

REPORT

IX

DISINVESTMENT COMMISSION

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

Part A

1. GENERAL RECOMMENDATIONS

In his speech presenting the Budget for 1996-97, the then Finance Minister had stated that “Government have approved the proposal to establish a Disinvestment Commission. Any decision to disinvest will be taken and implemented in a transparent manner. Revenues generated from such disinvestment will be utilised for allocations for education and health and for creating a Fund to strengthen public sector enterprises.”

The Disinvestment Commission was set up by Government Resolution dated 23 August, 1996 (Appendix I) in pursuance of the Common Minimum Programme (CMP) of the then United Front Government. The perusal of the terms of reference would indicate that Government intended to give advisory as well as supervisory and monitoring role to the Commission. For instance, para 4 of the terms of reference states as follows:

“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.*”

This had been further confirmed by item IX of para 3 of the terms of reference which states:

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

Following the setting up of the Disinvestment Commission with the aforementioned terms of reference, much expectation was generated in the country that the Commission would play a major role in the formulation of overall strategy for disinvestment and in the monitoring and supervision of the disinvestment process on the basis of specific decisions taken by Government. Expectations were also built up that as a result, the disinvestment process would gather momentum.

In pursuance of its role, the Commission had wide ranging consultations with a cross-section of persons and organisations interested in the disinvestment process. These included senior Government officers in the various Ministries, management experts, representatives of Central Trade

Unions and academicians. The Commission also organised two conferences, one in Delhi and another in Bombay, focussing on the strategy and issues involved in the disinvestment process. The Commission had also taken due note of the various views expressed during these meetings and conferences as well as experiences of other countries in disinvestment and privatisation.

In its First Report submitted in February 1997, the Commission gave its views on the long-term strategy that should be followed on disinvestment. In line with CMP classification, the Commission laid down the criteria for classifying public sector undertakings (PSUs) into strategic, core and non-core units for the purpose of deciding on the extent of disinvestment of government shares in these units.

The Commission also enunciated broad guidelines and modalities of disinvestment for consistent application across all PSUs and for enhancing the transparency of the disinvestment process. Besides these, the Commission made general recommendations in significant matters such as creation of a Disinvestment Fund for being utilised to restructure PSUs, wherever necessary, prior to disinvestment, to fund a Voluntary Retirement Scheme for employees found surplus, to fund social infrastructure projects and to retire public debt. Recommendations were also made in the First Report of the Commission for improving corporate governance and accountability along with grant of graded autonomy to all the PSUs. In making these recommendations, the Commission believed that these would have significant impact on the investor perception of PSUs and enhance their share values at the time of disinvestment.

The Commission also made specific recommendations in Part C of its First Report on three PSUs. viz. –

1. Modern Food Industries (India) Ltd. (MFIL)
2. Gas Authority of India Ltd. (GAIL)
3. India Tourism Development Corporation (ITDC)

In his speech of February 27, 1997, presenting the Budget for 1997-98, the then Finance Minister stated “We intend to proceed with disinvestment in these companies along the lines suggested by the Commission.”. Till now, no disinvestment has taken place in any of these three PSUs. The then Finance Minister had, in his Budget speech, also agreed with the view of the Commission that “the essence of a long-term disinvestment strategy should be not only to enhance budgetary receipts but also minimise budgetary

support towards unprofitable units while ensuring their long-term viability and sustainable levels of employment in them.” The disinvestment undertaken during 1997-98 and 1998-99, however, appears to have been budget-driven whereas other modalities of disinvestment recommended by the Disinvestment Commission which would have subserved the larger objectives mentioned above have not so far taken place.

Since the submission of the First Report, the Commission has been giving its general recommendations in Part A and specific recommendations in Part B of their subsequent seven Reports. These reports also contained the status of action taken on these recommendations. The Commission has submitted Eight Reports to Government covering 43 PSUs referred to it. In keeping with the Commission’s transparent approach these Reports had been simultaneously released for wide coverage. The approach and recommendations of the Commission have generally been widely supported. The gist of general recommendations and action taken by Government on them is given in Appendix II. The modalities of disinvestment recommended in specific PSUs and action taken by Government on them is given in Appendices III and IV. It would be observed that action is yet to be taken by Government in respect of a number of the Commission’s general as well as specific recommendations.

At this point, the Commission would like to reiterate the important recommendations that have already been made in its various Reports to help improve the process of decision making and speeding up implementation of Government decisions on disinvestment. The Commission believes that these are critical to the success of the disinvestment process and are summarised below:

- (1) The disinvestment process needs to be delinked from the short term budgetary compulsions. Proceeds from disinvestment should be placed separately in a Disinvestment Fund which may be used to (a) restructure PSUs, wherever necessary, prior to disinvestment; (b) fund Voluntary Retirement Schemes for surplus employees in PSUs; (c) fund social infrastructure projects and (d) retire public debt. This would help create greater public awareness of the justification for disinvestment and the perception that the sale of assets of PSUs will lead to tangible social benefits. This would induce understanding and support for the disinvestment programme.
- (2) Government should follow the earlier Cabinet decision of May, 1997, communicated to the Commission in September, 1997 that all future

disinvestment from any PSU would be done only after obtaining the recommendations of the Disinvestment Commission.

- (3) The monitoring and supervisory role of the Commission should be restored in the interest of effective, coordinated and speedy implementation of Government decisions.
- (4) The Commission welcomes the constitution of a Cabinet Committee on Disinvestment chaired by the Prime Minister. The Commission's recommendations should be put up to the Cabinet Committee on Disinvestment along with the views of the Core Group and the Ministries concerned, in a time-bound manner, without the recommendations being filtered by official groups. This would call for evolving a mechanism of interaction between the Commission and the Core Group and other official agencies. It was also suggested that Chairman of the Commission should be invited to meetings of the Cabinet (now the Cabinet Committee on Disinvestment) to offer clarifications, wherever necessary, on the Commission's recommendations.
- (5) Experience so far has revealed considerable delay in the implementation of Government decisions on disinvestment. A full time implementation machinery should, therefore, be set up under the Finance Ministry for timely implementation of all the decisions of Government.
- (6) Decisions should be taken without further delay on all the recommendations of the Commission which have been pending for the last several months.
- (7) The Cabinet Committee on Disinvestment should be kept informed of the status of implementation of Government decisions at regular intervals of two months by the Finance Ministry through the Core Group of Secretaries.

The following table indicates the action taken by Government on the recommendations of the Disinvestment Commission on individual PSUs:

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

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

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

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

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

& Implemented in December 1997.

* Implemented in November 1998.

^ The Commission had not recommended disinvestment in this PSU

It would be seen from this table that out of 43 PSUs for which recommendations have been made by the Commission, the Government have initiated action in only 24 of them, while decision is awaited in the remaining 19 cases. Out of 25 cases of strategic sale/trade sale recommended by the Commission (Appendices III and IV), Government have initiated appointment of global financial adviser only in three cases. Of these, only in one case appointment of global financial adviser has so far been made. In as many as 19 cases, Government has not taken any final decision even after lapse of periods ranging from six months to two years. Only in two cases have the recommendations been partly implemented whereas in 11 other cases, recommendations are at various stages of implementation. Where views of Core Group / Ministries have been at variance with those of the Disinvestment Commission, there has been no opportunity for the Commission to interact with them.

