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Disinvestment of Public Sector Undertakings

Chapter Objectives

This chapter will enable you to develop an understanding of the following:

1 *What is disinvestment*

2 *Why disinvestment of PSUs in India*

3 *The PSU sell-off methods*

4 *Proceeds realized from disinvestment*

5 *Evaluating the disinvestment programme*

6 *Disinvestment of PSUs in different countries*

INTRODUCTION

Central Public Sector Undertakings (PSUs) are organizations established by the government of India as government companies under the Companies Act or as statutory corporations under specific statutes of parliament.

After independence, the government realized that the process of industrialization needed enormous amount of capital which was beyond the financial capability of the private sector. PSUs were set up in the early 1950s to ensure a rapid economic and industrial growth, create the necessary infrastructure for economic development, create employment opportunities, promote balanced regional development, and assist the development of small-scale and ancillary industries. The central government's direct involvement and involvement through holding companies was to the extent of 95 per cent of the total share capital of all the central public sector undertakings. Fifty-eight industries were reserved exclusively for the public sector in the 1950s. In 1991, the number of industries reserved was brought down to 18 and now it is 3.

PSUs do not have an autonomy as most of their decisions relating to capital expenditure, acquisitions and investments have to be approved by the Public Investment Board (PIB), Cabinet Committee on Economic Affairs (CCEA) and the central government. The control on PSUs is also exercised through the Comptroller and Auditor General (CAG), Central Vigilance Commission (CVC), and the CBI. These controls exist because PSUs are ultimately responsible to parliament.

Public Sector Undertakings (PSUs) can be classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

The Central Public Sector Enterprises (CPSEs) are also classified into 'strategic' and 'non-strategic'. Areas of strategic CPSEs reserved exclusively for the public sector are:

1. Arms & Ammunition and the allied items of defence equipments, defence air-crafts and warships.
2. Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries).
3. Railways transport.

Public sector enterprises were set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices besides meeting certain socio-economic obligations. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of ₹29 crore at the time of the First Five Year Plan, there were 320 CPSEs (excluding 7 Insurance Companies) with a total investment of ₹11,71,844 crore as on 31st March, 2016.

As on March 31, 2017 there were 47 Central Public Sector Enterprises (CPSEs) listed on the stock exchanges accounting for almost 12 per cent of the total market capitalization, with an aggeregate market capitalization of ₹15,45,270.99 crore. Further, a third of India's mega companies are PSUs. And, many of them are not only market leaders in their areas of operation but figure in the global fortune 1000 list as well.

The CPSEs are key and strategic actors in the nation's economy providing essential goods and services and holding a dominant market position in critical sectors such as petroleum, mining, electricity and transportation. They also operate in competitive markets such as telecommunication, hospitality etc. The CPSEs are increasingly under pressure by both the government and competition to achieve their goals more effectively and efficiently.

Along with other public sector majors such as State Bank of India in the banking sector, Life Insurance Corporation in the insurance sector, Post & Telegraph in telecom sector and Indian Railways in transportation, the CPSEs are leading companies of India with significant market-shares in sectors such as petroleum, (e.g. ONGC, GAIL, HPCL, BPCL and Indian Oil Corporation), mining (e.g. Coal India Ltd. and NMDC), power generation (e.g. NTPC and NHPC), power transmission (e.g. Power Grid Corporation of India Ltd.), nuclear energy (e.g. Nuclear Power Corporation of India Ltd.), heavy engineering (e.g. BHEL), aviation (e.g. Hindustan Aeronautics Ltd. and Air India Ltd.), storage and public distribution (e.g. Food Corporation of India and Central Warehousing Corporation), shipping and trading (e.g. Shipping Corporation of India Ltd, and State Trading Corporation of India Ltd.), steel (e.g. Steel Authority of India Ltd and Rashtriya Ispat Nigam Ltd) and telecommunication (e.g. BSNL and MTNL).

Box 7.1 Highlights of Performance of CPSEs

Total paid up capital in 320 CPSEs as on 31.3.2016 stood at ₹2,28,334 crore as compared to ₹2,13,020 crore as on 31.3. 2015 (298 CPSEs), showing a growth of 7.19%.

Total Investment in all CPSEs stood at ₹11,71,844 crore as on 31.3.2016 compared to ₹10,95,554 crore as on 31.3.2015, recording a growth of 6.96%.

Capital Employed in all CPSEs stood at ₹19,68,311 crore on 31.3.2016 compared to ₹18, 66,944 crore as on 31.3.2015 showing a growth of 5.43 %.

Total turnover/gross revenue from operation of all CPSEs during 2015-16 stood at ₹18,54,667 crore compared to ₹19, 95,176 crore in the previous year showing a reduction in turnover of 7.04 %.

Total income of all CPSEs during 2015–16 stood at ₹17,64,754 crore compared to ₹19, 65,657 crore in 2014–15, showing a reduction in income of 10.22%.

Profit of profit making CPSEs stood at ₹1,44,523 crore during 2015-16 compared to ₹1,30,364 crore in 2014–15 showing a growth in profit by 10.86%.

Loss of loss incurring CPSEs stood at ₹28, 756 crore in 2015-16 compared to ₹27, 498 crore in 2014–15 showing an increase in loss by 4.57 %.

Overall net profit of all 244 CPSEs during 2015-16 stood at ₹1,15,767 crore compared to ₹1,02,866 crore during 2014–15 showing a growth in overall profit of 12.54%.

Reserves & Surplus of all CPSEs went up from ₹7,71,389 crore in 2014-15 to ₹7,96,467 cores in 2015–16, showing an increase by 3.25 %.

Net worth of all CPSEs went up from ₹9,84,409 crore in 2014–15 to ₹10,20,737 crore in 2015–16 registering a growth of 3.69 %.

Contribution of CPSEs to Central Exchequer by way of excise duty, customs duty, corporate tax, interest on Central Government loans, dividend and other duties and taxes increased from ₹2,00,593 crore in 2014–15 to ₹2,78,075 crore in 2015–16, showing a growth of 38.63%.

Foreign exchange earnings through exports of goods and services decreased from ₹1,03,071 crore in 2014–15 to ₹77,216 crore in 2015-16, showing a reduction of 25.08%.

Foreign exchange outgo on imports and royalty, know-how, consultancy, interest and other expenditure decreased from ₹5,44,561 crore in 2014–15 to ₹3,88,045 crore in 2015–16 showing a reduction of 28.74%.

CPSEs employed 12.34 lakh people (excluding contractual workers) in 2015-16 compared to 12.91 lakh in 2014–15, showing a reduction in employees by 4.42%.

Salary and wages went up in all CPSEs from ₹1,26,777 crore in 2014–15 to ₹1,28,263 crore in 2015-16 showing a growth of 1.17 %.

Total Market Capitalization (M-Cap) of 47 CPSEs traded on stock exchanges of India is ₹15,45,270.99 crore as on 31.03.2017. Two of the top 10 companies by market capitalization are also CPSEs: ONGC Ltd and Indian Oil Corporation Limited.

