Challenges and Impact of Disinvestment in Indian Economics

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Abstract
Disinvestment, the colossal weapon and instrument in the hands of Government of India has enabled the public sector to improve its efficiency and to become more responsible as well as accountable to the public, for that matter the nation a lot. But unfortunately, the proceeds of the Disinvestment were not flown properly towards the further development of the country through productive activities. So a modest attempt has been made in the present paper to test the same through the conceptual frame-work as well as the trends, targets, achievements, utilization and impact of Disinvestment on Indian Economy.

Keywords
Disinvestment, Investment, Privatization, Public Sector Enterprise, Productivity

I. Introduction

A. Defining Disinvestment
Disinvestment refers to the action of an organization or the government in selling or liquidating an asset or subsidiary. In simple words, Disinvestment is the withdrawal of capital from a country or corporation.
Some of the salient features of Disinvestment are:
- Disinvestment involves sale of only part of equity holdings held by the government to private investors.
- Disinvestment process leads only to dilution of ownership and not transfer of full ownership. While, privatization refers to the transfer of ownership from government to private investors.
- Disinvestment is called as 'Partial Privatization'.

B. Indian Scenario
A large number of PSUs were set up across sectors, which have played a significant role in terms of job creation, social welfare, and overall economic growth of the nation; they rose to occupy commanding heights in the economy. Over the years, however, many of the PSUs have failed to sustain their growth amidst growing liberalization and globalization of the Indian economy. Loss of monopoly and a protectionist regime, and rising competition from private sector competitors have seen many of the government-owned enterprises lose their market share drastically. In many instances, many of the PSUs have found themselves unable to match up to the technological prowess and efficiency of private sector rivals, although many have blamed lack of autonomy and government interventions for their plight.

C. Disinvestment Process

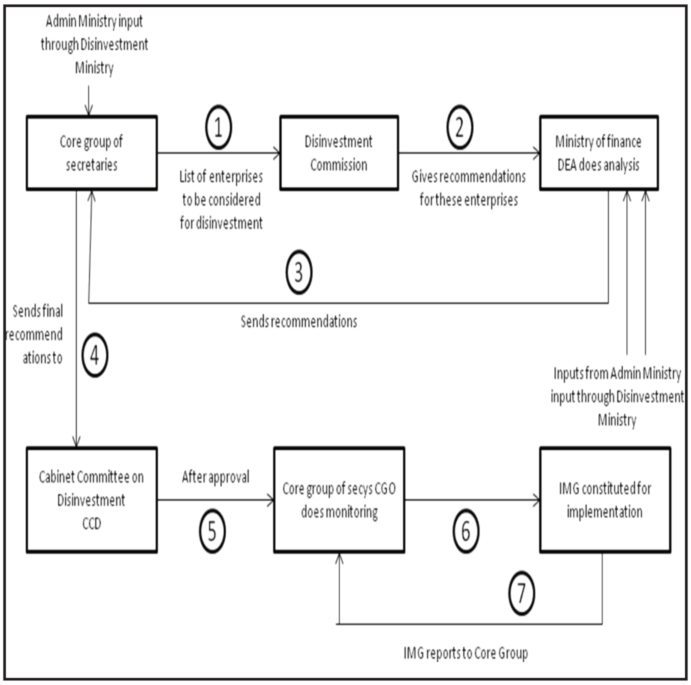

Fig. 1:

II. Disinvestment in India- Policy and Procedure
The basic objective of starting Public Sector in India was to build infrastructure and rapid economic growth. However, a number of problems such as low productivity, over-manning and other economic compulsions like deterioration of balance of payment position and increasing fiscal deficit led to the adoption of new approach toward the public sector in 1991.

III. Periodic Analysis of Disinvestment

Phase 1 (1991-92 To 1995-96)
Phase one Started when Chandrashekhar government, while presenting the interim budget for the year 1991-92 declared Disinvestment up to 20%.The objective was to broad-base equity, improve management, enhance availability of resources for these PSEs and yield resources for exchequer.

IV. Industries Reserved for Public Sector Prior to 1991
1. Arms and Ammunition and allied items of defence equipment.
2. Atomic energy.
3. Iron and steel.
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining.
6. Heavy electrical plants.
7. Coal and lignite.
8. Minerals oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum.

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10. Mining and processing copper, lead, zinc, tin.
11. Minerals specified in the Schedule to the Atomic Energy.
12. Aircraft.
13. Air transport.
14. Rail transport.
15. Ship building.
16. Telephones, Telephone cables, Telegraph and Wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

The Industrial Policy Statement of 24th July 1991 stated that the government would divest part of its holdings in selected PSE's, but did not place any cap on the extent of Disinvestment. Nor did it restrict Disinvestment in favour of any particular class of investors. During this Phase the sole was to generate revenue without following any objective seriously.

V. Industries Reserved for Public Sector After July, 1991

1. Arms and Ammunition and allied items of defence equipment, aircraft and warship.
2. Atomic Energy.
3. Coal and Lignite.
4. Mineral Oils.
5. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
6. Mining of copper, lead, zinc, tin, molybdenum and wolfram.
7. Minerals specified in the schedule to Atomic Energy Order, 1953.
8. Railway Transport.

