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Disinvestment buffer

Revenues from sale of PSU shares can be handy

Discussions on disinvestment inevitably come up as the Budget draws close. In fact, with signs of stress in tax collections this fiscal — both income tax and GST on account of the reduced levies — disinvestment is being regarded in some quarters as an important balancing factor. A recent report in this newspaper points out that the Centre intends to continue selling small stakes in listed PSUs. The moment is indeed opportune, as public sector enterprise stocks are highly valued now.

The Centre has so far sold stakes in Mazgaon Dock Shipbuilders and Bank of Maharashtra to raise ₹7,348 crore in FY26. This is a wise move since there is a large appetite for PSU stocks among investors. The BSE PSU index has given annualised returns of 35 per cent in the last five years and 15.4 per cent in the last 10 years. With these stocks giving high dividend yield, they are sought after by long-term investors. Around nine stocks in the BSE CPSE index, including Garden Reach Shipbuilding, NALCO, Cochin Shipyard and Bharat Electronics, have doubled their price in the last two years, as investors queued up to buy them, given their niche capabilities to manufacture products critical for the country's infrastructure and defence. The Centre must move quickly, as disinvestment can get difficult if stock markets enter a corrective phase.

Although the government holds 58 per cent of publicly listed companies by market capitalisation (₹22.4 lakh crore out of ₹38.8 lakh crore), this average conceals the fact that there is room to garner resources. The Centre also holds shares worth ₹17.8 lakh crore in public financial institutions; its holding in LIC alone amounts to ₹5.2 lakh crore. Selling small stakes in some PSUs will help in several ways. One, it will help in complying with minimum public shareholding norms. Almost one-fifth of the listed public sector enterprises and half of the public financial institutions, have public holding below the 25 per cent mark. Low floating stock in some of these listed stocks results in driving share prices sharply higher. Two, higher public holding increases accountability and improves governance.

Three, this will lift the Centre's revenue, at a time when US tariffs and major policy changes are likely to squeeze the fiscal balance. The Centre's finances for the April-October period show net tax revenue was ₹12.74 lakh crore, 2.6 per cent lower than the ₹13.05 lakh crore collected in the same period in FY25. Disinvestment must be carried out judiciously in the right sectors at the right time, to meet multiple long-term objectives. To place it solely within the public finance frame is to miss its larger import. The Centre has, in fact, done well to remove disinvestment as a line item in the FY26 Budget. As a Budget entry, it had turned into a target that was barely ever realised. Worse, it began to be seen as an exercise in window-dressing revenue projections.