Certainly, let's discuss a hypothetical case study on a government's disinvestment policy.

Title: Strategic Disinvestment for Economic Restructuring

Background:

Country X is facing economic challenges, including a high fiscal deficit and the need for infrastructural development. The government decides to implement a comprehensive disinvestment policy to raise funds, reduce the fiscal burden, and promote efficiency in state-owned enterprises (SOEs).

Objectives:

1. Generate revenue for critical public investments.
2. Enhance efficiency and competitiveness of SOEs.
3. Encourage private sector participation and innovation.

Implementation:

1. *Identification of Enterprises:* A thorough assessment identifies non-strategic and underperforming SOEs suitable for disinvestment.

2. *Strategic Planning:* The government strategically selects industries for disinvestment to ensure a balanced and diversified economic portfolio.

3. *Stakeholder Engagement:* Engaging with stakeholders, including employees and unions, to communicate the rationale behind disinvestment and address concerns.

4. *Transparency and Accountability:* Establishing a transparent process to attract investors, with clear guidelines on valuation and sale procedures.

5. *Regulatory Reforms:* Simultaneously, implementing regulatory reforms to create a favorable environment for private sector growth and investment.

Challenges:

1. *Political Opposition:* The disinvestment policy faces resistance from political opponents and certain interest groups.

2. *Employee Concerns:* Employees of the SOEs express concerns about job security and benefits.

3. *Market Volatility:* Economic uncertainties and market fluctuations can impact the timing and success of disinvestment.

Outcomes:

1. *Revenue Generation:* Successful disinvestment leads to a significant influx of funds into the government treasury.

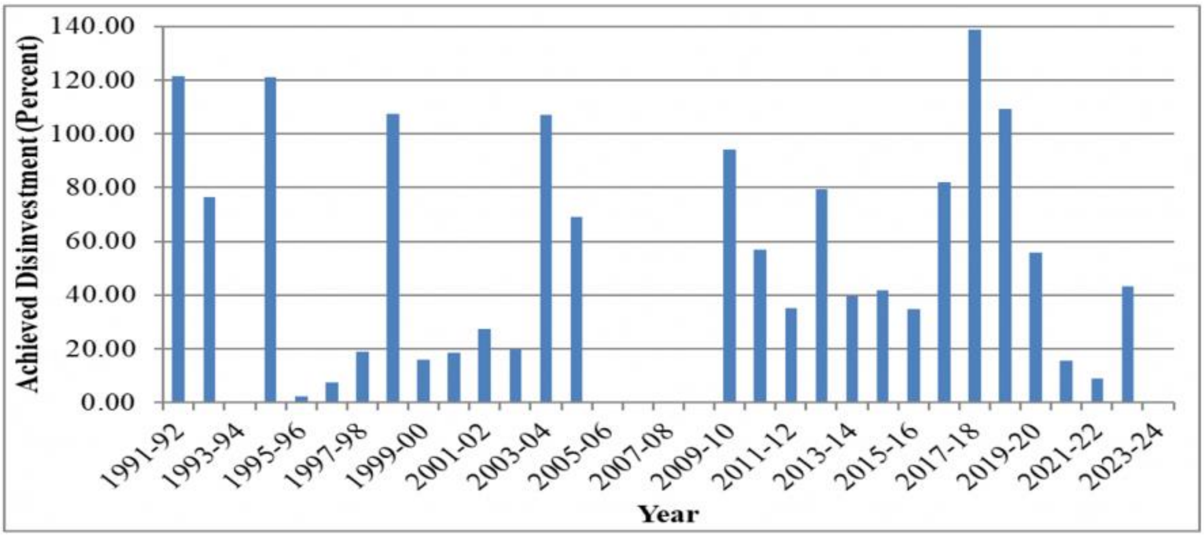
2. *Efficiency Gains:* Privatized entities experience enhanced efficiency and innovation, contributing positively to economic growth.