VI. Disinvestment In 1991-92

A steering Committee was formed for selection of PSEs for Disinvestments. The Department of Public Enterprises (DPE) coordinated all activities under the Ministry of Industry.

A. First Tranche of Disinvestment (December, 1991)

Out of 244 public enterprises 41 were selected, but 10 were dropped on the grounds of being consultancy firms, negative asset value or they incurred losses in previous financial year. The Remaining 31 were grouped into 3 categories "Very Good", "Good" and "Average" on the basis of net assets value per share vis-a-vis face value of Rs10 as on March,1991. The total value of equity in each basket was Rs50 million.

Bids were invited from 10 financial institutions/ mutual funds which consisted of 825 bundles each consisting of 9 PSEs. A total of 710 bids for 533 bundles were received from 9 mutual funds/ institutions and 406 bundles for a total value of Rs14.2billion were sold. Unit Trust of India was the major purchaser accounting for Rs. 7.75 billion of the sale.

B. Second Tranche of Disinvestment (February, 1992)

In second tranche DPE asked ICICI to evaluate and advice issue price equity of selected PSEs. A List of 16 PSE's was prepared and shares were grouped into 120 bundles as before.

The reserve price fixed per bundle was Rs 10.08 crore. Bids were invited from 36 institutions and banks. A total of Rs. 1611 crore were realised with Unit Trust of India again being the major purchaser. The Shares of Metal Scrap Trading Corporation remained unsold.

Details of the PSEs Divested in 1991-92

Name of the Enterprise	No. Of Shares(in crore)	% of Disinvestment
Andrew Yule (AY)	0.1015	9.60
Bharat Earth Movers Ltd. (BEML)	0.6000	20.00
Bharat Electronic Limited (BEL)	1.6000	20.00
Bharat Heavy Electricals Limited (BHEL)	4.8952	20.00
Bharat Petroleum Corporation Limited (BPCL)	1.0000	20.00
Bongaigaon Refinery and Petrochemicals Ltd. (BRPL)	3.9961	20.00
Cochin Refineries Ltd. (CRL)	0.4219	10.01
Computer Maintenance Corporation (CMC)	0.2528	16.69
Dredging Corporation of India Ltd. (DCI)	0.0402	1.44
Fertilizers and Chemicals Ltd. (FACT)	0.5232	1.54
Hindustan Machine Tools Ltd. (HMT)	0.4268	5.43
Hindustan Organic Chemicals Ltd. (HOCL)	0.9870	20.00
Hindustan Petroleum Corp. Ltd. (HPCL)	1.2768	20.00
Hindustan Photo Films Mfg. Co. Ltd. (HPF)	1.9190	16.05
Hindustan Zinc Ltd. (HZL)	8.0746	20.00
Hindustan Cables Ltd. (HCL)	0.1669	3.64
Indian Petrochemical Corp. Ltd. (IPCL)	3.7200	20.00
Indian Railway Construction, Co. Ltd. (IRCON)	0.0013	0.27
Indian Telephone Industries Ltd. (ITI)	1.7538	20.00
Madras Refineries Ltd. (MRL)	1.9316	20.00
Mahanagar Telephone Nigam Ltd. (MTNL)	12.0000	20.00
Minerals & Metals Trading Corp. (MMTC)	0.0334	0.67
National Aluminium co. Ltd. (NALCO)	3.5100	2.72
National Fertilizers Ltd.	1.1163	2.28
Neyveli Lignite Corp. Ltd. (NLC)	7.1791	5.00
Rashtriya Chemicals and Fertilizers Ltd. (RCFL)	3.1136	5.64
Shipping Corp. Of India Ltd. (SCI)	5.2246	20.00
State Trading Corp. Of India Ltd. (STC)	0.2393	7.98
Steel Authority of India Ltd. (SAIL)	19.9075	5.00

Videsh Sanchar Nigam Ltd. (VSNL)	1.2000	20.00
Total	87.2125	

Source: percentage disinvested from Public Enterprises Survey, 1995-96, VOL- I and number of shares disinvested is from Public Accounts Committee 1993-94, 75th report, 10th Lok Sabha.

The Narasimha Rao Government kick started this phase with small lots of Disinvestment of shares in 47 companies, a record. A sum of Rs 3,038 Crore was generated against a target of Rs 2,500 Crore making 1991-92 one of only three years in the last 13 when actual Disinvestments receipts exceeded the target.

VII. Disinvestment in 1992-93

As per the budget of 1992-93 Rs. 3500 crore were to be raised by Disinvestment during the year. Out of this Rs. 1000 crore was meant for National Renewal Fund (NRF) which was set up in February, 1992 to protect the interest of workers and provide a social safety net for labour.

