

94

**DISINVESTMENT OF GOVERNMENT
SHAREHOLDING IN SELECTED PUBLIC
SECTOR ENTERPRISES DURING 1991-92**

MINISTRY OF INDUSTRY

NINETY-FOURTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

NINETY-FOURTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1994-95)

(TENTH LOK SABHA)

*Disinvestment of Government Shareholding in Selected Public
Sector Enterprises during 1991-92*

MINISTRY OF INDUSTRY
(DEPARTMENT OF PUBLIC ENTERPRISES)

*[Action Taken on 75th Report of Public Accounts Committee
(10th Lok Sabha)]*



Presented to Lok Sabha on 28.4.1995
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LOK SABHA SECRETARIAT
NEW DELHI

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CORRIGENDA TO 94TH REPORT OF PUBLIC ACCOUNTS
COMMITTEE RELATING TO DISINVESTMENT OF
GOVERNMENT SHAREHOLDING IN SELECTED PUBLIC
SECTOR ENTERPRISES DURING 1991-92

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COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE (1994-95)

Shri Bhagwan Shankar Rawat — *Chairman*

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SECRETARIAT

1. Shri Murari Lal — *Joint Secretary*
2. Smt. P. K. Sandhu — *Director*
3. Shri P. Sreedharan — *Under Secretary*

INTRODUCTION

1. the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Ninety-fourth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Seventy-fifth Report (10th Lok Sabha) on Disinvestment of Government Shareholding in Selected Public Sector Enterprises during 1991-92.

2. In the light of the several shortcomings/irregularities observed in the disinvestment programme undertaken during 1991-92, the Committee in their earlier Report had recommended that the manner in which the whole disinvestment exercise was undertaken required to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. In this Report the Committee have observed that the action taken replies furnished by the DPE are completely silent about the probe conducted or contemplated on the lines suggested by the Committee in their earlier Report. The Committee have expressed their distress over the fact that rather than acting on the specific recommendation of the Committee, the Department have now sought to contend that "there was no incalculable loss due to under realisation" and that "losses being computed are notional and not real." The Committee have observed that this contention of the DPE holds no ground in view of the findings of the Committee contained in Paragraph 185 of their earlier Report which were indicative of lower value realisations of PSE shares sold during 1991-92. The Committee have also concluded that most of the Action Taken replies furnished to the specific observations of the Committee have also failed to provide convincing explanations for the various irregularities/shortcomings. They have, therefore, strongly reiterated their earlier recommendation and desired the Government to take expeditious steps to initiate a probe in the manner in which the disinvestment exercise was undertaken during 1991-92 with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee have also desired to be apprised of the concrete action taken in this regard within a period of three months from the presentation of this Report.

3. The Committee have also expressed surprise over the fact that even after the expiry of a period of over 10 months since presentation of their earlier Report, the Government have not been able to get expedited the inquiry being conducted by the CBI in regard to the cases of forward sale of shares. The Committee have also found that the action taken reply furnished by the DPE is completely silent about the precise steps taken by the Government in this regard. They have, therefore, desired that conclusive and expeditious action be taken in the matter and the outcome be apprised to them within a period of three months from the presentation of this Report.

(vi)

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 30 March, 1995. Minutes of the sitting form Part II of the Report.

5. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
18 April, 1995

28 Chaitra, 1917 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

REPORT

CHAPTER I

This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their Seventy-Fifth Report (10th Lok Sabha) on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1992, No. 14 of 1993, Union Government (Civil) relating to "Disinvestment of Government shareholding in selected Public Sector Enterprises during 1991-92".

2. The Seventy-Fifth Report which was presented to Lok Sabha on 29 April, 1994 contained 26 recommendations/observations. Action Taken Notes on all these recommendations/observations have been received from the Ministry of Industry (Department of Public Enterprises) and the same have been broadly categorised as follow:

- (i) Recommendations and observations which have been accepted by Government:**

Sl. Nos. 1-2, 3, 4, 6, 15, 16, 18, 20, 24 and 25

- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from the Government:**

Sl. Nos. 5, 17 and 19

- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:**

Sl. Nos. 7-8, 9, 10-14, 21, 22 and 26

- (iv) Recommendations and observations in respect of which Government have furnished interim replies:**

Sl. No. 23

3. The recommendations/observations of the Committee and action taken notes received thereon from the Ministry of Industry (Department of Public Enterprises) are reproduced in the relevant chapters of this Report. In the succeeding paragraphs the Committee will deal with the action taken by Government on some of their specific recommendations and observations.

Shortcomings/Irregularities in Disinvestment programme undertaken during 1991-92

4. The Union Government announced in their statement of Industrial Policy on 24 July, 1991 that a part of the Government's shareholding in public sector would be offered to mutual funds, financial institutions, general public and worker. On the same day, the Finance Minister while presenting Union Budget for 1991-92 stated that the Government had decided to disinvest upto 20 per cent of its equity in selected public sector undertakings in favour of mutual funds and financial institutions in the public sector which was expected to yield Rs. 2500 crores to the exchequer during that financial year. In pursuance of the above, Government carried out partial disinvestment of their equity in selected Public Sector Enterprises (PSEs) in two phases in December, 1991 and February, 1992 and realised a sum of Rs. 3038 crores from the sale proceeds of the shares held by Government in 30 selected PSEs. This programme of disinvestment was undertaken by the Department of Public Enterprises (DPE) in association with the Ministry of Finance (MOF) and other Government agencies concerned. The audit review based on findings noticed in the course of test audit of the records of the DPE highlighted that the unjustified reduction in the reserve prices in response to lower bids received in two tranches of sale resulted in under realisation of receipts aggregating Rs. 3441.71 crores to Government. Further examination of the subject by the Committee had also revealed a number of inadequacies and disquieting features in the implementation of the disinvestment process undertaken during 1991-92. Summing up the various shortcomings/irregularities in the disinvestment process undertaken during 1991-92, the Committee in paragraph 190 of their earlier report had recommended as under:

- (a) Selection of some PSEs for disinvestment despite the pleas made by some of them/certain administrative Ministries for exclusion;
- (b) Delay in finalisation of PSEs for disinvestment and failure to generate investors' enthusiasm;
- (c) Inadequate functioning of Suresh Kumar Committee;
- (d) Infructuous expenditure incurred in commissioning the services of private consultant;
- (e) Incorrect method of "bundling" in contravention of Government decisions;
- (f) Haste in accepting uncompetitive bids;
- (g) Re-fixation of reserve price to accommodate those bids;
- (h) Failure to apprise the Cabinet of the effect of the revised reserve prices *vis-a-vis* earlier reserve prices;
- (i) Failure to incorporate claw-back provision;
- (j) Forward sale of shares before listing and above all failure to achieve the pronounced objectives.

“During their examination, the representatives of the MOF and DPE repeatedly pleaded in their defence that the process was unprecedented in the country. The Committee are of considered view that most of the problems/shortcomings could have been avoided if the Government had not chosen to push through the disinvestment with hurry to raise the resources by the end of December, 1991. The Committee are yet to be explained to their satisfaction of the extraordinary pressures which necessitated such grave urgency resulting in incalculable losses due to under realisations on the sale of the PSE shares. The Committee are convinced that the lack of transparency in the manner in which the whole exercise was undertaken requires to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee would like to be informed of the concrete action taken in the matter within a period of six months.”

5. In response to the above recommendation of the Committee, the DPE have in their action taken note, *inter alia*, stated:—

“.....The Budget speech of the Finance Minister in July, 1991 indicated the Government intention to realise Rs. 2500 crores out of the disinvestment of shares of selected PSUs.... there was no incalculable loss due to under-realisation. The losses being computed are notional and not real.”

6. In this context, it is relevant to point out that the Committee in Paragraph 185 of their earlier report had observed as under:

“.....it is abundantly clear that the disinvestment of Government shareholding in selected PSEs during 1991-92 entailed loss of sizeable magnitude to the public exchequer. The Report of the C&AG has estimated that the reduction in original reserve prices resulted in under realisation of value to the extent of Rs. 3442 crores, while the precise extent of loss could be anybody's guess, the Committee consider it relevant to draw attention to the following facts which are clearly indicative of lower realisations:

- (i) The market prices of shares of 10 PSEs whose shares were listed as at the end of October, 1992 revealed that in 6 cases the reserve prices originally fixed under NAV, PECV, DCF and consultant's methods were also lower than the ruling market price. According to Audit, the potential gain in October, 1992 to the institutional buyers ranged between 126.62 per cent to 615.53 per cent over the average price at which these shares were sold in the two phases of disinvestment during 1991-92.

- (ii) in respect of CRL whose 42.19 lakhs share were disinvested, as against the final reserve price of Rs. 58 fixed by Government for each share of face value of Rs. 10, the market prices actually quoted in Bombay Stock Exchange in December, 1991 ranged between Rs. 960 and Rs. 1040 (for face value of Rs. 100 each share). Subsequently, when the shares of CRL were subdivided into face value of Rs. 10 each, the market price had increased manifold touching a high of Rs. 335 in February 1992; Rs. 375 in April, 1992 and Rs. 665 in September, 1992.
- (iii) One of the institutional buyers, viz. Allahabad Bank had purchased two Bundles No. 17 and 66 during the second tranche for Rs. 13.01 crores each and had sold the former at Rs. 20.25 crores and the latter at Rs. 20.06 crores both to a stock broker firm which had offered their rates even before the Allahabad Bank had made their bid. This is clearly indicative of the market perception towards the PSEs shares at the relevant time.

7. In their action taken note on the aforesaid observations of the Committee, the DPE have stated as follows:—

“The loss calculated is considered to be notional since the prices were based on thin trading and subject to wide fluctuations. In any case there is no presumption when selling shares that prices will not rise at a future date even in the short term. Equally share prices could also rule lower.

Government sold shares in bulk and the prices are bound to come down. However, the market prices quoted above were the prices during scam period and these do not truly reflect the market value. Even during the present market buoyancy the CRL shares are being traded at Rs. 285 (on 24.8.1994 in Bombay Stock Exchange) which is quite less than the scam period prices. These deals were in the nature of bilaterally negotiated transactions and not part of the bidding procedure of Government. The general market perception of PSE share values is reflected by the competitive bids received from the institutions invited to participate in the auctions.”

8. In the light of the several shortcomings/irregularities observed in the disinvestment programme undertaken during 1991-92, the Committee in their earlier Report had recommended that the manner in which the whole disinvestment exercise was undertaken required to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee are, however, constrained to observe that the action taken replies furnished by the DPE are

completely silent about the probe conducted or contemplated on the lines suggested by the Committee. What is still more distressing is the fact that rather than acting on the specific recommendation of the Committee, the Department have now sought to contend that "there was no incalculable loss due to under realisation" and that the "losses being computed are notional and not real". This contention of the DPE holds no ground in view of the findings of the Committee contained in paragraph 185 of their earlier Report (reproduced in para 6 of this report) which were indicative of lower value realisations of PSEs shares sold during 1991-92. In fact, most of the action taken replies furnished to the specific observations of the Committee, as discussed subsequently, have also failed to provide convincing explanations for the various irregularities/shortcomings. While deprecating the dilatory attitude of the DPE, the Committee, therefore, strongly reiterate their earlier recommendations and desire the Government to take expeditious steps to initiate a probe in the manner in which the disinvestment exercise was undertaken during 1991-92 with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing the responsibility for the same. They would like to be apprised of the concrete action taken in this regard within a period of three months from the presentation of this Report.

*Formation of Bundles of PSEs shares offered for sale
(Paras 171 and 172, Sl. Nos. 7-8)*

9. Commenting on the methodology adopted for preparing the bundles of PSEs' shares offered for sale during 1991-92, the Committee had in paragraphs 171 and 172 of their earlier report had observed:

171. "The Committee note that the Government's approval in November, 1991 envisaged that the valuation of shares of PSEs would be according to the three methods of Net Asset Value (NAV), Profit Earning Capacity Value (PECV) and Discounted Cash Flow Value (DCF) and the average of the two highest value so obtained would be taken as the fair value or reserve price for that PSEs shares. It was also contemplated that the total value of the equity in each bundle would be about Rs. 5 crores based on the fair value of shares of each PSE. Strangely enough, the valuation of the shares in the bundles was not made on the basis of the methods enunciated above. The DPE constituted 825 bundles of the shares of selected PSEs for sale keeping the value of each bundle around Rs. 5 crores merely on an estimated basis keeping in view only the NAV and PECV. Even though the DCF value was admittedly, received from most of the PSEs before the date on which notice inviting bids was issued viz., 10.12.1991, these values were not at all used for determining reserve prices of the PSEs shares on the ground that DCF values required detailed checking. The Committee are surprised that instead of valuing the shares in accordance with the method as envisaged, the DPE hastened with Notice inviting bids for the sale of the 825

bundles prepared on the basis of tentative value. During his deposition, the then Dy. Director (Costs) in DPE informed the Committee that he got instructions from the then Secretary (DPE) for preparing bundles on estimated value. Curiously enough, there is no record in the DPE to suggest the formula on the basis of which tentative prices were worked out. What is more specious is the plea put forth by the then Dy. Director (Costs) in the DPE during his deposition that the tentative values were "adopted for the convenience of preparation of bundles".

