

CB-1 NO. 315 VOL. XXI

COMMITTEE ON PETITIONS

(THIRTEENTH LOK SABHA)

TWENTY FIRST REPORT

(Presented to Lok Sabha on 22 November, 2002)



LOK SABHA SECRETARIAT
NEW DELHI

November, 2002/Kartika, 1924 (Saka)

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CONTENTS

	PAGES
COMPOSITION OF THE COMMITTEE ON PETITIONS	(iii)
I. INTRODUCTION.....	(v)
II. REPORT:	
(i) Petition regarding protest against the move for Privatisation of National Aluminium Company Ltd. (NALCO).....	1
APPENDICES	
(i) Petition (No. 22) regarding protest against the move for privatisation of National Aluminium Company Ltd. (NALCO).....	16
(ii) Provision incorporated in the Shareholders Agree- ment.....	18

COMPOSITION OF THE COMMITTEE ON PETITIONS

Shri Basudeb Acharia—*Chairman*

MEMBERS

2. Shri Ramakant Angle
3. Shri S. Bangarappa
4. Shri Ambati Brahmanaiah
5. Shri Babubhai K. Katara
6. Shri P.R. Khunte
7. Shri P.R. Kyndiah
8. Shri C. Sreenivasan
9. Shri G. Mallikarjunappa
10. Shri Sadashivrao Dadoba Mandlik
11. Shri Sis Ram Ola
12. Shri Sundar Lal Patwa
13. Dr. Bikram Sarkar
14. Shri Chandra Bhushan Singh
15. Shri Anant Gudhe

SECRETARIAT

1. Shri S.C. Rastogi — *Joint Secretary*
2. Shri C.S. Joon — *Deputy Secretary*
3. Shri J.S. Chauhan — *Under Secretary*
4. Smt. Neera Singh — *Assistant Director*

**TWENTY FIRST REPORT OF THE COMMITTEE ON PETITIONS
(THIRTEENTH LOK SABHA)**

INTRODUCTION

I, the Chairman, Committee on Petitions, having been authorised by the Committee to present the Report on their behalf, present this Twenty first Report of the Committee to the House on the petition regarding protest against the move for privatisation of National Aluminium Company Ltd. (NALCO).

2. The Committee considered and adopted the draft Twenty first Report at their sitting held on 21 November, 2002.

3. The observations/recommendations of the Committee on the above matters have been included in the Report.

NEW DELHI;
21 November, 2002

30 Kartika, 1924 (*Saka*)

BASUDEB ACHARIA,
Chairman,
Committee on Petitions.

REPORT

PETITION AGAINST THE MOVE FOR PRIVATISATION OF NATIONAL ALUMINIUM COMPANY LTD. (NALCO)

On 26th July, 2002, Shri K.P. Singh Deo., M.P. presented to Lok Sabha a petition signed by Shri Ramesh Chand Behera, on behalf of the NALCO Officers Association and NALCO (Unions) Coordination Committee (Smelter & Power Complex), Nalconagar, Angul, Orissa (See Appendix-I).

2. In their petition, the petitioners *inter-alia* submitted as follows:—

- “(i) National Aluminium Company Ltd. (NALCO) is a giant enterprise established by the Government of India. It has the largest Aluminium Complex of Asia. The Company is considered to be a turning point industry in the 50 years old history of Indian Aluminium Industry;
- (ii) The Company has given the country self-sufficiency in Aluminium, and a technology edge in making this strategic non-ferrous metal on the best of the world standards;
- (iii) The Company is one of the profitable PSUs in the country and it has significantly contributed towards the socio-economic development of the country. The State Government of Orissa have acknowledged the contribution of NALCO in the natural calamities like super cyclone, flood, drought etc., by providing food, shelter etc.
- (iv) After the privatisation of the Bharat Aluminium Company Ltd. (BALCO), the Government of India has only this efficient Aluminium Company to have control over the price and business of Aluminium which is an important non-ferrous metal;
- (v) However, the Cabinet Committee on Disinvestment has proposed to disinvest this profit-making company within a period of six months; and
- (vi) With the privatisation of NALCO, the Government will lose this profit-making PSU to some foreign institution or a private company.”

3. The petitioners contended that the Government has deviated from its assurance that privatisation of the company will be done at a later stage. The petitioners, therefore, requested that appropriate steps may be taken to stop the privatisation/disinvestment of NALCO.

4. The Ministries of Coal & Mines (Department of Mines) and Disinvestment were requested in October, 2002 to furnish their factual comments on the points raised in the petition. Since the issues raised in the petition related to disinvestment of NALCO, the Ministry of Disinvestment furnished their comprehensive comments *vide* O.M. No. 3/107/2002/DD-II dated 3rd September, 2002. The Ministry of Disinvestment stated that the main elements of the Government's Policy towards the public sector undertakings had been announced by the Finance Minister in his Budget Speech for the year 2000-2001 as under:—

- Restructure and revive potentially viable PSUs;
- Close down PSUs which cannot be revived;
- Bring down Government equity in all non-strategic PSUs to 26% or lower, if necessary; and
- Fully protect the interests of workers.

