Disinvestment of Public Sector Enterprises in India: An Overview

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Abstract:
The overarching goal of the Indian government's disinvestment policy was to enhance efficiency, grant operational independence, and gradually reduce its ownership stake. To achieve this aim, the disinvestment policies were periodically revised. This paper tries to highlight the concept of disinvestment, to explore the achievement, the summary of facts of disinvestment process in India during the 26 years from 1991-92 to 2016-17. The current study tries to understand the yearly achievements over the targets made during the period; tries to understand whether the disinvestment process once upon a PSU or more times, what are the actual modes of disinvestment, transaction types and the recipient of the amount of the disinvestment during the period. The concepts are collected from various literatures. The database collected from the websites of the Bombay Stock Exchange and specific assigned for the disinvestment of Govt. of India. The analysis is made by the various charts and diagrams. The paper concludes with the summary of facts of disinvestment over the periods.

Keywords: Disinvestment, Public Sector Enterprises, privatization.

Introduction:
Before 1990 it was socialistic pattern of management of Public Sector Undertakings [1]. Licensing raj affects the public sector undertakings for their establishments during the period. In India there was Balance of Payment crisis in 1990 [2].In 1991 the government introduced the era of Liberalization, Privatization and Globalization in the new industrial policy statement. During 1991-1992, the Government proposed 20% Disinvestment in select Public Sector Undertakings [6] . Most of the shares were sold to Mutual Funds and Financial Institutions. During 1992-1993, the investor base was expanded to include foreign institutional investor (FII), public sector undertaking employees and Banks [7].In 1993 the Rangarajan Committee recommended 49% disinvestment in PSU's reserved for Public Sector and 74% disinvestment in all other Public Sector Undertakings. But the Government did not implement those recommendations [5]. The central government set up the Disinvestment Commission in the year of 1996. The Vajpayee Government classified the Public Sector Undertakings into two broad categories in 1998. First one is strategic sector which include Defense, Railways and Atomic in which no disinvestment policy recommended and the Second one is Non-Strategic sectors [3]. The central Government established the Department of Disinvestment in 1998.In the year of 2001 Department of Disinvestment renamed as Ministry of Disinvestment. In the year of 2004 UPA Government adopted Common Minimum Programme (CMP) to revive sick Public Sector Undertakings (PSU's) [4]. Policies adopted to get commercial autonomy [4]. Ministry of Disinvestment scaled back to a department. In the year of 2005 Central Government formed National Investment Fund [11]; 75% of the proceeds to be used for social sector and 25% of the proceeds to be used for capitalization of Public Sector Undertakings[11] [w-8]. The year 2009-2010 is the period of revival of disinvestment policy. But from the year of 2005 to the year of 2009, there ware coalition pressure from left parties. As a result the disinvestment remained stagnant [10]. After 2011 to 2014, disinvestment process slowed down and target could not be achieved due to various factors. The inter-ministerial disputes, lukewarm response from investors and internal & external market conditions [12] are the main cause for which the target of the disinvestment could not be met. From the year of 2014 the new disinvestment policy adopted. The Central Government set up Department of Investments and

Public Asset Management (DIPAM) in the late 2016. The Niti Aayog vested with recommendation powers. Till date it is functioning.

Objectives of the Study:

The objectives of the present study during the study period from 1991-92 to 2016-17 in India are as follows:

i) to highlight the idea about disinvestment ;

ii) to know the achievement of the disinvestment process during the period;

iii) to know whether the disinvestment process applied once or more times on a single PSU during the period or not;

iv) to know the mode of transactions applied in the disinvestment process during the period;

v) to know the transaction type of the disinvestment process during the period;

vi) to know the recipient of the disinvestment process during the period.

Significance of the study:

The study will provide an overview of the disinvestment process in public sector enterprises in India during the period from 1991-92 to 2016-17. The study will also provide insights into the yearly achievements, modes of transactions, and recipients of the disinvestment process during the period. The findings of the study will be useful for policymakers, investors, and researchers in the field of public sector enterprises and disinvestment.

