GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF INVESTMENT AND PUBLIC ASSET MANAGEMENT

RAJYA SABHA
UNSTARRED QUESTION NO. 2159
TO BE ANSWERED ON TUESDAY, JANUARY 1, 2019
PAUSHA 11, 1940 (SAKA)

Disinvestment in Central Public Sector Undertakings

2159. SHRI MD. NADIMUL HAQUE:
SHRI ELAMARAM KAREEM:

Will the Minister of FINANCE be pleased to state:

(a) the details of the capital restructuring guidelines for CPSUs;
(b) the details of the proceeds collected by Government through disinvestment of public sector undertakings vis-à-vis the yearly targets in the last three years;
(c) the effect of these proceeds earned on macroeconomic indicators;
(d) the details of the different modes of disinvestment used by Government in the last three years;
(e) the details of the entities where Government has either relinquished its entire stake or has lowered its stake below the 51 per cent mark in last three years; and
(f) the details of the future disinvestment plans of Government in the coming months?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PON. RADHAKRISHNAN)

(a): The comprehensive guidelines for capital restructuring of Central Public Sector Enterprises (CPSEs) were issued on 27.5.2016 covering:

i. Payment of Dividend;
ii. Buyback of Shares;
iii. Issue of Bonus Shares; and
iv. Splitting of Shares.

Details of the guidelines on the above issues are at Annexure.

(b) & (c): Details of the Budget Estimates (BE) for disinvestment and amount received during the last three years i.e. 2015-16, 2016-17, 2017-18 and current year 2018-19 are as follows:

(Rs. in Crore)

Sl. No.	Financial year	Budget Estimate	Proceeds from Disinvestment
1	2015-16	69,500	23,997
2	2016-17	56,500	46,247
3	2017-18	72,500	1,00,057
4	2018-19	80,000	34,005*

*** As on 26.12.2018.**

Proceeds from disinvestment are an important source of capital receipts and helps in meeting the fiscal target of the Government of India.

(d): In recent years, the Government has been using a variety of instruments/ modes of disinvestment including Initial Public Offer (IPO), Offer For Sale (OFS). Buybacks, Strategic Disinvestment, Merger & acquisition within the same sector and increased use of Exchange Traded Funds (ETF).

(e): Details of CPSEs where entire stake of Government of India has been relinquished in last three years are as under:

Year	Name of CPSE	% of Shares Disinvested	% of Government of India's Shareholding post Disinvestment
2015-16	Nil	Nil	Nil
2016-17	Nil	Nil	Nil
2017-18	HPCL - ONGC Deal	51.11	0
2018-19	HSCC (India) Ltd.	100	0

(f): Through the use of various modes/instruments of disinvestment, as indicated in part (d) above, Government plans to raise receipts indicated in Budget Estimate.

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Annexure

Annexure as referred to in reply to part (a) of the Rajya Sabha USQ No. 2159 for answer on 1.1.2019.

Subject: Investment Management of CPSEs- Guidelines on Capital Restructuring of Central Public Sector Enterprises (CPSEs).

Background

Department of Public Enterprises (DPE), Department of Expenditure & Department of Economic Affairs in the Ministry of Finance have issued guidelines from time to time on issue of bonus shares, buyback of shares, splitting of shares and dividend. As announced in the Budget 2016-17, the Government is adopting a comprehensive approach for efficient management of its investment in CPSEs by addressing inter-related issues, such as capital restructuring, dividend, bonus shares, etc.

2. The resource management issues for a CPSE needs to be looked into in the context of the focus of the Government to, inter-alia, spur economic growth through efficient management of GoI's investment in CPSEs. It is, therefore, imperative that Government of India's interests as a majority shareholder investor in a CPSE are duly represented through the nominee 'official director' on the Board of the company. The nominee directors should discharge their responsibility to ensure efficient allocation of GoI's investment in CPSEs for growth and economic development. It may require that an appropriate view is taken by the Department/Administrative Ministry in such financial matters before the board meetings in line with this approach.

3. In the above background, the guidelines on these subjects need to be rationalized so as to comprehensively capture the various aspects of capital restructuring of CPSEs. Accordingly, in supersession of guidelines issued earlier, the following consolidated guidelines on general principles and mechanism for capital restructuring of CPSEs is issued as below:

4. Applicability:

4.1 These guidelines shall apply to all corporate bodies where Government of India and/or Government controlled one or more body corporate have controlling interest [hereinafter would be referred to as Central Public Sector Enterprises (CPSEs) for these guidelines].

4.1.1 Body corporate shall include body incorporated under the provisions of the Companies Act, 1956 or the Companies Act, 2013, or under any other Act as may be applicable except Limited Liability Partnership.

