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DISINVESTMENT OF PUBLIC SECTOR ENTERPRISES IN INDIA - A STUDY

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Abstract

The public sector enterprises have been playing a vital role in the development of Indian economy. Hence more importance has been given to the development of public sector enterprises since the beginning of planning period and these were protected fully by providing budgetary support. However, the performance of some public sector enterprises has not been satisfactory as compared with private sector enterprises in the same industry and the government is not in a position to justify budgetary support. Further, it is very essential that both the public and private sector must become competitive in the changed economic environment. Therefore, the Government of India has decided to disinvest the equity of some selected public sector enterprises to improve management, enhance availability of resources and yield resources for the exchequer. The Department of Disinvestment has been looking after the disinvestment process since its inception. As a result of disinvestment decision initiated in India,our country collected Rs47646.43 crores from 1991-92 till the end of financial year 2004-05. The receipts from disinvestments are deposited in the Disinvestment Proceeds Funds and used for financing fresh employment opportunities, investments and servicing public debt. The present study covers the important aspects of disinvestment like disinvestment policy, status of disinvestment in India, state wise disinvestment, impact and issues of disinvestment. Further, the study is purely based on the secondary data collected from the website, daily newspapers and magazines etc. The disinvestment of public sector units no doubt has favourable impact on Indian economy in general and industrial sector in particular if proper care is taken towards the issues of disinvestment .It requires proper course of action and strategy to avoid improper use of cash inflows from the process of disinvestments.

Introduction

The public sector enterprises have been playing a vital role in the development of Indian economy. Hence more importance has been given to the development of public sector enterprises since the beginning of planning period and these were protected fully by providing budgetary support. However, the performance of some public sector enterprises has not been satisfactory as compared with private sector enterprises in the same industry and the government is not in a position to justify budgetary support. Further, it is very essential that both the public and private sector must become competitive in the changed economic environment. Therefore, the Government of India has decided to disinvest the equity of some selected public sector enterprises to improve management, enhance availability of resources and yield resources for the exchequer. The Department of Disinvestment has been looking after the disinvestment process since its inception. As a result of disinvestment decision initiated in India, our country collected Rs47646.43 crores from 1991-92 till the end of financial year 2004-05. The receipts from the disinvestments proceeds has been deposited in the Disinvestment Proceeds Funds and used for financing fresh employment opportunities, investments and servicing public debt.

Scope and Methodology

The present study covers the important aspects of disinvestment like disinvestment policy, status of disinvestment in India, state wise disinvestment, impact and issues of disinvestment. Further, the study is purely based on secondary data collected from the website, daily newspapers and magazines etc.

Objectives

The main objectives of the study are;

1. To know the disinvestment policy in India.
2. To analyze the progress of disinvestment in India.
3. To know the state wise disinvestment in India.
4. To assess the impact of disinvestment on the economy.
5. To evaluate the issues relating to disinvestment in India.
6. To offer useful suggestions.

Evolution of Disinvestment Policy

The policy of disinvestment was initiated first time in India by the government under the Prime Minister Shri Chandrashekar during 1991-92. Under this policy, it was decided to divest upto 20 percent of the equity of Public Sector Enterprises (PSE) in favour of public sector institutional investors. The main objectives of the policy were to broad base equity, improve management, enhance availability of resources for these PSEs and yield resources for the exchequer.

The Government of India constituted a Committee under the chairmanship of Shri Rangarajan on the disinvestment of shares in the Public Sector Enterprises. The Rangarajan Committee submitted the report on the disinvestment of shares in the Public Sector Enterprises during April 1993. The Committee recommended disinvestment upto 49 percent of equity for industries explicitly reserved for the Public Sector, upto 74 percent of equity for industries where separate identity has to be maintained for strategic reasons and upto 100 percent in all other government sector. The Committee also recommended holding equity of 51 percent or more only for six scheduled industries, viz Coal and Lignite, Mineral Oil, Arms, Ammunition and Defence Equipments, Atomic Energy, Radioactive Minerals and Railway Transport.

The Government of India set up a Disinvestment Commission in 1996 in pursuant of the proposal approved and announced during the budget speech by the Finance Minister on 22nd July 1996. The Commission advised 58 Public Sector Enterprises to shift from public offerings to strategic/trade sales with transfer of management during August 1999.

On 16th March 1999, the government classified the Public Sector Enterprises into strategic and nonstrategic for the purpose of disinvestment in pursuant of the budget speech on 27th February 1999 by the Finance Minister. Arms and ammunitions and other allied items of defence equipments, defence aircraft and warships, atomic energy and railway transport were considered strategic and others were considered nonstrategic.