Research Methodology:

- Research Design: The research design for this study is descriptive and analytical in nature. It involves the collection and analysis of secondary data from various sources.
- Data Collection: The data for this study will be collected from various secondary sources such as government reports, company reports, research papers, and other relevant sources. The sources of data collection for this study include the websites of the Bombay Stock Exchange (BSE) and the government of India's designated website for disinvestment.
- Sample: The study will include all the public sector enterprises in India that have undergone disinvestment during the period from 1991-92 to 2016-17.
- Data Analysis: The collected data will be analyzed using descriptive statistics such as charts and diagrams.
- Limitations: The study is limited to the period from 1991-92 to 2016-17 and only includes public sector enterprises in India. The study is also limited to the analysis of secondary data, which may be subject to errors and biases.
- Ethical Considerations: The study will comply with ethical considerations such as confidentiality of data, informed consent, and proper citation of sources.

Significance: The study will provide an overview of the disinvestment process in public sector undertakings in India during the ending from 1991-92 to 2016-17. The study will again provide insights into the yearly achievements, modes of transactions, and recipients of the disinvestment process during the period. The findings of the study will be useful for policymakers, investors, and researchers in the field of public sector enterprises and disinvestment.

Defining Disinvestment:

As investment means conversion of cash or equivalent into equities, securities, debentures, bonds or any other claims, disinvestment is the reverse of investment [8]. It may be defined as the action of an organization or of an enterprise or the government in selling or liquidating an asset or subsidiary [w-3]. In other words disinvestment is the partial release of ownership or capital. Typically disinvestment involves the sale of the part of the equity holdings by the government to private investors. It does not involve the dilution of ownership of a government enterprise to private.

Objectives of Disinvestment: In the new economic policy 1991 it was indicated that the public sector undertakings has been reflecting a very negative rate of return on capital employed. As a result there is a flow of capital erosion, the Government liabilities are more than the Government assets. There are some public sector undertakings which are traditionally established as the main pillar of the Indian Economy. But they had become now the burden of the economy. The Gross Domestic Savings has been reducing day by day on account of the loss making public sector undertakings. The main objectives of disinvestment are as follows:

a) Release of Public Resource: Disinvesting entails the sale of a portion of the government's ownership in public sector companies to free up funds and raise money for social welfare programmes, infrastructure improvements, or debt reduction. This encourages participation and completion from the private sector, which increases productivity and efficiency and fosters a dynamic economy.

b) Minimization of public debt: One of the objectives of disinvestment is to reduction of public debt which is a most important issue of the public sector undertakings.

c) Performance of the Public Sector undertakings: Another objective of disinvestment is to enhance the performance of the public sector undertakings.

d) Market Discipline: Disinvestment invites private sectors and private sectors can force them to survive and to become more efficient in Indian economy.

e) Unlocking public Resources: Much amount locked in the non-strategic public sectors. Strategic disinvestment unlocks that amount of which the government may use in the basic priority sectors.

f) Relief to consumers: The Government has the monopoly over the sectors like telecom and electricity. Disinvestment may overcome the monopolistic pricing policies and the consumers can get the benefits of more choices, competitive price and also may get better quality and quality services.

g) Depth and Liquidity in the Capital Market: As a result of disinvestment the capital market may get more liquidity and more depth. The investors of the capital market may get early exit options.

h) Wider distribution of wealth: Disinvestment invites the benefit of wider distribution of its wealth through offering shares amongst the employees and small investors.

i) Depoliticizing essential services: Most of the essential services in the Indian economy are controlled by the public sector undertakings on which there is deep involvement of politics. Disinvestment may depoliticize these sectors. As a result, work environment will be more pleasant and output will be more.

j) Research and Development and Competence building: In the business world, it is necessary to build its capacity parallel to the other business concerns. Disinvestment may increase the scope of research and development which is essential in this regard.

k) Monetary Crises resolve: Monetary crises are an important barrier for Infrastructure development. This monetary shortfall may reduce the funds from the disinvestment.

l) Resource Optimization: By the disinvestment resource of the public sector undertakings are optimized by delivering the highest returns.

