A pragmatic recalibration of disinvestment

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From over ₹1-lakh crore set as the divestment target two years ago, the Budget for FY24 seems to have adopted a more realistic target towards its stake-sale initiatives. The target of ₹51,000 crore is just ₹1,000 crore over the revised budgeted estimates for FY23 at ₹50,000 (down from ₹65,000 crore earlier) and would account for 60 per cent of FY24's budgeted non-debt revenue receipts almost in-line with the revised estimates for FY23. But this too seems a tall ask.

In FY23, the government realised ₹31,106 crore from divestments, including LIC's ₹20,516 crore of IPO proceeds. Targets remain unmet by nearly 38 per cent. For FY24, it's relying on the IDBI Bank stake sale, which is likely to conclude by the second half of the year.

AIMING HIGH. The ₹51,000 crore budgeted revenue from divestment is still a tall ask

With 30 per cent of its holdings on the block, at ₹16,275 crore (based on current market capitalisation), divestment of IDBI Bank would help realise at least 30 per cent of the Centre's divestment target for next year. Though there is a reasonable pipeline such as the Indian Renewable Energy Development Agency (IREDA), Export Credit Guarantee Council (ECGC), CONCOR and WAPCOS, they will have to be offloaded at very attractive valuations for the divestment estimates to be met and this has been a challenge in the past.

PROPOSED AMENDMENTS

Interestingly, after setting aspirational targets for divestment of public sector banks and merger of general insurance companies in FY22's Budget, this year for the second time in a row, they weren't a part of the agenda. What could facilitate the process though is the amendments proposed to be carried out in the Banking Companies Act and Banking Regulation Act (also to incorporate the proposed expected credit losses method of accounting).

PSU banks are governed by laws formulated in 1970 and 1972 when the private banks were taken over by the government and this has been an impediment in fast tracking the divestment of banks. Amending these laws would be the first step towards the process.

What could also be a big sweetener is the changes to be brought to the tax laws pertaining to carry forward of accumulated losses and unabsorbed depreciation in case of amalgamation owing to strategic divestment of banks. With the IDBI deal entering the next phase, this could help in sprucing up valuations.

Moreover, if the proposed amendments are brought in place by FY25, that would set the stage for the government to pursue its ambitious plans in the financial services arena, mainly the banking sector.

VOICES.

" The Budget demonstrates consistency of vision and clarity of thought to enable sustained socio-economic growth. It will reinforce India's predominant position in the global economy

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