The Government of India established a new Department for Disinvestment to establish a systematic policy approach to disinvestment and privatization and give a fresh impetus to this programme, which will emphasize increasingly strategic sales of identified Public Sector Units.

In order to provide complete visibility to the government's continued commitments of utilization of disinvestment proceeds for social and infrastructure sectors, the Disinvestment Proceeds Fund was set up by the Government of India. The Disinvestment Proceeds Fund has been used for financing fresh employment opportunities and investments and for servicing of public debt. The Asset Management Company was set up by the Government of India to hold and dispose the residual holdings of the government in the companies in which government equity has been disinvested to a strategic partner.

The United Progressive Alliance (UPA) government has also announced its policy on disinvestment in the National Common Minimum Programme. Accordingly, the existing Navaratna will be retained in the public sector and every effort will be made to modernize and restructure the sick public sector units and revive sick industries. Further, loss making companies will either be sold-off or closed after settling all workers' legitimate dues and compensation. Besides, the UPA government has disbanded the Disinvestment Commission and appointed a Public Sector Restructuring Board.

The UPA government recently adopted a new policy on disinvestments. The new policy involves selling of minority stakes in both the listed and unlisted profitable public sector enterprises without ceding management control by retaining a minimum of 51 percent. The government also decided to set up a "National Investment Fund" with proceeds from sale of government equity in profitable public sector units. The main objectives of the National Investment Fund will be to finance social sector projects in areas such as education, healthcare and employment.

The Progress of Disinvestment Process in India

The disinvestment process has started way back in the financial year 1991-92 with the sale of minority stakes in some selected Public Sector Units and continues till today. The focus of disinvestment of public sector units was shifted from sale of minority stakes to strategic sale from 1999-00 onwards. As a result of this shift in policy, there has been sudden jump in the targets and actual receipts in the disinvestment process. The progress of disinvestment in India since 1991-92 to 2004-05 is depicted in the **Table- 1.**

Table -1 reveals actual receipts to be more than the target in four years (i.e. 1991-92,1994-95,1998-99 and 2003-04) and the actual receipts were less than the targets in rest of the period from 1991-92 to 2004-05. Further, actual receipts from disinvestment were very less as compared with the target of disinvestments in some years and it was even less than 2.5 percent of the target in 1995-96 and around 7.59 percent in 1996-97. This signifies the ineffectiveness of disinvest process in India. Besides, the actual receipts and targets were predominant in the financial year 2003-04, accounting for Rs14500 crores in target and Rs15547.41 crores in actual receipts and number of deals in which equity sold were high in 1991-92.

Disinvestment Proceeds during 2003-04

The disinvestment targets and actual receipts were high in the history of disinvestment in the year 2003-04. The progress of disinvestment during 2003-04 is presented in **Table- 2.**

The **Table- 2** reveals the summary of transactions in disinvestment process in the year 2003-04. The total amount realized through disinvestment was Rs 15547.41 crores which exceeded the target of Rs14500 crores. It also reveals that the major portion of disinvestment proceeds in the year was through offer for sale. Further, the sale of 9.9 percent of equity in ONGC yielded Rs 10542.40 crores, which was recorded as the highest amount among the disinvestment deals in the year. However, the sale of 72 percent of equity of Jessop and Company Ltd resulted only in the paltry sum of Rs 18.18 crores that accounts for the lowest amount in the same year.

The governments of different states have also initiated disinvestment of state enterprises to improve their productivity and performance. The status of state wise disinvestments in India is presented in the **Table- 3.**

Table- 3 summarizes the state wise status of disinvestment in the country from 1991-92 till date. 38.51percent was identified for disinvestment but the state governments initiated disinvestment process only in 28.96 percent of the total SLPEs and only 3.47 percent of total has been divested so far. In other words, out of 1036 SLPEs in all states, 399 were identified for disinvestment. Governments initiated divestment in 300 public enterprises and 111 were closed and 36 were divested. It is also clear that Andhra Pradesh has the highest number of SLPEs and Mizoram has the lowest number of SLPEs in the country. Out of a total SLPEs in Andra Pradesh, 67.97 percent were identified for disinvestment but only 10.36 percent were disinvested and 29.69 percent were closed. Kerala and Karnataka states stand second and third in total SLPEs and SLPEs identified for disinvestment. Further, Kerala and Tamil Nadu stand second and third in the number of SLPEs disinvested so far.

Issues in Disinvestment

There are many issues concerning the disinvestment of public sector enterprises in India.

1. Multiple Objectives of Disinvestment

Multiple objectives of disinvestment to achieve in the days to come, may contradict each other. Therefore, it is very difficult to achieve too many objectives at a time unless these are prioritized on the basis of importance. But the present policy of disinvestment has no clarity on the importance of objectives.