4.1.2 Controlling interest means control over the composition of the Board of Directors; or exercise or control over more than one-half of the total share capital or able to exercise more than 50 per cent voting rights in the meeting of the members, Board of

Directors or any other similar executive structure, e.g., Governing Body, Executive Committee, etc.

4.1.3 A body corporate in which Government of India and/ or CPSEs including their subsidiaries controls the composition of the Board of Directors; or exercises or controls more than one-half of the total share capital shall be deemed to be a body controlled by Government of India.

4.2 These guidelines for payment of dividend, issue of bonus shares and buyback of shares shall not apply to the body corporate which is prohibited from distribution of profits to its members, e.g. companies set up under section 8 of the Companies Act, 2013 or under extant provisions of any other Act or which has accumulated losses.

4.3 The guidelines for payment of dividend shall be applicable from financial year ending on or after 31st March, 2016 and the guidelines for issue of bonus shares, buyback and splitting of shares shall be applicable from financial year starting 1st April, 2016 or thereafter.

4.4 CPSEs shall ensure compliance of these guidelines by taking up this matter as an agenda item along with a compliance note in the Board meeting of the company convened for finalization and approval of its annual account. Requisite approval of shareholders/ members shall be obtained in the AGM/ EGM to be held immediately thereafter.

5. Payment of Dividend

5.1 Department of Expenditure vide its O.M. Nos. 7(5)E-Coord/2004 and O.M No. 7(2)E-Coord/2005 dated 27/09/2004 and 23/11/2005 respectively & Department of Economic Affairs vide O.M. 3(3)-B(S)/2015 dated 05/01/2016 have issued guidelines on dividend payout by CPSEs. However, it is observed that CPSEs are not restructuring their capital by issue of bonus shares to maintain healthy balance in capital and net-worth. Declaration of dividend at reasonable rate on a regular interval boosts investor's confidence. Although dividend is paid on paid up share capital, dividend payout should be seen with reference to return to shareholder's money, i.e. net-worth. Hence, return on net-worth in the form of dividend is a desirable parameter for increasing the investor's confidence in the company. Moreover, return on net-worth needs to be compared with alternative investment opportunities available to the investors. Hence there is a felt need for a clear dividend policy and CPSEs need to take a decision on dividend within a clearly articulated framework/guidelines of the Government.

5.2 In supersession of earlier guidelines, every CPSE would pay a minimum annual dividend of 30% of PAT or 5 % of the net-worth, whichever is higher subject to the maximum dividend permitted under the extant legal provisions.

5.3 Nonetheless, CPSEs are expected to pay the maximum dividend permissible under the Act under which a CPSE has been set up, unless lower dividend proposed to be paid is justified after the analyses of the following aspects on a case to case basis at the level of Administrative Ministry/Department with the approval of Financial Advisers.

(i) Net-worth of the CPSE and its capacity to borrow;
(ii) Long-term borrowings;
(iii) CAPEX/Business Expansion needs;
(iv) Retention of profit for further leveraging in line with the CAPEX needs; and
(v) Cash and bank balance.

5.4 The analysis should confirm that the retention of funds augmenting its net-worth is being optimally leveraged to ensure higher investment by the CPSEs. The report for exemption, if any, in this regard will be submitted by the CPSEs through their Administrative Ministry to Secretary, Department of Economic Affairs and Secretary, Department of Investment and Public Asset Management (DIPAM) before the end of second quarter of the financial year.

6. Buyback of shares:

6.1 The DPE had issued guidelines vide O.M. No. DPE/14(24)2011-Fin. Dated 26th March, 2012 regarding buyback of shares. These guidelines only provides that if a CPSE decides to buy back its own shares from the shareholders using surplus cash, Department of Disinvestment (DoD) on behalf of major shareholders may tender/offer equity on behalf of Government of India. It further provides that CPSEs will amend their Articles of Association to provide for buyback of shares, provided such provision does not exist in their Articles of Association.

6.2. It has been observed that CPSEs are not looking into the merit based capital restructuring including the option of buyback of shares if they do not have plans to deploy surplus funds optimally for business purposes. Although CPSEs have been set for specific purpose, some of them are not able to deploy the cash/bank balances for viable business expansion. In such cases, buyback of shares improves investors' confidence in the company and is likely to help the company to raise capital in future when it requires funds for expansion/ diversification for growth. Thus, it supports their market capitalization, which is in the overall long term interest of the company.

