

## Topic of the week for discussion: 13<sup>th</sup> to 19<sup>th</sup> Nov. 2014

### Topic: DISINVESTMENT IN INDIA

**What is Divestment:** The government holds a significant stakes in multiple companies. **Divestment or disinvestment**, as the name suggests, is selling shares and diluting its stake. This is usually done to raise revenue, which could be used to fund its expenses.

The government could hold stake worth at least 51% of Rs 18,10,882.66 crore – the total value of all the public-sector firms as of 30 June, 2014. Even a 1% stake sale could earn the government crores of rupees.

Divestment is thus considered a kind of non-tax revenue. In every budget, finance ministers announce the estimated amount the government expects to earn in that fiscal year.

#### What is the latest news?

The government kicked off the most ambitious disinvestment programme, targeting to mop up a record Rs 45,000 crore by selling shares in blue chips public sector companies — **Coal India, ONGC and National Hydroelectric Power Corporation (NHPC)**.

SAIL's disinvestment, which was cleared earlier, is likely later this month, with a 10% stake sale in Coal India expected. The energy behemoth will help the government raise around Rs 23,600 crore based on its current share price.

There are several other companies, such as BHEL, Power Finance Corporation and REC, which are also on the disinvestment department's radar but stake sale has not been cleared by the cabinet committee on economic affairs (CCEA).

So far, the government has earned **Rs 1,07,800 crore** from all the disinvestments so far.

In the last three months, the BSE PSU index has jumped as much as 35%. The run-up has been in anticipation of stake sales by the BJP-led government. The markets believe that Prime Minister Narendra Modi would press for a higher divestment of stakes in public-sector undertakings. This could reduce government interference in the working of the companies, and help improve profitability.

#### Disinvestment: importance & relevancy:

The government needs to cut down its fiscal deficit – the amount by which its expenses exceeds its revenue. At the same time, it has to help the economy grow by increase spending in productive areas. It also has to ensure inflation is controlled. So, it cannot cut subsidy burden drastically. In such a time, divestment could come handy as an important source of revenue as the government has limited scope to raise tax revenues.

Apart from helping improve the government's fiscal health, the issues come with the additional attraction of a higher quota for retail investors as 20% of the sale in case of offer-for-sale, or auction through stock exchanges, will be set aside for small investors.

### Topic Introduction

In the present Indian context, the most frequently asked question is: *Why sell profit-making PSUs such as HPCL and BPCL — the "family silver" — while the government is not disposing of the loss-making ones or the 'junks' first.*

The answer is simple. No one is willing to buy the junks, whereas there are people still willing to buy the silver at good prices before it loses its shine.

The second question raised is: *Why sell to private strategic investors?* Again, the answer is simple. Selling to a large number of widely dispersed individuals would mean that effective management and control would remain in the ministry's hand and nothing basically will change. That may serve the interest of the political bosses but not of the nation. Block sale of shares to public financial institutions would not change the basic quality of the management either, if the recent experience with the managements of UTI or IFCI is any guide.

**Comments:**

*"Given limited near-term scope to increase revenues appreciably or to cut current expenditure aggressively, we expect the government to rely on disinvestments as a key source of revenue to reduce the fiscal deficit,"* a report by **Deutsche Bank**, a global bank, said.

*"Divestment of stake, especially in PSU banks, could help the banks raise capital. This would limit the burden on the government to fund the banks' capital needs. "We believe higher divestment off take including that from PSU banks could then be directed towards capitalization of these banks,"* **Religare** said.

**Read further:**

<http://www.bsepsu.com/importance-disinvestment.asp>

<http://www.ijmbs.com/34/mkrastogi2.pdf>

[http://www.business-standard.com/article/economy-policy/sail-coal-india-to-lead-government-s-divestment-push-114072400167\\_1.html](http://www.business-standard.com/article/economy-policy/sail-coal-india-to-lead-government-s-divestment-push-114072400167_1.html)

<http://www.thehindubusinessline.com/2002/11/29/stories/2002112900050800.htm>