172. Subsequently, when the reserve prices were actually fixed between 14th to 18th December, 1991 in consultations with PSEs; their administrative Ministries and the MOF on the basis of earlier decisions of Government and also by taking into account the price range recommended by the Private Consultants, the value of bundles varied so much that 129 bundles had value above Rs. 10 crores cash and 691 bundles had value ranging between Rs. 8 to 10 crores each. The Committee's examination has also revealed that value of bundles No. 787 on the basis of reserve price so fixed touched a figure as high as Rs. 14.02 crores. Considering the fact that a cardinal principle for calculating the fair value of shares of each PSE was already laid down and a decision taken by the Government to constitute bundles of value of Rs. 5 crores each, the Committee view seriously the aberrations on the part of the then Secretary (DPE) in constituting bundles at the tentative and estimated value in an unauthorised and arbitrary manner."

10. In their action taken reply, the DPE stated:

"Since relevant records are not available (as observed by PAC also), justification for arriving at the tentative value cannot be given. However, the decision was taken at the then Secretary (DPE) level as deposed by the then Deputy Director (Cost)."

11. The DPE further stated that the then Secretary (DPE) has since retired on 30.6.1993.

12. The Committee has observed in their earlier report that instead of calculating the fair value of PSEs shares and constituting bundles thereof by keeping the value of each bundle around Rs. 5 crores in accordance with the decisions taken by Government in November, 1991, the DPE hastened with Notice inviting bids for the sale of the 825 bundles prepared merely on the basis of tentative values of the shares. The Committee were informed by the then Dy. Director (Cost) in DPE that he had instructions from the then Secretary (DPE) for preparing bundles on estimated value. The Committee were also informed that the tentative values were "adopted for the convenience of preparation of bundles" and that there was no record in the DPE to suggest the formula on the basis of which tentative prices were worked out. The Committee's examination had also revealed that subsequently when the reserve prices were actually fixed between 14th to 18th

December, 1991 in consultation with Government agencies concerned and the Ministry of Finance on the basis of earlier decisions of Government and also by taking into account the price range recommended by the Private Consultants, the value of bundles varied so much that 129 bundles had value above Rs. 10 crores each and 691 bundles had value ranging between Rs. 8 to 10 crores each. In the light of the fact that a cardinal principle for calculating the fair value of shares of each PSE was already laid down and a decision taken by the Government to constitute bundles of value of Rs. 5 crores each, the Committee had viewed seriously the aberrations on the part of the then Secretary (DPE) in constituting bundles at the tentative and estimated value in an unauthorised and arbitrary manner. The Committee are extremely unhappy to note that despite having come across such serious lapses, the Department of Public Enterprises have not taken any action to enquire as to how and why the relevant records were not available now and to fix responsibility for the lapses. The DPE in their action taken reply have merely stated that the then Secretary (DPE) has since retired on 30.6.1993 and that no relevant records on the working of tentative values were available in files. In this context, the Committee wish to point out that they were made aware of these facts even at the time of submission of the original report and in their opinion, mere repetition of these pleas do not in any manner absolve the DPE of their failure in constituting the bundles of PSEs shares in accordance with the earlier decisions of the Government in this regard. The Committee are surprised to note that even at this stage the Government have not pinpointed the responsibility of the then Secretary, DPE and therefore, desire that the Department of Public Enterprises should thoroughly look into the matter with a view to fixing responsibility and also ensuring that cases of such nature do not recur in future.

Inclusion of shares of Cochin Refineries Ltd. and Andrew Yule in bundles (Paragraph 173, Sl. No. 9)

13. Dealing with yet another aspect about formation of bundles of shares PSEs in contravention of the decisions of the Government, the Committee in paragraph 173 of their earlier report had observed that despite the Government decision to off-load the shares directly to mutual funds and financial institutions at the market price in the case of PSEs already listed on the stock exchanges, the shares of two such companies namely, Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) were also included in the bundles for sale. At the time of examination of this subject, the argument adduced by the DPE that "the shares of these PSEs were being traded at sporadic internal in relatively small lots" was found to be incorrect and not accepted by the Committee especially in case of shares of CRL which were not only being traded in high volume at Cochin Stock Exchange during the three months preceding the disinvestment but also upgraded to the specified group on Bombay Stock Exchange on 3.1.1992 due to the large trading volumes and liquidity. The Committee had accordingly, recommended that Government should undertake a thorough probe to identify

the appropriate level at which this lapse had occurred and fix responsibility for the same.

14. In their action taken reply, the DPE stated as follows:

"It was brought to the notice of CCEA that CRL and AYL were already listed in the stock exchange and they enjoy a fairly good level of liquidity. They were included in the bundles prepared by DPE under one of the three categories viz., Very Good, Good and Satisfactory. Both these companies were mentioned in the list enclosed to the CCEA note seeking approval for disinvestment."

15. Elaborating further, the DPE also stated:

"As mentioned in the ATN the CCEA note had mentioned that Cochin Refineries Ltd. and Andrew Yule Ltd. were already listed in the Stock Exchange and that they enjoy a fairly good level of liquidity. The CCEA note had mentioned that it was proposed to include these two companies in the bundles, as indicated in the list of PSUs proposed for disinvestment. It is submitted that it was felt not necessary to draw any further attention to CCEA and that the Note in its comprehensive form contained all facts for decision making by CCEA."

16. The Committee are not convinced with the arguments now advanced by the Department of Public Enterprises for inclusion of shares of two PSEs which were already listed in the stock exchanges viz., Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) in the bundles for sale. In the light of the fact that Government had already taken a decision to off-load the shares directly to mutual funds and financial institutions at the market price in the case of PSEs already listed on the stock exchanges, the Committee find it difficult to appreciate as to why the DPE or the Ministry of Finance did not consider it necessary to draw specific attention of the CCEA towards this aspect while seeking approval for disinvestment of shares of these two companies. In the opinion of the Committee, mere mention of these two companies in the list appended to the CCEA note in no way presented a clear picture before CCEA for their decision making in regard to sale of shares of these two companies in bundles. Considering the loss suffered due to lower realisation particularly in the case of CRL (as pointed out earlier), the Committee are convinced that the manner in which shares of those two PSEs were included in the bundles requires to be looked into further. The Committee therefore, reiterate their earlier recommendation and desire that the Government should expeditiously undertake a thorough probe to identify the appropriate level at which this lapse had occurred and fix responsibility for the same.

Receipt of Non-competitive tenders and acceptance thereof in the first phase of disinvestment in December, 1991 (Paragraphs 174—178, Sl. Nos. 10—14)

17. Commenting upon the receipt of uncompetitive bids in the absence of any appraisal of financial capability and the bidding power of the various institutional buyers, the Committee in paragraphs 174 and 175 of their earlier report observed as follows:

174 "The Committee note that the Finance Minister in his budget speech on 24.7.1991 had stated that Government proposed to raise Rs. 2500 crores from disinvestment of its equity in selected PSEs during 1991-92. Obviously, this was known to the institutional buyers. The DPE themselves had anticipated that the institutions from whom bids were invited intended to buy shares worth no more than Rs. 2000-2500 crores because of financial constraints. In the circumstances, the Committee consider it strange that rather than restricting the sale of PSE shares to a level consistent with Government proposals or in proportion to the anticipated funds available with the institutional buyers, the DPE in an unauthorised and imprudent manner chose to offer shares worth much higher in magnitude. The bids were also invited from mutual funds/investment institutions only and not from nationalised banks as mentioned in CCEA note dated 20.11.1991. Consequently, uncompetitive bid numbering only 710 for 533 bundles for a total value of Rs. 2300.84 crores were received in the DPE. In the absence of any appraisal of financial capability and the bidding power of the various institutional buyers, 72.61 per cent of the bundles had only one bidder, 22.89 per cent of the bundles had two bidders and it was only in 4.50 per cent cases that three or more bids were received. Surprisingly, 76 per cent of the total bids were made by two institutions and the remaining seven institutions taken together contributed only 24 per cent of the bids. The Committee are dismayed to note that as against the lowest reserve price of a bundle of Rs. 6.99 crores and the highest reserve price of Rs. 14.02 crores, the highest value of bids for a bundle was only Rs. 4.97 crores. Despite the bids being highly non-competitive with 387 bundles having only one bidder and two institutions virtually dictating the prices, the Committee are amazed to observe that the Government did not choose scrapping the bids.

175. The Committee find that after the receipt of bids which were found to be much below the reserve price fixed for each bundle, various alternatives were discussed by the officers of the Ministry of Finance with Finance Minister on 19.12.1991. One of the suggestions was that since for about 300, or so bundles only one bid had come in the none for another 300, these bids should be rejected as they were only single offers and better bids could come in if the bundles were reoffered. Another suggestion was to reject all the bids, rebasket the bundles and reoffer them to all. Yet another proposal made was that the PSEs share should be sold individually to get the best offers instead of bundling them. The Committee are dismayed to find that all these alternatives were rejected and the Ministry of Finance went

in with the proposal to CCEA for acceptance of the bids received for 533 bundles by suggesting refixation of the reserve prices in a manner which resulted in lowering of the reserve prices to the extent of around 64% of the original reserve prices. The Committee strongly disapprove of the action taken by the Ministry which resulted in potential gains to the bidders at the cost of Exchequer."

18. In their action taken note on the aforesaid observations of the Committee, the DPE stated as under:

174 "The amount of Rs. 2500 crores from disinvestment was contained in the Budget Speech and it was only an indicative target. There was no assessment made of the magnitude of funds available with institutions to buy PSE shares at the auctions. Hence, no direct correlation may be determined between the above indicative target and the number of bundles constituted by DPE for sale.

The reserve prices had earlier been fixed with reference to financial projections prepared by the PSEs and discounted cash flows based on such projections. The reserve prices based on these figures were found to be not entirely realistic. There was an adequate element of competition at the auctions even though only two institutions emerged as the bidders for the highest number of bundles.

175. The CCEA Note had explained the basis for lowering of the reserve prices so that the disinvestment can be completed. It is important to note that if the reserve prices had not been adjusted, there would have been no sale of any shares and as such the entire exercise would have been abortive."

19. Commenting upon the manner in which the Ministry of Finance in their note dated 24.12.1991 apprised the CCEA about the revised method of valuation of PSEs shares offered for sale, the Committee in paragraphs 176—178 of their earlier report observed as follows:

"176 The Committee further note that having taken the questionable decision to proceed with the uncompetitive bids received, an exercise was undertaken to revalue the shares, perhaps with reference to the bids received. From the copies of the computer print outs scrutinised by the Committee, it was seen that DPE undertook an exercise for valuing bundles on the basis of the 'High' and 'Low' prices of shares as recommended by the private consultants appointed by the Government and also on an average of NAV and PECV at industry capitalisation rates. However, this was coming fairly close to the reserve prices arrived at by the Government. Further even the value of bundles on the basis of average of NAV and PECV at industry capitalisation rate was found to be higher than the bid prices. In the circumstances DPE proposed to refix reserve prices on an average of NAV and PECV at a uniform capitalisation rate of 10 per cent instead of at industry-wise capitalisation rate. The net result of

adoption of a revised method of valuation was that the reserve prices of PSEs share were drastically reduced to an extent ranging between 21.95 per cent to 86.67 per cent. In 24 of the 31 cases the reduction in value was above 50 per cent. In the light of the facts narrated above, the Committee regret to conclude that the entire exercise of valuing shares by adopting a revised method was deliberately resorted in order to accommodate the bids received. Obviously, the overriding consideration of raising funds before the end of December, 1991 took precedence over the larger interest of public exchequer."

(77) The Committee note that while recommending the revised method of valuation, the Ministry of Finance in their note dated 24.12.1991 took the pleas that the proposed procedure was in line with CCI guidelines. In this context, the Committee would like to highlight the specific observations made by the Suresh Kumar Committee in its report that "the disinvestment of Government share holdings in PSEs is a sale by a shareholder to a buyer. Therefore, the guidelines issued by the Controller of Capital Issues (CCI), Department of Economic Affairs for valuation of equity shares of public companies are not applicable." The Ministry of Finance themselves had in their note for CCEA dated 20.11.1991 had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs" as "these guidelines generally underprice the shares." Since application of CCI guidelines for valuation of PSE shares for the disinvestment proposal was not considered to be relevant right from the beginning, the Committee are not convinced of the subsequent turn around in the approach of the Ministry of Finance on the issue. The Committee are led to conclude that the Ministry of Finance failed to advise the CCEA in the right perspective and they cannot absolve themselves of this responsibility.

178. The Committee are also constrained to point out that the Ministry of Finance did not apprise the CCEA about the extent to which the reserve prices of PSEs fixed on the basis of earlier Government decisions would be reduced as a result of change over to a new formula based on CCI guidelines and by adopting a uniform capitalisation rate of 10 per cent. The Committee's analysis of the 16 bundles which were originally fixed at Rs. 155.72 crores were reduced to Rs. 49.40 crores after reserve prices were refixed by adopting the new formula envisaged on 24.12.1991. In the opinion of the Committee, this tellingly shocking extent of reduction of Rs. 106.32 crores in 16 bundles speaks volume about the ultimate reduction effected in the reserve price of the bundles offered for sale in December, 1991. During his evidence the Finance Secretary deposed before the Committee that the Cabinet was not informed as to what was the particular price that came out of a particular

formula. In extenuation he also stated, "even in the earlier Cabinet note only the formula was discussed". The Committee are unable to accept this plea. They consider it deplorable that such substantial financial implications involved in valuation of PSEs share were not brought to the notice of CCEA at the time of submitting the proposal for final approval of the Government. While agreeing with the assertion made by the Finance Secretary during evidence that "Cabinet does not decide individual price", the Committee are of the firm opinion that this aspect involved a major policy decision of calculating fair market value of PSEs shares involving thousands of crores of rupees and thus all relevant facts and figures were required to be placed before the CCEA for complete appraisal. That this was not done speaks of the manner in which the Ministry of Finance preferred to brief the CCEA on such a crucial issue of national importance and having substantial financial implications."

