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Disinvestment in PSU in India

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ABSTRACT

This research paper aims to study the disinvestment process of public sector banks (PSU banks) in India. It will focus on the current disinvestment process and its impact on the Indian banking sector. It will analyze the trends in the market and the potential implications of the disinvestment process on the banking sector. The research will further assess the impact of disinvestment on the growth of the banking sector, the competitive landscape of players, the performance of the banking sector and the long-term effects of disinvestment on the banking sector. The research will also provide recommendations for the banking sector to ensure that the disinvestment process does not negatively impact its future growth and performance.

Keywords: Disinvestment, Government Policy, Management, Privatization, Public Sector.

INTRODUCTION

Introduction to Disinvestment in PSUs in India.

The disinvestment of the public sector undertaking (PSU) has been a topic of much debate in India over the past few years. This paper will explore the implications of disinvestment of PSUs in India, and the various aspects of it. It will discuss the current trends and literature on the disinvestment of PSUs, and the various benefits and drawbacks of the process. It will also analyze the various strategies adopted by the government to ensure a successful disinvestment process, and the role of the stakeholders in the process. Furthermore, it will also provide a comprehensive overview of the current and future implications of disinvestment, and the scope of future research in this area.

The paper will begin by discussing the definition of disinvestment in the Indian context, and its implications. It will then analyze the various benefits and drawbacks of disinvestment, and the strategies adopted by the government to ensure a successful disinvestment process. It will also discuss the role of the stakeholders involved in the process and the various issues related to disinvestment. Finally, it will provide an overview of the current and future implications of disinvestment, and the scope of future research in the area.

Disinvestment of the public sector undertaking (PSU) is a serious economic issue in India. Disinvestment in India is an economic policy which is aimed at reducing the ownership of the public sector in the economy. This has been a controversial issue in India as it is seen by many as a way for the government to privatize public sector companies. This paper will provide an in-depth analysis of the implications of disinvestment in India, and the strategies adopted by the government to ensure a successful disinvestment process. The paper will also discuss the role of the stakeholders involved in the process, and the various issues related to disinvestment. Finally, it will provide an overview of the current and future implications of disinvestment, and the scope of future research in the area.

Overall, this paper will provide a comprehensive overview of the implications of disinvestment in India, and the strategies adopted by the government to ensure a successful disinvestment process. It will also discuss the role of the stakeholders involved in the process, and the various issues related to disinvestment. Finally, it will provide an overview of the current and future implications of disinvestment, and the scope of future research in the area.

DEFINATION OF DISINVESTMENT

Disinvestment in Public Sector Undertakings (PSUs) refers to the process of reducing the government's ownership in state-owned entities. It is usually done through the sale of equity shares or by diluting the ownership stake of the government. Disinvestment also helps the government to reduce its financial burden and improve the efficiency of state-run companies.

Difference between disinvestment and privatization:

- Disinvestment is the process of selling off the shares of public sector enterprises (PSEs) to the private sector, while privatisation is the process of transferring ownership of a public sector enterprise from the government to the private sector.
- Disinvestment reduces the government's stake in a PSE, while privatisation results in full transfer of ownership from the government to the private sector.

- Disinvestment is done at the market price of the shares, while privatisation is done through a bidding process.
- The objective of disinvestment is to raise funds, while the objective of privatisation is to increase efficiency and profitability of the company.
- Disinvestment does not lead to drastic changes in the functioning of the PSE, while privatisation brings a complete change in the functioning of the PSE.

Change in Government Policy towards Public Sector

- Increased focus on privatization of public sector organizations.
- Reduced government subsidies and increased cost recovery mechanisms.
- De-regulation of the public sector in order to allow for greater competition.
- Increased use of technology and digitalization to improve efficiency.
- Expansion of the scope of public-private partnerships in order to reduce the burden on public sector organizations.
- More focus on outcome-based performance and accountability.
- Increased emphasis on public sector innovation and entrepreneurship.
- Streamlining of administrative processes and procedures.
- Increased focus on public sector sustainability and environmental protection.
- Increased transparency and accountability in the public sector.

Performance of the Public Sector

The performance of different public sectors in India has been varied and has been largely dependent on the sector in question. In recent years, public sector organizations have been increasingly taking up the role of a strategic partner in India's economic growth, and the performance of these sectors has been instrumental in propelling the growth of the Indian economy.

