

BEML Strategic Sale

March 9, 2021

In News: At least six companies, including Tata Motors Ltd, Mahindra and Mahindra Ltd and Ashok Leyland Ltd, are looking to buy a 26% stake in state-run defence equipment maker BEML Ltd.

What is strategic disinvestment or strategic sale?

- When the government decides to transfer the ownership and control of a public sector entity to some other entity, either private or public, the process is called strategic disinvestment.
- The Department of Investment and Public Asset Management (DIPAM) which comes under the Finance Ministry defines Strategic disinvestment as follows: "Strategic disinvestment would imply the sale of a substantial portion of the Government shareholding of a central public sector enterprises (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control."
- Strategic disinvestment is the transfer of the ownership and control of a public sector entity to some other entity (mostly to a private sector entity).
- Unlike the simple disinvestment, strategic sale implies a kind of privatization.
- Strategic disinvestment in India has been guided by the basic economic principle that the government should not be in the business to engage itself in manufacturing/producing goods and services in sectors where competitive markets have come of age.
- The economic potential of such entities may be better discovered in the hands of the strategic investors due to various factors, e.g. infusion of capital, technology up-gradation and efficient management practices etc.

Importance of Disinvestment

- Helpful in financing the increasing fiscal deficit in short term.
- For long-terms goals
 - Financing large-scale infrastructure development.
 - Investing in the economy to encourage spending
 - Expansion and Diversification of the firm.
 - Repayment of Government Debts: Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest
 - Investing in social programs like health and education
- Assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably, leads to a rapid erosion of the value of the public assets making it critical to disinvest early to realize a high value.
- Strategic buyer/acquirer may bring in new management/technology/investment for the growth of these companies and may use innovative methods for their development.

Challenges of Disinvestments

- Sale of profit-making and dividend paying PSUs would result in the loss of regular income to the Government
- Chances of "Asset Stripping" by the strategic partner, As most of the PSUs have valuable assets in the plant and machinery, land and buildings, etc.
- Strategic and National Security Concerns.
- Disinvestment affects labour forces' social security.
- Concerns about cronyism.
- Using funds from disinvestment to bridge the fiscal deficit is an unhealthy and a short term practice.
- Complete Privatisation may result in public monopolies becoming private monopolies, which would then exploit their position to increase costs of various services and

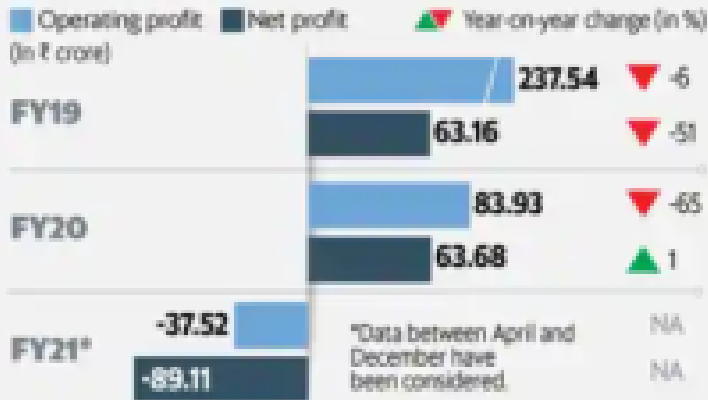
earn higher profits

- A majority stake sale done to another CPSE results in no real change in ownership, and is thus just hogwash.

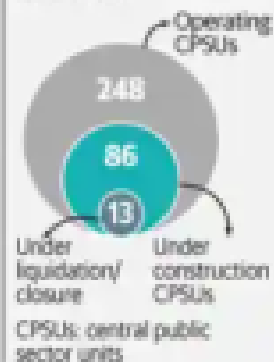
DUE DILIGENCE

Companies are looking to seek control of BEMIL as part of their strategy to grow their defence manufacturing biz. A look at the financials of the state-run firm

Operating metrics



A survey conducted in FY19 showed that there are:



ON THE BLOCK

BEMIL makes Prithvi missile launcher, army vehicles, rail coaches

THE govt owns 54% in BEMIL. EoIs in BEMIL were invited on 4 January

DEADLINE for submission of interest has been extended to 22 March

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