Disinvestment Moves

**Manmohan Singh: Congress view on Reforms/divestment** (Walk the Talk interview with Shekhar Gupta):

*We are for reforms with a human face. Why should we flog profit-making PSUs? The profit generated by them could be used for social welfare programmes; where else will we get money for this?*

*‘Times of India’ editorial, February 21, 2004:*

**Come to Judgment**

Shourie backtracks after calling CAG report ‘idiotic’

India’s disinvestment process has never been free of controversy. The Comptroller and Auditor General (CAG) has now estimated that there was a loss of nearly Rs 146 crore to the exchequer from the sale of Centaur Hotel, Mumbai, on account of low valuations and rental. Disinvestment minister Arun Shourie, who initially dismissed the observations as “idiotic”, has since apologised for his remarks but maintains that the methodology used by CAG was “peculiar”.

Truth is, the question of valuation has cropped up time and again in the disinvestment process. The sale of BALCO to Sterlite for Rs 550 crore was questioned on a variety of grounds, of which choice of the buyer and valuation of the enterprise were key issues. Similarly, Videsh Sanchar Nigam Limited (VSNL) coughed up over Rs 2,000 crore in dividend to the government prior to its first tranche of privatisation, in the process running down its reserves and net worth.

There can be no denying that the government, despite a decade of privatisation, has been unable to lend transparency to the exercise. Shourie could perhaps reflect on the view of the US comptroller general that the CAG has a crucial watchdog role to play in the disinvestment process. Disinvestment must be credible for it to work in the long run.

But valuation is not the only issue on which the government has something to answer for. It is also time to ask whether the strategic sale route is really a superior option to IPOs when markets are on a high. The success of the Maruti Udyog book-building issue is a case in point. Over the years, Rs 30,000 crore have been mopped up through privatisation without the money being specifically set aside for social and physical infrastructure.
What’s more, the government has prioritised the sale of profit-making over loss-making PSUs, even though optimum resource allocation is more likely to take place when the approach is reversed. The government should be routinely answerable to institutions such as Parliament and CAG on such matters; yet Shourie has expressed impatience about checks and balances that ought to be central to good, accountable governance. He was dismayed when the Supreme Court directed the government to obtain parliamentary approval for the sale of stake in Hindustan Petroleum and Bharat Petroleum. The keenness to meet budgetary targets for disinvestment should not translate into shortcuts that threaten to undermine institutions. India needs to get the best out of its public and private entities, for the larger good of the country and the health of the reforms process. Meanwhile, Shourie would do well to temper his commitment to reforms with judgment and restraint.

DISINVESTMENT - Hastening slowly
(Frontline, October 03 2003)

• There was of course the viewpoint within political circles ... that disinvestment in the petroleum companies made little sense. Both HPCL and BPCL had been earning profits, contributing substantial dividends to the Central exchequer, and imposing few demands on government revenues to meet their investment needs. When the Central government's revenue account was in deficit, it made little sense to sell assets that earned revenue. This would be equivalent to the worst form of fiscal imprudence — getting rid of productive assets to meet daily subsistence needs...

• That was the technique followed in the sale of companies such as Videsh Sanchar Nigam Ltd (VSNL) to the Tata group and Bharat Aluminium Corporation (BALCO) to the Sterlite group. It is of course another matter that both transactions turned out to be controversial. Soon after their takeover, the Tatas chose to plough a large part of VSNL's cash reserves into the purchase of shares in their as yet incipient telecom venture. And the Sterlite group has subsequently been censured by the sharemarket watchdog body, the Securities and Exchange Board of India (SEBI), for rampant irregularities during a phase of speculative excess in the bourses.

• The sceptics were quick to argue that in the case of giant corporations such as HPCL and BPCL, the cumulative effect of all Shourie's strictures would be little else than the creation of private monopolies in a strategic sector. If PSEs with adequate cash reserves and financial clout — such as IOC, the Oil and Natural Gas Corporation (ONGC) and Gas Authority of India Ltd (GAIL) — were to be proscribed from bidding for HPCL and BPCL, the only contenders left in the fray would be India's largest
private enterprise, Reliance Industries, and the petroleum multinationals. Neither outcome was desirable.

- The entry of multinationals into the petroleum sector could jeopardise energy security in a context of global economic and strategic uncertainty, especially over the control of crude oil sources in the Gulf region. And Reliance already controlled a substantial share of the national petroleum refining capacity and was — following its acquisition of Indian Petrochemicals Corporation Ltd (IPCL) — already a virtual monopoly in the petrochemicals sector.

- Apart from the controversies over Sterlite and the Tatas, the disinvestment process recently threw up a fairly rank instance of profiteering at the public expense in the sale of Airport Centaur Hotel in Mumbai. Following the initial transaction, which transferred the property from the public sector Hotel Corporation of India — a fully-owned subsidiary of Air India — to the Batra Hospitality group, it was found that there had been a further sale in the space of a few weeks.

