

Cabinet okays sale of govt's 52.63% stake in REC to PFC

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 6

THE CABINET Committee on Economic Affairs Thursday approved strategic sale of the Centre's 52.63 per cent stake in Rural Electrification Corporation (REC) to Power Finance Corporation (PFC). The deal, similar to ONGC's purchase of the government's stake in HPCL last year, would help the Centre in meeting this year's ambitious disinvestment target of Rs 80,000 crore.

Sources said the government expects to get around Rs 14,000 crore through this stake sale, which will take its total collections from disinvestment to around Rs 50,000 crore so far.

Briefing reporters about the Cabinet decisions, Finance Minister Arun Jaitley said REC will become a subsidiary of PFC and the government will also transfer management control in this transaction.

Though the details of the deal, including the pricing methodology are to be worked by a ministerial panel headed by Jaitley, the transaction, according to sources, is expected to fetch the Centre about Rs 14,000-Rs 15,000 crore, at a hefty premium of around 35 per cent over REC's current market

GOVT MAY GET ₹14,000 CRORE

■ The government expects to get around Rs 14,000 crore through this stake sale, which will take its total collections from disinvestment to around Rs 50,000 crore so far, sources said

■ The deal, similar to ONGC's purchase of the government's stake in HPCL last year, would help the Centre in meeting this year's ambitious disinvestment target of Rs 80,000 crore

price. The minister's panel would work out the details of the transactions based on the recommendations of a committee of secretaries, Jaitley said after the CCEA meeting.

At the price of Rs 103.95 a share (BSE) on Thursday, sale of 52.63 per cent stake in REC is worth around Rs 10,804 crore.

For the sale of the Centre's HPCL stake to ONGC last year, reference valuation was at 14 per cent premium, which fetched the Centre a whopping Rs 36,915 crore. "The acquisition intends to achieve integration across the power chain, obtain better synergies, create economies of scale and have enhanced capability to support energy access and energy efficiency by improved capability to finance power sector. It may also allow for cheaper fund raising with increase in bargaining power for the combined entity," the government said in a state-

ment. It is likely that PFC will have to borrow funds to complete this acquisition. The proposed PFC-REC consolidation is in line with the FY18 Budget announcement to merge firms based on commonalities of functions.

In an otherwise stressed sector, both REC and PFC reported robust profits in FY18 and paid hefty dividends. PFC reported net profit jump of 175 per cent to Rs 5,855 crore in FY18 and paid a dividend of 78 per cent of its paid up capital. Even though REC net profit declined by 26 per cent y-o-y in FY18, it still made Rs 4,647 crore.

So far this year, the Centre has garnered about Rs 32,300 crore in disinvestment receipts, including Rs 17,500 crore via CPSE ETF which concluded on Friday. Shares of REC and PFC have fallen sharply in recent weeks on the government plans of such a transaction.