

DISINVESTMENT POLICY & PROCEDURES



**DEPARTMENT OF DISINVESTMENT
GOVERNMENT OF INDIA**

FOREWORD

Ever since India embarked in the early 90s on rectifying its economic policies and structure, the disinvestment programme has been an important element of its reform agenda. While governments have replaced governments since then, each of them has continued to build on the disinvestment steps taken by its predecessor. Similarly, while different parties control governments in different parts of the country today, most of them are attempting – through disinvestment – to disengage government from economic and commercial enterprises.

In a word, there has in fact been a consensus on disinvestment in practice. Unfortunately, political parties have developed a practice in India of doing one thing when and where they are in power, and opposing the same thing when and where they are out of power.

In part for this reason there has been a persistent demand from various quarters that the policies and procedures that are being followed should be documented more thoroughly. Some of the State Governments which have embarked on disinvestment have also been asking us to inform them of the procedures that have been adopted at the Center: they have told us that such an account would assist them in determining how they should proceed.

This manual gives a broad overview of the issues that come up during a disinvestment transaction. It consolidates information about the way disinvestment policy and procedures have evolved. It also enumerates the different methods and approaches that are adopted in dealing with issues that are much in the public eye – such as valuation and the manner in which the interests of employees be safeguarded.

The manual is a compilation of the experience that has been gained thus far. As we learn more, the manual will be revised and updated.

All of us in the Department of Disinvestment will be grateful for suggestions to improve the manual so that it may continue to be useful.



Arun Shrivastava

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ABBREVIATIONS USED

ADR	-	American Depository Receipt
BSE	-	Bombay Stock Exchange
CCD	-	Cabinet Committee on Disinvestment
CGD	-	Core Group of Secretaries on Disinvestment
CAPM	-	Capital Asset Pricing Model
DPE	-	Department of Public Enterprises
DCF	-	Discounted Cash Flow
EOI	-	Expression of Interest
EBITDA	-	Earnings Before Interest, Taxes, Depreciation & Amortisations
FDI	-	Foreign Direct Investment
GAAP	-	Generally Accepted Accounting Principles
GDR	-	Global Depository Receipt
GOI	-	Government of India
IMG	-	Inter-Ministerial Group
IPO	-	Initial Public Offering
LSE	-	London Stock Exchange
NASDAQ	-	National Association of Securities Dealers Automated Quotations
NAV	-	Net Asset Value
NYSE	-	New York Stock Exchange
NRI	-	Non Resident Indian
NEP	-	New Economic Policy

NSE	-	National Stock Exchange
NCAER	-	National Council for Applied Economic Research
PSU	-	Public Sector Undertaking
PSE	-	Public Sector Enterprises
PE Ratio	-	Price Earning Ratio
PAT	-	Profit After Tax
PIM	-	Preliminary Information Memorandum
QIB	-	Qualified Institutional Buyer
RFP	-	Request for Proposal
RFQ	-	Request for Qualification
SLPE	-	State Level Public Enterprise
SEC	-	Securities Exchange Commission
VRS	-	Voluntary Retirement Scheme
WACC	-	Weighted Average Cost of Capital

PART – A

WHY PRIVATISATION?