

IN THE SLOW LANE

DESPITE EFFORTS, THE GOVERNMENT'S DISINVESTMENT AGENDA HAS HAD MIXED SUCCESS WITH MINORITY SHARE SALES TAKING PRECEDENCE AND STRATEGIC DISINVESTMENT REMAINING ON THE BACK BURNER

BY SURABHI

DISINVESTMENT. THIS WORD has proved to be a challenge for successive governments. Divesting government equity in public sector enterprises (PSE) has proven to be quite volatile even for the BJP-led NDA government over the past nine years, despite a handful of mega transactions like the privatisation of Air India and public listing of Life Insurance Corporation of India (LIC).

The government's disinvestment strategy has been quite comprehensive, including not just listing and minority stake sales through offer for sale (OFS) and buyback of shares but also strategic sale or privatisation in identified sectors, monetisation of non-core assets as well as closure of those firms that are no longer viable—such as Scooters

India. Despite that, the transactions have been fewer in number and smaller in scale. As many as 159 disinvestment transactions have taken place in the last nine years, government data reveals. In terms of strategic sales, the Union Cabinet gave in-principle approval to 36 cases of PSEs, subsidiaries and joint ventures since 2016. But of the 33 cases being handled by the Department of Investment and Public Asset Management (Dipam), strategic disinvestment transactions have been completed in only 10, including the privatisation of Air India.

“About 14 transactions are at various stages,” Minister of State of Finance Bhagwat Karad had informed the Lok Sabha in July this year. But given the government's mandate with more than 300 seats in the Lok Sabha and its public intent towards strategic sales and disinvestment, expectations were high.

ILLUSTRATION BY RAJ VERMA





“CAN’T CHASE A SACROSANCT NUMBER ON DIVESTMENT”

Dipam Secretary Tuhin Kanta Pandey says the Centre’s disinvestment drive goes beyond raising revenue to ensuring efficiency and accountability of public sector enterprises

BY SURABHI



TUHIN KANTA PANDEY, Secretary in the Department of Investment and Public Asset Management (Dipam), plays a key role in helping the exchequer raise revenue every year. But, in an interview to *Business Today*, he explains that the role of Dipam is not about meeting targets by putting central public sector enterprises (CPSE) on the block. The department, says Pandey, strikes a fine balance between a calibrated nuanced disinvestment strategy and a consistent dividend policy, which also takes care of growth needs of the CPSEs. Edited excerpts:



Are you happy with the pace of disinvestment and the returns that the government has received?

Dipam handles both disinvestment as well as dividend. In many cases, they are interlinked and the government is dependent on both for fiscal receipts. When we do a share sale or disinvestment, we forego the revenues from the dividends going forward. If we look at our disinvestment policy, it has got two pillars. The first pillar of disinvestment is

minority stake sale, which includes IPO, FPO, OFS and buybacks. In an IPO, we take an unlisted company to the market with the intent to not only raise receipts but also to improve corporate governance and accountability. The other pillar, which was opened in 2016 after a long period, is privatisation, which is a much deeper reform. From 2014, we have got about ₹4.17 lakh crore in a matter of nine years as disinvestment receipts.



Over the years, the kind of opposition one used to see towards disinvestment has come down.

We are not looking at an LIC FPO in the immediate future. We have sold 3.5 per cent stake and LIC has a very large market cap

Do you agree? What are the reasons for this change?

We have offered shares to employees in minority stake sales. The basic resistance from employees comes when we talk of privatisation and transfer of management control. But some of the privatisation done prior to 2004 and subsequently, such as Air India and Neelachal Ispat [Nigam], has not impacted employees adversely. In the case of Air India, several transformative steps have been taken and the growth of the enterprise has been opened. Similarly in Neelachal Ispat, the employees could not even be paid their salaries. It had about ₹350 crore of dues pending, and the plant was closed for two years. It has all been reversed within a year since we divested it in July 2022... Everyone has gained—employees have gained, the banks have gained—it’s a win-win for everyone. There may be apprehensions [about privatisation] but we can ease them through talks. In the last few years, we have been able to convince the courts, and courts have generally ruled that they don’t want to interfere in disinvestment policy, because

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Transactions where there is transfer of management control are longish. They undergo a lot of due diligence by us and the bidders

that's the stance of the Supreme Court since the Balco case [in 2001]. Running a business is not an essential sovereign function of the government.

