuclear are given below:

Table 1 Installed Generating capacities in Utilities as on 31.3.96

| | Hydro | | Thermal | | Nuclear | | Total | |
|---|---|---|---|---|---|---|---|---|
| | MW | % Share | MW | % Share | MW | % Share | MW | % Share |
| State | 18603 | 88.7 | 34917 | 58.1 | - | - | 53520 | 64.25 |
| Centre | 1929 | 9.2 | 22069 | 36.7 | 2225 | 100 | 26223 | 31.50 |
| Private | 444 | 2.1 | 3101 | 5.2 | - | - | 3545 | 4.25 |
| Total | 20976 | 100 | 60087 | 100 | 2225 | 100 | 83288 | 100 |

From the above table, it is clear that out of the total capacity available in the country, State Governments owns 64% while the Central Utilities own 32% leaving a small share to private sector utilities. The State Electricity Boards (SEBs) are responsible for generation, transmission and distribution of electricity within the State. The Central power generating utilities generates the power which is then sold to the SEBs.

Even though the State Government's share in the capacity is substantial, the actual generation is quite low. The performance of power plants owned by these three entities viz., State, Central and private sector can be analysed from the following table:

Table 2 Sectoral comparison for PLF for FY 96

| Particulars | Private Sector Generators | | | | | Central Sector | | State |
|---|---|---|---|---|---|---|---|---|
| | GIPCL | TEC | BSES | CESE | AEC | NLC | NTPC | SEBs |
| Installed capacity (MW) | 145 | 1624 | 500 | 565 | 550 | 2070 | 16795 | 34917 |
| Generation (MU) | 1113 | 10010 | 1219 | 3833 | 2928 | 10970 | 93155 | NA |
| Fuel Used | Gas | Hydel/Coal &Gas | Multifuel | Coal/ Gas | Coal/ Gas | Lignite | Coal/ Gas | Coal/ Gas |
| PLF (%) | 87.4 | 83.9 | NA | 77.0 | 70.5 | 70.4 | 78.8 | 55 |

GIPCL - Gujrat Industrial Power Corporation Limited; TEC - Tata Electric Companies; BSES - BSES Ltd.; CESE - CESE Ltd., AEC - Ahmedabad Electric Company Limited; NLC - Neyveli Lignite Corporation

From the above table, it is clear that SEB owned plants are performing much below the capacity utilisation when compared with the central sector power plants.

The following table illustrates the demand supply position.

Table 3 Demand Supply Position (in MU)

| | FY 93 | FY 94 | FY 95 | FY 96 |
|---|---|---|---|---|
| Demand | 305266 | 323252 | 352260 | 389721 |
| Supply | 279824 | 299494 | 327281 | 354045 |
| Shortage | 25442 | 23758 | 24979 | 35676 |
| Shortage (%) | 8.3 | 7.3 | 7.1 | 9.2 |

Currently the demand outpaces supply. The peak shortage is estimated at 18.3% in FY 96 while the overall shortage was 9.2% in FY 96. The energy demand supply position for the past four years indicates that the shortage has varied from a level of 7% to 9% while the peaking shortage ranged from 16% - 20%.

The Government in the Eighth plan envisaged a total addition to capacity of 30,538 MW against which the actual capacity added was only about 18,000 MW. This has further aggravated the demand supply imbalance with the peaking shortage reaching well over 20%. Going forward, the Government in the Ninth Plan has projected an additional capacity requirement of about 57,000 MW. In order to set up this kind of capacity, the investment required are enormous. In this context, the Government initiated liberalisation of the power sector and it is hoped that the current policy on power sector will bring in necessary investments by allowing private sector power generating companies to set up power plants. As on 31st March, 1996, Government has received proposals for setting up of 124 power projects for a total capacity of 67,281 MW which will involve a total investment of approx. Rs. 2,46,472 crores.

## Business Analysis

As mentioned above, NTPC generates power through both coal as well as gas. The company currently operates 11 coal based plants and 5 gas based plants with a total installed capacity of 16,795 MW. In the country's total power generation, NTPC's share is 20% while the share in thermal power generation is 28%. The total country wide power generation from various sources vis-à-vis that of NTPC's is as follows:

Table 4 Share of NTPC in Country's Capacity

| (In MW) | All India | NTPC | Capacity of NTPC |
|---|---|---|---|
| Thermal | 60087 | 16795 | 28% |
| Hydro | 20976 | - | - |
| Nuclear | 2225 | - | - |
| Total | 83288 | 16795 | 20% |

In order to manage its operations, NTPC has grouped its operations into five regions as under:

- Northern region - Singrauli Super Thermal Power Station (STPS), Rihand STPS and Feroze Gandhi Unchahar Thermal Power Station (TPS)
- Southern region - Ramagundam STPS
- Western region - Korba STPS, Vindyachal STPS, Kawas Gas Power Plant (GPP), Jhanor-Gandhar GPP
- Eastern region - Farakka STPS, Kahalgaon STPS, Talcher STPS, Talcher TPS
- National Capital Region - Dadri coal based plant, Anta GPP, Auraiya GPP and Badarpur TPS ( management contract only)

NTPC's capacity utilisation has shown a constant improvement in the recent past. The average all India Plant Load Factor (PLF) has increased from 55% in FY 92 to 63% in FY 96 while NTPC's PLF has risen from 70% to 79% during the same period. The PLF of the coal based plants are more than that of gas based plants. The main reason for this low PLF of gas-based plants are due to non-availability of gas and grid restrictions.