Types of Disinvestment:

Primarily there are three different approaches or types or categories of disinvestment. The categories are as follows:

i) Minority Disinvestment: The minority disinvestment is a situation where the government typically retains at least 51% ownership or stake or management control. In general the Government by way of offer for sale inviting participation by the public or auctions the minority stake to the potential institutional investors [w-2].

ii) Majority Disinvestment: On the basis of strategic policies and grounds of the Government, when the Govt. gives up the majority stake in a government-held company and the Government is left holding a minority stake in the company then a case of Majority Disinvestment takes place [w-2].

iii) Complete Disinvestment: Complete Disinvestment is actually leads to privatization of Public Sector Undertakings. It is the case or situation when a Public Sector Units sold 100% of the ownership and control of the Government stake to non-Government owners [w-2].

Methods of Disinvestment:

There are various ways through which disinvestment can be made to achieve the objectives of the disinvestments. The means of disinvestments are as follows:

a) Initial Public Offer (IPO): In Initial Public offering the Government or a listed Central Public Sector Enterprise offers shares out of its shareholding or a combination of both to the public for subscription for the first time [w-1].

b) Further Public Offer (FPO): Further Public Offering is state when the Government or an unlisted Central Public Sector Enterprise offers shares out of its shareholding or a combination of both to the public for subscription after the first time offer [w-1].

c) Offer for Sale (OFS): Stock Exchange provides a platform where the Stock Exchange allows a mechanism of auction process of shares done by the promoters. This process is known as Offer for Sale. Since 2012, Government of India mostly using Offer for Sale (OFS) in its disinvestment programme [w-1].

d) Strategic Sale: It's a state when Central Public Sector Enterprise sells substantial portion of the Government holding up to 50% share or such a higher percentage as the competent authority may determine along with the transfer of control of the management [w-1].

e)Institutional Placement Program (IPP): Securities and Exchange Board of India (SEBI) approved the Institutional Placement Program (IPP) [w-1] in the beginning of 2012. It allows the promoters to either issue fresh equity or sell their holding by up to 10% of the total equity through an auction, albeit 'only for the purpose of complying with minimum public shareholding requirements'. Apart from this, it makes easier for government to sell up to 10% of its stake in listed public sector companies. In this programme only institutions can participate.

f) Exchange Traded Fund (ETF): The Government initiating following two types of Exchange Traded Fund (ETF) to realize disinvestment amount:

1) Central Public Sector Enterprises Exchange Traded Fund (CPSE ETF): The Government of India launched the open-ended exchange traded fund named Central Public Sector Enterprises Exchange Traded Fund in March 2014 to facilitate the disinvestment programme. The CPSE ETF contains the shares of major oil and energy Central Public Sector Enterprises. The CPSE ETF does not have any lock-in period as well [w-1].

2) Bharat 22 Exchange Traded Fund (Bharat 22 ETF): As a part of disinvestment programme the government of India launched Bharat 22 ETF in August 2017. Bharat 22 ETF contains 22 stocks belonging to six different sectors which include CPSE, PSU banks and holdings under the specified undertaking of Unit Trust of India.

Progress of Disinvestment of Public Sector Undertakings:

The Govt. of India started disinvestment process from the year 1991-92. Let us see the progress of the disinvestment in India since its inception. The following Table-1 shows the year wise figure of number of Public Enterprises is in the process of disinvestment: The budget estimates, actual receipts and achievements in percentages:

