F. No. 3(3)-B(S)/2015
Government of India
Ministry of Finance
Department of Economic Affairs
(Budget Division)
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North Block, New Delhi
Dated the 5th January, 2016

Office Memorandum

Subject:- Dividend Payment of Central Public Sector Enterprises (CPSEs).

It has been observed that there is a huge variation in dividends paid out by CPSEs and hence a need exists for a clear dividend policy. CPSEs need to take a decision on dividend within the clearly articulated framework of the Government. In 2004, the Department of Expenditure had communicated a dividend policy of 20% PAT or 20% of equity, whichever is higher (30% in case of Oil, Petroleum, Chemical and other infrastructure CPSEs). Since then no clear policy has been communicated by Ministry of Finance and hence by default, the above guidelines have continued to operate. It is also noted that many CPSEs are not adhering to these guidelines.

2. The Fourteenth Finance Commission (FFC) had remarked that unlike operational matters in which the Board and management should have autonomy, transfer to reserves and payment of dividends is a policy matter which the Government, as owners, should decide. According to FFC, the dividends policy should cater to the requirements of the Government also, as it would in case of any prudent investor/ owner. This is especially true in times of current fiscal crunch. When the Government has to cater to other public interests too.

3. Hence, keeping in view the fact that Government of India is a majority shareholder in CPSEs, it has been decided that henceforth

(i) A CPSE would pay an annual dividend of 30% of PAT or 30% of GOI's equity, whichever is higher.
(ii) Due account should be taken of cash and free reserves with the CPSE, and accordingly special dividend would need to be paid to the Government, as a return for its equity investments.
(iii) CPSE with large cash/ free reserves and sustainable profit may issue bonus shares.

Any case of exception should be explained specifically by the concerned Administrative Ministry/ Department concerned to the Secretary DEA.

4. The capital investment requirements of CPSEs may be kept in view but it needs to be specifically assessed whether those investment requirements can be fully or partly met out of market borrowing, to leverage the favorable debt-equity ratios in the CPSEs. In fact reliance on market borrowings would enforce more professionalism in the CPSEs. The FFC has suggested that the transfer to reserves may be permitted only after the entity has exhausted the options and limits for raising additional resources through debt in terms of a defined enterprise limit on the optimum debt equity ratio.

5. All the administrative Ministries/ Departments concerned should take stock of CPSEs under their administrative control and communicate the BEs/ REs in a timely manner to the Budget Division of DEA.

5.1.2016

(Shaktikanta Das)
Secretary to the Government of India

To

1. All Secretaries to the Government of India (By name)
2. All FAs (By name)
3. All Heads of Public Sector Enterprises.