Out of NTPC's total installed capacity of 16,795 MW, 13,620 MW is from coal based plants. The availability factor was 85% for FY 96 as against 83% for FY 87. The PLF from these plants are also showing a consistent improvement. Among the NTPC's coal based power plants, Rihand STPS achieved the highest PLF of 87% in FY 96 while the Talcher STPS recorded the lowest of 16%. NTPC's coal based power plants also achieved an increase of 15% in power generation in FY 96 over FY 95. The coal required for NTPC is supplied by two Government companies, namely, Coal India Limited and Singareni Collieries Company Limited. In FY 96, NTPC received 56.6 million tonnes of coal which was 15% higher than the previous year consumption. Even then, the company lost generation to the extent of 3642 million units due to non-availability of coal.

The capacity of the five gas based stations of NTPC is 3,175 MW. The availability factor, however, has come down to 65% in FY 96 as against 68% in FY 90. The PLF, which was 66% in FY 90 has come down to 53% in FY 96. The main reason for the lower availability and PLF are inadequate gas supply. During FY 96, only 8.54 Million Standard Cubic Metres Per Day (MMSCMD) of gas was received against a linkage of 10.75 MMSCMD. The total loss of generation on account of non-availability of gas was 4,512 MU during FY 96

as against 6,520 MU in the previous year. This shows that there was a marginal improvement of gas availability during FY 96. In order to overcome the problem of non-availability of gas, NTPC is currently taking steps to augment the liquid fuel arrangements at Anta, Auraiya and Dadri. At Kawas GPP, NTPC is in the process of creating duel fuel facility for regular operation on liquid fuel.

Similarly an analysis of the performance of NTPC plants on the regional basis shows that the Southern region's PLF is the highest and the Eastern region's PLF is the lowest. The following table illustrates NTPC's region-wise market share in the total power generation.

Table 5 NTPC's Region Wise Market Share

| | Capacity (MW) | PLF (%) | Generation (MU) | NTPC share as % of all India Availability |
|---|---|---|---|---|
| Northern (including NCR) | 6142 | 77 | 41103 | 39 |
| Southern | 2100 | 85 | 15351 | 17 |
| Eastern | 3900 | 43 | 14482 | 34 |
| Western | 4653 | 73 | 29219 | 25 |
| All India | 16795 | 70 | 100155 | 28 |

From the above table, it can be seen that the Northern and southern regions are performing well above the all India average PLF. NTPC accounts for only 17% of the total power generated in the Southern region. Since there is a shortage of power in this region, this provides NTPC with an opportunity to expand its operations. The eastern region's performance is hampered by grid restrictions and lack of stabilisation of Talcher STPS, Kahalgaon and Farakka Plants. Moreover, Talcher TPS is a recently acquired plant from the Orissa State Electricity Board and is operating at a PLF of 19%. The performance of the Eastern Region plants will improve after completion of the transmission lines

projects by Power Grid. In the interim, NTPC has entered into contracts with southern SEBs to enable the Eastern region plants to perform to their maximum as power can be evacuated to southern states.

## Future Plans

NTPC is undertaking a major expansion programme during Ninth Plan period. The company is planning to expand capacity by 4,500 MW from FY 98 to FY 2002 apart from the existing approved ongoing projects of 1,770 MW. The Ninth Plan expansion will be more on gas-based projects (3,000 MW) than on coal based projects (1,500 MW). The total investment planned by NTPC for this expansion is about Rs. 19,800 crores. For meeting these investments, NTPC is projecting an amount of Rs. 4,200 crores through internal accruals and the balance would be met out of market borrowings.

## Financial Performance

The financial performance of NTPC for the past five years is given below:

Table 6 Financial Performance (Rs. Crores)

| | FY 96 | FY 95 | FY 94 | FY 93 | FY 92 |
|---|---|---|---|---|---|
| Operating Income | 8494 | 6420 | 5937 | 4627 | 3954 |
| Operating Profit | 3463 | 2585 | 2326 | 1961 | 1934 |
| Profit after Tax | 1353 | 1125 | 1058 | 887 | 1007 |
| Equity Capital | 7335* | 8668 | 8000 | 7550 | 7022 |
| Tangible Net Worth | 14827 | 14990 | 13327 | 11885 | 10470 |
| Gross Margin (%) | 40.8 | 40.3 | 39.2 | 42.4 | 48.9 |
| Net Margin (%) | 15.9 | 17.5 | 17.8 | 19.2 | 25.5 |
| ROCE (%) | 11.0 | 8.0 | 8.0 | 8.0 | 9.0 |
| RONW (%) | 9.1 | 7.5 | 7.9 | 7.5 | 6.3 |
| Earnings per Share(**) (Rs.) | 184 | 130 | 132 | 117 | 143 |
| Dividend (%) | 2.4 | 1.6 | 0.8 | - | - |

*(*) Reduction in share capital is due to handing over of transmission assets to Power Grid Corporation Limited (**) on a share of Rs.1000*

The unaudited results for FY 97 indicates energy sales of Rs.10,210 crores with a profit after tax of Rs.1,648 crores. Analysing the five year financial performance, it may be noted that the company's sales have more than doubled. Similarly, the operating profits rose by 79% while the net profit rose by 35% during the past five years. However, the gross margins showed a decline from a level of 49% in FY 92 to 41% in FY 96 largely due to increase in fuel costs and employee costs. The net margins also showed a decline from the levels of 26% in FY 92 to 15% in FY 96 largely due to higher depreciation and interest & finance charges. ROCE and RONW showed steady improved during the past five years.