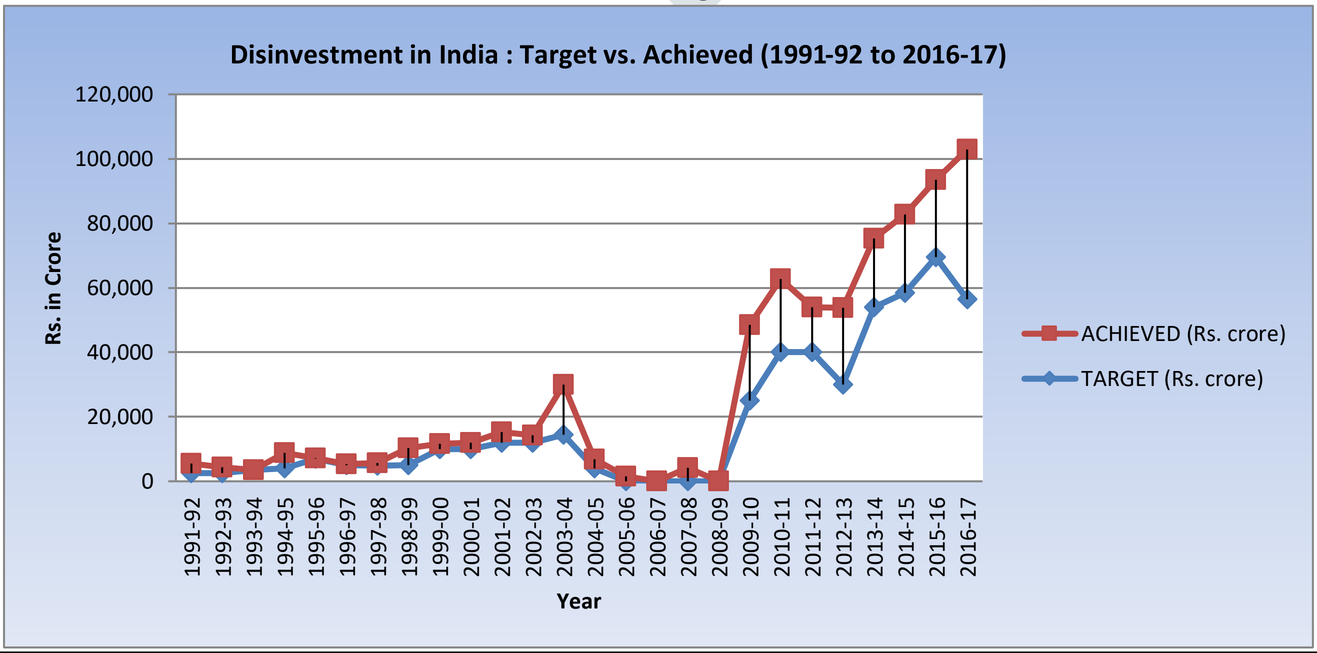
Table - 1

YEAR	TARGET (Rs. crore)	ACHIEVED (Rs. crore)	ACHIEVEMENT (%)
1991-92	2,500	3,038	121.52
1992-93	2,500	1,913	76.52
1993-94	3,500	0	0
1994-95	4,000	4,843	121.08
1995-96	7,000	168	2.40
1996-97	5,000	380	7.60
1997-98	4,800	910	18.96
1998-99	5,000	5,371	107.42
1999-00	10,000	1,585	15.85
2000-01	10,000	1,871	18.71
2001-02	12,000	3,268	27.23
2002-03	12,000	2,348	19.57
2003-04	14,500	15,547	107.22
2004-05	4,000	2,765	69.13
2005-06	N.A.	1,570	-
2006-07	N.A.	0	-
2007-08	N.A.	4,181	-
2008-09	N.A.	0	-
2009-10	25,000	23,553	94.21
2010-11	40,000	22,763	56.91
2011-12	40,000	14,035	35.09
2012-13	30,000~	23,857	79.52
2013-14	54,000@	21,321	39.48
2014-15	58,425	24,349	41.68
2015-16	69,500#	24,058	34.62
2016-17	56,500$	46,378	82.08
TOTAL	**4,70,225**	**2,50,072**	53.18

Revised target: ~ Rs. 24,000 crore; @Rs. 19,027 crore; # Rs. 25,312 crore and $ Rs. 45,500 crore.