In October 1997, the Commission pointed out to the Government that in the case of ITDC, Government's decision to appoint a Global Adviser to examine the recommendations of the Commission would warrant

reconsideration. For, bringing in a Financial Adviser from outside the Government to give a second opinion on the Commission's recommendations would show the Commission and the process of Government's decision making in poor light. It was pointed out that the Government's resolution constituting the Commission had stated that "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 Commission informed the Government that financial advisers should be appointed for implementing the decisions of Government and not for reviewing the recommendations of the Commission and the Core Group of Secretaries. Despite this, in July, 1998, Government put out an advertisement in the Indian and the Overseas Press inviting bids from financial advisers to examine the various alternatives and options of restructuring/ disinvestment/privatisation of ITDC. Attention of Government was once again drawn to this undesirable procedure. Government was informed that placing a global financial adviser in the position of an arbiter over the recommendations of the Commission might place the Government in an indefensible position as it would be seen to be acting on the advice of an outside adviser rather than that of the Commission. This also whittles down even the advisory role of the Commission and renders the Commission superfluous. Press reports indicate that the Commission's point of view has been accepted in regard to ITDC by the Finance Minister. A formal decision is yet to be taken.

However, there is another case where second opinion is being sought from an outside body i.e. on the modalities of disinvestment in IBP, on which specific recommendations were made by the Commission in November 1997. The Commission hopes that this decision would be reviewed and instructions would be issued to all Ministries not to seek second opinion from outside the Government in cases where the Disinvestment Commission has already given its recommendations.

In January 1998, the Government modified the earlier resolution of August 1996, constituting the Disinvestment Commission and stated that the Disinvestment Commission "shall be an advisory body and its role and function would be to advise the Government on disinvestment in those public sector units that are referred to it by Government." Thus, even the supervisory and monitoring role of the Commission was withdrawn. A copy of the January, 1998 resolution amending the terms of reference of the Commission is given in Appendix V.

In its Seventh Report submitted in March 1998, the Commission had considered the amendment of the terms of reference of the Commission

issued by Government by the resolution of January 1998, and felt that the role of the Commission in the disinvestment process had been considerably diluted. It was pointed out that the role of the Commission as an advisory body without powers of monitoring and supervision of the overall disinvestment process would render the Commission ineffective. The Commission, therefore, made a strong recommendation that the powers of monitoring and supervision as envisaged in the original Government notification of August 1996 should be restored.

The Commission further stated in its Seventh Report that it was not aware if all its recommendations had been taken before the Cabinet for a decision. The Commission emphasised that both its general and specific recommendations should not be filtered by official groups but should be placed before the Cabinet in their entirety to enable Government to appreciate the interconnected strategy of the various recommendations and take decisions thereon. It was also suggested that the Chairman of the Commission may be invited to the meetings of the Cabinet to offer clarifications, wherever necessary, on the recommendations of the Commission. The Commission has not been informed of Government decisions on any of these suggestions.

In its Eighth Report in August 1998, the Commission felt that in view of the present state of Indian and overseas capital markets, offering in these markets might not achieve optimum results. The Commission, therefore, suggested giving a big push to strategic sales of PSUs. The Commission noted that there has been inordinate delay in the implementation of Government decisions on strategic sales due to dispersed implementation by various Ministries. It, therefore, reiterated the recommendations made in its Seventh Report for setting up of a full-time implementation machinery for enabling speedy and timely implementation of disinvestment decisions of Government. It further stated that there was a clear need for monitoring the disinvestment process and supervising the implementation so as to make it transparent and effective. It was pointed out that the Disinvestment Commission was the logical choice for this purpose as envisaged in its original terms of reference. Government's decisions on these recommendations are still awaited.

In September 1998, Government had proposed formation of a special purpose vehicle (SPV) for fast track privatisation of certain PSUs and sought the comments of the Commission on its proposal. The Commission suggested that it would be preferable to set up a National Shareholding Trust for some of the blue chip PSUs in which government holding has already come down to 51% - 70% and which would not be put up for strategic sale

but could become professionally managed and with broad based public shareholding. With the disinvestment ranging between 10 and 20% shares, these companies would cease to be PSUs. This would have improved investor perception and raised share values and generated substantial immediate receipts for Government. There has been no response from the Government so far.

Presently, the Government is in the process of major disinvestment of oil companies through cross holdings. There have also been GDR sales in VSNL. Government is also contemplating disinvestment in Indian Airlines. The Disinvestment Commission has not been consulted for advice on these disinvestments in spite of the earlier Government decision conveyed to the Commission in September 1997 to the effect that “all future disinvestment from any PSE will be done only after obtaining the recommendations of the Disinvestment Commission.” This has been brought to the attention of the Government.

The Commission feels that, on the one hand, Government has, in a number of cases, not taken any action on its recommendations despite considerable time lag, it has, on the other, gone ahead with disinvestment in several cases without any consultation with the Commission, contrary to Government’s own decision referred to earlier. The role of the Commission has been significantly curtailed by the resolution of January 1998 amending the Commission's terms of reference. All this has seriously eroded the credibility of the disinvestment process as well as that of the Commission, and has led to public perception that the Commission has been marginalised. The Commission, therefore, hopes that Government would pay urgent attention to all these outstanding issues and take corrective measures so that necessary conditions for rapid, transparent and credible disinvestment process are created.

Part B

2. SPECIFIC RECOMMENDATIONS

20. 2.1 Hindustan Steel Works Construction Limited

21. Evolution

Hindustan Steelworks Construction Limited (HSCL) was set up in 1964 at Bokaro as a captive construction company for integrated steel plants. The objective was to pool available construction expertise to create a well-equipped public sector organisation that would take up construction works of modern integrated steel plants from site levelling to commissioning stage.

Between March 1973 to April 1978, HSCL was a subsidiary of Steel Authority of India limited (SAIL). Subsequently it was converted into an independent entity with GoI as the sole shareholder mainly to enable HSCL to stand in its own right as an independent construction company and to also take jobs outside SAIL.

HSCL has expanded its scope of activities beyond steel. Over a period of time it has gained some experience in civil and structural works in the coal, power, oil and refinery sectors as well as in the construction of roads, dams, bridges and office and residential buildings. To reflect this enlarged scope of activity, the company has been renamed “HSCL Infrastructure Limited” with effect from December 1998.

HSCL’s share capital has remained unchanged at Rs 20 crores, wholly owned by GoI.

22. Industry Analysis

Construction industry in India has traditionally been labour intensive. This had been facilitated by the relatively low skill and specifications requirements of civil/structural jobs. With increasing private sector participation and the ability of the private sector to upgrade technology in line with global trends, capital intensity levels in project execution has increased.

With domestic and international institutional funding for construction projects, also now forthcoming, the focus is on minimising project risks. Availability of certain types of equipment is now mandatory for companies to ensure timely completion of projects and to reduce the possibilities of quality related complaints.

Project contracts are now increasingly being awarded on an Engineering, Procurement and Construction (EPC) basis. To qualify as an EPC contractor, a construction company requires a broad range of expertise. This is more relevant for non-steel sectors like power, oil & refineries and infrastructure projects.

Construction business has largely been self-financing by virtue of up-front mobilisation advances received by contractors as well as periodic billings and collections during project progress. Declining trend in non-interest bearing customer advances and delays in payments from customers have resulted in increasing focus on the ability of the contractor to raise working capital on the strength of its balance sheet.

Expectations of market growth led to significant increases in steel capacity both in the public and private sector between 1991 to 1997. With the anticipated growth not forthcoming, there is now an excess capacity both in saleable steel and finished products like hot rolled & cold rolled sheets & coils. Incremental investments in this sector are therefore expected to be limited.

On account of variability in project earnings, construction companies tend to minimise fixed overheads by keeping the number of permanent employees low. As an industry wide practice, unskilled construction workers are seldom taken in the permanent rolls.

23. Business Analysis

The range of activities of HSCL are summarised below:

Steel - Construction, Maintenance and Repair of Integrated Steel Plants (ISP), Repair and Maintenance of Coke Oven Batteries.

