

Stake sale plan for SAIL, NMDC units may lead to under-recoveries

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CONSULTANCY FIRM M N DASTUR said the government's plan to divest stakes in three units of SAIL and in NMDC's upcoming 3 mtpa steel plant at Nagarnar based on "as-is accounting asset value" is akin to liquidation and may lead to under-recoveries for the firms.

Disinvestment based on intrinsic asset value, taking into account their cash-flow generation capacity, would have been in the best interests of the two firms, it communicated in a letter to Prime Minister's Office (PMO).

However, the firm said the difference could be higher in SAIL's older plants like Alloy Steel Plant (ASP), Salem Steel Plant (SSP) and Visvesvaraya Iron and Steel Plant (VISL) where the value of plant and machinery is depreciated out and the value of intangibles and options and their future cash-flow generation ability is much higher than what the accounting asset value will indicate. NMDC's ₹15,525 crore plant is likely to be operational next year.



"The exact figure for the intrinsic value determination is the goal of the asset valuation exercise. It might be instructive to look at Hindustan Zinc which was likely valued at about ₹2,000 crore in 2002-03 for divestment, and after partial divestments its value today is close to ₹30,000 crore," M N Dastur's President Atanu Mukherjee said.

Both SAIL and NMDC have sought request for proposal (RFQ) from prospective bidders

for appointing asset valuer, legal advisor and transaction advisor for these assets.

Mukherjee said a more structurally sound framework for valuing these assets should be made around three principles – intrinsic value based on the cash flow generation ability of the assets, reproduction cost of these assets and finally, the static as-is accounting based asset value.

"This will lead to a range of valuations, with a pecking order

and rationale, such that the reserve price formulation and subsequent negotiations can be concluded in a way that maximises the value accretion to the SAIL and NMDC shareholders," he said.

Mukherjee said the government needs to structurally amend the scope of the work vis-a-vis the objectives of the strategic divestment so as to maximise recoveries and ensure a proper long-term stewardship of these assets.