The CPSE with the highest market capitalisation is Oil & Natural Gas Corporation Ltd. at ₹2,39,083.17 crore (BSE) and ₹2,39,404.00 crore (NSE) (as on 30 April 2017)

CPSEs constitute 12.37% and 12.54% of the total market capitalisation of companies listed at BSE and NSE respectively (as on 30 April 2017)

VSNL was the first CPSE to be divested by way of a Public Offer in 1999–00

ONGC Public Offer in 2003–04 has been the largest CPSE FPO, raising ₹10,542 crore

Coal India Public Offer in 2014–15 has been the largest CPSE OFS, raising ₹22,557.63 crore

The maximum number of applications received in a PSU IPO/FPO since 2003–04 was in CIL (15.96 lakhs)

Total disinvestments proceeds during the Financial Year 2016–17 was ₹46,246.58 crore.

Total disinvestment proceeds during the Current Financial Year 2017–18 is ₹1,195.46 crore (as on 9th May, 2017)

Source: dipam.gov.in/highlights

PSUs have supported the creation of a pool of managerial and technical talent and a large middle-class population. They have also fulfilled their social obligations to the community at large by providing education, medical, recreational and vocational facilities to the people in the vicinity of their township.

Most of the PSUs are subsidied by the central government and hold monopoly positions in the Indian market. Public sector undertakings of India are a heterogenous mix of infrastructure companies, manufacturing companies and companies engaged in trade and services.

According to the Public Enterprises survey, 2015–2016, there are about 320 central public sector units, both listed as well as unlisted at the stock exchanges. They include 31 banks, 17 hire purchase firms, 10 coal and lignite companies, 17 investment services firms, 27 units engaged in trading, and 13 business consultancy firms such as the India Trade Promotion Organization, Central Mine Planning and Design Institute, and Water and Power Consultancy Services. Coal India Ltd, Oil & Natural Gas Corporation Ltd., and Indian Oil Corporation Limited were ranked first, second and third respectively amongst the top ten profit making CPSEs. Among the smallest central PSUs are Borrea Coal, Richardson Cruddas, Nagaland Pulp and Paper, Brushware, and Katras Jherriah Coal with revenues under ₹10 lakh.

Disinvestment

- Privatization implies a change in ownership and management while disinvestment may or may not lead to a change of management.

The disinvestment of public sector undertakings means the sale of public sector equity leading to a dilution of the government's stake. In India, the term 'disinvestment' is used rather than 'privatization.' Privatization implies a change in ownership resulting in a change of management while disinvestment may or may not lead to a change of management. A well-designed disinvestment programme helps in the long-term growth process through increased foreign investment, technology transfer and the subsequent enhancements in productivity. The process of disinvestment was initiated by the government of India during 1991–92 as part of a package of PSU reform. The disinvestment of government stake from PSUs follows from the Industrial Policy Statement of 1991–92. Around ₹2,00,000 crore are locked in PSUs.

Almost half of the PSUs in the country are loss-making enterprises and a big drain on the national exchequer. The public sector was consuming far too much capital and current revenues and the government itself was facing a resource crunch owing to mounting fiscal deficit. The then finance minister, Manmohan Singh, realised that competition would intensify due to reforms and the cash-starved PSUs would be badly affected. So the idea of equity sale privatization was first mooted in 1991 by him as a means of raising resources and improving the performance of PSUs. Moreover, the process of liberalization began in the 1990s. The private sectors had enough resources to get into the sectors dominated by PSUs. The government also identified certain sectors such as hotel and food which could be best left to the private sector.

Objectives of Disinvestment

- Broad-base equity
- Put national resources and assets to optimal use.
- Enhance the productivity of PSUs.

Objectives The privatization programme was flagged-off in October 1991 without clear-cut objectives. The stated objective was to raise resources to finance fiscal deficit. It was proclaimed that the step meant widespread holding which again meant increased efficiency. Moreover, there was no well-defined strategy laid down to achieve these unclear objectives. This was evident by the way the government offloaded, in the very first year, small lots of 2 per cent and 3 per cent of a company's equity capital which left major control still in the government's hands. This revealed the unstated objective of the government which was to retain control over the management. The government later on stated that the objectives of disinvestment were to broad base equity, improve management, enhance availability of resources for these public sector enterprises and finance fiscal deficit. In the Disinvestment Policy 2000–01, the government, for the first time, seemed prepared to reduce its stake in the non-strategic PSUs even below 26 per cent if necessary.

In 2001, the government introduced a special provision for setting aside a quota of shares for small investors and workers. The government set out the following policies in respect of PSUs: Bring down government equity in all non-strategic PSUs to 26 per cent or lower if necessary; restructure and revive potentially viable PSUs; close down PSUs which cannot be revived; and fully protect the interest of workers.

The government has stressed that the proceeds from disinvestment would be used for meeting expenditure in the social and infrastructure sectors, restructuring of PSUs, and restructuring public debt.

To maximize returns to the government, the approach has been shifted from the disinvestment of small lots of shares to strategic sale of blocks of shares to strategic investors.

The disinvestment minister reviewed the disinvestment policy on December 9, 2002 and stated the objective of disinvestment as to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The disinvestment policy aimed at modernization and upgradation of public sector enterprises, creation of new assets, generation of employment, and retiring of public debt.

Objectives of Current Disinvestment Policy:

(a) Promote people's ownership of Central Public Sector Enterprises (CPSEs) to share in their prosperity through disinvestment.
(b) Enable efficient management of public investment in CPSEs for accelerating economic development and augmenting Government's resources for higher expenditure.
(c) Listing of CPSEs on stock exchanges to facilitate development and deepening of capital market and spread of equity culture.
(d) Raising budgetary resources for the Government.

DISINVESTMENT MACHINERY

Initially, in 1991–92, the government resorted to bundling options wherein shares were offered only in bundles of 'very good,' 'good,' and 'average' companies. This resulted in disinvestment at very low prices. The government then realized that framing proper strategies for disinvestment was essential.

The Government of India appointed a committee under the chairmanship of the former RBI Governor, C. Rangarajan, in 1993. It recommended that a disinvestment committee be established on a statutory basis in view of the multiple ministries involved, its impact on economic reform, and the need to monitor use of the proceeds of such disinvestment. In 1996 when the Congress was voted out of power, the United Front government set up a disinvestment commission. It was constituted under the chairmanship of G. V. Ramakrishna. It was set up for advising the government on disinvestment in general and for drawing up a long-term disinvestment programme for the PSUs referred to the commission. The commission identified four objectives as part of its long-term strategy: to strengthen PSUs, where appropriate, in order to facilitate disinvestment; to protect employees' interest; to broad base ownership; and to augment receipts for the government.

The Disinvestment Commission broadly classified the PSUs into two categories for disinvestment—the core group and the non-core group. Those in the core group were defined as having considerable market presence and hence PSU disinvestment would be limited to a maximum of 49 per cent. The non-core group industries were defined as units where private sector players have already made huge investments with the aim of enhancing the intrinsic value of PSU shares. The commission recommended that the core and non-core PSUs should be restructured prior to disinvestment. It identified about 100 PSUs and classified them as *navratnas* and *mini-ratnas*. Nine well-performing PSUs under the core category were identified by the government for granting autonomy, which meant giving them freedom to incur capital expenditure, raise resources, and enter technology contracts. These PSUs, popularly known as '*navratnas*', are BHEL, BPCL, HPCL, IPCL, IOC, NTPC, ONGC, SAIL, and VSNL.