Power - Foundation for Boilers, Turbo Generator, Erection of plant. Erection of chimneys, utilities and auxiliary buildings, structural work for coal handling plants, ash dyke. Raw water system, belting / conveyor and material handling systems

Oil and Refineries - LPG Bottling plant, pipelines, public utility systems at refineries, foundation for tank erection

Roads, Dams and Bridges - Design and Construction

The company was associated in constructing and erecting Bokaro Steel Plant, Vizag Steel Plant while it was associated with the modernisation and expansion work of other steel plants at Bhilai, Rourkela, Durgapur etc. Being set up with the objective of undertaking the construction requirements

of the Steel sector, HSCL's core competence lies in this area and consequently, 70% of HSCL's income is still generated by the steel sector. Also the steel sector provides better margins for HSCL than jobs in other sectors. With no Steel plant construction contracts possible due to the surplus capacities existing in the industry currently, HSCL's operations would come under stress.

The proportion of Steel sector jobs in the total turnover has been consistently declining and the company is getting into other areas as mentioned above. It has taken up small civil and structural work in thermal power plants of NTPC, DVC, NLC and many State Electricity Board run plants. Apart from this, the company is associated with the execution of various hydel power projects of NHPC, KPCL etc. Of late, HSCL also started executing various projects for oil sector companies like setting up of LPG Bottling Plant etc. The company has also been associated in the construction of Calcutta Metro Rail, Hooghly Bridge, International Sports Stadium at Kochi apart from various townships for steel plants, schools etc.

HSCL had taken up a project in Libya and had to close its operations on July 28, 1998 on as-is-where-is basis. At the time, it had executed work valued at Rs 248.94 crores against which a loss of Rs 118.97 crores was incurred. The GoI had extended a non-plan loan of Rs 92 crores for part funding the Libyan operations. As on March 31, 1998 the total dues to GoI were Rs 494.29 crores including the accrued interest.

Large labour force is the most important factor in making the operations of HSCL unsustainable and inefficient. HSCL began its operations in 1964 with 95 personnel. By 1973, the labour force went upto 20,135. Between 1975 and 1978, when HSCL was a subsidiary of SAIL, the average number of employees was 24,500. Since then, there has been a gradual decline and the current manpower strength is 13,850.

Workers and Non-Executive support staff comprise 88% of the total workforce. There is a significant mismatch between the expertise available and the job requirements as a majority of the workers is with Mechanical and Electrical expertise while the current jobs are civil in nature. This necessitates sub-contracting despite the excess workforce.

Most of the increase has been in the Unskilled/Semi-Skilled worker category that were 'absorbed' at the steel plant sites at Bokaro and Bhilai. These two sites along with Rourkela, Durgapur and Vishakhapatnam together account for 87% of the total number of employees, which is against the normal industry practice.

HSCL introduced a Voluntary Retirement Scheme in 1988-89 when the manpower strength was 22,412. By Sept.'98 a total of 7,776 employees had opted for VRS.

The effectiveness of the VRS was however limited. The increase in average employee costs per head has outweighed the reduction in the number of employees through the VRS. This has happened because of annual increments along with the implementation of the periodic Pay Commission Recommendations in salary scales. Also since HSCL could not target the VRS towards the less productive employees only, a number of the more efficient employees opted for the VRS.

24. Financial Analysis

The financial performance of HSCL for the past five years is summarised as follows:

Table 1: Financial Highlights Rs. Crore

	FY98	FY97	FY96	FY95	FY94
Operating Income	319.5	411.8	408.3	387.8	334.2
Operating Profit	-36.5	6.1	-8.2	-11.9	-33.1
PAT	-231.7	-131.7	-124.4	-100.5	-88.5
Equity Capital	20.0	20.0	20.0	20.0	20.0
Tangible Networth	-1081.7	-857.0	-724.5	-609.8	-513.9

(Financial Ratios are not shown as they are negative and hence meaningless)

From a profitability level (PAT/Operating Income) of 21% in 1965-66 soon after the company began its operations, HSCL reported a 70% loss in 1997-98. Barring 1985-86 when it made marginal profits, it has been making continuous losses since 1978-79 and in most years it has been making operating losses. The accumulated loss as on March 31, 1998 was Rs 1,101.7 crores and the Tangible Networth has been fully eroded. The company has been a consistent defaulter in terms of servicing its interest obligations to GoI, both for Plan and Non-Plan loans.

Most of the operating cash losses each year have been funded by non-plan loans. Of the total outstanding GoI loans of Rs 281.97 crores as on March 31, 1998, 67% was Non-plan in nature. As against an average Plan loan of Rs 4.50 lakhs received annually by HSCL between 1980 to 1998, Non-plan loans were of the order of Rs 10.55 crores. These loans are over and above the grants received by the company from the National Renewal Fund (NRF)

aggregating Rs 120 crores since 1988-89 for implementing Voluntary Retirement Scheme.

Out of the total accumulated losses as on March 31, 1998, 43% were on account of Libya and the loans taken for the Libya project continue to remain in the books and accrue interest.

Interest and finance charges accounted for 50% of operating income in 1997-98 and contributed significantly to the net losses for the year. The interest and finance charges are expected to increase further, both in absolute terms and as a percentage of operating income on account of falling operating margins and compounding interest charges.

Employee cost for HSCL constituted 40% of the company's turnover in 1997-98. HSCL's Contribution Margin (Operating Income minus Contract Payment minus Stores Consumed but excluding Direct Labour) at current levels is insufficient to cover its employee expenses. With Contribution Margins under pressure and average salaries increasing, the problem is likely to be accentuated in future.

The Cabinet first reviewed the deteriorating health of HSCL in April 1986. The Committee of Secretaries (CoS) recommended winding up of HSCL in 1994 with the following rationale:

- Inadequate orders and inability to attract business
- Pruning down labour, by at least 5000, appears impractical
- Rampant inefficiency in the organisation and low capacity of management
- Holding in abeyance, the winding up of the company, (Cabinet's decision in 1986) has resulted in additional losses of Rs 469 crores.

The Ministry of Steel however, suggested turnaround through Financial Restructuring. The detailed restructuring proposal submitted by the Department of Steel is under examination by various ministries. The salient features of the proposal are as follows :

Financial Restructuring

1. Conversion of Plan Loan of Rs. 97.10 crores into equity
2. Grant of repayment moratorium and interest holiday for ten years.
3. Waiver of Interest accrued and outstanding amounting to Rs. 975.17 crores.

Financial Assistance Package

4. Financial Assistance of Rs. 174.33 crores as Non-Plan Loan for meeting Statutory liabilities, wage arrears, expected cash loss for the current year.
5. Continuance of government guarantee and waiver of guarantee commission.
6. Grant/Loan from NRF of Rs. 338.36 crores for administering VRS to 8,000 employees.

25. Strengths & Areas of Concern

Strengths

Expertise in steel plant construction: HSCL is the first company which was engaged in the construction of steel plants and has constructed all the major steel plants in India.

Areas of Concern

Large labour force: The labour force strength in HSCL is 13,850 and out of which 88% are workers and non-executive support staff. This has resulted in high cost.

No diversification plan for existence: All the steel plants in India were set up long ago and there is limited possibility of setting up of new steel plants. In this circumstance, the existence of HSCL with only expertise in steel plants will not enable the company to survive. Even though the company has started taking up construction work in other sectors, given its weak financials and high labour, it would be difficult for the company to meet competition.

Weak balance sheet: The company for the past two decades is incurring losses and the accumulated losses amount to Rs 1,102 crores. Moreover, its assets are also not significant putting the company in a disadvantageous position to bid for new contracts that involve owning of equipment etc.