One of the major financial concerns of NTPC is the outstanding receivables from their principal buyers, namely, SEBs. At the end of FY 97, the outstanding dues to NTPC from SEBs stood at around Rs.3,600 crores. This is almost two times the existing norms for debtors as per the tariff guidelines. Currently, the company is selling power to SEBs through Letter of Credit. This has resulted in lower level of receivables on the current sales. However, the past dues are a matter of concern for the company. Similarly, the inventory levels of stores and spares are also significantly high at Rs. 1,131 as at March, 1996 which is equivalent to more than three year's cost of repair & maintenance. This high levels of receivables and inventory has increased the interest on working capital substantially.

## Strengths and Areas of Concern

Based on the above business and financial analysis, the strengths and areas of concern for NTPC are as below:

## Strengths

*Dominant market share* NTPC is the single largest power generating company in India with 28% of the total thermal power generating capacity with a presence through out the country. In addition, NTPC has a diversified fuel base for operating plants in various regions.

*High operational efficiency* NTPC's overall average operating efficiencies are high when compared with national average. The average PLF of NTPC run plants is 70% while the national average is significantly lower. Some of its units have higher PLF than private sector power plants.

*Skilled manpower* Since NTPC was set up with the objective to develop thermal power plants from the design stage to its operations. Thus, the company has developed expertise in all related fields over a period of time.

*Major expansion programmes and ability to withstand competition* NTPC is in the midst of a major capacity expansion programme. The company is planning to add around 4,500 MW additional capacity during the Ninth Plan period. Given the demand supply gap of 9.2% and the projected growth of demand at 9% annually in the Ninth Plan period, NTPC is well positioned to face up competition from the private sector power generating companies. In addition, NTPC can foster strategic alliances to ensure competitive edge such as by forming joint ventures with fuel suppliers etc. to set up additional generating capacities.

*Strong Balance Sheet* The company is having a strong balance sheet which will enable the company to raise resources in future with ease. The debt equity ratio as at FY 96 was only 0.70.

## Areas of Concern

*Huge Outstanding Receivables* NTPC still has a high level of outstanding receivables from SEBs. Due to the weak financial health of SEBs which is the sole buyer, the receivables have been on the increase. The outstanding dues from SEBs at the end of FY 97 amounted to approx. Rs.3,600 crores. Even though the company realises the current billings through letters of credit, the past accumulated receivables is still a matter of concern.

*Inadequate Fuel Supply* Out of the total generating capacity of 16,795 MW, almost 20% capacity is through gas based power plants. The company in the past has suffered heavily due to non-availability of gas. Even though the company has a gas linkage of 10.75 MMSCMD, it has received only 8.54 MMSCMD of gas during FY 96. This has resulted in low PLF for the gas based power plants. Similarly the coal supplied to NTPC is also of poor quality which results in higher costs.

*Grid Restriction in the Eastern Region* NTPC has a strong presence in the Eastern region. However, the PLF for the eastern region was low at 43%. This was largely due to the grid restrictions which has resulted in forced breakdown on regular basis.

*High levels of Inventory* NTPC's stores and spares inventory at the end of FY 96 was Rs.1,131 crores which is more than three times of annual repairs and maintenance cost.

*High cost of renovation and modernisation* NTPC will require funds for renovation and modernisation as many of its plants are due for such capital

expenditure. NTPC will require substantial funds for maintaining the current operational efficiencies.

*Relatively lower Tariff* NTPC, under the current tariff norms is allowed a return of 12% on its networth for old projects while it is allowed 16% return for the new projects. In spite of this increase, the tariff is relatively lower when compared with the tariff negotiated by Independent Power Producers with SEBs. The overall figures of return on networth for the company for the previous five years is low in the region of 7 - 9%.

## Recommendation

NTPC was set up in 1975 as part of Government initiatives to step up installed capacities across the country in order to meet the power requirements for industrial and agricultural development. The company currently enjoys a prime position in the sector being the single largest power producer with an installed capacity of 16, 795 MW as at end FY'97. At present, it contributes to over 28% of the total thermal power generated and around 20% of the total power generated in the country.

Till recently, the development of the power sector was mainly in the public sector. However, due to the burgeoning demand -supply gap, the Government initiated reforms in 1991 which allowed the private sector entry into the hitherto reserved sector. Some of the key features of the reforms are the entry of the private sector into generation, the removal of foreign equity restrictions for funding the projects and assurance of speedy approvals for clearance of proposals. Inspite of these initiatives, till date no major capacities have been added in the private sector mainly due to two reasons: the delay in evolving rational tariff package and in developing assured fuel linkages. As a result, the

Government (both at the State and the Centre) continues to supply as much as 96% of the total power supplied in the country.

The process of improving the market contestability in the Indian power sector hinges on a number of crucial issues. Firstly, in view of the poor credit rating of most SEB's the private sector producers are hesitant to supply power on a non-recourse basis. Secondly, tariff reforms which will enable SEBs to generate power on a profitable basis. Thirdly, the SEBs in most states are unviable and need structural reforms in terms of unbundling generation, distribution and transmission.

