
DISINVESTMENT COMMISSION

Disinvestment Commission
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Summary of Recommendations

Disinvestment Commission has submitted four sets of recommendations to the Government. A summary of the recommendations is given below:

Table 1 Disinvestment Modalities Recommended in Reports I,II,III &IV

Modalities of Disinvestment	No.	Name of PSU
Trade Sale	3	ITDC ¹ , MFIL, PHL ²
Strategic Sale	7	HTL,ITI,BALCO,BRPL, KIOCL, MFL ³ , HCL
Offer of Shares	4	GAIL, CONCOR, MTNL, MOIL ³
Offer to Stable Shareholders (Cross holding)	1	SCI
No disinvestment	1	RITES
Disinvestment deferred	3	OIL, ONGC, POWERGRID
Total		

1. Lease-cum-management contracts for hotels in prime locations like Delhi and Bangalore

2. Offer to sell the total Government holdings to ONGC in the first option

3. At a later stage

The Commission has made General Recommendations which are as under:

Table 2 General Recommendations

Recommendations	Remarks
Establishment of Disinvestment Fund (I:3.1)	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 temporarily meeting the losses of some PSUs before disinvestment, where required, for a limited period during the process of short term restructuring or closure, for strengthening marginally loss making PSUs in preparation for disinvestment and for providing benefits to workforce found to surplus during restructuring or closure.
Formation of Standing Empowered Group (I:4.1)	Given the advisory nature of the Commission, the Commission recommends the formation of a Standing Empowered Group (SEG) to ensure smooth implementation. The 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.
Guidelines on Modalities - Offer of Sale (I:4.2) & (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.

Guidelines on Modalities Strategic Sale (I:4.2)	Detailed and transparent procedure for the selection of strategic partners recommended including the selection of Financial Advisors for strategic sale.
Guidelines on Selection of Intermediaries (I:4.3)	Detailed and transparent procedure for the selection of all intermediaries for the Offer of Sale of shares either in domestic or international market.
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.
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.
Voluntary Retirement Scheme (II:1) & (IV:1)	Commission recommends that the Government to frame a clear cut policy statement on the terms of VRS on a stable and long term basis and also suggests a modality for the implementation of VRS.

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

Table 3 Corporate Governance for PSUs - All PSUs

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.
Provision for Elected Directors (I:3.4)	Government in the interest of efficient management of the PSU, 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.
Selection of Top Management (I:3.4)	The Commission recommends that the Public Enterprise Selection Board (PESB) should be broadbased. 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.

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.
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.
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.
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.
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.

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

Table 4 Corporate Governance - For Moderate and Strong Performers

Moderate Performers	
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.
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. The investment limits for each PSU could be fixed on the criteria of the company's turnover and requirement of funds in the medium term.

Strong Performers	
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.
Full freedom with regard to investments (I:3.4)	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.

Table 5 Specific Recommendations for 19 PSUs

Name of the PSU	Recommendations
Modern Food (Industries) India Limited (I:5.1)	Sale of the entire Government holding on as-is-where-is basis is recommended.
Gas Authority of India Limited (I:5.2)	Delegation of powers to Board of Directors be maximum in accordance with definition of Strong Performer. Disinvestment upto 25% of the total equity capital between domestic and international market depending upon the market condition.
India Tourism Development Corporation (I:5.3)	Restructuring of the operations of ITDC by handing over the hotels located in prime locations like Delhi and Bangalore to established hotel chains through a competitive bidding process to run on long term structured contract on lease-cum-management basis. Hotels located in other places may be demerged into separate corporate entities and disinvest 100% Government holding in these new entities.
Bharat Aluminum Co.Limited (II:2.1)	Immediately disinvest 40% of the equity to a strategic partner either domestic or foreign through a transparent and competitive global bidding process with an agreement that Government within 2 years will make a public offer in the domestic market to institutions, small investors and employees to bring its holding to 26%. Further, there should be an ongoing review of the industry situation and the Government may disinvest its balance equity of 26% in full in favour of investors in the domestic market at the appropriate time.
Bongaigaon Refinery & Petrochemicals Limited (II:2.2)	Strategic sale of 50% of shares of BRPL may be offered immediately to Indian or foreign oil companies either on their own or in association with one another with an agreement to make a public offer in the domestic market to institutions, small investors and employees to bring its holding to 26% at a later date.