- The banking sector has been among the most successful in terms of performance. Public sector banks have been able to provide a stable and secure environment for banking activity, and have been able to manage the financial system effectively. This has enabled them to offer attractive banking services and products to the public, leading to increased financial inclusion and improved access to credit.
- The telecom sector is another area where public sector organizations have been successful. Government-owned telecom companies have been able to provide reliable and affordable telecom services to a large part of the population, enabling access to the internet and other digital technologies. This has been instrumental in driving the growth of the digital economy in India.
- The power sector has also been an area where public sector organizations have made a significant contribution. Through their efforts, public sector companies have been able to provide reliable and affordable electricity to a large part of the population. This has enabled a large number of people to access electricity, which in turn has led to a number of development initiatives.
- The transport sector has also been an area where public sector organizations have made a significant contribution. Government-owned companies have been able to provide reliable and affordable transportation services to the public, enabling them to access markets and other services. This has been instrumental in increasing access to employment opportunities and other socio-economic benefits.
- The healthcare sector has also been an area where public sector organizations have made a significant contribution. Government-funded healthcare programs have been able to provide access to healthcare services to a large number of people. This has enabled a large number of people to access quality healthcare services, leading to improved health outcomes.

Overall, the performance of public sector organizations in India has been largely positive, and they have been instrumental in driving the growth of the Indian economy. Public sector organizations have been able to provide reliable and affordable services to a large part of the population, leading to increased financial inclusion, improved access to credit, and improved access to healthcare services. This has enabled a large number of people to access basic services, leading to improved socio-economic outcomes.

Issues Related to Disinvestment

Disinvestment of public sectors in India has been a matter of contention since its introduction in 1991, as part of the economic reforms. Disinvestment is the process of selling off state-owned enterprises (SOEs) to the private sector, and it has been argued that it can help to reduce the fiscal deficit, increase the efficiency of SOEs and create new sources of capital. However, there are several issues related to disinvestment, which include its potential effects on employment and competition, the lack of transparency and accountability in the process, and the potential of a 'crony capitalism' where the government and private sector collude to benefit themselves.

The first issue with disinvestment is the potential loss of jobs. As SOEs are sold off, the workforce may be downsized, leading to job losses. This could have a particularly negative effect in poorer states, where SOEs are often the largest employers. It is also argued that disinvestment could lead to a loss of competition in the market. As SOEs are privatized, the private sector may become more powerful and monopolize the market, leading to higher prices and reduced choice for consumers.

Another issue with disinvestment is the lack of transparency and accountability in the process. It is argued that the government is not transparent enough about its disinvestment policies, and there have been instances where the terms of the sale have been favourable to the private sector, but not to the public. This has led to allegations of crony capitalism, where the government and the private sector collude to benefit themselves at the expense of the public.

Finally, there is the issue of the sale price. It is argued that the government often undervalues the SOEs it is selling, meaning that it does not get the full value for its sale. This could mean that the government does not get the full benefit of its disinvestment, and that the money it receives is not enough to adequately compensate for the loss of the SOE.

IS DISINVESTMENT REALLY NECESSARY??

Yes, disinvestment is necessary in India in the current scenario. Disinvestment refers to the process of reducing or eliminating the government's ownership of public sector units (PSUs) and is necessary to improve the efficiency and profitability of PSUs. The current economic situation has made it essential for the government to reduce its stake in PSUs to ensure financial sustainability and attract private capital. Disinvestment will also allow the government to raise funds for other social welfare and development programs.

The potential loss of jobs, the potential loss of competition in the market, the lack of transparency and accountability in the process, and the potential for undervaluing the SOEs. The government should take steps to ensure that these issues are adequately addressed before proceeding with disinvestment. It is important that the public should have access to information about the process and that it should be transparent and accountable. The government should also ensure that the SOEs are not undervalued and that the full value of the sale is received in order to adequately compensate for the loss of the SOE.