Thus, till the time that the above reforms are in place, NTPC will continue to play a dominant role in the sector. Further, with NTPC's demonstrated capability to execute and operate power projects at high efficiency levels, the company will continue to be an important player in the power sector in the future. The commission is of the view that till the time the sectoral reforms in the power sector are complete and the markets are fully contestable, it may be desirable for the public sector to continue to play an important role in the power generating segment. **On these grounds, the Commission reiterates the classification of NTPC as Core.**

There is scope for considerable enhancement of NTPC share values once the reforms are put in place and the new parameters are settled for tariff fixation. All these are under the active consideration of the Government. Due to the low tariff structure and hence relatively poor rates of return on networth, any disinvestment at present will lead to an undervaluation of the Government holding and result in poor realisation to the exchequer. **The Commission**

**therefore recommends that there should be no disinvestment in NTPC presently.**

**At the same time, the Commission recommends that NTPC should seriously engage itself in the assessment of performance of its different units under the present monolithic structure of the company. It may be useful to study alternatives for restructuring the organisation either in terms of regions, individual plants or based on input fuels used by the plants. It is expected that such an exercise combined with managerial restructuring would be completed within an year or two by which time most of the power sector reforms may be expected to be in place. Disinvestment in NTPC and the modalities thereof will be considered at that stage by the Commission and appropriate recommendation will be made to Government.**

## 2.6 NEPA Limited

### Evolution

NEPA Limited (NEPA) commenced operations in 1947 in the private sector. Immediately thereafter, the company was taken over by the then State Government. In 1959, the Central Government acquired a controlling interest by the conversion of the existing loans into equity. Originally called "The National Newsprint & Paper Mills Ltd." the name was changed to the present form in 1989.

NEPA is a single product company engaged in the manufacture of newsprint. Newsprint is a special type of paper used for printing newspapers and magazines. Generally, newsprint is coarse and light but strong to prevent tearing. There are two types of newsprint: standard newsprint which is used for ordinary newspapers and magazines and glazed newsprint which is used for glossy colour sections of newspapers and magazines. Glazed newsprint is expensive and requires superior coating and finishing.

The company's manufacturing facilities and offices are situated in Nepanagar in Madhya Pradesh. The present paid-up equity share capital of the company of Rs. 64.8 crores is held as shown in the table below. NEPA's shares are not listed on any stock exchange.

Table 1 Share Holding Pattern

| Share Holder | Percentage |
|---|---|
| Government of India | 96 |
| Government of Madhya Pradesh | 3 |
| Public | 1 |
| TOTAL | 100 |

Industry Analysis

Newsprint is a globally traded commodity. The main trade flows are from North America to Asia and Europe and more recently from Europe to Asia. North America is by far, the largest producing region with about 47% of the world's installed capacity. Asia is the largest importer of newsprint taking 43% of its total consumption from outside the region.

## Demand

The main users of newsprint and their share (of total consumption) are as given below:

- Large Newspapers (65 percent)
- Medium and small newspapers (15 percent)
- Magazines and government publications (20 percent)

Demand for newsprint depends on the literacy rate and the number of magazines published. In India the number of newspapers and magazines being published has shown a dramatic increase since the early nineties. Newsprint demand therefore is expected to grow at a higher rate of 6% - 8% as compared to 5% - 6% in the recent past.

## Supply

Till recently, the structure of the Indian newsprint industry was largely regulated by Government policies. For nearly 25 years till 1981, NEPA was the only newsprint mill in the country, In the mid-eighties, Tamil Nadu Newsprint and Hindustan Newsprint were started in the public sector to augment the need for additional requirements. Currently, there are about 22 mills manufacturing

newsprint with the public sector accounting for 63% of the total capacity of 600,000 tpa.

Until 1991, the production, supply and pricing of newsprint was controlled through the Newsprint Control Order, 1962 (NCO). Since then, the Government has opened up the industry to private sector participation. It has also allowed imports on a decanalised basis and has removed all quantitative restrictions on imports. Newspapers are now allowed to import their entire requirements of newsprint.

## Pricing

Till 1991, the sale price of imported newsprint was decided by the Newsprint Price Fixation Committee on a quarterly basis in accordance with the NCO. This pricing mechanism gave a certain level of protection to the domestic manufacturers of newsprint. After decanalisation of newsprint imports in 1992, newsprint manufacturers price their products so as to match the landed cost of imports.

Internationally, newsprint prices have tended to be cyclical. Major producers in Canada and USA virtually dictate prices. Price of newsprint had increased in early nineties but have again shown a declining trend in the recent past. After rising through 1995, and peaking at about USD 1000 per tonne in early 1996, prices had dropped to a low of USD 465 per tonne in the first quarter of 1997. In the near future, prices are expected to decline further due to fresh capacities coming up in the South Asian Region.

## Technology Characteristics

- The process for making paper is fairly simple and the technology is well known and stable. Most of the equipment is available in India and access to technology is not an barrier.
- The process itself is not directly scale sensitive. However, firms with large capacities do benefit from economies of scale in their overall operations.
- The process is highly energy intensive. In India, the two major sources of energy are steam and power.
- Paper manufacture is polluting and the process is water intensive, Hence most of the large manufacturers are located near rivers.

## Business Analysis

The trend in sales and sales realisation is shown in the table below:

Table 2 Trends in Sales and Realisation

| Year | Sales (tonnes) | Realsn. (Rs/ton) |
|---|---|---|
| FY '93 | 67475 | 16724 |
| FY' 94 | 17394 | 16482 |
| FY' 95 | 63418 | 18779 |
| FY' 96 | 15719 | 24825 |
| FY' 97 | 20348 | 20008 |

Sales volumes which have been fluctuating have shown a marked decline in the last couple of years due to the following reasons.

- After decanalisation in 1992, NEPA's newsprint which had quality problems could not withstand free competition. With the progressive reduction in custom duties of newsprint, NEPA lost out to the lower priced, better quality imported newsprint from Russia, China and Canada. NEPA

has made some efforts in improving quality; this however has not had much impact on sales.

- NEPA'S production also suffers from technological obsolescence of its plant and machinery, outdated manufacturing process, inadequate power supply and scarcity of forest based raw materials. In particular, the low capacity utilisation in FY 1997 was due to closure of the plant due to non supply of power from Madhya Pradesh State Electricity Board.