The Ministry further stated that disinvestment in public sector undertakings was first done during the year 1991-92. Thereafter, Government has been disinvesting its equity holdings in public sector undertakings in a planned way with setting up the disinvestment target in the annual plan budgets. The present policy of the Government is to reduce its stake in the non-strategic public sector enterprises to 26% (or below, if necessary), in the generality of cases. Government will retain its majority holding in strategic PSUs. This policy is for all the public sector undertakings irrespective of the fact whether it is a profit making or loss incurring one.

On 16th March, 1999, the Government classified the Public Sector Undertakings into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Undertakings would be those in areas of;

- (a) Arms and ammunitions and the allied items of defence equipment, defence air-crafts and warships;
- (b) Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture medicine and non-strategic industries);

All other Public Sector Undertakings were to be considered non-strategic. For the non-strategic Public Sector Undertakings, it was decided that the reduction of Government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis.

5. Regarding NALCO, the Ministry stated that:—

“The National Aluminium Company Ltd. (NALCO) was incorporated in 1987 with the objective of meeting the domestic demand for Aluminium and exporting Alumina. It has a bauxite mine at Panchpatmali (Orissa), an Alumina refinery at Damanjodi (Orissa), Aluminium smelter and captive thermal Plant at Angul (Orissa) and port facilities at Vishakhapatnam (A.P.). NALCO's product mix is limited to Alumina and primary aluminium in ingot, rod and billet form. At present, the Government of India holds 87.15% equity stake in NALCO. The total number of employees of NALCO was

6,500 as on 31.3.2002. With world-class deposits, and modern processing technology, NALCO is a highly profitable Public Sector Enterprise. NALCO's authorised and paid-up share capital as on 31.3.2002 were Rs. 1,300 crore and Rs. 644.31 crores respectively. Its total Reserves & Surplus for the year 2000-2001 were Rs. 2,928.06 crores. As against such Reserves, the total outstanding loans in 1999-2000 were Rs. 663.54 crores.

The State-of-the-Art technology of NALCO was obtained from M/s. Pechiney of France, a world leader in this field. NALCO is one of the lowest cost producers of Aluminium in the world. NALCO is a world class company with strong fundamentals and a distinct long-term competitive advantage in the Aluminium sector.

NALCO is now undergoing major expansion, involving doubling of the Company's alumina refining capacity and a 50% increase in its smelting capacity. Besides, work in two units of the power plant has also started which would be completed in 3 years time. The company is also considering addition of one more pot-line, after the present expansion is completed. The details of expansion plan are indicated in the table below:—

	Existing Capacity	Capacity after Expansion
Smelter	2,30,000 TPA	3,45,000 (by November, 2002) TPA
Power Plant	720 MW	840 MW (by November 2002) and 960 MW (by June, 2003)
Refinery	1,575 Million Tonnes Expansion completed in April, 2002. of Alumina	

6. As regards, the investment decision for NALCO, the Ministry of Disinvestment stated that:—

“the Disinvestment Commission, in March, 1998, had classified NALCO as ‘Core’ on the ground that NALCO produces about one-third of the primary aluminium produced in the country and that the quality of the ore from NALCO mines is among the best in the world. Considering its impressive track record over the past five years, the Commission considered it to be a “Strong Performer”.

In view of the above and given its strong business and financial position, the Disinvestment Commission recommended an offer of sale upto 30% of the Government's holding of the company to the retail as well as institutional investors. The Disinvestment Commission recommended that “as the domestic markets may find it difficult to absorb such a large issue, it may be desirable to have a mix of disinvestment in the Global Depository Ratio (GDR) as well as

domestic markets." The Commission, therefore, recommended a GDR issue of 15% of NALCO equity at an appropriate time depending on the market conditions after capital restructuring. The Commission also recommended that soon after the GDR issue, a domestic offer of 10% equity to the institutional investors and 5% to the small investors could be made, with the price for the retail investors being fixed at a discount over the institutional price.

Keeping in view the recommendations of the Disinvestment Commission, the Government decided on 27-9-2001 for an open market sale (in an appropriate mix of offerings in the domestic and international capital markets) of 30% equity of NALCO to be followed by the strategic sale bringing Government equity down to 26% after reserving upto 2% of the equity for NALCO employees.

In accordance with this decision 10% equity is to be disinvested in domestic market, 20% equity in the international market (American Depository Receipt (ADR) issue) and 29.15% equity to a strategic partner bringing down Government held equity to 26% after reserving 2% equity for NALCO employees at the time of the strategic sale.

The Government has also decided on 11.7.2002 for commencing the process of strategic sale of NALCO, simultaneously, with Domestic/ADR issue but to complete Domestic/ADR issue first immediately followed by strategic sale as per the earlier decision. For implementing the Government decision, an Inter-Ministerial Group for assisting in the process of disinvestment of Government equity in NALCO was constituted on 12.10.2001 under the Chairmanship of Secretary, Ministry of Disinvestment. M/s ABN Amro Rothschild/Enam, Financial Consultants have been appointed as Joint Global Coordinators for all the three stages of disinvestment in NALCO. JP Morgan and ICICI Securities and Finance have also been appointed as Joint Bookrunners for the capital market offerings. In addition, the International Legal Counsel, Domestic Legal Counsel and US GAAP Accountants have been appointed. Expressions of Interest for appointment of Technical Consultants which will study the mine reserves, resources, environmental and socio-economic aspect of NALCO's operations at its mines and at its plants, have been invited from International Consultants in this field. Advertisement seeking the expression of interest from the interested parties for the strategic sale has also been issued."