The Implication of Disinvestment of Public Sectors

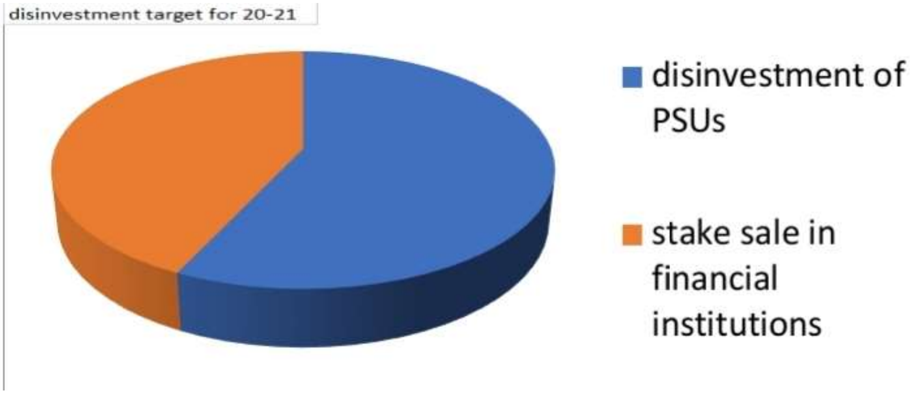
Disinvestment of public sectors can have a variety of implications. The most significant implication is the potential loss of jobs. When a public sector is disinvested, it may result in the closure of entire plants, factories, or facilities, which could lead to a significant reduction in the number of workers. Additionally, it could reduce the wages and benefits of existing employees. This could cause a decrease in the standard of living for those affected.

Disinvestment of public sectors could also lead to a decrease in the quality of public services. This could mean that services such as health care, education, and public transportation may become less accessible or of lower quality. Disinvestment of public sectors can also lead to a decrease in public investment in infrastructure, development projects, and other areas of public expenditure.

Finally, disinvestment of public sectors could have a negative impact on the macroeconomic environment. This could mean that economic growth could be slowed and the government's ability to fund other programs and initiatives could be reduced**.**

Methods used in the process of Disinvestment

- Divestment Strategy: The first step in the process of disinvestment of a Public Sector Undertaking (PSU) is to formulate a divestment strategy. This strategy should include the objectives of disinvestment and the timeline for achieving the same. It should also include the selection criteria for potential buyers and the process for evaluating the bids.
- Valuation: An independent valuer should be appointed to assess the fair market value of the PSU. This valuation will provide a basis for setting the minimum bid amount for disinvestment of the PSU.
- Advertising: The disinvestment process should be advertised in the media to attract potential buyers. The advertisement should include details of the PSU being disinvested, the minimum bid amount and the timeline for submitting bids.
- Calls for Bids: Potential buyers should be invited to submit bids. The bids should include the details of the buyer, the price offered and the timeline for completing the transaction.
- Evaluation of Bids: The bids should be evaluated based on the criteria set out in the divestment strategy. The evaluation should be done by an independent committee and the decisions should be taken on a consensus basis.
- Final Approval: The final approval for the disinvestment should be taken from the relevant government agencies. This approval is subject to the meeting of all regulatory and legal requirements.
- Transaction Closing: Once the final approval is granted, the transaction can be closed. This involves signing of the relevant legal documents and transfer of ownership.
- Post-Transaction Monitoring: The post-transaction monitoring should be done to ensure that the buyer is following through with the terms and conditions of the transaction. This should include monitoring of the financial performance of the buyer and ensuring that the buyer is adhering to the terms of the transaction.



Recent Disinvestment News

According to a report by the Department of Investment and Public Asset Management (DIPAM), the Indian government has disinvested a total of ₹2,19,407.22 crore from April 2014 to November 2019. Of this amount, the government has raised ₹1,78,824.91 crore through Strategic Disinvestment and ₹40,582.31 crore through minority stake sale. During the same period, the government has raised a total of ₹1,83,716.01 crore from disinvestment in the PSUs.

Issue of strategic and non-strategic sector:

Strategy Sector:

- Corporate Strategy
- Product Strategy
- Digital Strategy
- Business Model Transformation
- Market Entry Strategy
- Merger and Acquisition Strategy
- Global Expansion Strategy
- Competitive Strategy
- Growth Strategy
- Cost Reduction Strategy

Non-Strategy Sector:

1. HR Management

2. Financial Management

3. Risk Management

4. Operations Management

5. IT Management

6. Quality Management

7. Supply Chain Management

8. Production Management

9. Project Management

10. Compliance Management

Privatization of profit-making PSUs:

The privatization of profit-making public sector undertakings (PSUs) is a controversial idea, as PSUs are seen as a tool for economic development. Proponents of privatization argue that PSUs are inefficient and that privatization could lead to increased efficiency, cost savings, and greater private-secto` investment. Opponents of privatization argue that PSUs are essential for economic development and that privatization could lead to job losses, increased inequality, and reduced access to essential services. Both sides have valid points, and the decision to privatize any PSU should be taken after careful consideration and analysis of the potential benefits and risks.

