Annex – I
(Refers to paragraph 1.12.6)

Process Flow Chart

Disinvesment Process through Strategic Sale

Disinvestment Commission's Recommendations.
↓
Administrative Ministry' comments.
↓
Consideration by Core Group of Secretaries on Disinvestment (CGD)
↓
Approval of Cabinet Committee on Disinvestment
↓
Advertisement and Receipt of Expressions of Interest (EoI) from Advisors.
↓
Appointment of Advisors.
↓
Appointment of Legal Advisor and Asset Valuers.
↓
Advertisement for inviting Expressions of Interest from bidders.
↓
Short-listing of bidders and Due diligence by short-listed bidders.
↓
Finalization of Shareholder's Agreement/ Share Purchase/ Other agreements etc.
↓
Receipt of final bids and bid evaluation
↓
Selection of Strategic Partner
↓
CCD, Securities Exchange Board of India and other regulatory approvals.
↓
Execution of legal documents and inflow of funds Public offer announcement by the strategic Partner, as per SEBI takeover Code, wherever applicable.

Annex – II

(Refers to paragraph 1.13.1)

Valuation Methodologies

Four valuation methodologies standardised by the Government have been described below :

Sl.No.	Name of Methodology and its description
1.	**Discounted Cash Flow (DCF) Method:** *This method is considered most appropriate to value companies as it is the primary method relied upon by the strategic investors since the 'Going Concern' approach in this method is especially reliable for strategic sale because it envisages continuance of the operation of business with infusion of superior technical and managerial skills by the strategic partner, besides additional capital. The future cash flows are translated into Present Values (PVs) by using a discount factor, worked out on the basis of assumptions relating to the cost of debt and equity and debt equity ratio. Higher the rate of the discount factor, lower would be the Enterprise value. Since use of several assumptions is inherent in this method, it entails an elaborate and complex process of financial projections and calculations providing range of values.*
2.	**Asset Valuation Method** *This method estimates the cost of replicating the tangible assets of business at market value. Alternatively, this methodology can also assume the amount which can be realized by liquidating the business by selling off all the tangible assets of a company and paying off the liabilities. The GA makes an adjustment on account of Net Current Asset, Voluntary Retirement Scheme (VRS) and Capital Gains Tax in the Asset Value derived by the Asset Valuer to indicate the value, which could be realised if the business were to be liquidated. It is significant in the Indian context because most of the PSUs slated for disinvestment have large chunks of unutilised or under-utilised land and buildings, plant and machinery whose value may not get captured efficiently in other methods. Some of these assets may not be considered essential for the running of the business and hence, might not figure in the valuation of the business by the potential buyers. Nonetheless, these non-core assets must fetch good value to the Government.*
3.	**Comparable Companies Method** *Under this approach, the value is calculated by applying average multiples derived from a sample of comparable companies. This method is used only as a support to DCF valuation and not as a standalone method because the operational efficiencies and the state of technology might vary vastly amongst the comparable companies. At the same time, it is a reflection of the current view of the market and hence is considered as a useful rule of thumb, providing reasonableness of checks to valuation arrived at from other*

	methodologies.
4.	**<u>Balance Sheet Valuation</u>** *This method assumes that the value of the business equals the value of the assets as reflected in the financial statements. Hence, this method does not consider the earning potential of the assets and is, therefore, seldom used for valuing a going concern. Since in the case of most of the PSUs, the assets would be substantially depreciated and the market value not getting truly reflected in the accounts, this method cannot be relied upon for fixing the reserve price.*

Annex III

(Refers to paragraph 2.1.1)