A. First Tranche Of Disinvestment (October, 1992)

In this phase auctioning of shares on individual PSE basis was done. Tenders were invited for a total of 8 PSEs. The minimum bid limit was set at Rs. 2.5 crore. The minimum reserve price was fixed on the basis of recommendations from merchant bankers like ICICI, IDBI and SBCM (State Bank of Capital Market) The average of their prices was set as the “Upset Price”. A total of 12.87 crore shares were sold for a value of Rs 681.95 crore with 286 bids being received.

Details of the PSEs Divested in October, 1992

Name of the Enterprise	No. Of Shares Sold(in crore)	% of Total number of shares of the PSE	Amount of Sale(in Rs Crore)
Bharat Petroleum Corporation Limited (BPCL)	0.2500	5.00	169.53
Hindustan Petroleum Corp. Ltd. (HPCL)	0.3192	5.00	178.10
Hindustan Zinc Ltd. (HZL)	1.0416	2.58	44.33
Hindustan Machine Tools Ltd. (HMT)	0.3928	5.00	21.98
National Aluminium co. Ltd. (NALCO)	6.4431	5.00	124.13
Neyveli Lignite Corp. Ltd. (NLC)	1.4969	1.04	35.03
Rashtriya Chemicals & Fertilizers Ltd. (RCFL)	0.8685	1.57	26.36
Steel Authority of India Ltd. (SAIL)	2.0567	0.52	82.49
Total	12.8688		681.95

Source: Public Enterprise Survey, 1995-96, VOL-I

B. Second Tranche of Disinvestment (December, 1992):

In November, 1992 the government invited bids for the purchase of 46.27 crore shares of 14 PSEs. The minimum bid limit was reduced to Rs 1 crore from Rs 2.5 crore. The criterion was kept same as in first tranche. A total of 225 bids were received and 31.06 crore shares of 12 PSEs were sold at a total amount of Rs 1183.83 crore.

Details of the PSEs Divested in December, 1992

Name of the Enterprise	No. Of Shares Sold(in crore)	% of Total number of shares of the PSE	Amount of Sale(in Rs Crore)
Bharat Petroleum Corporation Limited (BPCL)	0.2500	5.00	161.65
Bongaigaon Refinery & Petrochemicals Ltd. (BRPL)	1.00	5.00	42.18
Fertilizers and Chemicals Ltd. (FACT)	0.05	0.15	1.30
Hindustan Petroleum Corp. Ltd. (HPCL)	0.32	5.00	153.75
Hindustan Zinc Ltd. (HZL)	1.03	2.54	36.47
Indian Telephone Industries Ltd. (ITI)	0.10	1.14	10.78
National Aluminium co. Ltd. (NALCO)	6.44	5.00	118.19
National Fertilizers Ltd.	0.03	0.06	0.72
Neyveli Lignite Corp. Ltd. (NLC)	1.73	1.20	34.94
Rashtriya Chemicals & Fertilizers Ltd. (RCFL)	0.15	0.28	4.00
State Trading Corp. Of India Ltd. (STC)	0.03	0.10	2.25
Steel Authority of India Ltd. (SAIL)	19.93	5.00	617.60
Total	31.06		1183.83

Source: Public Enterprise Survey, 1995-96, VOL-I

C. Third Tranche Of Disinvestment (March, 1993):

Shares of 15 PSEs were offered for sale thorough auction. Out of 192 bids which were received, 57 bids emerged successful on the basis of the reserve prices fixed by the core group based on the recommendations of the merchant bankers. A total amount of Rs 46.73 crore was realised through sale of 1.0096 crore shares of 9 PSEs.

PSE Disinvested in March, 1993

Name of the enterprise	No of shares sold (in crore)	% of total no of shares of the PSE	Amount of sale (in Rs crore)
Bharat Heavy Electricals Limited	0.1117	0.45	8.21
Bongaigaon Refinery & Petrochemicals Ltd	0.0800	0.40	3.22
Hindustan Copper Ltd	0.3411	1.12	8.07
Hindustan Zinc Ltd	0.0300	0.07	0.75

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Hindustan Machine Tools Ltd	0.0300	0.34	1.41
Indian Telephone Industries Ltd	0.0700	0.79	4.85
National Aluminium Company Ltd	0.1023	0.08	1.88
National Mineral Development Corp. Ltd	0.2140	1.59	17.88
Neyveli Lignite Corp Ltd	0.0305	0.02	0.46
Total	1.0096		46.73

Source: Enterprise-wise details regarding number of shares and amount realised obtained by author from Department of Public Enterprises, Percentages of equity disinvested worked out by author based on paid up equity.

Amount Realised from Divestment in 1992 – 93

Month	No of PSE disinvested	No of shares sold (in crore)	Amount realised (in crore)
Oct 92	8	12.87	681.95
Dec 92	12	31.06	1183.83
Mar 93	9	1.01	46.73
Total	16	44.94	1912.51

Thus a total of 1912.51 crore was realised during 1992-93 against the target of Rs 2500 crore.

VIII. Disinvestment in 1993-94

The target during this fiscal year was kept at Rs 3500 crore but the government could not go in for further sale of shares due to unfavourable stock market conditions through 1993-94.