## Raw Materials

The major inputs for paper production is fibre. Sources of fibre include softwood, babul, Agro residues and waste paper. In case of NEPA the main source of raw material has traditionally being bamboo. However the depletion of the forest cover around the vicinity of the plant has led NEPA to change over to other sources such as Eucalyptus and Subabul as well as imported pulp. Currently imported pulp and paper cuttings accounts for almost half of the raw material cost. The volatility and higher input costs of imported pulp prices make it necessary for NEPA to control inventories to the optimum level; this has not been the case. As a result, the profitability of NEPA has been adversely affected.

The other main input is energy. NEPA requires about 30 MW of power to work at full rated capacity of 88,000 tpa. It has to depend for about 50% -60% per cent of the total power requirement from the Madhya Pradesh State Electricity Board. Due to frequent to load shedding from MPSEB, the quality of power supplied to NEPA has been quite erratic.

## Financial Analysis

The performance of NEPA over the last five years is shown in the table below:

Table 3 Financial Performance (Rs. Crores)

| | FY'97 | FY'96 | FY'95 | FY'94 | FY'93 |
|---|---|---|---|---|---|
| Operating Income | 40.4 | 141.9 | 118.6 | 115.3 | 112.7 |
| Operating Profit | -38.5 | 13.3 | -10.2 | -12.4 | 7.2 |
| PAT | -58.4 | -3.4 | -27.7 | -29.3 | -7.8 |
| Equity Capital | 64.9 | 64.9 | 62.4 | 62.4 | 62.4 |
| Tangible Networth | -22.9 | 33.6 | 30.0 | 38.4 | 63.7 |

*Note : The ratios have not been presented as they are all negative*

- During FY'97, plant operations were closed for a period of almost seven months due to the non-availability of power. The financial indicators, as a result are an aberration from those in the normal working years.
- The old plant & machinery with outdated technology has resulted in higher operating costs for NEPA as compared to industry averages.
- After a sustained downtrend beginning in the early nineties, newsprint prices started firming up in 1995 to peak towards the end of 1995/early 1996. The improved market scenario resulted in NEPA posting positive margins in FY'96.
- NEPA networth as at March 31, 1997 is a negative Rs. 23 crores. The company is in the process of applying to the Board for Industrial and Financial Reconstruction under the SICA.

## Strength and Areas of Concern

Based on the above business and financial analysis, the strengths and areas of concern for NEPA are as below:

## Strength

*Long Presence in the Sector* NEPA had a head start of over 25 years over other newsprint manufacturers and has in place all the requisite infrastructural facilities. The company has the potential to earn profits if the raw material linkages are assured and financial inputs are provided at the appropriate time.

## Areas of Concern

*Operational Problems* NEPA, as it stands today is beset with a number of operational problems. Firstly, the piecemeal additions to the plant capacity in the eighties and nineties has resulted in imbalances in production capacities. For example while the mill has an overall paper production capacity of 88,000 tpa the captive pulp making capacity is inadequate. As a result, the capacity utilisation of the mill has been affected.

*Raw material linkages* NEPA also faces problems of assured raw material supply. The company was conceived during the pre-independence era, assuming abundant supply of forest based raw materials. With the rapidly depleting source of forest cover, the availability of bamboo - the major raw material for NEPA - has declined significantly. While the mill capacity was expanded from 33,000 tpa to 88,000 tpa between 1950 and 1990 there was no commensurate increase in the availability of raw materials. In view of the above, NEPA has been constrained to resort to imported pulp and alternate source of raw materials which has increased the cost of production.

*Poor quality of Newsprint* The quality of newsprint manufactured by NEPA is lower when compared with other Indian newsprint manufacturers. This is because NEPA has problems of old technology, operational bottle necks and raw material problems. As a result, NEPA realisations have been lower.

*Inadequate and Poor Quality of Power* Unlike other paper producers, NEPA does not have a captive power plant. Due to this, the company has to depend on the inadequate and the erratic power supply from the MPSEB which has resulted in higher input costs and has also been one of the major constraints for NEPA in achieving optimum capacity utilisation. In the future, the power supply scenario is expected to worsen due to the poor growth in the generating capacity in Madhya Pradesh.

*Manpower* The company is saddled with excess manpower to the extent of 800-1000 out of a total workforce of 3000. In addition, the company has to bear the costs of overheads of Nepanagar - a self contained township - which amounts to about Rs. 3 crores annually. This has increased the overhead costs for NEPA.

## NEPA's Turnaround Plan

Keeping the above operational problems in mind, NEPA has drawn up a turnaround plan which is based on the following:

- To upgrade the mill technology, improve productivity and remove the imbalances prevailing in the various mill capacities;
- To become self-sufficient in captive pulp production and to avoid dependence on imported pulp;
- To provide stable and adequate power supply and
- To diversify into value added products.

It is envisaged that the restructuring plan will take three years to implement and the benefits will thus be available only from FY 2002. With this implementation, the company is expected to recover from its loss making

situation and position itself firmly on a growth path. In order to do so, the company will have to raise about Rs 300 crores which will cover projects costs as well as fund working capital requirements till the turnaround is complete. Assuming a debt to equity ratio of 1:1, the plan will have to be funded through equity infusion of about Rs. 150 crores and debt funds to the same extent.

In addition, the company will need about Rs. 20 crores in order to provide a VRS for employees found surplus in labour force restructuring.

## Funding Options

For this purpose, the company will have to either raise the funds from the capital market on its own or has to depend on its principal shareholder i.e. Government. The company's weak balance sheet as at March 31, 1997 and the depressed nature of the primary markets may preclude the options of tapping these funds from the capital markets.