S. No.	Profile of the Company
1.	**Bharat Aluminium Company Limited (BALCO)** BALCO, a profit-making company of the Government of India, incorporated in 1965, under the administrative control of Ministry of Mines had two main units: a large Integrated complex in Korba, Madhya Pradesh, and a smaller unit for downstream products in Bidhanbag, West Bengal. Its authorised capital was Rs. 500 crore and paid up capital Rs. 488.85 crore, which was reduced to Rs. 244.42 crore in March 2000 since it was felt that BALCO had a bloated capital base compared to its current levels of profitability. GOI held 100 *per cent* equity of the PSU prior to disinvestment.
2.	**Modern Food Industries Limited (MFIL)** MFIL, incorporated in 1965, was under the administrative control of the Ministry of Food Processing Industries and was the largest player in bread industry. However, the performance of the bakery business of the company had sharply deteriorated over last few year (EBITDA margins dropped from 9.9 *per cent* to (-) 2.2 *per cent* from the year 1995-96 to 1998-99). GOI held 100 *per cent* equity prior to disinvestment.
3.	**Computer Maintenance Corporation (CMC)** CMC was incorporated in October 1975. In 1978, when International Business Machines (IBM) wound up its operations in India, CMC took over the maintenance of all IBM installations and it was mainly involved with hardware maintenance, systems engineering, system design and development, consultancy and networking. The Corporation's wholly owned subsidiary Baton Rouge International Inc. (BRI INC.), based in USA, was earning revenue from software integration, system services, sale of banking software and auxiliary services related thereto, besides acting as CMC's marketing arm in the USA. The authorised share capital of the CMC was Rs. 35 crore and paid up capital was Rs. 15.15 crore. During 1992, Government of India (G.O.I) disinvested 16.69 *per cent* of the paid up capital to General Insurance Corporation of India and its subsidiaries. Prior to disinvestment GOI holding was Rs. 12.62 crore (83.31 *per cent*) out of the paid up capital of Rs. 15.15 crore.
4.	**Hindustan Teleprinter Ltd. (HTL)** HTL under the Administrative Control of Department of Telecommunication (DoT) was incorporated in 1960 for manufacture of electromechanical teleprinters, primarily to cater to the needs of the telegraph wing of the Post & Telegraph (P&T) Department. In the second half of the eighties, the company diversified into manufacture of electronic typewriters while in 1990-91, it entered the area of manufacture of switches for telephone exchange based on the

	technology of C-DOT. The current lines of business of HTL included manufacture of switches of all categories of exchanges, transmission access and data communication products. The main manufacturing facility of the company was located at Guindy Industrial Estate in Chennai city and a supplementary facility was at Hosur in Tamil Nadu. The paid-up capital of the company as on 31.3.2000 was Rs. 15 crore against the authorized capital of Rs. 20 crore. HTL Limited was referred to the Disinvestment Commission in September 1996. At the time of reference to the Disinvestment Commission in September 1996 as well in the year 2000-01 HTL was a profit-making company.
5.	**IBP Company Limited (IBP)** IBP Company Limited (IBP) was first incorporated in Burma in 1909 and later in India in 1942. The company was taken over by the Government of India in 1970 and was made a subsidiary of Indian Oil Corporation Ltd. (IOC). In 1972, IBP was demerged and established with its own identity under the Ministry of Petroleum and Natural Gas. Traditionally, the principal business of the company had been marketing of Petroleum products. Since the early sixties, the company diversified into engineering activities such as cryogenic and industrial containers etc., later on the company diversified into the manufacture of industrial explosives. It was the largest manufacturer of industrial explosive in the country and was meeting the major requirement of coal industry. The IBP had paid up capital of Rs. 22.15 crore of which 59.59 *per cent* equity was held by Government of India, 40.10 *per cent* equity by Public including Financial Institutions and 0.3 *per cent* equity by employees as on 31 March 2001. The company comprised of three Joint Ventures and one subsidiary. The company had been making profit consistently in the past and the profit after tax for the last five years ending 2000-01 were Rs. 26 crore, Rs. 32 crore, Rs. 35 crore, Rs. 42 crore and Rs. 54 crore respectively.
6.	**Videsh Sanchar Nigam Limited (VSNL)** VSNL, a profit making Public Sector Undertaking was incorporated on 19 March 1986. As on 31 March 2001, authorized Capital and he paid–up capital was Rs. 300 crore and Rs. 285 crore respectively. Of the total paid-up capital, the Government of India (GoI) held 52.97 *per cent* while the share of Global Depository Receipts (GDR), Foreign Institutional Investors (FIIs), and Indian Financial Institutions (IFIs) were 30.4 *per cent*, 6.8 *per cent* and 6.4 *per cent* respectively. Remaining 3.5 *per cent* was with public including Employee Stock Option Plan (ESOP). The company was engaged in the business of providing International Long Distance telecommunication service in India, directly and indirectly linking the domestic telecommunication network to other countries worldwide. The company was also the largest Internet Service Provider (ISP) in India. For the year 1999-2000, 90 *per cent* of the revenue of the company was on account of its monopoly business of International Subscriber Dialing (ISD). The Internet business in which company faced stiff competition from private Internet Service Providers (ISPs) accounted for only 3 *per cent* of its revenues.