IX. Disinvestment In 1994-95

No divestment of PSE shares took place during 1993-94 due to adverse market conditions. In spite of this an advertisement for sale of shares in some PSE's was released in March 1994. Actual realisation of funds took place from this round of divestment took place in 1994-95. Changes effected in the procedure to encourage divestment are:

- Bidding amount was lowered from Rs 1,00,000 to Rs 25,000 or value of 100 shares(whichever higher)
- Registered FII's were permitted for auction of PSE shares.

A. First Tranche of Disinvestment (March – April 1994)

Considering the stock market conditions, Government evaluating the recommendations of two merchant bankers – Industrial Credit and Investment Corporation of India, and Industrial Development Bank of India fixed the minimum price to off-load shares of 7 PSE in March 1994.Out of these 7 PSE, only 1 PSE was not sold as no bid had been received.

PSE Divested in March/April, 1994

Name of the enterprise	No. Of shares sold (in crore)	% of total number of shares of the PSE	Amount of sale (Rs in crore)
Bharat Electronics Limited	0.331	4.14	47.17
Bharat Earth Movers Ltd	0.150	4.07	48.27
Bharat Heavy Electricals Ltd	2.692	11.74	301.34
Hindustan Petroleum Corp Ltd	0.447	7.00	563.11
Mahanagar Telephone Nigam Ltd	7.694	12.82	1322.17
National Aluminium Company Ltd.	0.003	0.04	0.096
Total	11.317		2282.156

Source: Details of total number of shares sold and amount realised as per Public Enterprises Survey, 1995-96, VOL-I Percentage of equity disinvested worked out by author based on paid-up equity.

B. Second Tranche of Disinvestment (October 1994)

Notice inviting tenders was issued in October 1994 for sale of shares in seven PSE's. Shares were not sold for MTNL as there was no bid. Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) were permitted to bid for the shares for the first time.

PSE Divested in October, 1994

Name of the Enterprise	No of shares sold (in crore)	% of total no of shares of the PSE	Amount of sale (in crore)
Container Corporation of India	1.299	20.00	99.71
Indian Oil Corporation	1.443	3.77	1028.11
National Fertilizers Ltd.	0.007	0.01	0.28
Oil and Natural Gas Co Ltd	0.686	2.00	1051.52
Steel Authority of India	0.372	0.41	22.66
Shipping Corporation of India Ltd.	0.387	1.37	28.08
Total	4.194		2230.36

Source: Details of total number of shares sold and amount realised as per Public Enterprise Survey, 1995-96, VOL-I. Percentage of equity disinvested worked out by author based on paid up equity.

C. Third Tranche of Disinvestment (January 1995)

In January 1995 shares of 6 PSEs were offered for sale. Out of 556 bids received, 209 were accepted in respect to 5 companies and government decided not to sell shares in VSNL.

PSE Divested in January, 1995

Name of the enterprise	No of shares sold (in crore)	% of Total no of shares of the PSE	Amount of sale (in Rs crore)
Engineers India Ltd	0.108	5.99	67.526
Gas Authority of India Ltd	2.853	3.37	194.120
ITDC	0.675	10.00	51.985
Indian Oil Corporation Limited	0.008	0.03	5.538
Kudremukh Iron Ore Company Ltd	0.616	0.97	11.399
Total	4.260		330.568

Source: Details of number of shares sold and amount realised as per Public Enterprises Survey, 1995-96, VOL-I. Percentage disinvested worked out by author on the basis of paid-up equity.

Month	No of PSEs Disinvested	No of shares sold (in crore)	Amount realised (in crore)
March/April 1994	6	11.317	2282.156
October 1994	6	4.194	2230.360
January 1995	5	4.260	330.568
Total	17	19.771	4843.084

X. Disinvestment in 1995 – 1996

Against the target of Rs 7000 crore, the government decided to disinvest from only 4 PSEs – MTNL, SAIL, CONCOR and ONGC in October 1995. Details are:

PSE Divested in October, 1995

Name of the enterprise	No of shares sold (In crore)	Amount realised (in crore)
Mahanagar Telephone Nigam Ltd (MTNL)	0.87	135.90
Steel Authority of India Ltd (SAIL)	0.44	13.30
Container Corp of India Ltd (CONCOR)	0.20	14.12
Oil & Natural Gas Corporation Ltd (ONGC)	0.02	5.16
Total	1.53	168.48

Note: All these PSEs were partially disinvested earlier also.
Source: Public Enterprises Survey, 1995-96, VOL-I.

In addition, shares of Industrial Development Bank of India (IDBI) were disinvested during the year and an amount of Rs 193 crore was realised. Although Public Enterprises Survey does not reflect this amount but Ministry of Finance takes this into account. So the total Disinvestment receipts for the year was Rs 362 crore (Rs. 168.48 crore from Disinvestment in 4 PSEs plus Rs 193 crore from Disinvestment in IDBI).

