

Govt sees divestment target slip on market swings

Mumbai, Oct 30: When finance minister Arun Jaitley read out the annual disinvestment target during his February Budget speech, one person was immediately skeptical: The woman tasked with making it happen.

Aradhana Johri, the bureaucrat in charge of selling stakes in state-run companies, proposed a target of about ₹40,000 crore (\$6.1 billion), according to a person familiar with the situation who asked not to be named.

Jaitley instead set the goal at ₹69,500 crore — almost triple from what the government earned the previous 12 months. That plan is now starting to unravel.

With five months to go in the financial year, the government has only managed to raise about a fifth of Jaitley's target. He acknowledged this week that it would

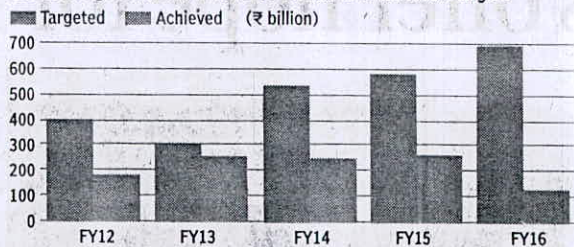
be difficult to achieve with low commodity prices pushing down valuations of public sector energy companies up for sale.

The struggle to sell state assets is one of Prime Minister Narendra Modi's biggest obstacles to reducing the fiscal deficit to an eight-year low. To hit it, India could be forced into doing what it does nearly every year, no matter who is in charge: Drastically cut spending, mostly on infrastructure, in the final months of the financial year.

"If the target seems unattainable come December, the government will start telling ministries to curtail spending starting with overseas trips and other non-essential expenditures," said Madan Sabnavis, chief economist at Mumbai-based Credit Analysis and Research. "The last option is eventually cutting

Repeat offender

Successive governments have failed to meet their asset-sale targets

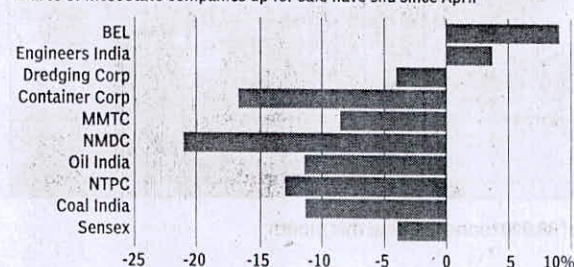


*FY15 figures are revised estimates Source: Budget documents

*FY16 achieved numbers are for seven months through October

Falling valuations

Shares of most state companies up for sale have slid since April



*Performance in fiscal year started April 1, 2015

Source: Stocks exchange data compiled by Bloomberg

big-ticket infrastructure projects or deferring payments till next year."

When contacted, Johri declined to be interviewed. DS Malik, a spokesman for the finance ministry, also declined to comment on the deliberations into setting this year's disinvestment target.

The deficit reached 67% of the goal in the first five months of the fiscal year.

While the Modi government has shifted more funds toward infrastructure, higher outlays on Army pensions and employee wages leave little room for error if revenues fall short of target. So far this year, the government's made four asset sales to raise ₹12,700 crore. The finance ministry has a pipeline of more than a dozen stocks that it wants to unload, including 10% of Coal India, 10% of Oil India Corp and 5% of NTPC.

"We have a host of companies for disinvestment but we will be careful about the valuations," Jayant Sinha, deputy finance minister, told a seminar in Mumbai this week. "We have to take into account market volatility."

Five-day historical volatility in the benchmark S&P BSE Sensex Index touched 59 in August, the highest level since 2009. The equity gauge — which was among the world's top gainers in the previous fiscal year — has dropped more than 8% in dollar terms this year, compared with an average 5% loss among more than 90 global indexes tracked by Bloomberg.

Foreign investors have expressed skepticism due to a lack of power-sector reforms and the poor performance of state-owned companies, according to a finance ministry

official who didn't want to be named because the discussions are private.

If the government goes through with more sales, it may again rely on Life Insurance Corporation of India, which often steps in to buy shares if other investors are reluctant. India's biggest insurer bought almost 45% of Coal India shares up for grabs in January. The stock has slid about 11% since then.

Poor returns are one reason why the government should stop using asset sales to plug budget holes, according to Nitin Desai, a former chief economic adviser in the finance ministry. "I personally have never liked the idea of justifying disinvestment from a deficit management point of view," Desai said. "The way you handle public assets is purely in terms of efficiency." *Bloomberg*