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What is your strategy for disinvestments in FY24 given that elections are coming and there is expectation of a slowdown in stake sales?

Right now, we are concentrating on ongoing transactions. Much will depend upon the completion of these transactions, which is dependent on the bidders and the time taken for due diligence. Although we have a number on disinvestments, chasing it as a sacrosanct number will be difficult because markets also change.

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Do you expect FY24's Budgeted target for disinvestment to be revised?

Normally, the relook of the disinvestment target is at the stage of preparing the Revised Estimates. The current trend will depend upon which transactions get concluded. If some of the big transactions get concluded, one may get the full money.

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There is speculation that the privatisation of IDBI Bank may

get delayed beyond this fiscal. Is that correct?

No, the IDBI Bank disinvestment is well under process. We can't react to speculative reports every time they come. Transactions where there is transfer of management control are longish transactions. They undergo a lot of due diligence by both us as well as the bidders.

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Is a further stake sale in Life Insurance Corporation of India on the cards?

No, we are not looking at an LIC FPO (follow-on public offer) in the immediate future. We have sold 3.5 per cent stake and LIC has a very large market capitalisation. Therefore, there is no possibility of offloading 5-10 per cent of stake to the public in two years. [The government had in January exempted public sector entities from the minimum public shareholding norm that mandates 25 per cent public float for all listed firms.] At the moment, our effort is that LIC is fully engaged with its process of transformation and is trying to do several things on product mix, digitisation, earnings and so on. Several of these are being done so that LIC can demonstrate through its quarterly performance that what it had said in the red herring prospectus is happening and the market also gets a sense of it... So, we aren't interested in an FPO at this stage, especially when we are concerned that the stock price has been less than what we thought it will be after listing. There has to be an adequate understanding about LIC among a wider set of investors and once that happens, it can move. We do not want to create another round of uncertainty in LIC for now. **BT**

@surabhi_prasad

Pranav Haldea, MD of capital markets data provider PRIME Database Group, sums it up. "I expected more strategic divestments and privatisations to have taken place. Instead, there have primarily been more of small minority stake sales, apart from the big-ticket and long pending privatisation of Air India," he notes. According to Haldea, the focus of the government should only be in education, healthcare and infrastructure where there is much to be done.

LOWER THAN ANTICIPATED NUMBERS

The numbers also reflect this shortfall. Targets for receipts from disinvestment have been revised in most years with the receipts from stake sales often lower than anticipated. The Revised Estimates have been lower than the Budget Estimates in seven of the nine fiscal years since 2014-15 (See Chart *At Snail's Pace*). Higher dividends from state run firms have often helped make up for the shortfall in revenue and helped manage the fiscal deficit.

But government officials and experts stress that disinvestment cannot be seen just as a cash cow. Correct processes, due diligence, value maximisation and timing the market are more important than just rushing to meet a specific goal. Vivek Kumar, Economist at QuantEco Research, notes that the Budget targets for disinvestment are also aspirational in the sense that this is what the government would like to do. "But to a large extent, disinvestment is dependent on market conditions. There are also procedural delays or political opposition that led to a shortfall in the target," he points out. Consequently, several transactions, especially those relating to strategic sales where government equity and management control have to be transferred

DIVESTMENT REPORT CARD

Since 2016, CCEA has given in-principle approval to more than 30 strategic sales



10 **TRANSACTIONS COMPLETED**

(Includes Air India, Neelachal Ispat, Dredging Corporation of India)

14 **ONGOING TRANSACTIONS BY DIPAM**

(Includes BEML, Shipping Corporation of India, Rashtriya Ispat Nigam Ltd, IDBI Bank)

3 **ONGOING TRANSACTIONS BY ADMINISTRATIVE MINISTRIES**

(Includes various units of ITDC Ltd, Hindustan Antibiotics Limited)

5 **TRANSACTIONS HALTED AS CPSE TO BE CLOSED**

(Includes various units of ITDC Ltd, Hindustan Antibiotics Limited)

