

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF INVESTMENT AND PUBLIC ASSET MANAGEMENT
RAJYA SABHA
UNSTARRED QUESTION NO. 1520
TO BE ANSWERED ON TUESDAY, MARCH 15, 2022
24 PHALGUNA, 1943 (SAKA)

Sale of Central Electronics (CEL)

1520. **Shri Kapil Sibal:**

Smt. Phulo Devi Netam:

Shri G.C. Chandrashekhar:

Will the Minister of FINANCE be pleased to state:

- (a) whether Government evaluated technological and managerial experience and competence of M/s Nandal Finance & Leasing Private Limited to whom Government intends on selling the Central Electronics Limited (CEL);
- (b) if so, the details thereof, and if not, the reasons therefor;
- (c) the details of the criteria upon which all potential buyers were assessed and upon which the decision to approve M/s Nandal Finance and Leasing Private Limited was taken;
- (d) the details of fixed assets owned by M/s Nandal Finance and Leasing Private Limited; and
- (e) the details of the valuation of Central Electronics Limited (CEL)?

ANSWER

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

(a) and (b): As per due process of strategic investment relating to Central Electronics Limited, open bids were invited in a transparent manner based on the criteria of networth (Rs 50 crore) as laid down in PIM/EoI. The technological and managerial experience of the bidder are not 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.

(c): The process for disinvestment of 100% GoI equity in CEL commenced in 27.10.2016 with the ‘in-principle’ approval of CCEA. The first attempt to strategically divest CEL did not succeed as no financial bids were received.

The process was re-launched on 3rd February 2020 with issue of Preliminary Information Memorandum (PIM) and request for Expressions of Interest (EOI) based on eligibility criteria. The last date of submission of EoI was extended many times till 15.7.2020 due to prevailing covid-19 situation. Three EOIs were received by the extended last date (15.07.2020). All the bidders were shortlisted by the TA. The Alternative Mechanism (AM), the Group of Ministers empowered by CCEA, approved the SPA and RFP on 7.1.2021 after which the approved RFP and SPA were shared with the Transaction Adviser (TA) for issuing to the short-listed bidders for placing financial bid, along with the proforma for obtaining Security Clearance.

The shortlisted bidders were given access to the Virtual Data Room (VDR) through which CEL provided comprehensive information to the qualified bidders who were also provided access to inspect the assets and facilities being offered as a part of the transaction. A large number of queries from bidders were responded to. After completion of the due diligence process, the TA issued the approved RFP and SPA along with the Security Clearance format to the short-listed bidders on 17.2.2021, with the last dated of submission as 10th March 2021. The final SPA contained detailed terms and conditions and the respective responsibilities to meet the conditions precedent for closing the transaction including release of Government guarantees prior to closing was agreed upon prior to bid submission.

The Last date of submission of financial bid was thereafter extended till 12th October 2021 due to disruptions caused by covid-19 and on the request from bidders. By the last date, two sealed bids were received along with non-financial bid documents and bid security from the two qualified bidders.

After receipt of sealed financial bids and in line with the approved procedure for strategic disinvestment, a ‘Reserve Price’ was fixed based on valuations by the Transaction Adviser (TA) and the Asset Valuer (AV) using respective methodologies as per the established process. After the independent fixation of Reserve Price, the already received sealed financial bids were opened in the presence of the bidders, which were as follows:

- (i) M/s Nandal Finance and Leasing Pvt Ltd
- (ii) M/s JPM Industries Ltd.

The higher of the two price bids submitted by M/s Nandal Finance and Leasing Pvt Ltd was found to be above the reserve price. The Alternative Mechanism (AM), comprising Hon'ble Minister of Road Transport and Highways, Hon'ble Finance Minister, and Hon'ble Minister of State (Independent charge) Ministry of Science and Technology, empowered by CCEA, approved the highest price bid of M/s Nandal Finance and Leasing Pvt Ltd for sale of 100% equity shareholding of GoI in Central Electronics Ltd (CEL) on 29.11.2021 based on recommendations of Core Group of Secretaries on Disinvestment (CGD) and Inter Ministerial Group (IMG). Subsequently some allegations have been received from CEL Employees Association. Pending legal examination of some of these allegations, the IMG has decided to put the Letter of Intent (LOI) on hold. Accordingly, the LOI has not been issued yet.

(d): As per the documents verified by the Transaction Advisor, the successful bidder has a net-worth of about Rs.143 crore as on 31.03.2021 against the net-worth criteria of Rs.50 crore as per PIM/EoI.

(e): 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 namely Discounted Cash Flow method (DCF), Balance Sheet Method, Market Multiple Method and the 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 Transaction Advisor, 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 cost of replacing the business or 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. For the purpose of arriving at the Net Asset Value of CEL as per Asset Valuation method, the Professional Asset Valuer has valued immovable assets (Land, Building, Plant & Machinery & all other assets) at Rs.251.45 crore; and current assets, non-current assets, cash balance, Capital Work in Progress (CWIP) & intangible assets at Rs.330.99 crore. As regards the valuation of 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. 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 value of its assets as per Asset Valuation methodology. The valuation arrived at by this method of valuation of equity was INR 172.87 Crore.

The IMG, after due consideration of all relevant factors, recommended the ‘Reserve Price’ of Rs. 194 Crore arrived at by using the DCF method of valuation, which was duly considered and approved by the Core Group of Secretaries on Disinvestment. It may be noted that on opening of financial bids, highest price bid received through open competitive bidding process was Rs. 210.006 crore which was significantly higher than the Reserve Price.