3. *Investor Confidence:* The transparent and well-executed disinvestment process boosts investor confidence in the country's economic policies.

Conclusion:

Country X's strategic disinvestment policy proves instrumental in addressing economic challenges, fostering a more competitive business environment, and positioning the nation for sustainable growth. The government's commitment to transparency and stakeholder engagement plays a crucial role in achieving these outcomes.

\



MEANS OF DISINVESTMENT

- 01 Initial Public Offering
- 02 Follow on Public Offer
- 03 Offer For Sale
- 04 Cross - Holding
- 05 Institutional Placement

WHY DISINVESTMENT?

1. Reducing financial burden on government finance
2. Opening up market for private firms
3. Supporting the liquidity measures in the market
4. Raise money to facilitate long term government goals
5. Channelize resources to more productive avenues by reducing expenditure on loss making firms
6. Improve the return of investment of underperforming firms

WHY DISINVESTMENT IS DONE?

ORGANISING THE MARKET SEGMENT

A company may disinvest in one of its under performing divisions when they demand similar resources and expenditure compared to the divisions that deliver high profitability

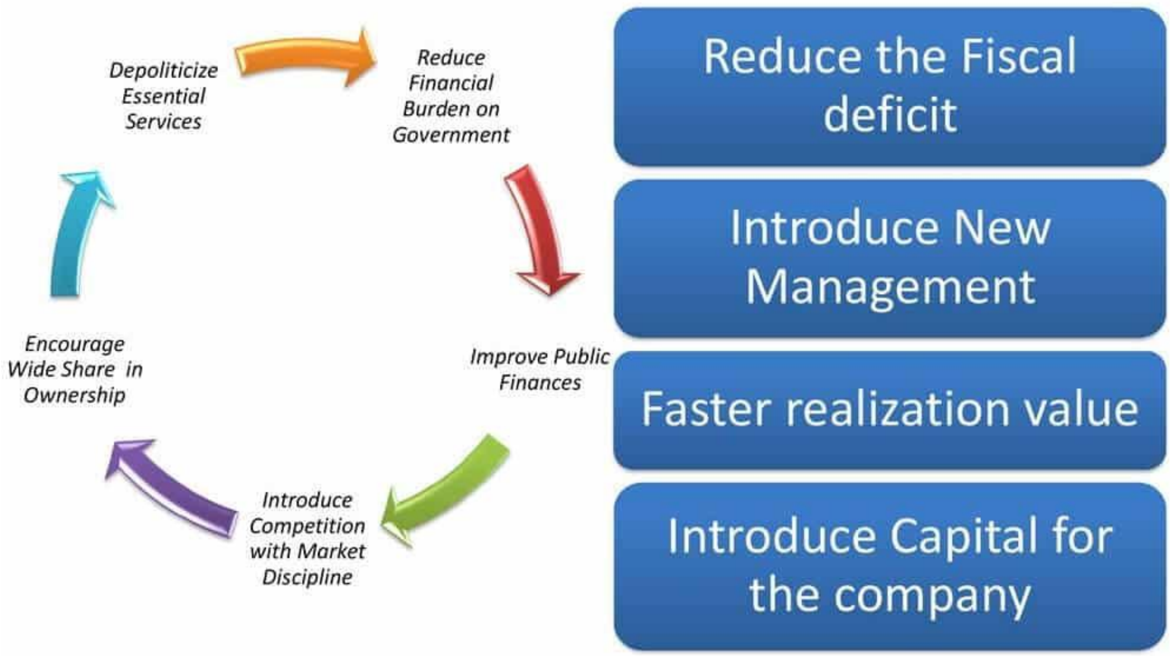
OFFLOADING UNNECESSARY ASSETS

A company is cornered into adopting this strategy when the keeping of an asset does not fit its long-term strategy. When companies are stuck with assets they do not intend to use, they choose to disinvest such assets and focus on their competitive abilities.