1 **TRANSACTION HELD UP DUE TO LITIGATION**

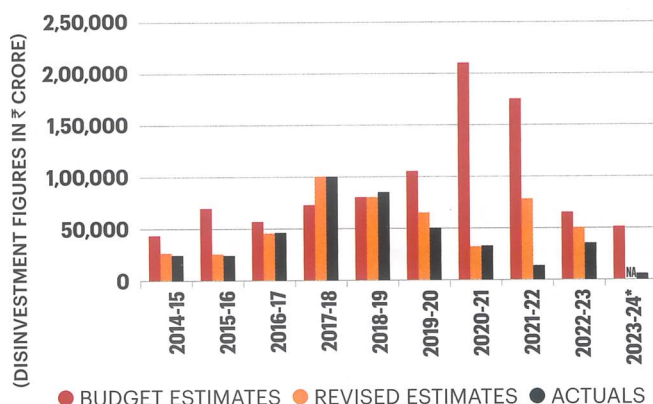
(Karnataka Antibiotics & Pharmaceuticals)

SOURCE PARLIAMENT PAPERS

AT A SNAIL'S PACE

▶ **THE PROCEEDS FROM DISINVESTMENT HAVE BEEN LOWER THAN ANTICIPATED IN MOST YEARS**

▶ **FISCAL YEAR 2017-18 SAW RECORD PROCEEDS OF AROUND ₹1 LAKH CRORE**



*TRANSACTIONS TILL AUGUST; NA: NOT AVAILABLE

SOURCE: ANNUAL REPORT 2022-23 MINISTRY OF FINANCE, DIPAM

to the successful bidder often take longer than anticipated. For instance, there's a whole lot of due diligence required in the privatisation of IDBI Bank. Strategic sales in Shipping Corporation of India and Bharat Earth Movers require demerger and listing of their non-core businesses that consist of land assets.

Interest from investors has also proven to be a stumbling block and getting the right price is a prime consideration. Take for instance the disinvestment of the debt-ridden erstwhile national carrier Air India, which took three attempts over a period of 20 years before it could be sold off to the Tata group. In the case of LIC, the IPO size was cut to 3.5 per cent from the planned 5 per cent because of choppy capital market conditions.

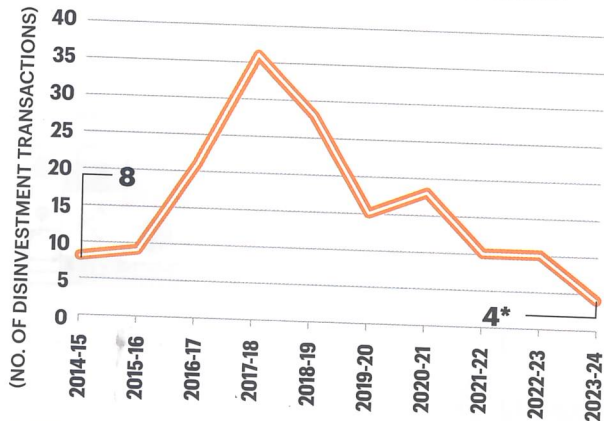
Then there are some that have not taken off. In the case of Container Corporation of India, while the Union Cabinet's approval has been in place for some time and a land lease policy was also cleared last year, the exercise seems to be on hold. The strategic disinvestment in Pawan Hans has been scrapped and that of Bharat Petroleum Corp. also seems to be in deep freeze.

THE WAY AHEAD

Meanwhile, the operationalisation of the National Land Monetisation Corporation (NLMC) is underway but could take some time. The NLMC, which was approved by the Union Cabinet in March 2022, aims to monetise land and other non-core assets of central public sector enterprises (CPSE) that are being taken up for strategic sale and closure. The department of public enterprises, which is the nodal ministry in charge of this initiative, has recently selected international property consultants, including SBI Capital Markets and CBRE South Asia, to provide transaction advisory services for monetisation of such assets.

