Highlights

- Though the broad objectives of overall disinvestment programme were indicated, clear objectives for each case of disinvestment were not laid down. This was necessary since the nine PSUs represented different sectors, comprised unlisted and listed entities and were loss making as well as profitable units. Such clear individual objectives would have enabled a critical appraisal of the outcome in each case.

(Paragraph 3.1.2)

- Creation and prompt operation of a dedicated fund to manage disinvestment proceeds would have enabled transparent and effective deployment of the resources mobilised for purposes as intended by Government.

(Paragraph 3.1.3)

- Audit noted that in the case of four PSUs (**BALCO, VSNL, PPL** and **IPCL**), the efforts made by the PSU, the administrative Ministry and Department of Disinvestment (DOD) to get title deeds to the land and buildings and to remove encumbrances before taking up disinvestment were not adequate. This impacted the valuation of these properties adversely under the asset valuation methodology. The asset valuer had either discounted or not considered the value of such properties.

(Paragraph 3.2.1)

- Crucial decisions having substantial financial implication for valuation were taken after inviting the Expression of Interest (EoI) from prospective bidders for selection of strategic partner in the case of three PSUs (**VSNL, PPL** and **IPCL**). This was avoidable and was not a good practice.

(Paragraph 3.2.3)

- In the case of **VSNL**, there was delay in demerging 773.13 acres of land declared surplus out of 1230.13 acres belonging to the PSU. Even after more than four years after disinvestment of the PSU in February 2002, the surplus land was still in the custody of the disinvested company in which the strategic partner had management control.

(Paragraph 3.2.3.4)

- In the case of **IPCL**, certain issues relating to contingent liabilities on account of deferred taxation (Rs.750 crore) could not be resolved, and other crucial issues of continued availability of and cost of feedstock were resolved belatedly.

(Paragraph 3.2.3.6)

- In eight out of nine PSUs examined in audit, there were delays ranging between three months and more than three years in signing the advisory service agreements between the Ministry and the Global Advisor (GA) after issuance of mandate letter. In the remaining case (**PPL**), the Ministry did not sign the agreement at all. This left GAs practically without any contractual obligations for most of the period of their work. Besides being in violation ofGovernment orders, this was not at all a good management practice.

(Paragraph 3.3.5)

- The Ministry selected the Global Advisors through a process of open bidding but the number of financial bids actually opened was not more than three in any case. In one case only one financial bid was opened. This happened because only the financial bids of those scoring the highest marks on the basis of identified criteria and weights were opened; no threshold or benchmark score was fixed in any case for the bidders to qualify for opening of their financial bids. This would have increased the number of financial bids opened and thereby enhanced the competition.

(Paragraph 3.3.1)

- Four methodologies, as decided by DOD, were broadly followed in valuing the nine PSUs examined in the report. But the projections made by the Global Advisor while working out the valuation could not be crosschecked in Audit with those made in the respective business plans in the case of three PSUs (**VSNL, HZL** and **IPCL**) where business plans were not available.

(Paragraphs 3.4 and 3.4.1.1)

- Audit examination revealed instances of far too conservative assumptions made by the Global Advisors in seven out of nine PSUs examined in the report for valuation under discounted cash flow methodology. There were no recorded reasons justifying the assumptions made by the Global Advisors. The assumptions had the potential of adversely impacting the business valuation, based upon which the reserve price was fixed for disinvestment.

(Paragraph 3.4.1.2)

- Certain core assets like leasehold land and plant and machinery (**MFIL**), and leasehold land housing the plant and township (**BALCO**) were not valued under the asset valuation methodology. Non-core assets were not identified and properly valued in two PSUs (**BALCO** and **IPCL**). Asset valuation methodology did not appear to serve much useful purpose as adequate time was either not given to the valuer or the valuation was done without adequately considering all properties.

(Paragraphs 3.4.2.4 and 3.4.6.2)

- Audit noted that the Global Advisor in **HZL** had assumed three out of six mines as operational whereas the asset valuer had assumed that only one mine was in operation and the remaining five were inoperational and had exhausted their economic life. This had the effect of indicating inconsistent values in the two methods.

(Paragraph 3.4.2.4)

- As many as 48 out of 70 interested bidders had withdrawn from the bidding process for strategic partners and in only two cases (**IBP** and **IPCL**), more than two financial bids were received indicating that the competitive tension generated in the process was not encouraging enough to have automatically maximized the value for the stake under disinvestment.

(Paragraph 3.7.1)

- In all the four cases of unlisted PSUs (**MFIL**, **BALCO, HTL** and **PPL**), the Ministry received claims that emanated out of the post closing adjustment clause of the share purchase agreement (SPA), which could not be settled within the stipulated time. In the two cases of **HTL** and **PPL**, the claims received from the strategic partners had the potential of wiping out almost the entire realization from disinvestment. Government was exposed to uncertainties and possible litigation. Such cases did not enable an assessment to be made of the effective outcome of disinvestment. Three disinvested PSUs (**MFIL, HTL** and **PPL**) had already been referred to BIFR after disinvestment.

(Paragraph 3.9.2)

- In the case of **IPCL,** the strategic partner submitted a series of claims amounting to Rs. 927.41 crore on the ground of non-disclosure of relevant information in the financial statements or in the due diligence process, which had the potential of reducing the sale proceeds of Rs.1490.84 crore realized by the Ministry (May 2002) by 62.20 per cent.

(Paragraph 3.10)