7. On the issues raised by the petitioners in their petition, the Ministry of Disinvestment submitted that our recent experience of successful completion of disinvestment/privatisation in about a dozen companies and several hotels of ITDC and Hotel Corporation of India has shown that this policy has brought rich dividends to Government, to tax payers, to employees and to the economy. NALCO share prices, which remained dormant for long, started going up once the Government resolved to push ahead with its privatisation programme with the strategic sale of IBP and

VSNL in the first week of February, 2002. The rise in share prices of NALCO is primarily due to this reason. NALCO share price again shot up when the market reacted favourably to the news of appointment of Advisor, in March, 2002. Categorizing public offer (Domestic/ADR) as one stage distinct and separate from strategic sale would not have been viewed so favourably by the market. Market sentiments depends substantially on Government's resolve for a successful privatisation. Without a clear road-map for privatisation through strategic sale, it is likely that the investor's interest would be depressed and the expected receipt from the Public Offer will be much lower. The successful privatisations of IBP, VSNL, Hindustan Zinc Ltd. and IPCL,—all listed and profitable companies like NALCO — and the Price to Earning (PE) ratios obtained from them confirm that strategic sale is the preferred route for privatisation. This is the rationale behind the proposal to go for strategic sale in NALCO. The privatisation of NALCO will have a multiplier effect with the strategic partner bringing in additional capital, marketing expertise and the trading links required to expand NALCO's scale of operations to equal the dominant international companies. In all cases of strategic disinvestment involving transfer of management control, suitable provisions are made in the transaction documents to protect the interests of the employees.

8. After perusing the comments furnished by the Ministry of Disinvestment, the Committee undertook an on-the-spot study visit to Bhubaneswar and Angul (Orissa) on 24th and 25th September, 2002, to gather first hand information in the matter. Accordingly, the Committee held informal discussions with the petitioners at Angul (Orissa) on 24th September, 2002 on their petition.

9. During the discussions with the petitioners, the Committee were informed that NALCO makes profit due to the low cost Bauxite in Orissa, which is the cheapest in the world. Orissa is gaining through NALCO—Peripheral Development, Low Cost Power Supply, Revenue through taxation, Employment generation (direct and indirect) etc. This benefit will be directly affected so the people of Orissa are against the privatisation of NALCO. The State Government of Orissa has shown its dissatisfaction through different means by writing letter to the Prime Minister, Deputy Prime Minister and observing Orissa Bandh on 19th September, 2002. NALCO has its global presence in more than 26 countries worldwide and it is the first Indian company to register its product in London Metal Exchange. The company's consistent annual profit has been more than Rs. 500 crore. The company has bagged more than 12 times the CEPAXIL Award for its export performance. It has been a forerunner in earning foreign currencies by exports of about fifty percent of its products. NALCO has been rated as the best managed public enterprise by the Standing Conference on Public Sector Enterprises (SCOPE) at Delhi in 2001-2002 with a 14.1% Return on Investment.

The petitioners further informed the Committee that NALCO's cheap power production of Rs. 1.20/unit has been an additional advantage to the company's performance. The Government can use the surplus power generated by the Company for vital purposes and providing power to rural areas. It has recently added value addition semi-finished product such as strip and sheets which enhances its product position in domestic and international market. The company has direct employment of 6500 employees working in various parts of the country. About 35% of the company employees belong to the Scheduled Castes & Scheduled Tribes categories. Since the Company has already paid Rs. 4000 crores for expansion, a private company would benefit from the Government investments without spending any money. The petitioners also placed before the Committee that the displaced families whose lands had been acquired for construction of the projects of NALCO would not get employment in the land losers category after the Company is privatised. The employees of NALCO would be deprived of their medical benefits, educational benefits and service security on privatisation of the Company.

10. In their written note dated 21.10.2002, the Ministry of Coal & Mines (Department of Mines) stated that NALCO has been earning profits since 1988-89 consistently as shown below:—

Year	Profit After Tax (PAT) (Rs. In Crores)
1988-89	18.92
1989-90	156.87
1990-91	71.95
1991-92	59.14
1992-93	134.88
1993-94	156.72
1994-95	300.17
1995-96	614.55
1996-97	491.76
1997-98	546.97
1998-99	248.25
1999-2000	511.53
2000-2001	655.83
2001-2002	409.35

11. The Committee, thereafter, took the oral evidences of the representatives of the Ministries of Coal & Mines (Department of Mines) and Disinvestment and the Standing Conference of Public Enterprises (SCOPE) on 10th October, 2002 on the petition.