Phase II (1996-97 To 1997-98)

Disinvestment Commission

The government constituted Public Sector Disinvestment Commission under G. V. Ramakrishna on 23 August, 1996 for a period of 3 years with the objective of preparing an over-all long term Disinvestment programme for public sector undertakings. The main terms of reference were:

- A comprehensive overall long-term Disinvestment programme (extent of Disinvestment, mode of Disinvestment etc.) within 5-10 years for the PSUs referred to it by the Core Group.
- To select the financial advisors for specified PSUs to facilitate the Disinvestment process.
- To monitor the progress of Disinvestment process and take necessary measures and report periodically to the Government.
- The "core" group industries-telecommunications, power, petroleum etc that are capital-intensive and where the market structure could be an oligopoly.

By December 1997, the commission had given six reports which included recommendations in 34 enterprises. The commission also showed concern about slow progress in implementation of its recommendations and it was particularly critical of government's going ahead with strategic sales leading to joint ventures in some PSEs not referred to the commission.

However its power was axed later by the government. Out of 72 companies referred to it the commission gave its recommendations on 58 PSEs and finally the commission lapsed on 30 November, 1999.

Disinvestment Modalities Recommended by the Disinvestment Commission

Modalities of Disinvestment	No of PSEs	Name of PSEs
Involving change in ownership/management Strategic sale	31	HTL, ITI, BALCO, BRPL, KIOCL, MFL, EIL, HPL, IBP, NEPA, HZL, PPCL, NFL, FACT, IPCL, HCL, SCO, HLL, AI, HSCL, STC, MMTC, PPL, MECON, BHEL, Hindustan Insecticides, HOCL, RCFL, RINL, NLC, MOIL
Trade sale	8	ITDC, MFIL, HCIL, R-Ashok U-Ashok, PHL, SIIL, MSTC

Involving no change in ownership/management Offer of shares	6	GAIL, CONCOR, MTNL, NALCO, NMDC, RITES
No change Disinvestment deferred	8	OIL, ONGC, NTPC, NHPC, POWERGRID, SAIL, CEL, MECL
Closure/sale of assets	4	EPIL, ET&T, HVOC, RICL
Management employee buyout/strategic sale/ closure	1	PEC
Total	58	

Source: Disinvestment Commission Reports (1 to 13)

XI. Disinvestment in 1996-97

In 1996-97 a target of Rs. 5000 crore was fixed for mobilization of resources through Disinvestment of PSE shares. In order to do this, companies from petroleum and communication sectors were chosen namely IOC and VSNL. But due to unfavourable market conditions the GDR of only VSNL could be issued. In the GDR, 39 lakh shares of VSNL were disinvested resulting in an amount of Rs 380 crore.

XII. Disinvestment in 1997-98

The budget for 1997-98 had taken a credit for an amount of Rs 4800 crore to be realised from Disinvestment of government held equity in PSEs. This was supposed to be achieved by the Disinvestment of MTNL, GAIL, CONCOR and IOC..

A GDR of 40 million shares held by the government in MTNL was offered in international market in November, 1997. A total of Rs. 902 crore was collected but due to highly unfavourable market conditions the GDR issue of GAIL, CONCOR, and IOC was deferred.

Phase III (1998-99 to 2007-2008)

This phase marked a paradigm shift in the Disinvestment process. First in the 1998 – 99 budgets BJP government decided to bring down the government shareholding in the PSEs to 26 %to facilitate ownership changes which were recommended by Disinvestment Commission. In 1999 – 2000 government state that its policy would be to strengthen strategic PSEs privatise non-strategic PSEs through Disinvestment and for the first time the term 'privatisation' were used instead of Disinvestment. The government later formed the Department of Disinvestment on 10 December 1999. The following criteria were observed for prioritisation for Disinvestment:

- Where Disinvestments in PSEs would lead to large revenues to the government
- Where Disinvestment can be implemented with minimum impediments and in relatively shorter time span; and
- Where continued bleeding of government resources can be stopped earlier.

XIII. Divestment in 1998 – 99

The government decided to disinvest through offer of shares in GAIL, VSNL, CONCOR, IOC and ONGC. The budget for 1998 – 99 had taken a credit for Rs 5,000 crore to be realised through Disinvestment. The details of the various transactions are:

PSEs Disinvested in 1998 - 99

Name of the Enterprise	Mode of Disinvestment	No of shares sold (in crore)	Receipts (in crore)
CONCOR	Domestic issue	0.9000	221.65
GAIL	Divested/sold to institutional investors Cross holding by ONGC Cross holding by IOC	3.0610 4.0840 4.0840	181.78 245.04 245.04
IOC	Cross holding by ONGC	3.1272	1208.96
ONGC	Cross holding by IOC Cross holding by GAIL	12.5349 2.7719	2034.96 450.00
VSNL	GDR issue	1.0000	783.68
Total		31.5630	5371.11

Note: All these PSEs were partially disinvested earlier also

Source: Public Enterprises Survey, 1998 – 99, VOL-I gives total amount realised as Rs 5,371 crore. Enterprise-wise details are obtained from Ministry of Disinvestment

