WHITE PAPER

ON

DISINVESTMENT OF CENTRAL PUBLIC SECTOR ENTERPRISES

(31ST JULY, 2007)

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF DISINVESTMENT

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ABBREVIATIONS USED	
AIR	All India Reporter
AYL	Andrew Yule & Company Limited
AVM	Asset Valuation Method
AG	Attorney General for India
BALCO	Bharat Aluminium Company Limited
BBUNL	Bharat Bhari Udyog Nigam Limited
BEML	Bharat Earth Movers limited
BEL	Bharat Electronics Limited
BHEL	Bharat Heavy Electricals Limited
BPCL	Bharat Petroleum Corporation Limited
BRPL	Bongaingaon Refinery & Petrochemicals Limited
BRLM	Book Running & Lead Managers
BV	Book Value
BIFR	Bureau of Industrial & Financial Reconstruction
CCD	Cabinet Committee on Disinvestment
CCEA	Cabinet Committee on Economic Affairs
CPSE	Central Public Sector Enterprises
CPSU	Central Public Sector Undertaking
CMD	Chairman-cum-Managing Director
CPCL	Chennai Petroleum Corporation Limited
CEO	Chief Executive Officer
CMC	CMC Limited
CC	Comparable Companies
CAG/C&AG	Comptroller & Auditor General of India
CFI	Consolidated Fund of India
CONCOR	Container Corporation of India Limited
CGD	Core Group of Secretaries on Disinvestment
DOD	Department of Disinvestment
DHI	Department of Heavy Industry
DCF	Discounted Cash Flow

DCI/DCIL	Dredging Corporation of India
EBITDA	Earning before Interest, Tax, Depreciation and Amortisation
EGOM	Empowered Group of Ministers
EIL	Engineers India Limited.
EV	Enterprise Value
EV/EBITDA	Enterprise Value over EBITDA
EC	Evaluation Committee
EOI	Expressions of Interest
FACT	Fertilizers & Chemicals Travancore Limited
FPO	Follow on Public Offering
FII	Foreign Institutional Investors
GAIL	GAIL (India) Limited
GIC	General Insurance Corporation of India
GDR	Global Depository Receipt
GOI	Government of India
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
HLC	High Level Committee
HFCL	Himachal Futuristic Communications Limited
HLL	Hindustan Lever Limited
HOCL	Hindustan Organic Chemicals Limted
HPCL	Hindustan Petroleum Corporation Limited
HPF	Hindustan Photo Films Manufacturing Corporation Limited
HTL	Hindustan TeleprintersLimited
HZL	Hindustan Zinc Limited
HCI	Hotel Corporation of India Limited
IBP	IBP Company Limited
ICI	ICI Limited
ICICI	ICICI Limited
ITDC	India Tourism & Development Corporation Limited
IOC	Indian Oil Corporation Limited

IPCL	Indian Petro Chemicals Corporation Limited
IDBI	Industrial Development Bank of India Limited
IPO	Initial Public Offering
IMG	Inter-Ministerial Group
JCL	Jessop & Company Limited
JS	Joint Secretary
JS & FA	Joint Secretary and Financial Adviser.
JV	Joint Venture
KRL	Kochi Refineries Limited
KIOCL	Kudremukh Iron Ore Company Limited
LJMC	Lagan Jute Machinery Company Limited
LVPH	Laxmi Vilas Palace Hotel
LIC	Life Insurance Corporation of India Limited
MTNL	Mahanagar Telephone Nigam Limited
MUL	Maruti Udyog Limited
MMTC	Mineral and Metals Trading Corporation of India Ltd.
MOD	Ministry of Disinvestment
MODI	Ministry of Disinvestment
MFIL	Modern Food Industries (India) Limited
NALCO	National Aluminium Company Limited
NCMP	National Common Minimum Programme
NFL	National Fertilizers Limited
NIF	National Investment Fund
NMDC	National Mineral Development Corporation Limited
NTC	National Textile Corporation Limited
NTPC	National Thermal Power Corporation Limited
NLC	Neyveli Lignite Corporation Ltd.
NRI	Non-Resident Indian
OFS	Offer for Sale
ONGC	Oil & Natural Gas Corporation Ltd
OCB	Overseas Corporate Bodies

PPL	Paradeep Phosphates Limited.
P/BV	Price over Book Value
P/E	Price over Earning (Price Earning Ratio)
PSE	Public Sector Enterprises
PSU	Public Sector Undertakings
RCF	Rashtriya Chemicals & Fertilizers Limited.
RJVA	Revised Joint Venture Agreement
RITES	RITES Limited
SEBI	Securities and Exchange Board of India
SHA	Share Holders' Agreement
SPA	Share Purchase Agreement
SCI	Shipping Corporation of India Limited
SLP	Special Leave Petition
SS	Starategic Sale
SBI	State Bank of India
STC	State Trading Corporation of India Limited
SAIL	Steel Authority of India Limited
SIIL	Sterlite Industries (India) Limited
SC	Supreme Court
SMC	Suzuki Motor Corporation
TC	Transfer Cases
TP(C)	Transfer Petititon (Civil)
UTI	Unit Trust of India Ltd.
UPA	United Progressive Alliance
VSNL	Videsh Sanchar Nigam Limited.
WP (C)	Writ Petition (Civil)
ZMPPL	Zuari Maroc Phosphates Private Limited

CHAPTER 1

1. Background

1.1 Overview of the Public Sector

1.1.1 There were 5 CPSEs owned by the Central Government at the beginning of the First Five Year Plan with a total investment of Rs.29 crore. By the end of the Seventh Plan in 1990, the number of CPSEs had increased to 244 with a total investment of Rs.99,329 crore. Thereafter, though the capital invested increased to Rs.3,93,057 crore in 2005-06, the number of CPSEs declined to 239.

1.1.2 The public sector presence is predominant in public utilities and infrastructure. Railways, post & telegraph, ports, airports and power are dominated by CPSEs or department-owned enterprises. In the roads sector, while some roads are owned and maintained by the private sector, publicly owned and maintained roads dominate. Road freight capacity is almost entirely private, while road passenger traffic capacity is also significantly privately owned and managed. In telecom, the public sector continues to be dominant in the provision of fixed line telephone services, while private licencees are operating in some urban areas. Mobile services are predominantly private, particularly in urban areas, while inter-state and international linking services are significantly privately managed and owned.

1.1.3 In the tradable goods sector, the public sector is dominant in coal; oil and gas exploration, development, extraction and transportation, though nearly one third of oil refining capacity is now owned by the private sector. The public sector is also a significant player in steel, fertilizer, aluminum and copper. In the engineering industry, the public sector has been losing market share except in electrical machinery, where BHEL is a significant player. In construction and project services, the public sector is a minor player. The bulk of the remaining tradable sector is privately owned and managed.

1.1.4 The highlights of the performance of CPSEs during 2005-06 are as under: -

(a) The share of CPSEs in GDP at market price stood at 11.12 per cent in 2005-06, and 11.68 per cent in 2004-05.

(b) The cumulative investment in all CPSEs, as on 31st March, 2006 was Rs.3,93,057 crore. The share of manufacturing CPSEs in total investment was the highest at 51 per cent, followed by service CPSEs at 40 per cent and mining CPSEs at 7 per cent during 2005-06.

(c) The overall growth in turnover of CPSEs, during 2005-06 over 2004-05, was 11.86 per cent. The growth in the turnover of 'heavy engineering' and 'construction services' groups was the highest at 39 per cent during the year.

(d) The aggregate reserves and surpluses of all CPSEs have gone up to Rs.3,59,077 crore in 2005-06.

(e) The accumulated losses of all CPSEs declined by Rs.10,578 crore from Rs.83,725 crore in 2004-05 to Rs.73,147 crore in 2005-06.

(f) The share of 'taxes and duties' in net value addition of CPSEs at market prices during 2005-06 was the highest at 46 per cent, amongst all constituents. This was followed by 'net profit' (26 per cent), 'salaries & wages' (19 per cent) and 'interest' (9 per cent).

1.2 Evolution of the Disinvestment Policy

1.2.1 The Statement of Industrial Policy of July 24, 1991 stated that in order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers. Thus, disinvestment of the Government's equity in CPSEs started in 1991-92, when minority shareholding of the Central Government in 30 individual CPSEs was sold to selected financial institutions (LIC, GIC, UTI) in bundles. The shares were sold in bundles to ensure that along with the attractive shares, the not so attractive shares also got sold. Subsequently, shares of individual CPSEs were sold and the category of eligible buyers was gradually expanded to include individuals, NRIs and registered FIIs. After 1996, sale through the GDR route was also initiated and MTNL (1997-98), VSNL (1996-97 and 1998-99) and GAIL (1999-2000) all used the opportunity to access the GDR market. The number of listed CPSEs on domestic stock exchange stood at 44 as on 31st July, 2007 and the list is given at Annexure-1.

1.2.2 The policy on disinvestment has evolved largely through statements of Finance Ministers in their budget speeches. In the interim budget 1991-92, it was announced that the Government would disinvest up to 20 per cent of its equity in selected public sector undertakings in favour of mutual funds and financial or investment institutions in the public sector to broad-base the shareholding, improve management, enhance availability of resources for these CPSEs and yield resources for the exchequer.

1.2.3 The Rangarajan Committee recommended in April, 1993, that the percentage of equity to be disinvested should be generally under 49 per cent in industries reserved for the public sector and over 74 per cent in other industries. As per Statement of Industrial Policy of 24th July, 1991 the following industries were proposed to be reserved for the public sector: -

(a) Arms and ammunition and allied items of defence equipment, defence aircraft and warships.

(b) Atomic Energy.

(c) Coal and lignite.

(d) Mineral oils.

(e) Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.

(f) Mining of copper, lead, zinc, tin, molybdenum and wolfram.

(g) Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.

(h) Railway transport.

1.2.4 In the budget speech of 1996-97, the proposal to establish a Disinvestment Commission was announced. It was also stated that the revenues generated from such disinvestment will be utilised for allocations to education and health and for creating a fund to strengthen CPSEs.

Public Sector Disinvestment Commission

1.2.5 The Public Sector Disinvestment Commission was established on 23rd August, 1996, for a period of three years, as an independent, non-statutory, advisory body with Shri G.V. Ramakrishna as full time Chairman, four other Members (part time) and a full time Member Secretary. 72 CPSEs were referred to the Commission. Subsequently, 8 cases were withdrawn. The Commission did not take up examination of the cases of six CPSEs, which were registered with the Board for Industrial and Financial Reconstruction (BIFR). The Commission submitted 12 reports covering 58 CPSEs, recommending strategic sale in 25 cases and disinvestment through modes other than strategic sale in 33 cases. The tenure of the Chairman of the Commission was extended till 30th November, 1999.

1.2.6 In the budget speech of 1998–99, it was announced that, in the generality of cases, the Government's shareholding in CPSEs would be brought down to 26 per cent. In the case of CPSEs involving strategic considerations, the Government would continue to retain majority shareholding. The interest of workers would be protected in all cases.

1.2.7 In the budget speech of 1999-2000, it was announced that Government's strategy towards the CPSEs would continue to encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestment or strategic sale and devising viable rehabilitation strategies for weak units.

1.2.8 On 16th March, 1999, the Government classified the CPSEs into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the strategic CPSEs would be those functioning in the areas of:

(a) Arms and ammunition and the allied items of defence equipment, defence aircrafts and warships;

(b) Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries);

(c) Railway transport.

All other CPSEs were to be considered as being non-strategic. For the non-strategic CPSEs, it was decided that reduction of the Government's shareholding to 26 per cent would not be automatic and the manner and pace of doing so would be decided on a case-by-case basis on the following considerations:

(a) Whether the industrial sector required the presence of the public sector as a countervailing force to prevent concentration of power in private hands; and

(b) Whether the industrial sector required a proper regulatory mechanism to protect the consumer interests before Public Sector Enterprises were privatised.

1.2.9 It was also decided to establish a new Department for Disinvestment and the following business was allocated to it:

(a) All matters relating to disinvestment of Central Government equity from Central Public Sector Undertakings.

(b) Decisions on the recommendations of the Disinvestment Commission on the modalities of disinvestment, including restructuring.

(c) Implementation of disinvestment decisions, including appointment of advisers, pricing of shares, and other terms and conditions of disinvestment.

(d) Disinvestment Commission.

(e) Central Public Sector Undertakings for purposes of disinvestment of Government equity only.

The Department came into being on 10th December, 1999.

1.2.10 In the budget speech of 2000-2001, it was announced that the main elements of the Government's policy were to restructure and revive potentially viable CPSEs; close down CPSEs which cannot be revived; bring down Government's shareholding in all non-strategic CPSEs to 26 per cent or lower, if necessary; and fully protect the interests of workers. The receipts from disinvestment and privatisation will be used for meeting expenditure on social sectors, restructuring of CPSEs and for retiring public debt.

Re-constituted Public Sector Disinvestment Commission

1.2.11. The Public Sector Disinvestment Commission was re-constituted on 24th July, 2001 for a period of two years with Dr. R.H. Patil as Chairman (part time) along with four other Members (part time) and a full time Member Secretary. The then Ministry of Disinvestment had informed the Commission on 23rd January, 2002 that all non-strategic CPSEs, including subsidiaries, excluding IOC, ONGC and GAIL, stood referred to the Commission for it to prioritize, examine and make recommendations in the light of the Government policies articulated earlier on 16th March, 1999 and the budget speeches of Finance Ministers from time to time. The re-constituted Disinvestment Commission in 13 reports examined 41 CPSEs (including 4 review cases), recommending strategic sale in 34 cases (including 4 review cases) and disinvestment through other modes in 7 cases. The term of the Commission was subsequently extended till 31st October, 2004. The Commission ceased to exist from 1st November, 2004.

1.2.12 In the budget speech of 2001–2002, it was announced that CPSEs must be strengthened to compete and prosper in the new environment.

1.2.13 The Government decided in September, 2002 that CPSEs and Central Government owned cooperative societies (where Government's ownership is 51 per cent or more) should not be permitted to participate, as bidders, in the disinvestment of other CPSEs, unless specifically approved by the Core Group of Secretaries on Disinvestment (CGD). In December, 2002, on the basis of a proposal of the Department of Fertilizers, it was decided that Multi-State Cooperative Societies under the Department of Fertilizers be allowed to participate in the disinvestment of fertilizer CPSEs including NFL.

1.2.14 In a suo motu statement made in both Houses of Parliament on 9th December, 2002, by the then Minister of Disinvestment, the Government reiterated the policy as:

> "The main objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The policy of disinvestment specifically aims at:
>
> - Modernization and upgradation of Public Sector Enterprises;
> - Creation of new assets;
> - Generation of employment; and
> - Retiring of public debt.

Government would continue to ensure that disinvestment does not result in alienation of national assets, which, through the process of disinvestment, remain where they are. It will also ensure that disinvestment does not result in private monopolies. In order to provide complete visibility to the Government's continued commitment of utilisation of disinvestment proceeds for social and infrastructure sectors, the Government would set up a Disinvestment Proceeds Fund. This Fund will be used for financing fresh employment opportunities and investment, and for retirement of public debt. For the disinvestment of natural asset companies, the Ministry of Finance and the Ministry of Disinvestment will work out guidelines. The Ministry of Finance will also prepare for consideration of the Cabinet Committee on Disinvestment a paper on the feasibility and modalities of setting up an Asset Management Company to hold, manage and dispose the residual holding of the Government in the companies in which Government's equity has been disinvested to a strategic partner."

1.2.15 The then Ministry of Disinvestment issued guidelines regarding Management-Employee Bids in Strategic Sale on 25th April, 2003 to encourage and facilitate the participation of employees in strategic sales.

1.2.16 In the budget speech for 2003-04, the Government announced that details regarding the already announced Disinvestment Fund and Asset Management Company, to hold residual shares post disinvestment, would be finalized early in 2003-04.

1.2.17 The disinvestment policy was changed with the formation of the present Government in May, 2004. The new policy is described in detail in Chapter-8.

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CHAPTER 2

2. Disinvestment Transactions and Realisations

2.1 Disinvestment transactions undertaken can be classified into five main categories:

(a) Transactions involving the sale of minority shareholding of the Government, subject to the residual equity of the Government remaining at least 51 per cent.

(b) Sale of majority shareholding in one CPSE to another CPSE.

(c) Sale of a large block of shares in a CPSE (including subsidiary of a CPSE) along with transfer of management control to a strategic partner identified through a process of competitive bidding. This was termed as strategic sale. After the strategic sale, the CPSE ceased to be a Government Company as defined in Section 617 of the Companies Act, 1956.

(d) Slump sale of 2 hotel units of HCI and other related transactions during 1999-00 to 2005-06.

(e) Sale of all or part of Government's residual shareholding in disinvested CPSEs/companies either through a public offering or private placement – viz. CMC, IBP, IPCL, MUL and ICI.