- And in making the subsequent sale to the Sahara group, which has interests in the aviation business and was hence restrained from bidding the first time around, the Batras made a clean profit of over Rs.30 crores.

- Following a six-hour debate on disinvestment in the Rajya Sabha, Shourie suffered the mortification of seeing a Shiv Sena member, Sanjay Nirupam, frontally accuse him of corruption in the Centaur deal.

- A quite different manner of problem arose from the Opposition insistence that the transfer of HPCL and BPCL to private ownership should be done through enactment of a law by Parliament. This demand was founded upon the act of Parliament by which these two corporations were created in 1974 after wholly divesting three foreign-controlled enterprises of their controlling interests.

AI, IA taken off disinvestment list
(The Hindu, 6 April 2003)

- NEW DELHI The Government today decided to withdraw Air- India and Indian Airlines from the disinvestment process in view of the huge investments proposed to be made shortly for fleet acquisition. With this decision, much of the steam has gone out of the disinvestment process. In addition, it has decided to cancel the process for 10 more public sector undertakings, the cases of which are being returned to their administrative ministries.
• In the case of the Shipping Corporation of India (SCI), however, the foreign equity ceiling is being raised from 25 to 51 per cent and the entire process of strategic sale is being restarted.

• The only new major public sector company for which the CCD has cleared disinvestment is the fertilizer giant, Rashtriya Chemicals and Fertilizers (RCF). It has decided to reduce the government equity from 92.5 per cent to 51 per cent through strategic sale. Similarly, it is proposed to begin the process of disinvestment for the National Building Construction Corporation (NBCC).

Rs. 12,000-cr. disinvestment target discarded: Shourie
(The Hindu, January 25 2003)

BANGALORE JAN. 24. The Union Minister for Commerce and Industry, Arun Shourie, today said the Government had virtually discarded the Rs. 12,000-crore target through the disinvestment route during the current financial year. The realisation had been to the tune of Rs. 3,500 crores.

Reforms for reforms’ sake
P CHIDAMBARAM
(The Indian Express, October 13 2003)

• Mr Shourie was a silent spectator in 1991. His party, the BJP, was snapping at the heels of the Congress government and finding fault with every move. If the rupee was devaluated, that was wrong. If cash credit support to exporters was withdrawn, that was wrong. If the agreement on WTO was signed by India, that was wrong, and it was a sell-out to the developed countries. And so on and so forth.

• Nevertheless, successive governments have remained, sometimes unsteadily, on course. But all reforms must be based on need and reason. Reforms must also have a context. Above all, reforms must have a purpose or a goal.

• Mr Shourie has been wrong in the past. He was hopelessly wrong when he carried on a no-holds-barred campaign against Dhirubhai Ambani. On Ambani’s death anniversary, Mr Shourie confessed to doing a 180-degree turn. He was wrong on the Centaur Hotel disinvestment. Some clever people joined together and right under the nose of Mr Shourie robbed the Government of about Rs 30 crore. Mr Shourie was wrong in his handling of the telecom dispute between mobile service providers and the fixed line plus WLL service providers.
There are two views on the judgement of the Supreme Court in the HPCL/BPCL cases. The first view is that the judgement is confined to the cases of PSUs created by Acts of Parliament, and all that the judgement requires is that the Government should obtain the approval of Parliament for disinvesting in (or privatising) those PSUs. This conclusion of the Supreme Court does not have any alarming consequences. The second view is that the Supreme Court may have included within the ambit of its judgement all PSUs that have received funds from the Consolidated Fund of India. That certainly puts a spanner in the works, but the spanner could have been removed by a simple application to the court to clarify that part of the order.

Mr Shourie’s way of getting back at the Supreme Court is different. He has set his mind on privatising one or more oil sector PSUs and so, if he cannot do it with HPCL or BPCL, he will do it with IOC. This is madness, and there is not even a method in this madness.

The oil sector is the backbone of any developing economy. Many sins were committed in the past using the oil sector PSUs, but there is no gainsaying the fact that the oil sector PSUs are among the principal drivers of economic growth. Ranked by sales, the first five companies in India are oil companies. IOC is at the top with sales of Rs 1,23,628 crore last year. Ranked by profit, the first ten companies in India are in the oil and gas sectors. IOC takes the second place with a net profit of Rs 6,115 crore. Its marketcap is between Rs 30,000 and Rs 35,000 crore. It paid Rs 2,299 crore as corporate tax to the Government. In retailing, IOC has 8,000 petrol pumps and controls 40 per cent of all retail outlets. It has just teamed up with ONGC for exploration of oil. Its ultimate goal is to become a vertically integrated oil company with stakes in exploration, refining and marketing.

Why would Mr Shourie want to privatise the whole or a part of IOC? Who came up with the hare-brained scheme to hive off the retailing activity of IOC and privatising that part? Whether in the private sector or in the public sector, IOC has the potential to become one of India’s first truly global companies. ONGC is another. IOC happens to be in the public sector, so why not just leave it there? Why take it out of that sector or why break it up into parts?

