

Disinvestment dynamics

Listing LIC will be a big challenge for the govt

The Budget estimates for the next fiscal year, to a large extent, depend on achieving an ambitious disinvestment target. It intends to raise a massive ₹2.1 trillion next year, compared with the revised estimate of ₹65,000 crore in the current year. The government had budgeted ₹1.05 trillion on this account in the July 2019 Budget. However, so far, it has managed to raise only a little over ₹18,000 crore. Since the proposed strategic sale of companies such as Bharat Petroleum Corporation and Container Corporation of India is unlikely to happen in the current year, it is not clear how the government will attain even the revised disinvestment target. While the delay in the strategic sale of selected companies will push up disinvestment receipts in the next year, achieving the massive target will still be exceptionally challenging. The government is planning to raise ₹90,000 crore by selling its stake in financial institutions like Life Insurance Corporation (LIC). Attaining both the disinvestment target and listing of LIC in the next 12 months will be a huge achievement.

There are many reasons why the proposal to list LIC is a good one. If public sector banks can be listed on stock exchanges, there is no reason why LIC should not be widely owned. In fact, LIC listing will serve multiple purposes. Apart from unlocking value, it will not only allow investors, both retail and institutional, to own the largest insurance venture but will also improve transparency and governance in the company, which will make it more efficient.

But addressing pending issues and listing in a single year is a challenging task. For instance, the merger and listing of general insurance companies have not happened yet. LIC will have added complications, including amending the law governing the insurance behemoth. It is a large company, and will possibly become the most valuable firm by market capitalisation in India. Therefore, the process of valuation and adjustments in books, if necessary, will take time. LIC also has huge investments in real estate, art, and the equity market, which may prove to be time-consuming for valuation purposes. Market conditions will also need to be properly assessed, as even a 5 per cent stake sale would make it by far the biggest public offer in the country. The government can then progressively trim its stake in the coming years. It will also have to deal with employee unions and political opposition, but that should not be a problem.

It is thus important to move forward on LIC with careful planning. One of the biggest reasons why the government mostly fails to attain the disinvestment target is poor planning. The target normally depends on the need of the Budget, companies are often randomly selected, and the government waits until towards the end of the year to sell its stake. This is exactly why it failed to achieve the budgeted target in the current year also. The need is to start work on LIC's listing early. Since the tax revenue projection has factored in a significant jump in buoyancy, which may not materialise, and it is difficult to cut revenue expenditure, a failure on the disinvestment front will affect the capital expenditure of the government, which, in turn, will have a direct bearing on potential growth.