TRANSACTIONS DIP

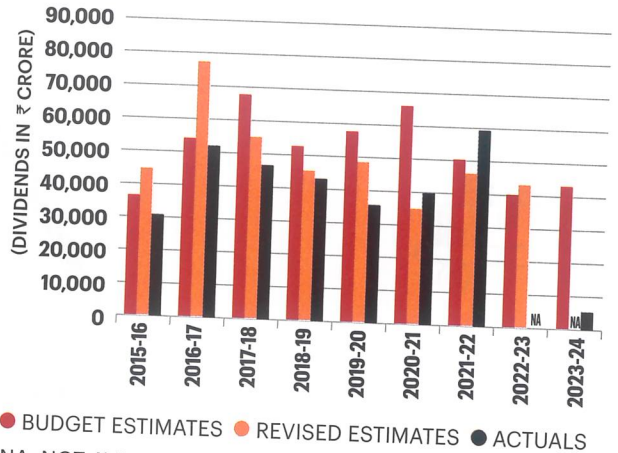
- ▶ **MINORITY STAKE SALES MADE UP MOST DISINVESTMENT TRANSACTIONS**
- ▶ **TRANSACTIONS ARE LIKELY TO COME DOWN IN FY24 BECAUSE OF IMPENDING ELECTIONS**



SOURCE: ANNUAL REPORT 2022-23 MINISTRY OF FINANCE, DIPAM; * DISINVESTMENT THIS FISCAL: SUUTI, HAL, COAL INDIA LTD, AND RAIL VIKAS NIGAM LTD

DIVIDENDS TALLY

- ▶ **DIVIDENDS FROM PSEs ARE A RICH SOURCE OF NON-TAX REVENUE**
- ▶ **THEY HELP MEET THE SHORTFALL IN DIVESTMENT RECEIPTS TO BRIDGE THE FISCAL DEFICIT**



● BUDGET ESTIMATES ● REVISED ESTIMATES ● ACTUALS
NA: NOT AVAILABLE; **SOURCE:** DIPAM, BUDGET DOCUMENTS, CGA

It is also in the process of appointing a CEO and Non-executive Chairperson, as well as professionals to man the agency.

Much remains to be done on the National Monetisation Pipeline as well, which had estimated asset monetisation of ₹6 lakh crore for FY22-25. The value of assets envisaged to be monetised was about ₹88,000 crore in FY22 and ₹1.6 lakh crore in FY23. The actual numbers were ₹97,000 crore in FY22, and about ₹1.3 lakh crore in FY23. For FY24, the target is about ₹1.8 lakh crore and government agencies are working out strategies. The National Highways Authority of India is looking to raise nearly ₹45,000 crore through asset monetisation.

With general elections approaching, the market is anticipating another slowdown in the disinvestment drive in FY24 though Dipam Secretary Tuhin Kanta Pandey has said that ongoing transactions are under process and the strategic sale in IDBI Bank and Shipping Corporation of India are on track. "It seems that the IDBI Bank stake sale may not take place in FY24. We don't expect any big-ticket disinvestment right now and it is likely that these may take place in 2025-26," says Swapnil Shah, Director-Research at StoxBox, an online brand of stockbroking firm BP Wealth. He adds that even larger investors may await clarity on the political front before stepping in to participate in stake sales.

The Union Budget 2023-24 has set a target of ₹51,000 crore from disinvestment. But, till now, disinvestment receipts have helped raise a tad over ₹11,500 crore, comprising ₹5,955.68 crore as dividend from CPSEs and ₹5,600.93 crore through OFS and other transactions. A minority stake sale in Indian Railway Finance Corp. and the IPO of Indian Renewable Energy Development Agency are expected in the coming months. Dipam has

also started work on the disinvestment of Indian Medicines Pharmaceutical Corp.

Though it is early days, finance ministry officials are understood to be reviewing the fiscal math and believe non-tax revenue through higher dividends such as the ₹87,000 crore-plus payment by the RBI may help the centre meet its targeted fiscal deficit of 5.9 per cent in FY24.

Expediting stake sales in PSEs is likely to remain a key priority for whichever government comes to power next year. Not only will it help bridge the fiscal deficit but it will also lead to better functioning, corporate governance and transparency in these firms. A recent report by Bank of Baroda had said that the potential kitty from disinvestment receipts if the government decides to bring down stake in all PSEs, public sector banks and other financial institutions to 51 per cent would be at about ₹3.5 lakh crore. Of this, ₹1.7 lakh crore can come from PSEs and ₹1.8 lakh crore from financial institutions, it said.

Clearly, disinvestment will remain the buzzword in the years to come although it's unlikely to become less challenging. **BT**

@surabhi_prasad