These five categories of transactions are narrated separately below.

2.2 Sale of Minority Shareholding in CPSEs.

2.2.1 Disinvestment of Government's shareholding in CPSEs started in 1991-92. In that year Government disinvested an average of about 8 per cent of the shareholding in 30 CPSEs and realised Rs.3037.74 crore over two auctions. The sale was made exclusively to financial institutions, mutual funds and banks in the public sector on competitive basis for the shares which were offered in mixed bundles of CPSEs classified as Very Good, Good and Average.

2.2.2 During 1992-93, Government disinvested on an average less than 5 per cent of the aggregate equity over three auctions and realised a total amount of Rs.1,912.51 crore. Unlike the case in 1991-92, the shares were not bundled in 1992-93 and were offered for sale individually by auction. The auctions were open not only to public sector institutions, but also to private firms, brokers and any person, who was legally permitted to buy, hold and sell shares in India. Reserve price for each CPSE's share was fixed with the help of professional advice from merchant bankers and only bids in excess of the reserve price were accepted.

2.2.3 During 1993-94, Government enlarged the range of bidders to include FIIs. This was based on the recommendations of the Rangarajan Committee on "Disinvestment of Shares in Public Sector Enterprises" which were given in April, 1993. In March, 1994, small portions of shareholding in six CPSEs were disinvested for an amount of Rs.2282.16 crore which was received during 1994-1995. Towards the end of 1993-94, Government made an offer for sale to employees in 8 CPSEs where disinvestment had already occurred. The offer was for a maximum of 200 shares per employee, subject to a ceiling of 5 per cent of the paid-up capital of CPSE and at a 15 per cent discount to the average price realised by the Government at the auctions held during 1992-93. A total of Rs.333.57 crore was collected by such sale to employees during 1994-1995.

2.2.4 In October, 1994, the range of bidders was further enlarged so as to include NRIs and OCBs. Small portions of equity in 10 CPSEs was disinvested for a total realisation of Rs.2,560.93 crore. In 1995-96 small portions of Government's shareholding in 4 CPSEs was sold realising Rs.168.48 crore. In 1996-97, 0.39 crore shares of VSNL were sold through a GDR issue realising Rs.379.67 crore at a price of Rs.973.51 per share. In 1997-98, 4.00 crore shares held by Government along with 3.00 crore new shares of MTNL were sold through a GDR issue. The Government thereby realised an amount of about Rs.910 crore from this GDR issue.

2.2.5 During the year 1998-99, Government sold a small portion of its shareholding in one CPSE to another CPSE. Through this mechanism, ONGC and IOC each purchased 4.85 per cent shares of GAIL's equity shareholding. IOC purchased 10 per cent of the shareholding of ONGC, whereas ONGC purchased 10 per cent of equity shareholding of IOC. In addition 0.90 crore shares of CONCOR and 3.06 crore shares of GAIL were sold to institutional investors in the domestic market while 1 crore shares of VSNL were sold in the GDR market. The net realisation for Government from these disinvestment transactions in 1998-99 was Rs.5,371.11 crore.

2.2.6 During the years 1999-2000 to 2002-03 the receipts from sale of minority shares were minimal, since the emphasis shifted to Strategic Sale. During 1999-2000 the proceeds were only from the sale of 0.10 crore shares of VSNL in the domestic market and 13.50 crore shares of GAIL in the GDR market. In addition, the remaining amount from the sale of shareholding in one CPSE to another CPSE carried out in the previous year and amounting to Rs.459.27 crore was also received, giving a total receipt of Rs.1,479.27 crore during that year. During the following years 2000-01 to 2002-03 there were no receipts from sale of minority shareholding.

2.2.7 In the year 2003-04, after the Supreme Court judgement in the case of HPCL/BPCL, the sale of Government's minority shareholding through public offers was resumed. The Offer for Sale of 20 per cent of DCIL's paid up equity out of the Government's shareholding was decided in July, 2003, while the decision to sell small portions of Government's stake in GAIL and ONGC was taken in December, 2003. The decision for sale of Government's residual shareholding of 26% through an Offer for Sale in IBP was taken in July, 2003. In February, and March, 2004 these four issues raised Rs.12,757.61 crore. ONGC was a single issue, which raised Rs.10,558.40 crore and remains one of the largest offerings so far in the Indian market.

2.2.8 This trend was continued in 2004-05 in which the major receipt of Rs.2,684.07 crore was from the sale of 43.29 crore equity shares of Rs.10 each out of the Government's equity in NTPC, along with a fresh issue of equity of a similar quantum by NTPC through an IPO in October, 2004. Annexure-2 tabulates details of these five Offers for Sale implemented during the years 2003-04 and 2004-05.

2.2.9 The total realisation from sale of minority shareholding of equity in CPSEs has been Rs.33,543.56 crore, which is approximately two-third of the total receipts of Rs.51,608.58 crore from disinvestment till July, 2007. The year-wise and company-wise receipts from disinvestment of minority shareholding in CPSEs are given in Annexure-3.

2.3 Sale of majority shareholding to CPSEs

There are only three instances where Government divested itself of a majority shareholding in a CPSE by selling the shares to another CPSE without going through a process of competitive bidding. In 2000-01, 74.46 per cent of the equity of BRPL was disinvested to IOC for Rs.148.80 crore, 51.81 per cent of equity in CPCL was sold to IOC for Rs.509.33 crore and 55.04 per cent of the equity of KRL was off-loaded to BPCL for Rs.659.10 crore. Subsequently, it was felt that disinvestment by sale of shares to CPSEs did not result in any of the advantages normally associated with the block transfer of majority shareholding, since the public sector character of the company did not change. Thereafter, Government on 18th September, 2002 issued guidelines that the CPSEs should be prohibited from participating in disinvestment transactions, unless an exemption was specifically given in a particular case. The total amount raised through the block sale of shares in one CPSE to another CPSE was Rs.1317.23 crore which is less than 3 per cent of the total amount of Rs.51,608.58 crore raised from disinvestment till July, 2007.

2.4 Strategic Sale

MUL was the first Government company to be privatized. It ceased to be a Government company in 1992, when Government entered into an agreement with SMC allowing it to raise its shareholding from 40 per cent to 50 per cent, by subscribing to 22,04,860 shares of face value of Rs.100 each at a price of Rs.269 per share. However, strategic sale as a policy measure commenced in 1999-2000 with the sale of 74 per cent of the Government's equity in MFIL for Rs.105.45 crore. Thereafter, twelve CPSEs (including four subsidiaries of CPSEs), and seventeen hotels of ITDC were sold to private investors along with transfer of management control by the Government. In addition, the strategic sale of 33.58 per cent IBP's shareholding was effected to IOC. IBP remained a CPSE after strategic sale, since IOC held 53.58 per cent of its paid-up equity. The names of the CPSEs in which strategic sale were effected, the years of strategic sale, the percentage of equity sold, the residual equity of the Government and the amounts realized from disinvestment are given in Annexure-4. The total realisation from these strategic sale transactions was Rs.6,344.35 crore, which is around one-eighth of the total amount of Rs.51,608.58 crore raised from disinvestment till 31st July, 2007.

2.5 Slump sale of 2 hotels of HCI and other transactions.

The receipts from slump sale of two hotels of HCI (Hotel Centaur Juhu Beach, Mumbai & Centaur Hotel Mumbai Airport, Mumbai), lease-cum-management contract of Hotel Ashok Bangalore and other disinvestment transactions during 1999-00 to 2005-06 were Rs.4,005.17 crore. The details of these transactions are given in Annexure-5.

2.6 Sale of all or part of the Residual Equity in Privatised CPSEs/Companies.

2.6.1 MUL was the first privatized CPSE to come out with an IPO, which consisted of an Offer for Sale of 27.51 per cent of MUL's paid up equity capital, out of Government's residual shareholding of 45.79 per cent. The IPO, which was completed in June, 2003 was oversubscribed by 8.92 times realizing Rs.993.34 crore for the Government. Thereafter, in January, 2006 Government realised a sum of Rs.1,567.60 crore from the sale of 8 per cent of equity out of its shareholding of 18.28 per cent in MUL, to public sector financial institutions and banks. Another, Rs.2.08 crore was received by the Government in March, 2006 from the sale of 31,507 (0.01 per cent) equity shares in MUL to employees of MUL. In May, 2007, the Government realized Rs.2,366.94 crore from the sale of its entire residual equity of 10.27 per cent in MUL to public sector financial institutions, public sector banks and Indian mutual funds.

2.6.2 In the year 2003-04 Government's residual stake in two other privatized CPSEs viz. CMC and IPCL was sold to the public. Government also divested its shareholding in ICI Limited, a private company.

2.6.3 Government thus, realized Rs.6,398.27 crore from these transactions. Annexure-6 details the receipts from these transactions.

2.7 Disinvestment Receipts vis a vis Budget Estimates

Annexure-7 provides the year-wise budgeted receipt from disinvestment and the achievement in each year since 1991-92. The realisations exceeded the budgeted receipts in the years 1991-92, 1994-95, 1998-99, and 2003-04. The realization of 1994-95 includes Rs.2,282.16 crore being the proceeds of sale of small portions of its shareholding in six CPSEs disinvested in March, 1994.

CHAPTER 3

3. Disinvestment Procedures

3.1 From 1991-92, when it started and till 1996-97, disinvestment was handled by the Department of Public Enterprises (Ministry of Heavy Industries) and subsequently, from 1st April, 1997 till 9th December, 1999, by the Department of Economic Affairs (Ministry of Finance). The Department of Disinvestment (DoD) was set up as a separate department on 10th December, 1999 and was subsequently renamed as Ministry of Disinvestment (MODI) from 6th September, 2001. From 27th May, 2004, the Department of Disinvestment is one of the Departments under the Ministry of Finance.

3.2 The procedures followed for disinvestment have evolved over a period of time. These were based on decision-making through inter-ministerial consultations and involvement of professionals and experts, in view of the technical and complex nature of transactions and the need for transparency and fair play. The decision making process, the bidding procedure and the methods used for valuation of equity of CPSE sold are described below for the different modes of sales.

3.3 Decision making process

3.3.1 Strategic Sale:

3.3.1.1 The decision making process consisted of the following steps:

(a) Identification of the CPSE whose shares were to be sold, the percentage of shares to be sold and the mode of sale.

(b) Appointment of various advisers who would assist in the process of sale.

(c) Selection of the bidders.

(d) Determination of the reserve price; and

(e) Approval of the price and other terms at which the shares were to be sold.

These are dealt with sequentially in the succeeding paragraphs.

3.3.1.2 Generally, though not universally, the starting point till May, 2004 was study of the target CPSE by the Disinvestment Commission. In June, 1997, the Government decided that the recommendations of the Disinvestment Commission would be processed by the Department of Economic Affairs (Ministry of Finance) through a Core Group of Secretaries on Disinvestment (CGD), chaired by the Cabinet Secretary, for obtaining the decision of the Cabinet thereon. At that time, it was also decided that for disinvestment transactions exceeding Rs.500 crore, CGD would directly supervise the implementation of the Cabinet decision through an inter-ministerial operational group. This group consisted of Joint Secretaries from Ministry of Finance, Department of Public Enterprises, the administrative ministry concerned and the CMD of the CPSE concerned. In all the cases, where CGD was to directly supervise the disinvestment, CGD would recommend the timing, pricing and extent of disinvestment etc., based upon the advice of the inter-ministerial operational group, to the Finance Minister, Industry Minister and the Minister of the administrative ministry for approval. For disinvestment transactions below Rs.500 crore, the administrative ministry concerned would be responsible for implementing Cabinet decisions, though they were to be monitored by CGD. The administrative ministries concerned would be provided appropriate technical assistance by the Department of Public Enterprises and Ministry of Finance.

3.3.1.3 This system was further modified in 1999 when the Department of Disinvestment (converted into Ministry of Disinvestment on 6th September, 2001) was established and issues, such as, which company was to be sold, the percentage of shares and the mode of sale were decided, on a case-by-case basis, by the Cabinet or one of its committees duly authorized in this regard. Generally, DOD/MODI would initiate a proposal for consideration of CGD which would further recommend the case to the Cabinet Committee on Disinvestment. Thus, there was a three-tier structure for decision-making and implementation of decisions:

- Cabinet Committee on Disinvestment (CCD) at the apex level;
- Core Group of Secretaries on Disinvestment (CGD) as a recommendatory body; and
- Inter-Ministerial Group (IMG) as a consultative group.

3.3.1.4 CCD was chaired by the Prime Minister. The functions of CCD, constituted in January, 2000 were as follows:

(a) To consider the advice of the Core Group of Secretaries regarding policy issues relating to the disinvestment programme;

(b) To decide the price band for the sale of Government's shares through international/domestic capital market route prior to the book building exercise, and to decide the final price of sale in all cases;

(c) To decide the final pricing of the transaction and the strategic partner in case of strategic sales;

(d) To decide on cases where there is disagreement between the recommendations of the Disinvestment Commission and the views of DOD/MODI; and

(e) To approve the three-year rolling plan and the annual programme of disinvestment every year.

3.3.1.5 CGD was headed by the Cabinet Secretary. CGD functioned as the Empowered Group for vetting the recommendations of the Disinvestment Commission, monitored the progress of implementation of CCD decisions, in disinvestment transactions exceeding Rs.500 crore directly supervised the process of disinvestment and made recommendations to CCD on disinvestment policy matters.

3.3.1.6 A separate IMG was formed for each case of disinvestment. Generally, it was chaired by Secretary, DOD/MODI and comprised the officers of Ministry of Finance, Department of Public Enterprises, Department of Legal Affairs, Department of Company Affairs, the Administrative Ministry, the CMD and the Director (Finance) of the CPSE concerned. IMG was the forum where inter-ministerial consultation took place at the primary level. Recommendations of the IMG were considered by the CGD.

3.3.1.7 **Appointment of Advisers:**

In September, 1997, Government decided that merchant bankers/ global advisers would be appointed through a global process of competitive selection. The Expressions of Interest submitted by the advisers/merchant bankers were first considered by IMG comprising representatives from the Administrative Ministry concerned, the Department of Public Enterprises, the Department of Economic Affairs and the Chief Executive of the CPSE concerned. The recommendations of IMG were considered by CGD and approved by the Minister in-charge of the Administrative Ministry concerned, the Minister of

Industry and the Finance Minister. The criteria and marking system for selection of Adviser for strategic sale were laid down by the CGD in its meeting held on 1st April, 1999. In July, 1999, the Government modified the procedure to the extent that intermediary advisers like Legal Advisers, Accounting Advisers, Asset Valuers, Environmental Advisers etc. should in future be appointed by the CPSE concerned following its internal procedure which would also bear the related expenditure. On 23rd June, 2000, the Government further modified the procedure and decided that Global Advisers would be termed as Advisers and be appointed with the approval of Minister of State of the Department of Disinvestment instead of the Group of Ministers. In February, 2001 the Ministry of Law advised that all advisers including the intermediary advisers should be appointed by the Government and not by the CPSE concerned. Subsequently, the Government decided in July, 2001 that, appointment of intermediary advisers would be made by Department of Disinvestment, after making selection from the list provided by the General Advisers. The actual appointment of intermediary advisers was typically made on the recommendations of an Inter-Ministerial Selection Committee and with the approval of the Minister in-charge of Department of Disinvestment. The criteria and the marking system were further revised with the approval of CGD in January, 2002.

3.3.1.8 Selection of Bidders:

The procedure generally followed for selection of bidders was that IMG constituted for the specific disinvestment transaction determined the qualification requirements based on the recommendations of the Adviser. Thereafter, Expressions of Interest (EoI) were invited through public advertisements in leading business newspapers and also simultaneously placing the advertisement as well as the Preliminary Information Memorandum containing the requisite details including qualification requirements, the format of submission of EoI, the last date of submission etc. on the websites of DoD, the administrative ministry and CPSE concerned. The IMG concerned decided, on the basis of the recommendations of the Advisers, on the eligibility of the bidders to participate further in the process.

3.3.1.9 Determination of Reserve Price:

Valuation was carried out to determine the Reserve Price. The Evaluation Committee (EC), generally consisting of the Financial Adviser of the Ministry/Department administratively concerned with the CPSE, a representative each from the Administrative Ministry/Department concerned, the Department of Economic Affairs, the Department of Disinvestment, the Department of Public Enterprises, the Chief Executive and Director (Finance), wherever available, of the CPSE concerned, made recommendations regarding fixation of the Reserve Price. The recommendations of EC were then considered by the IMG which also included the Chief Executive and Director (Finance) and a representative each of the Administrative Ministry and the Department of Public Enterprises. The Adviser concerned submitted the valuation report and the asset valuation report to the EC and made presentations on the values arrived at by different methodologies and merits and demerits of the various methods. The Valuation Report of the Advisers contained details of assumptions and basis of their recommendations. The CGD considered and forwarded the recommendations of IMG to CCD, which approved the valuation. However, MFIL was an exception, where the bid submitted by Hindustan Lever Limited was evaluated and recommended to CCD, for acceptance directly by EC without fixing the reserve price.