SOCIAL AND LEGAL CONSIDERATIONS

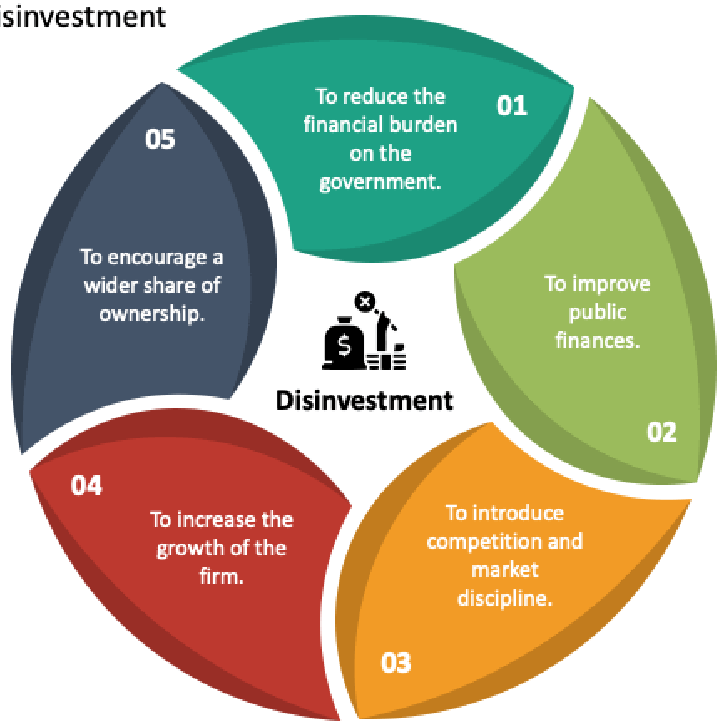
A company may have to disinvest if they cross a certain threshold limit in the market holding, to enable fair competition.


Disinvestment


Depoliticize Essential Services
Reduce Financial Burden on Government
Improve Public Finances
Introduce Competition with Market Discipline
Encourage Wide Share in Ownership
Reduce the Fiscal deficit
Introduce New Management
Faster realization value
Introduce Capital for the company

DISINVESTMENT

Objectives of Disinvestment



A brief history of disinvestment

'99

1999–2004

Total amount realised through disinvestment
₹24,620 crore

Sale to private entities for the first time

- **IPCL to Reliance Industries:** Amount realised **₹1,491 crore**. Stake divested 26%.
- **VSNL to Tata Communication:** Amount realised **₹1,439 crore**. Stake divested 25%.
- **Maruti Udyog to Suzuki:** Amount realised **₹993 crore**. Stake divested 27.5%.
- **Hindustan Zinc to Sterlite:** Amount realised **₹445 crore**. Stake divested 22.1%.
- **CMC to TCS:** Amount realised **₹152 crore**. Stake divested 51%.

10% stake sale in ONGC in the market for ₹10,542 cr

'04

2004–2009

Total amount realised through disinvestment
₹8,516 crore

Government came out with a few IPOs like:

- **NTPC:** Amount raised **₹2,684 crore**. Stake divested 5.3%.
- **Power Grid:** Amount raised **₹995 crore**. Stake divested 4.6%.
- **REC:** Amount raised **₹820 crore**. Stake divested 9.1%.

A sluggish period for disinvestments

Sale to private entities: None

'09

2009–2014

Total amount realised through disinvestment
₹1,05,529 crore

Introduction of CPSE ETF in 2013-14, through which the government divested its stake in some key PSUs. Amount realised in first tranche **₹3,000 crore**.

IPO of Coal India in 2010. Amount raised **₹15,199 crore**. Stake divested 10%.