12. Regarding the disinvestment proposal for NALCO, the Secretary (Department of Mines) stated during evidence as follows:—

“I would like to mention that as per the policy of the Government that we know of on the subject of disinvestment, no distinction whatsoever is being made between the profit-making or the loss-making companies. The companies which have to be retained in the public sector are only those which are treated or declared or considered as strategic or strategically important. In all other companies, as a matter of principle, the equity is to be brought down to 26 per cent. In the same Department of Mines, already two companies — Hindustan Zinc and BALCO—that were profit making, had been disinvested. On the modalities and other things, of course, the Ministry of Disinvestment will be in a better position to say as to what is their policy and what is the consequence of disinvestment.

But so far as we are concerned, we have been told that this (NALCO) is going to be disinvested. The sequence of events is like this. In September, 2001, the Ministry of Disinvestment brought before that Cabinet Committee on Disinvestment a memorandum seeking disinvestment in two phases. The first phase was 30 per cent disinvestment through the Initial Public Offerings (IPO) route, that is, to the public at large and the GDR or ADR. This was to be followed by disinvestment through strategic sale to bring down the equity with the Government to 26 per cent. In pursuance of the decision, the Ministry of Disinvestment subsequently initiated the action for disinvestment. But in July, 2002, again the Ministry of Disinvestment went before the Cabinet Committee on Disinvestment saying that the exercise for strategic sales should also be started simultaneously in partial modification or by way of clarification of the earlier decision. The interpretation of the Department of Mines of the earlier decision was that one has to follow the other, that is, the IP will be completing first 30 per cent and the subsequent strategic sale can be effected after that is completed. But the Ministry of Disinvestment felt that for the best realisation of the value, it is desirable that the exercise is started simultaneously so that to the Strategic Partner, who is going to buy, there is a clear signal that there is no waiver on this policy and it is going to be disinvested and strategic sale is in the offing. Their logic is that if the strategic sale signal is given, the price at which the initial shares will be sold to the public will also be very high. Otherwise, the price will be depressed.”

He added:—

“Our Ministry’s view was a little at variance. Our Ministry’s view was that there was no dispute in so far as the disinvestment process was concerned. It was only in the modalities and sequencing we had suggested that the earlier decision of the Cabinet Committee on Disinvestment (CCD) in September, 2001 should be adhered to and

let there be no change. It should be one after the other for some reasons. Our logic was that perhaps, at the moment, there is only 10 or 11 per cent equity in the market mostly with the financial institutions and the public with a very limited equity will be there. If 30 per cent is defused in capital market, to the retail shareholders, the real value of the share will come up. Today, there is no benchmark. We do not know what is the real price of the share in the eyes of the investor. How does an investor assess this company? So, once we dilute the equity to the public at large, then perhaps the benchmark will be possible which will be helpful for the subsequent strategic sale also.

Secondly, we said that we are undergoing the process of expansion. Fifty per cent of the company's capacity is being expanded. It is a Rs. 4,000 crore project. It is almost nearing completion, at least the major part is nearing completion. We will be able to complete the project by January, 2003. The result of that expansion in terms of the profitability will also be known shortly in the next financial year's results. After that, the evaluation of the company or the price that we will be also to get may be better. This is not the perception. The disinvestment process has its own yardstick. So, the argument was that since this expansion is going on, and the disinvestment can cause some controversies, and if it is only an initial public offering, and is non-controversial, it is acceptable. After doing this, at a later stage when the profitability of the company was established, expansion work was completed, and management was not destabilised. There was no hesitation in the workers' minds. After doing it half way, perhaps, there would be a proper climate for taking forward the process of disinvestment at the second stage.

The third point that we had raised was that the State Government (Orissa) has opposed it. Although it is the Central Public Sector unit, yet the State Government identified itself and said this is a pride of Orissa."

13. The Committee asked as to whether the Department of Mines agreed that the disinvestment of NALCO is being done hurriedly, the Secretary of Department of Mines replied:—

"Definitely the Ministry proposed sequencing. This is the view. This is on record. Not only sequencing, but the Ministry itself said that the earlier decision of the Cabinet Committee to disinvest in two stages—disinvestment first and IP to be followed by the strategic sale—should be gone through. That would be followed. It is because, this would be less controversial, easily implementable, and in time."

He added:—

"We had suggested that since NALCO is a very efficiently run company, and this company has offers from many other well-renowned companies for joint partnership, therefore, in this case, you may also consider an alternative model, namely of strategic partnership and not of strategic sale. Strategic partnership would

mean this. Now, what we are proposing is that we are going to give 29 per cent to the strategic sale, and whosoever buys, gets 29 per cent, and the Government will retain 20 per cent. We will transfer the shareholding control to the strategic partner. But in case the shareholding given to the strategic partner is something between 20 per cent and 25 per cent, and the Government retains either equal or a little more than strategic partner, and the management is shared—the management will not be totally transferred, it is a shared management—in that case, it may be possible to involve the joint strategic partners to set up another Greenfield Project by bringing in technology, investment, and similar plant or larger plant in India from outside. Our proposal was that perhaps this company being in the making of an Indian multinational company must have its own right. So, this may also be considered. The CCD just did not consider this issue because it was considered at the IMG level—Inter-Ministerial Group.”