Source: bsepsu.com

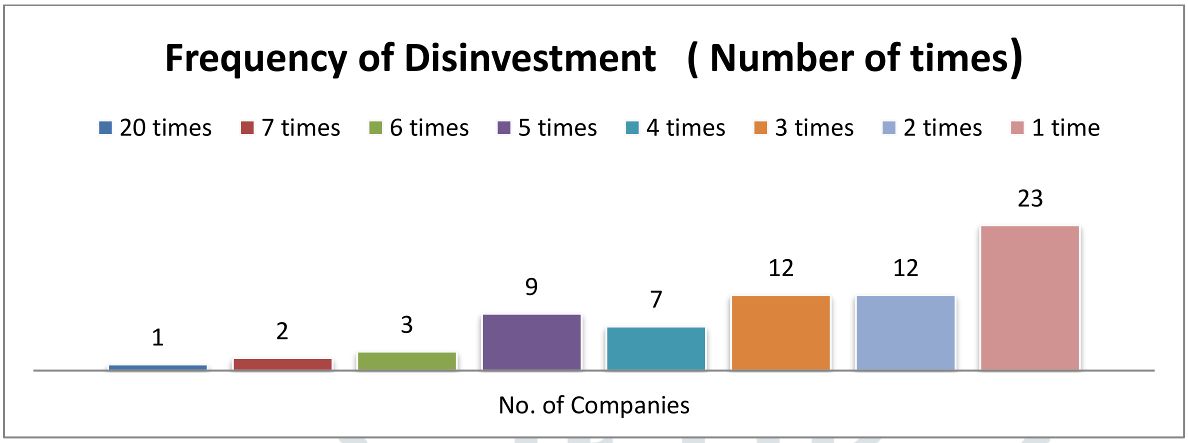
Chart: 1: Disinvestment in India: Target vs. Achieved (1991-92 to 2016-17)



Source: www.bsepsu.com

Discussion: From the above table and chart no 1, it is observed that during of 26 years ,the period from 1991-92 to 2016-17 total target estimates of disinvestment was Rs. 4,70,225 crore. Out of the total target only Rs. 2,50,072 crore (53.18%) was being achieved . Out of 26 years 4 years achieved more than 100% of the target, 4 years achieved between 75% and 100%, 2 years achieved between 50% and 75%, 2 years achieved between 25% and 50%, 7 years achieved between 0% and 25% and no data available for 4 years.

