Strategic Disinvestment and Golden handshake

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- The Government, in the recent Budget, announced an ambitious plan to raise ₹1.05 trillion from disinvestment in the current fiscal.

What is the difference between strategic disinvestment/sale and disinvestment?

- Selling minority shares of Public Enterprises, to another entity be it public or private is disinvestment. In this the government retains ownership of the enterprise.
- Strategic disinvestment would imply the sale of a substantial portion of the Government shareholding of central public sector enterprises of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control. Here, the government gives up the ownership of the entity as well.

Issue and solutions

- Problem comes when the government is selling the strategic PSUs (like Defence). Here govt cannot afford to lose the control of the PSUs. Hence, there is a need to build the capital structure in such a way that the ownership by the current owner –government – is maintained, with the opportunity to raise private capital without diluting voting rights.

What are the feasible options?

- **As per Section 43(a)(ii) of the Companies Act**, 2013, a company is permitted to have equity shares with differential voting rights as part of its share capital. The differential rights may be with respect to dividend, voting, etc.

Concept of ‘golden shares’:

- A golden share is a nominal share which is able to outvote all other shares in certain specified circumstances.
- For example, the Brazilian government holds a golden share in aircraft manufacturer Embraer, giving it the veto power over strategic decisions involving military programmes and any change in its controlling interest.
- For disinvestments in capital-starved defence PSUs, the government can have a golden share to protect national and strategic interests, while giving free space to run the organization and raise capital.