Mr Shourie should realise that in touching IOC he has landed himself on an oil slick. He is seen as short-sighted, vengeful and pursing a personal agenda. For his good, I would advise him to say mea culpa and close the IOC chapter. Let IOC move on toward its ultimate goal of becoming a global major.
Congress debunks BJP claim on disinvestment
(Assian Age, September 19 2003)

New Delhi, Sept 18: While the BJP establishment has been claiming that it was only implementing the disinvestment policies formulated by the Congress under P.V. Narasimha Rao, there appears to be a marked difference between the policy as it was unveiled in 1991 and as it is implemented now by the Vajpayee government.

Senior Congress leader Salman Khursheed, who was deputy commerce minister in the Narasimha Rao government in 1991, which unveiled the economic reform package, told The Asian Age, "The divergence is borne out both in the policy and in the objective." Mr Khursheed, who had appeared for the oil companies in the disinvestment case recently, in which the Supreme Court on Tuesday had delivered a landmark judgment that the Vajpayee government has to go back to Parliament for approval, said primarily the Congress considered oil as a strategic sector and the government should retain its control over it.

The Vajpayee government is for disinvestment in the oil sector. What is important is the backdrop against which the decision was taken to nationalise the foreign oil majors. Caltex, ESSO and Burmah-Shell were nationalised in 1974 for their suspected dubious role during the 1971 Indo-Pakistan war, when the Indian Gnats operations were severely affected owing to aviation fuel supplies problem. Denationalisation would only pave the re-entry of Caltex, ESSO and Burmah-Shell by the backdoor.

Advani cautions Shourie on sell-off
(The Statesman, September 27, 2003)

NEW DELHI, Sept. 26. — Mr LK Advani today reportedly asked disinvestment minister Mr Arun Shourie not to rush through the sale of HPCL and BPCL by resorting to legal remedies.

The RSS has expressed its disapproval of the proposal to disinvest oil PSUs. Petroleum minister Mr Ram Naik has already said he had favoured keeping oil in the strategic sector and could not hide his jubilation at the Supreme Court’s judgement.

The government is understood to have informally put a stop to the plan to sell the residual shares in Videsh Sanchar Nigam Ltd, IBP Ltd, Indian Petrochemical Ltd and Maruti Udyog Ltd following apprehensions that the court judgement on HPCL/BPCL could lead to a plethora of petitions challenging such a sale.
THE Union Government has decided to sell its residual stake of 26 per cent in Modern Food Industries Ltd (MFIL) to the strategic partner, Hindustan Lever Ltd (HLL), at Rs 11,489.56 per share, in the first case of a full-fledged privatisation of a Government company. The sale is expected to fetch Rs 44 crore to the Government's disinvestment kitty.

As per the shareholders' agreement, the Union Government had retained the right to exercise the put option to sell its residual stake after one year of the transfer of management control in MFIL to HLL.

The fair market value of MFIL shares was Rs 11,292 per share whereas the transfer price was concluded at a higher level of Rs 11,489.56 per share.

The Government had sold 74 per cent of its equity in MFIL to HLL on January 25, 2000, which fetched it Rs 105.45 crore and the company Rs 20 crore. The management control was handed over to HLL on January 31, 2000.

HLL-acquired Modern Foods sheds staff by 50%

Modern Foods India has witnessed a reduction in its employee strength by half and shutdown of three plants since FMCG major Hindustan Lever took management control in January 2000. The company was the first PSU to be privatised.

The staff strength of Modern Foods stood at 1,007 as on August 31, 2003, against 2,037 at the time of disinvestment. Around 900 employees left the company after opting for the voluntary retirement scheme in June 2001.

The three plants that were shut down since disinvestment include the special nutritional food production factory at Lawrence Road, Delhi, a bread-making unit in Ranchi and fruit juice Rasika bottling plant in Delhi.

Sales in the first year of privatisation were up 52% than the previous year, and rose by a further 20% in the second year. At the time of privatisation, Modern had 13 bread manufacturing plants spread across India, which included Rasika plant at Delhi, an extruder food
plant at Jaipur, roller flour mill at Faridabad and fruit processing unit at Bhagalpur.

Modern Foods may close 2 more production units: Plans 50% rise in market development spend
P.T. Jyothi Datta
NEW DELHI, June 2, 2002:
MODERN Food Industries (I) Ltd (MFIL), currently in the process of fine-tuning its four-pronged strategy for growth, has targeted a 50 per cent increase in spending on market development, even as it mulls closure of two of its manufacturing units.

The quarter ended March 2002 saw sales recording a 27 per cent growth over the corresponding quarter in 2001. The company also recorded a positive profit before interest and depreciation of Rs 1.37 crore, as against a loss of Rs 2.77 crore in the same period, last year.

MFIL is undertaking co-promotions with synergistic HLL products and had recently launched atta bread from fortified Annapurna Atta. While cakes from the Modern stable have hit the market, diversifications such as cookies and biscuits would be at a later date.
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