XIV. Disinvestment in 1999 -2000

The budget for 1999 – 2000 had taken a credit for Rs 10,000 crore to be realised through Disinvestment. The government disinvested from Modern Foods India Ltd and did a strategic sale to their strategic partner – HLL for Rs 105, 45 crore for a 74 % equity stake. This was the first time government had sold more than 50 % holding. Further government adopted the following ways to raise money through Disinvestment:

Disinvestment in 1999 -2000

Name of the enterprise	Mode of Disinvestment	No of shares sold (in crore)	Receipts (in crore)
GAIL	GDR issue	13.5000	945.00
IOC	Cross holding by ONGC	0.4212	162.79
ONGC	Cross holding by IOC Cross holding by GAIL	1.1718 0.6548	190.19 106.29
VSNL	Domestic Market	0.1000	75.00
Modern Food Industries Ltd	Strategic sale of 74 % equity	0.0920	94.51
Total		15.9398	1573.78

Note: Other than MFIL, all other enterprises were partially disinvested earlier also.

Source: Enterprise – wise details obtained from Ministry of Disinvestment.

XV. Disinvestment in 2000 -2001

Against a target of 10,000 crore, the government realised Rs 1868.73 crore. The details are:

Disinvestment in 2000 – 2001

Name of the enterprise	Mode of Disinvestment	Receipts (in crore)
BALCO	Strategic sale of 51%	551.50
BRPL and Chennai Refineries	Taken over by IOC	658.13
Kochi Refinery	Taken over by BPCL	659.10
Total		1868.73

Note: Other than BALCO, all other enterprises were partially disinvested earlier also.
Source: Ministry of Disinvestment

XVI. Disinvestment in 2001 – 2002

Against a target of 12,000 crore, the government realised Rs 3130.94 crore during the year. The highlight of this Disinvestment was that strategic sales were affected in CMC, HTL, IBP, VSNL and PPL. The details are:

Disinvestment in 2001 – 2002

Name of the Enterprise	Mode of Disinvestment	Receipts (in crore)
CMC	Strategic sale of 51 %	152.00
HTL	Strategic sale of 74 %	55.00
IBP	Strategic sale of 33.58 %	1153.68
VSNL	Strategic sale of 25 %	1439.00
PPL	Strategic sale of 74 %	151.70
ITDC	Sale of 8 hotels and long term lease of one hotel	179.56
Total		3130.94

Note: Out of these six PSEs, three – CMC, VSNL and ITDC were partially disinvested earlier also.
Source: Ministry of Disinvestment website

XVII. Disinvestment in 2002 – 2003:

Target of the government for Disinvestment in the year was Rs 12,000 crore. The major highlight was the two-stage sell off in Maruti Udyog Ltd with a Rs 400 crore right issue at a price of Rs 3280 per share of Rs 100 each in which the government renounced whole of its rights share (6,06,585) to Suzuki, for a control premium of Rs 1000 crore. Relative share holding of Suzuki and government after completion of the rights issue was 54.20 % and 45.54 % respectively. The second stage government offloaded its holding in two tranches – first where government sold 27.5 % of its equity through IPO in June 2003. The issue was oversubscribed by over 10 times. Later keeping in view the overwhelming response from sale of Maruti, government sold its remaining shares in the privatised companies of VSNL, CMC, IPCL, BALCO and IBP to public through IPO's.
Strategic sale of IPCL was also finalised in May 2002. The decision to disinvest IPCL was although taken in December 1998, it took three and half years to finalise the deal. Reliance Petro industries Ltd (Reliance group) was finally inducted as a strategic partner with a 26 % sale in IPCL. The details of the Disinvestment during 2002 – 2003 are:

Disinvestment in 2002 – 2003

Name of the Enterprise	Mode of Disinvestment	Receipts (in crore)
HZL	Strategic sale of 26 % 1.46 % equity disinvested in favour of employees	445.00 6.18
Maruti Udyog Ltd	Control premium for sell off to Suzuki	1000.00
IPCL	Strategic sale of 26 %	1491.00
ITDC	Sale of 10 properties	272.81
MFIL	Residual sale of 26 % equity	44.08
CMC	6.06 % equity disinvested in favour of employees	6.07
Total		3265.17

Note: Other than Maruti Udyog Ltd, other PSEs were partially disinvested earlier.
Source: Ministry of Disinvestment reply to Lok Sabha. Unstarred question no. 1351 answered on 26 Feb 2003.
From a summary of the Disinvestment from 1991-92 to 2002-2003 we can know what targets were set by the government and how much was realised. Also the various companies from which the government has disinvested are mentioned.

XVIII. Disinvestment From 2003 – 2004 To 2007 - 08

The government had fixed a high target for the year 2003 – 04 as 14,500 crore. The strategic sale of JCL, and offer sales of many PSEs like MUL, IBP, IPCL, CMC, DCI, GAIL and ONGC has exceeded the target fixed by the government to a total receipt of Rs 15,547.41 crore. Out of this Rs 12,741.62 crore receipts through sale of minority shareholding in CPSEs. In 2004 – 05 the target was reduced to Rs 4,000 crore and share sales of NTPC, ONGC spillovers and IPCL shares to employees pushed the total receipts to Rs 2,764.87 crore. In the other 3 years of this phase – from 2005 – 06 till 2007 – 2008 the government fixed no targets and the total receipts were very less to with the year 2006 – 07 yielding no receipts at all.

