GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF INVESTMENT AND PUBLIC ASSET MANAGEMENT
**RAJYA SABHA**
**UNSTARRED QUESTION NO. 1491**
TO BE ANSWERED ON TUESDAY, MARCH 15, 2022
24 PHALGUNA, 1943 (SAKA)

**Sale of Central Electronics Limited**

1491. **Shri John Brittas:**

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that serious questions have been raised on the decision to sell Central Electronics Ltd (CEL) to Nandal Finance and Leasing Pvt Ltd;

(b) if so, the objections cited;

(c) the response of Government thereto;

(d) the details and value of tangible and intangible assets of CEL;

(e) the details of amount outstanding to CEL from various Government agencies;

(f) the details of orders in the pipeline for CEL; and

(g) the details of asset size of Nandal Finance and Leasing Pvt Ltd?

**ANSWER**
**THE MINISTER OF STATE IN THE MINISTRY OF FINANCE**
**(DR. BHAGWAT KISHANRAO KARAD)**

**(a) to (c)**: Post identification of the successful bidder (M/s Nandal Finance and Leasing Pvt Ltd) for strategic disinvestment of 100% shareholding of GoI in Central Electronics Limited (CEL) through an open, transparent and competitive bidding process, a set of allegations have been received from the CEL Employees Union alleging that disinvestment of CEL should not be done on national security grounds; sale is less than the value; the two bidders putting financial bids are inter-related and the successful bidder does not have experience and manpower necessary to run a diversified company like CEL.

Government's Disinvestment Policy is intended to achieve efficiency, capital infusion, foster competition and innovation leading to faster growth of production and productivity in the divested CPSEs and the overall economy. The concept of national security does not mean that goods and services will require to be obtained from public sector units only. Private sector (domestic and foreign) provides a range of goods and services to security agencies and the Government has already opened up domestic Defence and Space-related manufacturing to private sector.

The allegations regarding low valuation are without basis, and without appreciating the intricacies involved in the process of professional valuation. The strategic disinvestment of CEL has been undertaken through an established open, transparent, competitive bidding process implemented through a multi-layered decision-making process aided by professional advisors hired through a competitive bidding process. The Reserve Price of Rs. 194 Crore has been arrived at after considering different valuation methodologies with the help of professional advisers. The market price has been discovered based on highest competitive financial bid, which was also above the Reserve Price.

In the case of CEL, open bids were invited in a transparent manner based on the criteria of networth as laid down in PIM/EoI. Sectoral experience has not been among the relevant criteria. It is a part of the disinvestment policy of the Government to not make sectoral experience a qualification criterion for bidders to expand the universe of bidders and provide them a level playing field. Further, investors with the right resources and entrepreneurship can enter into any business with the help of managers and employees of the company being disinvested as well as through additional hiring. CEL is proposed to be disinvested on 'a going concern' basis, which means existing employees including experts/professionals will continue post disinvestment.

As regards the alleged inter-relatedness of the two bidders, legal examination of the issue is being done. Pending examination of this issue, it has been decided to place the Letter of Intent (LOI) to the successful bidder on hold. Accordingly, the LOI has not been issued yet.

**(d):** In keeping with the best market practices, recommendations of the erstwhile Disinvestment Commission and DIPAM's valuation Guidelines, four methodologies are usually employed for valuation of CPSEs: (i) Discounted Cash Flow method (DCF), (ii) Balance Sheet Method, (iii) Market Multiple Method and (iv) Asset Valuation method, subject to feasibility and applicability in particular circumstances of the case. While the first three are Business Valuation methodologies generally used for disinvestment as a going concern and are done by the TA, Asset Valuation approach for arriving at Net Asset Value (value of assets minus various liabilities) is relevant in case of closure/liquidation of a company and is carried out by the Asset Valuer appointed for the purpose**.** In the present transaction, Discounted Cash Flow method (DCF), Balance Sheet Method, and the Asset Valuation method have been worked out for the equity value by the professional advisers (Transaction Adviser and Asset Valuer).