20. In their action taken reply, the DPE stated as follows:

"Most of the shares of the PSUs sold in the auction were unlisted and therefore, there is no reliable basis for assessing the market perception of these shares. It was considered not proper to compare such companies with their private sector counterparts which had a long trading history. It was felt that a uniform capitalisation rate of 10% was a representative figure and provided a reasonable benchmark. While it was not intended to accommodate the bids received, the consideration to raise funds from disinvestment in a timely manner was an important factor which weighed with the Government."

"The revised assessment of the MOF in regard to the appropriateness of the CCI Guidelines for valuing PSU shares was based on the market perception of each PSU share as revealed by the competitive offers received. It was realised that the PSU shares which were hitherto not listed in the stock markets as opposed to private not listed in the stock markets as opposed to private sector shares which were widely traded, commanded less investor attention. This was especially so in comparison to the initial reserve price which were not actually approved by CCEA and which had an upward bias because of projected future earnings. The reasons for revising the basis for fixation of reserve prices had been adequately explained in the CCEA note dated 24.12.1991, though the values had not been mentioned since it was considered an operational matter. It was relevant that even in the earlier CCEA note only the formula had been discussed and not the values resulting therefrom. The question of under-realisation because of new reserve prices does arise because at the earlier reserve prices no sale would have taken place."

21. In their earlier Report, the Committee had observed that the Finance Minister in his budget speech on 24.7.1991 had stated that the Government

proposed to raise Rs. 2500 crores from disinvestment of its equity in selected PSEs during 1991-92 and this fact was obviously known to the institutional buyers. The Committee had considered it strange that rather than restricting the sale of PSEs shares to a level consistent with Government proposals or in proportion to the anticipated funds available with the institutional buyers, the DPE in an unauthorised and imprudent manner chose to offer for sale shares worth much higher in magnitude with result that uncompetitive bids were received in the DPE for the bundles of PSEs shares offered for sale during December, 1991. In their action taken reply, the DPE have stated that the amount of Rs. 2500 crores from disinvestment as contained in the Budget speech was only an indicative target and that there was no assessment made of the magnitude of funds available with institutions to buy PSE shares at the auction. The Committee do not agree with this contention in view of the fact that the DPE themselves had anticipated in their note dated 18.12.1991 that the institutions from whom bids were invited intended to buy shares worth no more than 2000-2500 crores. Further, as the Government themselves had proposed to raise Rs. 2500 crores only from disinvestment of its equity during 1991-92, the Committee are unable to understand as to why shares valuing far in excess of budgetary proposal were offered for sale during the first tranche of disinvestment. Undoubtedly, this aspect was not given any consideration by the DPE as a consequence of which non-competitive bids were received and two institutions virtually dictated the prices as had already been pointed out by the Committee in paragraph 174 of their earlier report.

22. The Committee in their earlier report had also found that various alternatives for rejecting the bids and rebasketing the bundles of PSEs shares were discussed by the officers of the Ministry of Finance with Finance Minister on 19.12.1991 after the bids received were found to be much below the reserve price fixed for each bundle. However, all these alternatives were rejected and the Ministry of Finance went ahead with the proposal to CCEA for acceptance of the bids received for 533 bundles by suggesting refixation of the reserve prices in a manner which resulted in lowering of the reserve prices to the extent of around 64% of the original reserve prices. In their action taken reply, the DPE have stated that there would have been no sale of any shares if the reserve prices had not been adjusted and as such the entire exercise would have been abortive. Going by this self-admission of adjustment of reserve price with a view to hurriedly pushing through the disinvestment exercise, the Committee are in no doubt that unjustifiable actions for implementing the proposed disinvestment process were taken by the MOF in scant disregard to the earlier decisions taken in the matter by the Government. This further reinforces the conclusion of the Committee recorded earlier that the entire exercise of valuing shares by adopting a revised method was deliberately resorted in order to accommodate the bids received. At this stage, the Committee can

only express their unhappiness over the manner in which this issue was handled to the ultimate detriment of Government revenue.

23. The Committee in their earlier report had also concluded that the Ministry of Finance while approaching the CCEA with revised formula for valuation of PSEs shares, had failed to advise the CCEA in the right perspective on the following counts:

- (a) While MOF themselves in their note for CCEA dated 20.11.1991 had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs" as "these guidelines generally under-price the shares", they subsequently took a complete turn around in their approach while recommending the revised method of valuation to the CCEA in their note dated 24.12.1991 wherein they took the plea that the proposed procedure for disinvestment was in line with CCA guidelines.
- (b) The MOF also did not apprise the CCEA about the extent to which the reserve price of PSEs fixed on the basis of earlier Government decisions would be reduced as a result of change over to a new formula based on CCI guidelines and by adopting a uniform capitalisation rate of 10%.

24. While deploring that substantial financial implications involved in valuation of PSEs shares were not brought to the notice of CCEA at the time of submitting the proposal for final approval, the Committee had opined that all relevant facts and figures were required to be placed before the CCEA for complete appraisal as this aspect involved a major policy decision of calculating fair market value of PSEs share involving thousands of crores of rupees. In their Action Taken reply the DPE have adduced the argument that the "revised assessment of the MOF in regard to the appropriateness of the CCI guidelines for valuing PSUs shares was based on the market perception of each PSU share as revealed by the competitive offers received". According to DPE, it was also realised that the PSUs shares which were not listed in the stock market by that time commanded less investor attention as compared to the private sector shares which were widely traded. The DPE have also stated that the reasons for revising the basis for refixation of reserve price had been adequately explained in the CCEA note dated 24.12.1991 though the values of the shares had not been mentioned therein since it was considered an operational matter. The Committee are not inclined to accept these pleas put forth by the DPE as the bids received by Government in December, 1991 could neither be treated as competitive nor termed as the market response to PSEs shares offered for sale during 1991-92. On the other hand, the Committee are convinced that the MOF ignored the larger interests of public exchequer and directed their efforts towards completing the disinvestment process by the end of December, 1991. This fact is corroborated by the admission of DPE in their action taken note on Paragraph 176 of 75th Report that

“consideration to raise funds from disinvestment in a timely manner was an important factor which weighed with the Government”. In fact, it still remains to be explained to the Committee of the extraordinary pressures which necessitated such grave urgency resulting in under realisation on the sale of PSEs shares.

*Failure to incorporate claw-back provision
(Paragraph 22, Sl. No. 22)*

25. Expressing their displeasure over failure of the DPE and the MOF to incorporate suitable claw-back provision at the time of disinvestment of PSEs shares undertaken during 1991-92, the Committee in paragraph 186 of their 75th Report had observed as follows:

“The Committee note that the Chief Advisor (Cost) in the Ministry of Finance as a member of the Valuation Committee, had suggested in August, 1991, that in the absence of market value of the shares of PSEs, the shares might be transferred to selected mutual funds/ financial institutions with a stipulation that as and when these shares were offered to general public 90 per cent of the difference of the price gained should be transferred back to the Government. Evidently, there is nothing on record to indicate that this suggestion for inclusion of a claw-back provision for sharing of profits was given the consideration that it deserved. In this context, the Committee are unable to appreciate the reply of the DPE that the sharing of subsequent profits would have also required the Government to agree with the sharing of losses and that such a provision could not be imposed without eroding the confidence of the bidders. Significantly, the claw-back provisions have been part of privatisation programme in the U.K. The Committee consider it unfortunate that no efforts were made with a view to protecting the revenue interests of the Government either by the DPE or the MOF to ascertain the practices adopted in this regard in other parts of the world. To say the least, this is yet another instance of the casual manner in which the DPE and the MOF dealt with the various facets of disinvestment exercise undertaken in 1991-92.”

26. In their action taken reply, the DPE stated:

“There are several means by which the claw-back provision could be introduced. Where there is a mandatory sharing by the Government of subsequent profits earned by successful bidders without having to shoulder any part of potential losses, bidders would reflect this requirement in the initial bids submitted. Thus if a claw-back provision had been introduced the initial realisation from disinvestment could have been lower.”

27. The Committee in their earlier report had noted that the Chief Advisor (Cost) in the Ministry of Finance had suggested in August, 1991 that in the absence of market value of the shares of PSEs, the shares might

be transferred to selected mutual funds/financial institutions with a stipulation that as and when these shares were offered to general public 90 per cent of the difference of the price gained should be transferred back to the Government. The Committee had observed that there was nothing on record to indicate that this suggestion for inclusion of a claw-back provision for sharing of profit was given the consideration it deserved. The Committee had also observed that no efforts were made with a view to protecting the revenue interests of the Government either by the DPE or the MOF to ascertain the practices adopted in this regard in other parts of the world. The Committee regret to note that the Department of Public Enterprises have not offered any convincing explanation for their failure to consider the suggestion which emanated from none other than a member of the Valuation Committee itself for incorporation of a claw-back provision and to ascertain the practice adopted by other countries in the matter. The DPE have in their action taken reply, once again given the same explanation which was considered by the Committee at the time of examination of the subject. The Committee are of firm opinion that the repetition of the same arguments do not in any way justify the casual manner in which the DPE and the MOF had dealt with the suggestion for incorporation of a claw-back provision which would have helped the Government in sharing gains in excess of specified limit arising out of future disposal of shares by the institutional buyers.

*Forward sale of shares before listing
(Paragraph 187, Sl. No. 23)*

28. Dealing with the cases of forward sale of shares, the Committee in paragraph 187 of their 75th Report recommended as follows:

“The Committee note that the terms and conditions of the sale of PSEs shares imposed by the DPE in February, 1992, *inter-alia*, stipulated that shares of all the PSEs offered for sale shall be listed on all principal stock exchanges and that Financial Institutions/Mutual Funds/Banks shall be free to off-load their shareholdings in these PSEs through normal Stock Exchange transactions. The Committee however, find that two institutional buyers namely, Allahabad Bank and SBI Capital Market Ltd. purchased bundles of shares of PSEs during the second tranche and sold them to certain brokers even before the listing of shares on Stock Exchange. The Committee have been given to understand that the question of breach of Rules in the onward sale of shares by these two institutions is being examined in the Ministry of Finance and also looked into by the CBI. The Committee hope that the Government would take appropriate steps to expedite the enquiry being undertaken by the CBI and apprise the Committee of the action taken thereon.”

29. In their action taken note, the DPE stated:

“The Government is awaiting the results of the CBI enquiry and

would take steps to speed up its completion. The action taken will also be intimated to the Committee."

30. The DPE further clarified:

"It is understood from CBI that the matter is still under enquiry and a final view has to be taken."

31. The Committee are surprised to find that even after the expiry of a period of over 10 months since presentation of their Report, the Government have not been able to get expedited the inquiry being conducted by the CBI in regard to the cases of forward sale of shares. The Committee also find that the action taken reply furnished by the DPE is completely silent about the precise steps taken by Government in this regard. They therefore, desire that conclusive and expeditious action be taken in the matter and the outcome may be apprised to them within a period of three months from the presentation of this Report.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Observation/Recommendation

The Industrial Policy Resolution, 1956 gave the public sector a strategic role in the process of development. In pursuit of this Objective, massive investments have been made over the past four decades to build a public sector which had a commanding role in the economy. The total investment in 246 Public Sector Enterprises (PSEs) as on 31.3.1991 was Rs. 113,896.13 crores. The profit earned by these PSEs during 1990-91 was however, Rs. 2,567.74 crores of which significant component was from oil sector and the dividend paid was a mere Rs. 364.86 crores ironically, while one of the objectives envisaged in the Industrial Policy Resolution, 1956, for public sector was *inter alia* "to earn return on investment and thus generate resources for development", and while, in accordance with the policy, investment from the exchequer in PSEs witnessed consistent growth from Rs. 29 crores in the first five year plan to Rs. 99,329 crores in 244 PSEs by the end of the 7th five year plan and to Rs. 113.245 crores in 246 PSEs as on 31.3.91, return on the investment remained too low to conform to even the most minimum norms of return in commercial activities. As in 1989-90, the ratio of Net Profit to Capital Employed showed an average of 4.5% which was an increase from 2.73% registered in 1985-86. Out of 244 PSEs existing at the end of the 7th five year plan, 131 PSEs earned on average a profit of 8%, 98 PSEs registered a loss of over 16%. As many as 58 PSEs assumed the status of sick and chronically sick enterprises with their accumulated loss causing invariably a damage of scarce financial resources from the exchequer every year.

[Sl. No. 1 (Para 165) of Appendix-V to 75th Report of PAC
(10th Lok Sabha).]

Action Taken

This is an observation of the Committee and not actionable.