First divestment through SUUTI: 9% stake in Axis Bank offloaded for **₹5,500 crore**

Sale to private entities: None

What is SUUTI?
SUUTI came into being in February 2003 following the breakup of the Unit Trust of India after its flagship US-64 scheme collapsed. SUUTI has stakes in 43 listed companies and eight unlisted companies, including blue chips like ICICI Bank, Axis Bank, Titan and others

'14

2014–2019

Total amount realised through disinvestment
₹2,80,490 crore

Government divested stake in 22 companies through the Bharat **22** ETF and raised **₹14,500 crore** from the first tranche.

PSU to PSU sale of HPCL to ONGC for ₹36,915 crore. Stake divested: 51.1%

PSU to PSU sale of REC to PFC for **₹14,500 crore**. Stake divested 52.6%.

Sale to private entities: None

Bharat 22 ETF
An open-end exchange-traded fund through which the government divested its stake in 22 companies, including three private companies, L&T, Axis Bank and ITC.

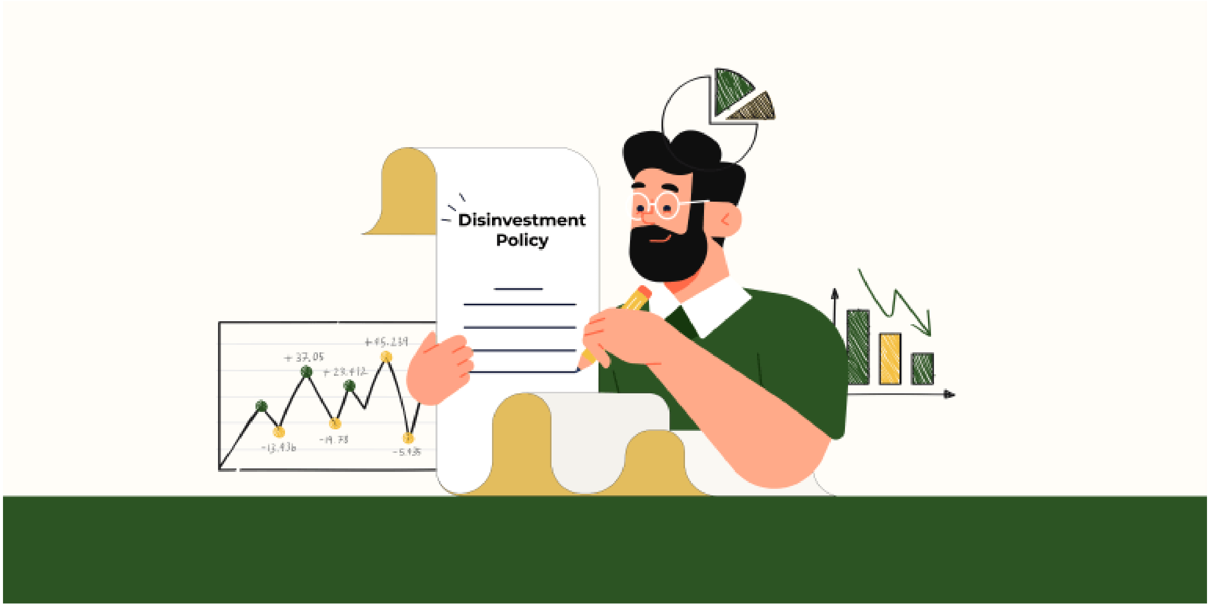
'19

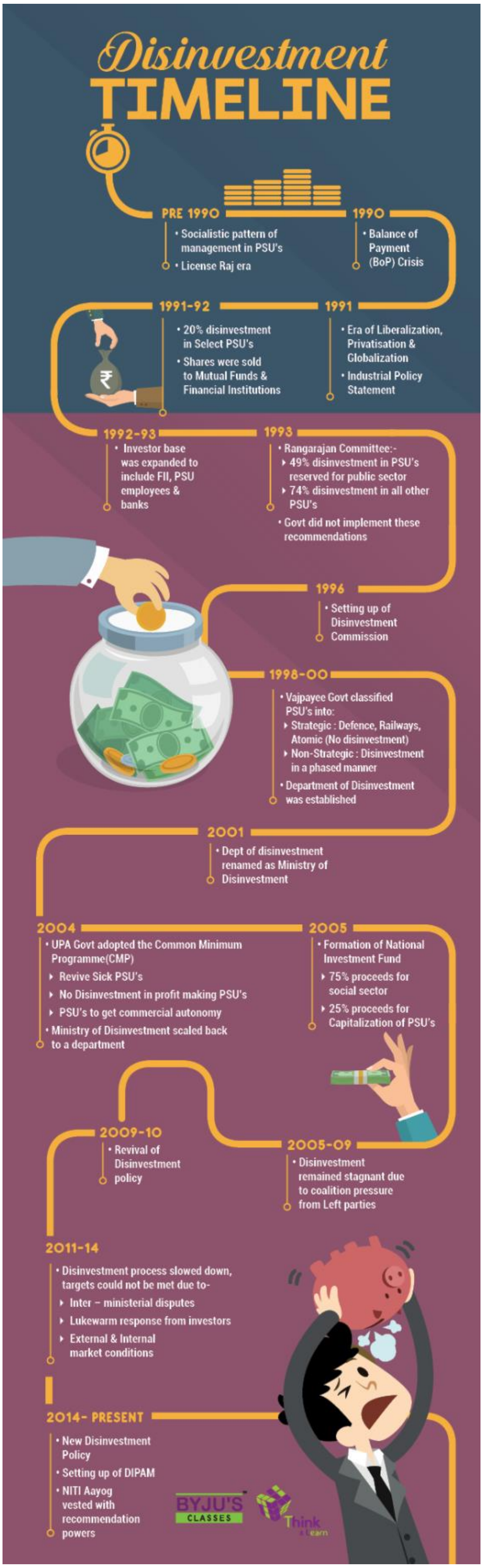
Market cap of PSUs to the total market cap

- March 2004: **31.6%**
- March 2009: **27.8%**
- March 2014: **16.3%**
- March 2019: **11.0%**

