IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

AN ANALYSIS ON INDIAN DISINVESTMENT PATTERN

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Abstract: Disinvestment is the one of the source for the government to raise funds. To uproot the deficiencies in the economy, government uses disinvestment as a tool. Union budget every year discloses the information about the expenditures to be incurred in various sectors in the country. This year union minister Mrs. Nirmala Sitaraman disclosed the union budget 2021 on February 1st in which she targeted an amount of 2.10 crores to rise from disinvestment. The public sector units selected for disinvestments are based on the criteria of NITI Aayog says the MoS for Finance Mr.Anurag Singh Thakur.

This paper is descriptive and analytical in nature. It focuses on the concept of disinvestment, the ways to disinvest the enterprise in India, the criteria of NITI aayog to disinvest and an analysis of disinvested amount from the year 2015 to 2020.

Index Terms - Buyback, Disinvestment, ETF, Offer for Sale, Public Offer, Strategic disinvestment.

I.INTRODUCTION

To reduce the financial burden and inefficiency of public sector units and to improve the public finance, government use disinvestment as an exit strategy and raise funds. Here government either sale the entire share or partly to private entities.

It is started in 1991 when India has high balance of payments which forced government to adopt policies which opened foreign trade and investment, deregulation, privatization and inflation control measures. Disinvestment controls BOP and allows private players in government firms to improve its efficiency as many of the public sector undertakings (PSU’s) were not efficient and to invest the gained money to develop the economy but in subsequent year’s disinvestment was only used to cover the fiscal burdens of government.

Many government firms like Coal India, ONGC, LIC are using large amount of cash and Indian government has been regularly liquidating its stake in those companies to take advantage of liquidity and equity base of such companies.These firms have huge cash reserves not because of their good performance but rather because these enterprises command resources, which are required to the economic needs and even these companies, are facing problems. Rather than utilizing these cash reserves to increase the operations they are kept idle throughout the year to either provide high dividend payout to government or to buy back shares.

Importance of Disinvestment

Presently, the Government has about Rs. 2 lakh crore locked up in PSUs. Disinvestment of the Government stake is very important. The importance of disinvestment can be known in utilization of the funds for the below reasons:

1. Financing the increasing fiscal deficit
2. Financing large-scale infrastructure development
3. For investing in the economy to encourage spending
4. For retiring Government debt- Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest
5. For social programs like health and education

Objectives of Disinvestment Policy in India

1. To reduce the financial burden on the Government.
2. To improve public finances and overall economic efficiency
3. To introduce, competition and market discipline
4. To fund growth and development programmes
5. To encourage wider share of ownership
6. To depoliticize non-essential services

II.LITERATURE REVIEW

1. Vikas Pradhan, in his article "Disinvestment of Public Sector Enterprises in India: Need or Compulsion?", considered disinvestment as a weapon and instrument to improve government' s efficiency and to become more responsible as well as accountable to the public.

2. Ashish Srivastava (2014) in his article Disinvestment in India: An empirical study concludes that the disinvestment is good for a country's economy as it provides revenue for the government and states that the reason behind non achievement of targets is submissive behavior of government. He suggests that the government should review policies from time to time for disinvestment after fixing the targets. According to him the process of disinvestment should be clear.

3. Prof. V. Gangadhar and Dr.M.Yadgiri (2002) in their research article "Disinvestment of Public sector enterprises" observed that disinvestment proceeds were totally negligible and insignificant in relation to both capital receipts and fiscal deficit. According to them the aim of government is to reduce the deficit finance through disinvestment process does not occur.

4. Anurag (2007) in his thesis on "Disinvestment of Public sector units" examines the Indian approach towards disinvestment and stated that disinvestment approach has gone totally wrong ever since the reform process initiated in 1990s. he finds that the whole process of disinvestment is not encouraging as the total proceeds realized as against the target set for the decade 1991-92 to 2001-02. He recommended that disinvestment program should have a professional approach and suggested that there are three Ps of disinvestment like, promise, policy and performance which is not much appreciable in India.

5. Dayanand Arya Kanya (2018), in his paper, "Disinvestment in India: An Analytical study" selected few major public sector undertakings and analysed their pre-post disinvestment performance interms of profitability and operating efficiency. He concluded that there is no clear cut framework or policy for disinvestment in India.

III. OBJECTIVES OF THE STUDY

1. To understand the concept of disinvestment and the ways to disinvest the enterprises in India.
2. To know the criteria for disinvestment given by NITI Aayog.
3. To analyze the disinvestment pattern in India from a period of 2015-16 to 2020-21 and give some conclusions.

IV. SCOPE OF THE STUDY

The scope of the study is limited to only disinvestments of the enterprises by the government of India from the period 2015 to the recent.