As the majority shareholder, it may be worthwhile to examine various options available to Government for the implementation of the restructuring plan. This will involve either budgetary support or disinvestment of a majority stake to a strategic buyer to enable the company to raise funds (Table 3).

Table 4 Government Options on NEPA

| | Scenario | Government outflow | Remarks |
|---|---|---|---|
| 1 | No action taken by Government due to paucity of funds | Nil | Company renovation will be delayed beyond repair - action on disinvestment will be delayed |
| 2 | Restructure fully through budgetary support and disinvest at a later stage | Rs.150 cr. + guarantee for Rs. 150 cr. | Heavy burden on Government. Project costs could increase due to time and cost overruns. |
| 3 | Take up only essential restructuring. Disinvest upto 51% immediately to a Strategic partner and the balance after implementation | Rs. 20 crores for VRS + Rs. 5 crores for capital expenditure guarantee for Rs. 45 crores | Burden on Government minimal. Application to BIFR can be delayed. Likely to improve investor interest. Further disinvestment would be at higher values thus increasing realisations. |

*Scenario 1*

NEPA's accumulated losses of Rs. 95 crores as on March 31, 1997 against a paid-up capital of Rs. 65 crores has resulted in a negative networth of the company. With the adoption of the annual accounts for FY'97 by end November, 1997, the company will be referred to the Board for Industrial and Financial Reconstruction (BIFR). A reference to BIFR at this stage may delay the implementation of the vital renovation and modernisation schemes and may push the company to a stage beyond repair. Any further action on disinvestment cannot also be taken up. Further, the company may also require an increasing level of budgetary support to sustain cash losses as all credit lines have been frozen.

Keeping the above in view, it may be necessary to convert part of Government loans to equity in order to delay the reference of NEPA to BIFR. However, this action alone may not be feasible or sufficient to turnaround the company.

The other options available to Government are to either fully implement the turnaround plan or fund the essential parts before inviting a strategic partner.

*Scenario 2*

The overall restructuring plan could be implemented by Government fully. In this case, the financial burden on Government is quite substantial both in direct and indirect terms. Apart from initiating steps to prevent the company from a BIFR referral, Government will have to pump in equity funds to the extent of Rs. 150 crores as well as provide guarantees to enable the company to raise debt funds to the same extent. Also, with relatively low levels of morale in the

organisation, the effective implementation of the plan is doubtful. In turn, this could lead to further time and cost overruns.

*Scenario 3*

Government could initiate minimal restructuring before inviting bids for a strategic sale. Government support will be restricted to:

- A grant of Rs. 20 crores for providing VRS for surplus labour force;
- A loan of Rs. 5 crores for carrying out emergency repairs. This would be the minimum investment that would be required to stabilise production and demonstrate its potential viability to prospective strategic buyers.
- A Government guarantee for Rs. 45 crores in order to enable the company to borrow funds from banks for working capital.
- Conversion of loan to equity as determined by the Financial Advisers

These steps will help in commencement of full production which will at least help in meeting a part of the fixed expenses of the company. The conversion of part of Government's loan into equity will help the company to stay outside the purview of BIFR.

The advantages are:

- A significant level of funding will be done by the new successful bidder thus minimising the financial burden on Government;
- The project implementation by the partner will be relatively more cost and time effective than implementation by Government. This will help to enhance the share value of the balance shareholding of Government.

- Implementation of the essential restructuring will improve investor interest as also sales realisation.

## Recommendation

As is evident from the above analysis, the lowering of custom duties on newsprint coupled with the decanalisation of imports have lead to a significant competitive pressures on the domestic newsprint industry. In addition, all quantitative restrictions on imports have been eased and the users are now free to import all their requirements. The markets have thus become fully contestable. In such a scenario, there is no public purpose served by NEPA. **The Commission has thus classified NEPA as non-core.**

**It is also clear that the medium term viability of the company is crucially dependent on the turnaround plan. Options on funding explored earlier indicate that the funding could be done by either Government or by a new partner.**

**In view of its non-core status, the Commission recommends that the Government offer immediately a minimum of 51% which could go up to 100% alongwith the transfer of management to a strategic partner who could bring in the necessary funds to take-up the turnaround plan. In case buyers bid for different levels of shareholding, the decision on the final bidder will necessarily have to be based on the realisation per share rather than the total realisation. This may be clearly brought out in the bid document.**

**As the process of selection of a strategic partner could take time, the Commission recommends that Government initiate the following action immediately:**

- **Suitable conversion of loans to equity with retrospective effect to enable the company to stay out of the purview of BIFR .**

- **A grant of Rs. 20 crores for providing VRS for surplus labour force. Further, if the scheme is formulated as a pension-cum-insurance scheme on the lines suggested by the Commission in its Fourth report, the funds required upfront may be lower.**

- **A loan of Rs. 5 crores for carrying out emergency repairs;**

- **A Government guarantee for Rs. 45 crores in order to enable the company to borrow funds from banks for working capital.**

The Commission has taken note of the fact that Government had previously approved "in-principle" for private sector participation in rehabilitation and modernisation of NEPA and engagement of a merchant banker to undertake this exercise. As per this decision, SBI Capital Market Ltd. had already initiated action in locating a suitable partner. **The process may be carried forward to complete the sale taking into account the recommendation of the Commission.**

Government may also consider hiving off the township at Nepanagar and organise it into an appropriate local body for future management. A corpus may be created out of the sale proceeds of the company to support future maintenance of the colony and the civic services.

After the completion of the turnaround plan by the Strategic buyer, Government may disinvest the balance of its equity holding if any, to retail investors in the domestic market.