26. Recommendations

As is clear from the earlier discussion, HSCL is experiencing problems on account of reduced business, high employee cost, overheads and debt overhang. HSCL, which in the past, had depended on public sector steel plants for bulk of its business is unlikely to be able to do so in future. Even though HSCL has diversified into other construction related activities, due to strong competition and the drag of large and immobile manpower, its operations have been unviable. HSCL's poor financial position reflected by the high debt and the large outstanding interest is proving to be a big hindrance in getting orders, as strong financials are a prerequisite for a construction company to secure business. There is also a substantial private sector presence in the construction industry. **The Commission, therefore, classifies HSCL as a non-core company operating in a competitive environment.**

The Commission notes that for the continued existence of HSCL and to enable it to bid for new orders, implementation of financial restructuring measures as recommended by Department of Steel (Page 14) would be critical. However, this entails a large financial burden on the Government to the extent of Rs. 513 crores and this, by itself, will not improve the operating efficiency of the company.

Under the circumstances, the Government has the following three alternative courses of action.

Alternative 1. Status Quo

Alternative 2. Implementation of Financial Assistance Package, proposed by the Department of Steel, and continue in the public sector

Alternative 3. Implementation of Modified Financial Assistance Package followed by disinvestment

Alternative 4. Closure of HSCL

Alternative 1 : Status Quo

Under this alternative, after meeting statutory liabilities of Rs. 136 crores comprising (a) arrears due to Fifth Pay Commission, (b) PF dues, (c) gratuity premium arrears to LIC and (d) Salaries & Wages arrears, the Government would have to fund HSCL's cash deficit, every year to keep it afloat. During 1997-98, HSCL incurred a cash loss of Rs. 62 crores, which is likely to increase in future. Government would have to fund these through budgetary resources, year after year.

Alternative 2 : Department of Steel's Proposal

In the second option, the Government will have to implement the Financial Restructuring and Assistance packages as elaborated earlier (page 14). This will involve a cash out flow of about Rs. 513 crores towards VRS package, to reduce the workforce by 8,000 employees (Rs. 338 crores), and towards the statutory and other pressing liabilities (Rs. 175 crores).

The Department of Steel feels that implementation of this package will enable the company to bid for new orders and continue operations as a public sector enterprise.

Alternative 3 : Modified Assistance Package followed by Disinvestment

In this option, the Government will have to provide cash funds to HSCL to implement the Financial Restructuring and Assistance packages similar to the package proposed by Department of Steel with provision for further reduction of manpower by 1,500 employees i.e. total of 9,500 employees. This package would involve an additional outflow of about Rs. 70 crores.

After the implementation of the Financial Restructuring and Assistance Packages, the Government should disinvest its entire holding to a strategic bidder through a global competitive bidding process. The interest of potential bidders can not be assessed at present. However, the success of such a strategic sale is doubtful. Even if the disinvestment is successful, the proceeds would only partially offset the Government cash support of about Rs. 583 crores and avoid recurring financial support from Government.

Alternative 4 : Closure

Under the fourth alternative, Government can close down the operation of HSCL and liquidate all its assets and liabilities, which are as follows.

1. Employee Separation Cost under statute : Rs. 328 crores
2. Other statutory dues : Rs. 136 crores

Liabilities (as on March 31, 1998)

3. Outside Contractors and Suppliers : Rs. 500 crores

Assets (as on March 31, 1998)

1. Fixed Assets : Rs. 38 crores
2. Debtors : Rs. 410 crores
3. Current Assets : Rs. 160 crores

After examining the above alternatives, the Commission feels that the Alternative 2 and Alternative 3 are not viable options, as they would involve substantial financial outgo from the Government without any prospect of strategic sale for reasonable value. **The Commission is of the view that if the Government does not find it feasible to close down the enterprise, the only other alternative would be to continue the enterprise by meeting recurring annual cash losses of around Rs. 60-70 crores per annum, after meeting the statutory liabilities of about Rs. 136 crores. In this case there should be a clear understanding that there would be no fresh recruitment or replacement of retiring employees.**

28. Evolution

The State Trading Corporation of India Limited (STC) was registered in May 1956 under the Indian Companies Act. The main objective of STC was to broaden and enlarge the scope of India's exports and to arrange for essential imports. STC functions under the administrative control of the Ministry of Commerce. STC has traditionally functioned as one of the canalising agencies of GoI along with the Mining and Metals Trading Corporation Limited (MMTC) and the Projects and Engineering Corporation Limited (PEC).

In 1989, Bharat Business International Limited (BBIL) was formed as a holding company for four Government-owned trading companies – STC, MMTC, PEC and the Spices Trading Corporation of India (SPTC). The objective of BBIL was to streamline the trading operations of all these four companies. However, the experiment did not succeed and in 1992, all the four companies were made independent again.

Government disinvested 9% of its stake in STC during 1991-92 when the shares were sold in bundles along with the shares of other public sector units (PSUs). The price realisation by GoI was Rs. 67.61 for each share of Rs. 10 face value in the first round, followed by Rs. 75 per share in the second round. Even though the shares are technically listed at the stock exchange, there is little or no trading history available. The shareholding pattern as at March 31, 1998 is as follows :

Table 1 : Shareholding Pattern of STC

Shareholder	Percent Holding
President of India	91%
Canara Bank	3%
UTI	2%
GIC	2%
Other	2%
TOTAL	100%

29. Industry Analysis

Trading companies, essentially, perform two tasks: they act as trade intermediaries, linking product suppliers with users, and they develop trade flows by engaging in activities that increase the supply of products and stimulate additional demand. Some of the major functions of trading companies globally are :

Trade Services

Trading companies, particularly the larger ones, are extensively involved in the distribution process also i.e. delivering the goods by air, sea and land. They have to obtain favourable trade financing using their knowledge of import and export procedures, shipping, warehousing and insurance. The scale of operations of large trading companies is expected to result in lower unit costs and greater efficiency in distribution. The activities of trading companies generally require large amounts of working capital, purchasing expertise in the area of internationally traded commodities and bearing of considerable risk.

Counter Trade

Counter trade has become essential to trading companies' efforts to support economic progress in developing countries. Counter trade arrangements alleviate problems associated with shortages of hard currency and insufficient credit from international financial institutions by enabling developing countries to pay in kind for imports of good and services.

Information

Modern information gathering and analysing capabilities are a necessity of general trading companies, the largest of which maintain more than 100 offices around the world. Satellite-based communication systems allow the almost instantaneous transmission of messages around the globe, thus enabling general trading companies to handle vast amount of information exchange each day. The information networks of trading companies permit them to find market opportunities that would be difficult to locate for individual manufacturing companies.

Trade Development

Their comprehensive information capabilities place general trading companies advantageously for identifying new trade opportunities. Utilising their financial power and knowledge of products and markets, these companies are able to actively develop new sources of supply and create effective economic infrastructures. The role general trading companies have played in fostering the development of industrial parks in Thailand and other countries is one example of their trade promotion activities.

Finance and Investment

Trading companies are not banking institutions in the usual sense of the term; however, their ability to provide finance has become indispensable to many industries. Generally, the receivables of trading companies exceed that of the payables indicating that these companies are extending net credit to their client companies. Financing also takes place in the form of letters of

credit guaranteed by the bank to help either importers or exporters. Additional types of financial assistance extended to companies include equity investments, direct loans and guarantees of loans and other obligations of their client companies. They maintain their own credit evaluation sections and make periodic reappraisals of the credit standing of client companies.

Risk Absorption

The size and diversity of the markets in which they are active and variety of products they deal with underlies the particular ability of trading companies to absorb risk. They play a key role in helping manufacturers alleviate foreign exchange risk. Currency fluctuations can have substantial impact on exporters operating independently unless they hedge their currency risks. Trading companies are thus able to sign contracts that guarantee stable forward exchange rates, extending in some cases to more than a year.