3.3.2 Offer for Sale:

3.3.2.1 During February-March, 2004, Government sold its entire residual equity in IBP, CMC and the residual equity of 28.945 per cent in the case of IPCL. Government also sold small portions of equity in DCI, GAIL and ONGC. To assist the Government in selling its equity, Book Running Lead Managers (BRLMs) were appointed, the BRLMs were selected through a competitive bidding procedure and appointed after obtaining the approval of the Minister-in-charge of the Department on the basis of the recommendations of CGD and IMG. The proposals for fixation of floor price/price band and the offer price were first considered by a High-level Committee comprising Secretary, Ministry of Disinvestment, Secretary of the Administrative Ministry concerned, Joint Secretary, Department of Economic Affairs and Joint Secretary, Department of Disinvestment. The recommendations of the High-level Committee were submitted for approval to the Group of Ministers constituted for this purpose.

3.3.2.2 Subsequently in June, 2004, the following disinvestment related functions were allocated to the Cabinet Committee on Economic Affairs (CCEA).

(a) to consider issues relating to disinvestment;

(b) to decide price band for the sale of Government shares through Global Depository Receipt/domestic capital market route prior to the book building exercise, and to decide the final price of sale in all cases;

(c) to decide the final pricing of the transaction and the strategic partner in case of the strategic sales;

(d) to decide on cases where there is disagreement between the recommendations of the Disinvestment Commission and the views of the Department of Disinvestment.

3.3.2.3 During July, 2004, Government decided to piggyback with an offer for sale on the fresh issue of equity that was being undertaken by NTPC. At the time of seeking Government's approval, it was considered that the procedure to be followed by NTPC for determining and approving the floor price/price band and offer price and sale price would also be applicable to the Government shares and this activity would be performed simultaneously taking the entire offer as one. DOD would participate in all monitoring level meetings in the Ministry of Power. A separate IMG was not to be formed.

3.3.2.4 In September, 2004, Government constituted an Empowered Group of Ministers (EGoM) to decide all issues related to the price band for the sale of Government's shares through GDR/domestic capital market route prior to the book building exercise and to decide the final price of sale in all such cases. EGoM comprises the Minister of Finance, the Minister of the Administrative Ministry concerned and Deputy Chairman, Planning Commission. EGoM would be serviced by Department of Disinvestment.

3.4 Sale of Residual Equity by the Auction Method

3.4.1 The Government's residual equity of 18.28 per cent in MUL was sold in two tranches of 8 per cent and 10.27 per cent in January, 2006 and May, 2007 respectively. Another 0.01 per cent was sold to employees in March, 2006.

3.4.2 In the case of sale of 8 per cent Government equity in MUL to public sector financial institutions and public sector banks, an IMG finalized its recommendation on appointment of Advisers after going through the presentations made by merchant bankers/investment bankers. The recommendations of IMG were later considered by CGD and approved by the Finance Minister. The same advisers were retained for the sale of Government's remaining stake of 10.27 per cent to public sector financial institutions, public sector banks and Indian mutual funds.

3.4.3 An Evaluation Committee under the Chairmanship of JS&FA, DoD with JS, DHI; JS, DoD; and JS (PSE), Department of Economic Affairs, as members, was constituted for recommending the floor price, final sale price and allocation of shares. The Committee's recommendations were submitted to EGoM for approval.

3.5 Bidding Procedure

3.5.1 Strategic Sale:

The bidding procedure for strategic sale was evolved keeping in view the principles of transparency, administrative simplicity and fair play. Bidding was done in a two-stage process. In the first stage, all those bidders meeting the eligibility criteria were shortlisted by an IMG and were invited to do the due diligence of the company. Simultaneously, the transaction documents were firmed up by the Advisers in consultation with the CPSE concerned, the shortlisted interested parties and IMG. Once the Government approved the draft transaction documents, which defined the future rights and obligations of the Government and the strategic partner, the conditions for sale of shares etc., financial bids were invited from the shortlisted bidders who had completed due diligence. After determination of the Reserve Price, the financial bids were opened and the highest eligible bidder was recommended by EC/IMG to CGD. The recommendations of IMG together with the recommendations of CGD in regard to sale price and the buyer were placed before CCD for approval.

3.5.2 Offers for Sale

Since 2003, eight Offers for Sale have been concluded. All of them utilized the Book Building route. Under this methodology, bids were invited within a pre-determined floor price/price band from the investors during a specific period. Each investor submitted bid specifying the number of shares bid for and the price. After the end of the bidding period, the bids were consolidated and a cut off price was recommended by the Inter-Ministerial Committee, constituted separately for each transaction, for approval to the EGoM, which took the final decision regarding allocation of shares to investors and the cut-off price.

3.5.3 Auction Method:

3.5.3.1 In the initial phase (December, 1991 to 1995-96), disinvestment of shares of select CPSEs was through the auction method. The reserve price was first determined by the Core Group of Secretaries and then the bids were invited from pre-determined target group of investors. Shares were allotted to the bidders in order of the bid prices, first to the highest bidder and then to next and so on until the shares were exhausted or the reserve price reached, whichever was earlier.

3.5.3.2 For the sale of residual shareholding of Government in MUL undertaken in January, 2006 and May, 2007, the Government first fixed the reserve price and then the bids were invited from the target group of investors. The shares were sold through the auction method described above.

3.6 Valuation

3.6.1 As mentioned earlier, valuation was carried out to determine the Reserve Price. The objective of valuation is to determine the fair value of an asset, which in turn is based on the assessment of its intrinsic value accruing from the fundamentals of the asset on a stand-alone basis. A purchase and sale is concluded only when two parties, with varying views on the value of an asset, reach an agreement on the same price. Thus the sale price is different from the Reserve Price, the latter being a benchmark for evaluation of bids received through the bidding process.

3.6.2 Disinvestment Commission's Recommendations on Valuation

3.6.2.1 The Disinvestment Commission, in its Report on Disinvestment: Strategy and Issues, submitted in December, 1996, while underlining the importance of the subject of valuation, discussed three basic approaches to valuation:

(a) Discounted Cash flow (DCF).
(b) Relative valuation.
(c) Net asset value.

3.6.2.2 The Commission was of the further view that the use of a particular method of valuation would depend upon the health of the company being evaluated, the nature of the industry in which it operated and the company's intrinsic strengths. The depth of the capital markets would also have an impact on the valuation.

3.6.2.3 The Commission also discussed several factors, which impact valuation. Although valuation methods itself generate a range of valuations in each case, some discounts may need to be applied due to the following reasons:

- The lack of marketability.
- Minority Discount.
- Multi-Business Discount.

3.6.2.4 The Commission also sought to correct some erroneous perceptions about valuation. There is a general perception that since valuation models are quantitative, valuation is objective. The Commission felt that though valuation does make use of quantitative models, the assumptions made as inputs to the model leave plenty of room for subjective judgments. At the same time, there is no such thing as a precise estimate of a value. Even at the end of the most careful and detailed valuation of a company, there could be uncertainty about the final numbers, as they are shaped by assumptions about the future of the company's operations.

3.6.2.5 Another perception sought to be corrected by the Commission was the relationship attributed between valuation and market price. The benchmark for most valuations remains the market price (either the company's own price, if it is listed, or that of a comparable company). The Commission felt that the valuation done before listing takes into account anticipated factors, whereas market price reflects realised events that are influenced by unanticipated factors. Moreover, a specific valuation itself may not be valid over a period of time as it is a function of the competitive position of the company, the nature of market in which it operates and Government policies. Therefore, it may be appropriate to update or revise valuations.

3.6.3 Valuation Methodologies followed in the case of Strategic Sale.

3.6.3.1 The following four methodologies were used for valuation of CPSEs: -

(a) Discounted Cash Flow (DCF) Method.
(b) Balance Sheet Method.
(c) Transaction Multiple /Comparable Companies/Relative Valuation Method.
(d) Asset Valuation Method.

3.6.3.2 The Reserve Price was fixed on the DCF method in the case of BALCO, CMC, HTL, VSNL, IBP, IPCL, HZL, ITDC and HCI Hotel units. In the case of MFIL, the reserve price was not fixed, whereas in the case of PPL, the reserve price was determined by giving weightages of two to DCF value and one to the Replacement Value based Asset Value.

3.6.3.3 A statement indicating the valuation of the CPSEs, which were sold through strategic sale, under different methods of valuation, the Reserve Price and Sale Price in each case is given at Annexure-8. The statement indicates that the bid price realized by the Government was always more than the Reserve Price, except in the case of PPL. The statement on Reserve Price and the amount realised in respect of disinvestment of hotel properties is at Annexure-9.

3.6.4 Valuation Methodologies followed in the case of Sale of Small Portions of Equity.

3.6.4.1 Auction Method:

During 1991-96 shares were sold by the auction method. The basis of fixation of the Reserve Price is given hereinunder: -

(a) In the first year of disinvestment, i.e., 1991-92, Government sold shares in bundles belonging to Very Good, Good and Average CPSEs. The auctions were open only to financial institutions, mutual funds and public sector banks which were finally subjected to a reserve price computed on the basis of the then prevailing formula of the Controller of Capital Issues. The second tranche of disinvestment was based on reserve prices recommended by the Industrial Credit and Investment Corporation of India.

(b) In the subsequent year (1992-93), the shares were sold individually in auctions which elicited more competition with the presence of firms, corporate bodies as well as individuals who had permission to buy, hold and sale shares in India. Reserve prices at the auctions were fixed with the help of professional advice from merchant bankers and only bids in excess of the reserve prices were accepted. Shares were allotted in the order of bid prices, first to the highest bidder, then to the next and so on until the shares were exhausted or the reserve price reached, whichever was earlier.

(c) In 1993-94, the reserve price was the higher of the highest price realized for each CPSE's share at the last year's auction or average of the prices indicated by the merchant bankers (IDBI and ICICI) for that CPSE. Towards the end of 1993, the government offered shares to employees in eight CPSEs where disinvestment had already occurred, at a 15 per cent discount to the average price realized by the Government at the auctions held during 1992-93.

(d) The formula for fixation of reserve price was revised in 1994-95 as the higher of (i) average price indicated by the merchant bankers engaged for that purpose; or (ii) average price realized at any preceding auction. Where there was more than one previous auction in which the share had been sold individually, the highest of the average price realized at any of the preceding auctions was considered.

(e) During 1995-96, the reserve price was taken as the average of the price indications given by a panel of three institutions namely, IDBI, ICICI Securities and SBI Capital Markets.

(f) In the year 2005-06, the Government sold 8 per cent of the paid equity capital of MUL through the auction method to public sector financial institutions and public sector banks. A floor price of Rs.620 per share was fixed for the share of the face value of Rs.5. The shares were allotted to the bidders in the order of the bid prices, first to the highest bidder and then to the next and so on until the shares were exhausted at a cut off price of Rs.660 per share. The weighted average price worked out to Rs.678.24 per share in a bid range of Rs.660-725. Another 0.01 per cent was sold to employees at the cut-off price of Rs.660 per share. Each employee was offered 20 shares.

(g) In May, 2007 the Government sold its residual 10.27 per cent paid up equity capital in MUL through the auction method to the public sector financial institutions, public sector banks and Indian mutual funds. A floor price of Rs.760 per share was fixed for the share of face value of Rs.5. The weighted average price of the shares sold worked out to Rs.797.49 per share in a bid range of Rs.775-850.

3.6.4.2 **Public Offerings:**

(a) The Government through the 'Offer for Sale' route, divested all or a portion of its equity in six listed companies viz. DCI, CMC, ONGC, GAIL, IBP and IPCL. While disinvesting in these six listed companies, the Government was required to fix a Floor Price/Price Band. The Floor Price/Price Band was fixed by the Group of Ministers on the recommendations of a High-level Inter-Ministerial Committee. While making its recommendations, the High-level Committee was, by and large, guided by the market price and its trends. In some cases, multiples provided by BRLMs were also considered for assessing the reasonableness of the recommended Floor Price/Price Band. The Floor Price per share recommended in the cases of CMC, GAIL, IBP and IPCL was Rs.475, Rs.185, Rs.620 and Rs.170 respectively. In the cases of DCI and ONGC, the price bands of Rs.385 – 400 and Rs.680 – 750 per share respectively were fixed.

(b) The IPO of MUL in 2003 consisted only of an Offer for Sale for 27.51 per cent of MUL's paid-up equity, out of Government's shareholding. Based on the recommendation of the BRLMs, the floor price of the issue for the face value of Rs.5 per share was fixed at Rs.115 per share.

(c) The IPO of NTPC in 2004-05 consisted of an Offer for Sale for 5.25 per cent and Fresh Issue of 5.25 per cent of the post-issue paid up equity of NTPC. A price band of Rs.52 to Rs.62 per equity share was fixed after studying the ratios pertaining to P/E, P/BV, EV/Adjusted EBITDA, Dividend Yield, DCF, etc.

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CHAPTER 4

4. Post Strategic Sale Transactions for Residual Holding and Post Closing Adjustments.

4.1 In all cases of strategic sale, (except hotel properties of ITDC and HCI), Government/BBUNL (in the case of LJMC and JCL being the holding company) retained a part of the equity with it, though management control was transferred to the strategic partner. The percentage of shares sold in the first instance to the SP varied from case to case. Except for the SHAs of HTL and LJMC, other SHAs, provided for the manner of sale for the residual equity. In some cases a 'Put' option was made available to the Government under which it was compulsory for the SP to buy the shares being offered by the Government. In some cases a 'Call' option was made available to the SP. In some other cases, both 'Put' and 'Call' options were made available. In all the cases of both 'Put' and 'Call' options, the period in which or the date from which the option could be exercised was pre-defined. The principles for determining the price at which the options were to be exercised was also pre-defined in the SHA. The procedure of exercising the option was also provided in the SHA.

4.2 The Government retained at least 26 per cent shareholding of the divested CPSE with it for a certain length of time. Annexure-10 provides details of the 'Put' and 'Call' options available in different CPSEs sold through strategic sale, specifying the percentage of shares associated with the option, the time period as well as the basis of pricing.

4.3 A CPSE - wise summary of how 'Put' / 'Call' options were exercised in the past is given below.

4.3.1 **MFIL**, an unlisted CPSE was privatised in January, 2000 through a sale of 74 per cent of the paid up equity. 26 per cent of the equity was left with the Government. The SHA provided for a 'Put' option to the Government to sell the residual shares to the SP from January, 2001 at higher of the Fair Market Value or the price at which shares were sold in the strategic sale. The 'Put' option was followed by a 'Call' option to SP. The 'Put' option was exercised by the Government on 28th November, 2002. The Government's residual equity was sold at the strategic sale price, i.e. Rs.11,489.56 per share, whose Face Value was Rs.1,000, realising an amount of Rs.44.07 crore.

4.3.2 **BALCO** is an unlisted CPSE in which 51 per cent of the equity was sold by the Government in March, 2001. A 'Call' option for the residual 49 per cent shares exercisable from 3rd March, 2004 at the higher of the Fair Value or the strategic sale price plus 14 per cent annual interest compounded half yearly after giving credit for dividend received by the Government, was available to SP. In the context of the 'Call' option exercised by SP on 22nd March, 2004, the Attorney General for India (AG), in his opinion dated 27th April, 2006, advised that the 'Call' option provisions in the SHA place restriction on the right of the GOI to transfer its shares freely and such a restriction would be void and unenforceable. A final decision on sale of the 'Called Shares' is yet to be taken as AG has opined against the validity of the Call Option provisions and the matter is under dispute.

4.3.3 **CMC** was a listed CPSE, when Government disinvested 51 per cent of the paid up equity through strategic sale in October, 2001, leaving a residual equity of 32.31 per cent with the Government, which got reduced to 26.25 per cent after sale of shares to employees. The SHA provided for a 'Put' option for the Government effective from 16th October, 2002 to 15th October, 2003 not exceeding 10 per cent of the paid up equity out of the residual shares and from 16th October, 2003 to 15th October, 2004 for some or all of the remaining shares at Fair Value as defined in the SHA. The 'Call' option was provided to the SP from 16th October, 2004 to 15th October, 2006 at higher of the Fair Value or the Market Value of the called shares. In February, 2004 the entire residual shareholding of 26.25 per cent was sold through an Offer for Sale to the public after getting the concurrence of the SP under the 'Right of First Refusal' clause of the SHA. The Government realised an amount of Rs.190.44 crore from this transaction.