## 2.7 Ranchi Ashok Bihar Hotel Corporation

## 2.8 Utkal Ashok Hotel Corporation

### Evolution

Ranchi Ashok Bihar Hotel Corporation (R-Ashok) was set up in 1981 as a 51:49 Joint Venture between India Tourism Development Corporation (ITDC) and Bihar State Tourism Development Corporation (BSTDC). The 30 room hotel located in Ranchi was inaugurated in 1988 predominantly to cater the needs of executives from the Central Government public sector undertakings visiting their offices in Ranchi and other business travellers.

Utkal Ashok Hotel Corporation (U-Ashok) was set up in 1983 as a 51:49% joint venture between India Tourism Development Corporation (ITDC) and Orissa Development Corporation (OTDC). In 1988, a 36 room hotel in the name of Nilachal Ashok Hotel was inaugurated on the beachfront of Puri which is a popular tourist destination on the eastern coast of India.

### Industry Analysis

The hotel industry forms the major part of the tourism infrastructure. The first hotel was set up in private sector in 1902 in India. Subsequently, many more hotels came up and currently this is dominated by private sector groups such as the Taj group, Oberois, Welcomegroup etc. The Government of India established its own hotel chain in seventies in order to promote tourism activities in India. Hotel industry being the service sector industry, the private sector had an edge over the public sector hotels. The hotel industry is highly capital intensive with a long gestation period. Apart form the initial investment, the hotel requires high cost of maintenance.

## Business Analysis

The hotels stands on lands leased by the respective State Government Tourism Development Corporations to R-Ashok & U-Ashok for a period of 99 years. As per the lease deed, sale or transfer of land or building constructed are prohibited except for leasing or renting of the premises in the normal course of business. Similarly, as per the joint venture agreement, transfer of shares to private parties is also prohibited. The management of the hotels are vested with ITDC through the joint venture agreement.

R-Ashok is having 27 twin bedded, 1 deluxe and 2 executive suites including a restaurant. The hotel is also having a conference room and a board room.

As mentioned above, R-Ashok caters to business travellers visiting local corporates and due to this, the hotel is having low level of occupancy. Room sales contributed approx. 53% of the total revenue while the food sales contributed approx. 34% in FY 97. The location of the hotel attracts low tourist traveller potential. The hotel employs 54 employees and employee cost accounts for approx. 31% of the total turnover.

In case of U-Ashok, the hotel is having 36 twin bedded rooms including a restaurant. The hotel is having a Travel service.

The hotel is located very near to the popular domestic pilgrimage and sea beach on the Eastern coast of India. However, it has to face tough competition from three other private hotels operating in the same area. This hotel is not preferred due to the lack of adequate facilities and poor maintenance. The occupancy

rate of the hotel had fluctuated around 30% and in FY 96, due to shutdown of operations, the occupancy had fallen to 19%. Room sales contributed approx. 65% of the total revenue while the food sales contributed approx. 30% in FY 96. The hotel employs 57 employees and employee cost accounts for approx. 30% of the total turnover.

## Financial Analysis

The financial performance of R-Ashok for the past four years is given below :

Table 1 Financial Performance (Rs. Lakhs)

| | FY 95 | FY 94 | FY 93 | FY 92 |
|---|---|---|---|---|
| Operating Income | 68.45 | 65.33 | 57.46 | 64.25 |
| Operating Profit | -4.85 | 0.69 | 5.88 | 2.66 |
| Loss | -45.27 | -38.51 | -27.19 | -24.73 |
| Equity Capital | 71.60 | 71.60 | 71.60 | 71.60 |
| Tangible Net Worth | -102.20 | -59.96 | -18.47 | 8.64 |

*Note : The ratios have not been presented as they are all negative*

The company's annual accounts for the years 1995-96 onwards have not yet been finalised.

Since inception, the average room occupancy has been hovering in the range of 40%-60%. Due to the low occupancy levels, the hotel ran into financial difficulties. The company equity capital including share application money as at 31st March, 1997 was Rs. 71.60 lakhs and its accumulated losses amounted to Rs. 173.73 lakhs. All this has resulted in default of loan repayment to the Bihar Industrial Credit & Investment Corporation (BICIC). Accordingly, BICIC issued an advertisement to auction the assets of the company which the company resisted by approaching the Court. BSTDC, the joint venture partner agreed to transfer its share to ITDC for a token sum in order to pay off the loans

of BICIC as an one time settlement. However, the one time settlement could not be adhered to and BICIC issued notices to both joint venture partners and issued advertisements for sale of assets. In response to the advertisement, BICIC received a highest offer of Rs. 2.05 crores. As per the State Financial Corporation Act, BICIC gave the first right to refuse this offer to promoters and the company. ITDC tried to settle the issue in consultation with other partner, BSTDC in the ratio of their share in R-Ashok. Upon non receipt of any response from BSTDC, ITDC, accepted the offer and deposited Rs. 1.03 crores which in turn was accepted by BICIC. However, on March 31, 1997, BICIC Board resolved to handover the property to BSTDC. ITDC moved the Court and obtained the stay order against transfer of property to BSTDC and has deposited the full amount as per the Court directive. The matter is subjudice.

The financial performance of U-Ashok for the past four years in given below :

Table 2 Financial Performance (Rs. Lakhs)

| | FY 95 | FY 94 | FY 93 | FY 92 |
|---|---|---|---|---|
| Operating Income | 28.87 | 28.92 | 28.11 | 34.99 |
| Operating Profit | -13.73 | -11.23 | -12.04 | -1.61 |
| Loss | -62.44 | -49.37 | -62.48 | -33.96 |
| Equity Capital | 100.00 | 100.00 | 100.00 | 100.00 |
| Tangible Net Worth | -160.57 | -98.17 | -49.07 | -1.97 |

*Note : The ratios have not been presented as they are all negative*

The company's annual accounts for the years 1995-96 onwards have not yet been finalised.