14. During the evidence of the representatives of the Ministry of Disinvestment, the Committee desired to know the proposed utilisation of the proceeds from the disinvestment of PSUs. To this, the Secretary (Disinvestment) stated as follows:—

“They (proceeds) go to the Consolidated Fund. The Finance Minister in the Budget made a statement. He made a statement that Rs. 7,000 crore will be provided for restructuring assistance to PSUs. Rs. 5,000 crore will be provided for additional Budgetary support.”

15. When the Committee desired to know the asset valuation method adopted by the Ministry of Disinvestment in the case of NALCO, the Secretary (Disinvestment) stated as follows:—

“We have prepared guidelines on evaluation. According to our procedure, an attempt has been made to keep the procedure as transparent as possible. Secondly, we should not have discretion. Valuation is not really very relevant because ultimately in a sale the buyer dictates the price. We will get to know the reserve price after we get the financial bid. What we do is, we get the financial bid and put it in a seal. Then we start our work on valuation. There are a number of committees which do the work. We get data and then those committees finalise the valuation. After we finalise it, in the presence of the bidder we open the envelop. So, we will determine the valuation after we have got the financial bid. That is the approved procedure.”

16. In a subsequent written note, the Ministry of Disinvestment stated as follows:—

“Asset valuation is one of the four methods used to determine the reserve price. Based on the recommendations of the Disinvestment Commission and in keeping with the best market practices, the

four valuation methods are viz.: Discounted Cash Flow (DCF) method; Balance Sheet Method; Transaction Multiple Method; and Asset Valuation Method. For the purpose of asset valuation a valuer is appointed on the basis of a short list prepared by the Advisors from the list of Valuers registered with the Income Tax and other Government Departments. Appointment of the asset valuer is done by the Minister of Disinvestment on the recommendation of the Inter Ministerial Group (IMG) specially constituted for the purpose of disinvestment of the company, which includes representatives of the Administrative Ministry, Department of Economic Affairs, Department of Legal Affairs, Department of Company Affairs, Department of Public Enterprises, Ministry of Disinvestment and representatives of the PSU. The appointment of an asset valuer for the valuation of assets is still to be done in case of NALCO. However, M/s. ABN Amro Rothschild along with Enam Securities have been appointed as Advisors for the strategic sale and they would be valuing the company through other methodologies also for the purpose of determination of the reserve price.”

17. On the question of the open market sale of—NALCO, which is a profit-making company, the Ministry of Disinvestment in their written note stated that:—

“During the period 1991-1992 to 1999-2000, the shares of several profitable PSUs were sold through the market. However, the value realised was much less than through the strategic sale route, subsequently.

It is for consideration that out of a total stake of 87.15% Government is selling only 29.15% to the Strategic Partner (SP). 30% is being sold in the market (10% in the domestic market through a public offer and 20% in the international market) through an American Depository Receipt (ADR). In addition, the SP is required, under SEBI regulations, to offer to buy upto 20% from the market. Hence market sale of shares in substantial volumes is inbuilt in the process.

The inclusion of sale to a strategic partner is only to safeguard the value received from the sale. As per the existing decision strategic sale will happen soon after the domestic and ADR issues are completed.”

18. On the question of the measures taken to ensure the interest of the NALCO employees after the privatisation of the Company, the Ministry of Disinvestment in their written note stated:—

“Provisions to safeguard the interests of employees are usually included in the Transaction Agreement (Share Holders Agreement) entered into with the Strategic Partner. These are in the process of being drafted and will be approved by the Cabinet Committee on Disinvestment. In previous transactions provisions against the retrenchment of employees in the initial year have been included.

The draft Share Holders Agreement is at present being finalised in consultation with the Qualified Interested Parties. After getting the comments of the Qualified Interested Parties, it will be considered by the Inter-Ministerial Group. The typical provision related to employees interest incorporated in the Share Holders Agreement are given at Appendix II.

19. The Committee desired to know the views of the SCOPE on the disinvestment of PSUs. The Chairman of SCOPE during his evidence before the Committee stated as follows:—

“The SCOPE, as an apex body of public sector undertakings, is of the view that in the larger interest of the country, if the Government decides to disinvest or privatise public sector undertakings, the first priority should be given on privatisation of disinvestment in respect of loss-making companies which are a drag on the resources of the Government of India. The SCOPE had identified something like 70—75 public sector undertakings which have been making losses. It has identified another 70—75 companies which can be made potentially profitable. It does not make economic sense that we should privatise a good profit-making company which has been consistently giving dividend. We should rather concentrate on privatising or disinvesting the public sector undertakings which are perennially making losses or which have no potential to get revived.”

He added:—

“NALCO produces about one-third of the primary aluminium produced in the country. The expansion project currently under implementation for the company would further increase the market share in the primary aluminium market. Thus, the NALCO is expected to dominate the primary aluminium market in India for quite some time to come.

Secondly, it further adds that the NALCO's or is one of the best ores in the world and therefore from regulatory point of view, the Government control over the company may be desirable to conserve the exhaustible material for the downstream industries and for the safeguard against indiscriminate mining for short-term gains. There are only two large groups which are manufacturing aluminium in the country. One is HINDALCO and INDALCO and another is NALCO. In the interest of Indian economy and the interest of competition, it is required that both NALCO in the Government sector and HINDALCO and INDALCO in the private sector continue as such. Then there will be a fair degree of competition. This is our view.”