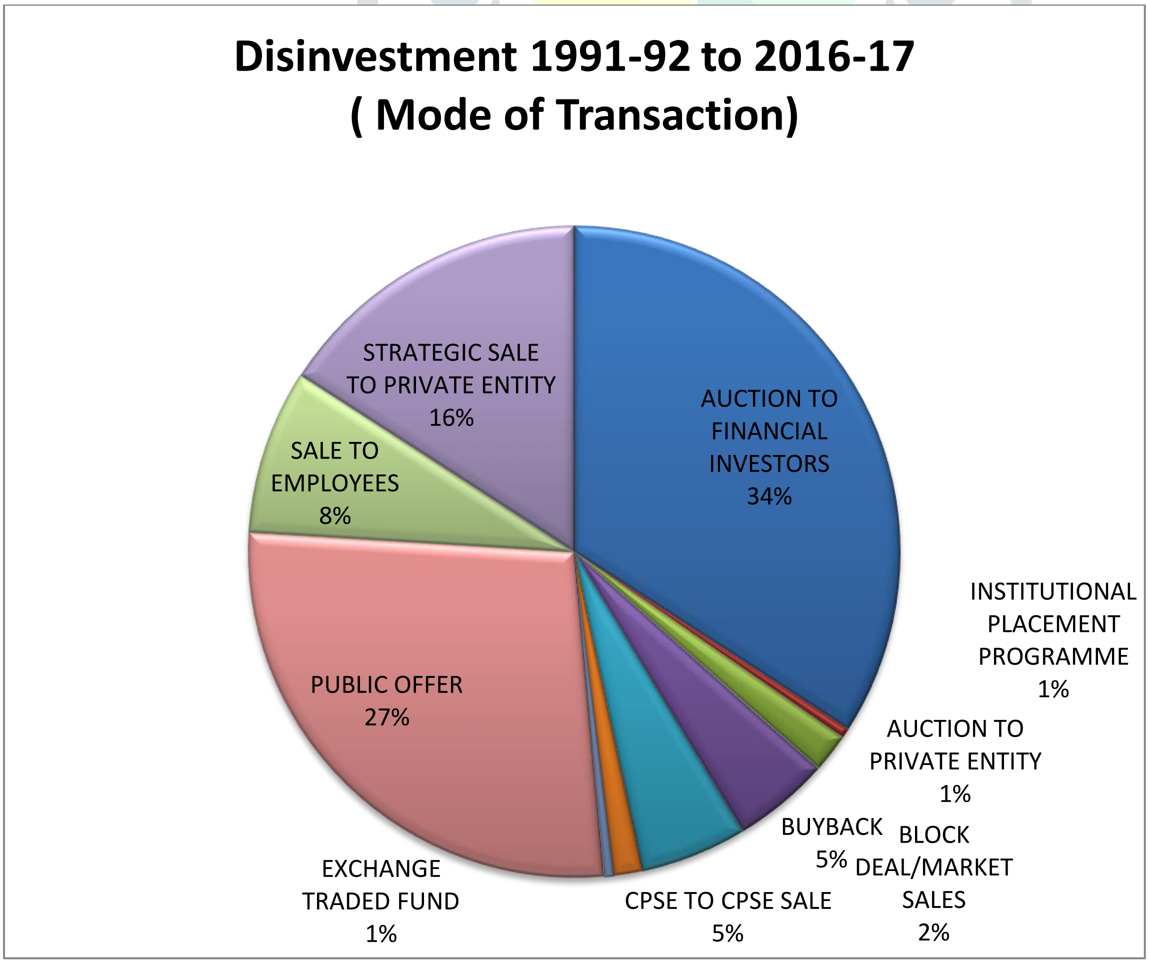
Chart-2: Frequency of Disinvestment (Number of times):



Source: www.bsepsu.com

Discussion: During the period of 26 years the period from 1991-92 to 2016-17 it is observed that out of 69 PSUs one PSU, INDIA TOURISM DEVELOPMENT CORP.LTD (ITDC) disinvested 20 (Twenty) times. Every time one hotel under ITDC disinvested. Two PSUs disinvested 7 (seven) times, three PSUs disinvested 6 (six) times, nine PSUs disinvested 5 (five) times, seven PSUs disinvested 4 (four) times, twelve PSUs disinvested 3 (three) times, twelve PSUs disinvested 2 (two) times and only twenty-three PSUs disinvested only once. Therefore, it is the fact that, repeat action of disinvestment done on most of the PSUs.