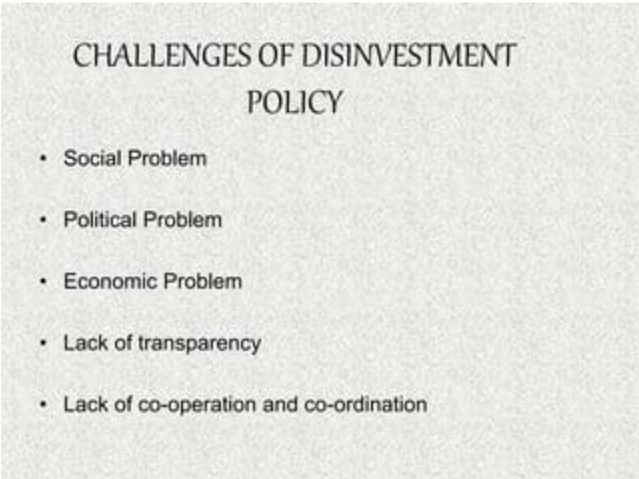
Excluding banking and finance stocks

Source: BSEPSU.com


Disinvestment
Policy


Disinvestment
TIMELINE
PRE 1990
• Socialistic pattern of management in PSU's
• License Raj era
1990
• Balance of Payment (BoP) Crisis
1991
• Era of Liberalization, Privatisation & Globalization
• Industrial Policy Statement
1991-92
• 20% disinvestment in Select PSU's
• Shares were sold to Mutual Funds & Financial Institutions
1992-93
• Investor base was expanded to include FII, PSU employees & banks
1993
• Rangarajan Committee:-
49% disinvestment in PSU's reserved for public sector
74% disinvestment in all other PSU's
• Govt did not implement these recommendations
1996
• Setting up of Disinvestment Commission
1998-00
• Vajpayee Govt classified PSU's into:
Strategic : Defence, Railways, Atomic (No disinvestment)
Non-Strategic : Disinvestment in a phased manner
• Department of Disinvestment was established
2001
• Dept of disinvestment renamed as Ministry of Disinvestment
2004
• UPA Govt adopted the Common Minimum Programme(CMP)
Revive Sick PSU's
No Disinvestment in profit making PSU's
PSU's to get commercial autonomy
• Ministry of Disinvestment scaled back to a department
2005
• Formation of National Investment Fund
75% proceeds for social sector
25% proceeds for Capitalization of PSU's
2005-09
• Disinvestment remained stagnant due to coalition pressure from Left parties
2009-10
• Revival of Disinvestment policy
2011-14
• Disinvestment process slowed down, targets could not be met due to-
Inter – ministerial disputes
Lukewarm response from investors
External & Internal market conditions
2014- PRESENT
• New Disinvestment Policy
• Setting up of DIPAM
• NITI Aayog vested with recommendation powers
BYJU'S CLASSES
Think Learn

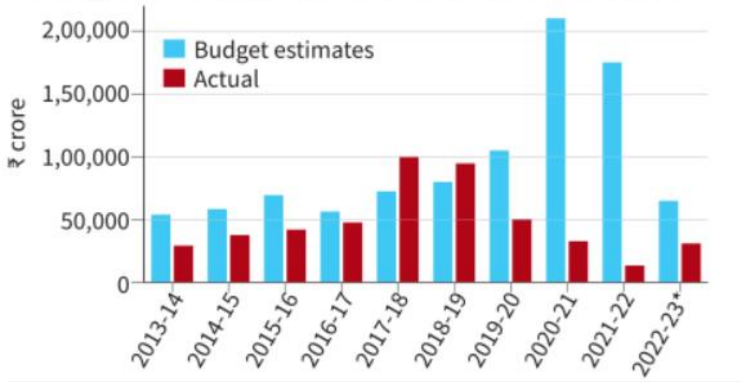

DISINVESTMENT AND ITS
PROS AND CONS
₹100 RESERVE BANK OF INDIA ONE HUNDRED RUPEES ₹100
₹100


CHALLENGES OF DISINVESTMENT POLICY
• Social Problem
• Political Problem
• Economic Problem
• Lack of transparency
• Lack of co-operation and co-ordination

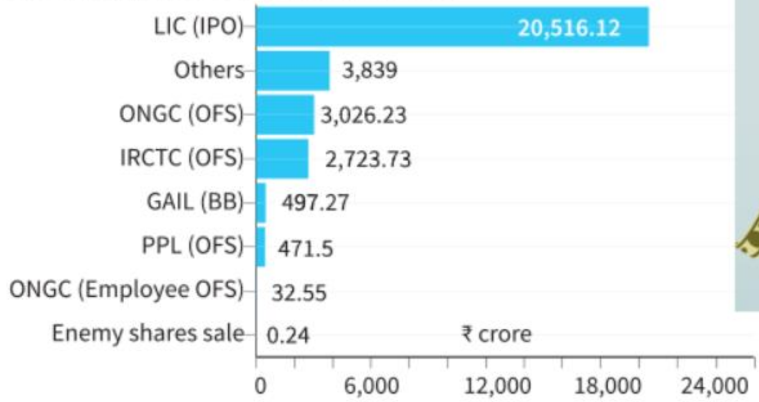
High expectations

The Union Budget 2023-24 has set a disinvestment target of ₹51,000 crore, down nearly 21% from the budget estimate for the current year. With two more months to go in the year, the Centre is yet to meet its disinvestment target

The budget estimates against the actual realisation of proceeds



The disinvestment proceeds of 2022-23 so far



CASE STUDY
RESEARCHER
CIRCUMSTANCES
CASE
ANALYZING
KEY
DATA
CRITERIA
KNOWLEDGE


Conclusion