How Centre aced divestment target

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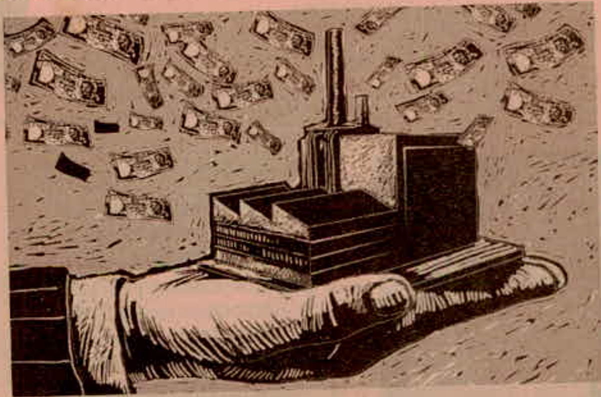

SECOND TIME LUCKY

Mode of disinvestment	FY18	FY19	Chg (%)
IPO	24,040	1,704	(93)
ETF	14,500	45,079	211
OFS	13,711	5,236	(62)
Strategic disinvestment	4,154	6,713	62
Buyback	5,207	10,291	98
Off market deal	36,915	14,500	(61)
Total	98,526	83,522	

Source: Dipam; Note: Strategic disinvestment include Suuti stake sale; Off market deal includes transfer of govt shareholding in a PSU to another PSU

The government has exceeded the disinvestment target for the second year in a row in 2018-19. It mopped up ₹83, 522 crore against the budgeted target of ₹80,000 crore for the just-concluded financial year. In the 2017-18, the centre had achieved an ambitious target of ₹1 trillion. Achieving disinvestment targets despite volatile market conditions is a commendable feat. However, a closer look at the disinvestment figures reveals that the government had to resort to unconventional methods to achieve the target.

Money raised through conventional methods such as Initial public offering (IPO) and offer for sales (OFS) witnessed a sharp drop in 2018-19. The Centre raised only ₹1,700 crore via IPOs, over 90 per cent drop as compared to the previous financial year. Similarly, the OFS proceeds were 62 per cent lower at ₹5,236 crore over the preceding financial year.

Disinvestment through the exchange traded fund (ETF) route proved to be a shot in the arm for the government. The Centre raised over half of 2018-19's target by selling shares in public sector undertakings (PSUs) that make up the so-called CPSE ETF and the Bharat 22 ETF, which are managed by mutual fund houses. The government launched two separate tranches of Bharat 22 ETF and one tranche of CPSE ETF to mop up a cumulative ₹45,079 crore. The mobilisation through buybacks also doubled in 2018-19 to ₹10,291 crore. Through buybacks, PSUs acquired shares of all the stakeholders, including the government, at a premium to market rate. Another mode of disinvestment that the government relied on was 'off market deals'. Under this method, one PSU was made to acquire the government shareholding in another PSU. In 2018-19, the ONGC acquired government's entire 51.1 per cent stake in oil marketing company HPCL for ₹36,915 crore. In March, Power Finance Corporation (PFC) paid ₹14,500 crore to the Centre to buy its 52.6 per cent stake in REC.

Disinvestment proceeds are key for the government's finances as they help bridge the fiscal deficit. However, market participants have expressed dissatisfaction over the manner in which some disinvestments were carried out.

"Disinvestment is a smokescreen as real ownership has not been transferred from the government to the public. In most of the big divestment deals, the ownership merely moved from one basket to the other. The government should aim to aim to transfer ownership to the public," said an investment banker on the condition of anonymity.