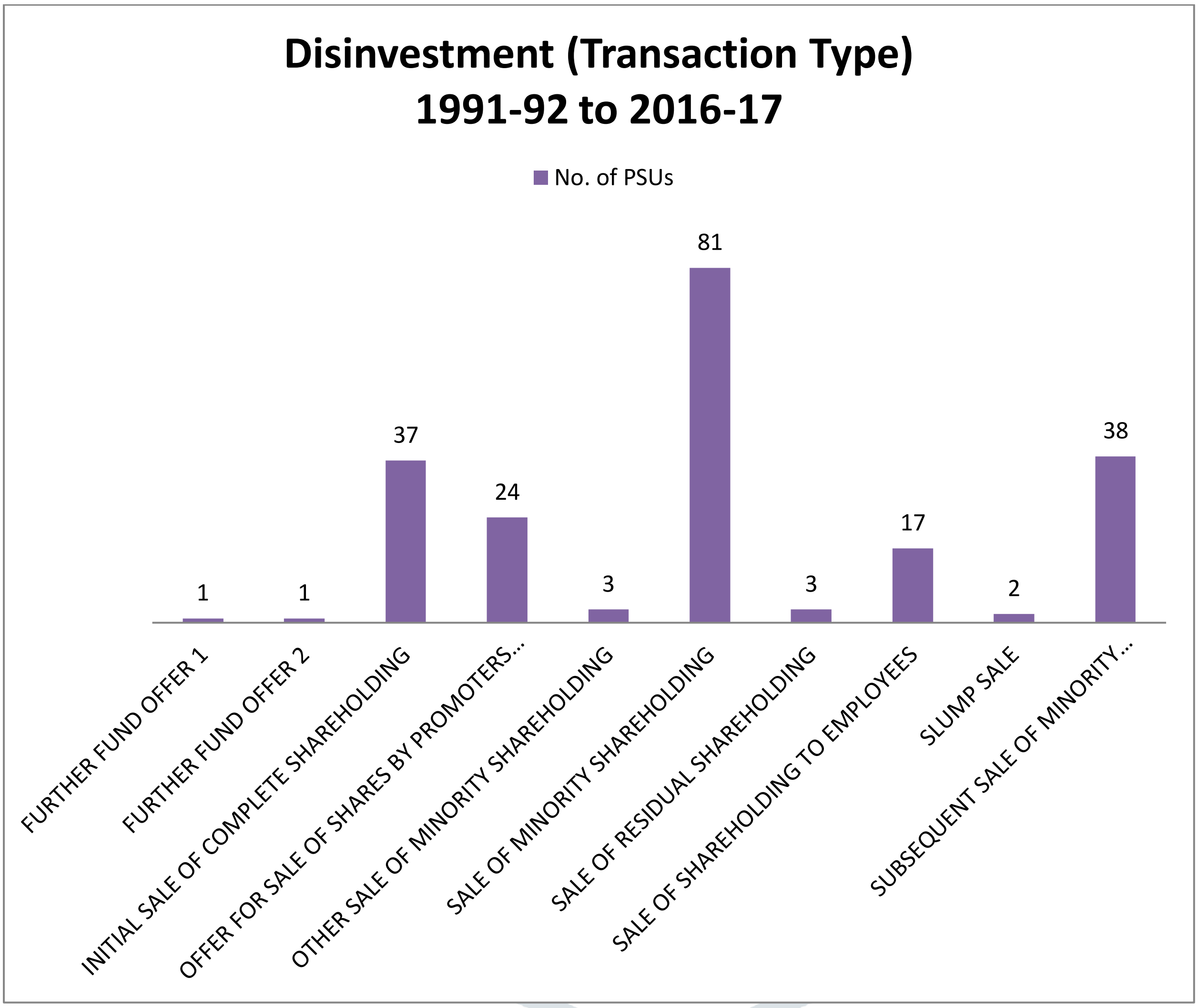
Chart-3: Mode of Transaction:



Source: www.bsepsu.com

Discussion: During the period of 26 years the period from 1991-92 to 2016-17 it is observed that different modes were being applied in the process of disinvestment. Out of 208 times of disinvestment three modes were applied most frequently out of ten modes. The top three remarkable modes applied are Auction to Financial Investors applied 71 times (34%) , Public Offer applied 57 times (27%) and Strategic Sale to Private Entity 33 times (16%).