4.3.4 **VSNL** was a listed CPSE when the Government disinvested 25 per cent of the paid up equity capital through strategic sale in February, 2002, leaving a residual shareholding of 27.97 per cent. Out of the residual shareholding, 1.85 per cent shareholding was sold to the employees. As per the SHA, the SP could exercise a 'Call' option for the entire residual shareholding of the Government, except one share, during the period from 13th February, 2006 to 12th February, 2007 at Fair Value of the called shares, to be determined as per SHA. However, the SP did not exercise the 'Call' option and the period of one year, during which the SP could have exercised the call option, expired on 12th February, 2007.

4.3.5 **IBP:** The Government disinvested 33.58 per cent of the paid up equity in February, 2002 in this listed CPSE leaving a residual shareholding of 26 per cent. The SHA provided for a 'Put' option to the Government from 8th February, 2003 to 7th February, 2005 at Fair Value and a 'Call' option to the SP from 8th February, 2005 to 7th February, 2007 at Fair Value. However, Government sold its entire residual shareholding through an Offer for Sale to the public in February, 2004.

4.3.6 **PPL:** The Government sold 74 per cent of the paid up equity capital in February, 2002 through strategic sale in this unlisted CPSE leaving a residual shareholding of 26 per cent. The shareholding of the Government in PPL came down to 19.55 per cent, consequent to a Rights Issue by the company, which was not subscribed to by the Government. The SHA provides for a 'Put' option right to the Government for some or all of the residual shares held by the Government at the time it exercises the put option at the fair value of the put shares. It further provides for a Call Option right to the SP from 1st March, 2005, requiring Government to sell to the SP all but not less than all of the equity shares held by the Government on date of issue of the Call Option Notice at a price which is higher of the fair value of the called shares or, if the company is listed, the highest price of the equity shares (during the period 15-days prior to the date of the call option notice) as quoted in the Stock Exchange or the price at which the shares were sold to SP at the time of strategic sale. In view of the opinion of AG referred to in Para 4.3.2 the Government has decided to repudiate the Call Option if and when exercised.

4.3.7 **HZL:** The Government sold 26 per cent of the paid up equity capital of the company through a strategic sale in April, 2002, retaining a shareholding of 49.92 per cent in this listed CPSE. Out of the residual shareholding, 1.465 per cent shareholding was sold to the employees. The SHA provided for the first 'Call' option to the SP from 11th October, 2002 to 10th October, 2003 for 18.92 per cent of the equity at higher of the Market Value of the shares or strategic sale price. This option was exercised by the SP in August, 2003 against which Government realised Rs.323.88 crore at the strategic sale price. A 'Put' option was available to the Government from 11th October, 2004 to 10th April, 2005 at higher of the Market Value of the shares or the strategic sale price for the shareholding in excess of 26 per cent. The Government decided not to exercise the 'Put' option. The residual shareholding of the Government is now 29.535 per cent for which a 'Call' option is available to the SP from 11th April, 2007 at the Fair Market Value. In view of the opinion of AG referred to in Para 4.3.2 the Government has decided to repudiate the Call Option if and when exercised.

4.3.8 **IPCL:** The Government sold 26 per cent of the equity in this listed CPSE through strategic sale in June, 2002 leaving a residual shareholding of 33.95 per cent for which the SHA provided a 'Put' option to the Government from 4th June, 2004 to 3rd June, 2005 and a 'Call' option to the SP from 4th June, 2005 to 3rd June, 2006 both at Fair Value. However, in February, 2004 the Government, after obtaining concurrence of the SP under the 'Right of First Refusal' clause of the SHA, sold 28.95 per cent through an Offer for Sale to the public realising Rs.1203 crore and the residual holding of 5 per cent was offered to the employees of IPCL at discounted price, out of which 4.58 per cent shares were actually allotted. The existing shareholding of the Government in IPCL is 0.42 per cent.

4.3.9 **JCL:** At the time of strategic sale, BBUNL, a CPSE held 99 per cent of the paid up equity capital of JCL, a listed company. BBUNL sold 72 per cent of the paid up equity through the strategic sale to Indo-Wagon Engineering Limited (IWEL), leaving a residual shareholding of 27 per cent. The SHA provided for a 'Put' option to BBUNL from 29th August, 2004 to 28th August, 2006 and a 'Call' option to the SP from 29th August, 2006 to 28th August, 2008 both at Fair Value, to be determined as per the SHA. The shareholding in JCL got further reduced from 27 per cent to 4.16 per cent, consequent to a Rights Issue made by JCL in 2005 which was not subscribed by BBUNL. IWEL exercised the 'Call' option on 4th September, 2006. In view of the opinion of AG referred to in Para 4.3.2, the Government has decided to repudiate the Call Option already exercised by SP.

4.3.10 **MUL** was an unlisted Company when the Government renounced a Rights Issue of 4.21 per cent of the paid up equity in June, 2002, in favour of SMC, thereby reducing its shareholding to 45.79 per cent. SMC paid Rs.1000 crore as control premium to the Government for renouncing the Rights Offer. The RJVA provided for a 'Put' option from 8th November, 2003 to 8th July, 2005 at a price to be determined through a pre-defined formula. The Government, however, sold 27.51 per cent out of its shareholding through an IPO in July, 2003 realising Rs.993.30 crore. Out of the residual shareholding of 18.28 per cent, the Government sold 8 per cent equity of MUL to public sector financial institutions and public sector banks in January, 2006 for Rs.1,567.60 crore and 0.01 per cent equity to the employees of MUL for Rs.2.08 crore in March, 2006. In May, 2007, the Government sold its residual 10.27 per cent shareholding in MUL for the consideration of Rs.2,366.94 crore to public sector financial institutions, public sector banks and Indian mutual funds.

Sale of shares to Employees.

4.4 Five SHAs relating to strategic sale provided for offer of shares to employees. These are detailed below:

4.4.1 **BALCO:** The SHA provided for an offer of up to 5 per cent equity of the company out of the residual shareholding of Government to the employees. A final decision in the matter is yet to be taken.

4.4.2 **CMC**: The SHA provided for an offer of not more than 6.31 per cent of the equity of the company out of the residual shareholding of Government to the employees. The strategic sale was completed in October, 2001 and the offer of shares to the employees was completed in June/July, 2002 at a price of Rs.66 per share i.e. at one-third of the strategic sale price of Rs.197 approximately. All regular employees of the company including full time functional Directors of the company, on the specified date, were eligible to acquire shares under this scheme. 3,208 employees availed of this offer, realising Rs.6.07 crore for the Government by subscribing to 6.06 per cent of the equity. The offer involved a sacrifice of around Rs.12.04 crore for the Government vis-à-vis the strategic sale price and an average benefit of Rs.0.38 lakh per employee. The shares were non-transferable/non-tradeable for one year from the date of issue.

4.4.3 **VSNL:** The SHA provided for an offer up to 2 per cent shares of the company out of the Government's residual shareholding to the employees. The company ceased to be a Government company in February, 2002 and the offer to the employees was made in the same month at one-third of the price offered by the strategic partner or 1/3rd of listed market value calculated as the average of the closing price on BSE for 30 days, whichever was less, subject to a minimum of par value of Rs.10 per equity share. 52,64,555 shares representing 1.85 per cent equity of the company were subscribed by the employees. The shares were offered at Rs.47.85 per share against the strategic sale price of Rs.202 per share, involving a sacrifice of Rs.81.15 crore by the Government and an average benefit of Rs.2,71,304 per employee. The shares were made non-transferable/tradable for one year.

4.4.4 **HZL:** The SHA provided for an offer of up to 5 per cent equity of the company to the employees out of the residual shareholding of the Government. It was decided to offer the shares at one-third of the Listed Market Value or one third of strategic sale price whichever was lower subject to a minimum of the face value. Accordingly, in November, 2002 the shares were offered at the face value of Rs.10 per share against a prevailing Listed Market Value of Rs.22.52 per share and strategic sale price of Rs.40.50 per share. 61.90 lakh shares or 1.465 per cent of the equity was subscribed by the employees. This transaction involved a sacrifice of Rs.18.88 crore by the Government and an average benefit of Rs.0.66 lakh per employee vis-à-vis the strategic sale price. The shares were non transferable/non-tradable for one year.

4.4.5 **IPCL:** The SHA provided for an offer up to 5 per cent equity of the company out of Government residual shareholding to the employees. The strategic sale was completed in June, 2002. Thereafter, the offer of shares to the employees was made in April, 2004 at one-third of the price at which the shares were sold in February, 2004 through an Offer for Sale i.e. Rs.170. Accordingly, 5 per cent shares were offered to employees, out of which 4.58 per cent shares were actually allotted at Rs.57 per share. This involved a sacrifice of Rs.197.85 crore for the Government vis a vis the strategic sale price of Rs.231. An average benefit of Rs.1.61 lakh accrued to each employee. The shares were non-transferable/non-tradable for three year.

4.4.6 A tabular presentation of these transactions is available in Annexure-11. While the terms and conditions of sale of shares to employees varied, there are some common features. A matrix of distribution of shares among employees was adopted. Secondly, the ratio of distribution from the lowest to the highest level ranged between 1:2.75 and 1:5. Thirdly, the regular employees including the functional Directors of the Board at the time of disinvestment were eligible for subscribing to the shares. Fourthly, in all the schemes, the shares were offered at a discount to the prevailing price.

Post Closing Adjustments

4.5 In the case of 4 unlisted companies and the hotel properties of HCI and ITDC, the Share Purchase Agreement/Agreement to Sell provided for a Post Closing Adjustment to cover the change in the financial status of the company between the date upto which the audited accounts were provided to the parties at the time of due diligence and the date of actual disinvestment. The difference in the Net Assets on the date of the last audited balance sheet and the closing date was called post closing adjustment and depending on whether there was an accretion or depletion of the Net Assets, this amount become payable to the Government or SP.

4.5.1. The details of cases where Post Closing Adjustments were provided for in the Share Purchase Agreement/relevant transaction agreement and the status of each case as given below:

4.5.2 **MFIL**: MFIL was disinvested through sale of 74 per cent Government's equity to HLL for an amount of Rs.105.45 crore. Financial bids were invited/received on the basis of audited accounts of MFIL as on 31st March, 1999. The transaction agreements were executed on 31st January, 2000. The appointed accounting firm had submitted a statement on 26th April, 2000 which required the Government to pay Rs.17.48 crore to the SP but the Government accepted a claim amounting to Rs.12.64 crore and released payment of Rs.10.94 crore in October, 2000 and Rs.1.70 crore in November, 2001. HLL, the purchaser still claims Rs.4.43 crore under post closing adjustment on account of gratuity and recovery from U.P. Government. The matter is under consideration of the Ministry of Food Processing Industries.

4.5.3 **BALCO**: 51 per cent equity of BALCO was disinvested in favour of SIIL on 2nd March, 2001 for an amount of Rs.551.50 crore. The SHA and SPA were signed on 2nd March, 2001 and the SP took over the management control. The SPA provided that within 90 days following the Closing Date, the Government and the Purchaser shall jointly select an accounting firm to prepare a statement showing the Closing Date Net Assets Amount. If the Closing Date Net Assets Amount were higher than the Adjusted Net Assets Amount on 31st March, 2000 (Rs.590.95 crore), the Purchaser shall pay 51 per cent of the difference to the Government and if the Closing Date Net Assets Amount was lower than the Adjusted Net Assets Amount, the Government shall pay 51 per cent of the difference to the Purchaser. In terms of the SPA, the Government and the SP jointly appointed Price Waterhouse to compute the Closing Date Net Assets Amount. Price Waterhouse initially computed the Net Assets of BALCO as on 2nd March, 2001 at Rs.478.08 crore which was subsequently increased to Rs.558.17 crore as against the Adjusted Net Assets of Rs.590.95 crore as on 31st March, 2000. The matter is under examination in the Ministry of Mines.

4.5.4 **PPL**: Financial bids for the disinvestment of 74 per cent of the equity in PPL were invited on the basis of audited accounts of the company as on 31st March, 2001. Only one financial bid of Zuari Maroc Phosphate Pvt. Limited (ZMPPL) was received. The transaction agreements for strategic sale were executed on 28th February, 2002. As per the joint audit, on the post closing claim, initially conducted by Price Waterhouse, Kolkota, the total deterioration in the net assets of PPL between 31st March, 2001 and 28th February, 2002 was at Rs.204.80 crore (approx.) out of which Rs.151.55 crore was due to ZMPPL. No agreement could be reached between ZMPPL and the Government on the amount of the post-closing claim. Thereafter, the Government appointed Patro & Co. who arrived at a post-closing claim of Rs.108.8 crore. In view of the discrepancies in the reports of the two auditors mentioned above, KPMG Private Limited was jointly engaged for conducting a full audit. In the report of KPMG, the amount payable to ZMPPL was computed to be Rs.141.32 crore. While this case was under examination of the Department of Fertilizer, ZMPPL initiated arbitration proceedings under the SPA. The matter is pending before an Arbitral Tribunal.

4.5.5 **HTL**: 74 per cent equity of HTL was disinvested through Strategic Sale to HFCL on 16th October, 2001. The Post Closing adjustment claim filed by the strategic partner in terms of the provisions of SPA was not acceptable to the Department of Telecommunications and the matter is under arbitration.

4.5.6.1 **HCI**: HCI is a subsidiary of Air India Limited. Transactions relating to two hotel businesses of HCI, viz., Hotel Centaur Juhu Beach Mumbai and Centaur Hotel Mumbai Airport, Mumbai and a subsidiary hotel of HCI, viz., Indo Hokke Hotels Limited, Rajgir were based upon the audited accounts of 31st March, 2001. The transfer dates of these 3 hotels were: Indo Hokke Hotels Limited, Rajgir - 26th March, 2002, Hotel Centaur Juhu Beach, Mumbai - 31st May, 2002 and Centaur Hotel Mumbai Airport, Mumbai - 5th June, 2002.

4.5.6.2 Post closing adjustment in terms of the provisions of SPA was completed in respect of Indo Hokke Hotels Limited, Rajgir. HCI paid an amount of Rs.4.33 lakh to the purchaser in settlement of the claim. Post closing adjustments in respect of the other two hotels in terms of the Agreement to Sell have not yet been completed.

4.5.6.3 In the case of Centaur Hotel Mumbai Airport, Mumbai, the purchaser raised a claim of Rs.235.67 lakh, whereas HCI raised a claim of Rs.497.71 lakh to be recovered from the purchaser. Since both the parties have disputed the claims of each other, the matter has been referred to arbitration.

4.5.6.4 In the case of Hotel Centaur Juhu Beach, Mumbai, the post closing adjustments in respect of (i) additional provision towards doubtful debts, (ii) additional provision towards leave encashment and gratuity and (iii) insurance claim and advances paid to suppliers have not been concluded. The parties have mutually agreed to refer the matter to Ministry of Civil Aviation (MOCA) for the award. MoCA informed that Additional Secretary and Financial Adviser, MOCA was appointed as the Arbitrator. The purchaser did not agree to this. HCI after taking legal opinion from their solicitors issued legal notice to the purchaser in October, 2005. The Board of HCI decided in March, 2006 to go ahead with arbitration proceedings. In June, 2006, HCI requested Arbitrator to proceed further in the matter. The matter is still pending.

4.5.7 **ITDC**: The position regarding post closing adjustments in respect of the disinvested ITDC properties is at Annexure-12.

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CHAPTER 5

5. Post Disinvestment employees issues in privatized CPSEs.

5.1 There are two primary employees issues, which are voiced with respect to privatization. First there is a concern about change in the terms of services of employees and secondly there is a concern that the reservation policy of the Government for the Scheduled Castes/Scheduled Tribes and other categories would be diluted.

5.2 Terms and conditions of services

The concern of the employees regarding alteration in the terms and conditions of the services were sought to be addressed through provisions in the Shareholders Agreement/Share Purchase Agreement entered into with the Strategic Partner at the time of strategic sale. The typical provisions are given below: -

<u>Recitals :</u>

Subject to the substantive clauses in this regard, the Parties envision that all Employees of the Company on the date hereof will continue in the employment of the Company.

<u>Substantive Clauses</u>
The SP covenants with the Government that:

(a) notwithstanding anything to the contrary in this Agreement, it shall not retrench any of the Employees of the Company for a period of 1 (one) year from the Closing Date other than any dismissal or termination of Employees of the Company from their employment in accordance with the applicable staff regulations and standing orders of the Company or applicable Laws.

(b) notwithstanding anything to the contrary in this Agreement, but subject to Sub-Clause (a) above, any restructuring of the labour force of the Company shall be implemented in the manner recommended by the Board and in accordance with all applicable Laws;

(c) notwithstanding anything to the contrary in this Agreement, but subject to Sub-Clause (a) above, in the event of any reduction of the strength of the Company's Employees, the SP shall ensure that the Company offers its Employees an option to voluntarily retire on terms that are not, in any manner, less favourable than the VRS applicable before disinvestment.