Key Success Factors in Trading

Some attributes of large trading companies that have been important in supporting trade development are as follows:

- Familiarity with and expertise in working in most of the global markets.
- Access to vast amount of information pertaining to industry and trade and the capability to process and disseminate this information quickly.
- The ability to provide financial assistance in the form of trade credits to finance import/export activities, investments, loans and loan guarantees, and lease financing for capital equipment.

The means to absorb some of the risks inherent in trade. This ability stems from the wide range of products handled by trading companies and their effectiveness in managing foreign exchange and other types of risk.

- Ability to spot opportunities and act quickly.
- Certain degree of trade secrecy is required.
- Availability of captive supply of products.

30. Business Analysis

The primary business of STC is international trade. It imports and exports commodities on both government account and for private parties. In addition, STC is also the nodal agency for counter/off-shore trade and undertakes domestic trade in selected commodities like edible oil. The company's main activities can be divided into four major areas:

- Activities handled on behalf of the Government of India which primarily include import and export of canalised items
- Non-canalised imports

- Non-canalised exports
- Domestic Trading

STC is geared to undertake export or import of any item from manufacturing products to bulk commodities by view of the various strengths developed by it since inception. GoI has granted it the status of **Star Trading House**.

STC has witnessed significant changes in its business profile over the last seven years. Till the late 1980s, both STC and MMTC enjoyed the benefits accruing from their position as the canalising agencies for foreign trade for GoI. Between STC and MMTC, there existed a clear demarcation of commodity groups, with MMTC trading in metals and minerals, gems and jewellery and fertilisers and STC in all other commodities. During the 1970s and early 1980s, trade in about 118 commodities was canalised through STC exclusively. STC reached its peak of operations with operating income of Rs. 3,646 crore and net profit of Rs. 34 crore in FY 88. With the liberalisation of the Indian economy, the environment in which STC was operating changed drastically. Its role as a canalising agency of GoI was rendered meaningless and its primary activity of import and export of canalised items reduced significantly.

With the comfort of operating in a protected-environment no longer available, STC has faced declining profitability and margins. Imports constituted around 82% of STC's gross sales in FY 98 as against 21% in FY 94. Of the total imports, the share of imports on behalf of GoI was around 72% in FY 98. This comprised mainly import of wheat, fertiliser and edible oils. Exports and domestic trading accounted for 12% and 6% of the gross traded sales respectively in FY 98. The details of the STC's division-wise sales and trading profits for the past four years are given below.

Table 2 : Division-wise Sales and Trading Profits Rs Crores

	1997-98			1996-97			1995-96			1994-95		
	Sales	Profit	Margin	Sales	Profit	Margin	Sales	Profit	Margin	Sales	Profit	Margin
EXPORTS												
Non-canalised Exports	338.72	-13.55	-4.0%	512.89	3.13	0.6%	543.31	4.57	0.8%	363.79	2.72	0.7%
Off-shore	0.00	0.00		0.00	0.00		5.09	0.07	1.4%	65.30	2.91	4.5%
Counter Trade	0.00	0.00		0.00	0.00		201.00	0.92	0.5%	376.53	1.58	0.4%
TOTAL EXPORTS	338.72	-13.55	-4.0%	512.89	3.13	0.6%	749.40	5.56	0.7%	805.62	7.21	0.9%
IMPORTS												
Govt. Account Import	1,692.62	23.39	1.4%	1,742.76	29.71	1.7%	714.20	18.26	2.6%	904.06	27.31	3.0%
Non-canalised Imports	658.17	7.75	1.2%	152.69	9.86	6.5%	142.99	3.89	2.7%	61.28	1.56	2.5%
TOTAL IMPORTS	2,350.79	31.14	1.3%	1,895.45	39.57	2.1%	857.19	22.15	2.6%	965.34	28.87	3.0%
DOMESTIC SALES	177.45	3.25	1.8%	116.18	3.89	3.3%	78.20	7.88	10.1%	90.00	11.54	12.8%
TOTAL SALES	2866.96	20.84	0.7%	2524.52	46.59	1.8%	1684.79	35.59	2.1%	1860.96	47.62	2.6%

Import on Government account has become the primary activity accounting for about 59% of the total turnover in 1997-98. The Government trade

through STC has been mainly in the event of a shortfall in domestic supply for sugar, wheat, edible oil, etc. and hence has been fluctuating in the past. It is extremely difficult to predict the quantum of the imports on the Government account. Moreover, the Government can utilise / permit other agencies like NDDDB, FCI, NAFED, etc to canalise its imports.

Non-canalised imports account for 23% of the total turnover of STC in FY 98. Import of Gold/ Silver, against a Special Import License (SIL), comprises a substantial portion (of the total non-canalised imports during 1997-98. However, with GoI allowing various banks to import gold, STC does not have the infrastructure and the expertise to compete. During the first half of the current financial year, STC has imported gold worth only Rs. 50 crore. Trading margin in non-canalised imports is also subject to lot of fluctuations. It declined from 6.5% in FY 97 to 1.2% in FY 98.

Exports by STC has shown significant fluctuations in the past. Exports declined by 32% and 34% in FY 97 and FY 98 respectively. STC has met with limited success in the field of non-canalised exports. The main reasons for this are the Non-availability of captive supply for exports, Lack of experienced personnel for exports and Lack of risk-taking confidence.

Traditionally, STC's domestic trade operations comprised of two main businesses: purchase and sale of imported cars and Extraction/oil/cakes. Till recently, the major domestic trading operations of STC were confined to the sale of imported cars that were sold to STC by foreign diplomats. These cars were then auctioned to the public. However, with the availability of better cars in India and much lower excise duty (40%) as compared to the import duty (100%), the volume of this business as also the profitability has declined drastically.

Sales of edible oils emanating from oilseed crushing operations. It is proposed to gradually increase the sale of edible oils in consumer packs under its own brand called 'Darpan.' However, it has met with limited success and posted a trading loss in FY 98.

With the decline in sale of imported cars, trading margin has also been adversely affected in this business. It has declined from 12.8% in FY 95 to 1.8% in FY 98. Another reason for the decline in performance was the poor performance of the extractions business.

Subsidiary

The Tea Trading Corporation of India Limited (TTCI), a wholly-owned subsidiary of STC owns tea gardens and is involved in manufacturing, selling and exporting tea. It was made a subsidiary of STC in 1985. GoI paid a sum equal to the accumulated losses of TTCI (*around Rs. 12 crore*) to STC. STC's investment in the Rs. 11.14 crores share capital of TTCI cost Rs. 3 crore.

The company's net worth has been wiped out and has not paid the salaries to its 427 employees for the past seventeen months. STC has also provided a loan of Rs. 1.71 crore to TTCI during FY 96 and FY 97. STC has started the winding up procedure for TTCI. About 290 employees of the total employee strength of 427 have already opted for the VRS.

Competitive Analysis

STC does not compare favourably with the other major trading companies operating in India. Since STC's loss in 1997-98 was primarily due to poor condition of the extractions market, we have also considered the 1996-97 results. Its gross trading margin is considerably lower than the other GoI trading companies. However, MMTC's higher margins could be attributed to the higher amount of canalised business. When compared to private Indian trading companies like Adani and Tata International, STC's margins are substantially lower. Their employee expenses as percentage of the operating income are also significantly lower than GoI trading companies.