The Disinvestment Commission advocated 'strategic sales' of particular PSUs or sale of equity blocks to a single buyer accompanied by transfer of management to the private investor. The government showed its willingness to hand over control through strategic sales to any private party acquiring 25 per cent in the company. The commission has the mandate to offload upto 74 per cent government equity in the non-core and non-strategic areas. There is no change in the government's present shareholding in strategic areas. The government has identified arms, ammunition, and the allied items of defence, equipment, defence aircraft and warships, atomic energy, and railway transport as strategic areas.

The Disinvestment Commission submitted 12 reports recommending disinvestment of 58 PSUs out of the 71 referred to it. These reports contained specific recommendations including disinvestment through strategic sale in 29 PSUs, trade sale in 8 PSUs, offer of share through GDR and domestic route for 5 PSUs, no disinvestment for 1 PSU, disinvestment deferred in 11 PSUs, and closure of 4. The government decided to disinvest in 45 PSUs out of the recommended 58. The tenure of the Disinvestment Commission ended on November 30, 1999.

The Disinvestment Commission was reconstituted in July 2001 with R. H. Patil as chairman. The task of this Disinvestment Commission was to advise the government on non-strategic PSUs and their subsidiaries excluding IOC, ONGC, and GAIL. The Disinvestment Commission submitted its thirteenth report in January 2002 and made recommendations in respect of the following four PSUs: Neyveli Lignite Corporation Limited (NLC); Manganese Ore (India) Limited (MOIL); Real India Technical and Economic Services Limited (RITES); and Projects and Equipment Corporation Limited (PEC).

The government constituted the Department of Disinvestment (DOD) on December 10, 1999. It is a nodal body set up to streamline and speed up disinvestment and establish a systemic policy approach to it. It has been made responsible for all matters relating to the disinvestment of central government equity from central PSUs. The Ministry of Disinvestment is to take decisions on its recommendations on the modalities of disinvestment including restructuring.

The Department of Disinvestment was set up as a separate Department on 10th December, 1999 and was later renamed as Ministry of Disinvestment form 6th September, 2001. From 27th May, 2004, the Department of Disinvestment is one of the Departments under the Ministry of Finance.

In line with the announcement of the Hon'ble Finance Minister in his Budget Speech of 2016-17, the Department has been re-named as Department of Investment and Public Asset Management (DIPAM) from 14th April, 2016, with focus of the Government on management of its investment in Central Public Sector Enterprises (CPSEs) for accelerating economic development as well as augmenting Government resources for higher expenditure.

Approach for Disinvestment

(a) Disinvestment through Minority Stake Sale: The approved action plan for disinvestment in profit making government companies is as follows:

- Already listed profitable CPSEs (not meeting mandatory shareholding of 10 per cent which stands revised to 25 per cent) are to be made compliant through 'Offer for Sale' (OFS) by the government or by the CPSEs through issue of fresh shares or a combination of both;
- Unlisted CPSEs with no accumulated losses and having earned net profit in three preceding consecutive years to be listed;
- Follow-on public offers would be considered, taking into consideration the needs for capital investment of CPSEs on a case by case basis, and the government could simultaneously or independently offer a portion of its equity shareholding;
- All cases of disinvestment are to be decided on a case by case basis;
- The Department of Investment and Public Asset Management (DIPAM) is to identify CPSEs in consultation with respective administrative ministries and submit proposal to government in cases requiring offer for sale of government equity.

(b) Strategic Disinvestment: To be undertaken through a consultation process among different ministries/departments, including NITI Aayog.

- NITI Aayog to identify CPSEs for strategic disinvestment and advice on the mode of sale, per centage of shares to be sold of the CPSE and method for valuation of the CPSE.
- The Core Group of Secretaries on Disinvestment (CGD) to consider the recommendations of NITI Aayog to facilitate a decision by the Cabinet Committee on Economic Affairs (CCEA) on strategic disinvestment and to supervise/monitor the process of implementation.

(c) Comprehensive Management of GoI's Investment in CPSEs: The government recognises its investment in CPSEs as an important asset for accelerating economic growth and is committed to the efficient use of these resources to achieve optimum return.

- The government will achieve these objectives by adopting a comprehensive approach for addressing critical inter-linked issues, such as leveraging of assets to attract fresh investment, capital restructuring, financial restructuring, etc.
- Different options for optimal utilization of government's investment in CPSEs will be assessed to adopt suitable investment management strategies to improve investors' confidence in the CPSEs and support their market capitalization which is essential for raising fresh investment from the capital market for their expansion and growth.
- Efficient management of investment in CPSEs are to be ensured through rationalization of decision making process for all related issues and seamless inter-departmental coordination in the matter.

DISINVESTMENT POLICY

The salient features of the policy are:

(a) Public Sector Undertakings are the wealth of the nation and to ensure this wealth rests in the hands of the people, promote public ownership of CPSEs;

(b) While pursuing disinvestment through minority stake sale in listed CPSEs, the Government will retain majority shareholding, i.e. at least 51 per cent of the shareholding and management control of the Public Sector Undertakings;

(c) Strategic disinvestment by way of sale of substantial portion of Government shareholding in identified CPSEs upto 50 per cent or more, along with transfer of management control.

NATIONAL INVESTMENT FUND

The Government of India constituted the National Investment Fund (NIF) on November 3, 2005 into which the proceeds from disinvestment of Central Public Sector Enterprises were to be channelized. The corpus of the fund was to be of permanent nature and the same was to be professionally managed in order to provide sustainable returns to the government, without depleting the corpus. NIF was to be maintained outside the Consolidated Fund of India.

The NIF was initialized with the disinvestment proceeds of two CPSEs, namely PGCIL and REC, amounting to ₹1814.45 crore.

Salient Features of NIF

i. The proceeds from disinvestment of CPSEs will be channelized into the National Investment Fund which is to be maintained outside the Consolidated Fund of India.
ii. The corpus of the National Investment Fund will be of a permanent nature.
iii. The Fund will be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of the Fund.
iv. Seventy five per cent of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

The NIF corpus was thus managed by three Public Sector Fund Managers: UTI Asset Management Company Ltd., SBI Funds Management Company (Pvt.) Ltd., and LIC Mutual Fund Asset Management Company Ltd.

The income from the NIF corpus investments was utilized on selected social sector schemes, namely the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Accelerated Irrigation Benefits Programme (AIBP), Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY), Accelerated Power Development and Reform Programme, Indira Awas Yojana and National Rural Employment Guarantee Scheme (NREGS).

Restructuring of NIF

On the 5th of November 2009, CCEA approved a change in the policy on utilization of disinvestment proceeds. In view of the difficult situation caused by the global slowdown of 2008–09 and a severe drought in 2009–10, a one-time exemption was accorded to disinvestment proceeds being deposited into NIF for investment; this exemption was to be operational for period April 2009–March 2012. All disinvestment proceeds obtained during the three year period were to be used for selected Social Sector Schemes allocated for by Planning Commission/Department of Expenditure. The three year exemption was extended till 31st March, 2013.