V. METHODOLOGY OF THE STUDY

The methodology adopted in this paper is descriptive and analytical in nature. The data used here is secondary in nature which is collected from various websites, Journals, government portals and blogs. The amount of disinvestment is analysed on the mode of disinvestment done and the number of enterprises disinvested.

VI. CRITERIA OF NITI AAYOG FOR DISINVESTMENT

NITI Aayog identified the following criteria for disinvestment

- National security
- Sovereign function at arm's length
- Market imperfections and public purpose

VII. WAYS TO DISINVEST ENTERPRISES IN INDIA

1. **Initial Public Offering (IPO)** - offer of shares by an unlisted CPSE or the Government out of its shareholding or a combination of both to the public for subscription for the first time.
2. **Further Public Offering (FPO)** - offer of shares by a listed CPSE or the Government out of its shareholding or a combination of both to the public for subscription.
3. **Offer for sale (OFS**) of shares by Promoters through Stock Exchange mechanism - method allows auction of shares on the platform provided by the Stock Exchange; extensively used by the Government since 2012.
4. **Strategic sale** - sale of substantial portion of the Government share holding of a central public sector enterprise (CPSE) of upto 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
5. **Institutional Placement Program (IPP)** - only Institutions can participate in the offering.
6. **CPSE Exchange Traded Fund (ETF)** - Disinvestment through ETF route allows simultaneous sale of GoI's stake in various CPSEs across diverse sectors through single offering. It provides a mechanism for the GoI to monetize its shareholding in those CPSEs which form part of the ETF basket.

VIII. ANALYSIS FROM 2015-16 TO 2020-21

A stability in the government and better stock market conditions initially led to an impetus in the disinvestments. The Government initiated the process by selling minority stakes in listed and unlisted (profit-making) PSUs. This year disinvestments were in companies like Rural Electrification Corporation Ltd, NTPC, Indian Oil Corporation Ltd, EIL, CCIL etc., through public offers.

In the year 2015-16, the Government could raise Rs. 23,996.8 crore against a target of Rs. 69,500 crore and Rs. 46,246 crore against a targeted amount of Rs. 56,500 in 2016-17. In 2017-18, there is some improvement and the Government could raise Rs. 1,00,056.91 crore against a target of Rs. 72,500 crore and Rs. 84,972.17 crore against a target of Rs. 80,000 in 2018-19. Further, there is a decline in the amount to Rs. 50,298.64 crore against a target of Rs. 90,000 crore in 2019-20.

8.1 Annual CPSE Disinvestment Target vs. Achievement Table since 2015-16 till date

YEAR	TARGET (Rs. crore)	ACHIEVED * (Rs. crore)	ACHIEVEMENT (%)
2015-16	69,500	23,996.8	34.62
2016-17	56,500	46,246.58	82.09
2017-18	72,500	1,00,056.91	138.82
2018-19	80,000	84,972.17	106.33
2019-20	90,000	50,298.64	55.36
2020-21	2,10,000	32,835**	14.39

Source: www.bsepsu.com

Table 8.1 displays the targeted and achieved amount in disinvestment. There is a lot of difference between the targeted amount and received amount. Government could not receive the amount required. The raised funds from disinvestment could not solve the problems of the country. It should also see other sources from where it can raise its funds.

The reasons for low amounts from disinvestment against the targeted were:

- Unsuitable market conditions
- Private sector investors was not attracted by the offer given by the governement
- Criticism on the valuation process.
- Disinvestment policy is not clear.
- Strong opposition from employee and trade unions
- Lack of transparency in the process
- Lack of political will.

The details of the modes of disinvestment, the number of enterprises disinvested and the amount of disinvestment is given below year wise.

Table 8.2 Disinvestments in the year 2015-16

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	2	4483.22
2	Offer For Sale	7	19513.58
Total		**9**	**23996.8**

Source: Author's Computation

Table 8.2 gives the details about 2015-16 year, 9 PSUs were disinvested. Out of which 2 PSUs used Buyback method,remaining all were through Offer for Sale.The total amount raised from disinvestment is Rs.23996.8 Crores.

Table 8.3 Disinvestments in the year 2016-17

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	7	18963.47
2	Offer for Sale	5	7475.23
3	Sale to Employees	6	529.19
4	Exchange Trade Fund	2	8499.98
5	Strategic Disinvestment	1	10778.71
Total		**21**	**46246.58**

Source: Author's Computation

Table 8.3 gives the details about the year 2016-17. In this year, 21 PSUs were disinvested by the government in which 7were disinvested through Buyback, 6were through Sale to Employees, 5 were through Offer for Sale, 2 were disinvested through Exchange Trade Fund (ETF) and1 was through Strategic Sale.