Table 3 : Peer Comparison

	Rs Crores						
	STC 1997-98	STC 1996-97	MMTC 1997-98	PEC 1997-98	Adani 1997-98	Tata Intl. 1996-97	Itochu 1997-98
Gross Sales	2867.01	2524.54	4473.43	448.71	2258.78	1662.21	500106.00
Gross Trading Profit	20.17	47.62	114.76	9.92	160.50	92.46	19196.68
Trading Margin	0.69%	1.83%	2.54%	2.21%	6.65%	5.47%	3.83%
Employee Expenses/OI	1.37%	1.16%	1.24%	1.29%	0.13%	0.93%	N/A
Trading Overheads/OI	2.32%	2.21%	2.49%	2.40%	3.03%	3.71%	3.25%
Net Trading Profit	-47.44	-9.97	2.41	-0.87	100.86	43.90	713.85
Net Trading Margin	-1.63%	-0.38%	0.05%	-0.19%	4.18%	2.60%	0.14%
Non-Operating Income	56.10	86.77	44.22	2.76	13.56	11.64	3877.38
OPBT	-58.51	-29.29	-19.83	-1.37	75.80	35.42	-
Non-Operating Income/OPBT	N/A	N/A	N/A	N/A	17.89%	32.86%	-
Profit After Tax	2.57	37.73	17.37	0.92	62.51	19.92	-3056.43
Net Margin	0.09%	1.45%	0.38%	0.20%	2.59%	1.18%	-0.61%
Employees	1683	1816	3144	230	-	-	6675
Sales per employee	17,035,116	13,901,652	14,228,467	19,509,130	-	-	749,222,472
Gross Sales/Rupee of Employee Expense	71.71	71.71	80.18	77.23	701.48	105.47	-

31. Financial Analysis

Earlier STC was the sole canalising agency for various products and it was assured of earning profits as GoI paid a fixed commission. However, the liberalisation of the Indian economy since 1991 has adversely impacted STC's operations. Currently, the edible oil for PDS is the only product canalised through STC. This change has adversely affected the trading profitability of STC with the trading margin declining from 6.4% in FY 93 to 0.7% in FY 98.

Table 4 : Financial Highlights Rs. Crore

	FY98	FY97	FY96	FY95	FY94
Operating Income	2914	2602	1749	1879	1133
Operating Profit	-47.4	-10.0	-13.4	6.5	-3.3
Non-operating Income	56.1	86.8	66.2	48.2	51.1
PAT	2.6	37.7	22.1	22.1	22.6
Equity Capital	30.0	30.0	30.0	30.0	30.0
Tangible Networth	439.5	446.9	409.1	396.1	383.0
Gross Margin (%)	-1.6	-0.4	-0.8	0.3	-0.3
Net Margin (%)	0.10	1.45	1.30	1.20	2.0
ROCE (%)	0.65	6.71	8.79	10.88	9.69
RONW (%)	0.60	8.44	5.40	5.58	5.90
Earning Per Share	0.86	12.58	7.35	7.37	7.55
Dividend (%)	33	0	30	30	30

Turnover increased in FY 97 and FY 98 primarily due to import of wheat on behalf of GoI. Although operating income increased by 12% during FY 98, trading profit and net profit declined by 58% and 93% respectively due to Rs. 14 crore loss suffered by STC in exports of extractions. STC has been registering net profit over the last few years only because of substantial interest income from its investment portfolio (*Rs. 163 crore in US-64*) and rental income from its headquarters at New Delhi. Its non-operating income was Rs. 56 crore in FY 98.

Even though around 700 employees of STC opted for the VRS between FY 90 and FY 98, its overheads have been steadily increasing since FY 95. As on March 31, 1998 the current employee strength was 1649.

Though STC's debt in the books was Rs. 557 crore at the end of FY 98, around Rs. 537 crore (*banker's acceptance*) is an accounting adjustment for wheat purchase in conjunction with the Food Corporation of India (FCI) matched by corresponding receivables.

32. Strengths and Areas of Concern

Strengths

Trading Experience and Credibility as a result of operating in the trading business for more than last 40 years.

Government's Canalising Agency – Almost all the non-metallic imports by the Government are routed through STC.

Areas of Concern

PSU Status – The PSU status of STC hampers in quick transition and appropriate organisational culture to cope with the changing competitive environment.

Lack of Global Information Network – STC has extremely limited research of its own and it relies completely on the Reuters Information Network for all its information needs. STC has failed to keep abreast of the latest developments and is woefully under-computerised.

High dependence on Government Trade – In the recent past the Government trade has shown high fluctuations and Government has also started routing imports through other agencies. STC has not been able to develop Non-Government trade in India to diversify its operations.

Over-manning with adverse skill profile – STC's employee expenses take away a major portion of its trading profits. The Staff to Manager proportion for STC is high at 4:3. As a result of time-based promotion policies, many senior level executives lack the requisite qualifications.

Lack of Backward/Forward Client Base - Even though STC played an important role in developing exports from India, it was not able to create a captive supply base. Its business associates utilised its services to gain knowledge of the overseas buyers and then bypassed STC to save the service charges.

Weak Balance Sheet – STC's financial position does not allow it to use trade credit to expand its business.

33. Recommendation

As has been discussed above, the objectives for which STC was formed in 1956 are no longer relevant. STC's performance has also been suffering due to excessive employee strength and poor trading margins. It is dependent for business on GoI which has started engaging other companies for imports such as FCI (Wheat), MMTC (Metals & Fertilisers), Indian Potash (Fertiliser), NDDDB (Edible Oil), NAFED (Other agricultural commodities). STC has been incurring losses from their trading operations in recent years. However the company is showing net profits only because of large non-operating incomes such as rent, income from investments etc.

The company has been incurring losses on trading business primarily on account of high employee cost. Normally the trading business offers low margins and competitiveness and profitability mainly depends on keeping the overheads to bare minimum. The employee cost over the years has risen significantly due to salary revisions etc. In case of STC, the employee cost amounted to Rs. 40 crore as against the gross trading profit of Rs. 20 crore during 1997-98.

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

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

Under the circumstances, the Government has the following options for disinvesting its holding in STC.

Option 1: Through a strategic sale to a bidder from a group of pre-qualified bidders through global competitive bidding and transfer of management.

Option 2: Closure

Under the first option, there is likely to be interest in acquiring the Government's current holding in STC as it is one of the larger trading companies in India. The strategic sale would enhance share values consequent on the company going out of the public sector.

Simultaneously with the decision to disinvest, manpower reduction through VRS should be initiated. As an added incentive, a 5% share could be reserved for sale to employees who opt for VRS. This sale would be at a discount to the strategic buyer's price.

Under the Second Option, STC could be shut down after offering an attractive compensation package as provided under the law to the employees. The cost of closure can be met out of the realisation of assets.

In both the options, the work relating to market intervention for price stabilisation, wherever necessary, would have to be entrusted to other agencies by the Government, as it has been doing in the past.

The Commission recommends that the First Option be adopted for the disinvestment of entire GoI holding in STC to a strategic buyer, after reserving 5% share for employees who opt for VRS - at the rate of not more than 200 shares per employee - at a discount to the strategic buyer's price, as this would provide continuation of the trading operations under private ownership and management with sustainable levels of employment. Manpower reduction through VRS would have to be undertaken simultaneously with the decision for disinvestment.

Appendices

Appendix I

Terms of Reference of the Commission

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

Appendix II

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

A. General Recommendations**1. Establish Disinvestment Fund (I:3.1, II:1, V:1 and VII:1)**

The proceeds from the disinvestment may be placed separately in a 'Disinvestment Fund' and the National Renewal Fund should also be merged with this Fund. The resources of the Fund may be primarily used for

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

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

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

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

2. Delink the disinvestment process from the Budgetary Exercise of Government (IV:1)

Linkage of the implementation of disinvestment with the budgetary exercise may hinder achievement of the larger objective of the disinvestment exercise.

