Disinvestment: Changing tracks after multiple speed-bumps

LONG WAY TO GO. With a new policy in place, the govt has embraced a comprehensive approach

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When the NDA came to power in 2014 led by Narendra Modi, expectations ran high on privatisation or stake dilution by the government in Central Public Sector Enterprises (CPSEs). It was expected that the legacy of former Prime Minister Atal Bihari Vajpayee in divesting stake in CPSEs will be carried forward. Major achievements of the Bajpayee government were strategic sale of Videsh Sanchar Nigam Ltd, Hindustan Zinc, Balco, IPCL, several ITDC hotels and Modern Food Industries between 1999 and 2004.

However, continuing challenges in divesting stakes or privatising PSEs has led to disinvestment increasingly losing its relevance. The new PSE policy has shifted focus to value creation and improving the profitability of CPSEs rather than obsess over disinvestment or PSU dividend receipts.

MOP-UP. The government has mobilised ₹1,049 crore from the strategic sale of Dredging Corporation of India

PRESENT STATUS

The Interim Budget for 2024-25 had many surprises and one was removing the word 'disinvestment' from the list of capital receipts in the Budget document. This was the fourth major change since the formal process of disinvestment initiated way back in the late 90s and second major change during the 10 years of Modi Government.

The first major change was converting the Department into a Ministry in 2001. Second was converting the Ministry back into a department under the Finance Ministry in 2004. Third change was renaming the Department of Disinvestment as Department of Investment and Public Asset Management (DIPAM) in 2016.

Throughout these years, the Union Budget, whether full or interim, had one permanent head under capital receipt and that was 'Disinvestment Receipts'. However, now, there is new head 'Miscellaneous Capital Receipts' which includes the erstwhile categories of disinvestment and other capital receipts. "There is no specific estimate for disinvestment in 2023-24 RE," the Finance Ministry said in Parliament.

During 2022-23, the Government realised ₹35,293.52 crore as disinvestment proceeds against the Revised Estimate (RE) of ₹50,000 crore. In 2023-24, ₹51,000 crore was estimated for disinvestment and ₹10,000 crore for other capital receipts.

WHY THIS CHANGE

"Focus is more on value creation rather than just divesting or getting higher dividends," explained DIPAM Secretary Tuhin Kanta Pandey. According to DIPAM, since the introduction of the New PSE policy in January 2021, the NSE CPSE and BSE CPSE indices have surpassed benchmarks, showcasing returns of 160.49 per cent and 128.66 per cent respectively, until November 2023.

The new PSE policy, announced first as part of Atmanirbhar Bharat in 2020, aims to minimise presence of CPSEs including financial institutions and creating new investment space for private sector.

Post disinvestment, economic growth of CPSEs/ financial institutions will be through infusion of private capital, technology and best management practices. This was expected to lead to economic growth and jobs. Further, disinvestment proceeds would be used to finance various social sector and developmental programmes of the government.

The contours of the new policy shows that there will be more focus on strategic disinvestment, rather than selling shares in small tranches.

At the same time, in order to enhance the value before selling, effort is also to monetise non-core assets. For example, in Air India, while the core business of airline services was sold to the Tata group, non-core assets such as the iconic building at Nariman Point in Mumbai was transferred to an SPV (Special Purpose Vehicle) which later sold some such assets and helped the government earn more.

Also, an important aspect in managing investment in CPSE is continuous dividend. It is said that disinvestment gives the government one-time earning, but if focus is on value creation, there is the possibility of earning more and more through dividend. However, the emphasis now is not on maximum dividend.

"We have not insisted that the government should receive the maximum dividend. We are only saying that there should be a consistent dividend policy and there will be use of resources and wherever we have the capex needs, the equity needs of the capex should be fully met with a reasonable debt, which is consistent with the principles of efficiency and effectiveness," Pandey said.

The big question is what will be the policy stance on investment management when the new government is formed post general election 2024?

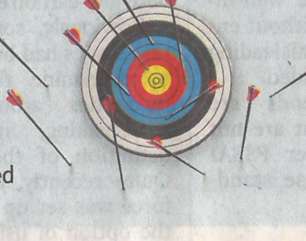
WHAT LIES AHEAD

As of now indication is that the Budget might not give much importance to the word 'disinvestment' per se, but the process of more and more strategic sell-off may gather momentum keeping in mind the new CPSE policy. At the same time, effort would also be made to get more and more CPSEs listed (at present just 61 out of 200 plus are listed). Simultaneously, monetisation of non-core assets will gather pace.

All these will help in determining the value in a much more effective way and that, in turn, will help strategic disinvestment. However, strategic sell-off or privatisation has not been easy. Besides, there have been instances of one public sector undertaking buying another. Now, the government has decided to stop this trend and this has also impacted strategic sell-off.

Hits & Misses

- Divestment of LIC through largest IPO of ₹20,557 crore
- Air India acquired by Tata group company, Talace Private Limited
- New PSE policy notified in February 2021



- Strategic sale not complete in BEML, Shipping Corporation, CONCOR etc
- BPCL's sale called off due to lack of bidder interest
- Disqualification of top bidder derails sale of Pawan Hans, Central Electronics

(This is the fifth article in the **'10 years of NDA'** series)