Phase IV (Current Scenario)

The Line-Up for Disinvestment

Top gainers in BSE–PSU index

Company	Returns (%)
NMDC	104.5
STC	73.1
Vijaya Bank	68.8
MMTC	64.2
Neyveli Lignite	51.3
BoM	49.9
IDBI Bank	48.6
MRPL	47.6
CPCL	47.5
RCF	45.9
ONGC	44.6

Returns since announcement of election results

It is quite clear that the Government does have divestment of its stakes in PSUs high on its agenda for the near future. Which companies are likely candidates? Here's a line-up:

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The IPOs that may flag off the divestment process may well be NHPC, RITES and Oil India, which have already filed their respective draft prospectuses with SEBI over the past two years.

NHPC

NHPC is the country's largest hydro power generator, engaged in planning, development and implementation of hydro-electric projects. Based on the offer document, the government stake will come down to 86.3 per cent post-issue. The earnings per share (EPS) for the FY09 is Rs 1.01.

RITES

RITES, under the Ministry of Railways, provides transport infrastructure consultancy, engineering and project management services. The PSU plans a fresh issue, bundled with an offer for sale that may bring down the Government's stake to 72 per cent. The book value/share and EPS for the year ended FY07 were Rs 133 and Rs 30 respectively.

OIL India

Oil India is engaged in the exploration, development, production and transportation of crude oil and natural gas onshore. The company comes under Ministry of Petroleum and Natural Gas. The Centre's stake will fall to 89 per cent post-issue. The offer document mentions an EPS of Rs 73.6 for the last financial year.

Long on the stake sale shortlist, the following PSUs are possible candidates which may seek listing through an IPO/offer for sale route.

Coal India is among the largest coal-producing companies in the world and is the only un-listed navaratna PSU (except for HAL, which comes under strategic area). CIL had a turnover of Rs 38631 crore in 2007-08. It is expected to hit the IPO market in near future.

Telecom major, BSNL and steel maker, RINL (Vizag steel), Cochin Shipyard, Telecommunications Consultants India and Manganese Ore are the other likely candidates that may tap the market. These entities have been on the divestment shortlist for quite a while.

Stake dilution is also possible in listed PSUs with a high proportion of government holdings. A 5-10 per cent stake sale in these companies will bring huge gains for the government, even without losing the management control. NMDC, BHEL, NTPC, SAIL, Neyveli Lignite, MMTC, RCF are likely follow-on offer candidates.

At current market prices, a 5 per cent stake sale in NTPC would fetch the government around Rs 8,864 crore. In case of Neyveli Lignite, SAIL, BHEL, MMTC and NMDC, the receipts would be around Rs 1,168 crore, Rs 3,570 crore, Rs 5,321 crore, Rs 6,800 crore and Rs 8,900 crore respectively.

Public sector banks that have a high proportion of government holdings are ripe for a dilution of stake, given their capital needs. While the stake dilution in PSBs will not help the government in terms of receipts, as fresh issues may be needed to bolster the banks' capital adequacy requirements, it will save the government equity infusion from time to time.

Central Bank of India (80 per cent), Canara Bank (73 per cent), Indian Bank (80 per cent) and Bank of Maharashtra (76 per cent) are banks with high government stake. The unlisted United Bank of India is also considering an IPO in the near future.

Proposal under implementation during 2009-10

- NTPC Limited:-Government on 19th October 2009, approved Disinvestment of 5% equity of the company out of Government shareholding through Public Offering in the domestic market.
- SJVN Limited (Satluj Jal Vidyut Nigam Limited) -Government on 19th October 2009 approved Disinvestment of 10% equity of the company out of Government shareholding through Public Offering in the domestic market.
- Rural Electrification Corporation Limited (REC) - Government on 29th October 2009, approved Disinvestment of 5% equity of the company out of Government shareholding in conjunction with the issue of fresh equity of 15% by the company
- NMDC Limited - Government on 3rd December 2009,approved Disinvestment of 8.38% paid up equity of NMDC Ltd. out of Government shareholding through Public offering in domestic market.

XIX. Problems Realized with Disinvestment

A number of problems and issues have bedeviled the Disinvestment process. The number of bidders for equity has been small not only in the case of financially weak PSUs, but also in that of better-performing PSUs. Besides, the government has often compelled financial institutions, UTI and other mutual funds to purchase the equity which was being unloaded through Disinvestment. These organizations have not been very enthusiastic in listing and trading of shares purchased by them as it would reduce their control over PSUs. Instances of insider trading of shares by them have also come to light. All this has led to low valuation or under pricing of equity.