2. Recommendations of the Committees

The Government of India has set up various Committees to evaluate the feasibility and to recommend the disinvestment process. The Committees have made various recommendations on disinvestment of Public Sector Enterprises. However, the central and state governments did not implement many of the recommendations made by the Committees. This shows lack of interest by the governments in implementing the recommendations of Committees.

3.Transparency

The lack of transparency in the disinvestment process raises many serious questions about the possibility of vested interest dictating wide divergence. The government made disinvestment of BPCL easy for private players to acquire control at much cheaper price than what they would have forked out in a strategic sale.

4.Disinvestment Proceeds

The proceeds of disinvestment were deposited in the National Investment Fund to be used for the building of social infrastructure and reviving sick Public Sector Units. However, the amount available in the fund was utilized to meet only the budgetary requirements.

5.Politicization of Disinvestment

The disinvestment has formed part of the agenda of different political parties of India since the introduction of the concept. There has been no consensus among the political parties. Thirteen Public Sector Units are part of the list prepared by the NDA government for strategic disinvestment. However, the present government has decided to abandon the plan for strategic sale of these units due to political considerations.

6.Voluntary Retirement Scheme

The government has taken two major initiatives to improve the safety net of workers of PSUs, viz, enhancement of VRS benefits in those PSUs where the wage revision had not taken place in 1992 or 1997 and increased training opportunities for self-employment for workers retiring under VRS. But the benefits of VRS were taken up by talented employees who saw the opportunities opening up in the private sector and PSUs are left with employees of middle and low order talents.

7.Legal Complexity

The disinvestment process must cope up with different legalities like Constitutional Modalities, Companies Act, SEBI Regulation, Income Tax Act, Labour Laws and International Legal System etc.

8. Plethora of Control

The disinvestment of PSU has been under the control of the Department of Disinvetstment, Government of India since the creation of a separate department. However, the disinvestment has been not only under the control of the department but also comes under the control of Parliament, Ministers, Cabinet Committee, Comptroller and Auditor General and Central Vigilance Commissioner etc. Right decisions are possible only when there is control from a unified controlling authority.

9.Valuation Method

There are many methods available for valuation of shares during disinvestment of PSU. Discounted cash flow method, comparable valuation methods, balance method, market price method and earning method etc are some important methods of valuation of shares. However, there is no clarity as to what method was adopted to value the divested shares during the disinvestment process. Further, pricing practices followed in the sale of shares of some PSEs were very poor. As a result of this, sales proceeds from disinvestment in some PSEs have yielded meager amount. The government sold Centaur Hotel to the Batra group for Rs86 crores, and within few months, the Batra group sold the same hotel to Sahara Airlines for Rs125 crores.

10.Employment

The government introduced the scheme of voluntary retirement and training for self-employment to those who retired voluntarily. The reduction in the number of staff in PSUs may further lead to the problem of unemployment.

11.Income Tax

Taxing of overseas investors, subscribing to ADR and GDR issued against shares divested by a group of company in its subsidiary which is also a listed company, needs amendments in the Income Tax Act.

12.Post Closure Adjustments

The government may, under pressure from bidder, incorporate a Post Closure Adjustments in the shareholders agreement and this has the potential to drain the exchequer of considerable sums of money instead of bringing cash.

13.Status of PESB

There is no clarity as to the status of Public Enterprises Selection Board and its workings. Further, there is also the question as to whether it should be given the same status as that of the UPSC or not.

Impact of Disinvestment

The disinvestment process initiated by the Government of India has both favorable and unfavorable impact on the Indian economy. The country can reap the benefits of disinvestment if it was done properly in the interest of the country and the proceeds of disinvestment was used judiciously. The following are some of the effects of disinvestments on the Indian economy;

1. Improvement in the productivity and performance of the Public Sector Enterprises.
2. Reduction in labour cost due to the introduction of VRS and increased productivity.

3. Improvement in the technology of the industry concerned.
4. Improvement in financial resources of the company.
5. Rise in the market price of shares in the stock exchanges.
6. Increase in the wealth of shareholders.
7. Increase in the income of government.
8. Decrease in the burden of interest payment due to servicing of public debt from disinvestment proceeds.
9. Export performance will go up due to improvement in productivity and competitiveness.
10. Development in the infrastructure of the country.
11. Products of high quality are available to the consumers at cheaper price.
12. Wide spread distribution of wealth among the people of the country.
13. Improvement in the standard of living of the people.
14. Quick and better decisions are possible due to more autonomy to the management.
15. Inflow of more FDI in the country.
16. Restructuring of ailing industries.