[Ministry of Industry (Deptt. of Public Enterprises OM. No. DPE/4(4)/
94—Fin. dated 31.3.1995]

Observation/Recommendation

The suggestions for disinvestment of Government shareholding in PSEs had been under consideration of the Government in different forms atleast since May, 1990. But the first public pronouncement of the Government decision to disinvest upto 20 per cent of its equity in selected PSEs was

made on 4th March, 1991 at the time of presentation of Central Government's Interim Budget for 1991-92. Subsequently, the Union Government announced in their statement on Industrial Policy on 24.7.1991 and in the Union Budget for 1991-92 presented on the same day that apart from ravitalising the public sector, a part of the Government shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers so as to raise resources and encourage wider public participation. The Union Budget for 1991-92 provided for receipts of Rs. 2500 crores on this account. In pursuance of the above, Government carried out partial disinvestment in two phases in December, 1991 and February, 1992 and realised a sum of Rs. 3038 crores from the sale proceeds of the shares held by Government in 30 selected PSEs. The disinvestment programme was carried out by the Department of Public Enterprises (DPE) in association with the Ministry of Finance (MOF) and other Government agencies concerned. The audit review based on findings noticed in the course of test audit of the records of the DPE and further examination of the subject by the Committee have revealed a number of inadequacies and disquieting features in the implementation of the disinvestment process which are dealt with in the succeeding paragraphs.

[Sl. No. 2 (Para 166) of Appendix-V to 75th Report of PAC
(10th Lok Sabha).]

Action Taken

This is an observation of the Committee. Inadequacies and disquieting feature, if any, in the implementation of the disinvestment process, have been dealt with in following paras and ATN.

[Ministry of Industry (Deptt. of Public Enterprises, OM. No. DPE/4(4)/94—Fin., dated 31.3.1995].

Observation/Recommendation

The Committee note that out of the 244 PSEs, only 31 out of 131 profit making concerns were finally selected for disinvestment during 1991-92. According to the note placed before the CCEA on 20.11.1991 the disinvestment was to be done to Investment Institutions/Financial Institutions/Mutual Funds/Nationalised Banks. The selection of PSEs was proposed to be done by the DPE in close consultation with the concerned PSEs, the Administrative Ministries, the Planning Commission and the Ministry of Finance. The Committee's examination has however revealed that while a number of PSEs and their Administrative Ministries had suggested exclusion of some of the PSEs from the proposed disinvestment on specific and convincing grounds, their suggestions were not given due

consideration. The Committee, in this regard, took note of the comments made by both the Finance Secretary and the then Secretary (DPE) in their depositions, about the general reluctance among the Executives of PSEs as well as among the authorities of their Administrative Ministries to agree with disinvestment fearing it would result in interference with their personal comforts and erosion of their authority. They also deposed that, final decision about disposal of shares of PSEs had to be taken by Government, being its owners, and not by the Executives of the PSEs. The Committee have difficulty in accepting his contention. This indicates the attitude of the Ministry of Finance towards the opinion of the PSEs and their Administrative Ministries concerned. Even in the note for CCEA on 24.12.91, the Ministry of Finance did not elaborate its reasoning too well against the objections/reservations raised by some Administrative Ministries in regard to disinvestment of shares of their respective PSEs, but simply stated that the shares of those PSEs, could not be excluded from disinvestment. The Committee, at this stage, can only express their concern over the unsatisfactory manner in which selection of PSEs was made for the disinvestment exercise undertaken during 1991-92.

[Sl. No. 3 (Para 167) of Appendix-V to 75th Report of PAC
(10th Lok Sabha).]

Action Taken

The comments of PAC have been carefully noted for future guidance. The suggestions and reservations expressed by some PSEs and their Administrative Ministries had been incorporated in the notes submitted to CCEA. For example, the reservations expressed by the Steel Ministry had been mentioned in the note and as a result CCEA had decided to limit the disinvestment in SAIL to the extent of 5% instead of 20% as proposed. In the subsequent years' disinvestment, the concerns on the part of PSEs and the Ministries had been fully taken into account while identifying the enterprises for disinvestment.

Further Audit Observation

It may be appropriate to make an assurance to PAC about adhering to the requirement of mutual consultations between PSEs and Ministries on such matters.

Government Reply

As submitted earlier, PAC's remarks have been carefully noted for future guidance. Disinvestments during subsequent years have been carried out in active consultation with the various Ministries. The views expressed by the Ministries after due assessment of the position relating to each PSE

for inclusion/exclusion of from disinvestment are duly considered and acted upon. It is assured that future disinvestment will also be carried out based on active consultations in the above manner.

[Ministry of Industry (Deptt. of Public Enterprises, OM. No. DPE/4(4)/94-Fin., dated 31.3.995]

Observation/Recommendation

The Committee find that for formulation of guidelines for valuation of shares of PSEs, a Committee under the then Secretary, DPE was constituted on 19th August, 1991 and this Valuation Committee submitted its report in September, 1991. The Committee are surprised over the casual manner in which the Valuation Committee functioned. The Valuation Committee was to be assisted by Financial Advisers (FAs) on the Ministries as representative of the Department of Expenditure. However, they were not associated on the ground that the Valuation Committee had very little time and the selection of PSEs had not been finally completed. The Valuation Committee had only two sittings on 26th and 30th August, 1991 which was attended only by a few members. No Minutes of the discussions held at the sittings of the Committee were maintained. As deposed by the then Secretary (DPE), the Report was not considered in detail at a meeting of the Committee and it was got approved even by circulation among some members of the Committee Only. It was signed by only 4 out of 14 members of the Committee including 6 co-opted Members. Interestingly one of the signatories was not even a member of the Valuation Committee and signed on behalf of a member of the Committee namely, Secretary in the Department of Chemicals & Petrochemicals.

The Committee are extremely unhappy over the manner in which the work of the Committee was carried out. During evidence the then Secretary (DPE) informed the Committee that he did not consider it necessary to obtain the signature of co-opted members as he could not waste his time in circulating the Report to them. He also observed that "everybody is unwilling to take part (in the disinvestment process). Especially, the bureaucrat and the public sector chief were unwilling because they did not want their comfortable lives to change." The Committee also find that some of the important suggestions of the members of the Valuation Committee which could have had important bearing on the proposed disinvestment were not incorporated in the report of that Committee. These included broadening of the base by offering the shares to approved share brokers, public limited companies, approved pension funds, revaluing the shares of PSEs, etc. The Finance Secretary during his deposition before the Committee also stated that "the Suresh Kumar Committee did not give us any unambiguous guidance". From these facts, the Committee can only conclude that the then Secretary (DPE) who was Chairman of the Committee inexplicably functioned in an

arbitrary and casual manner and the Committee failed to fulfil the objective for which it was set up.

[Sl. No. 4 (Para 168) of Appendix-V to 75th Report of PAC
(10th Lok Sabha)]

Action Taken

The comments of PAC have been noted for future guidance. The broadening of the base for offering shares has been accomplished in subsequent auctions by including firms, brokers as well as individuals who are authorised to buy and sell shares, thereby ensuring a competitive environment for bidding for PSE shares. Efforts would be made in future that any similar Committee constituted would function in consonance with the Government orders and a proper record of proceedings would be maintained.

Further Audit Observations

It may be appropriate to make an assurance about adhering to the requirements.

Government Reply

It has already been informed that the comments of PAC have been noted for future guidance and the efforts would be made in future that any similar Committee constituted would function in consonance with the Government orders.

[Ministry of Industry (Deptt. of Public Enterprise) OM No. DPE/4(4)/94-
Fin., dated 31.1.1995]

Observation/Recommendation

The Committee are surprised to find that the Government decided to offer for sale the shares of selected PSEs by adopting an unprecedented and unique method of offering the shares in the form of bundles consisting of nine PSEs, from each category, viz. very good, good and average. The Committee have been informed during evidence that the proposal for sale of shares of PSEs in bundles was taken up before the CCEA by the Ministry of Finance and the main reason for bundling of shares was to ensure that the good enterprises were disinvested alongwith those which were "less investor fancy". The institutional buyers did their own valuation for shares of various PSEs and made composite bids for the bundle as a whole. The Committee are in no doubt that the sale of shares in bundles had affected substantially the transparency of the transactions. While the Committee find no perceptible gains from bundling, they are convinced that this method made it difficult even for the Government to assess the bids received in right perspective and finally determine a fair reference unit price for each PSEs share, as would be seen from the subsequent paragraphs. Clearly, the natural price level of shares could not emerge from this unusual method and the sale in bundles had the effect of

depressing the value realisations which had obviously done more harm than the expected advantage of clearing the sale of shares of average PSEs alongwith the 'very good' and 'Good' PSEs. During evidence, the Finance Secretary admitted, "in retrospect our assessment is that the best way of selling the shares to get the highest possible price is really to sell them individually". The Committee do not wish to add anything to his own admission of adoption of a wrong procedure.

[Sl. No. 6 (Para 170) of Appendix-V to 75th Report of PAC
(10th Lok Sabha)]

Action Taken

The observations of the Committee have been noted. Government have already taken a corrective action by not bundling the shares together in subsequent tranches of disinvestment.

Further Audit Observations

It may be appropriate to make an assurance to PAC that shares would not be bundled in future tranches of disinvestments.

Government Reply

Government have already ensured that disinvestments after 1991-92 were not done by offering shares in bundles. It is assured that Government will sell shares in future in auctions individually and not through bundles.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)94-
Fin., dated 31.1.1995]

Observation/Recommendation

The Committee would also like to point out certain other aspect arising out of the note placed before the Cabinet on 24.12.1991. One of the arguments adduced by the MOF for adopting a new valuation procedure was that the valuation price fixed earlier were *inter-alia*, based on DCF values provided by PSEs which according to the Ministry were based on optimistic cash flow projections and the reference price computed earlier might not be realistic. Since this method was suggested by the MOF themselves after due consideration and included in the CCEA note dated 20.11.1991, the Committee consider this argument to be only an afterthought. As the DCF value projections were based on MOUs reached with the PSEs, the Committee are surprised at the deposition made by Finance Secretary during evidence that "we discovered later on that MOUs were based on unrealistic assumptions about how much resources will be made available."

[Sl No. 15 (Para 179) of Appendix-V to 75th Report of PAC
(10th Lok Sabha)]

Action Taken

This is only an observation of the Committee.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)94-
Fin. dated 31.1.1995]

Observation/Recommendation

Another disquieting aspect observed by the Committee was that the new formula envisaged computation of PEC value a uniform capitalisation rate of 10 per cent. The Committee wonder whether application of a uniform capitalisation rate was appropriate considering the fact that the PSE selected for disinvestment differed widely in terms of their investment base, profitabilitiy, market conditions, etc.

[Sl No. 16 (Para 180) of Appendix-V to 75th Report of PAC
(10th Lok Sabha).]

Action Taken

This is an observation of the Committee. However, the point of fixation of the uniform capitalisation rate of 10% has been covered in the Action Taken Note against Para No. 176.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)94-
Fin. dated 31.1.1995]

Observation/Recommendation

The Committee further note that while Notice inviting bids for the Second tranche was issued to 36 financial investment institutions/mutual funds/merchant banks on 11 February, 1992 for fresh 120 bundles with its reserve price fixed uniformly at Rs. 10.08 crores per bundle, only 273 bids were received from 19 institutions for all the 120 bundles and it was only in 35 per cent cases where three or more bids were received. Surprisingly, four bidders had contributed 68 per cent of the total bids made. From the foregoing, the Committee regret to conclude that no lessons were learnt by the DPE from their past experiene and no efforts were made to prepare the bundles with smaller values so as to enable larger participation in bidding.

[Sl. No. 18 (Para 182) of Appendix-V to 75th Report of PAC
(10th Lok Sabha).]

Action Taken

There was a gap of only one month between the first and second tranches. The Government had obtained the professional advice of ICICI for carrying out the second tranche. The average price realisation in the second tranche was much higher at Rs. 45.26 per share as against Rs. 27.64 per share in the first tranche. The lessons learnt during the 1991-92 disinvestment had also been put to use in subsequent years by steps such as resorting to auction of individua' PSE shares, taking the

professional advice of two merchant bankers for selection of PSEs for disinvestment as well as for share valuation.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)/94-Fin. dated 31.1.1995]

Observation/Recommendation

Another disturbing aspect noticed by the Committee was that the disinvestment process was not preceded by adequate publicity. No efforts were made to publicise the maiden venture of the Government so as to attract the favourable market response. The gains that could have been achieved by doing so can well be visualised in terms of what Indian Petrochemical Corporation Ltd. actually achieved subsequently in November, 1992 when their public issue for fresh equity shares of Rs. 10 each for cash at a premium of Rs. 150 per share was fully subscribed closing on the earliest date despite the stock market being bearish in the post scam period.

[Sl. No. 20 (para 184) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

Since the institutions invited to participate in the bids were public sector institutions with adequate knowledge of the background of the PSUs concerned, it was felt that no detailed publicity needed to be made which would be an expensive proposition. However, the observations of PAC are noted for future guidance. In fact, disinvestments during subsequent years were preceded by suitable publicity.

Further Audit Observations

The ATN admits that publicity should precede the disinvestment process to realise fair values of shares. No comments are therefore, offered, except that an assurance to PAC should be made on this point.

