

Meeting ₹1-trn divestment target plausible: I-banks

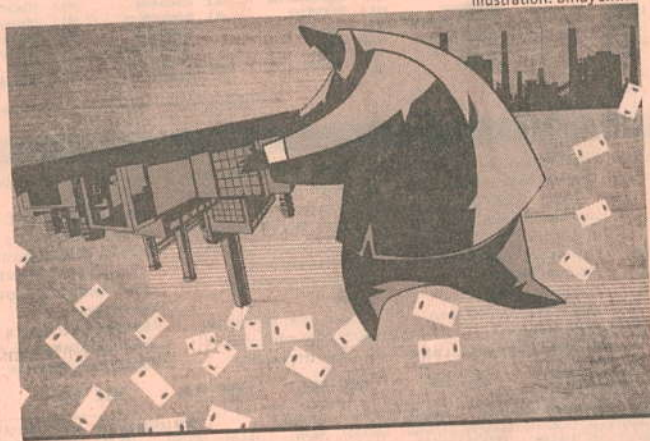
Illustration: Binay Sinha

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Weak market conditions notwithstanding, the Centre has a good chance of meeting the divestment target for 2019-20, say investment bankers. Finance Minister Nirmala Sitharaman has revised the divestment target to ₹1.05 trillion, from the earlier target of ₹90,000 crore set during the interim Budget.

Investment bankers say the government achieved a similar target in 2017-18 and a considerably steep target last fiscal, despite challenging market conditions. "It's a challenging target, but I am sure there is enough appetite in the market as we stand today," says Ajay Saraf, executive director, ICICI Securities.

The government had exceeded the divestment target for the second year in a row in 2018-19 (FY19). It mopped up ₹83,522 crore, against the budgeted target of ₹80,000 crore. In the 2017-18, the Centre had achieved



an ambitious goal of ₹1 trillion. However, the government had to resort to unconventional methods to achieve the target.

Money raised through conventional methods, such as initial public offerings and offer for sales, witnessed a sharp drop in FY19. More than half the divestment proceeds were raised

through the exchange-traded fund (ETF) route. The government launched two separate tranches of Bharat 22 ETF and one tranche of the central public sector enterprises ETF to mop up a cumulative ₹45,079 crore.

The ETF component is expected to form a considerable chunk of this fiscal's divestment proceeds.

THIRD TIME LUCKY?

After tasting success for two years in a row, the Centre has set an ambitious target for FY20

Mode of disinvestment	FY18	FY19
IPO	24,040	1,914
ETF	14,500	45,079
OFS	13,711	5,236
Strategic disinvestment	4,154	7,572
Buyback	5,207	10,671
Off-market deal	36,915	14,500
Total	98,526	84,972

Source: Dipam

All figures in ₹ crore

"ETFs will be one of the pillars of this year's divestment. In the past, ETFs have done well. One needs to see whether the market conditions are conducive to fundraising," says Saraf. Off-market deals are also expected to play a huge role this fiscal.

Under this method, one state-owned company was made to acquire

the government shareholding in another public sector undertaking (PSU). In FY19, Oil and Natural Gas Corporation had acquired the government's entire 51.1 per cent stake in oil marketing company Hindustan Petroleum Corporation for ₹36,915 crore. In March 2019, Power Finance Corporation paid ₹14,500 crore to the Centre to buy its 52.6 per cent stake in REC Power Distribution Company.

Experts say the revival in the stock markets holds the key for achieving higher divestment targets.

"It's imperative to have a strong equity market for any divestment or liquidation to be done. We are used to seeing divestment through capital markets, but this year, there could be a significant component of strategic sales as well. The government could raise a substantial amount through ETFs, but whether they will be able to achieve the entire target through capital markets remains to be seen," says Jibi Jacob, head-equity capital markets, Edelweiss Financial Services.