	As on 31 March 2001, VSNL had investments of Rs. 56.23 crore in New Skies Satellites N.V, Rs. 0.0065 crore in New ICO Global Communications (Holdings) Ltd., Rs. 9.2 crore in Telestra Vishesh Communications Ltd, Rs. 45.2 crore in Inmarsat Ventures Plc. (formerly named as Inmarsat (Holdings) Ltd., Rs. 25.49 crore in Intelsat and Rs. 4000 in VSNL Seamless Services Private Ltd.
7.	**Hindustan Zinc Limited (HZL)** HZL, a profit making PSE with the Government of India holding 75.92 *per cent* of the equity capital (24.8 *per cent* of the equity capital was disinvested during 1991-93 in domestic market), was the largest producer of Zinc in India. It operated six mines comprising four Lead-Zinc and two Lead mines and also operated four Lead-Zinc smelters total capacity of 169,000 tonnes per annum of Zinc and 65,000 tonnes per annum of Lead. The shares of HZL are listed on the Bombay Stock Exchange (BSE). The authorized capital and paid up capital of the company as at 31 March 2000 were Rs. 500 crore and Rs. 423 crore respectively. Prior to disinvestment HZL had earned net profit of Rs. 73.77 crore, Rs. 90.42 crore and Rs. 169.22 crore during last Three years ending in 2000-2001.
8.	**Paradeep Phosphates Limited (PPL)** PPL was incorporated on 24 December 1981 in Bhubaneswar, Orissa. The company was set up with the objective of developing additional capacity of phosphatic fertilizer in the country to meet the progressive increase in demand of phosphatic fertilizers. The company was entrusted with the task of setting up the Asia's largest Di-ammonium Phosphate (DAP) fertilizer plant along with the Sulphuric Acid Plant (SAP), Phosphoric Acid Plant (PAP) and Captive Power Plant (CPP). The entire project was constructed in two phases. Phase I was commissioned and commercial production started in August 1986. Phase II was commissioned in October 1990. Initially, the company was set as a 51:49 joint venture between the Government of India (GoI) and Government of Nauru (GoN) respectively. However, in June 1993, the GoI had acquired the entire shareholding of its joint venture partner. The company's paid up capital was Rs. 432.65 crore against the authorized share capital of Rs. 467.65 crore as on 31 March 2001.The company had recorded losses during 1997 to 2001 except in the year 1999-2000 where profit of Rs. 23.96 crore was recorded.
9.	**Indian Petrochemicals Corporation Limited (IPCL)** IPCL, a profit making PSE, under the administrative control of Ministry of Chemical and Fertilizers was incorporated on 22 March 1969 with the objective of promoting the development of the petrochemical industry in India. The company was one of the eleven 'Navratna' enterprises. In August 1992, the company's shares were listed in all major Stock Exchange in India. The Company had three integrated petrochemicals complexes at Vadodara (Naptha based) commissioned in 1970, Nagothane (Gas based) commissioned in 1992 and Gandhar (Gas based) commissioned in 1996.

	IPCL had a 37 *per cent* stake in Gujarat Chemical Port Terminal Company Limited, which operated a state of the art liquid chemical handling port at Dahej, in Gujarat commissioned in the year 2000. The company had been granted 12 Patents, which includes 8 International Patents. The authorized and paid up capital of the company as on 31 March 2002 was Rs. 500 crore and 248 crore respectively. The company had consistently been posting net profits and paying dividends. Government of India (GOI) held 100 *per cent* of the equity of IPCL till 1992 when it disinvested 20 *per cent* of its share in the market. Subsequently, IPCL raised capital by making a public issue in November 1992, Global Depository Receipts (GDR) issue in December 1994, reducing GOI's stake to 59.95 *per cent*.

Annex IV

(Refers to paragraph 3.4.1)

Flow chart for DCF Valuation

Preparation of input data for forecast on the basis of historical data and assumptions such as prices of raw material, consumption norms, product

Working out projected revenues on the basis of assumption on product prices, production levels etc.

Calculation of operational expenditure on the basis of consumption norms and prices of raw materials, repairs and maintenance, assumed salaries and wages and administrative expenditure

Assumption of routine capital expenditure

Calculation of Annual earnings

Annual Cash flows calculated after adjusting for interest charges, other income and depreciation in earnings

Calculation of Discount Factor (WACC) on the basis of assumption of debt equity ratio cost of debt and equity.

Calculation of PV of cash flows and terminal value

DCF Value

Addition of value of non core assets, if any, to the DCF value for fixation of Reserve Price