The Government on 17th January, 2013 approved restructuring of the National Investment Fund (NIF) and decided that the disinvestment proceeds with effect from the fiscal year 2013–14 will be credited to the existing 'Public Account' under the head NIF and they would remain there until withdrawn/invested for the approved purpose. The NIF would be utilized for the following purposes:

a. Subscribing to the shares being issued by the CPSE including PSBs and Public Sector Insurance Companies, on rights basis so as to ensure 51 per cent ownership of the Government in those CPSEs/PSBs/Insurance Companies, is not diluted.
b. Preferential allotment of shares of the CPSE to promoters as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 so that Government shareholding does not go down below 51 per cent in all cases where the CPSE is going to raise fresh equity to meet its Capex programme.
c. Recapitalization of public sector banks and public sector insurance companies.
d. Investment by Government in RRBs/IIFCL/NABARD/EXIM Bank.
e. Equity infusion in various Metro projects.
f. Investment in Bhartiya Nabhikiya Vidyut Nigam Limited and Uranium Corporation of India Ltd.
g. Investment in Indian Railways towards capital expenditure.

The allocations out of the NIF will be decided in the Government budget. For F.Y. 2013–14, the Government has approved allocations from the NIF towards spending on recapitalization of Public Sector banks and capital expenditure of Indian Railways.

THE PSU SELL-OFF METHODS

PSU Self-off Methods

- Bidding
- Sale of shares in the market.
- GDR route
- Crossholdings
- Strategic sale

The government has adopted various methods to sell-off shares in PSUs. These are follows:

- *Bidding:* In 1991–92, the bidding method was adopted. When the government invites bids for a portion of its stake in a public sector undertaking, it is essentially conducting an auction. The Department of Public Enterprises (DPE) invites closed bids from government financial institutions and mutual funds. The tendering process is driven by a reserve price based on valuation models such as net asset value, earnings potential, and previous realizations if available. These were determined after consultations with merchant bankers such as IDBI and SBI Caps. The government sets a price below which it is unwilling to sell its stake. This price is referred to as the reserve price. In 1991–92, the government resorted to bundling option wherein shares were offered only in bundles of 'very good,' 'good,' and 'average'. The realized amount exceeded the targeted amount in the very first year of the disinvestment programme due to acceptance of low bids for share bundles. However, this strategy instead of helping the government to divest shares in loss-making enterprises at reasonable prices, resulted in disinvestment at very low prices. The share bundles included certain PSU shares such as MTNL, ITI, VSNL, CMC, and Cochin Refineries which would have otherwise commanded a high premium if sold individually. The practice of bundling shares was abandoned thereafter. The government, in subsequent years, sold shares for each company separately. The emphasis of the government in the initial years was on disinvestment of equity, retaining the controlling block.
- *Sale of Shares in the Market:* During 1991–99, shares of companies like IOC, BPCL, HPCL, GAIL, and VSNL were sold in the market. The shares of these blue chip companies were sold at price–earnings ratios of ranging between 4.5 and 6.0. The sale of shares through public issue not only brings down the government's equity holding in the company but there is also the advantage that the money so realized can be used for expansions. The offer of sale of shares in the primary market increases public ownership in these PSUs through retail participation resulting in better price discovery, increasing the floating stock of the company and deepening the capital market. The IPO route is suitable during strong secondary market conditions. Moreover, retail investors get an opportunity to subscribe to the offer and help develop capital markets. The wealth created by PSUs through public resources can be shared equitably with the public at large. However, a public issue does not result in a change in management style and functioning of the companies. The control of the companies continues to be vested with the government resulting in a lower P/E ratio.
- *Global Depository Receipts (GDR) Route:* The government decided to tap the overseas market for disinvestment due to sluggish capital market conditions. In March 1997, the VSNL disinvestment took place through the GDR issue which was priced at USD 13.93 and was over-subscribed 10 times. The second GDR issue of VSNL in February 1999 was priced at a lower price of USD 9.25. MTNL and GAIL were the other GDR issues. The government sold 18 per cent equity in GAIL in 1999–2000 and raised ₹1,095 crore through the disinvestment of 155 million shares represented by 22.5 million GDR. The disinvestment through offloading of minority shares through domestic, ADR, or GDR markets was not productive.
- *Cross-holdings:* After widely missing the targets on the PSU disinvestment front, the government adopted an innovative route to meet the disinvestment target in 1998–99. Cash-rich oil companies were asked to subscribe to each other's shares. This swapping of shares within oil sector PSUs took place just before the close of 1998–99. This cross-holding of Indian Oil Corporation (IOC) buying 10 per cent government stake in ONGC and 5 per cent stake in GAIL, ONGC buying 10 per cent in IOC and 5 per cent in GAIL, and GAIL buying 2.5 per cent stake in ONGC helped the government gather ₹4,867 crore at the end of the year. The lock-in period of these shares came to an end in September 2004.

- Strategic sale is sale of equity blocks of a PSU to a single buyer (private investor) resulting in change of ownership and management.

- *Strategic Sale:* The Disinvestment Commission in 1996 advocated 'strategic sales' of particular PSUs or sales of equity blocks to a single buyer accompanied by the transfer of management to the private investor. The government also felt the need for privatization as opposed to just disinvestment. It preferred to privatize the PSUs through the strategic sale route. A strategic sale is indicative of the government's sincerity about disinvestment. It also enables a higher valuation since it takes into account intrinsic valuation, not just the prevailing market price. Moreover, private investors introduce new technologies, induct fresh investments, and improve efficiency. Under strategic sale, the government transfers part of its holding to a strategic partner who would control the operation and financial policy of the enterprise. The strategic partner is chosen through an elaborate bidding process. The transfer of ownership is subject to certain restrictions imposed through covenants. However, strategic sale may inhibit competition and limit the ability of the government to realise the full value of the assets. The first strategic sale was of Modern Food where the government offloaded 74 per cent of its equity to Hindustan Lever for ₹105.45 Crore. The strategic sale of Balco, CMC, HTL, MFIL, PPL, JESSOP, IBP, LJMC, VSNL, HZL, Maruti, and

IPCL was done at a higher price–earnings ratio ranging between 11 and 89. VSNL's price–earnings ratio of around 11 was higher by around 6 than in case of public issue. In strategic sale, the money goes to the government exchequer instead of the company. The government has adopted the competitive bidding route to ensure the success of the disinvestment programme. The group or the corporate securing the bid then has to make an open offer for acquiring shares from the public at six months' average price as per SEBI's takeover code. The recourse to strategic sale has made the process of disinvestment more beneficial from the revenue point of view. Between 1991 and 1997, the sale of minority shares in blue chip PSUs such as ONGC, IOC, GAIL, and VSNL fetched a price–earnings ratio of 4.4 to 6. With strategic sales, the price–earnings ratio spurted to between 11 and 89. The amount so realized was ₹11,335 crore, from the disinvestment of a mere 1.02 per cent of the government equity of ₹885 crore.

