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The Times of India News Service
The Times of India (1861-2010); May 9, 1993; ProQuest Historical Newspapers: The Times of India
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NEW DELHI, May 8.

THE "unjustified" reduction in the reserve prices in response to lower bids received in two tranches of sale of shares of public sector undertakings (PSUs) in 1991-92 to financial institutions and mutual funds resulted in under-realisation of receipts totalling Rs 3,441.71 crores to the government, according to a report of the Comptroller and Auditor General of India (CAG).

The disinvestment in PSUs was carried out in December 1991 and February 1992 to yield to the exchequer Rs 3,038 crores against the budget estimate of Rs 2,500 crores. This money, the CAG report has noted, was used to reduce the government's revenue deficit instead of enhancing the availability of resources of PSUs for capital expenditure.

According to the CAG report, the undervaluation in the sale of shares of the 30 PSUs ranged from 21.95 per cent to 86.67 per cent. In absolute terms, the under-realisation in respect of Bharat Petro Chemicals Ltd was over Rs 106 per share, while in respect of Indian Petrochemicals Corporation (IPCL) was Rs 109.76 per share. The highest under-realisation was in respect of IRCON, which was to the tune of Rs 225 per share.

The report says the disinvestment exercise was not preceded by adequate preparatory study. Some of the PSUs such as Steel Authority of India Limited (SAIL) and IPCL were included in the programme of disinvestment against the advice of these PSUs and their administrative ministries. In respect of these two PSUs, there was "gross under-realisation of sale receipts".

The method of sale of shares of PSUs in bundles had the effect of depressing the value realisation of "very good/good" PSU shares as a result of clubbing together with "average" PSUs. The CAG also found that the disinvestment of shares of Cochin Refineries and Andrew Yule, which were listed on the stock exchange, to financial institutions and mutual funds in the first tranche in December 1991 was contrary to government decision.

The report says tht making bundles before fixation of reserve prices of shares resulted in failure to contain the value of each bundle to around Rs 5 crores as approved by the government. The variation in the value of bundles ranged from Rs 8.61 crores to Rs 12.91 crores. By quoting rates of bundles below Rs 5 crores, the financial institutions and mutual funds made "adventitious" gains at the cost of the exchequer.

What is more, even though the government knew that the financial institutions would be able to buy shares worth Rs 2,000 crores to Rs 2,500 crores in the first phase of disinvestment in December 1991, the government offered shares whose value on the basis of reserve prices was around Rs 8,000 crores.

The CAG has found that non-incorporation of claw back provision in the terms and conditions of the sale resulted in government not being able to realise a part of the huge profits