Observations/Recommendations

20. The Committee note that the National Aluminium Company Ltd. (NALCO) had been established by the Government of India in 1987 with the objective of meeting the domestic demand of Aluminium and exporting Alumina. NALCO has created the largest Aluminium Complex of Asia by utilization of one of the best quality bauxite ores in the world. The company has a bauxite mine at Panchpatmali; Alumina Refinery at Damanjodi and Aluminium Smelter and Captive Thermal Plant at Angul in Orissa. It is a world class company with strong fundamentals and a distinct track record. It also has a competitive edge in the Aluminium market world-wide. With its world-class deposits and modern processing techniques, NALCO is a highly profitable Public Sector Undertaking. The State-of-the-art technology of NALCO was obtained from M/s. Pechiney of France, a world leader in this field. NALCO is one of the lowest cost producers of Aluminium in the world. The company has given India self-sufficiency in Aluminium, an important non-ferrous metal. The company's low cost power production has been an additional advantage to the people at large. It has even made significant contributions towards the socio-economic development of the country and export performance in the international market of Alumina. Presently, the company is one of the most efficiently managed public enterprises.

21. The Committee also note that Government of India presently holds 87.15% equity stake in NALCO. As on 31.03.2002, the number of employees in this company is 6,500. Although the company has been making profits since 1988-1989, it has made Profit-after-Tax above Rs. 500 crore per year in the last few years.

22. The Committee were informed that NALCO is now undergoing major expansion programmes for doubling its alumina refining plant capacity and a 50% increase in the capacity of the Smelter. The capacity of its power plant is also being expanded from 720 MW to 960 MW by June, 2003. According to the Secretary, Department of Mines (Ministry of Coal & Mines) the cost of expansion project is about Rs. 4000 crore and it is almost nearing completion.

23. The Committee note that the NALCO produces about one-third of the primary aluminium produced in the country. The expansion project currently under implementation for the company would further increase the market share in the primary aluminium market. Thus, the NALCO is expected to dominate the primary aluminium market in India for quite some time to come.

24. The Committee further note that the NALCO's ore is one of the best ores in the world and therefore from regulatory point of view, the Government control over the company may be desirable to conserve the exhaustible material for the downstream industries and as a safeguard against indiscriminate mining for short-term gains. There are only two large groups which are manufacturing aluminium in the country. One is HINDALCO and INDALCO and another is NALCO.

25. The Committee note that the Finance Minister in his Budget Speech for the year 2000-2001 has *inter-alia* stated that one of the elements of the Government policy towards the Public Sector Undertakings was 'to bring down Government equity in all non-strategic Public Sector Undertakings to 26% or lower, if necessary'. However, in the case of NALCO, the Committee do not find sufficient reasons to lower the equity to 26%.

26. The Committee also note that on 16th March, 1999, the Government classified the Public Sector Undertakings into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Undertakings would be those in areas of:

- (a) Arms and ammunitions and the allied items of defence equipment, defence air-crafts and warships;
- (b) Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine, and non-strategic industries);

All other Public Sector Undertakings were to be considered non-strategic. For the non-strategic Public Sector Undertakings, it was decided that the reduction of Government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis.

27. The Committee note that the Disinvestment Commission, in March, 1998 had classified NALCO as 'Core' on the ground that NALCO produces about one-third of the primary aluminium produced in the country and that the quality of the ore from NALCO mines is among the best in the world. Considering its impressive track record over the past five years, the Commission considered it to be a "Strong Performer".

28. The Committee were informed that in view of NALCO's strong business and financial position, the Disinvestment Commission recommended an offer of sale upto 30% of the Government's holding of the company to the retail as well as institutional investors. The Disinvestment Commission recommended that "as the domestic markets may find it difficult to absorb such a large issue, it may be desirable to have a mix of disinvestment in the Global Depository Receipts (GDR) as well as domestic markets." The Commission, therefore, recommended a GDR issue of 15% of NALCO equity at an appropriate time, depending on the market conditions after capital restructuring. The Commission also recommended that soon after the GDR issue, a domestic offer of 10% equity to the institutional investors and 5% to the small investors could be made, with the price for the retail investors being fixed at a discount over the institutional price.

29. The Committee also note that in September, 2001, the Ministry of Disinvestment brought before the Cabinet Committee on Disinvestment a Memorandum seeking disinvestment in two phases. The first phase was 30 per cent disinvestment through the Initial Public offerings (IPO) route, that is, to the public at large and the GDR or ADR. This was to be followed by disinvestment through strategic sale to bring down the equity with the Government to 26 per cent. In pursuance of that decision, the Ministry of Disinvestment subsequently initiated the action for disinvestment. But in July, 2002, the Ministry of Disinvestment again went before the Cabinet Committee on Disinvestment saying that the exercise for strategic sales should also be started simultaneously in partial modification or by way of clarification of the earlier decision. The interpretation of the Department of Mines of the earlier decision was that one has to follow the other, that is, the IP will be completing first 30 per cent and the strategic sale can be effected after that is completed. But the Ministry of Disinvestment felt that for the best realisation of the value, it is desirable that the exercise is started simultaneously so that to the Strategic Partner, who is going to buy, there is a clear signal that there is no waiver on this policy and it is going to be disinvested and strategic sale is in the offing. Their logic is that if the strategic sale signal is given, the price at which the initial shares will be sold to the public will also be very high. Otherwise, the price will be depressed."

