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LISTING PROVIDES AN OPPURTUNITY TO THE PEOPLE OF INDIA TO BECOME SHAREHOLDERS IN CPSES WHILE GOVERNMENT RETAINS MANAGEMENT CONTROL:FM

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The Union Finance Minister, Shri Pranab Mukherjee has said that listing provides an opportunity to the people of India to become shareholders in Central Public Sector Enterprises(CPSEs); while Government retains management control and at least 51% shareholding in the Government companies. The Finance Minister was delivering the inaugural address after inaugurating the Seminar on "PSU Disinvestment through Listing – a Tool for Improved Corporate Governance" in Vigyan Bhawan here today. The Finance Minister Shri Mukherjee also unveiled a copy of the ICICI Securities' White Paper on PSU Divestments on this occasion.

The Finance Minister Shri Pranab Mukherjee said that realising the importance of market forces and the role of enhanced corporate governance vis-à-vis more autonomy to Government companies; listing of such companies is an important tool to strike a balance. He further emphasized that keeping more than 51% equity in Government companies locked-up does not make economic sense when such valuable resources are required for redeployment in area where development is needed.

The Finance Minister Shri Pranab Mukherjee said that he would like to say that by putting the CPSEs on the path to listing and market dynamics but under the overarching guidance of the Government, a win win situation has been created for all parties. He said that the CPSEs benefit from enhanced corporate governance. The Finance Minister concluded that shareholders benefit in that the value of their shareholding increases with improved efficiency and profitability of the company and the Government has the opportunity to optimize utilizations of its resources.

The Seminar was organized by Department of Disinvestment, Ministry of Finance, Government of India in association with ICICI Securities Ltd., here today. The focus of the Seminar was PSU Disinvestment through Listing. It was attended among others by the CMDs of various PSUs and senior officials of the Ministry of Finance. The workshop was also attended by the senior officials from about 90 CPSEs and ICICI Securities Limited.

The topics covered in the seminar were: Evolution of Corporate Governance in PSUs and listing by Disinvestment Secretary, Shri Mohd. Haleem Khan; CPSE perspective on listing by Dr.Nitish Sengupta, Chairman BRPSE. The experience of IPO Process and the Benefits of Listing were shared by Shri Partha Bhattacharjee, Ex-CMD, Coal India Ltd.; the officials from Power Grid Corporation of India Ltd. and Oil India Ltd. The Listing Process was explained by Shri V.P. Gupta, Advisor, Department of Disinvestment.

Disinvestment Secretary, Shri Mohd. Haleem Khan said that listing makes it possible for PSUs to cut the cost of multiple transactions as investible surplus with the people goes directly to the investment worthy enterprise in a single transaction. He said that listingalso makes oversight mechanism multilayered.

In her welcome address, Ms Chanda Kochhar, MD & CEO , ICICI Bank and Chairperson, ICICI Securities said that Listing subjects a company to a new form of discipline that strengthen the processes that companies follow, and their approach to balancing the interests of different stakeholders. She said that it is about doing one of the key things that enable a company, a business, to realise its full potential. Ms Kochhar further added that it drives improvement in management, agility in operations and greater market orientation. She concluded that listing is a logical step in the evolution of a business as it matures and grows.

Valedictory address was given by Shri Montek Singh Ahluwalia, Deputy Chairman, Planning Commission.

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Following is the text of the speech delivered by the Union Finance Minister, Shri Pranab Mukherjee while inaugurating the aforesaid Seminar on PSU Disinvestment:

"At the dawn of independence, the first Prime Minister of India Pt. Jawaharlal Nehru had a vision that the Public Sector Enterprises would herald the industrialization in the country. Accordingly, he mapped out the strategy through the Industrial Policy Resolution of 1948 and 1956 that the Public Sector Enterprises will lead the industrialization process in the country as the private sector in India was weak at that point of time. In fact, the 1956 Industrial Policy Resolution specifically stated that the Public Sector Enterprises in India will attain the commanding heights of the economy.

In 1951 at the beginning of the First Five Year Plan there were 5 CPSEs owned by the Central Government with a total investment of Rs.29 crore. While the first FYP concentrated on agriculture, it was during the second FYP period of 1956-1961 that the focus of the planners shifted to industry, especially heavy industry and the development of the public sector as we know it today. The most important feature of this phase was the active role of the state in all economic sectors. Such a role was justified at that time since immediately after independence, India was facing some basic problems like deficiency of capital and low capacity to save. With massive infusion of capital by the Government in this period we saw the development of hydroelectric power projects and setting up of steel plants at Bhilai, Durgapur, Rourkela, besides development of infrastructure like ports, airports etc. By the end of the Seventh Plan in 1990, the number of CPSEs had increased to 244 with a total investment of Rs. 99,329 crore. By early 1990's CPSEs and PSEs contributed about 25% towards the GDP. The policy of the Government during this period provided a conducive environment for the CPSEs to lay deep foundations.

Today the 50 listed CPSEs constitute 22.25% share of the total market capitalization on the Bombay Stock Exchange. Coal India, ONGC and NTPC are amongst the top ten companies by market capitalization. The CPSEs have indeed come a long way and are comparable to the best in their class. Liberalisation of the economy drew our attention to the underperforming public sector enterprises, which led to the opinion that Government should have a limited role in running companies in sectors like hospitality, auto mobiles etc. Therefore it was felt that the Public Sector should gradually withdraw from areas where the private players had developed adequate strength.

