Disinvestment

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Manifest pedagogy

Disinvestment is a major portion of budgeting targets of government of India. More so, money from disinvestment is now coming from non traditional approaches such as Etf, buyback etc which might be a focus area for prelims and mains. Also, the strategy of government regarding sale of core and non core assets will also be important to raise resources in the future.

In news

Government earns 85000 crore from disinvestment

Placing it in the syllabus

LPG reforms in India

Static dimensions

- Meaning of Disinvestment
- Disinvestment- fact of LPG and NEP

Current dimensions

- Methods of disinvestment of CPSEs
- Procedures in disinvestment
- Mergers and acquisition
- Enemy property and disinvestment
- Recent acquisitions and mergers

Content

What is Disinvestment?

Disinvestment is the action of an organization or government selling or liquidating an asset or subsidiary.

Disinvestment also refers to capital expenditure reductions, which can facilitate the re-allocation of resources to more productive areas within an organization or government-funded project.

Types of Disinvestment

The policy of disinvestment has evolved since the early 1990s and now (budget 2016), the government has brought some changes including bringing back strategic disinvestment (previously strategic sale). Budget 2016 has brought several notable changes including renaming of Department of Disinvestment as Department of investment and Public Asset Management (DIPAM). As per the latest policy, disinvestment now covers two types:

1. Disinvestment through minority stake sale and
2. Strategic disinvestment.

Methods of disinvestment of CPSEs

After independence, for four decades the country was pursuing a path of development in which the public sector was expected to be the engine of growth. However, the public sector overgrew itself and its shortcomings started manifesting in low capacity utilisation and low efficiency due to over manning, low work ethics, over capitalisation due to substantial time and cost overruns, inability to innovate, take quick and timely decisions, large interference in decision making process etc. Hence, a decision was taken in 1991 to follow the path of Disinvestment. The remaining period can be explained as follows;

History of disinvestment

Period from 1991-92 – 2000-01

The change process in India began in the year 1991-92, with 31 selected PSUs disinvested for Rs.3,038 crore. In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advice, supervise, monitor and publicize gradual disinvestment of Indian PSUs. It submitted 13 reports covering recommendations on privatisation of 57 PSUs.Dr R.H.Patil subsequently took up the chairmanship of this Commission in July 2001.However, the Disinvestment Commission ceased to exist in May 2004.

The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment from September, 2001. From May, 2004, the Department of Disinvestment became one of the Departments under the Ministry of Finance. In But in 2016 The Department of Disinvestment has been renamed as Department of Investment and Public Asset Management or Dipam, a decision aimed at proper management of Centre’s investments in equity including its disinvestment in central public sector undertakings. The ew department has been mandated to “advise the government in the matters of financial restructuring of central public sector enterprises and for attracting investment through capital markets.

Period from 2001-02 – 2003-04

This was the period when maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an offer for sale to the public, with the government still retaining control of the management.

Period from 2004-05 – 2008-09

The issue of PSU disinvestment remained a contentious issue through this period. As a result, the disinvestment agenda stagnated during this period.

2009-10-2017-18

A stable government and improved stock market conditions initially led to a renewed thrust on disinvestments. The Government started the process by selling minority stakes in listed and unlisted (profit-making) PSUs. This period saw disinvestments in companies such as NHPC Ltd., Oil India Ltd., NTPC Ltd., REC, NMDC, SJVN, EIL, CIL, MOIL, etc. through public offers. However, from 2011 onwards, disinvestment activity slowed down considerably.

2018-19 onwards

The Government has set an ambitious disinvestment target of Rs. 80,000 crore. Recently it has reached the disinvestment targets by earning 85000 crore.

Methods of disinvestment of CPSEs

1. **Initial Public Offering (IPO)** – offer of shares by an unlisted CPSE or the Government out of its shareholding or a combination of both to the public for subscription for the first time.
2. **Further Public Offering (FPO)** – offer of shares by a listed CPSE or the Government out of its shareholding or a combination of both to the public for subscription.
3. **Offer for sale (OFS)** of shares by Promoters through Stock Exchange mechanism – method allows auction of shares on the platform provided by the Stock Exchange; extensively used by the Government since 2012.
4. **Strategic sale** – sale of substantial portion of the Government share holding of a central public sector enterprise (CPSE) of upto 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
5. **Institutional Placement Program (IPP)** – only Institutions can participate in the offering.
6. **CPSE Exchange Traded Fund (ETF)** –Disinvestment through ETF route allows simultaneous sale of GoI’s stake in various CPSEs across diverse sectors through single

offering. It provides a mechanism for the GoI to monetize its shareholding in those CPSEs which form part of the ETF basket.

Procedure followed in Disinvestment

The disinvestment process of individual CPSEs has evolved over time and is based on decision-making through inter-ministerial consultations and involvement of professionals and experts, in view of the technical and complex nature of transactions and the need for transparency and fair play. The current disinvestment process involves the **following steps**

- In-principle consent by the Administrative Ministry of the CPSE concerned;
- Approval of the proposal to disinvest by CCEA;
- Constitution of an Inter-Ministerial Group (IMG) with the approval of the Finance Minister to guide and oversee the disinvestment process;
- IMG appoints Advisers for the transaction including Merchant Bankers/ Book Running Lead Managers (BRLMs)/ Legal Advisers;
- Presentation by BRLMs before High Level Committee (HLC) on valuation;
- HLC recommends price band/ floor price to 'Alternative Mechanism' taking into consideration the recommendation of the BRLMs;
- Approval by 'Alternative Mechanism' of recommended price band/ floor price, method of disinvestment, price discount for retail investors and employees, etc.

Enemy property and disinvestment

What is enemy property?

Enemy property refers to the assets left behind by people who migrated to Pakistan or China and are no longer citizens of India.

Recently, the government has garnered ₹700 crore through the first ever sale of ‘enemy shares’ after the Cabinet in November 2018 gave its go-ahead to the Department of Investment and Public Asset Management (DIPAM) to sell such shares held in companies.

Recent Acquisition and merger

- ONGC- HPCL
- PFC-REC
- Amalgamation of general insurance companies
- NBCC- HSCC and EPI

Mergers and acquisition amongst psu have become a major source of revenue in the recent past. This strategy is aimed at empowering public sector units with strong balance sheets, larger operational efficiency, diversification of portfolio and risks and also managing budget deficits.