Government Reply

As mentioned in the ATN disinvestments during subsequent years have been accompanied by suitable publicity. It is assured that Government would ensure that future disinvestments are also carried out with adequate measure of publicity through appropriate media.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)/94-Fin., dated 31.1.1995]

Observation/Recommendation

During the course of their examination on 22nd & 23rd November, 1993 Committee had desired to be apprised of the details regarding similar type

of transactions having taken place, if any. The Committee cannot but express their displeasure over the failure of the Ministry of Finance to make available the requisite information so far.

[Sl. No. 24 (para 188) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Government Reply

There are no further instances of this nature which have come to the notice of Government.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE4(4)/94-Fin., dated 31.1.1995]

Observation/Recommendation

The Committee note that the DPE had prepared a paper dated 30 July, 1990 for consideration of Cabinet regarding measures needed for improving the efficiency and productivity of PSEs and it mentioned *inter alia* that as a last resort, where turn around is not possible, closure or disinvestment preferably to workers should be considered in order to improve the overall public sector picture. The Council of Ministers on 31 July, 1990 desired that some innovative suggestions should be considered for raising resources for PSEs including loss making enterprises in need of revamping. Later, in the wake of heavy fiscal deficit in February, 1991 the Cabinet Committee on Political Affairs (CCPA) considered the possibility of raising resources through partial disinvestment in selected PSEs and the first public announcement was made in this regard on 4 March, 1991 at the time of presentation of interim budget of the Union Government.

In terms of the statement of Industrial Policy and the Budget speech of 24th July, 1991 the main objectives behind partial disinvestment of Government shareholdings in Selected PSEs were to raise resources and encourage wider public participation especially by offering the shares to general public and the workers/employees of the PSEs. The Committee regret to note that by restricting the sale of PSEs to limited number of financial institutions/mutual funds/merchant banks, the Government could not realise the envisaged objective of wider public participation as the general public and the workers/employees of PSEs were not included in the disinvestment exercise undertaken in 1991-92. The Committee take a serious view of the fact that the Government is still working out the modalities of sale of shares of selected PSEs to their employees. They trust that at least after this Report, the Government will take urgent and appropriate steps in this speech the Finance Minister had stated that this disinvestment would *inter-alia* enhance the availability of resources in the public enterprises. The Committee are unhappy to note that this objective

also remained unfulfilled as the resources raised through disinvestment were used for bridging the revenue deficit instead of making available these funds to the PSEs.

[Sl. No. 25 (para 189) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

Sale of shares to employees in 8 PSUs (i.e. BPCL, HPCL, BHEL, SAIL, HZL, ITI, BRPL and NALCO) have already been effected. The Committee's recommendation that urgent action should be taken to offer shares to employees in other PSUs will be suitably followed up.

Further Audit Observations

The relevant papers showing the sale of shares to the employees of eight PSEs may be sent to PAC.

Government Reply

Letter issued for sale of shares to enterprises are enclosed.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)/94-Fin., dated 31.1.1995]



T.S. Narasimhan
Joint Secretary
(Finance)
Tel. No. 4360204

अ० स० प० सं०
D.O. No. DPE/12/1/92-Fin.
भारत सरकार
GOVERNMENT OF INDIA
सरकारी उद्यम विभाग
DEPTT. OF PUBLIC ENTERPRISES
उद्योग मंत्रालय
MINISTRY OF INDUSTRY
केन्द्रीय कार्यालय परिसर, ब्लाक नं० 14, लोदी रोड,
Kendriya Karyalaya Parisar, Block
No. 14, Lodi Road,
नई दिल्ली / New Delhi-110 003.
March 17, 1994.

Dear Shri *

As you are aware, the question of sale of shares to the employees of the public enterprises has been under the consideration of the Government for sometime. After a detailed examination of the matter, the Government have now decided to offer shares of your enterprise held by President of India to employees of your company. It has been decided that the management may take suitable steps to sell shares to its employees as per the details given below:—

- (i) The total offer of shares to the employees should not exceed 5% of the paid up capital as on 1.4.1992 of your company. Offer should be made only to the regular employees who were on the rolls of your company as on 1.4.1992 and who are also on the rolls on the date of issue of this letter. The offer will also be made to serving Functional whole-time Directors including whole time CMD who are on rolls as on 1.4.1992. The offer should be subject to the maximum of 200 shares per employée.

The offer letter as per conditions in this letter may please be issued within 10 days from date of issue of this letter.

- (ii) The aforementioned 5% would have to be equally distributed among all the eligible employees including Directors and CMD.
- (iii) If such a distribution results in less than 200 shares, reduced equal number of shares would be offered.

- (iv) The offer should be adjusted in such a manner that it is in multiples of ten.
- (v) Your company shares may be offered to the employees at Rs. per share.
- (vi) The employees who are desirous to purchase shares should make their own arrangement for purchase amount.
- (vii) The employees should not be permitted to sell or transfer the shares for a period of three years from the date of allotment of shares to them.
- (viii) Employees should be given 30 days time from the date of issue of offer letter to the employees by the company to remit the full amount for shares they propose to purchase.
- (ix) The employees would have an option to accept the whole offer or part of the offer subject to the condition that such offer should have minimum of ten shares or be in multiples of ten shares.
- (x) You are requested to do necessary work for earmarking the number of shares, offer of shares to employees and all the required action in this regard. You would advise DPE only the total number of shares sold and amount that have been collected for such transfer by the President to the employees.
- (xi) On getting the proof of remittance of the amount into Government account authority will be issued from DPE to the administrative Ministry and CMD to take further action for transfer of shares to the employees concerned.
- (xii) The total amount realised from sale of shares to the employees are to be deposited by the Company in the Government head of A/c. "4000-Miscellaneous-Capital Receipt-01-Civil-Disinvestment of Government's Equity Holding-Receipt from Disinvestment" through challan in the State Bank of India, Parliament Street, New Delhi. The Department of Public Enterprises would have to be provided with three copies of challan along with the original to enable reconciliation of the remittance by the Pay & Accounts Office, Ministry of Industry in order to issue necessary instructions for transfer of shares.

2. After verification of the remittance a single authority letter indicating the approval for the total number of shares transferable to the employees will be issued by Department of Public Enterprises. After receipt of this authority your administrative Ministry and your Company would take in

accordance with the provisions and procedures of Company Law, all necessary action for transfer of shares from the President to respective employees who have purchased the shares from President.

3. We shall be grateful for immediate action and a completion report may kindly be sent to the Department of Public Enterprises (Dr. S. Banerjee, Joint Director by name) within 25 days from the date of this letter to enable DPE to issue authority letter as at para 2 above.

With kind regards,

Yours sincerely,

(T. S. NARASIMHAN)

To

Chief Executives of—

SAIL, NALCO, ITI, HPCL, BRPL, BPCL, BHEL.

Reference para 5 above the price at each shares would be sold to employees are:

1. BHEL Rs. 62
2. BPCL Rs. 550
3. BRPL Rs. 34
4. HPCL Rs. 409
5. HZL Rs. 21
6. ITI Rs. 59
7. NALCO Rs. 16
8. SAIL Rs. 26

CHAPTER III
RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF REPLIES RECEIVED FROM GOVERNMENT

Observation/Recommendation

The Committee note that the Valuation Committee headed by the then Secretary (DPE) had recommended that certain expert agencies using different methods for equity price determination could also be consulted by the Government before finalising the offer price for shares of PSEs. The Government, accordingly, appointed in September 1991, Strategic Consultants Pvt. Ltd. as consultants to advise on the pricing of shares of selected PSEs. The Committee have been informed that two consultancy firms namely Strategic Consultants and Coopers & Lybrand Pvt. Ltd. were already in touch with the DPE and were mentioned in the report of the Valuation Committee. Although other consultancy firms were also stated to have offered their services to the DPE, Strategic Consultants were appointed as they were stated to have the required experience and the offer given by them was also found reasonable by the Department. The Committee would like to point out in this connection that no specified criteria was laid down about the qualifications of the Consultants and there were no records to establish that the offers made by various consultants were properly evaluated. The Consultants submitted their report in three batches on 10th, 12th and 18th December, 1991. The Committee are perturbed to observe that the recommendations of private consultant based on the prevalent state of stock market specific to the industry in which each PSE could be classified were not finally made use of by the Government to their best commercial advantage and the entire expenditure of Rs. 4.06 lakhs incurred on them was ultimately rendered infructuous.

[Sl. No. 5 (Para 169) of Appendix-V to Report of PAC (10th Lok Sabha)]

Action Taken

M/s. Strategic Consultants and M/s. Lybrand & Cooper had submitted their offers. These were assessed. On ground of acceptable time schedules and their charges, the services of M/s. Strategic Consultants were availed. The recommendations of M/s. Strategic Consultants were used as inputs, amongst other inputs, for decision making process of the Government.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995]

Observation/Recommendation

The Committee have been informed that for determining the reserve price of PSEs shares in the second phase of disinvestment, the DPE obtained the advice of the Industrial Credit and Investment Corporation of India Ltd. (ICICI). Based on the recommendations made by the ICICI, the DPE prepared a revised list of 16 PSEs out of 31 selected PSEs for disinvestment and their valuation was done with reference to the recommended prices of ICICI. The valuation of the shares by ICICI as admitted by them was arrived at without scrutinising in detail the profitability projections given by the companies and also by not taking into account the major changes in the future plans of the PSEs. Since those considerations had an important bearing on the prices of shares, the Committee are surprised that it was not found necessary to further examine the inputs provided by ICICI in order to arrive at a more realistic price. It is also pertinent in this connection that the prices fixed on the basis of recommendation of ICICI was much lower than the reserved prices worked out originally.

[Sl. No. 17 (Para 181) of Appendix-V to Report of PAC (10th Lok Sabha)]

Action taken

ICICI have not said that profitability projections were not taken into account. Major changes that deviate from track record seem to have been not taken into account as a professional judgment by ICICI.

Further Audit Observations

The ATN is incorrect. ICICI had stated profitability projections were not taken into account (Observation no. 6 contained in annexure to the letter dated 29.1.1992 from Industrial Credit Investment Corporation of India Limited).

Government Reply

The ATN is correct. ICICI have observed at Observation No. 6 that they did not scrutinise the profitability projections in detail. ICICI have not said that such projections were not taken into account.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)/94-
Fin., dated 31.1.1995]

Observation/Recommendation -

The Committee's examination has revealed that Steel Authority of India Ltd. (SAIL) was included in the disinvestment programme during 1991-92 in the first and second tranche against the advice of the Ministry of Steel which had felt that disinvestment of shares of SAIL might not be appropriate mainly on the grounds that the market perceptions for those shares were likely to improve during next 2-3 years as a result of decontrol of iron and steel prices and the completion of the on going modernisation

of the steel plant projects and that the Government would stand to lose as none of the three methods originally suggested for valuation of shares would reflect the real value of its shares. During evidence the Committee were informed by the Finance Secretary that the concern of SAIL was reflected before the CCEA who took a "conscious decision" to limit the disinvestment of shares of SAIL to 5 per cent. The Committee will however like to point out that despite the disinvestment of the shares of SAIL being limited to 5 per cent, it actually represented around 23 per cent of the total number of shares of all the 30 PSEs disinvested during 1991-92 since the paid up capital of the SAIL was very high. The Committee further note that although the decontrol of steel prices was announced on 16.1.1992, SAIL was not excluded from the second phase of disinvestment. The DPE maintained that the impact of any change in Government control could be perceived only when considerable trading of the shares had taken place in the market and that the ICICI had taken into account the impact of decontrol while recommending the price of shares of SAIL for second tranche. It is unfortunate that DPE went on record to say that the ICICI had taken into account the impact of decontrol of steel while recommending the price of shares of SAIL which in contrary to the facts placed before the Committee as the ICICI had categorically stated that the reassessment of issue price of SAIL was possible after scrutiny of the impact of steel decontrol. The Committee deplore this wrong statement. The Committee also find that the impact of decontrol of iron and steel on shares of steel industries was noticeable immediately after decontrol when the share price of TISCO had jumped up by almost Rs. 50. In view of the foregoing, the Committee are unable to understand as to why the shares of SAIL were included in the second phase and how the reserves price of Rs. 10-12 for a share of SAIL as adopted in the first tranche during December, 1991 was also adopted in the second tranche when Government had already announced its decision to decontrol the steel prices. Obviously, the whole issue was dealt with in a manner detrimental to the revenue interests of the Government and calls for a plausible explanation.

[Sl. No. 19 (Para 183) of Appendix-V to Report of PAC (10th Lok Sabha)]

Action Taken

In the 2nd round of disinvestment ICICI rendered services for determining share prices. While suggesting prices for SAIL shares they had taken into account the effect of steel price decontrol as well. ICICI letter to this effect is in record in the file and a copy of their letter is enclosed. ICICI had indicated that due to large equity base of SAIL, effect of steel price decontrol would not be of much consequence.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995]

Industrial Credit & Investment Corporation of India Limited.

Phone : 3319611-2-3-4

Grams : CREDCORP New Delhi

Telex : 3165377 ICIC IN

FAX : 3322637 ICIC

DB/6353

(SECRET)

February 12, 1992

**The Secretary
Bureau of Public Enterprises
Block No. 14, CGO Complex,
Lodi Road,
New Delhi-110003**

Dear Sir,

**Sub: Disinvestment of a portion of Government of India shareholding in
select Public Sector Undertakings**

We refer to our letter dated February 29, 1992 wherein we have stated that the issue price for the shares of Steel Authority of India Limited could be reassessed after considering the impact of steel decontrol.