Further, in many cases, Disinvestment has not really changed the ownership of PSUs, as the government has retained a majority stake in them. There has been some apprehension that Disinvestment of PSUs might result in the crowding out of private corporates (through lowered subscription to their shares) from the primary capital market

An important fact that needs to be remembered in the context of divestment is that the equity in PSUs essentially belongs to the people. Thus, several independent commentators have maintained that in the absence of wider national consensus, a mere government decision to disinvest is not enough to carry out the sale of people assets. Inadequate information about PSUs has impeded free, competitive and efficient bidding of shares, and a free trading of those shares. Also, since the PSUs do not benefit monetarily from Disinvestment, they have been reluctant to prepare and distribute prospectuses. This has in turn prevented the Disinvestment process from being completely open and transparent.

It is not clear if the rationale for divestment process is well-founded. The assumption of higher efficiency, better / ethical management practices and better monitoring by the private shareholders in the case of the private sector all of which supposedly underlie the Disinvestment rationale is not always borne out by business trends and facts.

Total Disinvestment of PSUs would naturally concentrate economic and political power in the hands of the private corporate sector. The US economist Kenneth Galbraith had visualized a role of countervailing power for the PSUs. While the creation of PSUs originally had economic, social welfare and political objectives, their current restructuring through Disinvestment is being undertaken primarily out of need of government finances and economic efficiency.

Lastly, to the extent that the sale of government equity in PSUs is to the Indian private sector, there is no decline in national wealth. But the sale of such equity to foreign companies has far more serious implications relating to national wealth, control and power, particularly if the equity is sold below the correct price!

If the Disinvestment policy is to be in wider public interests, it is necessary to examine systematically, issues such as - the correct valuation of shares, the crowding out possibility, the appropriate use of Disinvestment proceeds and the institutional and other prerequisites.

XX. Conclusion and Recommendations

To set things on the recovery path, it is necessary to reflect seriously on the aberrations that have entered the system. The need of the hour is introspection and searching for remedial measures. In this context, we quote C Rajagopalachari (Rajaji) who had foreseen in the year 1922 what erosion of values could bring about:

"Elections and their corruptions, injustice and power and tyranny of wealth, and inefficiency of administration, will make hell of life as soon as freedom is given to us. Men will look regretfully back to the old regime of comparative justice and efficient, peaceful, more or less honest administration. The only thing gained will be that as a race we will be saved from dishonour and insubordination. Hope lies only in universal education by which right conduct, fear of God and love will be developed among the citizens from childhood. It is only if we succeed in this that Swaraj will mean happiness. Otherwise it will mean grinding injustices and tyranny of wealth. What a beautiful world it would be if everybody were just as God-fearing and realized the happiness of loving others! Yet there is more practical hope for the ultimate consummation of this ideal in India than elsewhere."

Disinvestment has not yielded desired results in majority of dimensions; it may be virtually due to variety of problems faced by PSEs even after Disinvestment, such as inefficient, high cost and non-competitive industrial structure, operational inefficiency due to high governmental interference, environment restrictions (delegation of operational and functional autonomy to the managers through performance contracts), less proportion of Disinvestment and capital market discipline. Therefore, it is recommended that the government henceforth should aim for strategic Disinvestment; as small and modest sizes of Disinvestment are not likely to be fruitful. The government's intervention in the operational functioning and managerial decision-making should be a matter of last resort. Similar recommendations have been made by D Souza and Megginson (1999); they suggest for complete privatization with both ownership and control of the enterprise being passed on to private participants. The government should adopt a selective policy in the case of closing the loss-incurring PSEs. It is understandable that for social reasons, the government normally finds difficult to close the sick/loss-incurring PSEs. The government may sell such PSEs to private sector. For the purpose, it may invite tenders from the private sector. Obviously, in some cases, it may be very difficult to sell them at positive price. Since, the condition would be to run them in future; it may sell them with minimum negative tender price. The payment of one lumpsum should be preferred to have operating losses year after year. This needs to be experimented as has been recommended in earlier works of Patnaik (2006) and Gupta (2005). They emphasize that the loss-incurring PSE can be in such a poor shape and saddled with such large obligations that nobody in the private sector is willing to pay money, then government should permit negative bids in auction (where government pays someone to take the company off its hands) as followed in Germany.

Since independence PSUs are the main pillars of the Indian economy, which includes central, state and local bodies. It is due to many reasons cited above the performance of PSUs was poor over the years caused for monitory losses, over capitalization, wrong policies, faulty control and inefficient management. The privatization policy that the government adopted was closely related to efficient channelization and utilization of resources, but the progress often was not that satisfactory. Finally the privatization root was led to the concept of Disinvestment that had reflection over the needs of economy for the both productive and non productive entities, but unfortunately the proceeds from Disinvestment were used in an objectionable manner. Thus the belief of privatization, as a lead to better performance has become questionable? Hence, the government should change its mind and move from earth to heaven, keeping in view the global experience as a cushion and caution agent to improve the efficiency of inefficient units and create competitive market in the present bloodthirsty environment to enable the PSUs to work efficiently for the good health of the economy and in turn the nation.

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