Methods Used to Arrive at the Reserve Price of a PSU

- Discounted cash flow
- Balance sheet
- Market multiple
- Asset valuation

The Ministry of Disinvestment has set certain guidelines for evaluating PSUs. It has suggested four methods to arrive at the reserve price of a PSU. These are: the discounted cash flow (DCF) method, the balance sheet method, the market multiple method, and the asset valuation method.

The DCF method discounts the expected future cash flows of the PSU to arrive at its present value. The balance sheet method values a company on the basis of the value of its underlying assets. This method does not project the future cash flow. The market multiple method uses information on how the market is evaluating comparable firms. The asset valuation method estimates the cost of replacing the tangible assets of the business and the costs so arrived at as the value of the firm. The asset valuation method overlooks the value of intangibles such as goodwill, brands, distribution network, and customer relationships which are important to determine the intrinsic value of the enterprise. The asset valuation method is more suitable in case of liquidation than in the case of companies sold as running concerns. The DCF method is superior to the other three as it projects future cash flows and the earning potential of the firm, takes into account intangibles such as brand equity, marketing and distribution networks, the level of competition likely to be faced in the future, risk factors to which the enterprise is exposed as well as the value of its core assets. Sometimes, it is better to use a combination of methods in case of PSUs having sizeable tangible assets such as surplus land, which are unrelated to its core business.

Strategic Sales Techniques

In the years 2000–01 and 2001–02, 14 PSUs were disinvested. The disinvestment ministry had evolved innovative methods to make them attractive for sale. In case of Balco and VSNL, the government retained cash and the real estate of the company and sold the remaining assets while in the case of India Tourism Development Corporation (ITDC) and the Shipping Corporation of India (SCI), it spun off various assets as separate and individual entities. The government financially restructured the ailing Paradeep Phosphates before the sale, to make it more attractive to prospective buyers.

Two sell-offs in 2002, that of Maruti Udyog Limited (MUL) and Indian Petrochemical Corporation Limited (IPCL), were unique in the 11-year history of disinvestment. In the case of Maruti, the government decided to sell 50 per cent holding in three phases. The first phase entailed ₹400 crore rights issue in which the government would renounce its entitlement in favour of its equal foreign partner, Suzuki Motor Corporation, for a consideration of ₹1,000 crore. Suzuki's stake was to go upto 54.5 per cent after the issue and the ₹400 crore were to flow into the company's coffers. Suzuki also paid ₹1000 crore as control premium. In the second phase, the Government of India would sell 36 lakh shares in an initial public offer (IPO) and earn a minimum of ₹828 crore as Suzuki had underwritten these shares at a price of ₹2,300 (face value ₹100). The government's remaining stake was to be sold in the last phase. Suzuki was only picking up 4.5 per cent additional stake under the rights issue to become a majority owner and it would be obliged to buy the remaining stake only if the government was unable to get a predetermined minimum price for its share in the two subsequent public issues. In 2003, the government divested 27.5 per cent by way of initial public offering (IPO) which was a huge success. The issue was oversubscribed ten times and opened with a premium of 25.2 per cent.

In the IPCL case, the government of India sold-off one of its units prior to the sale to prevent the creation of a monopoly in the petrochemical sector. The sale of one unit (the Baroda unit to IOC) prior to disinvestment made IPCL more attractive for the buyer—Reliance—as the unit was the oldest and the least profitable. The government held a 59.95 per cent stake in the petrochemicals giant and to dilute its holdings it decided to sell its 51 per cent holding in two phases. In the first phase, the government invited financial bids in April 2002 from prospective bidders—Reliance Industries, IOC—the Chatterjee Group Combine and Nirma for a 26 per cent stake in the oil giant. On May 18, 2002, Reliance Industries Limited (RIL) became the strategic buyer as it had submitted the highest bid of ₹231 per share for a total consideration of ₹1491 crore. RIL further bought 20 per cent from the market to take its holding to 46 per cent. The second phase involved selling 25 per cent of its stake in tranches of 10 per cent or less every year, either in the market or to a strategic buyer.

CPSE ETF

Central Public Sector Enterprises (CPSE) Exchange Traded Fund (ETF) is a concentrated portfolio of 10 PSU stocks, whose main aim is to help the government of India (GOI) in disinvesting its stake in a few CPSEs via the ETF route. The CPSE ETF comprises scrips of 10 PSUs - ONGC, Coal India, IOC, GAIL (India), Oil India, PFC, Bharat Electronics, REC, Engineers India and Container Corporation of India.

CPSE ETF was first launched in March 2014 by Goldman Sachs Asset Management India. The first issue raised ₹4,300 crore against the target of ₹3000 crore. The second tranche was handled by Reliance Mutual Fund, which operates the ETF after it bought over Goldman's Mutual Fund business in 2015. The Government raised ₹6,000 crore in the second tranche of CPSE ETF. The third tranche of CPSE ETF was subscribe by 3.7 times with bids worth ₹9,200 crore received against the issue size of ₹4,500 crore with an option to retain another ₹1,500 crore in case of over subscription. This Further Fund Offer (FFO) carried an upfront discount of 5% and was heavily subscribed by non anchor investors. This ETF will get the Benefit of Rajiv Gandhi Equity Savings Scheme (RGESS). The CPSE ETF was listed on NSE on March 28, 2017. This ETF tracks the Nifty CPSE index. In Union Budget 2017–18, it was announced that ETF will continue to be used as a vehicle for further disinvestment of shares.

PROCEEDS REALIZED FROM DISINVESTMENT

The government has collected disinvestment proceeds of around ₹49,214 crore from the sale of 50 PSUs in the last 15 years. There have been only four years (1991–92, 1994–95, 1998–99, and 2003–04) during which the actual receipts have exceeded the targeted receipts. The success has been due to acceptance of extremely low bids in 1991–92 for share bundles which included premium shares offloading in 1994–95 of a large chunk of shares in attractive PSU giants such as BHEL, GAIL, and Bharat Petroleum and through cross-holdings wherein cash-rich PSUs were forced to buy back equity of other PSUs.

During 1993–94, disinvestment was held in March 1994 and the bids were opened in April 1994. Thus, the proceeds so realized were accounted as capital receipts of 1994–95. The actual mobilization under the disinvestment programme fell short of the targeted amount in the budget for three successive years—from 1995–96 to 1997–98—due to sluggish capital market conditions. Hence, the government adopted the GDR route to mobilize resources under this programme.

The Supreme Court judgement in December 2001 validating the previous fiscal's (FY 2001) sale of aluminium major Balco to Sterlite Industries, gave impetus to the limping disinvestment process. Moreover, the disinvestment ministry headed by Arun Shourie was able to sell-off PSUs at a hefty premium by adopting the competitive bidding route. The successful bidders were supposed to make an open offer to investors other than the government. These helped in creating a bullish environment in the PSU segment. The PSU stocks which were trading at a discount started trading at price–earnings multiples comparable to private sector blue chips. The BSE PSU index rose 531.27 points or 57.44 per cent between December 31, 2001 and March 31, 2002. The BSE Sensex was up only by 207.02 points or 6.34 per cent in the same period.

Buoyed by this spurt in market prices of PSU shares, the Department of Disinvestment mooted a proposal on July 8, 2002, for mopping up ₹25,000 crore by making public offers in five major PSUs. These include BSNL, IOC, GAIL, NTPC, and ONGC. The government owns 100 per cent stake in BSNL and NTPC, 82 per cent in IOC and ONGC, and 67 per cent in GAIL.

