

# Some hits & misses: The act of deferring divestment targets

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The National Democratic Alliance (NDA) government has only been able to meet the divestment targets for two of the seven years it has been in power.

In the previous and current fiscal years, the government set ambitious targets for itself — only to defer them as the planned sales didn't take off.

In the previous fiscal year, the government had set a target of ₹90,000 crore, with plans to privatise Bharat Petroleum Corporation (BPCL), Container Corporation (Concor) of India, and Shipping Corporation of India (SCI). None of these got completed last year. Hoping to get them completed this fiscal year, the NDA regime has set yet another ambitious disinvestment target of ₹2.1 trillion. Around ₹90,000 crore of this was expected to come from the initial public offering of Life Insurance Corporation of India (LIC) India, and from the sale of the government's residual stake in IDBI Bank.

Although officials say the listing of LIC and the stake sale in IDBI Bank should not have been a part of the divestment target set for the Department of Investment and Public Asset Management, and must be within the domain of the Department of Financial Services, the divestment department had to assist these transactions like it does for other government departments, and hence, this became its own mandate. These two transactions are unlikely to get completed this fiscal and will see these being included in yet another ambitious target the government could set for disinvestment for the next fiscal year.

With a new privatisation policy — that will limit the presence of public sector entities to a maximum of four in strategic sectors — around the corner, and Finance Minister Nirmala Sitharaman hinting that the pace of momentum of divestment will pick up, Budget 2021-22 may see a higher divestment target for next year.

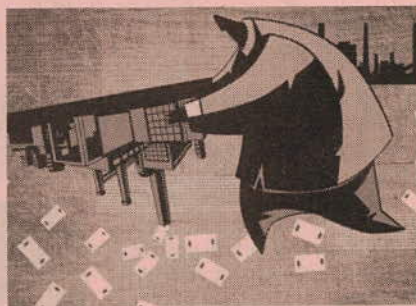
The current fiscal year (2020-21) for divestment has been challenging, with the Covid-19 pandemic having dragged the markets to record lows. However, the markets soon recovered and are now at their highest levels, with the Nifty50 touching an all-time high of 14,147.95 intraday on Monday.

Although the government has moved swiftly and announced the sale of shares held through Specified Undertaking of the Unit Trust of India holdings, and offer for sale (OFS) of companies such as Indian Railway Catering and Tourism Corporation, its divestment receipts so far is ₹13,844 crore.

Big-ticket privatisation of BPCL, that will help the government get a huge chunk of its ₹1.2-trillion target (excluding LIC and IDBI Bank), may get pushed to next year. Privatisation of Concor may also be deferred to next year, but SCI is expected to be completed this year. However, the transaction will not fetch a huge sum to the government, given its stake in the shipping company is valued at ₹2,700 crore.

The government is expected to come up with OFS to mop up divestment receipts. Some buyback by state-owned companies will also help the government.

Divestment is always conditional upon market conditions, and the government has been setting ambitious targets. Realising the proceeds remains a challenge due to several



## DIVESTMENT MISMATCH

	Receipts	BE	RE
FY15	32,620	58,425	26,353
FY16	23,997	69,500	25,312
FY17	46,246	56,500	45,500
FY18	1,00,057	72,500	1,00,000
FY19	84,972	80,000	80,000
FY20 (I)	-	90,000	-
FY20	50,298	1,05,000	65,000
FY21	12,778*	201,000	-

Sources: Budget documents, DIPAM; All figures in ₹ crore; (I) stands for interim Budget

factors, said N R Bhanumurthy, Vice-Chancellor at Bengaluru Dr B R Ambedkar School of Economics (BASE) University.

"Successive Budgets have been heavily dependent on divestment receipts. The government shouldn't set a divestment target for itself, and continue with fresh divestment proposals in the pipeline," said Bhanumurthy said that divestment proceeds may be kept outside the Budget estimation process, and should not be used to estimate fiscal deficit. Receipts for divestment can be used for off-Budget liabilities or paying outstanding liabilities. In fact, the International Monetary Fund does not include disinvestment receipts in estimating fiscal deficit.

### The two hits

The only two times the government was able to meet its stake sale target was in 2017-18 (FY18) and 2018-19 (FY19), when it completed transactions that involved money going from one pocket to another (by selling one public sector undertaking, or PSU, to another).

In FY18, the government mopped up bit over the target of ₹1 trillion in divestment receipts. The target was revised upwards from ₹72,500 crore. That was aided by the sale of Hindustan Petroleum Corporation (HPCL) to Oil and Natural Gas Corporation. The transaction helped the government in realising ₹36,915 crore. That year, of the ₹72,500 crore, the government had assumed ₹20,500 crore to come from strategic divestment, where government intended to sell its stake, along with management control. The government was supposed to sell 24 such companies, but only HPCL was concluded.

The second year when the government managed to meet its divestment target was in FY19, when yet another PSU bought out the government's stake in its peer. The Power Finance Corporation-REC (formerly Rural Electrification Corporation) deal helped the government in garnering ₹14,500 crore as divestment receipts. The government divestment receipts that year were ₹84,972 crore, against its target of ₹80,000 crore.

RUN-UP  
TO



BUDGET  
2021-22