The financial performance of U-Ashok was dismal mainly due to low occupancy levels of average 30%. The paid up equity capital of the company as at 31st March, 1995 was Rs. 1 crores which was raised subsequently to Rs. 1.3 crores and the accumulated losses as at 31st March, 1995 amounted to Rs.

2.76 crores. The company had defaulted in repayment of loans from the State Financial Institutions. As a one time settlement, ITDC paid Rs. 3.8 crores to these State Financial Institutions. As a part of restructuring, OTDC transferred a part of its shareholding to ITDC thereby changing the shareholding pattern in the ratio of 91.5 : 8.5. Further, the company issued preference shares for Rs. 3.5 crores in favour of ITDC.

## Recommendation

As part of the initiative of the Government to develop tourism infrastructure, the India Tourism Development Corporation in the mid-eighties set-up joint ventures with the State Governments for the development of budget hotels mainly to cater to the lower end of the tourist segment. These hotels were located in up-coming tourist areas such as Ranchi, Puri, Bhopal, etc. Typically, the State Governments had provided land while ITDC provided the expertise to run the hotels. Thus, the share holding pattern was divided between the two. However, in case of Ranchi-Ashok and Utkal-Ashok, the ITDC holds 51% and 91.5% respectively with the balance taken up by the State Governments. Thus, these hotels are subsidiaries of ITDC.

The Commission has already given its recommendations on ITDC in its First Report. To recapitulate, the hospitality services sector has seen the entry of a large number of companies in the private sector some of whom are established global companies. Inspite of high entry barriers in the form of high capital requirements, the level of competition in the business travel and luxury segment has been quite high. The market is fully contestable. In addition, it was also pointed out that the public sector is relatively handicapped in matching the

level of services provided by its counterpart in the private sector. **On these considerations, the Commission has already classified ITDC as non-core.**

As regards restructuring, the Commission has recommended that hotels located in prime locations like Delhi and Bangalore should be handed over to established hotel chains through a competitive bidding process to be run on long term structured contract on a lease-cum-management basis. As regards hotels located in other locations, the Commission recommended that these could be demerged into separate corporate entities. Following the de-merger, shares could be issued in these companies to the Government and other shareholders, if any, in exchange of ITDC shares. In turn, the Government could disinvest 100% of its holding in these new entities through a competitive bidding process.

**The Commission reiterates that the role of the Government in the tourism sector should be re-oriented towards facilitating development of tourism and away from actually providing services. One of the objects of the ITDC has been to promote tourism by disseminating information and providing marketing support wherever necessary. The proposed disinvestment of direct hotel services will provide a much sharper and urgently needed focus to the role of ITDC in the development of the tourism in the country.**

**As in the case of the non-metro hotels of ITDC, the Commission recommends that in both these companies that ITDC may fully disinvest its share holding in favour of a private entrepreneur through a transparent and competitive bidding process after undertaking a proper valuation exercise through a Financial Adviser**. Since the lands have been obtained

from the State Governments on certain terms and conditions, ITDC would need to negotiate and settle this issue with them prior to disinvestment.

PSUs referred to the Commission Appendix I

*First List - September, 1996*

| SL 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 | U-ASHOK |
| 10 | Rehabilitation Industries Corporation Limited | RICL |

Appendix II

MINISTRY OF INDUSTRY
(Department of Public Enterprises)
RESOLUTION
New Delhi, the 23rd August, 1996

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

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

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

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

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

I. To draw a comprehensive overall long term disinvestment programme within 5-10 years for the PSUs referred to it by the Core Group.

II. To determine the extent of disinvestment (total/partial indicating percentage) in each of the PSU.

III. To prioritise the PSUs referred to it by the Core Group in terms of the overall disinvestment programme.

IV. To recommend the preferred mode(s) of disinvestment (domestic capital markets/international capital markets/auction/private sale to identified investors/any other) for each of the identified PSUs. Also to suggest an appropriate mix of the various alternatives taking into account the market conditions.

V. To recommend a mix between primary and secondary disinvestments taking into account Government's objective, the relevant PSU's funding requirement and the market conditions.

VI. To supervise the overall sale process and take decisions on instrument, pricing, timing, etc. as appropriate.

VII. To select the financial advisers for the specified PSUs to facilitate the disinvestment process.

VIII. To ensure that appropriate measures are taken during the disinvestment process to protect the interests of the affected employees including encouraging employees' participation in the sale process.

IX. To monitor the progress of disinvestment process and take necessary measures and report periodically to the Government on such progress.

X. To assist the Government to create public awareness of the Government's disinvestment policies and programmes with a view to developing a commitment by the people.

XI. To give wide publicity to the disinvestment proposals so as to ensure larger public participation in the shareholding of the enterprises; and

XII. To advise the Government on possible capital restructuring of the enterprises by marginal investments, if required, so as to ensure enhanced realisation through disinvestment.

**4.** The Disinvestment Commission will be an advisory body and the Government will take a final decision on the companies to be disinvested and mode of disinvestment on the basis of advice given by the Disinvestment Commission. The PSUs would implement the decision of the Government under the overall supervision of the Disinvestment Commission.

**5.** The Commission while advising the Government on the above matters will also take into consideration the interests of stakeholders, workers, consumers and others having a stake in the relevant public sector undertakings.

**S. TALWAR**
**Joint Secretary**