In the last four years, *i.e.*, from 1999–2000 to 2002–03, the government failed to meet its disinvestment targets. The NDA government set a target of ₹13,200 crore in 2003–04.

The disinvestment was set-off with the initial public offering (IPO) from India's largest car maker Maruti Udyog Limited (MUL) which hit the primary market on June 12, 2003. The government divested 25 per cent of its 45.8 per cent stake in MUL by selling 7.22 crore shares of the face value of ₹5 per share at a floor price of ₹115 per share through the book-building route. The total size of the issue was ₹830 crore with a green-shoe option to sell another 72 lakh shares. The issue was offered in 75 cities and 150 centres through 100 per cent book building process wherein 60 per cent of the issue was allocated to qualified institutional buyers (QIBs), 15 per cent to non-institutional investors, and 25 per cent to retail investors to subscribe upto 1,000 shares. The issue was over-subscribed almost 10 times and the cut-off price was fixed at ₹125 per share. The MUL IPO created a history of sorts by listing at ₹157, a 26 per cent premium to its issue price of ₹125 per share. After touching an intra-day high of ₹170.3, the scrip ended at ₹164 at over 31 per cent premium to the offer price. This spectacular success of the MUL IPO demonstrated the merits of a disinvestment strategy where the strategic sale of a government company is then followed by selling residual shares to the public. The government garnered ₹993.35 crore through this sale. Post-offer, the government's stake came down to 18.3 per cent from 45.8 per cent.

On March 27, 2002, the government had offloaded its 26 per cent equity in Hindustan Zinc to Sterlite Industries for ₹445 crore. In November 2003, Sterlite Industries acquired the government's residual stake of 18.92 per cent for ₹323.88 crore.

The disinvestment programme of the government received a set-back with the Supreme Court ruling on September 16, 2003 that disinvestment in HPCL and BPCL required parliamentary sanction as these former MNCs were nationalized through an act of parliament. The planned disinvestment of Nalco, HPCL, and BPCL were deferred. The growing Indian economy, good corporate results and a slow down in the US market attracted the foreign institutional investors towards Indian Stock Markets which led to a rally in the stock market. Moreover, the IPOs of UCO Bank and Vijaya Bank got good response from the market which motivated the government to offload its stakes by selling shares to the public. The government decided to divest its holdings in six PSUs namely IPCL, CMC, IBP, Dredging Corporation of India Limited (DCIL), ONGC, and GAIL, in March 2004. In IPCL, CMC and IBP, the government completely divested its holdings, while in others it sold only a part. The government reserved 25 per cent of all the offerings for retail investors and offered them shares at a 5 per cent discount to the cut-off price. The process of disinvestment in these six PSUs began by February end and was completed by mid-March, 2004.

The IPCL issue opened on February 20, 2004 at a floor price of ₹170 per share which was also the cut-off price. The government offloaded 29 per cent stake by offering 5.94 crore shares. The IPCL issue was over-subscribed 4.9 times with over two lakh applications. The government raised ₹1,219.24 crore through the IPCL issue.

IBP and CMC issues opened on February 23, 2004. In IBP, IOC had brought majority stake of 53.58 per cent at ₹1400 per share in 2001. The government offloaded 57.58 lakhs IBP shares of ₹10 each at a floor price of ₹620. Initially, the IBP offer received a lukewarm response due to the sustained offloading of stock, but with the disinvestment minister Arun Shourie announcing a probe, IBP got over-subscribed by 2.80 times, receiving around 85,000 applications. The government raised ₹352.53 crore by divesting its 26 per cent stake at a cut-off price of ₹620.

In CMC, the government had sold 51 per cent of the paid-up capital to Tata Sons for ₹152 crore, *i.e.*, at ₹197 per share in October 2001. This price was higher than the reserve price of ₹108.8 crore. The government decided to offload the remaining 26 per cent stake in CMC at a floor price of ₹475 per share. The issue was over-subscribed 11 times with the retail portion being over-subscribed six times. The government collected ₹188.69 crore through its offer of 39.76 lakh shares at a cut-off price of ₹485 per share.

The government's offer for sale of 56 lakh shares of Dredging Corporation of India (DCI) hit the market on February 26, 2004. The government offloaded 20 per cent of its stake in the company at a cut-off price of ₹400. The floor price was in the range of ₹385 to ₹400 and the offer was over-subscribed by more than nine times. Maximum bidding was seen at the ceiling of the price band set by the government and hence the cut-off price was set at ₹400. The DCI IPO received bids for 86.62 lakh shares as against the offer size of 56 lakh shares. The government raised ₹223.44 crore through this sale and post offer its stake came down to 78.6 per cent.

The IPO of GAIL India issue opened on February 27, 2004. The government offered 8.45 crore shares at a floor price of ₹185 by disinvesting 10 per cent of its ownership to the public. In less than two days, the IPO of Gail India got over-subscribed 2.41 times. The government raised ₹1643.63 crore through this issue at a cut-off price of ₹195.

The government's offer for sale of 10 per cent of its stake in Oil and Natural Gas Corporation (ONGC) opened on March 5, 2004. This was the largest IPO in the history of the Indian primary market. Moreover, it was the biggest success among the six PSU IPOs. One of the factors attributing to its success was the issue price which was fixed in a range of ₹680 to ₹750. The price–earning multiple worked out to around 9.7 which was quite low when compared to its global peers and this attracted retail investors. Moreover, the SEBI allowed merchant bankers and lead managers to issue participatory notes to large investors domiciled overseas for ONGC shares which led to a high demand for the scrip. The offer for sale of 14.26 crore shares was over-subscribed 5.9 times attracting bids worth over ₹60,000 crore. ONGC made history by mopping up the targeted ₹10,000 crore in less than 20 minutes of its opening.

The government met its target of disinvestment after a gap of four years. These six offers for sale helped the government to surpass the disinvestment target of ₹13,200 crore by ₹2,347 crore. Through these six offers, the government was successful in broadening the retail investor base. The strong response to ONGC issue demonstrates that the Indian stock markets can successfully execute global size offerings and Indian investors do respond enthusiastically to good paper.

The Manmohan Singh government (UPA) after assuming power came up with an offer for sale of 5.25 per cent stake in state power producer, National Thermal Power Corporation which were sold in 2004–05.

The government sold 8 per cent of MUL's shares in early 2006 at ₹678.40 per share for ₹1567.60 crore to eight public sector banks and financial institutions. The sale fetched a price higher than the prevailing market price due to the French auction model—bidders pay the price that they bid. The government sold-off its remaining stake of 10.27 per cent stake in MUL to banks, financial institutions and private mutual funds through the differential pricing method during 2008–09.

The government did not divest its stake in PSUs during the years 2006–07 and 2008–09. The government raised ₹15,199 crore by selling 10 per cent stake in Coal India Limited (CIL) in 2010 through an initial public offering, which was the largest ever IPO till now. The disinvestment programme of the Union Government generated higher mobilization of ₹23956 crores during 2012-13. Various public sector enterprises, *viz*, NBCC, HCL, NMDC, OIL, NTPC, RCF, NALCO and SAIL, divested their stake, with NTPC mobilizing the maximum amount of around ₹155 billion. The disinvestment programme for 2013–14 is budgeted higher at ₹40,000 crores.