30. The Committee note that the Department of Mines had suggested to the Ministry of Disinvestment that the decision of the Cabinet Committee on Disinvestment taken by them in September, 2001 with regard to disinvestment of NALCO in two phases should be adhered to. However, the Ministry of Disinvestment did not appear to have given any serious thought to the suggestion of the Ministry of Coal and Mines (Department of Mines) and decided in July, 2002 to revise their decision of September, 2001 by opting the process of strategic sale simultaneously with IPO on the plea that if the strategic sales' signal was given, the price at which the initial shares of NALCO will be sold to the public will also be very high.

31. The Committee further note that the Secretary, Department of Mines, in support of his suggestion that the decision of September, 2001 of the Cabinet Committee on Disinvestment should be adhered to has started that "if 30 percent is diffused in capital market, to the retail shareholders, the real value of the share will come up. Today, there is no benchmark. We do not know what is the real price of the share in the eyes of the investor. How does an investor assess this company? So, once we dilute the equity to the public at large, then perhaps the benchmark will be possible which will be helpful for the subsequent strategic sale also." The Secretary, Department of Mines is also on record stating that if the earlier decision was adhered to, that would be less controversial, easily implementable and in time.

The Committee are constrained to observe that though the Department of Mines, Administrative Ministry, pleaded for adhering to the September, 2001 decision of the CCD, which was in accordance to the recommendation of the Disinvestment Commission, the Ministry of Disinvestment stuck to the decision taken by them in July, 2002.

32. As regards retaining the NALCO in the Public Sector, the Committee are inclined to accept the view of the Chairman, SCOPE, that "in the interest of Indian economy and in the interest of competition, it is required that both NALCO in the Government sector and HINDALCO and INDALCO in the private sector continue as such. Then there will be a fair degree of competition."

33. During the course of oral evidence, the Secretary (Department of Mines) has also stated that NALCO has offers from many other well renowned companies for joint partnership. In this case, an alternative model could have been strategic partnership and not of strategic sale. The management and control of the company could have been transferred to the Strategic Partner so that the Government would have retained equal or a little more shareholdings than the Strategic Partner. It may be possible to involve the joint strategic partner to set up green field projects by bringing in technology, investment and larger plants in the country from outside. The Committee regret to note that the Cabinet Committee on Disinvestment (CCD) Inter-Ministerial Group (IPG) did not consider the said proposal of the Department of Mines.

The Committee, therefore, recommend that the Government should give a fresh look and thought to the disinvestment decision of NALCO.

34. While reviewing the decision, the Government should also keep in mind the following factors:—

- (1) NALCO ore is one of the best and cheapest in the world;
- (2) NALCO has the assets of more than Rupees Twenty-two thousand crore;
- (3) Expansion programme being undertaken at the cost of Rs. 4000 crore is nearing completion;
- (4) NALCO is expected to dominate the primary aluminium market in India;
- (5) NALCO was set up in an underdeveloped and backward region for the economic development of that area.
- (6) The control of Government is desirable to:
 - (i) control the exhaustible material for the downstream industries;
 - (ii) safeguard against indiscriminate mining for short term gains.
- (7) NALCO is a continuously profit making unit since inception.
- (8) In the interest of the Indian economy and in the interest of competition and also for removal of regional backwardness the NALCO be retained in the Public Sector.
- (9) NALCO has provided direct employment to 6500 employees in addition to indirect employment generation in various parts of the country.

NEW DELHI;
21 November, 2002

BASUDEB ACHARIA,
Chairman,
Committee on Petitions.

APPENDIX I

(See para 1 of the Report)

LOK SABHA

PETITION No. 22

(Presented to Lok Sabha on 26.07.2002)

To

Lok Sabha,
New Delhi.

The humble petition of Shri Ramesh Chand Behera, General Secretary, NEPU, Smelter Plant, NALCO and others of Nalco Nagar, Distt. Angul (Orissa).

SHEWETH:

We, the undersigned petitioners do make an humble submission in public interest to please direct the Government of India to stop the move for privatisation of National Aluminium Company Ltd. (NALCO). National Aluminium Company Ltd. is a giant enterprise initially established solely by the Government of India. Incidentally, it has the largest Alumina-Aluminium Complex of Aisa which came up in its early days of inception. It has been continuing to be in the list of profitable PSUs of India and participating in socio-economic development of the Country. The NALCO is considered to be a turning point industry in the 50 years old history of Indian aluminium industry. In a major leap forward, NALCO not only addressed itself to the country's need for self-sufficiency in aluminium, but also gave the country a technology edge in making the strategic metal on the best of world standards.

We would like to place that as the Cabinet Committee on Disinvestment has proposed to disinvest the company within a period of six months, the Central Government is deviating from its assurance that privatisation of the company will be done at later stage.

We contend that with this privatisation, the Government is going to lose its profit earning Public Sector for all time to come to some foreign institution or to some private company. After privatisation of BALCO, the Government of India has this efficient aluminium industry to have control over the price and business of aluminium which is the important non-ferrous metal in the world.