DCF method is the method commonly applied to ‘going concerns’, as it expresses the present value of a business as a function of its future cash earning capacity discounted to its present value by applying an appropriate discounting rate. The valuation of equity arrived at by this method of valuation was INR 193.98 Crore. Balance Sheet methodology values a business on the basis of the book value of its underlying assets. While this method considers the amount that is historically spent and earned in a business, it does not consider the earnings potential of the assets and is, therefore, seldom used for valuing a going concern. Further, the book value of assets and liabilities may be significantly different from the market value of assets and liabilities. As per the Balance Sheet Methodology, the valuation of equity in case of CEL was Rs 111.23 Crore.

Asset Valuation method essentially estimates the value that can be realized by liquidating the business by selling of all the assets of the Company, and paying off the liabilities. For arriving at Net Asset Value, the liabilities like settlement of all borrowings on the balance sheet, including bank loan, Government loan, the current liabilities (trade creditors, non-trade creditors, contingent liabilities & statutory liabilities), and certain other closure related liabilities such as estimated VRS cost for all employees, Capital Gain Tax liability are adjusted (reduced) from the Valuation of Assets. Asset Valuation method is useful in case of liquidation/closure of the business and generally not used for sale on a “going concern” basis. In the case of CEL, the strategic disinvestment is on a “going concern” basis so that the company employees continue to remain employed and the company continues to remain in business. In fact, there are obligations relating to employee protection, asset stripping and business continuation on the part of strategic acquirer.

However, asset valuation has been carried out by the professional Asset Valuer as per laid down the policies. The Asset Valuer has assessed the value of tangible assets and intangible assets of CEL. Tangible Assets of CEL include Land, Building, Plant & Machinery, Office Equipment, Furniture & Fixtures etc and intangible assets include Patented Development Technology of railway electronics, defence business and the solar vertical. As regards land, CEL has 2,41,614 square yards of leasehold land at Sahibabad, Ghaziabad, Uttar Pradesh. The land was leased for a period of 90 years from UPSIDC since 28.02.1975 for manufacturing of solar PV modules & systems. About 46 years of lease period has already expired. The balance lease period of about 44 years has been taken for arriving at market value of the lessee interest in the subject land. Accordingly, the said land has been valued at Rs.214.92 crore. Professional Asset Valuer has valued Building, Plant, Furniture and fixtures and all other assets at Rs.36.53 crore and Capital Work in Progress (CWIP) at Rs.4.33 crore. Total value of tangible assets has accordingly been valued at Rs. 255.78 crore.

As regards intangible assets, Professional Asset Valuer while assessing Net (equity) Asset Value of CEL under Asset Valuation approach, has determined the fair market value of the patented developed technology related to the System production (railway electronics) & component group (defence business). For valuation of intangible assets (developed technology) of CEL, the *Relief from Royalty* method has been used as it is most widely accepted valuation method for intangibles. Based on this method, professional asset valuer has calculated fair market value of developed technology at Rs. 46 crore. Total value of tangible assets, intangible assets, current assets, non-current assets, and cash balance of the company has been placed at Rs. 582.44 crore.

The liabilities of the Company including bank and government borrowings, current liabilities and other liabilities were valued at Rs.409.56 crore which were deducted from the total value of its assets to arrive at net (equity) asset value of CEL as per approved Asset Valuation methodology. The asset valuation arrived at by this method of valuation of equity is INR 172.87 Crore.

**(e):** For CEL, most of the debtors outstanding are Govt agencies. The outstanding balance of debtors as on 31.03.2021 was Rs.172.73 Crores.

**(f):** The Total value of fresh orders received in FY 2019-20, FY 2020-21 and FY 2021-22 (till 23.01.2022) were Rs.282.95 crore, Rs.408.11 crore and Rs.994.17 crore respectively. Another order of value Rs.200 crore is in pipeline for defence business group. The order execution rates of the company in 2018-19, 2019-20, and 2020-21 are 19.17%, 19.47% and 20.8% respectively.

**(g):** For strategic disinvestment of Central Electronics Limited, open bids were invited based on the criteria of networth as laid down in PIM/EoI. As per the documents verified by the Transaction Advisor, the successful bidder has a networth of about Rs.143 crore as on 31.03.2021 against the criteria of Rs.50 crore as per PIM/EoI.

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