As against this the revised disinvestment target of ₹45,500 crore for 2016–17, the Government realized a total amount of ₹46,247 crore, comprising ₹35,468 crore from CPSEs disinvestment and ₹10,779 crore from strategic disinvestment and income from management of SUUTIs investment. A total number of 16 transactions were undertaken during 2016–17 vis-a-vis average no. of 4 transactions per year (4.2) for the period between 2009–10 to 2013–14 (5 years). Allocation of shares to CPSEs employees through employees-OFS issues amounted to ₹530 crore. Realization of ₹8500 crore through CPSE-ETF during 2016–17 accounts for 24 per cent of CPSEs disinvestment receipts and 18.4 per cent of the total realization (including strategic) during the year. Building on success of Further Fund Offer (FFO-I), the CPSE-ETF FFO-II was launched from 14th March, 2017 with the offer got oversubscribed by approx. 4 times. An amount of ₹2499 crore was received through this offer. An additional amount of ₹1000 crore was received as income from management of SUUTIs investment on 29.03.2017.

The Government participated in the buyback offers of National Hydroelectric Power Corporation Ltd. (NHPC Ltd.) and Neyveli Lignite Corporation Ltd. (NLC) and realized ₹1948.52 crore and ₹1429.38 crore respectively through these transactions.

The Government has used a combination of OFS, Employee OFS, buy back and FFO route for disinvestment in the year 2016–17.

As seen in Table 7.1, the Government has not been successful in the last seven years to achieve the targets decided.

Fiscal Deficit

- The gap between the government's total spending and the sum of its revenue receipts and non-debt capital receipts.
- This gap is bridged through additional borrowing from the RBI, issuing government, securities, etc.
- A high fiscal deficit contributes to inflation.

EVALUATING THE DISINVESTMENT PROGRAMME

The government had no clear-cut objectives set for the disinvestment programme. In the initial years of implementation, the government talked of disinvestment without losing control and when the programme flopped, it talked more in terms of privatization than disinvestment.

The disinvestment programme was used as a tool to finance fiscal deficit. It was more a tool for raising resources to finance revenue expenditure than one to redefine the role of the government in the economy. The government did not have a proper privatization policy. The government was never clear about what business it meant to remain in and from where it needed to move out. There was a lack of political will and a sense of urgency, which led to sales being repeatedly stopped and restarted. Every sale undertaken by the government was a subject of controversy. There were differences of opinion on the methods or pricing which slowed down the pace of disinvestment. Moreover, the lack of a politically acceptable agenda hampered the progress of the disinvestment programme.

Improvement in efficiency should be the primary objective of privatization. This objective can be achieved when inefficient public sector units are privatized. Instead, in the last decade, some of the best

TABLE 7.1 Summary of Receipts from disinvestment - Targets and Achievements

SL No.	Financial Year	Target (in ₹ Crore)	Achievement (in ₹ Crore)
1	2011-12	40000	13894
2	2012-13	30000	23957
3	2013-14	40000	15819
4	2014-15	43425	24349
5	2015-16	41000	23997
6	2016-17	56500	46246.58
7	2017-18	72500	1195.46 (As on 09.05.2017)

performing units have been sold-off. Most of the blue chip companies were sold at very low prices. The distress sale was a result of an inappropriate pricing strategy and delays in pricing. The delay in pricing the VSNL issue resulted in a massive loss to the nation. The same mistake was committed when the shares of GAIL were sold at half the proposed price. To make disinvestment a success, the government should come to terms with the fact that it is the market that determines the price of a PSU stock.

The Unit Trust of India was one of the financial institutions which had picked up a sizeable number of shares in the disinvestment programme of the early 1900s. The market price of these shares fell so sharply that UTI lost ₹5,056 crore over an investment of ₹6,403 crore. The government had to bailout UTI with tax payers' money and at a great cost to investors.

In the case of strategic sale of a unit, the government did not put in substantial efforts to restructure or market the PSUs. Hence, most of the time it ended up selling a company cheap. For instance, the restructuring of Paradeep Phosphates was incomplete and it was sold-off at a low price to Zuari Macro Phosphate. The restructuring of a unit should be of both financial and operational nature. For instance, writing-off loans and interest for a certain period and deciding specific and achievable operational objectives for each stage. Thus, the restructuring exercise requires long-term planning and a step-by-step approach for successful implementation and timely completion. For instance, SAIL's restructuring is expected to be completed by 2005 but it is stuck at various levels due to conflicts either with the state governments where the units are located or due to old issues not being sorted out at the initial stage. The entire restructuring exercise reflects a half-hearted approach of the government and if restructuring is not completed as soon as it should be, the sale might not fetch the government a high price.

Disinvestment was not a privatization programme in the real sense; it was one which led to transfer of money from one public undertaking pocket to another to bridge immediate resource gaps. Cash-rich oil corporations were forced by the government to cross-hold shares in other oil PSUs. The surplus resources of cash-rich oil corporations could instead have been used for their restructuring to face a competitive environment. Moreover, there has been no real change in the ownership and quality of management. Most of the companies have had a disinvestment of less than 10 per cent of government holding.

The proceeds realized from the sale of assets should be deployed in a productive manner such as liquidation of debts or the creation of sound infrastructure. In its budgets, the government earmarked the amount expected to be realized from disinvestment for use in social and infrastructure sectors, restructuring of PSUs and so on. However, the target amount could not be realized and whatever was realized, became a part of revenue receipts.

In 2000–01, it seemed that the disinvestment minister had managed to evolve a consistent and fairly sophisticated approach to disinvestment. He insisted on a proper implementation of the programme and believed in transparency. Privatization gathered momentum with 14 PSUs divested in the last 24 months. Most of the PSUs were sold-off during this time at a hefty premium.

Since 2001, the government's emphasis was on strategic sale as it thinks that it boosts share price of the concerned PSU. This, in turn, increases the value of the government's residual equity. To boost the disinvestment process, the finance ministry decided on June 30, 2002, to permit companies to raise ADRs/GDRs/ECB to fund disinvestment buyouts. Thus, bidders have access to an additional source of funds and this route can bring foreign funds to the disinvestment process.

The UPA government has proposed setting up of a Board for Reconstruction of Public Sector Enterprises which will replace the Disinvestment Commission. The function of this proposed board will be to strengthen PSUs and make them more autonomous and professional.

The public sector still has a role to play—especially in the strategic areas. The PSUs in the defence and aerospace sectors are top performers and have succeeded in building global brands. There are certain areas such as broadcasting, law and order, and regulatory bodies where PSUs are still needed.

The government has recognised that investment in CPSEs is important as they are important assets for accelerating economic growth. The government is adopting a multi-pronged strategy for managing its investment in CPSEs:

Disinvestment of CPSEs through minority stake sale (upto 49 percent), listing of profitable CPSEs and Strategic disinvestment.

Managing Government of India's investment in CPSEs through capital restructuring for optimising returns on investment; and financial restructuring for revival/strengthening.