How Disinvestment?

How to determine the values of such shares? There are three methods to determine the values of shares:

- Net asset value method.
- Profit earning capacity value method, and
- Discounted cash flow method.

NET ASSET VALUE METHOD: The Net Asset Value (NAV) method is a type of asset pricing model used in the disinvestment of Public Sector Undertakings (PSUs). This method helps the government to assess the market value of the PSU's assets and liabilities, and thus determine the fair value of the PSU. The NAV method involves calculating the total value of the PSU's assets, subtracting the value of its liabilities, and then allocating the balance to the shares held by the shareholders. This method is used to ensure fairness and transparency when disinvesting a PSU.

PROFIT EARNING CAPACITY VALUE METHOD: The profit-earning capacity valuation method is a method used to determine the value of a business or asset when disinvestment is the main goal. This method is based on the ability of the asset or business to generate future profits and is used to estimate the present value of those future profits. To determine the value of the asset or business, the expected future earnings are discounted back to the present to account for the time value of money. This method is most useful when there is a steady stream of future earnings from an asset or business, and when the expected future earnings are well known. The main advantage of this method is that it takes into account the risk associated with future profits, which is important when valuing an asset or business for disinvestment.

DISCOUNTED CASH FLOW METHOD: Discounted Cash Flow (DCF) is a method used to calculate the value of a company or asset based on future cash flows. It is typically used to value companies that are expected to generate cash flows over a long period of time, such as those in the energy, telecommunications, and real estate sectors. The DCF method can also be used as a disinvestment method, where the company considers the present value of all future cash flows associated with the asset or investment, and then subtracts out the cost of the asset or investment. This allows the company to determine the net present value of the asset or investment, which can then be used to inform decisions on whether to divest or keep the asset or investment.

A review of the relevant literature for the current research has been presented in this section. It provides an insight into various aspects of the research problem as explored by different researchers from time to time. In this chapter, a brief review of the research studies is presented under the following heading.

FINDINGS AND RECOMMENDATIONS

NAME	YEAR	FINDINGS
P.N Naidu and M.V.N sharma	2020	An Overview of disinvestment in Public Sector Undertaking India
S.K Sen	2012	An Analytical study of disinvestment in India
K.K Ranjan and S.K Bhargava	2020	A study of Disinvestment Motives, Impact and Challenges
Sheeba J	2015	A critical study on investments and disinvestment strategies
Manoj Kumar and Vishal Tiwari	2016	An Assessment of the disinvestment process in India
S.K Yadav and G.K Mohanty	2012	Economic Reforms and Disinvestment in Indian Public Sectors Undertakings

REASEARCH OBJECTIVES

The present study has been conducted to achieve following objectives:

To assess the disinvestment in last 5 years.

To find out the reasons of failure to achieve disinvestment targets setup by Government of India.

To suggest the measure for achieving disinvestment target

RESEARCH MEDHODOLOGY

This research paper is based on a qualitative approach. The data has been collected through secondary sources such as books, journals, reports, and websites. The primary sources of data include interviews with various stakeholders such as policy makers, bureaucrats, and experts in the field of disinvestment. The research will also use the SWOT analysis to evaluate the strengths, weaknesses, opportunities, and threats of the disinvestment process. The research also seeks to use a case study approach to analyze the disinvestment of a particular PSU.

DISINVESTMENT IN 2015-20

TABLE NO. 1

Serial no.	Name of the company	Mode of transaction	Transaction type	% of stake divested
1	N H P C	PUBLIC OFFER	INITIAL SELL OF MINORITY SHAREHOLDINGS	4.55

2	OIL INDIA LTD.	CPSE TO CPSE SELL	SELL OF MINORITY SHAREHOLDING	10.00
3	NTPC	PUBLIC OFFER	SUBSEQUENT SELL OF MINORITY OF SHAREHOLDINGS	5.00
4	RURAL ELECTRIFICATION CORP. LTD	PUBLIC OFFER	SUBSEQUENT SELL OF MINORITY OF SHAREHOLDINGS	4.35
5	NMDC	PIBLIC OFFER	SUBSEQUENT SELL OF MINORITY OF SHAREHOLDINGS	8.38