5.3 Reservation Policy

In the strategic sale transactions, the interest of SC/ST employees were also sought to be protected through the provisions in the Shareholders' Agreement. A typical Recital clause provided in the SHA is reproduced below: -

"The SP recognizes that the government in relation to its employment policies follows certain principles for the benefit of the members of the Scheduled Castes / Scheduled Tribes, physically handicapped persons and other socially disadvantaged categories of the society. The SP shall use its best efforts to cause the Company to provide adequate job opportunities for such persons. Further, in the event of any reduction in the strength of the employees of the Company, the SP shall use its best efforts to ensure that the physically handicapped persons are retrenched at the end".

CHAPTER 6

6. Disinvestment related legal cases.

6.1 Review of legal cases.

6.1.1 Ninety-six disinvestment related lawsuits, including transfer petitions, have been filed between December, 1999, (when the Department of Disinvestment was established) and 30th June, 2007. Out of these, sixteen writ petitions were transferred to the Supreme Court from different High Courts. At the end of July, 2007, twenty four matters were pending before different High Courts and two matters before the Supreme Court, details of which are given below:

Summary of Legal cases

Sl. No.	Court	Total number filed (including transfer cases)	Disposed / *Dismissed*	Transferred to Supreme Court	Number pending
1.	Supreme Court	15	13	Not applicable	2*
2.	Karnataka High Court	5	4	1	Nil
3.	Delhi High Court	19	13	4	2
4.	Chhattisgarh High Court	1	Nil	1	Nil
5.	Madras High Court	7	2	2	3
6.	Allahabad High Court	3	Nil	2	1
7.	Patna High Court	2	2	Nil	Nil
8.	J&K High Court	1	Nil	1	Nil
9.	Calcutta High Court	10	4	1	5
10.	Rajasthan High Court	6	3	1	2
11.	Kerala High Court	1	1	Nil	Nil
12.	Orissa High Court	5	2	Nil	3
13.	Bombay High Court	10	4	2	4
14.	Bombay High Court (Nagpur Bench)	1	Nil	Nil	1
15.	Bombay High Court (Aurangabad Bench)	1	Nil	Nil	1
16.	High Court of MP (Gwalior Bench)	1	1	Nil	Nil
17.	High Court of MP at Jabalpur	3	2	Nil	1
18.	Gujarat High Court.	1	Nil	Nil	1
19.	Andhra Pradesh High Court	2	2	Nil	Nil
20.	Punjab & Haryana High	1	1	Nil	Nil

	Court.				
21.	Jharkhand High Court	1	Nil	1	Nil
Total		**96**	**54**	**16**	**26**
*(*2 matters consisting of Transferred Cases (i) 5 Writ Petitions involving issues arising out of the Supreme Court judgment in HPCL/BPCL case and clubbed together and (ii) 1 Writ Petition relating to HZL transferred from Rajasthan High Court.*					

6.1.2 Out of the cases which were either disposed or dismissed by various courts, there are three important judgements of the Supreme Court. These are the judgement dated 10th December, 2001 in the BALCO matter, the judgement dated 16th September, 2003 in the Centre for Public Interest Litigation and Others vs. Union of India and Others in HPCL/ BPCL matter and the judgement dated 31st October, 2006 in the matter of All India ITDC Workers Union & Others viz. ITDC and Others.

6.1.3 The Supreme Court in its judgement dated 10th December, 2001 in the BALCO case (AIR 2002 SC 350) has observed as follows:

> "In a democracy, it is the prerogative of each elected Government to follow it's own policy. Often a change in Government may result in the shift in focus or change in economic policies. Any such change may result in adversely affecting some vested interests. Unless any illegality is committed in the execution of the policy or the same is contrary to law or mala fide, a decision bringing about change cannot per se be interfered with the Court.
>
> Wisdom and advisability of economic policies are ordinarily not amenable to judicial review unless it can be demonstrated that the policy is contrary to any statutory provision or the Constitution. In other words, it is not for the Courts to consider relative merits of different economic policies and consider whether a wiser or better one can be evolved. For testing the correctness of a policy, the appropriate forum is the Parliament and not the Courts. Here the policy was tested and the Motion defeated in the Lok Sabha on 1st March, 2001.
>
> Thus, apart from the fact that the policy of disinvestment cannot be questioned as such, the facts herein show that fair, just and equitable procedure has been followed in carrying out this disinvestment. The allegations of lack of transparency or that the decision was taken in a hurry or there has been an arbitrary exercise of power are without any basis. ……..
>
> The offer of the highest bidder has been accepted. This was more than the reserve price which was arrived at by a method which is well recognized and, therefore, we have not examined the details in the matter or arriving at the valuation figure. Moreover, valuation is question of fact and the Court will not interfere in matters of valuation unless the methodology adopted is arbitrary.
>
> In the case of a policy decision on economic matters, the courts should be very circumspect in conducting any enquiry or investigation and must be most reluctant to impugn the judgement of the experts who may have arrived at a conclusion unless the Court is satisfied that there is illegality in the decision itself."

6.1.4 In the matter of Centre for Public Interest Litigation versus Union of India and Another challenging the disinvestment in regard to HPCL/ BPCL, the Supreme Court, through the judgement delivered on 16th September, 2003 (AIR 2003 SC 3277) upheld the challenge to the proposed Strategic Sale of HPCL and the proposed dilution in equity in the case of BPCL to below 51 per cent through an Offer for Sale of the Government's equity. The Supreme Court took the view that, since both these companies were established through Acts of Parliament under which the undertakings and assets of private companies were acquired and transferred to these Government Companies, it was not open for the Government to proceed with disinvestment that would result in HPCL and BPCL ceasing to be Government Companies without appropriately amending the statutes concerned. The Court also held that setting up of Government Companies is by way of Parliamentary approval for expenditure from the Consolidated Fund of India and hence privatisation of Government Companies can therefore be only with approval of Parliament. This Judgement laid down principles, which would apply to all cases of privatization of Government companies. Subsequently, several ongoing disinvestment proposals were challenged in various High Courts. On petitions filed by the Government under Article 139A of the Constitution, 6 writ petitions (in the cases of Burn Standard Company Limited, Shipping Corporation of India Limited, Hindustan Copper Limited, Hindustan Zinc Limited) pending in various High Courts were transferred to the Supreme Court. Further, four Writ Petitions were directly filed before the Supreme Court. All the transferred cases and the Writ Petitions directly filed before the Supreme Court were tagged with the Civil Appeal SLP (C) No. 12203/2003 (Civil Appeal No. 6780/2004) filed by Jessop & Co Limited Staff Association, in which the Government, through its Counter Affidavit dated 11th November, 2003, sought reconsideration of the ratios of the judgment dated 16th September, 2003 in the Centre for Public Interest Litigation case (HPCL/BPCL). The Supreme Court on 11th October, 2004 passed orders (1) granting the Special Leave to Jessop & Co Limited Staff Association; (2) allowing the transfer petitions filed by the Union of India; and (3) admitting the Writ Petitions filed by EIL Officers' Association, NFL Officers' Association and Khetri Tamba Shramik Sangh. The Court also observed that, in view of the importance of the issues involved, a larger bench should hear these matters. Subsequently, the writ petitions filed by EIL Officers' Association, NFL Officers' Association were dismissed as withdrawn and the writ petition filed by Khetri Tamba Shramik Sangh was dismissed as premature. Jessop & Co. Staff Association filed an application in June, 2007 seeking permission for withdrawing the Civil Appeal No. 6780 of 2004. The Supreme Court has through orders dated 24th July, 2007 allowed the application and dismissed the appeal as withdrawn. Rest of the matters and the transferred cases are before the Supreme Court.

6.1.5 In the matter of All India ITDC Workers' Association Vs. ITDC & Others [Transfer Case (Civil) No. 73 of 2002 alongwith Transfer Case (Civil) No. 76 of 2002], the Supreme Court, through the judgement delivered on 31st October, 2006, upheld the disinvestment in Hotel Agra Ashok. The Supreme Court has, referring to and relying on the judgement dated 10th December, 2001 in BALCO matter, observed inter-alia that disinvestment was a policy decision of the Government of India and the said policy decision should be least interfered in judicial review.

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CHAPTER 7

7. Audit and Internal Examination of Disinvestment Transactions

7.1 In accordance with the established procedure, subsequent to the completion of disinvestment transactions, the cases are made available to the Comptroller and Auditor General (C&AG) for audit. The details of the audit of the transactions and the reports received from C&AG, after formation of this Department are given below.

7.2 Audit of the Strategic Sale of the Hotel Properties of HCI.

7.2.1 The sale of Centaur Hotel Mumbai Airport, Mumbai was completed on 18th April, 2002 in favour of Batra Hospitality Private Limited. C&AG took up the audit of this transaction in the month of February, 2004. The Preliminary Inspection Report from C&AG was received in January, 2005. Reply of the Government was sent by April, 2005. The Final Report was received in May, 2005. The Action Taken Note duly vetted by the audit, was sent to the Monitoring Cell (Ministry of Finance) on 1st September, 2005.

7.2.2 The sale of Hotel Centaur Juhu Beach, Mumbai was completed on 11th March, 2002 in favour of Tulip Hospitality Services Limited. C&AG took up audit of this transaction in the month of February, 2004. The Preliminary Inspection Report from C&AG was received in January, 2005. The reply of the Government was sent by April, 2005. The Final Report was received in May, 2005. The Action Taken Note, duly vetted by the audit, was sent to Monitoring Cell (Ministry of Finance) on 1st September, 2005.

7.2.3 The sale of Indo Hokke Hotels Limited, Rajgir was completed on 26th March, 2002 in favour of Inpac Travels (India) Private Limited. C&AG took up the audit of this transaction in August, 2004. Preliminary Inspection Report from C&AG was received in October, 2005. Reply of the Government was sent to Audit by 22nd September, 2006.

7.2.4 In the light of C&AG report in the matter, the Government of India has referred the strategic sale of Centaur Hotel Mumbai Airport, Mumbai and Hotel Centaur Juhu Beach, Mumbai for enquiry to Central Bureau of Investigation in July, 2005.

7.3 Audit of the Strategic Sale of Hotel Properties of ITDC.

C&AG had commenced audit of strategic sale transactions in the case of six hotel properties of ITDC (Hotel Ashok Bangalore; Hotel Agra Ashok; Hotel Bodhgaya Ashok; Temple Bay Ashok Beach Resort, Mamallapuram; Hotel Madurai Ashok and Hotel Hassan Ashok) in April, 2003. For the remaining 13 ITDC hotels (Laxmi Vilas Palace Hotel, Udaipur; Hotel Aurangabad Ashok; Hotel Airport Ashok, Kolkata; Lodhi Hotel, New Delhi; Qutab Hotel, New Delhi; Hotel Ranjit, New Delhi; Hotel Indraprastha, New Delhi; Hotel Kanishka, New Delhi; Hotel Varanasi Ashok; Hotel Manali Ashok; Kovalam Ashok Beach Resort; Hotel Khauraho Ashok and Chandigarh Project of Punjab Hotels Limited), C&AG commenced audit of the transaction in April, 2006 and competed it in January, 2007. The draft Preliminary Inspection Report for all nineteen hotel transactions was received in February, 2007. The reply to the Preliminary Inspection Report was sent in May, 2007.

7.4 Audit of Single Bid Strategic Sale Transaction.

In November, 2004, Government decided to examine 9 cases of Single Bid transactions namely, (i) MFIL, (ii) CMC, (iii) PPL, (iv) Hotel Ashok Agra, (v) Hotel Ashok Bodhgaya (vi) Hotel Ashok Mamallapuram (vii) Hotel Ashok Bangalore, (viii) LVPH, Udaipur, (ix) Indo Hokke Hotels Limited (Rajgir). Shri S. Lakshminarayanan ex-Deputy C&AG was appointed for the purpose in November, 2004 and submitted his reports in February/March, 2005, which were processed and referred to the office of C&AG for appropriate action.

7.5 Audit of the 2002 MUL Rights Issue Transaction.

The renunciation of rights shares of Maruti Udyog Limited (MUL) by Government in favour of Suzuki Motor Corporation was completed on 15th May, 2002. C&AG took up the audit of this transaction in July, 2005. Preliminary Inspection Report from C&AG was received in December, 2005. The reply to the Preliminary Inspection Report is being prepared.

7.6 Audit of Sale of Government's Residual Shareholding in MFIL.

The residual shareholding of 26 per cent held by Government in Modern Food Industries (India) Limited (MFIL) was sold to the Strategic Partner i.e. Hindustan Lever Limited in November, 2002 by exercising 'Put Option' in terms of the provisions of SHA. A Preliminary Inspection Report on this transaction was received from C&AG in August, 2006. Reply was sent by 1st November, 2006. The draft audit para on this transaction has been received from audit. The reply to the draft audit para is under preparation.

7.7 Audit of Strategic Sale of Jessop & Company Limited

In August 2005, Government disinvested 72 per cent equity capital of Jessop & Company Limited (JCL) through strategic sale in favour of Indo-Wagon Engineers Limited for an amount of Rs.18.18 crore. C&AG conducted the audit for this transaction and the Preliminary Inspection Report was received on 23rd August, 2006. The reply to the Preliminary Inspection Report is being prepared.

7.8 Audit of Strategic Sale of Government's stake in 9 CPSEs, namely, MFIL, BALCO, HTL, CMC, HZL, VSNL, IBP, IPCL and PPL.

C&AG conducted audit of the transactions relating to disinvestment of Government equity through the strategic sale mode in 9 CPSEs viz. MFIL, BALCO, HTL, CMC, HZL, VSNL, IBP, IPCL and PPL. The final Report (Report No. 17/2006) of C&AG was tabled in the Parliament on 25th August, 2006. This Report has been selected by the Public Accounts Committee for detailed examination during 2006-07. A background note detailing the functions of the Department, evolution of the disinvestment policy and information of general nature was forwarded to Lok Sabha Secretariat on 29th September, 2006. The Action Taken Notes were also sent on 11th December, 2006. Replies to the questions received from Lok Sabha Secretariat were sent on 20th March, 2007. The vetting comments of C&AG on the ATN and the Questionnaire have been received.

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CHAPTER 8

8. The New Disinvestment Policy and Programme

8.1 Current Policy on Disinvestment

8.1.1 In May, 2004, Government adopted the National Common Minimum Programme (NCMP), which outlines the policy of the Government with respect to the public sector. The relevant extracts of NCMP are given hereinunder:

> "The UPA Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The UPA is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally profit-making companies will not be privatized.
>
> All privatizations will be considered on a transparent and consultative case-by-case basis. The UPA will retain existing "navratna" companies in the public sector while these companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The UPA will induct private industry to turn around companies that have potential for revival.
>
> The UPA Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatization and social needs – like, for example, the use of privatization revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors"

8.2 Calling off of the ongoing cases of Strategic Sale

In conformity with the policy enunciated in NCMP, it was decided in February, 2005 to formally call off the process of disinvestment through Strategic Sale of profit making CPSEs, as enumerated below:

S. No.	Name of the PSE	Percentage of equity which was earlier proposed to be sold through Strategic Sale
1	Manganese Ore India Limited	51 per cent
2	Sponge Iron India Limited	100 per cent
3	Shipping Corporation of India Limited	54.12 per cent (51 per cent through Strategic Sale and 3.12 per cent to Employees)
4	National Aluminium Company Limited	61.15 per cent (10 per cent Domestic Issue, 20 per cent ADR Issue, 29.15 per cent Strategic Sale, 2 per cent to Employees)
5	National Building Construction Corporation Limited	74 per cent
6	National Fertilizers Limited	53 per cent (51 per cent through Strategic Sale and 2 per cent to Employees)
7	Rashtriya Chemicals and	53 per cent (51 per cent through Strategic

	Fertilizers Limited	Sale and 2 per cent to Employees)
8	Hindustan Petroleum Corporation Limited	39.01 per cent (34.01 per cent through Strategic Sale and 5 per cent to Employees)
9	Engineers India Limited	61 per cent (51 per cent through Strategic Sale and 10 per cent to Employees)
10	Balmer Lawrie and Company Limited	61.8 per cent
11	Engineering Projects India Limited	74 per cent
12	Hindustan Paper Corporation Limited	74 per cent
13	State Trading Corporation of India Limited	75 per cent (65 per cent through Strategic Sale and 10 per cent to Employees)

8.3 Sale of Small Portions of Government Equity through an IPO or FPO without changing the Public Sector character of CPSE

8.3.1 The Government has also approved, in principle, the following:

(a) listing of currently unlisted profitable CPSEs (other than Navratnas) each with a Net Worth in excess of Rs.200 crore, through an Initial Public Offering (IPO), either in conjunction with a fresh equity issue by the CPSE concerned or independently by the Government, on a case by case basis, subject to the residual equity of the Government remaining at least 51 per cent and the Government retaining management control of the CPSE;

(b) the sale of minority shareholding of the Government in listed, profitable CPSEs either in conjunction with a Public Issue of fresh equity by the CPSE concerned or independently by the Government subject to the residual equity of the Government remaining at least 51 per cent and the Government retaining management control of the CPSE; and

(c) constitution of a “National Investment Fund” (NIF).