We have re-examined the issue price in light of the steel decontrol and feel that the impact would not be significant because of the large equity base of the corporation in relation to its installed capacity. Taking into account the networth of the Corporation, its past profitability, its future earning capacity and its equity base, we feel that the issue price should remain between Rs. 10 to Rs. 12 for each share of a face value of Rs. 10/- each.

Your's faithfully,

**Sd/-
KA Chaukar
Regional Manager**

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Observation/Recommendation

The Committee note that the Government approval in November, 1991 envisaged that the Valuation of shares of PSEs would be according to the three methods of Net Asset Value (NAV), Profit Earning Capacity Value (PECV) and Discounted Cash Flow Value (DCF) and the average of the two highest values so obtained would be taken as the fair value or reserve price for that PSEs shares. It was also contemplated that the total value of the equity in each bundle would be about Rs. 5 crores based on the fair value of shares of each PSE. Strangely enough, the valuation of the shares in the bundles was not made on the basis of the methods enunciated above. The DPE constituted 825 bundles of the shares of selected PSEs for sale keeping the value of each bundle around Rs. 5 crores merely on an estimated basis keeping in view only the NAV and PECV. Even though the DCF value was admittedly received from most of the PSEs before the date on which notice inviting bids was issued viz., 10.12.1991, these values were not at all used for determining reserve prices of the PSEs shares on the ground that DCF values required detailed checking. The Committee are surprised that instead of valuing the shares in accordance with the method as envisaged, the DPE hastened with Notice inviting bids for the sale of the 825 bundles prepared on the basis of tentative values. During his deposition, the then Dy. Director (Costs) in DPE informed the Committee that he got instructions from the then Secretary (DPE) for preparing bundles on estimated value. Curiously enough, there is no record in the DPE to suggest the formula on the basis of which tentative prices were worked out. What is more specious is the plea put forth by the then Dy. Director (Costs) in the DPE during his deposition that the tentative values were "adopted for the convenience of preparation of bundles."

[Sl. No. 7 (Para 171) of Appendix-V to 75th Report of PAC (10th Lok Sabha)].

Action Taken

Since relevant records are not available (as observed by PAC also), justification for arriving at the tentative value cannot be given. However, the decision was taken at the then Secretary (DPE) level as deposed by then Deputy Director (Cost).

Further Audit Observations

It needs to be explained as to why the responsibility of Secretary, (DPE) for arriving at tentative values of shares without any basis has not been fixed and action taken accordingly.

Government Reply

Action taken note mentions non-availability of records. The then Secretary, (DPE) has since retired on superannuation.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DEP/4(4)/94-Fin, dated 31.1.1995].

Observation/Recommendation

Subsequently, when the reserve prices were actually fixed between 14th to 18th December, 1991 in consultations with PSEs; their administrative Ministries and the MOF on the basis of earlier decisions of Government and also by taking into account the price range recommended by the Private Consultants, the value of bundles varied so much that 129 bundles had value above Rs. 10 crores each and 691 bundles had value ranging between Rs. 8 to 10 crores each. The Committee's examination has also revealed that value of bundles No. 787 on the basis of reserve price so fixed touched a figure as high as Rs. 14.02 crores. Considering the fact that a cardinal principle for calculating the fair value of shares of each PSE was already laid down and a decision taken by the Government to constitute bundles of value of Rs. 5 crores each, the Committee view seriously the aberrations on the part of the then Secretary (DEP) in constituting bundles at the tentative and estimated value in an unauthorised and arbitrary manner.

[Sl. No. 8 (Para 172) of Appendix-V to 75th Report of PAC (10th Lok Sabha)].

Action Taken

Relevant records on the working of tentative values are not available in files. The then Secretary (DPE) has since retired (on 30.6.1993)

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995].

Observation/Recommendation

Yet another disquieting aspect observed about formation of bundles by the Committee is that in contravention of the Government decision to off-load the shares directly to mutual funds, financial institutions at the market price in the case of PSEs already listed on the Stock exchanges, the shares of two such Companies namely Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) were also included in the bundles for sale. The argument put forth by the DPE that "the shares of these PSEs were being traded at sporadic interval in relatively small lots" is incorrect and therefore not at

all acceptable to the Committee especially in case of shares of CRL whose shares were not only being traded in high volume at Cochin Stock Exchange during the three months preceeding the disinvestment but also upgraded to the specified group on Bombay Stock Exchange on 3.1.1992 due to the large trading volumes and liquidity. The Committee are also not inclined to accept another plea of the DPE that it was decided that the inclusion of these PSEs would serve as a sweetner for the bundles and thereby generate active interest in bidding. In the opinion of the Committee, this case clearly reveals the scant regard shown by the DPE in following Government decisions in regard to formation of bundles containing shares of PSEs. The Committee therefore, recommend that Government should undertake a thorough probe to identify the appropriate level at which this lapse had occurred and fix responsibility for the same.

[Sl. No. 9 (Para 173) of Appendix-V to 75th Report of PAC (10th Lok Sabha)].

Action Taken

It was brought to the notice of CCEA that CRL and AYL were already listed in the stock exchange and they enjoy a fairly good level of liquidity. They were included in the bundles prepared by DPE under one of the three categories viz., Very Good, Good and Satisfactory. Both these companies were mentioned in the list enclosed to the CCEA note seeking approval for disinvestment.

Further Audit Observations

ATN is misleading. The inclusion of shares of these companies in the bundles proposed for disinvestment without specifically drawing the attention of CCEA to its existing decision about these shares was clearly considered a lapse by PAC. The mere mention of these companies in the list appended to the CCEA note seeking approval for disinvestment does not serve the same purpose. Reasons given in ATN for not acting on the recommendation of PAC that Govt. should undertake a thorough probe and fix responsibility for this lapse are not convincing.

Government Reply

As mentioned in the ATN the CCEA note had mentioned that Cochin Refineries Ltd. and Andrew Yule Ltd. were already listed in the Stock Exchange and that they enjoy a fairly good level of liquidity. The CCEA note had mentioned that it was proposed to include these two companies in the bundles, as indicated in the list of PSUs proposed for disinvestment. It is submitted that it was felt not necessary to draw any further attention to CCEA and that the Note in its comprehensive form contained all facts for decision making by CCEA.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995].

Observation/Recommendation

The Committee note that the Finance Minister in his budget speech on 24.7.1991 had stated that Government proposed to raise Rs. 2500 crores from disinvestment of its equity in selected PSEs during 1991-92. Obviously, this was known to the institutional buyers. The DPE themselves had anticipated that the institutions from whom bids were invited intended to buy shares worth no more than Rs. 2000—2500 crores because of financial constraints. In the circumstances, the Committee consider it strange that rather than restricting the sale of PSE shares to a level consistent with Government proposals or in proportion to the anticipated funds available with the institutional buyers, the DPE in an unauthorised and imprudent manner chose to offer shares worth much higher in magnitude. The bids were also invited from mutual funds/investment institutions only not from nationalised banks as mentioned in CCEA note dated 20.11.1991. Consequently, uncompetitive bids numbering only 710 for 533 bundles for a total value of Rs. 2300.84 cores were received in the DPE. In the absence of any appraisal of financial capability and the bidding power of the various institutional buyers, 72.61 per cent of the bundles had only one bidder, 22.89 per cent of the bundles had two bidders and it was only in 4.50 per cent cases that three or more bids were received. Surprisingly, 76 per cent of the total bids were made by two institutions, and the remaining seven institutions taken together contributed only 24 per cent of the bids. The Committee are dismayed to note that as against the lowest reserve price of a bundle of Rs. 6.99 crores and the highest reserve price of Rs. 14.02 crores, the highest value of bid for a bundle was only Rs. 4.97 crores. Despite the bids being highly non-competitive with 387 bundles having only one bidder and two institutions virtually dictating the prices, the Committee are amazed to observe that the Government did not chose scrapping the bids.

[Sl. No. 10 (Para 174) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

The amount of Rs. 2500 crores from disinvestment was contained in the Budget Speech and it was only an indicative target. There was no assessment made of the magnitude of funds available with institutions to buy PSE shares at the auctions. Hence, no direct correlation may be determined between the above indicative target and the number of bundles constituted by DPE for sale.

The reserve prices had earlier been fixed with reference to financial projections prepared by the PSEs and discounted cash flows based on such projections. The reserve prices based on these figures were found to be not entirely realistic. There was an adequate element of competition at the auctions even though only two institutions emerged as the bidders for the highest number of bundles.

Further Audit Observations

The reply is not factually correct. An assessment of the magnitude of funds available with the institutions was made as may be seen in the note of Secretary (DPE) dated 18.12.1991. This note, submitted before opening the bids clearly stated that the institutions from whom bids were invited would be able to purchase shares totalling a value of about Rs. 2,000—2,500 crores as against DPE's originally estimated value of shares of over Rs. 6,000 crores.

The fact is that for 387 (72.61%) out of 533 bundles, there was only one bidder and therefore the claim about an adequate element of competition is not valid.

Government Reply

The estimation of Rs. 6000 crores made by DPE was only a broad assessment. At no point of time was an exercise undertaken to assess the magnitude of funds available with the institutions to buy PSE shares at the auctions. Hence, it is submitted that no correlation be drawn between the number of bundles and the indicative target of Rs. 2,500 crores contained in the Budget Speech.

During the first tranche of disinvestment in 1991-92 there were eight institutions which emerged as successful bidders. While all bidders did not evince interest in all bundles offered, one or two financially sound institutions had submitted bids for more number of shares. Hence, it is submitted that bidding process may not be termed as non-competitive.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995].

Observation/Recommendation

The Committee find that after the receipt of bids which were found to be much below the reserve price fixed for each bundle, various alternative were discussed by the officers of the Ministry of Finance with Finance Minister on 19.12.1991. One of the suggestions was that since for about 300, or so bundles only one bid had come in and none for another 300, these bids should be rejected as they were only single offers and better bids could come in if the bundles were re-offered. Another suggestions was to reject all the bids, rebasket the bundles and re-offer them to all. Yet another proposal made was that the PSEs share should be sold individually to get the best offers instead of bundling them. The Committee are dismayed to find that all these alternatives were rejected and the Ministry of Finance went in with the proposal of CCEA for acceptance of the bids received for 533 bundles by suggesting refixation of the reserve prices in a manner which resulted in lowering of the reserve prices to the extent of around 64% of the original reserve prices. The Committee strongly

disapprove of the action taken by the Ministry which resulted in potential gains to the bidders at the cost of the Exchequer.

[Sl. No. 11 (Para 175) of Appendix-V to 75th Report of PAC (10th Lok Sabha)].

Action Taken

The CCEA approval was obtained for refixing the reserve price for the reasons mentioned in the previous paragraph. The basis for lowering of the reserve prices was fully explained while seeking the CCEA approval.

Further Audit Observations

ATN does not clarify as to why, while seeking approval to lowering of the original reserve prices, it was specifically brought to the notice of CCEA that the financial implications of changing the formula for arriving at revised reserve prices would be to lower them by as much as 64%.

Government Reply

The CCEA note had explained the basis for lowering of the reserve prices so that the disinvestment can be completed. It is important to note that if the reserve prices had not been adjusted, there would have been no sale of any shares and as such the entire exercise would have been abortive.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995].

Observation/Recommendation

The Committee further note that having taken the questionable decision to proceed with the uncompetitive bids received, an exercise was undertaken to revalue the shares, perhaps with reference to the bids received. From the copies of the computer print outs scrutinised by the Committee, it was seen that DPE undertook an exercise for valuing bundles on the basis of the 'High' and 'Low' prices of shares as recommended by the private consultants appointed by the Government and also on an average of NAV and PECV at industry capitalisation rates. However, this was coming fairly close to the reserve prices arrived at by the Government. Further even the value of bundles on the basis of average of NAV and PECV at industry capitalisation rate was found to be higher than the bid prices. In the circumstances DPE proposed to refix reserve prices on an average of NAV and PECV at a uniform capitalisation rate of 10 per cent instead of an industry-wise capitalisation rate. The net result of adoption of a revised method of valuation was that the reserve prices of PSEs shares were drastically reduced to an extent ranging between 21.95 per cent to 86.67 per cent. In 24 of the 31 cases the reduction in value was above 50 per cent. In the light of the facts narrated above, the Committee regret to conclude that the entire exercise of valuing shares by adopting a revised method as deliberately resorted in order to accommodate the bids

received. Obviously, the overriding consideration of raising funds before the end of December, 1991 took precedence over the larger interest of public exchequer.

