

Strategic reforms

Focus on small ticket disinvestment is paying off

In recent years, the Centre has chosen to adopt a different tack on disinvestment — one that is predicated on unobtrusive minority stake sales in central public sector undertakings without any disinvestment target being stated upfront in the Budget. The target, since FY24, is being mentioned as ‘miscellaneous capital receipts’ in the receipts Budget.



Simultaneously, targets have been pared from the levels of five or more years ago. In addition, the disinvestment style has shifted from trying to sell big chunks, to small stakes. This could turn out to be effective in raising more funds. The current year bears this out. Against a ‘target’ of ₹80,000 crore for FY27, over ₹52,000 crore has been raked in through the offer for sale (OFS) route in the first four months, with LIC’s 6.5 per cent stake sale accounting for ₹31,552 crore. This performance is the best since FY20, when just over ₹50,000 crore was realised over the year. A compilation by BSE shows that while disinvestment has a strike rate of about 45 per cent with respect to targets (₹6.3 lakh crore *vis-a-vis* ₹14 lakh crore) since 1991, this slipped to 16 per cent and 9 per cent in FY21 and FY22, respectively, when targets of ₹2.1 lakh crore and ₹1.75 lakh crore were penned down. In the five years till FY26, the strike rate is barely 30 per cent on average. Now, the policy of creeping minority stake sales through the OFS route could usher a change in pattern.

According to reports in this newspaper, OFS is the preferred route because it is less cumbersome and quicker than IPO or a follow-on offering. Besides LIC, OFSs in Coal India, Central Bank of India, NHPC, NLC, GIC, IRFC and Cochin Shipyard have collectively raised ₹20,000 crore this fiscal. According to media reports, the LIC OFS took bankers by surprise. The advantage of catching market players off-guard is that the valuations can benefit, provided the floor price is set right.

Whether one pursues creeping disinvestment, or the big-bang strategic sale route, the objectives should be clear. The FY22 Budget refers to “bare minimum presence” of PSEs in strategic sectors, with the remaining CPSEs in the strategic sector privatised, merged, subsidiarised or closed. In the non-strategic sectors, CPSEs will be privatised or closed, it says. The idea is to professionalise PSUs through wider owner participation. Interestingly, the FY26 Economic Survey observes that in order to improve governance through stake sale, the Companies Act can be amended so that 26 per cent stake allows for effective control, against 51 per cent at present. With government holding in many entities below 60 per cent, there are limits to creeping sales. According to CAG reports, barely 10 per cent of all CPSEs (about 70 out of over 700) are listed. Listing these should be the first step towards accountability. Finally, gradual privatisation is likely to work better for the entity concerned, and for all stakeholders. Its proceeds should be ploughed into capital expenditure alone.