8.3.2 On 6th July, 2006, Government decided to keep all disinvestment decisions and proposals on hold, pending further review. The disinvestment decisions covered under this decision were: disinvestment of 5% of Government’s holding in Power Finance Corporation Limited (PFC) riding piggy-back on fresh issue of PFC; offer for sale, through book building process, of 15 percent equity in National Mineral Development Corporation (NMDC) and 10 percent equity each in Neyveli Lignite Corporation Limited (NLC) and National Aluminium Company Ltd. (NALCO). Later, on 23rd November, 2006, Government approved an IPO by PFC consisting of a fresh issue of equity only. The IPO of PFC was completed in February, 2007.

8.4 National Investment Fund

8.4.1 In pursuance of the policy laid down in NCMP and the decision of the Government to constitute NIF, the proposal for its operationalisation was approved on 3rd November, 2005. Accordingly, DoD has issued a Resolution on 23rd November, 2005 (Annexure-13) constituting ‘NIF’ with the following objectives, structure and administrative arrangements, investment strategy and accounting procedure: -

(a) Objectives

(i) The proceeds from disinvestment of CPSEs will be channelised into NIF, which is to be maintained outside the Consolidated Fund of India (CFI).

(ii) The corpus of NIF will be of a permanent nature.

(iii) NIF will be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of NIF.

(iv) 75 per cent of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

(b) Structure and Administrative Arrangements

NIF will be operated by the selected Fund Managers under the 'discretionary mode' of the Portfolio Management Scheme, which is governed by SEBI guidelines. The entire work of NIF will be supervised by the Chief Executive Officer (CEO) of NIF, a senior officer of the Government. A part time Advisory Board consisting of three eminent persons, with the requisite expertise to be appointed by the Government, would advise CEO on various aspects of the functioning of NIF.

(c) Investment Strategy

(i) The broad investment strategy is to provide sustainable returns without depleting the corpus.

(ii) The investment strategy for NIF will be formulated by CEO based on the advice of the Advisory Board so as to ensure that Government has a hands-off relationship in terms of the actual investment to be done by the Fund Managers.

(iii) Only broad guidelines are to be provided under the "discretionary mode" to the Fund Managers, within which individual investments would be made independently by the Fund Managers. More detailed guidelines specifying investment instruments and limits for investment in such instruments will be separately specified in the agreements to be entered into between the Fund Managers and CEO of NIF on behalf of the Government.

(iv) Other operational details such as allocation of funds to the selected Fund Managers, negotiations of management fee and charges to be paid to the Fund Managers, etc. will be also decided by CEO based on the advice of the Advisory Board. Appropriate mechanisms for regular review and monitoring of the functioning of NIF, emerging market trends and future prospects will be instituted.

(d) Accounting Procedure

(i) The receipts from disinvestment of CPSEs will be deposited in CFI under the designated Head. Thereafter, these amounts would be appropriated from the CFI, with due approval, by the Department of Disinvestment and transferred to the selected Fund Managers through CEO of NIF.

(ii) Income from NIF will similarly be deposited in CFI and would be appropriated from it for specific purposes as per the scheme of appropriation approved from time to time by the Department of Expenditure.

8.4.2 **Fund Managers of NIF**

The following Public Sector Mutual Funds have been appointed initially as Fund Managers to manage the funds of NIF under the 'discretionary mode' of the Portfolio Management Scheme which is governed by SEBI guidelines.

(a) UTI Asset Management Company Limited
(b) SBI Funds Management (Private) Limited
(c) Jeevan Bima Sahayog, Asset Management Company Limited

8.5 Disinvestment Programme for 2007-08

8.5.1 **MUL**- In December, 2006 the Government decided to sell its residual 10.27 per cent equity in MUL through the differential pricing method to Indian public sector financial institutions, public sector banks and Indian mutual funds. The sale was completed in May, 2007 realising Rs.2366.94 crore for the exchequer.

8.5.2 **Power Companies (REC, PGCIL and NHPC)**

8.5.2.1 On 23rd November, 2006, the Government had approved the proposals for fresh issue of 20 per cent of the pre-issue paid-up equity capital in Rural Electrification Corporation and fresh issue not exceeding 24 per cent of the Power Grid Corporation of India Limited's paid-up equity capital in tranches, first tranche being limited to 10 per cent only. Subsequently, on 7th December, 2006, Government approved the proposal for fresh issue not exceeding 24 per cent of the paid-up equity capital of National Hydro-electric Power Corporation Limited in one or more tranches.

8.5.2.2 Thereafter, on 8th February, 2007 Government decided to piggy-back with an Offer for Sale of 10 per cent, 5 per cent and 5 per cent of the pre-issue paid-up equity of REC, PGCIL and NHPC respectively. The details of expected realization from these disinvestments are given below:

Sl. No	PSE	Equity as on 31.3.06 (in Rs. Crore)	GOI holding Pre-issue (%)	Book value as on 31.3.06 (in Rs.) (Face Value of Rs.10)	Proposed fresh issue of equity by CPSE	Proposed disinvestment out of Govt.'s shareholding	Realisation based on book value as on 31.3.06 (in Rs.crore)		GOI holding after the IPO (%)
					% of Equity Capital (Pre Issue)	% of Equity Capital (Pre Issue)	CPSE	GOI	
1	***REC***	780.60	100	53.78	**10**	**10**	420	420	**81.22**
2	**PGCIL**	3,623.44	100	26.80	**10**	**5**	971	486	**86.36**
3	**NHPC**	10,349.00	100	14.40	**10**	**5**	1,490	745	**86.36**
TOTAL							**2,881**	**1651**	

Note: The actual realization is expected to be higher and would depend on the prevailing market conditions.

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Annexure-1
Ref (para 1.2.1)

MARKET CAPITALISATION OF CPSES AS ON 31.07.2007

Sl. No.	CODE	NAME	RATE (Rs. per share)	MARKET CAPITALISATION (Rs. in Crore)
1	526173	Andrew Yule & Company Ltd	26.75	155.86
2	523319	Balmer Lawrie & Co. Ltd.	432.30	725.83
3	532485	Balmer Lawrie Investment Ltd.	91.60	203.33
4	500048	Bharat Earth Movers Ltd.	1247.90	5228.70
5	500049	Bharat Electronics Ltd.	1770.10	14160.80
6	500103	Bharat Heavy Electricals Ltd.	1731.70	84770.18
7	524663	Bharat Immunological & Biologicals Ltd	13.51	34.30
8	500547	Bharat Petroleum Corporation Ltd.	321.00	11605.50
9	500072	Bongai Refinery and Petrochemicals Ltd	52.60	1051.04
10	500110	Chennai Petroleum Corporation Ltd	288.50	4392.80
11	531344	Container Corporation Of India	2200.30	14300.06
12	523618	Dredging Corporation Of India	546.90	1531.32
13	532178	Engineers India Ltd.	479.70	2694.00
14	*590024	Fertilizers and Chemicals (Travancore) Ltd.	22.45	796.46
15	532155	Gail (India) Ltd.	337.60	28549.20
16	513599	Hindustan Copper Ltd.	101.85	7416.90
17	500191	Hindustan Machine Tools Ltd.	65.95	3087.59
18	500449	Hindustan Organic Chemical Ltd.	47.35	318.98
19	500104	Hindustan Petroleum Corporation Ltd.	257.40	8734.35
20	524316	Hindustan Photo Films Manufacturing Ltd.	30.00	575.71
21	532189	India Tourism Development Corporation	78.10	52.87
22	530965	Indian Oil Corporation Ltd.	402.90	48039.55
23	523596	IRCON International Ltd.	152.50	150.94
24	523610	ITI Ltd.	43.00	378.40
25	513377	MMTC Ltd.	3190.60	15953.00
26	500108	Mahanagar Telephone Nigam Ltd.	150.45	9478.35
27	504824	Maharashtra Elecktrosmelt Ltd.	158.70	380.88
28	500109	Mangalore Refinery & Petrochemicals Ltd.	44.30	7766.44
29	532234	National Aluminium Co. Ltd.	263.00	16945.34
30	523630	National Fertilisers Ltd.	32.05	1572.30
31	526371	National Mineral Development Corporation Ltd.	3537.00	46744.00
32	532555	National Thermal Power Corporation Ltd.	165.65	136586.12
33	513683	Neyveli Lignite Corporation Ltd.	81.65	13698.50
34	500312	Oil and Natural Gas Corporation Ltd.	914.00	195492.95
35	532810	Power Finance Corporation Ltd.	185.75	21319.77
36	524230	Rashtriya Chemicals and Fertilizers Ltd.	46.85	2584.66
37	505141	Scooters India Ltd.	24.45	97.78
38	523598	Shipping Corporation Of India Ltd.	208.85	5895.89
39	512531	State Trading Corporation Of India Ltd.	166.05	498.15
40	500113	Steel Authority Of India Ltd.	150.05	61976.66

4S1	532168	Madras Fertilisers Ltd.	Delisted from BSE effective 13/04/2005. Market Capitalisation Data on other exchanges not available.
42	NA	Kudremukh Iron Ore Ltd.	Quoted on Bangalore & Madras Stock Exchange, quotes are not available.
43	524013	Hindustan Fluorocorbons Ltd.	Trading suspended since 1988 on BSE. Quoted on Hyderabad Stock Exchange, quotes are not available.
44	NA	Hindustan Cables Ltd.	Quoted on Calcutta Stock Exchange, quotes are not available.
		Total	**775945.46**

Source - BSE

* Trading in Fertilisers and Chemical Travancore Limited was shifted to Permitted Category wef 04/10/2004.

Kochi Refinieries Ltd. since merged with BPCL w.e.f. 22nd September, 2006

IBP Co. Ltd. since merged with IOC w.e.f. 4th June, 2007

ANNEXURE - 2
(Ref. Para 2.2.8)

REALISATION FROM OFFER FOR SALE OF SHARES IN CPSEs DURING 2003-04 AND 2004-05.

	DCI	GAIL	IBP	ONGC	NTPC
Bid opening date	26.2.2004	27.2.2004	23.2.2004	5.3.2004	7.10.2004
Bid closing date	4.3.2004	5.3.2004	1.3.2004	13.3.2004	14.10.2004
Floor price per share/Price Band (Rs)	385-400	185	620	680-750	52-62
% of Government equity prior to the Offer	98.56	67.35	26	84.11	100
% of CPSE's equity offered for sale	20	10	26	10	5.25
Shares offered for sale (crore Nos)	0.56	8.457	0.576	14.26	43.2915
Ratio of bids received to shares offered (No. of times)	17.78	6.71	2.66	5.88	13.14
No of bidders allocated shares (lakhs)	2.19	3.41	0.86	7.43	12.46
Final price per share (in Rs)	400	195	620	750	62
Discount for Retail Bidders	5%	5%	5%	5%	-

Effectiive price for Retail Bidders	380	185.25	589	712.5	62
Total amount realised (Rs crore)	**221.2**	**1627.36**	**350.66**	**10558.4**	**2684.07**
Cumulative total (Rs crore)					**15441.7**

ANNEXURE-3

(Ref. Para 2.2.9)

DISINVESTMENT PROCEEDS FROM SALE OF MINORITY SHAREHOLDING IN CPSEs.

Rs. crore

		1991-92	1992-93	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2003-04	2004-05
S. No.	Name of CPSEs	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
1	AYL	*									
2	BEL	*		47.17							
3	BEML	*		48.27							
4	BHEL	*	8.21	301.34							
5	BPCL	*	331.18								
6	BRPL	*	45.40								
7	CMC	*									
8	CONCOR			99.71	14.12			221.65			
9	CPCL	*									
10	DCIL	*								221.20	
11	EIL			67.53							
12	FACT	*	1.30								
13	GAIL			194.12				671.86	945.00	1627.36	
14	HCL	*	8.07								
15	Hind. Cables	*									
16	HMT	*	23.38								
17	HOCL	*									
18	HPCL	*	331.85	563.11							
19	HPF	*									
20	HZL	*	81.55								
21	IBP									350.66	
22	IOC			1033.65				1209	162.79		
23	IPCL	*									
24	IRCON	*									
25	ITDC			51.99							
26	ITI	*	15.63								
27	KIOCL			11.40							
28	KRL	*									
29	MMTC	*									
30	MTNL	*		1322.17	135.90		910.00				
31	NALCO	*	244.2	0.10							
32	NFL	*	0.72	0.28							
33	NLC	*	70.43								
34	NMDC		17.88								
35	NTPC										2684.07

36	PGCIL										
37	RCF	*	30.36								
38	SAIL	*	700.1	22.66	13.30						
39	SCI	*		28.08							
40	STC	*	2.25								
41	VSNL	*				379.67		783.68	75.00		
		3037.74	**1912.51**	**3791.58**	**163.32**	**379.67**	**910.00**	**2886.15**	**1182.79**	**2199.22**	**2684.07**
Grand Total											**33543.56**

Note: In 1991-92 shares of the CPSEs (marked*above) were sold in bundles, amount realised CPSEwise is not available. There was no receipt from sale of minority shares in 1993-94, 2000-2001, 2005-2006, 2006-2007.

ANNEXURE 4

(Ref. Para 2.4)

RECEIPTS FROM STRATEGIC SALE DURING 1999-2000 TO 2003-04

S.No.	Name of CPSE disinvested	Type of disinvestment	Name of buyer	Percentage of equity sold	Percentage of residual equity of Govt.	Amount realised (Rs crore)
1999-00						
1.	Modern Food Industries (India) Ltd.	Strategic sale	Hindustan Lever Ltd.	74	26	105.45
Sub Total						**105.45**
2000-01						
1.	Bharat Aluminium Company Ltd.	Strategic sale	Sterlite Industries (India) Ltd.	51	49	551.50
2.	Lagan Jute Machinery Company Ltd.^^	Strategic sale	Murlidhar Ratanlal Exports Ltd.	74	26	2.53
					Sub Total	**554.03**
2001-02						
1.	HTL Ltd.	Strategic sale	Himachal Futuristic Communications Ltd.	74	26	55.00
2.	CMC Ltd.	Strategic sale	Tata Sons Ltd.	51	32.31	152.00
3.	**India Tourism Development Corporation (ITDC)**					
	i) Hotel Hassan Ashok	Strategic sale	Malnad Hotels& Resorts(P) Ltd.	89.97	-	*2.27
	ii) Hotel Bodhgaya Ashok	Strategic sale	Lotus Nikko Hotels	89.97	-	1.81
	iii) Hotel Madurai Ashok	Strategic sale	Sangu Chakra Hotels Pvt. Ltd.	89.97	-	*4.98
	iv) Temple Bay Ashok Beach Resort, Mamallapuram	Strategic sale	G.R. Thanga Maligai(P) Ltd.	89.97	-	6.13
	v) Hotel Agra Ashok	Strategic sale	Mohan Singh	89.97	-	*3.61
	vi) Laxmi Vilas	Strategic sale	Bharat Hotels Ltd.	89.97	-	6.77

	Palace Hotel, Udaipur					
	vii) Qutab Hotel, New Delhi	Strategic sale	Consortium of Sushil Gupta and Others	89.97	-	*34.45
	viii) Lodhi Hotel, New Delhi	Strategic sale	Silverlink Holdings Ltd. & Consortium	89.97	-	*71.93
4	IBP Ltd.	Strategic sale	Indian Oil Corpn.	33.58	26	1,153.68
5	Videsh Sanchar Nigam Ltd.	Strategic sale	Panatone Finvest Ltd. (a Tata Group Co.)	25	27.97	1439.25
6	Paradeep Phosphates Ltd.	Strategic sale	Zuari Maroc Phosphates Pvt Ltd.	74	26	151.70
7	**HCI**# - Indo Hokke Hotels Ltd., Rajgir	Strategic sale	Inpac Travels (India) Pvt. Ltd.	100	--	#6.51
					Sub Total	**3,090.09**