[SL. No. 12 (Para 176) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

Most of the shares of the PSUs sold in the auction were unlisted and therefore, there is no reliable basis for assessing the market perception of these shares. It was considered not proper to compare such companies with their private sector counterparts which had a long trading history. It was felt that a uniform capitalisation rate of 10% was a representative figure and provided a reasonable benchmark. While it was not intended to accommodate the bids received, the consideration to raise funds from disinvestment in a timely manner was an important factor which weighed with the Government.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. NO. DPE/4(4)/94-Fin, dated 31.1.1995]

Observation/Recommendation

The Committee note that while recommending the revised method of valuation, the Ministry of Finance in their note dated 24.12.1991 took the pleas that the proposed procedure was in line with CCI guidelines. In this context, the Committee would like to highlight the specific observations made by the Suresh Kumar Committee in its report that "the disinvestment of Government share holdings in PSEs in a sale by shareholder to a buyer. Therefore, the guidelines issued by the Controller of Capital Issues (CCI), Department of Economic Affairs for valuation of equity shares of public companies are not applicable. The Ministry of Finance themselves had in their note for CCEA dated 20.11.91, had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs" as "these guidelines generally underprice the shares". Since application of CCI guidelines for valuation of PSE shares for the disinvestment proposal was not considered to be relevant right from the beginning, the Committee are not convinced of the subsequent turn-around in the approach of the Ministry of Finance on the issue. The Committee are led to conclude that the Ministry of Finance failed to advise the CCEA in the right perspective and they cannot absolve themselves of this responsibility.

[SL. No. 13 (Para 177) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

Please see ATN against para 178.

Observation/Recommendation

The Committee are also constrained to point out that the Ministry of Finance did not apprise the CCEA about the extent to which the reserve prices of PSEs fixed on the basis of earlier Government decisions would be reduced as a result of change over to a new formula based on CCI guidelines and by adopting a uniform capitalisation rate of 10 per cent. The Committee's analysis of the 16 bundles revealed that the reserve price of these 16 bundles which were originally fixed at Rs. 155.72 crores were reduced to Rs. 49.40 crores after reserve prices were re-fixed by adopting the new formula envisaged on 24.12.1991. In the opinion of the Committee, this tellingly shocking extent of reduction of Rs. 106.32 crores in 16 bundles speaks volume about the ultimate reduction effected in the reserve price of the bundles offered for sale in December, 1991. During this evidence the Finance Secretary deposed before the Committee that the Cabinet was not informed as to what was the particular price that came out of a particular formula. In extenuation he also stated, "even in the earlier Cabinet note only the formula was discussed". The Committee are unable to accept this plea. They consider it deplorable that such substantial financial implications involved in valuation of PSEs share were not brought to the notice of CCEA at the time of submitting the proposal for final approval of the Government. While agreeing with the assertion made by the Finance Secretary during evidence that "Cabinet does not decide individual price", the Committee are of the firm opinion that this aspect involved a major policy decision of calculating fair market value of PSEs shares involving thousands of crores of rupees and thus all relevant facts and figures were required to be placed before the CCEA for complete appraisal. That this was not done speaks of the manner in which the Ministry of Finance preferred to brief the CCEA on such a crucial issue of national importance and having substantial financial implications.

[Sl. No. 14 (Para 178 of Appendix-V to 75th Report of PAC (10th Lok Sabha))]

Action Taken

The revised assessment of the MOF in regard to the appropriateness of the CCI Guidelines for valuing PSU shares was based on the market perception of each PSU share as revealed by the competitive offers received. It was realised that the PSU shares which were hitherto not listed in the stock markets as opposed to private sector shares which were widely traded, commanded less investor attention. This was especially so in comparison to the initial reserve prices which were not actually approved by CCEA and which had an upward bias because of projected future earnings. The reasons for revising the basis for re-fixation of reserve prices had been adequately explained in the CCEA note dated 24.12.1991, though the values had not been mentioned since it was considered an

operational matter. It was relevant that even in the earlier CCEA note only the formula had been discussed and not the values resulting therefrom. The question of under-realisation because of new reserve prices does not arise because at the earlier reserve prices no sale would have taken place.

Further Audit Observations

The ATN relating to paras 176, 177 and 178 of PAC's Report should have clarified the reasons which prompted the Government to adopt the formula for uniform capitalisation rate shortly after the rejection of the same by Valuation Committee (Report of 5th September, 1991) and the Ministry of Finance (note for CCEA dated 20.11.1991). Both the valuation Committee and the Ministry of Finance had rejected the CCI formula as being too conservative and inapplicable for valuation of PSE shares.

Government Reply

The full explanation has been given already.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995]

Observation/Recommendation

From the facts stated above, it is abundantly clear that the disinvestment of Government shareholding in selected PSEs during 1991-92 entailed loss of sizeable magnitude to the public exchequer. The Report of the C&AG has estimated that the reduction in original reserve prices resulted in under realisation of value to the extent of Rs. 3442 crores, while the precise extent of loss could be anybody's guess, the Committee consider it relevant to draw attention to the following facts which are clearly indicative of lower realisations:

(i) The market prices of shares of 10 PSEs whose shares were listed as at the end of October, 1992 revealed that in 6 cases the reserve prices originally fixed under NAV, PECV, DCF and consultant's method were also lower than the ruling market price. According to Audit, the potential gain in October, 1992 to the institutional buyers ranged between 126.62 per cent of 615.53 per cent over the average price at which these shares were sold in the two phases of disinvestment during 1991-92.

(ii) In respect of CRL whose 42.19 lakhs share were disinvested, as against the final reserve price of Rs. 58 fixed by Government for each share of face value of Rs. 10, the market prices actually quoted in Bombay Stock Exchange in December, 1991 ranged between 960 and Rs. 1040 (for face value of Rs. 100/- each share). Subsequently, when the shares of CRL were subdivided into face value of Rs. 10 each, the market price had increased manifold touching a high of Rs. 335 in February, 1992, Rs. 375 in April, 1992; and Rs. 665 in September, 1992.

(iii) One of the institutional buyers viz., Allahabad Bank had purchased two Bundles No. 17 and 66 during the second tranche for Rs. 13.01 crores

each and had sold the former at Rs. 20.25 crores and the latter at Rs. 20.06 crores both to a stock broker firm which had offer their rates even before the Allahabad Bank had made their bid. This is clearly indicative of the market perception towards the PSEs shares at the relevant time.

[Sl. No. 21 (Para 185) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

The loss calculated is considered to be notional since the prices were based on thin trading and subject to wide fluctuations. In any case there is no presumption when selling shares that prices will not rise at a future date even in the short term. Equally share prices could also rule lower.

Government sold shares in bulk and the prices are bound to come down. However, the market prices quoted above were the prices during scam period and these do not truly reflect the market value. Even during the present market buoyancy the CRL shares are being traded at Rs. 285 (on 24.8.1994 in Bombay Stock Exchange) which is quite less than the scam period prices. These deals were in the nature of bilaterally negotiated transactions and not part of the bidding procedure of Government. The general market perception of PSE share values is reflected by the competitive bids received from the institutions invited to participate in the auctions.

Further Audit Observations

The loss calculated by Audit was with reference to the original reserve prices fixed by CCEA and therefore, cannot be construed to be notional.

Government Reply

As explained in the ATN the original reserve prices had been fixed based on unrealistic projections and as such no comparison may be drawn between the subsequent ruling prices and the original prices. The basis for revising the original reserve prices had been adequately explained in the CCEA Note.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/94-Fin., dated 31.1.1995]

Observation/Recommendation

The Committee note that the Chief Advisor (Cost) in the Ministry of Finance as a member of the Valuation Committee, had suggested in August, 1991, that in the absence of market value of the shares of PSEs, the shares might be transferred to selected mutual funds/financial institutions with a stipulation that as and when these shares were offered to general public 90 per cent of the difference of the price gained should be transferred back to the Government. Evidently, there is nothing on record to indicate that this suggestion for inclusion of a clawback provision for sharing of profits was given the consideration that it deserved. In this

context, the Committee are unable to appreciate the reply of the DPE that the sharing of subsequent profits would have also required the Government to agree with the sharing of losses and that such a provision could not be imposed without eroding the confidence of the bidders. Significantly, the claw-back provisions have been part of privatisation programme in the U.K. The Committee consider it unfortunate that no efforts were made with a view to protecting the revenue interests of the Government either by the DPE or the MOF to ascertain the practices adopted in this regard in other parts of the world. To say the least, this is yet another instance of the casual manner in which the DPE and the MOF dealt with the various facts of disinvestment exercise undertaken in 1991-92.

[Sl No. 22 (Para 186) of Appendix-V to 75th Report of PAC
(10th Lok Sabha)]

Action Taken

The claw-back provision would have entailed the sharing of losses as well by the Government if the listed prices were to be substantially lower than the sale price. Such a clause would also have undermined the confidence of the bidding public sector institutions in the auction which was contrary to the Government's objective.

Further Audit Observations

The ATN comment is incorrect. The claw-back provision would not have entailed the sharing of losses by the Government. Such a provision was a part of the privatisation programme in U.K. and it was found that it enabled tax payers to share gains in excess of specified limit arising from future disposals by the Companies before the stipulated period.

Government Reply

There are several means by which the claw-back provision could be introduced. Where there is a mandatory sharing by the Government of subsequent profits earned by successful bidders without having to shoulder any part of potential losses, bidders would reflect this requirement in the initial bids submitted. Thus if a claw-back provision had been introduced the initial realisation from disinvestment could have been lower.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/
4(4)94-Fin. dated 31.1.1995]

Observation/Recommendation

To sum up, the examination of disinvestment programme of Government Shareholding in selected PSEs during 1991-92 has revealed several shortcomings/irregularities. Briefly, these were:

- (a) Selection of some PSEs for disinvestment despite the pleas made by some of them/certain administrative Ministries for exclusion;
- (b) Delay in finalisation of PSEs for disinvestment and failure to generate investors' enthusiasm;
- (c) Inadequate functioning of Suresh Kumar Committee;
- (d) Infructuous expenditure incurred in commissioning the services of private consultant;
- (e) Incorrect method of "bundling" in contravention of Government decisions;
- (f) Haste in accepting uncompetitive bids;
- (g) Re-fixation of reserve price to accommodate those bids;
- (h) Failure to apprise the Cabinet of the effect of the revised reserve prices *vis-a-vis* earlier reserve prices;
- (i) Failure to incorporate claw-back provision; and
- (j) Forward sale of shares before listing and above all failure to achieve the pronounced objectives.

During their examination, the representatives of the MOF and the DPE repeatedly pleaded in their defence that the process was unprecedented in the country. The Committee are of considered view that most of the problems/shortcomings could have been avoided if the Government had not chosen to push through the disinvestment with hurry to raise the resources by the end of December, 1991. The Committee are yet to be explained to their satisfaction of the extraordinary pressures which necessitated such grave urgency resulting in incalculable losses due to under-realisation on the sale of the PSE shares. The Committee are convinced that the lack of transparency in the manner in which the whole exercise was undertaken requires to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee would like to be informed of the concrete action taken in the matter within a period of six months.

[Sl. No. 26 (Para 190) of Appendix-V to 75th Report of PAC (10th Lok Sabha)]

Action Taken

The points mentioned in (a) to (j) above have already been covered in the ATN against Para No. 167, 184, 168, 169, 172, 171, 176, 175, 186 and 187 respectively of the PAC observations/recommendations. The Budget Speech of the Finance Minister in July 1991 indicated the Government intention to realise Rs. 2500/- crores out of the disinvestment of shares of selected PSUs. As it has been mentioned elsewhere in the ATN, there was no incalculable loss due to under-realisation. The losses being computed are notional and not real.

[Ministry of Industry (Deptt. of Public Enterprises) OM No. DPE/4(4)/94-
Fin. dated 31.1.1995]

CHAPTER V
RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Observation/Recommendation

The Committee note that the terms and conditions of the sale of PSEs shares imposed by the DPE in February, 1992, *inter-alia*, stipulated that shares of all the PSEs offered for sale shall be listed on all principal stock exchanges and that Financial Institutions/Mutual Funds/Banks shall be free to off-load their shareholdings in these PSEs through normal Stock Exchange transactions. The Committee however, find that two institutional buyers namely, Allahabad Bank and SBI Capital Market Ltd. purchased bundles of shares of PSEs during the second tranche and sold them to certain brokers even before the listing of shares on Stock Exchange. The Committee have been given to understand that the question of breach of Rules in the onward sale of shares by these two institutions is being examined in the Ministry of Finance and also looked into by the CBI. The Committee hope that the Government would take appropriate steps to expedite the enquiry being undertaken by the CBI and apprise the Committee of the action taken thereon.

[Sl. No. 23 (Para 187) of Appendix-V to 75th Report of PAC
(10th Lok Sabha)]

Action Taken

The Government is awaiting the results of the CBI enquiry and would take steps to speed up its completion. The action taken will also be intimated to the Committee.

Further Audit Observations

PAC may be apprised of the results of CBI Enquiry in the matter.

Government Reply

It is understood from CBI that the matter is still under enquiry and a final view has to be taken.