Table 8.4 Disinvestments in the year 2017-18

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	13	5337.55
2	Offer for Sale	7	13395.65
3	Sale to Employees	6	315.21
4	Exchange Trade Fund	1	14500
5	Public Offer	6	24039.85
6	Strategic Disinvestment	1	4153.65
7	Others	2	38315
Total		**36**	**100056.91**

Source: Author's Computation

Table 8.4 gives the details about the disinvestment in the year 2017-18. In this year, 36 enterprises were disinvested by the government in which 13 were disinvested through Buyback, 7 were through Offer for Sale, 6 were through Public Offer, 6 were through Sale to Employees, 1 through Exchange Trade Fund (ETF), 1 through strategic Sale and the remaining 2 disinvested through other methods.

Table 8.5 Disinvestments in the year 2018-19

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	11	10670.83
2	Offer for Sale	1	5218.3
3	Sale to Employees	1	17.33
4	Exchange Trade Fund	3	28079.92
5	Public Offer	5	1914.15
6	Strategic Disinvestment	4	15913.96
7	Others	3	23157.68
Total		**28**	**84972.17**

Source: Author's Computation

Table 8.5 gives the details of the year 2018-19. In this year, 28 enterprises are disinvested in which 5 are through public offer, 11 are through Buyback, 3 are through EFT, 1 is Offer for Sale, 4 were through Strategic Sale and 1 is through sale to employees.

Table 8.6 Disinvestments in the year 2019-20

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	3	821.8
2	Offer for Sale	2	1129.58
3	Exchange Trade Fund	3	30869.19
4	Public Offer	2	1113.86
5	Strategic Disinvestment	3	13883
6	Others	2	2481.21
Total		**15**	**50298.64**

Source: Author's Computation

Table 8.6 gives the details about the year 2019-20. In this year total 15 PSUs are disinvested. Out of which, 3 enterprises were disinvested through Buyback, 3 through ETF, 2 through Public Offer, 2through Offer for Sale, 3 through Strategic Disinvestment and the remaining were through other methods of disinvestment.

2020-21 onwards

The disinvestment target in this year is Rs. 2,10,000crores.

Table 8.7 Disinvestments in the year 2020-21

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	7	3935.99
2	Offer for Sale	7	22972.86
3	Public Offer	3	2801.76
4	Others	1	3124.84
Total		**18**	**32835.45**

Source: Author's Computation

Table 8.7 gives details about the year 2020-21. In this year till recent, total 18 enterprises are disinvested, out of which 7 enterprises are disinvested through offer for sale, 7 were through buyback and 3 were through public offer and 1 is through other methods of disinvestment.

Table 8.8 Total Number of Enterprises and the amount raised through various modes of disinvestment from 2015-2021

S.No.	Mode of Disinvestment	Number of Enterprises disinvested	Amount raised from disinvestment
1	Buyback	**43**	**44212.86**
2	Offer for Sale	**29**	**69705.2**
3	Sale to Employees	**13**	**861.73**
4	Exchange Trade Fund	**09**	**81949.09**
5	Public offer	**16**	**29869.62**
6	Strategic Disinvestment	**09**	**44726.32**
7	Others	**08**	**67078.73**

Source: Author's Computation

Table 8.8 infers that government has raised maximum amount (i.e., Rs. 81949.09 Crores) of the disinvestment through Exchange Trade Fund followed by Offer for Sale (Rs.69705.2Crores) followed by other methods (Rs. 67078.73 Crores) followed by Strategic Sale (i.e., Rs.44726.32 Crores) followed by Buyback (Rs. 44212.86 Crores) followed by Public Offer (i.e., Rs. 29869.62 Crores) followed by Sale to Employees (Rs. 861.73 Crores)

Table 8.9Total Receipts through disinvestments Annually and the Number of Transactions

S.No	Year	Receipts (Rs. Crores)	No. of transactions
1	2015-2016	23996.8	9
2	2016-2017	46246.58	21
3	2017-2018	100056.91	36
4	2018-2019	84972.12	28
5	2019-2020	50298.64	15
6	2020-2021	32835.45	17
	Total	**338406.5**	**126**