6.3. In supersession of earlier guidelines, every CPSE shall look into and analyse/ deliberate in first Board meeting after the closure of the financial year the following parameters for the purpose of buyback:

(i) Cash and Bank balance;
(ii) Capital Expenditure and business expansion as committed with reference to the CAPEX incurred in the last 3 years;
(iii) Net-worth [Free reserves and paid-up capital, including other reserves (if any)];
(iv) Long term borrowing and further capacity to borrow on the basis of its 'Net worth';
(v) Any other financial commitments in the near future;
(vi) Business/other receivables and contingent liabilities, if any; and
(vii) Market price/book value of share.

6.4 Based on this analysis, it needs to be clearly brought out that surplus cash and bank balance with the CPSE shall be considered for restructuring of capital through buyback.

6.5 However, every CPSE having net-worth of atleast **Rs. 2000 crore** and cash and bank balance of over Rs. **1000 crore** shall exercise the option to buy-back their shares.

7. Issue of Bonus Shares:

7.1 The Department of Public Enterprises had issued guidelines on issue of bonus shares by Public Sector Undertakings vide O.M. No. DPE/12(6)/95-Fin. Dated 10th November 1995 and O.M. No. DPE/13(21)-Fin. Dated 25th November, 2011 respectively. These guidelines provide that each Administrative Ministry may direct the CPSEs under their respective control that enterprises having reserves in excess of three times of their paid up capital should immediately consider the scope for issuing bonus shares to Government of India and pro-rata to other existing shareholders if partial disinvestment had occurred so far.

7.2 The Department of Expenditure had issued O.M dated 24th September, 2004 providing for that all profit-making companies must also consider issuing bonus shares to the Government. Subsequently, the Department vide its O.M. dated 23rd November 2005 stipulated that PSEs having large cash/free reserves and sustainable profitability will issue bonus shares. The Department of Economic Affairs vide its O.M. dated 5th January, 2016 provides that CPSEs with large cash/free reserves and sustainable profits may issue bonus shares.

7.3 The Government has from time to time underlined the desirability that CPSEs should capitalize a portion of their large reserves by issuing ***bonus shares*** to the existing shareholders. The issue of *bonus shares* helps in bringing about a balance between paid up capital & accumulated reserves and elicits good public response to equity issues of the public enterprises and its market capitalisation.

7.4 In supersession of all guidelines issued earlier, every CPSE should look into and analyze/ deliberate in their Board meeting/ Finance Committee, the issue of bonus shares when their defined reserves and surplus are equal to or more than **5 times** of its paid up equity share capital. In case, if it is decided not to issue bonus shares, the nominee 'official director' shall ensure that the board analyses the justification for the decision, and reasons for the same be recorded specifically.

7.5 However, every CPSE shall issue bonus shares if their defined reserves and surplus is equal to or more than **10 times** of its paid up equity share capital.

7.6 Defined reserves and surplus would mean free reserves, the share premium account, and the capital redemption reserve account.

8 Splitting of Shares:

8.1 Department of Expenditure vide its O.M. No. 7(2)/E-Coord/2005 dated 23rd November, 2005 provides that companies with high market price of shares will consider stock splits. However, it does not state when a CPSE needs to consider stock splits and simply mentions that CPSEs with high market price of share will consider splitting of shares.

8.2 It has been endeavor of the government to encourage participation of small investors in the capital market so as to increase the depth of the market, liquidity and trading volume of the shares. However, high price of shares sometimes acts as a deterrent for the investors to invest in the company. In view of this, the Board of the CPSEs needs to discuss and decide on the desirability of splitting the share.

8.3. However, a CPSE where market price or book value of its share exceeds **50** times of its face value will split-off its shares appropriately provided its existing face value of the share is equal to or more than Rs. 1.

9. Miscellaneous Provisions:

9.1 Net-worth as referred to in the above guidelines would have the same meaning as defined in the Companies Act, 2013, as amended from time to time.

9.2 The above guidelines on payment of dividend, bonus shares, buyback and splitting of shares would be subject to the provisions of the Act under which a CPSE has been set up, as amended from time to time and any other extant regulations/rules.

9.3 In case, any CPSE is not able to comply with any of the above guidelines, specific exemption has to be obtained from DIPAM, Ministry of Finance, Government of India through their Administrative Ministry/Department. The Administrative Ministry will ensure the compliance of these guidelines and refer proposals for exemption(s) to the DIPAM alongwith their opinion/comments and concurrence of the Financial Adviser in the matter.

9.4 The Department of Public Enterprises (DPE) which conducts an annual survey may consider an appropriate modification, if required, in their existing format to adequately capture various aspects of the above guidelines for the efficient management of GoI's investment in CPSEs. The findings of the Survey may also be suitably incorporated in its annual publication on "Public Enterprises Survey".

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