Action Taken : Decision awaited.

3. Standing Empowered Group (I:4.1)

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

Action Taken : Core Group has been empowered as recommended.

4. Transfer of Management (V: 1)

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

Action Taken : Decision Awaited.

5. Reduction of Government Equity (V: 1)

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

Action Taken : Decision Awaited.

6. Referral of PSUs to the Commission (V:1)

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

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

7. Voluntary Retirement Scheme (II:1 and IV:1)

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

Action Taken : Decision awaited

8. Disinvestment without reference to the Commission (III:1 and IV:1)

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

Action Taken : Decision awaited

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

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

Action Taken : Decision awaited

10. Disinvestment Package (IV:1)

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

Action Taken : Decision awaited

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

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

Action Taken : Decision awaited

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

In order to get the best prices for the shares disinvested by Government, particularly in the undertakings that will remain in the public sector, it is essential to time the sale under favourable market conditions. Timely action to select the financial advisers and a close watch on market conditions are necessary to get the best results. The Commission therefore recommends that

a full time **implementation machinery** under the Ministry of Finance including public sector merchant bankers be set up under Government with a clear mandate. This machinery will select financial advisers and put through the sale of shares, either through offer of sale or by strategic sale and get the best price for the shares within a reasonable price band, that should be approved in advance by Government.

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

Action Taken : Decision awaited

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

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

Action Taken : Decision awaited

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

In view of the present state of the Indian and Overseas Capital Markets, offerings in these markets may not achieve optimum realisation. The Commission, therefore, suggests giving a big push to strategic sales of PSUs recommended by the Commission. At the present juncture, the advantages of such a big push operation for strategic sales are many. They are :

1. Since strategic sales depend not on capital market conditions but on the intrinsic value of the concerned enterprises, they can be undertaken straightaway.
2. The response to the offer of strategic sales will send the right signals about the confidence of the international community in the Indian economy. This will also stimulate foreign direct investment in India.

3. Substantial amounts of foreign exchange can be earned to strengthen our foreign exchange reserves.
4. Successful strategic sales will boost the confidence of the Foreign Institutional Investors and induce their increasing support to the Indian capital market. This will also encourage domestic investors. Even the GDR market is likely to pick up as a result of successful strategic sales.
5. Government's realisation from proceeds of disinvestment would be substantial.

Action Taken : Decision awaited

B. Guidelines on Modalities

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

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

Action Taken : Book Building followed in GDR issues.

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

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

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

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

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

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

Detailed and transparent procedure for the selection of all intermediaries for the Offer of Sale of shares either in domestic or international market. The financial

advisors need not evaluate the disinvestment options recommended by the Commission.

Action Taken : Accepted

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

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

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

Action Taken : Accepted

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

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

Action Taken : Accepted

6. Audit of Disinvestment Transactions (V:1)

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

Action Taken : Decision Awaited

C. Recommendations on Delegation of Autonomy

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

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

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

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

2. Provision for Elected Directors (I:3.4)

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

Action Taken : Decision Awaited

3. Selection of Top Management (I:3.4)

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

Action Taken : Decision Awaited

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

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

Action Taken : Decision Awaited

5. Autonomy in Price Fixation (I:3.4)

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

Action Taken : Decision Awaited

6. Accountability (I:3.4)

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

Action Taken : Accepted

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

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

Action Taken : Decision Awaited

8. Strengthening the Investor Interface (I:3.4)

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

Action Taken : Decision Awaited

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

9. Moderate Performers

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

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

Action Taken : Decision Awaited

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

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

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

10. Strong Performers

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

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

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

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

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

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

Appendix III

Recommendations for 43 PSUs and Action Taken by Government

Recommendations		Government Action
1.	Modern Food Industries India Limited (MFIL) (I:5.1) Sale of entire Government shareholding on an as-is-where-is basis	Decision being implemented
2.	Gas Authority of India Limited (GAIL) (I:5.2) -25% disinvestment through GDR Autonomy under Strong Performer Criterion Implement TL Sankar Committee Recommendations	Decision being implemented

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

Recommendations		Government Action
3.	Indian Tourism Development Corporation (ITDC) (I:5.3) Handing over the hotels located in prime locations to established hotel chains to run on long term structured contract on lease cum management basis. The hotels in other locations may be demerged into separate companies and Government to sell 100% of its equity in those new companies.	Decision awaited
4.	Bharat Aluminium Company Limited (BALCO) (II:2.1) Immediate disinvestment of 40% of the equity to a strategic partner with an agreement to dilute Government holding to 26% through public issue within 2 years. The Government to disinvest its balance holding of 26% in full at an appropriate time in future	Decision being implemented
5.	Bongaigaon Refineries and Petrochemicals Limited (BRPL) (II:2.2) Strategic sale of 50% of Government holding with an agreement to further dilute to 26% or below through public offer at a later date.	Decision awaited.
6.	HTL Limited (HTL) (II:2.3) 3 options for disinvestment - <ul style="list-style-type: none"> • Sale of 100% shares in HTL along with ITI in the process of Strategic Sale • 50% of shares of HTL may be offered to a strategic partner through a global competitive bidding • if none of the above options is feasible, straight sale of assets of the company through competitive bidding 	Decision being implemented
7.	ITI Limited (ITI) (II:2.4) Immediate reduction of manpower through VRS and hiving off the Defence Division in Bangalore and merge with Bharat Electronics Limited followed by strategic sale of 50% of the shares with an agreement to reduce the Government holding to 26% through public offer to Indian institutions, small investors and employees later	Decision awaited.
8.	Madras Fertilisers Ltd (MFL) (II:2.5) Recommended to initiate negotiations with National Iranian Oil Company to change the terms of agreement which would permit sale of 50% of the shares in the company to a strategic partner	Decision awaited.
9.	Manganese Ore India Limited (MOIL) (II:2.6) - No immediate disinvestment	Accepted

Recommendations		Government Action
10.	Container Corporation of India Limited (CONCOR) (III:2.1) -10 million shares offer to institutional investors and public and at a later stage the company could go in for fresh issue of 12.5 million shares thereby reducing the Govt's share to 51%	Decision implemented.
11.	Kudremukh Iron Ore Company Limited (KIOCL) (III:2.2) Strategic sale of 30% and induction of the strategic partner in the management. There should be an agreement with the strategic partner for further dilution of Government equity to strategic partner and public offering within 2 years.	Decision being implemented.
12.	Mahanagar Telephone Nigam Limited (MTNL) (III:2.3) - 60 million shares in GDR market and 28.3 million shares in domestic market through book building Financially restructure – by formation of a new company for raising funds for DoT Grant of Autonomy under Strong Performer Criteria.	Decision implemented.
13.	Oil India Limited (OIL) (III:2.4) - Disinvestment and Company's IPO only after company's prospects are clearly established through the outcome of exploration activities in the North Bramhaputra area and Government's policy on APM	Accepted.
14.	Oil and Natural Gas Commission Ltd. (ONGC) (III:2.5) -Disinvestment after the organisational changes are in position and Government's policy on APM	Accepted.
15.	Rail India Technical & Economic Services Ltd (RITES) (III:2.6) - No disinvestment	Accepted.
16.	Hindustan Copper Limited (HCL) (IV:2.1) - Two options suggested: <ul style="list-style-type: none"> • HCL to implement the expansion programme and also restructure the ICC mining operations by closing down mines through VRS. Afterwards, Government to divest 51% of its holding through a strategic sale. The balance 22% to be disinvested through offer of sale to domestic institutions, small investors and employees • Immediately disinvest 51% through a strategic sale and after restructuring and expansion, disinvest balance 22% through offer of sale to domestic institutions, small investors and employees 	Decision awaited.