Suggestions

Prioritizing the objectives based on the importance, simplifying the process, protection of talented workers by adopting scientific VRS, bringing transparency, bringing consensus among political parties, adoption of proper method of valuation of shares, minimizing the plethora of controls, using the disinvestment proceeds for right cause, amending the income tax act to incorporate ADR and GDR and avoiding of post closure adjustments are some suggestions to improve the disinvestment in India.

Conclusion

Many PSUs in India are either sick or moving towards sickness in the days to come due to many reasons. As a result of sick PSUs, the country has been earning lower income for the last many years. Hence it is necessary to improve the productivity and performance of the PSUs in the interest of the country in general and PSU in particular. The disinvestment of the PSU is one of the steps initiated in this direction in the country by the government. The disinvestment of PSU has favourable impact on the Indian economy. The success of disinvestments depends on the transparency, right valuation and proper use of proceeds.

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Table - 1
Progress of Disinvestment in Public Sector Undertakings in India

Year	No. of Deals	Target Receipts (Rs in Crore)	Actual Receipts (Rs in Crore)
1991-92	47	2500	3037.74
1992-93	29	2500	1912.42
1993-94	Nil	3500	Nil
1994-95	17	4000	4843.1
1995-96	5	7000	168.48
1996-97	1	5000	379.67
1997-98	1	4800	910.00
1998-99	5	5000	5371.11
1999-00	5	10000	1860.14
2000-01	5	10000	1871.26
2001-02	8	12000	5632.25
2002-03	8	12000	3347.98
2003-04	2	14500	15547.41
2004-05	3	4000	2764.87
Total	136	96800	47646.43

Source : Department of Disinvestment, Government of India.

Table - 2
The Status of Disinvestment in India during 2003-04

Name of the Company	Type of sale	Percentage of equity divested	Proceeds realization/to be realized
Maruthi Udyog Ltd.	Offer for sale	27.5	993.34
Jessop and Co.Ltd*	Strategic sale	72.0	18.18
HZL**	Call option	18.9	323.88
ICIL	Limited auction	9.2	77.10
IBP	Offer for sale	26.0	350.66
IPCL	Offer for sale	28.9	1202.85
CMC	Offer for sale	26.3	190.44
DCIL	Offer for sale	20.0	221.20
GAIL	Offer for sale	10.0	1627.36
ONGC	Offer for sale	9.9	10542.40
Total			15547.41

Source: indiabudget.nic.in.
*Bharat Udyog Nigam Ltd. the holding company of Jessop and Company Ltd has received amount.
** Excise of call option by the strategic partner.

Table - 3
State wise Disinvestment of Public Sector Units in India

State	SLPEs identified for Disinvestment	No. of SLPEs in which process initiated	No. of SLPEs Privatised	No. of SLPEs Closed	Number of SLPEs
Andra Pradesh	87(67.97)	79(61.72)	13(10.16)	38(29.69)	128
Arunachal pradesh	Nil	Nil	Nil	Nil	7
Assam	Nil	Nil	Nil	Nil	42
Bihar	6(11.11)	6(11.11)	Nil	Nil	54
Delhi	Nil	1(6.67)	1(6.67)	Nil	15
Gujarat	24(48.00)	24(48.00)	3(6.00)	6(12.00)	50
Haryana	8(17.77)	6(13.33)	1(2.22)	4(8.89)	45
Himachal Pradesh	15(71.43)	8(38.10)	3(14.29)	2(9.52)	21
J &K	7(35.00)	2(10.00)	Nil	Nil	20
Karnataka	39(45.88)	20(23.53)	2(2.35)	12(14.12)	85
Kerala	55(49.55)	40(36.04)	Nil	10(9.01)	111
MP	14(53.85)	14(53.85)	1(3.85)	Nil	26
Maharastra	11(16.67)	4(6.06)	Nil	Nil	66
Manipur	10(71.43)	Nil	Nil	Nil	14
Mizoram	Nil	Nil	Nil	Nil	5
Orrissa	33(45.83)	10(13.89)	9(12.50)	11(15.28)	72
Punjab	11(20.75)	11(20.75)	1(1.89)	6(11.32)	53
Rajastan	10(35.71)	6(21.43)	1(3.57)	1(3.57)	28
Sikkim	Nil	Nil	Nil	Nil	12
Tamil Nadu	29(49.15)	29(49.15)	Nil	7(11.86)	59
UP	25(60.98)	25(60.98)	1(2.44)	14(34.15)	41
WB	15(18.29)	15(18.29)	Nil	Nil	82
Total	**399(38.51)**	**300(28.96)**	**36(0.03)**	**111(10.71)**	**1036**

Source: indiabudget.nic.in
Figures in brackets indicate percentages to the total number of SLPE's.