We are the bonafide employees of NALCO and state that before taking any step for privatisation, the best parameters may be fitted to run the NALCO as a PSU of the Government of India.

We, therefore, submit this petition before you and request your goodself that appropriate steps to stop the privatisation of NALCO should be taken so as to save the pride of Orissa from the monopolists and foreigners.

And your petitioners as in duty bound shall ever pray.

Name	Address	Signature or thumb impression
Shri Ramesh Chand Behera	General Secretary, NEPU, Smelter Plant, NALCO, Nalco Nagar, Distt. Angul (Orissa)	Sd/- •

Countersigned by Shri K.P. Singh Deo, MP.

APPENDIX-II

(See Para 18 of the Report)

TYPICAL PROVISIONS RELATED TO EMPLOYEES' INTEREST INCORPORATED IN THE SHAREHOLDERS AGREEMENT ARE AS FOLLOWS:—

Recitals:

- Subject to the substantives clauses in this regard, the Parties envision that all Employees of the Company on the date here of will continue in the employment of the Company.
- The SP recognises that the government in relation to its employment policies follows certain principles for the benefit of the members of the Scheduled Castes/Scheduled Tribes, physically handicapped persons and other socially disadvantages categories of the society. The SP shall use its best efforts to cause the Company to provide adequate job opportunities for such persons. Further, in the event of any reduction in the strength of the employees of the Company, the SP shall use it best efforts to ensure that the physically handicapped persons, Scheduled Castes/Scheduled Tribes are retrenched at the end.

Substantive Clauses

- Notwithstanding anything to the contrary in this Article—The Government, shall at any time and at its sole discretion, have the option of selling shares from its shareholding in the company, representing not more than of the share capital of the company existing as of date of this Agreement, to the employees of the Company ("employees sell share"). In the event that the Government exercises its option to sell part of its shares to the employees, the employees shall be issued fresh share certificates for the shares transferred to the employees. The Shareholders agree that, upon the completion of transfer, the shares transferred to the employees pursuant to this sub-clause shall not be subject to any restrictions in this Agreement, whether by way of a voting arrangement or a right of first refusal.
- The SP covenants with the Government that
 - (a) notwithstanding anything to the contrary in this Agreement, it shall not retrench any of the Employees of the Company for a period of 1 (one) year from the Closing Date other than any dismissal or termination of Employees of the Company from their employment in accordance with the applicable staff regulations and standing orders of the Company or applicable Laws;

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

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

**GOVERNMENT OF INDIA
MINISTRY OF DISINVESTMENT**

**SALE OF 29.15% SHAREHOLDING IN NATIONAL
ALUMINIUM COMPANY LTD. (NALCO)**

This announcement is neither a prospectus nor an offer or invitation to subscribe for or purchase the shares of National Aluminium Company Limited, nor should it be taken to be a recommendation with respect to the said shares. Securities may not be offered or sold in any jurisdiction except in compliance with applicable securities laws.

REQUEST FOR EXPRESSION OF INTEREST

The Government of India ("Gol") intends to sell 29.15% of the equity capital in National Aluminium Company Limited ("NACLO") to a strategic partner with transfer of management control. ABN AMRO Rothschild and Enam Financial Consultants Pvt. Ltd. have been retained as Global Co-ordinator cum Advisor to the Gol for the proposed disinvestment process.

NALCO is a leading integrated alumina and aluminium manufacturer in Asia with Bauxite mining operations, an alumina refinery, an aluminium smelter and a captive power plant. NALCO reported a total income of INR 25,415.5 million and a profit after tax of INR 4,093.5 million in FY 2002 under Indian GAAP.

Interested Companies/Consortia/Joint Ventures (incorporated or unincorporated) with a combined group net worth in excess of INR 12.25 billion (or USD 250 million) as at the latest balance sheet date (not earlier than December 31, 1999), are invited to submit their Expression of Interest together with their latest audited annual reports and a profile describing their business and operations (the "Eol Package") to either of the under-mentioned persons by no later than September 16, 2002. Detailed announcement including prescribed formats of Eol Package, can be accessed www.divest.nic.in or from either of the under mentioned persons:

Sangameswaran Manikkan
ABN AMRO Asia Corporate Finance (I)
Pvt. Ltd.
Tel. : +91-22-2325533
Sangameswaran.manikkan@in.abnamro.com

Mahesh Chhabria
Enam Financial
Consultants Pvt. Ltd.
Tel.: +91-22-2381854
mahesh@enam.com

ABN AMRO Rothschild is the unincorporated equity capital markets joint venture of the Rothschild and ABN AMRO groups. ABN AMRO Rothschild and Enam are acting for the Gol and no one else in connection

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with the proposed divestment process and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to any part of the divestment process.

This announcement constitutes no form of commitment on the part of the Gol, ABN AMRO Rothschild or Enam. Furthermore, this announcement confers neither the right nor expectation on any party to be selected to participate in the divestment process. The Gol, reserve the right to accept/reject any offer at any stage of the disinvestment process and/or withdraw the disinvestment process or any part thereof or to vary any of its terms at any time without giving any reason.