Recommendations		Government Action
17.	Pawan Hans Helicopters Limited (PHL) (IV:2.2) - Recommends writing off the Westland loans together with interest. Offer the entire Government holding to ONGC. If ONGC not interested, sell the entire holding of Government to an investor.	Decision awaited.
18.	Power Grid Corporation of India Limited (POWERGRID) (IV:2.3) Disinvestment only after entire electricity sector is fully restructured.	Accepted
19.	Shipping Corporation of India Ltd (SCI) (IV:2.4) Government to disinvest 40% of its holding to oil refineries, (30% to public sector and 10% to private sector refineries). This can be followed by the company's own equity raising.	Decision awaited.
20.	Engineers India Limited (EIL) (V:2.1) GoI to hold 26% for retaining the character as an Indian Consultancy company in strategic areas; GoI to disinvest 30% equity stake in the company along with appropriate role in management; 10% to employees under ESOP; 10% to public sector oil companies and other user PSUs; 24% through public offer to domestic investors after the strategic partner is inducted.	Decision being implemented.
21.	Engineering Projects (India)Limited (EPIL) (V:2.2) GoI firstly to try disinvestment of 74% of its holding as approved by Cabinet; in the absence of satisfactory response, closure and sale of asset	Decision being implemented.
22.	Hindustan Prefab Limited (HPL) (V:2.3) GoI to offer 74% of its holding to a strategic buyer	Decision awaited.
23.	IBP Limited (IBP) (V:2.4) GoI to hold 26% and offer upto 33.9% of the company's equity out of GoI holding of 59% to strategic buyer	Decision awaited.
24.	National Thermal Power Corporation (NTPC) (V:2.5) - No disinvestment presently	Accepted
25.	NEPA Ltd. (NEPA) (V:2.6) Immediate sale of 51% to a strategic partner which could go up to 100%	Decision awaited.
26. 27.	Ranchi Ashok Bihar Hotel Corporation and Utkal Ashok Hotel Corporation Ltd. (V:2.7,2.8) ITDC to disinvest 100% holding in favour of any private entrepreneur	Decision being implemented.

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

Recommendations		Government Action
41.	Steel Authority of India Ltd (SAIL) (VII:2.7) No disinvestment, presently. Government assistance in writing –off IISCO’s losses and sale of IISCO. Conversion of SAIL’s SDF dues into equity.	Accepted
42.	Air India Ltd (AI) (VIII:2.1) Infusion of Rs. 1000 crore as equity, followed by strategic sale by issue of new shares reducing Government holding to 60%. Subsequent offer of sale of 20% to domestic investors.	Decision awaited.
43.	Central Electronics Ltd (CEL) (VIII:2.2) Priority to CEL’s performance improvement. One year to reduce manpower through VRS and another year to improve performance. If substantial surplus manpower reduction is not achieved, disinvest CEL through a trade sale after hiving-off defence related operations.	Decision awaited.

Appendix IV

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

Modalities of Disinvestment	No.	Names of PSUs	Status of Government Decision				
			Accepted	Deferred	Implemented	Being implemented	Awaited
Trade Sale	6	ITDC, MFIL, HCIL, R-Ashok, U-Ashok, PHL				MFIL, HCIL, R-Ashok, U-Ashok	ITDC, PHL
Strategic Sale	19	HTL, ITI, BALCO, BRPL, KIOCL, MFL, EIL, HPL, IBP, NEPA, HZL, PPCL, NFL, FACT, IPCL, HCL, SCI, HLL, AI		NFL, FACT		HTL, BALCO, KIOCL, EIL, IPCL	ITI, BRPL, MFL, HPL, IBP, NEPA, HLL, PPCL, HCL, HZL, SCI, AI
Offer of Shares	4	GAIL, CONCOR, MTNL, NALCO			CONCOR, MTNL	GAIL	NALCO
No Disinvestment	1	RITES	RITES				
Disinvestment deferred*	9	OIL, ONGC, MOIL, NTPC, NHPC, NLC, POWERGRID, SAIL, CEL	OIL, ONGC, NTPC, MOIL, NHPC, PGCL, SAIL, NLC				CEL
Closure/sale of assets	4	EPIL, ET&T, HVOC, RICL				EPIL	ET&T, HVOC, RICL
Total	43		9	2	2	11	19

* Pending fulfilment of certain specified conditions.

Appendix V

**MINISTRY OF INDUSTRY
(Department of Public Enterprises)**

RESOLUTION

New Delhi, the 12th January, 1998

No. 11013/3/96-Admn. - In partial modifications of this Ministry's Resolution No. 11013/3/96-Admn. dated 23-8-96 constituting the Public Sector Disinvestment Commission, Paras 3,4 and 5 thereof are deleted and substituted by the following :-

- 3(I) The Disinvestment Commission shall be an advisory body and its role and function would be to advise the Government on Disinvestment in those public sector units that are referred to it by the Government.
- 3(ii) The Commission shall also advise the Government on any other matter relating to disinvestment as may be specifically referred to it by the Government, and also carry out any other activities relating to disinvestment as may be assigned to it by the Government.
- 3(iii) In making its recommendations, the Commission will also take into consideration the interests of workers, employees and others stake holders, in the public sector unit(s).
- 3(iv) The final decision on the recommendations of the Disinvestment Commission will vest with the Government.

**S. Talwar,
Joint Secy.**

Appendix VI

List of PSUs referred to the Commission

First List - September, 1996

S No	Name of the PSU	
1	Air India	AI
2	Bharat Aluminium Co. Limited	BALCO
3	Bharat Earth Movers Limited	BEML
4	Bharat Electronics Limited	BEL
5	Bongaigaon Refineries & Petrochemicals Limited	BRPL
6	Container Corporation of India Limited	CONCOR
7	Engineers India Limited	EIL
8	Fertiliser & Chemicals (Travancore) Limited	FACT
9	Garden Reach Shipbuilders & Engineers Limited	GRSEL
10	Gas Authority of India Limited	GAIL
11	Hindustan Aeronautics Limited	HAL
12	Hindustan Copper Limited	HCL
13	Hindustan Latex Limited	HLL
14	Hindustan Zinc Limited	HZL
15	Hotel Corporation of India Limited	HCIL
16	HTL Limited	HTL
17	IBP Co.Limited	IBP
18	India Tourism Development Corporation	ITDC
19	Indian Petrochemical Corporation Limited	IPCL
20	ITI Limited	ITI
21	Kudremukh Iron Ore Co. Limited	KIOCL
22	Madras Fertilisers Limited	MFL
23	Mahanagar Telephone Nigam Limited	MTNL
24	Manganese Ore (India) Limited	MOIL
25	Modern Food Industries (India)Limited	MFIL
26	National Aluminium Co.Limited	NALCO
27	National Fertilisers Limited	NFL
28	National Hydro Power Corporation	NHPC
29	National Thermal Power Corporation Limited	NTPC
30	Neyveli Lignite Corporation Limited	NLC
31	Northern Coal Fields Limited	NCF
32	Oil India Limited	OIL
33	Oil & Natural Gas Corporation	ONGC
34	Pawan Hans Helicopters Limited	PHL
35	Power Grid Corporation of India Limited	POWERGRID
36	Rail India Technical & Economic Services Limited	BITES
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	Pyrites, Phosphates & Chemicals Limited	PPCL
7	Central Electronics Limited	CEL
8	Engineering Projects (India) Limited	EPIL
9	Utkal Ashok Hotel Corporation Limited	UL-ASHOK
10	Rehabilitation Industries Corporation Limited	RICL

Third List – July, 1998

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

Fourth List – January, 1999

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

Appendix VII

List of PSUs withdrawn from the Commission

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