Source:

www.bsepsu.com

Disinvestment in 2010-11

TABLE 2

Serial no.	Name of the enterprise	Mode of transaction	Transaction type	% of money divested
1	SJVN LTD.	PUBLIC OFFER	INITIAL SELL OF MINORITY SHAREHOLDING	10.03
2	ENGINEERING INDIA LTD.	PUBLIC OFFER	SUBSEQUENT SELL OF MINORITY SHAREHOLDINGS	10.00
3	COAL INDIA LTD.	PUBLIC OFFER	INITIAL SELL OF MINORITY SHAREHOLDINGS	10.00
4	POWER GRID CORP. OF INDIA LTD.	PUBLIC OFFER	SUBSEQUENT SELL OF MINORITY SHAREHOLDINGS	9.09
5	SHIPPING CORP. OF INDIA LTD.	PUBLIC OFFER	SUBSEQUENT SALE OF MINORITY SHAREHOLDINGS	9.09

Source: www.bsepsu.com

TABLE 3

Serial no.	Name of company	Mode of transaction	Transaction type	% of stake divested
1	Power finance corp. ltd.	Public offer	Subsequent sale of majority shareholder	4.35
2	Oil and natural gas ltd.	Public offer	Offer for sale of shares by promoters through stock exchange mechanism	4.91
3	National building construction corp. ltd	Public offer	Initial sale of minority shareholding	10

Source: www.bsepsu.com

This was the year in which no industry was divested instead three enterprises were divested and these were from different sectors.

Public sector enterprise divested in 2012- 13

TABLE 4

Serial no.	Name of company	Mode of transaction	Transaction type	% stake divested
1	Hindustan copper ltd.	PUBLIC OFFER	Offer for sale of shares by promoters through stock exchange mechanism	5.38
2	NDMC ltd.	PUBLIC OFFER	Offer for sale of shares by promoters through stock exchange mechanism	10.00

3	Oil India ltd.	PUBLIC OFFER	Offer for sale of shares by promoters through stock exchange mechanism	10.00
4	NTPC ltd.	PUBLIC OFFER	Offer for sale of shares by promoters through stock exchange mechanism	9.50
5	Rastriya chemical & fertilizer ltd.	PUBLIC OFFER	Offer for sale of shares by promoters through stock exchange mechanism	10.00
6	NALCO	PUBLIC OFFER	Offer for sale of shares by promoters through a stock exchange mechanism	10.00
7	STEEL AUTHORITY OF INDIA LTD.	PUBLIC OFFER	Offer for sale of shares by promoters through a stock exchange mechanism	9.50

Source: www.bsepsu.com

DISINVESTMENT TARGET AND ACHIEVEMENT

TABLES 5

YEAR	TARGETS OF DISINVESTMENTS	ACTUAL RECEIPTS	ACHIEVEMENTS
2008-2009	NO TARGET FIXED	-	NA
2009-2010	25000	4259.90	94.21
2010-2011	40000	22763	56.91
2011-2012	40000	14035	35.09
2012-2013	30000*	23857	79.52
2013-2014	54000**	18321	33.93
2011-2012	40000	14035	33.09

REASONS BEHIND THE FAILURE OF DISINVESTMENT TARGETS TO ACHIEVEMENTS

- Lack of proper planning and inadequate research: Disinvestment should be properly planned and researched to ensure success. Without proper planning and research, targets may not be achieved.
- Poor market conditions: Disinvestment targets may not be achieved due to unfavorable market conditions.
- Lack of investor confidence: Disinvestment targets may not be achieved if investors lack confidence in the company or sector being disinvested.
- Unclear objectives: Disinvestment targets may not be achieved if the objectives are unclear or not properly communicated.
- Political interference: Disinvestment targets may be hindered if there is political interference in the process.
- Lack of public support: Disinvestment targets may not be achieved if there is a lack of public support for the disinvestment process.
- Poor valuation: Disinvestment targets may not be achieved if the valuation of the assets is not accurate.

CONCLUSION

Disinvestment of PSUs is a major policy change that has far-reaching implications on the Indian economy. This research paper seeks to provide an overview of the process of disinvestment and its impact on the Indian economy. It also seeks to analyze the various methods adopted by the government for the disinvestment of PSUs, and the challenges faced by the government in this process. The qualitative approach was adopted for the research, and the data was collected through secondary and primary sources. The research also uses the SWOT analysis and a case study approach to evaluate the process of disinvestment.

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