[Ministry of Industry (Deptt. of Public Enterprises) O.M. No. DPE/4(4)/
94-Fin. dated 31.1.1995]

NEW DELHI;
18 April, 1995

28 Chaitra, 1917 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

PART II
**MINUTES OF THE TWENTY-FOURTH SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE (1994-95) HELD ON 30 MARCH, 1995**

The Committee sat from 1500 to 1530 hrs. on 30 March, 1995 in
Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Bhagwan Shankar Rawat—*Chairman*

MEMBERS

2. Shri Anil Basu
3. Shri Dilcep Singh Bhuria
4. Sqn. Ldr. Kamal Chaudhry
5. Shri Sharad Dighe
6. Shri Jagat Veer Singh Drona
7. Shrimati Krishnendra Kuar (Deepa)
8. Shri Triloki Nath Chaturvedi
9. Shri G. G. Swell

SECRETARIAT

1. Shri Murari Lal — *Joint Secretary*
2. Smt. Paramjeet Kaur Sandhu — *Director*
3. Shri P. Sreedharan — *Under Secretary*

REPRESENTATIVES OF THE AUDIT

1. Shri Ramesh Chandra — *ADAI*
2. Shri Vikram Chandra — *Pr. Dir. of Audit*
3. Shri B. M. Oza — *Dir. Gen. of Audit*
4. Shri B. C. Mahcy — *Pr. Dir. of Audit*
5. Shri Kanwar Manjit Singh — *A.G. (Audit)*
6. Smt. Rebecca Mathur — *Dy. A. G. (Audit)*
7. Shri A. Mukhopadhyaya — *Director*

2. The Committee considered the draft report on action taken on 75th Report of Public Accounts Committee (10th Lok Sabha) relating to "Disinvestment of Government shareholding in selected public sector enterprises during 1991-92" and adopted the same without any modifications/amendments. The Committee also authorised the Chairman to present the report to House.

The Committee then adjourned.

APPENDIX I

CONCLUSION AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1.	8	Ministry of Industry (Deptt. of Public Enterprises)	In the light of the several shortcomings/irregularities observed in the disinvestment programme undertaken during 1991-92, the Committee in their earlier Report had recommended that the manner in which the whole disinvestment exercise was undertaken required to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee are, however, constrained to observe that the action taken replies furnished by the DPE are completely silent about the probe conducted or contemplated on the lines suggested by the Committee. What is still more distressing is the fact that rather than acting on the specific recommendation of the Committee, the Department have now sought to contend that "there was no incalculable loss due to under-realisation" and that the "losses being computed are notional and not real." This contention of the DPE holds no ground in view of the findings of the Committee contained in Paragraph 185 of their earlier Report (reproduced in Para 6 of this report) which were indicative of lower value realisations of PSEs shares sold during 1991-92. In fact, most of the action taken replies furnished to the specific observations of the Committee, as discussed subsequently, have also failed to

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			<p>provide convincing explanations for the various irregularities/shortcomings. While deprecating the dilatory attitude of the DPE, the Committee, therefore, strongly reiterate their earlier recommendation and desire the Government to take expeditious steps to initiate a probe in the manner in which the disinvestment exercise was undertaken during 1991-92 with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing the responsibility for the same. They would like to be apprised of the concrete action taken in this regard within a period of three months from the presentation of this Report.</p>
2.	12	Ministry of Industry (Deptt. of Public Enterprises)	<p>The Committee had observed in their earlier report that instead of calculating the fair value of PSEs shares and constituting bundles thereof by keeping the value of each bundle around Rs. 5 crores in accordance with the decisions taken by Government in November, 1991, the DPE hastened with Notice inviting bids for the sale of the 825 bundles prepared merely on the basis of tentative values of the shares. The Committee were informed by the then Dy. Director (Cost) in DPE that he had instructions from the then Secretary (DPE) for preparing bundles on estimated value. The Committee were also informed that the tentative values were "adopted for the convenience of preparation of bundles" and that there was no record in the DPE to suggest the formula on the basis of which tentative prices were worked out. The Committee's examination had also revealed that subsequently when the reserve prices were actually fixed between 14th to 18th December, 1991 in consultation with Government agencies concerned and the Ministry of Finance on the basis of earlier</p>

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			<p>decisions of Government and also by taking into account the price range recommended by the Private Consultants, the value of bundles varied so much that 129 bundles had value above Rs. 10 crores each and 691 bundles had value ranging between Rs. 8 to 10 crores each. In the light of the fact that a cardinal principle for calculating the fair value of shares of each PSE was already laid down and a decision taken by the Government to constitute bundles of value of Rs. 5 crores each, the Committee had viewed seriously the aberrations on the part of the then Secretary (DPE) in constituting bundles at the tentative and estimated value in an unauthorised and arbitrary manner. The Committee are extremely unhappy to note that despite having come across such serious lapses, the Department of Public Enterprises have not taken any action to enquire as to how and why the relevant records were not available now and to fix responsibility for the lapses. The DPE in their action taken reply have merely stated that the then Secretary (DPE) has since retired on 30.6.1993 and that no relevant records on the working of tentative values were available in files. In this context, the Committee wish to point out that they were made aware of these facts even at the time of submission of the original report and in their opinion, mere repetition of these pleas do not in any manner absolve the DPE of their failure in constituting the bundles of PSEs shares in accordance with the earlier decisions of the Government in this regard. The Committee are surprised to note that even at this stage the Government have not pinpointed the responsibility of the then Secretary, DPE and therefore, desire that the Department of Public Enterprises should thoroughly look into the matter with a view to fixing responsibility and also ensuring that cases of such nature do not recur in future.</p>
3.	16	Ministry of Industry	The Committee are not convinced with the arguments now advanced by the Department of

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		(Deptt. of Public Enterprises)	<p>Public Enterprises for inclusion of shares of two PSEs which were already listed in the stock exchanges viz., Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) in the bundles for sale. In the light of the fact that Government had already taken a decision to off-load the shares directly to mutual funds and financial institutions at the market price in the case of PSEs already listed on the stock exchanges, the Committee find it difficult to appreciate as to why the DPE or the Ministry of Finance did not consider it necessary to draw specific attention of the CCEA towards this aspect while seeking approval for disinvestment of shares of these two companies. In the opinion of the Committee, mere mention of these two companies in the list appended to the CCEA note in no way presented a clear picture before CCEA for their decision making in regard to sale of shares of these two companies in bundles. Considering the loss suffered due to lower realisation particularly in the case of CRL (as pointed out earlier), the Committee are convinced that the manner in which shares of those two PSEs were included in the bundles requires to be looked into further. The Committee therefore, reiterate their earlier recommendation and desire that the Government should expeditiously undertake a thorough probe to identify the appropriate level at which this lapse had occurred and fix responsibility for the same.</p>
4.	21	Ministry of Industry (Deptt. of Public Enterprises)	<p>In their earlier report, the Committee had observed that the Finance Minister in his budget speech on 24.7.1991 had stated that the Government proposed to raise Rs. 2500 crores from disinvestment of its equity in selected PSEs during 1991-92 and this fact was obviously known to the institutional buyers. The Committee had considered it strange that rather than restricting the sale of PSEs shares to a level consistent with Government proposals or in proportion to the anticipated funds available</p>

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with the institutional buyers, the DPE in an unauthorised and imprudent manner chose to offer for sale shares worth much higher in magnitude with the result that uncompetitive bids were received in the DPE for the bundles of PSEs shares offered for sale during December, 1991. In their action taken reply, the DPE have stated that the amount of Rs. 2500 crores from disinvestment as contained in the Budget speech was only an indicative target and that there was no assessment made of the magnitude of funds available with institutions to buy PSE shares at the auction. The Committee do not agree with this contention in view of the fact that the DPE themselves had anticipated in their note dated 18.12.1991 that the institutions from who bids were invited intended to buy shares worth no more than 2000-2500 crores. Further, as the Government themselves had proposed to raise Rs. 2500 crores only from disinvestment of its equity during 1991-92, the Committee are unable to understand as to why shares valuing far in excess of budgetary proposal were offered for sale during the first tranche of disinvestment. Undoubtedly, this aspect was not given any consideration by the DPE as a consequence of which non-competitive bids were received and two institutions virtually dictated the prices as had already been pointed out by the report. Committee in paragraph 174 of their earlier report.

5. 22 Ministry of Industry (Deptt. of Public Enterprises) The Committee in their earlier report had also found that various alternatives for rejecting the bides and rebasketing the bundles of PSEs shares were discussed by the officers of the Ministry of Finance with Finance Minister on 19.12.1991 after the bids received were found to be much below the reserve price fixed for each bundle. However, all these alternatives were rejected and the Ministry of Finance went ahead with the proposal to CCEA for acceptance of the bids received for 533 bundles by suggesting

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			<p>refixation of the reserve prices in a manner which resulted in lowering of the reserve prices to the extent of around 64% of the original reserve prices. In their action taken reply, the DPE have stated that there would have been no sale of any shares if the reserve prices had not been adjusted and as such the entire exercise would have been abortive. Going by this self-admission of adjustment of reserve price with a view to hurriedly pushing through the disinvestment exercise, the Committee are in no doubt that unjustifiable actions for implementing the proposed disinvestment process were taken by the MOF in scant disregard to the earlier decisions taken in the matter by the Government. This further reinforces the conclusion of the Committee recorded earlier that the entire exercise of valuing shares by adopting a revised method was deliberately resorted in order to accommodate the bids received. At this stage, the Committee can only express their unhappiness over the manner in which this issue was handled to the ultimate detriment of Government revenue.</p>
6.	23	Ministry of Industry (Deptt. of Public Enterprises)	<p>The Committee in their earlier report had also concluded that the Ministry of Finance while approaching the CCEA with revised formula for valuation of PSEs shares, had failed to advise that the CCEA in the right perspective on the following counts:</p> <p>(a) While MOF themselves in their note for CCEA dated 20.11.1991 had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs" as "these guidelines generally under-price the shares", they subsequently took a complete turn around in their approach while recommending the revised method of valuation to the CCEA in</p>

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			<p>their note dated 24.12.1991 wherein they took the plea that the proposed procedure for disinvestment was in line with CCA guidelines.</p>
			<p>(b) The MOF also did not apprise the CCEA about the extent to which the reserve price of PSEs fixed on the basis of earlier Government decisions would be reduced as a result of change over to a new formula based on CCI guidelines and by adopting a uniform capitalisation rate of 10%.</p>
7.	24	<p>Ministry of Industry (Department of Public Enterprises)</p>	<p>While deploring that substantial financial implications involved in valuation of PSEs shares were not brought to the notice of CCEA at the time of submitting the proposal for final approval, the Committee had opined that all relevant facts and figures were required to be placed before the CCEA for complete appraisal as this aspect involved a major policy decision of calculating fair market value of PSEs share involving thousands of crores of rupees. In their Action Taken reply the DPE have adduced the argument that the "revised assessment of the MOF in regard to the appropriateness of the CCI guidelines for valuing PSUs shares was based on the market perception of each PSU share as revealed by the competitive offers received". According to DPE, it was also realised that the PSUs shares which were not listed in the stock market by that time commanded less investor attention as compared to the private sector shares which were widely traded. The DPE have also stated that the reasons for revising that basis for refixation of reserve price had been adequately explained in the CCEA note dated 24.12.1991 though the values of the shares had not been mentioned therein since it was considered an operational matter. The Committee are not inclined to accept these pleas put forth by the DPE as the bids received by Government in December,</p>

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			<p>1991 could neither be treated as competitive nor termed as the market response to PSEs shares offered for sale during 1991-92. On the other hand, the Committee are convinced that the MOF ignored the larger interests of public exchequer and directed their efforts towards completing the disinvestment process by the end of December, 1991. This fact is corroborated by the admission of DPE in their action taken note on Paragraph 176 of 75th Report that "consideration to raise funds from disinvestment in a timely manner was an important factor which weighed with the Government". In fact, it still remains to be explained to the Committee of the extraordinary pressures which necessitated such grave urgency resulting in under realisation on the sale of PSEs shares.</p>
8.	27	Ministry of Industry (Deptt. of Public Enterprises)	<p>The Committee in their earlier report had noted that the Chief Advisor (Cost) in the Ministry of Finance had suggested in August, 1991 that in the absence of market value of the shares of PSEs, the shares might be transferred to selected mutual funds/financial institutions with a stipulation that as and when these shares were offered to general public 90 per cent of the difference of the price gained should be transferred back to the Government. The Committee had observed that there was nothing on record to indicate that this suggestion for inclusion of a claw-back provision for sharing of profit was given the consideration it deserved. The Committee had also observed that no efforts were made with a view to protecting the revenue interests of the Government either by the DPE or the MOF to ascertain the practices adopted in this regard in other parts of the world. The Committee regret to note that the Department of public Enterprises have not offered any convincing explanation for their failure to consider the suggestion which emanated from none other than a member of the Valuation Committee itself for incorporation of a claw-back provision and to</p>

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			ascertain the practice adopted by other countries in the matter. The DPE have in their action taken reply, once again given the same explanation which was considered by the Committee at the time of examination of the subject. The Committee are of firm opinion that the repetition of the same arguments do not in any way justify the casual manner in which the DPE and the MOF had dealt with the suggestion for incorporation of a claw-back provision which would have helped the Government in sharing gains in excess of specified limit arising out of future disposal of shares by the institutional buyers.
9.	31	Ministry of Industry (Deptt. of Public Enterprises)	31. The Committee are surprised to find that even after the expiry of a period of over 10 months since presentation of their Report, the Government have not been able to get expedited the inquiry being conducted by the CBI in regard to the cases of forward sale of shares. The Committee also find that the action taken reply furnished by the DPE is completely silent about the precise steps taken by Government in this regard. They therefore, desire that conclusive and expeditious action be taken in the matter and the outcome may be apprised to them within a period of three months from the presentation of this Report.

