

अतनु चक्रवर्ती, आई ए एस
सचिव

Atanu Chakraborty, IAS
Secretary



भारत सरकार
निवेश और लोक परिसम्पत्ति
प्रबंधन विभाग
वित्त मंत्रालय

Government of India
Department of Investment &
Public Asset Management (DIPAM)
Ministry of Finance

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Dated: 11th December, 2018

Dear Smt. Bahuguna ji

Please refer to your D.O No. 11011/2/2017-Genl.(DPE) dated 27.11.2018 on the above subject. The inputs of DIPAM are as under:

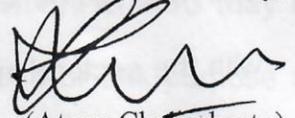
(i) Action on Listing of Subsidiaries: DIPAM has already procured the list of 168 subsidiaries of CPSEs from DPE along with financial data up to the year ending March, 2017. Out of that, on the basis of the criteria of (a) positive Net Worth, (b) no accumulated loss, and (c) Net Profit for 3 years, the cases of subsidiaries eligible for listing works out to 32. DIPAM has started writing to the sectoral Ministries dealing with CPSEs/subsidiaries for their initial comments and latest data. A note for consideration of the CCEA will be moved and time frame of 6 months will be given to the Administrative Ministries/CPSEs to get the shortlisted subsidiaries listed. However, any listing is dependent on the prevailing market conditions and, hence, this limit is only tentative.

(ii) Stepping up market capitalization of listed CPSEs as a parameter for monitoring in the Annual MoUs: A detailed Note/suggested Guidelines on the subject is enclosed.

(ii) Dashboard and Nodal Officer: As this involves data upload and monitoring, most Ministries/Departments appoint a Director / DS level officer as Nodal Officer as in the case of e-samiksha. In case of DIPAM, Sh. Suresh Pentakota, Director (P) will be Nodal Officer. [Email:- suresh.p1@gov.in, Tele:- 24368521]

with best regards.

Yours sincerely,


(Atanu Chakraborty)

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Linking market capitalisation of Listed CPSEs with Sector Index Movement in Annual MoUs

Background

As on date, 57 CPSEs are listed which includes HPCL and two insurance companies viz. GIC & NIAC. As on 30.11.2018, all these 57 CPSEs have a total market cap of ₹ 13,41,383 crore while the total market cap of traded stocks in the BSE was ₹ 1,42,88,776 crore. The market capitalization of CPSE stocks constituted 9.4% of the total value of Market Capitalization of BSE. There was a significant erosion of CPSE stock especially from 2018 year to date – while the BSE Sensex and Nifty 50 grew at 3.57% and 6.21% respectively in contrast Nifty CPSE and S&P BSE CPSE fell by -25.49% and -25.33% respectively. The fall in prices of CPSE stocks is continuing. It is essential to improve the Market Capitalisation of listed CPSEs as it will improve the valuation and result in value creation for all shareholders including the Government. While increasing the number of listed CPSEs is important, improving the Market Cap performance listed companies is more important.

One possible way of achieving this is through linking of Market Cap of each listed CPSE to the overall market performance as per the relevant sectoral index in the BSE.

If such performance is added as a financial parameter in the annual MoU signed by the CPSEs with Dept. of Public Enterprises, the performance of listed CPSEs is likely to be positively impacted.

The rationale behind this is that the CPSEs are encouraged to link their performances with the sectoral indices so that the CPSEs should be actively taking up commercial decisions that influence investor sentiments, ensure optimal return on equity, and focused investor relationships. This would result in increasing the wealth of investors

and consequently getting better yields for disinvestment programme of DIPAM along with boosting the investors' confidence.

Proposal

Objective

1. Government over a period of time is investing of substantial sums as equity in CPSEs. Reason for these investments was transformation of Indian Economy from an agrarian one to a modern Industrial Economy. Subsequently, they were listed on a stock exchange so that they find raising funds easy as well as provide adequate space for investment for other stake holders as well. However, market prices of CPSEs have not done as well as they should have done given that Indian capital market is fairly mature and has full diverse range of investors. Therefore, the objective is to increase wealth of Government of India inherent in these listed PSUs by improving market capitalization of listed CPSEs. This will also improve wealth of the other stake holders which, *inter-alia*, will also bring more investment in India's capital market.
2. **Contours of the system:** Rather than having a different instrument, it is proposed to have an instrument that is a part of existing performance measurement system of the CPSEs i.e. **MoU system**. It is proposed to align the output of MoU with market capitalisation so that at one go the objectives of personnel of CPSEs, the shareholders including Union Government get aligned. It is proposed, that **certain amount of weightage in MoU may be given to performance of CPSEs in capital market**. For this purpose an average change of total capitalisation of the concerned CPSEs will be calculated over the period of one calendar year. This would then be compared

with either the sectoral index of NSE or if the sectoral index does not exist then PSU index of NSE. Grading would be given as the table given below:

S.No	Criteria	Scoring Parameters
1.	Market capitalisation Movement of Listed CPSEs.	Excellent- above 10% over sectoral index on an annual average basis. Very Good- between 5% to 10% over sectoral index in quarter basis. Good- between 2% to 5% over sectoral index in quarter basis. Fair- tracks the sectoral index in quarter basis. Poor- Below 0% over sectoral index on quarter basis.

It is proposed to give a weightage of 25% of market capitalisation in the overall MoU as it is in position to capture host of the parameters like profitability, liquidity, production, sale, market shares, etc. Besides this it also capture whether an organisation has strategy and whether its key managerial personnel are attuned to the market and they have sufficient clarity for themselves. Sufficient clarity in the vision of the organisation and aligning with all stake holders is the key to success of a CPSE.