Source: Author's Computation

Fig:1

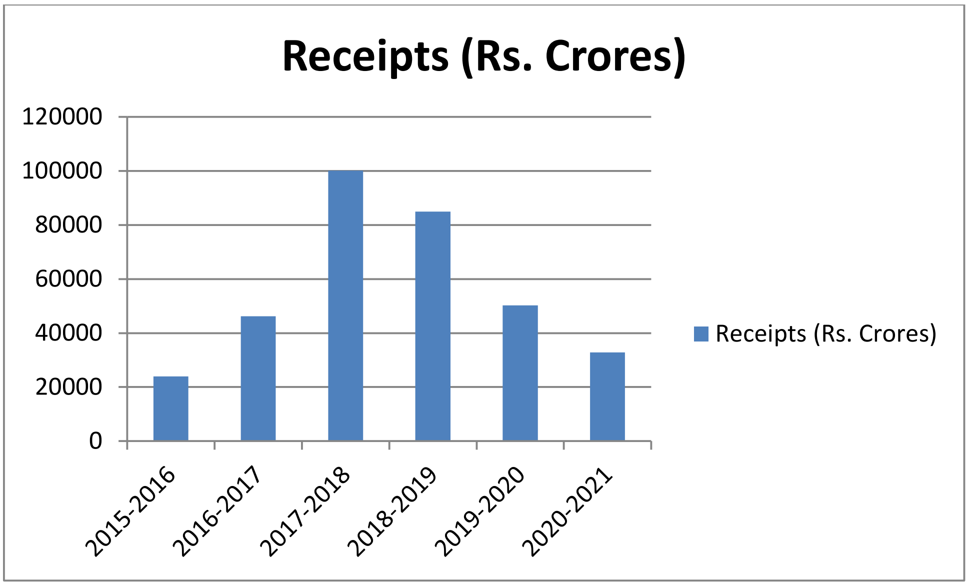

Figure 1 infers that total 126 transactions happened in the last 6years and the total amount raised by the government of India through various types is Rs.338406.5 Crores. Maximum amount is received in the year 2017-18 followed by 2018-19.

8.10 Total Disinvestment amount with respect to type of disinvestment

Year	BB	OFS	EMP OFS	ETF	IPO	SD	Others	Total
2015-16	4483.22	19513.58						23996.8
2016-17	18963.47	7475.23	529.19	8499.98		10778.71		46246.58
2017-18	5337.55	13395.65	315.21	14500	24039.85	4153.65	38315	100056.91
2018-19	10670.83	5218.3	17.33	28079.92	1914.15	15910.96	23157.68	84972.17
2019-20	821.8	1129.58		30869.19	1113.86	13883	2481.21	50298.64
2020-21	3935.99	22972.86			2801.76		3124.84	32835.45
Total	**44212.86**	**69705.2**	**861.73**	**81949.09**	**29869.62**	**44726.32**	**67078.73**	**338406.5**

Source: Author's Computation

Fig:2

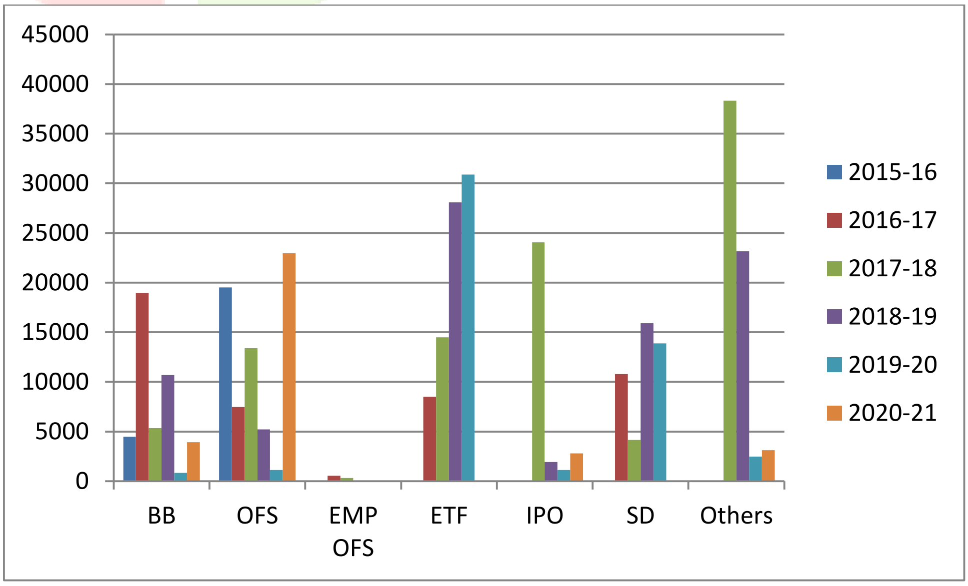

Figure 2 represents the amount raised through various modes of disinvestment since 2015 till recent.

IX.CONCLUSION

Strategic disinvestment of select PSUs would remain a priority as the government is looking out for new sources of revenue to meet the country's developmental needs. It should decide the appropriate disinvestment strategy under given market conditions and investor needs. Any shortfall in disinvestment target will endanger the aim of disinvestment resulting in decreasing investor confidence and increase fiscal deficit situation. It should be ensured that the proceeds of strategic sale are reinvested in long term infrastructure development that can yield continue returns to the economy.

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