S.No.	Name of CPSE disinvested	Type of disinvestment	Name of buyer	Percentage of equity sold	Percentage of residual equityof Govt.	Amount realised (Rs crore)
2002-03						
1	Hindustan Zinc Ltd.	Strategic sale	Sterlite Opportunities & Ventures Ltd.	26	49.92	445.00
2	Indian Petrochemicals Corporation Ltd.	Strategic sale	Reliance Petro Investments Ltd	26	33.95	1,490.84
3	**ITDC**					
	i) Hotel Airport Ashok, Kolkata	Strategic sale	Bright Enterprises (P) Ltd. & Consortium	89.97	-	*19.39
	ii) Kovalam Ashok Beach Resort	Strategic sale	M Far Hotels Limited	89.97	-	*40.38
	iii) Hotel Aurangabad Ashok	Strategic sale	Loksangam Hotels & Resorts Pvt. Ltd & Consortium	89.97	-	*16.50
	iv) Hotel Manali Ashok	Strategic sale	Auto Impex Limited	89.97	-	*3.66
	v) Hotel Khajuraho Ashok	Strategic sale	Bharat Hotels Ltd.	89.97	-	*2.19
	vi) Hotel Varanasi Ashok	Strategic sale	Consortium of Ramnath Hotels(P) Ltd.	89.97	-	*8.38
	vii) Hotel Ranjit, New Delhi	Strategic sale	Consortium of Unison Hotels Ltd. & Formax	89.97	-	*29.28

			Commercial Pvt. Ltd.			
	viii) Hotel Kanishka, New Delhi	Strategic sale	Nehru Place Hotels Ltd.	89.97	-	*92.38
	ix) Hotel Indraprastha, New Delhi	Strategic sale	Moral Trading & Investment Ltd.	89.97	-	*43.38
	x) Chandigarh project of Punjab Hotels Limited	Strategic sale	TAJGVK Hotels & Resorts Ltd.	100	-	**17.27
4.	Modern Foods Industries (India) Ltd.	Sale of residual shares to SP (Put Option by GoI)	Hindustan Lever Ltd.	25.995	--	44.07
					Sub Total	**2,252.72**
2003-04						
1.	Hindustan Zinc Ltd.	Call Option by SP	Sterlite Opportunities & Ventures Ltd.	18.92	29.53	323.88
2.	Jessop& Co. Ltd^^	Strategic sale	Indo Wagon Engineering Ltd.	72	27	^^18.18
					Sub Total	**342.06**
					Grand Total	**6,344.35**

*#Proceeds went to Air India, the holding company. ^^ amount received by BBUNL, the holding company. * Inclusive of payments to GOI and statutory authorities and other payments. ** Proceeds went to Chandigarh Administration and ITDC, the holding company.*

ANNEXURE 5
(Ref. Para 2.5)

RECEIPTS FROM OTHER RELATED TRANSACTIONS UNDERTAKEN DURING1999-00 TO 2005-06

S.NO.	Name of CPSE	Type of transaction	Name of buyer, if any.	Percentage of equity sold	Percentage of residual equity of Govt.	Amount realised (Rs crore)
RECEIPTS FROM CAPITAL RECEIPTS, SPECIAL DIVIDENDS AND DIVIDEND TAX IN CPSES.						
1999-00						
1.	Bharat Aluminium Co. Ltd.	Capital reduction and special dividend	--	--	--	244.42 31.00
					Sub Total	**275.42**
2001-02						
1.	Videsh Sanchar Nigam Ltd.	i) Dividend ii) Dividend Tax	**--**	**--**	--	1887.00 363.00
2.	State Trading Corporation of India Ltd.	Special dividend	**--**	**--**	--	40.00
3.	Minerals and Metals Trading Corporation of India Ltd.	Special dividend	**--**	**--**	--	60.00
					Sub Total	**2350.00**
RECEIPTS FROM SLUMP SALE.						
2001-02						
1	**HCI*** - Hotel Centaur Juhu Beach, Mumbai	Slump Sale	Tulip Hospitality Services Ltd.	**--**	--	*153.00
					Sub Total	**153.00**
2002-03						
1	**HCI** – Centaur Hotel Mumbai Airport, Mumbai *	Slump Sale	Batra Hospitality Pvt. Ltd.	**--**	--	*83.00
					Sub Total	**83.00**
RECEIPTS FROM SALE OF SHARES TO EMPLOYEES IN PRIVATISED CPSES						
2001-02						
1.	Videsh Sanchar Nigam Ltd.	Sale of shares to Employees	Employees	1.85	26.12	25.19
					Sub Total	**25.19**
2002-03						
1.	Hindustan Zinc Ltd.	- do -	Employees	1.46	48.45	6.19
2.	CMC Ltd.	- do -	Employees	6.06	26.25	6.07
					Sub Total	**12.26**

2004-05						
1	Indian Petrochemicals Corporation Ltd.	- do -	Employees	4.58	0.42	64.81
					Sub Total	**64.81**
2005-06						
1.	Maruti Udyog Limited	- do -	Employees	0.01	10.27	2.08
					Sub Total	**2.08**
RECEIPTS FROM CONTROL PREMIUM GIVEN BY SUZUKI MOTORS CO. (SMC) TO GOI FOR RENUNCIATION OF RIGHTS SHARES IN FAVOUR OF SMC.						
2002-03						
1.	Maruti Udyog Ltd.^	Control premium for Rights Shares	SMC		45.79	^1,000.00
					Sub Total	**1,000.00**
RECEIPTS FROM LEASING OF HOTEL OF ITDC.						
2001-02						
1.	**ITDC** - Ashok Bangalore	30 years lease-cum-management contract	Bharat Hotels Ltd.	----	----	@39.41
					Sub Total	**39.41**
					Grand Total	**4,005.17**

**Proceeds went to Air India.. ^ Rs.1,000 crore as control premium for the rights issue of 6,06,585 shares. @ Inclusive of 50% of discounted Minimum Guaranteed Annual Payment (MGAP) for thirty years, Security Deposit and Business Transfer Consideration. The proceeds went to Kumarakruppa Frontier Hotels Ltd., (a CPSE under the Ministry of Tourism) and Airports Authority of India.*

Annexure 6
(Ref. Para 2.6.3)

Realisation from sale of all or part of the Residual Equity in Disinvested CPSEs/companies during 2003-04 to July 2007

	MUL IPO	IPCL Offer for Sale	CMC Offer for Sale	ICI	MUL Private Placement	
					Tranche I	Tranche II
	2003-04				2005-06	2007-08
Bid opening date	12.6.2003	20.2.2004	23.2.2004	__	05.01.2006	27.04.2007
Bid closing date	19.6.2003	27.2.2004	28.2.2004	27.10.2003	11.01.2006	08.05.2007
Floor price per share (in Rs)	*115	170	475	__	620	760
% of company's equity with the Government prior to the Offer	45.79	33.95	26.25	9.20	18.28	10.27
% of company's equity offered for sale	27.51	28.95	26.25	9.20	8.00	10.27
Shares offered for sale (crore Nos)	7.947	7.185	0.397	0.3761	2.31	2.97
Ratio of bids received to shares offered (No. of times)	8.92	4.9	9.60	__	1.78	1.12
No of bidders allocated shares	2.48 lakh	1.95 lakh	1.28 lakh	^ 1	8	32
Final price per share (in Rs)	125	170	485	205	**678.24	**797.49
Discount for Retail Bidders	__	5%	5%	__	__	__

Effective price for Retail Bidders	125	161.5	460.75	__	__	__
Total amount realised (Rs crore)	**993.34**	**1202.85**	**190.44**	**77.1**	**1567.6**	**2366.94**
Cumulative amount realised (Rs crore)						**6398.27**

* Face value was Rs.5 per share. Face value of shares of other companies was Rs.10 each.
** The average price per share
^ Sold to Asian Paints (India) Ltd.

Annexure 7

(Ref. Para 2.7)

SUMMARY OF RECEIPTS FROM DISINVESTMENT : 1991-92 TO JULY 2007

Year	Budgeted receipt (Rs. crore)	Receipts through sale of minority shareholding in CPSEs (Rs. crore)	Receipts through sale of majority shareholding of one CPSE to another CPSE (Rs. crore)	Receipts through Strategic sale (Rs.crore)	Receipts from other related transactions (Rs. crore)	Receipts from sale of residual shareholding in disinvested CPSEs / companies (Rs. crore)	Total receipts (Rs. crore)	Transactions
		Ann. II	***Para 2.3***	***Ann. IV***	***Ann. V***	***Ann. VI***		
1991-92	2,500	3,037.74	-	-	-	-	**3,037.74**	Minority shares sold in Dec, 1991 and Feb, 1992 by auction method in bundles of "very good", "good" and "average" companies
1992-93	2,500	1,912.51	-	-	-	-	**1,912.51**	Shares sold separately for each company by auction method.
1993-94	3,500	-	-	-	-	-	**-**	Equity of 6 companies sold by auction method but proceeds received in 94-95.
1994-95	4,000	4,843.10	-	-	-	-	**4,843.10**	Shares sold by auction method.
1995-96	7,000	168.48	-	-	-	-	**168.48**	Shares sold by auction method.
1996-97	5,000	379.67	-	-	-	-	**379.67**	GDR -VSNL
1997-98	4,800	910.00	-	-	-	-	**910.00**	GDR -MTNL
1998-99	5,000	*5371.11	-	-	-	-	**5,371.11**	GDR-VSNL; Domestic offerings of CONCOR and GAIL; Cross purchase by 3 Oil sector companies i.e. GAIL, ONGC and IOC.
1999-00	10,000	*1479.27	-	105.45	275.42	-	**1,860.14**	GDR-GAIL; Domestic offering of VSNL; capital reduction and dividend from BALCO; Strategic sale of MFIL.
2000-01	10,000	-	1,317.23	554.03	-	-	**1,871.26**	Sale of KRL, CPCL and BRPL to CPSEs; Strategic sale of BALCO and LJMC.

2001-02	12,000	-	-	3,090.09	2,567.60	-	**5,657.69**	Strategic sale of CMC, HTL, VSNL, IBP, PPL, hotel properties of ITDC and HCI, slump sale of Hotel Centaur Juhu Beach, Mumbai and leasing of Ashok Bangalore; Special dividend from VSNL, STC and MMTC; sale of shares to VSNL employees.
2002-03	12,000	-	-	2,252.72	1,095.26	-	**3,347.98**	Strategic sale of HZL, IPCL, hotel properties of ITDC, slump sale of Centaur Hotel Mumbai Airport, Mumbai; Premium for renunciation of rights issue in favour of SMC ; Put Option of MFIL; Sale of shares to employees of HZL and CMC.
2003-04	14,500	12,741.62	-	342.06	-	2,463.73	**15,547.41**	Strategic sale of JCL; Call Option of HZL; Offer for Sale of MUL, IBP, IPCL, CMC, DCI, GAIL and ONGC; Sale of shares of ICI Ltd.
2004-05	4,000	2,700.06	-	-	64.81	-	**2,764.87**	Offer for Sale of NTPC and spill over of ONGC; sale of shares to IPCL employees.
2005-06	No target fixed	-	-	-	2.08	1,567.60	**1,569.68**	Sale of MUL shares to Indian public sector financial institutions & banks and employees
2006-07	No target fixed	-	-	-	-	-	**-**	
2007-08	No target fixed	-	-	-	-	2,366.94	**2,366.94**	Sale of MUL shares to public sector financial institutions, public sector banks and Indian mutual funds.
Total		**33,543.56**	**1,317.23**	**6,344.35**	**4,005.17**	**6,398.27**	**51,608.58**	

* Out of Rs.5371.11, Rs. 4184 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.

** Out of Rs.1479.27, Rs.459.27 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.

ANNEXURE 8
(Ref.Para No.3.6.3.3)

Valuation under different methods, Reserve price and Sale price of Strategic sale

Sr. No.	CPSEs	Date of EoI	No. of EoIs\QIPs\Valid Bids	Date of CCD decision	% of GoI equity at the time of disinvestment	% of equity sold	No. of shares sold (in Lakh)	Advisors valuation for 100% equity (Rs. in crore)				Reserve price for equity sold (Rs. in crore)	Sale price (Rs. in crore)	Name of successful Bidder
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
								BV	AVM	CC	DCF			
1	MFIL*	21.05.1999	10\10\1	25.01.2000	100	74	* 0.92	28.51	68.18	78.55	Negligible	—	* 105.45	Hindustan Lever Ltd.
2	BALCO	30.06.2000	8\3\2	21.02.2001	100	51	1125.2	597.2 - 681.9	1072.3	587.0 - 909.0	651.2 - 994.7	514.4	551.5	Sterlite Industries (India) Ltd.
3	CMC	30.03.2001	14\14\1	05.10.2001	83.31	51	77.27	72.74	37.58	102.53	213.49	108.88	152	Tata Sons Ltd.
4	HTL*	01.08.2000	6\4\2	05.10.2001	100	74	11.1	57.473	52.792	40.317	52.436	38.8	55	Himachal Futuristic Communications Ltd.
5	VSNL	10.04.2001	6\6\2	05.02.2002	52.97	25	712.5	4018.5	5301	5871	4873.5	1218.38	1439.25	Panatone Finvest Ltd. (a Tata Group Co.)
6	IBP	28.02.2001	15\15\7	05.02.2002	59.8	33.8	74.38	608	445	972 - 1382	1124	377	1153.68	Indian Oil Company Ltd.
7	PPL*	15.05.2001	4\4\1	14.02.2002	100	74	32.02	48.9	206.25 - 495.0	NA	111.8	176.09	151.7	Zuari Maroc Phosphates Pvt. Ltd.

8	HZL	15.01. 2001	9\7\2	27.03. 2002	75.92	26	1098.6	1186.9	1619	1023-1442	1073-1356	353.17	445	Sterlite Opportunities & Ventures Ltd.
9	JCL	23.03. 2001	5\5\2	27.02. 2002	99	72	681.34	-17.82	30.60/ 60.28	NA	13.5	12	18.18	Indo-Wagon Engineering Ltd.
10	IPCL	18.12. 2001	4\3\3	18.05. 2002	59.95	26	645.39	2554.4	3673.7	3648.9	3251.8	845	1490.84	Reliance Petro Investments Ltd.

BV – Book Value ; AVM – Asset Valuation Method ; CC – Comparable Companies/transaction multiple; DCF – Discounted Cash Flow ; NA – Not Applicable.

* Face Value - Rs1000.

Annexure 9

(Ref. Para No 3.6.3.3)

Strategic Sale/Slump Sale/Lease of ITDC and HCI Hotel Properties: Valuation under different methods, Reserve price and realisation.