HTL Limited (II:2.3)	<p>Recommends three options for disinvestment -</p> <ul style="list-style-type: none"> • sale of 100% shares in HTL alongwith ITI in the process of strategic sale • 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
ITI Limited (II:2.4)	<p>Immediate steps to reduce manpower through VRS. Hiving of the Defence Division in Bangalore and merge with Bharat Electronics Limited before the strategic sale. Strategic sale of 50% of the shares of ITI with an agreement with the strategic partner specifying further dilution of government equity to 26% through public offer to Indian institutions, small investors and employees.</p>
Madras Fertilisers Limited (II:2.5)	<p>Immediately initiate negotiations with National Iranian Oil Company to change the terms of the agreement which would permit sale of 50% of the shares of the company to a strategic partner through a competitive bidding.</p>
Manganese ore (India) Limited (II:2.6)	<p>Recommends granting of full autonomy. Disinvest upto 49% in one or more tranches in the domestic market with preferential allotment to small investors and employees after the establishment of the ferro alloy production facility of viable capacity and captive power plant.</p>
Container Corporation of India Limited (III:2.1)	<p>Disinvestment of Government holdings upto 100 lakh shares through book building process to institutional investors in the Indian market to be followed by a retail offering to small investors at a discount of 10% and the company to make a public issue of 125 lakh shares to bring down Government holding to 51%. It is also suggested that CONCOR should join the NSDL before the proposed disinvestment or public offer.</p>
Kudremukh Iron Ore Company Limited (III:2.2)	<p>Strengthen the management of the company by inducting competent professionals from outside. Strategic sale of 30% of equity with an agreement that Government within 2 years will further offer 10% of the equity to the strategic partner and public offer in the domestic market to institutions, small investors and employees in order to enable Government to hold 26%.</p>

Mahanagar Telephone Nigam Limited (III:2.3)	Recommends granting of full autonomy in line with its performance. Resource raising function for DoT if required, should be taken away from MTNL and should be vested with some other entity. Disinvest 60 million shares (10%) in the international market through book building process at an appropriate time to be decided by SEG. After the international offering, the balance 28.3 million shares consisting of 4.73% of the equity may be offered institutional investors and to small individual investors at a discount over the institutional price. It is also suggested that MTNL should join the NSDL before the proposed disinvestment.
Oil India Limited (III:2.4)	Disinvestment of Government shares as also company's IPO need not be considered for the present and could be considered after a year or so when the company's own prospects would be clearly established through the outcome of exploration activities in the North Brahmaputra area and Government's policy on APM.
Oil and Natural Gas Corporation Limited (III:2.5)	Disinvestment be considered after the organisational changes are in position and Government's policy on APM.
Rail India Technical and Economic Services Limited (III:2.6)	No disinvestment
Hindustan Copper Limited (IV:2.1)	Suggested two options: <ul style="list-style-type: none"> • HCL to implement the Khetri Smelter expansion project as also restructure the ICC mining operations by closing down unviable mines through VRS. After the completion of these project, disinvest 51% of the equity to a strategic partner. Government may also disinvest 22% of the equity through offer of shares in the domestic market to institutions, small investors and employees. • Immediately disinvest 51% of the equity to a strategic partner and after the restructuring and expansion, further disinvest 22% of the equity through offer of shares in the domestic market to institutions, small investors and employees.
Pawan Hans Helicopters Limited (IV:2.2)	Recommends writing off the Westland loans together with interest. Offer the entire Government holding to ONGC. In the event that ONGC is not interested, the Commission recommends that the Government sell its entire holding of 78.5% to an investor.

<p>Power Grid Corporation of India Limited (IV:2.3)</p>	<p>Disinvestment only after entire electricity sector is fully restructured.</p>
<p>Shipping Corporation of India (IV:2.4)</p>	<p>Government to disinvest 40% of the Government holding to oil refineries. 30% of the equity to public sector oil refining companies and 10% to private sector refining companies. The Board of Directors should be broad-based with the induction of non-executive Directors from the relevant disciplines. After this disinvestment, SCI could go for its equity raising in the domestic market to institutional investors through book building process. This can be followed by disinvestment of government holding to small investors and employees in the domestic market at a discount of 10% over the institutional price.</p>

REPORT

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DISINVESTMENT COMMISSION

FEBRUARY
1997

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PART A

INTRODUCTION

The Disinvestment Commission has been set up with terms of reference which appear in Annexure 1. Government of India has referred 40 central PSUs to the Commission for Disinvestment.

Since inception, the Commission has had consultations with a wide cross section of persons and organisations interested in the disinvestment process. These include senior Government officers in the various Ministries, management experts, representatives of the Central Trade Unions and academicians. The Commission also organised two Conferences in Delhi and Mumbai focusing on the strategy and issues involved in the disinvestment process. The Commission has taken due note of the various views expressed during these meetings and the Conferences including experiences of other countries in disinvestment and privatisation.

In order to enhance enterprise value and maximise Government's capital receipts, the recommendations set forth in this and the forthcoming reports should be taken in totality. If recommendations as outlined in Parts B and C of this report are not implemented in full, it is felt that benefits may not be fully realised and hence may result in a loss to the exchequer.