Disinvestment started in a small way in the 1990's and gradually gained strength in the early 2000's which saw a number of privatizations. However, the disinvestment policy has not been rigid and has been adapted to benefit from the experiences so gained in its implementation. The policy now focuses at minority stake sales. As I have stated in my last few budget speeches the CPSEs are the wealth of the nation and through public offerings the Government has endeavored to unlock the true nature of these public sectors and most important to provide an opportunity to the people of India to become shareholders in these companies.

Disinvestment has often suffered from the hangover of the apprehension of passing of management control into private hands. The public sector character of the listed companies will be maintained as at least 51% shareholding remains with the Government.

Considering our experiences from disinvestment programmes we believe that the public sector has a pivotal role to play in the growth of the Indian economy. However, the Government also realizes the importance of market forces and the role of enhanced corporate governance in taking a company to higher levels. If we examine the guidelines issued by the Department of Public Enterprises which is the nodal ministry for all CPSEs it can be seen that over the years the thrust has been towards giving more and more autonomy to the companies in their day to day working and also to bring in better corporate governance. With the dismantling of the license raj and the liberalization of the economy the over - centralized control over the CPSEs became anachronistic. A fine balance between the development imperatives and corporate viability has to be achieved. To a large extent these twin objectives have been met. One of the earliest measures to bring in accountability was the MOU system which was a negotiated document with the government specifying clearly the objectives of the agreement and the obligations of both the parties. This helped PSEs to overcome some of its major problems in the day to day running as well as to command a place of pride on the basis of performance. It also addressed the problems of

- Multiplicity of agencies within the Government which kept setting different objectives, for the enterprises, which were often conflicting.

- Lack of clarity of objectives, due to which the management of the PSEs could not be held accountable for the performance.

- Absence of functional autonomy which made PSEs handicapped in their operation.

Another major milestone on the road to enhanced corporate governance was the Navratna scheme introduced by the Government in 1997. As this scheme evolved some of the CPSEs were given the status of Maharatna, Navratna and Miniratna leading to greater autonomy and delegation of financial powers to the management of the CPSEs. This has empowered CPSEs to align their decisions to the opportunities and challenges of the day, which is essential for any commercial entity.

But greater autonomy and delegation must be followed closely by greater sense of accountability to their shareholders. While the CPSEs have begun to enjoy substantial autonomy as far as Government control is concerned, it is time that our Maharatna, Navratna and Miniratna companies should show their mettle in the capital market. There is no better mechanism for making a company more accountable for its actions than to be made answerable to a larger body of shareholders. The movement of the share price of a company on the stock market acts like a barometer of the health of a company and the policies being adopted by its management. The regulatory disclosures required for a listed company brings in greater transparency in the functioning of the company. But most importantly the true worth of a company can only be gauged once it is listed and its shares are publicly traded which unlocks the true value of the company. As you all know the Rs. 15000 cr. IPO of Coal India in October last year led to its market capitalization increasing by almost 13 times over the book value. Not only did it lead to Governments' residual shareholding increasing manifold but the people of India could also get a share of this valuable company. Coal India in the process has become directly accountable to large number of shareholders rather than just the elected Government.

It is in this background that we come back to the rationale behind the disinvestment policy. Cynics would say that the policy was prepared with the objective of meeting the fiscal deficit. More sympathetic minds may liken the matter to a chicken and egg situation since it is difficult to say whether the policy was prepared to raise money or because of disinvestment policy the Government decided to set a monetary target to the whole process. But as far as, the Department of Disinvestment is concerned this is no conundrum and disinvestment means business as usual. Within the clearly laid down policy, the Department of Disinvestment as the nodal department seeks to list the unlisted CPSEs or to make compliant the listed companies which do not meet the minimum public shareholding criterion.

Besides this the Government also feels that as long as the Government retains 51% and thereby remains the majority shareholder it should gradually capitalize its investment in those CPSEs which have reached a stage where they do not require any handholding and utilize the proceeds for meeting social sector capital requirements which is the need of the hour. Retaining more than 51% GOI shareholding in a company has no impact on its character as a CPSE and it only keeps Government investment locked up, often at a value which may be lower than what the market would offer. A glaring example of this can be seen from the fact that prior to listing of five CPSEs namely NHPC, Oil India, SJVNL, CIL and MOIL the value of Government shareholding in these companies was Rs 54,304 crores which on date has increased by almost 5.25 times to Rs 2,85,434 crores. Like any intelligent investor the Government would like to capitalize on this gain and redeploy the receipts in areas where development is needed.

To conclude I would mention that by putting the CPSEs on the path to listing and exposing them to market dynamics, under the overarching guidance of the Government a win-win situation has been created for all the stakeholders. We see that CPSEs have ultimately benefited from the enhanced corporate governance. The Shareholders benefit as the value of their shareholding increases with improved efficiency and profitability of the company, while the Government has the opportunity to optimize utilization of its resources. But the best part of this entire exercise is that the enterprises are getting into a scheme of things where their good work is immediately appreciated by the market. Finally, instead of just being accountable to the people of India through its elected government the listed CPSEs rise to the challenge of being accountable to a basket of shareholders comprising citizens of India and financial institutions - both from India and abroad."

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