This will be a real challenge for the government as it has to balance the national priorities and investment and disinvestment in CPSEs.

DISINVESTMENT OF PSUs IN DIFFERENT COUNTRIES

Chile and the UK are cited as the pioneers of privatization. The disinvestment process began in the 1970s. Most developed countries such as the UK, France, Australia, and New Zealand wanted to

Disinvestment of Public Sector Undertakings in Different Countries		
Country Developed	*Objective*	*Methodology*
The UK (Commenced Privatization in the Late 1970s)	Reduced role of the government in the economy. Apply more resources to governance.	Privatization encouraged through multiple methods of direct sale, management buyouts, and under-priced floatation. companies were restructured, corporatized, and commercialized. The british parliament had the opportunity of discussing the reform proposals of the government in each sector before they were implemented. Ministries prepared white papers for the consideration of the house of commons. parliament exercised the right of self denial to questions on PSUs.
Australia and New Zealand (in the 1980s) *Developing*	Reduce excessive state ownership.	Units directly sold to interested parties either as going concerns (if profitable) or broken up (if loss-making).
Chile (Commenced Privatization in the 1970s)	Improve efficiency and reduce Deficits.	Every PSU was allowed to pursue the course it found suitable. In the first stage, only 30 per cent of the equity was divested. It was sold-mainly to employees with attractive options. In the next stage, 19 per cent was divested, and the rest of it in the last stage. Large, private institutions it in the last stage. Large, private institutions were allowed to participate only in the last round.
Malaysia (in 1985)	Redefine the role of government, improve efficiency, balance wealth distribution.	Underpricing and mass fixed-price marketing. The native malays were given a special status in being offered preferential allotment and reservations in public offerings. Companies were restructured. Adopted four main modes of privatization: sale of assets or equity; lease of as sets, build-operate and transfer (BOT) for new infrastructure; and management contracts. Management contracts to private par ties to run (manage) the business.
Thailand	Restrict the growth of PSUs.	Leasing out Idle capacity.
Mexico	Raise Resources to Repay Internal Debt.	Sold 600 of its loss-making companies first.
The Philippines	Reduce Corruption and Increase Accountability in the Government Sector.	Units were directly sold to interested parties either as going concerns (if profitable) or broken Up (if loss-making) and disposed of.
Brazil	Reduce state involvement in commercial activity and attract foreign capital, introduce modern technology, and benefit the local economy.	Created a national privatization programme through a legislation. A clear sequencing of the privatization effort, starting with industrial enterprise and then to infrastructure., The national development bank (BNDES) conducted privatization on behalf of the federal and state government. No distinction between profitable and unprofitable public enterprises while privatizing.

Source: Capital Market, various issues.

disinvest to reduce the state's role in the economy and improve the utilization of resources. Underdeveloped countries such as Chile, Thailand, Malaysia, Indonesia, Mexico, Argentina, and the Philippines wanted disinvestment to accelerate growth, improve efficiency, and raise resources for further capital formation. These countries had laid down clear-cut objectives and strategies (methodology) for disinvestment. Most of them were successful in attaining their objectives which included decrease in government control in the country's economy.

The UK's disinvestment programme is cited as one of the most successful of all. It began in the late 1970s and was carried out under the leadership of the then Prime Minister Mrs Margaret Thatcher. The stated objective was to reduce the role of the government in the economy and apply the resources thus freed to better governance. In the UK, privatization was encouraged through the multiple methods of direct sale, management buyouts, and floatation of public issues. Large corporations such as British Telecom (BT) and British Airways were restructured by installing good management with full autonomy before they were offered to the public. These entities were aggressively marketed and their shares were underpriced which led to an over-subscription of 35 to 45 times. In most of the large companies, the government sold a 100 per cent stake through public issues. The impact of privatization was that most of the companies including British Airways and Enterprise Oil could improve their performance and profitability. In fact, privatization led to an improvement in service standards and consumers were paying less and getting more.

Countries such as Japan, France, Italy, and Germany have raised almost USD 285 billion through 120 public offerings. The model of disinvestment through public offers is referred to as 'Share Issue

Privatization (SIP).' SIPs have raised over USD 400 billion for governments in every continent in the past two decades. Moreover, this model has helped develop capital markets and promote an equity culture among domestic investors. The disinvestment proceeds were utilized to trim budget deficits, enhance institutional and structural competence, and to improvise on the social costs emerging as a result of disinvestment.

Conclusion

A similar and sincere restructuring exercise needs to be undertaken for Indian PSUs and a similar public-offer-sale route should be adopted. This can be used as a tool to revive the sluggish primary capital market conditions. In view of mounting fiscal deficits, the disinvestment of PSUs has become inevitable.

There should be a clear-cut methodology laid down for each PSU because a common disinvestment methodology cannot be very effective. For instance, there are some PSUs which are loss-making but are of immense value due to their production capacities and/or distribution network. In such cases, a better price can be obtained from strategic sale rather than sale in open market to retail investors while in some PSUs, retail interest may be necessary to drive the trading volumes. Moreover, offering good PSU stock to the retail segment can improve market sentiments and broad base the shareholding. Finally, the speed of the disinvestment process is a critical variable for its success. The increase in competition and drying up of the resources of the government can weaken even strong PSUs. A delay in disinvestment can not only weaken these PSUs, but also reduce the value that can be realized through their sale.

A smooth and successful disinvestment programme of central PSUs can raise the probabilities of successful disinvestment of state PSUs.

KEY TERMS

Disinvestment	Privatization
Fiscal Deficit	Strategic Sale

SUMMARY

1. Central public sector undertakings (PSUs) are organizations established by the Government of India as government companies under the Companies Act or as statutory corporations under specific statutes of parliament.
2. The disinvestment of public sector undertakings means the sale of public sector equity leading to a dilution of the government's stake.
3. The objectives of disinvestment are to broad base equity, improve management, enhance availability of resources for these public sector enterprises and finance fiscal deficit.
4. The government has adopted various methods to sell-off shares in PSUs: bidding, sale of shares in the market, global depository route, cross-holdings, strategic sale.
5. The Ministry of Disinvestment has suggested four methods to arrive at the reserve price of a PSU. These are: the discounted cash flow method, the balance sheet method, the market multiple method, and the asset valuation method.
6. The government has collected disinvestment proceeds of around ₹47,500 crore from the sale of 49 PSUs in the last 14 years.
7. The government's current emphasis is the on sale of equity shares in the market. The government collected ₹14,222 crore in the year 2003–04 by selling its equity stake in seven PSUs.
8. Countries such as Japan, France, Italy, and Germany have raised almost USD 285 billion through 120 public offerings. The disinvestment proceeds were utilized to trim budget deficits, enhance institutional and structural competence and to improvise on the social costs emerging as a result of disinvestment.

REVIEW QUESTIONS

1. State the reasons for the government's decision to disinvest its stake in the public sector enterprises.
2. Why is the Indian disinvestment programme surrounded with many controversies?
3. Do you think that the disinvestment programme has achieved its stated objectives? Discuss.
4. Which were the different methods adopted to sell off PSUs? Which method is the most superior? Why?

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