Strategic sale approved for 5 PSUs

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Source: *Economic Times*

Manifest pedagogy: Disinvestment of PSUs has been an important pillar of governance and budgetary reforms in the post reform era. In light of governments goal of governance reforms, a policy of strategic sales of assets and companies was undertaken in the past and continuing this momentum the government recently came out with a roadmap for channelising 3 lakh crores from disinvestment proceeds.

In news: Government has approved strategic sale of 5 PSUs.

Placing it in syllabus: Disinvestment (explicitly mentioned)

Static dimensions:

- Disinvestment and it's past
- Strategic route and share sales

Current dimensions:

- Recent budget proposals (stake below 51%)
- Strategic sales in 5 PSUs and impact
- Niti aayog proposal for disinvestment

Content:

Disinvestment and it's past:

- Disinvestment is the process by which the **Union government either sells its stakes in a PSU—fully or partially—or lists it on the stock market.**
- The government began the process of disinvesting from loss-making and inefficiently-run PSUs in the 1990s.
- The government can spend the proceeds for better

purposes.

- The proceeds of the sale are channelised to the **National Investment Fund (NIF), set up in 2005** as a corpus of permanent nature to help the government.
- The fund helps the government to **recapitalise public sector banks** and public sector insurance companies to strengthen them and **subscribe to shares being issued by the central PSUs** on rights basis in order to ensure that majority ownership in these undertakings does not dilute.
- According to the Department of Investment and Public Asset Management (**DIPAM**), this **fund is managed by UTI Asset Management Company Ltd, SBI Funds Management Private Ltd and LIC Mutual Fund Asset Management Company Ltd.**

The 1991 Economic Policy, pointed out several objectives for disinvestment.

1) reducing the financial burden on the government

2) improving public finances

3) introducing competition and market discipline

4) funding growth

5) encouraging wider share of ownership

6) depoliticising non-essential services

According to a 2018 report by the DIPAM, the new government has been responsible for over 2 lakh crore worth of disinvestments i.e. about 58 percent of all disinvestments since 1991.

Strategic routes and shares:

The government is planning to cut the stake in non-financial public sector units (PSUs) from 51 per cent. The **finance**

ministry is also planning a **strategic sale in several state-owned companies** as well as asset monetisation from land and property of various PSUs.

The DIPAM is in the process of appointing a **panel of six transaction advisors** who will help with the sale of non-core assets of PSUs.The size of loss-making companies has increased in the last ten years. In 2018, 28 percent of companies booked losses as compared to 25 percent in 2009.

The Department of Heavy Industries (DHI) recently said that the **loss-making enterprises suffer from a number of factors** like:

- poor order book,
- shortage of working capital,
- surplus manpower,
- obsolete plant and machinery,
- increase in the input cost,
- excessive manpower,
- large workforce and huge overheads.

The government has decided to rely on cash-rich central public sector enterprises (CPSEs) to rescue its strategic sale programme. The change of stand is due to a poor investor response to some of strategic sales initiatives undertaken by DIPAM recently.

E.g. In the case of Pawan Hans Helicopters Ltd (PHHL), where the government offered to sell its entire 51 per cent stake to strategic investors recently, the bidding process failed to attract any investors, forcing four extensions so far in the date for submitting an expression of interest (EOI).

If PSUs are involved in strategic sale, it could provide synergy to existing operations of a state-run company and the sell off process would not only be smooth but the government could also get better valuation for its shares.

Recent budget proposals below 51%:

- The Union government recently increased its **disinvestment target** to a record **Rs 1.05 lakh crore** for the current financial year **from Rs 90,000 crore** set in the interim budget.
- A higher budgeted target is aimed at using the proceeds to boost rural and infrastructure spending, while maintaining fiscal discipline.
- The government had previously set a target of Rs 80,000 crore for fiscal 2018-19 and it managed to raise nearly Rs 85,000 crore, a majority of it came in the form of special dividends and share buybacks.
- While presenting the Union Budget finance minister had said that the **government will consider lowering its stake in non-financial PSUs below 51%.**
- The government will also continue to do **consolidation of PSUs** in the non-financial space.
- However the government will **meet 25% minimum public shareholding norms for all listed PSUs** and raise the foreign shareholding limits to the maximum permissible sector limits for all PSU companies comprising the Emerging Market Index.
- Government would realign its holding in CPSEs, including banks to permit greater availability of its shares and to improve depth of market.

Experts have opined that if the government intends to **reduce the fiscal deficit to 3.3%** of GDP it needs to raise non-tax revenues.

Strategic sales in 5 PSUs and impact:

- A group of secretaries recently cleared strategic sales in Bharat Petroleum Corp. Ltd **(BPCL), BEML, Container Corporation of India (Concor) and Shipping Corporation of India (SCI)**.
- Stake sales in THDC India and Neepco, both power

companies, have also been approved which could be taken over by state-run NTPC.

- The Air India expression of interest (EoI) paperwork is also likely to be finalised and cleared by the special mechanism headed by home minister Amit Shah.
- While BEML has the requisite approvals in place, DIPAM will take proposals for BPCL, SCI and Concor soon to the special mechanism set up to approve their disinvestment.
- At the current market value, the government stake in BPCL is worth about Rs 55,000 crore while government expects up to Rs 65,000 crore.
- The government's 54% stake in BEML, a state-run entity under the defence ministry, is worth about Rs 2,100 crore at current prices; the 54.8% stake in Concor about Rs 20,000 crore and the 73.75% stake in SCI could fetch Rs 1,300 crore.

- The strategic disinvestment and Exchange Traded Funds(ETFs) would contribute the most to **achieve the disinvestment target** this year.
- The move helps to **garner non-tax revenues** at a time when tax revenues are behind the curve.

NITI aayog proposal for disinvetment:

- The Cabinet has approved a new process of strategic disinvestment to expedite privatisation of select PSUs.
- Under the new policy **DIPAM** under the Ministry of Finance has been made the **nodal department for the strategic stake sale.**
- This move helps in streamlining and speeding up the process, reducing the role of administrative ministries which often used to place hurdles in the path of major stake sales.
- Now the process of strategic sale of 5 PSUs cleared would be speedy.

- While presently PSUs for strategic sale are identified by NITI Aayog, hereafter, **DIPAM and NITI Aayog will jointly identify PSUs for strategic disinvestment.**
- DIPAM secretary would now co-chair the inter-ministerial group on disinvestment, along with the secretary of administrative ministries concerned.
- Strategic sale would involve **two-stage bidding** beginning with an expression of interest (EoI) or a preliminary intent showing bid, and a final financial bid.
- Now there would be bigger **Bharat-22 ETF** tranches, as at present there is limited headroom to mobilise disinvestment revenue through Bharat-22 ETF because the **government stakes are in the 52-53% range** in many large PSUs. **(Bharat-22 ETF is a diversified index of 22 stocks, largely comprising PSU stocks.)**

Roadblocks in PSU disinvestment:

- Not all cash-rich PSUs are happy about the government's proposed plan. They feel that loss-making companies should not be imposed on them if it fails to attract any private investor.
- Trade unions have strongly opposed the Centre's plans to privatise PSUs.
- Privatisation is progressing at a slower pace than expected.
- The revival package cost for ailing PSUs like BSNL, MTNL is massive.