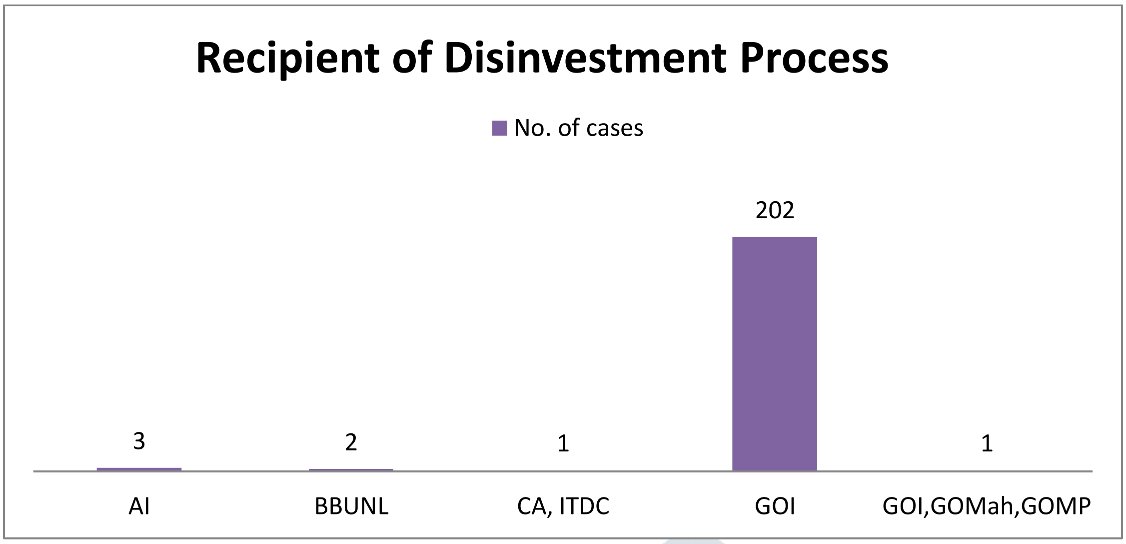
Chart-4: Transaction type:



Source: www.bsepsu.com

Discussion: During the observation period of 26 years the period from 1991-92 to 2016-17 total ten transaction types are made. Out of ten transaction types it is observed that mostly five types are frequently used. During the period of disinvestments of Central Public Sector Undertakings Sale of Minority Shareholding used 81 times(39.13%) ,Subsequent Sale of Minority Shareholding used 38 times (18.38%), Initial Sale of Complete Shareholding used 37 times(17.87%), Offer for sale of Shares by Promoters used 24 times(11.59%) and Sale of Shareholding to Employees 17 times (8.21%). But other types are one to three times only.

Chart-5: Recipient of Disinvestment Proceeds:



Source: www.bsepsu.com

Abbreviations used in the above chart:

AI: AIR INDIA; BBUNL: BHARAT BHARI UDYOG NIGAM LTD; CA: CHANDIGARH ADMINISTRATION; ITDC: INDIA TOURISM DEVELOPMENT CORP.LTD. GOI: GOVT. OF INDIA; GOMah: GOVT.OF MAHARASHTRA; GOMP: GOVT. OF MADHYA PRADESH

Discussion: During the observation period of 26 years the period from 1991-92 to 2016-17 it is observed that Govt. of India is the sole recipient of the proceeds of disinvestment in 202 cases out of 209 cases of disinvestment. In the other cases either Air India or Bharat Bhari Udyog Nigam Limited or jointly with Chandigarh Administration with India Tourism Development Corporation Limited or jointly with Govt. of India, Govt. of Maharashtra and Govt of Madhyapradesh are the recipient of the proceeds of disinvestment.

Challenges in Disinvestment:

The disinvestment of PSEs in India is complicated by challenges. Finding customers for these businesses is one of the biggest hurdles. Finding investors to buy into many of these PSEs becomes challenging because they are losing money. The second issue is opposition from workers and labour unions. They worry that a lack of investment will result in benefits and job losses. Political opposition is the third difficulty. Disinvestment is a common political problem raised by opposition parties to attack the current administration.

Conclusion:

In this paper it can be concluded that, PSE disinvestment is a complicated issue that affects the economy in both positive and negative ways. The advantages and challenges must be carefully weighed by the government. Findings from various perspectives on disinvestment in India from 1991-1992 to 2016-2017 show that only Rs. 2,50,072 crore (53.18%) of the total target estimations for disinvestments achieved. Most PSUs experienced recurrent disinvestment procedures, with the top three noticeable methods being the auction to financial investors, the public offer, and the strategic sale to a private entity. Sale of Minority shareholding, Subsequent Sale of Minority Shareholding, First Sale of Full Shareholding, Offer for Sale by Promoters, and Sale were the top five most common transaction types. Most of the cases Government of India is the recipient of the proceeds of disinvestment.

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