S.No.	Name of Hotel	Date of EOI	No. of EOIs/ QIPs/Bids	Date of CCD decision	% of GOI equity	%of equity sold	Advisor's Valuation for 100% Equity(Rs. In Crore)					Reserve price (100% equity)	Amount realized for Govt.'s equity + statutory& other payments, if any)(Rs. In crore)	Name of Purchaser.
							DCF	BV	CC		AVM			
	ITDC – 19 Hotels								EBITDA	Net profit				
1	Hotel Hassan Ashok	25.01.2001	13/11/2	13.11.2001	89.97	89.97	2.19	0.17	1.55	2.12	4.96	2.19	*2.27	Malnad Hotels & Resorts(P) Ltd.
2	Hotel Bodhgaya Ashok	25.01.2001	14/13/1	13.11.2001	89.97	89.97	1.76	1.26	1.32	1.40	2.35	1.67	1.81	Lotus Nikko Hotels
3	Hotel Madurai Ashok	25.01.2001	24/22/2	13.11.2001	89.97	89.97	3.64	-0.33	2.57	2.02	3.91	3.64	*4.98	Sangu Chakra Hotels Pvt. Ltd.
4	Temple Bay Ashok Beach Resort, Mamallapuram	25.01.2001	29/26/1	13.11.2001	89.97	89.97	5.45	2.72	4.37	3.41	3.96	5.18	6.13	G.R. Thanga Maligai (P) Ltd.
5	Hotel Agra Ashok	25.01.2001	21/19/1	13.11.2001	89.97	89.97	3.43	1.16	2.65	2.29	3.84	3.26	*3.61	Mohan Singh
6	Laxmi Vilas Palace Hotel, Udaipur	25.03.2001	15/12/1	05.02.2002	89.97	89.97	6.12	1.74	5.90	4.26	5.93	6.12	6.77	Bharat Hotels Ltd.
7	Qutub Hotel, New Delhi	25.03.2001	22/19/2	05.02.2002	89.97	89.97	31.00	0.10	27.02	17.85	27.23	31.00	*34.45	Consortium of Sushil Gupta & Others
8	Lodhi Hotel, New Delhi	25.03.2001	27/25/3	05.02.2002	89.97	89.97	40.36	-5.87	14.91	11.08	35.82	40.36	*71.93	Consortium of Silverlink Holdings Ltd. and others.
9	Hotel Airport Ashok, Kolkata	15.02.2002	21/21/2	31.05.2002	89.97	89.97	14.83	-15.60	1.56	-4.10	-19.31	14.83	*19.39	Consortium of Bright Enterprises (P) Ltd. and Modern Publishers.
10	Kovalam Ashok Beach Resort	15.02.2002	31/31/4	31.05.2002	89.97	89.97	41.75	-1.50	39.02	24.54	22.51	41.75	*40.38	M Far Hotels Limited
11	Hotel Aurangabad Ashok	15.02.2002	23/23/5	31.05.2002	89.97	89.97	15.05	0.82	-	-	13.28	15.05	*16.50	Consortium of Loksangam Hotels & Resorts Pvt. Ltd. and others.
12	Hotel Manali Ashok	15.02.2002	27/27/6	31.05.2002	89.97	89.97	1.91	1.25	1.66	0.53	1.63	1.91	*3.66	Auto Impex Limited.
13	Hotel Khajuraho Ashok	25.04.2002	12/12/2	05.07.2002	89.97	89.97	2.01	0.41	1.62	0.63	0.32	2.01	*2.19	Bharat Hotels Ltd.
14	Hotel Varanasi Ashok	25.04.2002	14/14/3	05.07.2002	89.97	89.97	5.55	1.27	-	-	0.75	5.55	*8.38	Consortium of Ramnath Hotels Pvt. Ltd. and others.
15	Hotel Ranjit, New Delhi	25.04.2002	8/8/2	07.09.2002	89.97	89.97	25.18	-0.49	-	-	14.17	23.78	*29.28	Consortium of Unison Hotels Ltd. and Formax Commercial Pvt. Ltd.
16	Hotel Kanishka, New Delhi	25.04.2002	22/22/8	05.07.2002	89.97	89.97	70.90	3.95	39.80	32.86	45.81	70.90	*92.38	Nehru Place Hotels Ltd.
17	Hotel Indraprastha, New Delhi	25.04.2002	30/30/6	05.07.2002	89.97	89.97	18.34	1.70	-	-	19.58	18.34	*43.38	Moral Trading & Investment Ltd.
18	Chandigarh Project of Punjab Hotels Ltd.	25.04.2002	17/16/2	05.07.2002	100	100	14.01	8.18	-	-	9.50	14.01	$17.27	TAJGVK Hotels & Resorts Ltd.
19	Hotel Ashok Bangalore	25.01.2001	30/24/1	13.11.2001	This hotel property of ITDC has been given on Lease –cum- Management Contract basis to Bharat Hotels Ltd. for a period of 30 years at Minimum Guaranteed Annual Payment of Rs.4.11 Crore. The Lessee had made an upfront payment of Rs.39.41 crore. It included payment of 50% of discounted Minimum Guaranteed Annual Payments for 30 years; security deposit and business transfer consideration. Proceeds went to Kumarakruppa Frontier Hotels Ltd.(A CPSU Under Ministry of Tourism) & Airport Authority of India.									
	HCI – 3 Hotels													
20	Hotel Centaur Juhu Beach, Mumbai	31.10.2000	20/17/1	10.11.2001/ 27.03.2002	100	Slump sale	81.70-121.60	13.60	32.90-63.30	-	134.10	101.60	#153.00	Tulip Hospitality Services Ltd.
21	Indo HokkeHotels Ltd. , Rajgir	31.10.2000	8/8/1	10.11.2001/ 27.03.2002	100	100	2.90-5.10	4.60	3.60-5.80	-	6.10	3.86	#6.51	Inpac Travels (India) Private Ltd.
22	Hotel Centaur Mumbai Airport, Mumbai	31.10.2000	21/17/1	05.02.2002	100	Slump sale	78.30-105.70	1.70	27.60-53.00	-	43.50	78.30	#83.00	Batra Hospitality Private Ltd.

* Inclusive of payments to GOI , statutory authorities and other payments.

$ Proceeds went to Chandigarh Administration & ITDC. # Proceeds went to Air India.

BV-BooK Value; AVM-Asset Valuation Method; CC-Comparable Companies/transaction multiple; DCF-Discounted Cash Flow; EBITDA-Earning Before Interest, Taxes, Depreciation & Amortisation.

ANNEXURE 10
(Ref. para 4.2)

Put / Call options for residual shares in disinvested CPSEs

S.No	CPSEs	Date of CCD decision	% of equity disinvested	% of equity retained on the date of SS/JVA (in MUL)	Option	Period	Basis of valuation	Remarks
1	**MFIL**	25.01.2000	74	26	Put Option	From 31st January 2001 till survival of the agreement	FV	Government exercised Put Option for remaining shares on 28.11.2002 at SS price.
2	**LJMC**	10.05.2000	74	26	No Call/Put Option	---	---	Government shareholding stands reduced to 18.3% consequent to a Rights Issue made by LJMC which was not subscribed by BBUNL.
3	**BALCO**	21.02.2001	51	49	No Put Option	---	---	---
					Call Option for 49%	From 3rd March 2004 till survival of the agreement	FV or SS price+14% per annum interest half yearly	Strategic partner exercised Call Option on 22.03.2004. A final decision on the sale of Called Shares is yet to be taken.
4	**CMC**	05.10.2001	51	32.31	1st Put Option not exceeding 10%.	16th Oct. 2002 to 15th Oct. 2003	FV	Put Option not exercised. 26.25% eqity sold through OFS in Feb. 2004. 6.06% of the equity sold to employees.
					2nd Put Option for some or all of the remaining share.	16th Oct 2003 to 15th Oct. 2004	FV	
					Call Option for all but not less than all of the shares held by the Government	16th Oct. 2004 to 15th Oct. 2006	Higher of MP or FV	
5	**VSNL**	05.02.2002	25	27.97	No Put Option	---	---	1.85% equity sold to employees. Call Option not exercised.
					Call Option for all but one voting equity share in the company held by the Government.	13th Feb. 2006 to 12th Feb. 2007	FV	
6	**IBP**	05.02.2002	33.58	26	Put Option for some or all shares	8th Feb. 2003 to 7th Feb. 2005	FV	Put Option not excercised. 26% equity sold through OFS in Feb. 2004.
					Call Option for all shares	8th Feb. 2005 to 7th Feb. 2007	FV	
7	**PPL**	14.02.2002	74	26	Put Option for some or all shares	1st March 2003 till survival of the agreement	FV	Neither put nor call option has been exercised till date. The call option if and when exercised would be repudiated.

					Call Option for all shares	1st March 2005 till survival of the agreement	Higher of FV, MP or SS price	
8	**HZL**	27.03.2002	26	49.92	Call Option upto 18.92%	11th Oct. 2002 to 10th Oct. 2003	Higher of MV or SS price	1st Call Option exercised in August 2003 by SP at SS price. 1.465% equity sold to employees.
					GOI has a Put Option for its shareholding in excess of 26% of HZL's equity.	11th Oct. 2004 to 10th April 2005	Higher of MV or SS price	Government decided not to exercise Put Option.
					2nd Call Option for all shares	11th Apr. 2007 onward till survival of agreement	FMV	Strategic Partner not yet exercised the call option. The call option if and when exercised would be repudiated.

9	**IPCL**	18.05.2002	26	33.95	Put Option	4th June 2004 to 3rd June 2005	FV	Put Option not exercised. 28.95% equity sold through OFS in Feb. 2004 and 5% offered to employees in April 2004, out of which 4.58% was allotted to the employees.
					Call Option for all but not less than all	4th June 2005 to 3rd June 2006	FV	
10	**HTL**	05.10.2001	74	26	No Call/Put Option	---	---	
11	**JCL**	27.02.2002	72	27	Put Option	29th August 2004 to 28th August 2006	FV	Put option not exercised.
					Call Option	29th August 2006 to 28th August 2008	FV	Government shareholding stands reduced to 4.16% consequent to a Rights Issue made by JCL in 2005 which was not subscribed by BBUNL. Call option exercised on 4.9.2006. The call option would be repudiated.

12	**MUL**	14.05.2002	– –	45.79 *	Put Option	8th Nov. 2003 to 8th July 2005	Price per share would be equal to the average of the daily closing prices of the shares of Maruti as quoted on NSE in the 90-day period preceding the date of the put option notice. If on the date of put option notice Government holds more than 1484006 shares, there shall be a discount of 15% on the shares above 1484006 and a discount of 10% on the remaining shares. If on the date of put option Government holds less than or equal to 1484006 shares, there will be a discount of 10% on the shares put by the Government.	27.51% equity sold through IPO in July 2003. Put option not exercised. 8% equity sold to public sector financial institutions and public sector banks in January 2006. 0.01% equity sold to employees of MUL in March 2006. Balance GoI equity of 10.27% was sold to public sector financial institutions, public sector banks and Indian mutual funds in May 2007.

Annexure 11

(Ref. Para No.4.4.6)

Status of allotment of shares to the employees of CMC/VSNL/HZL/IPCL/BALCO

	CMC	**VSNL**	**HZL**	**IPCL**	**BALCO**
Number of shares	1,51,50,000	28,48,44,517	42,25,31,900	24,82,25,000	22,06,24,500
Number of employees	3,208	2,991	2,848	12,272	6,436
Percentage allotted to employees	6.065	1.85	1.4649	4.58	up to 5% (Yet to be decided)
Number of shares allotted to employees	9,19,326	52,64,555	61,89,830	1,13,70,678	up to 1,10,31,225 (Yet to be decided)
Average shares allotted per employee	287	1,760	2,173	927	Yet to be decided
Sacrifice by the Government	Rs.12.04 crore (Sale price of Rs.66 per share against strategic sale price of Rs.197 per share)	Rs.81.15 crore (Sale price of Rs.47.85 per share against strategic sale price of Rs.202 per share)	Rs.18.88 crore (Sale price of Rs.10 per share against strategic sale price of Rs.40.50 per share)	Rs.197.85 crore (Sale price of Rs.57 per share against strategic sale price of Rs.231 per share)	Yet to be decided
Average benefit to employees (approx.)	Rs.37,541	Rs.2,71,304	Rs.66,277	Rs. 1,61,221	Yet to be decided
Ratio of distribution among employees Lowest: Highest	1 : 5	1 : 3	1 : 5	1 : 2.75	Yet to be decided
Offer to employees	June/July, 2002	February, 2002	November, 2002	April, 2004	Yet to be made
Lock in period	1 Year	1 Year	1 Year	3 Year	Yet to be decided
Basis of pricing	1/3rd of the listed market value or	1/3rd of the price offered by the	1/3rd of the Listed Market Value or	1/3rd of the offer price or the price quoted by	Yet to be decided

	1/3rd or the strategic sale price per share, whichever is lower but not less than Rs. 10 (face value)	strategic partner or one third of the listed market value calculated on the average of the closing price on BSE for 30 days, whichever is less, subject to minimum of par value of Rs.10 per equity share.	Strategic sale price whichever is lower subject to minimum of face value	the strategic partner at the time of disinvestment whichever is lower	
Eligibility of employees	All existing regular employees including the NRIs / Foreign National on rolls of the company as on 1.9.2001 including Directors/ CMD	All regular employees including full-time Directors as on 1.9.2001	All regular employees including full time functional Directors as on 11.4.2002.	Regular employees on rolls as on 4.6.2002 who are alive including Directors	Yet to be decided

ANNEXURE 12

(Ref. Para no.4.5.7)

Status of post closing adjustment in disinvested ITDC hotel properties

S.No.	Name of Hotel	Purchaser/Lessee	Closing Date	Amount of claim paid(Rs)
	ITDC Hotels			
1.	Hotel Ashok Bangalore	Bharat Hotels Ltd.	29.11.2001	4,98,11,483
2	Hotel Hassan Ashok	Malnad Hotels& Resorts (P) Ltd.	29.11.2001	24,59,944
3	Hotel Bodhgaya Ashok	Lotus Nikko Hotels	29.11.2001	46,19,593
4.	Hotel Madurai Ashok	Sangu Chakra Hotels Pvt. Ltd.	31.01.2002	39,78,892
5.	Temple Bay Ashok Beach Resort, Mamallapuram	G.R. Thanga Maligai (P) Ltd.	01.02.2002	49,86,640
6.	Hotel Agra Ashok	Mohan Singh	07.02.2002	87,47,725
7.	Laxmi Vilas Palace Hotel, Udaipur	Bharat Hotels Ltd.	26.02.2002	1,08,07,868
8	Qutab Hotel, New Delhi	Consortium of Sushil Gupta and Others	20.03.2002	3,09,54,080
9.	Lodhi Hotel, New Delhi	Consortium of Silverlink Holdings Ltd. and others.	22.03.2002	2,87,94,622
10.	Hotel Airport Ashok, Kolkata	Consortium of Bright Enterprises(P) Ltd. and Modern Publishers.	08.07.2002	4,89,24,848
11.	Kovalam Ashok Beach Resort	M Far Hotels Limited	11.07.2002	2,36,39,576
12	Hotel Aurangabad Ashok	Consortium of Loksangam Hotels & Resorts Pvt. Ltd and others.	04.09.2002	76,49,690
13	Hotel Manali Ashok	Auto Impex Limited	15.07.2002	3,94,874
14	Hotel Khajuraho Ashok	Bharat Hotels Ltd.	07.08.2002	4,95,448
15	Hotel Varanasi Ashok	Consortium of Ramnath Hotels (P) Ltd. and others.	07.08.2002	1,52,43,715
16	Hotel Ranjit, New Delhi	Consortium of Unison Hotels Ltd. and Formax Commercial Pvt. Ltd.	07.10.2002	1,19,45,307
17.	Hotel Kanishka, New Delhi	Nehru Place Hotels Ltd.	08.10.2002	4,51,11,608
18.	Hotel Indraprastha, New Delhi	Moral Trading & Investment Ltd.	08.10.2002	61,57,966

19.	Chandigarh project of Punjab Hotels Limited	TAJGVK Hotels & Resorts Ltd.	16.10.2002	Nil*
	Total			**30,47,23,879**

*Rs.31,86,323 paid by Purchaser to ITDC

ANNEXURE 13

(Ref. Para 8.4.1)

(To be published in the Gazette of India, Part –I, Section 1)

F. No. 2/3/2005-DD-II
Government of India
Ministry of Finance
Department of Disinvestment

Blocks No. 11 & 14, CGO Complex,
Lodi Road, New Delhi

New Delhi, the 23rd November 2005

RESOLUTION

In pursuance of the policy laid down in the National Common Minimum Programme, the Government of India has decided to constitute a separate fund, with the name and style of the 'National Investment Fund', with the following objectives, structure, investment strategy and administrative arrangements.

A Objectives:

(i) The proceeds from disinvestment of Central Public Sector Enterprises will be channelised into the National Investment Fund which is to be maintained outside the Consolidated Fund of India.

(ii) The corpus of the National Investment Fund will be of a permanent nature.

(iii) The Fund will be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of the Fund.

(iv) 75% of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

B. Structure and Administrative Arrangements:

The National Investment Fund will be operated by the selected Fund Managers under the ‘discretionary mode’ of the Portfolio Management scheme, which is governed by the SEBI guidelines. The entire work of the National Investment Fund will be supervised by Chief Executive Officer (CEO) of the Fund, an officer of the rank of Joint Secretary / Additional Secretary to the Government of India. A part time Advisory Board consisting of three eminent persons, with the requisite expertise to be appointed by the Government, would advise the CEO on various aspects of the functioning of the Fund.

C. Investment Strategy:

(i) The broad investment strategy is to provide sustainable returns without depleting the corpus.

(ii) The investment strategy for the Fund will be formulated by the Chief Executive Officer (CEO) based on the advice of the Advisory Board so as to ensure that Government has a hands-off relationship in terms of the actual investment to be done by the Fund Managers.

(iii) Only broad guidelines are to be provided under the “discretionary mode” to the Fund Managers, within which individual investments would be made independently by the Fund Managers. More detailed guidelines specifying investment instruments and limits for investment in such instruments will be separately specified in the agreements to be entered into between the Fund Managers and the Chief Executive Officer of the Fund on behalf of the Government.

(iv) Other operational details such as allocation of funds to the selected Fund Managers, negotiations of management fee and charges to be paid to the Fund Managers, etc. will be also decided by the CEO based on the advice of the Advisory Board.

(v) Appropriate mechanisms for regular review and monitoring of the functioning of the Fund, emerging market trends and future prospects will be instituted.

D. Accounting Procedure:

(i) The receipts from disinvestment of CPSEs will be deposited in the Consolidated Fund of India (CFI) under the designated Head. Thereafter, these amounts would be appropriated from the CFI, with due approval, by the Department of Disinvestment and transferred to the selected Fund Managers through CEO of the Fund.

(ii) Income from the Fund will similarly be deposited in the CFI and would be appropriated from it for specific purposes as per the scheme of appropriation approved from time to time by the Department of Expenditure.

(Saurabh Chandra)

Joint Secretary to the Government of India

ORDER

ORDERED that a copy of the resolution be communicated to all Ministries / Departments of the Government of India.

ORDERED also that the resolution be published in the Gazette of India for general information.

(Saurabh Chandra)
Joint Secretary to the Government of India

To

The Manager,
Government of India Press,
(Bharat Sarkar Press),
FARIDABAD