IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A Study On Disinvestment And Privatization In India

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Abstract

The liberalization of India's economy in 1991 was a watershed moment in the country's economic development, with disinvestment and privatisation becoming key measures. Disinvestment, or the practice of selling government-owned shares in public sector enterprises (PSUs), attempts to reduce budget deficits and revitalize the capital market. Privatisation also shifts PSU ownership to the private sector, hence increasing efficiency and profit maximization. This article investigates the rationale behind these economic policies, their influence on India's financial environment, and the operational history of PSUs following disinvestment. A paired t-test is used to examine the performance of selected PSUs, revealing information on the efficacy of disinvestment and privatisation in encouraging long-term economic growth. The report highlights the strategic importance of these changes for India's long-term economic trajectory.

Keywords: Securitization, Privatization, Return on Investment, Liquidates, Disinvestment

1. INTRODUCTION

Disinvestment refers to the selling of equity and bond capital invested by the government in PSUs via securitization. Securitization is a structured financial process in which cash flow-generating assets are pooled and repackaged into securities that are then sold to investors. A firm or a government organization may often disinvest an asset, either as a strategic move for the company or to raise funds for general or specialized purposes. The government participates in disinvestment to reduce the fiscal burden on the exchequer or to raise cash for specific objectives, such as filling a revenue gap from other regular sources. In some circumstances, disinvestment can be used to privatize assets. However, not every disinvestment involves privatisation. Some advantages of disinvestment include the potential for long-term growth of the country, as well as the ability for the government and even businesses to decrease debt. Disinvestment provides for a greater percentage of PSU ownership in the open market, which promotes the growth of India's capital markets. Several Indian companies, including Martí Udyog, SAIL, and Indian Airlines, have undergone disinvestment.

Disinvestment is the process of turning money claims or securities into cash, whereas investment is the conversion of cash into securities, debentures, bonds, or other instruments. From another angle, disinvestment may be viewed as a strategy for disposing of or selling assets for cash. In terms of government, disinvestment strategy refers to market activity in which the government sells or liquidates government-owned assets. That is, the government may possess an interest in Central and State public-sector firms. In addition, government assets may comprise various project endeavors and fixed assets. The government picks a disinvestment approach to minimize the budgetary burden and collect funds for public needs. They may also be used to privatize assets. Disinvestment might result in long-term growth for the country. Because disinvestment transfers a bigger percentage of PSU ownership to the open market, it lays the framework for India's formal capital market. The study's scope includes public sector undertakings, which have played a significant role in the growth of the Indian economy. PSEs were created to avoid the compounded difficulties of unemployment. In the post-Independence era, the country was on a road of progress, with the government serving as the driving force. Hence, disinvestment begins in 1991. The current study focused on the performance of divested enterprises both before and after disinvestment. For this, the researcher gathered data of PSE'S which are divested throughout the years and done paired t-test analysis by selecting for a handy sample strategy.

2. STATEMENT OF PURPOSE:

India's Disinvestment and privatisation sector reduces the burden on the government finances. They open up markets for private firms, which eventually leads to better capital markets and efficient allocation of resources. It supports the liquidity measures in the market by aiding consumption and demand as the need arises. It helps to raise money to facilitate long-term Government goals of growth and development in the country. Furthermore, it also Improves the Return on Investment of underperforming firms.

3. OBJECTIVES:

India's disinvestment strategy is critical to the country's economic success, with the goal of reducing the government's fiscal burden, improving public finances, and promoting private sector efficiency. Its goals include fostering effective resource allocation, increasing competition, and extending the shareholder base, with revenues going towards critical development areas. Disinvestment can take several forms, including strategic sales, minority sales, and asset sales, all of which have different ramifications for government control. Disinvestment, unlike privatisation, may not result in the transfer of whole ownership. While disinvestment can lead to higher efficiency, innovation, and better management, it also has downsides such as job losses, diminished strategic control, and probable undervaluation of public assets.

4. REVIEW OF LITERATURE:

In his article entitled 'Disinvestment of PSUs, Leaving Money on the ms tried to show that the takeover guidelines could cause a transfer of wealth from the majority shareholders. The problem, on which he emphasizes, is that lower proceeds (than otherwise) are raised in disinvestment involving strategic sale of PSUs with a public float. V. Ravi Anshuman (2003) The Economic and Political Weekly. Highlighted in her research paper entitled "A positive aspect of Disinvestment of public sector in India" she argued that the objective of disinvestment should be to benefit the public, the consumer, and the investor, and at the same time, to improve competitiveness and eliminate monopoly. In this direction, the former NDA Government made exerting efforts; it has collected over Rs.14,000 crore by way of disinvestment proceeds. Considering the pivotal role of PSUs, it would be better to turn some PSUs into venture capitalists. Dr. M.S. Smriti Khurasia (1998)BUSINESS INDIA. Have examined the performance of the disinvestment against the target set for a decade of 1991-2001. This article focus on Public Sector Policy evolution, Objectives & Goals of disinvestment, Disinvestment process, modalities, Types of Privatisation, Disinvestment Machinery, Progress of disinvestment, Significance of disinvestment proceeds vis-à-vis budget deficit. V. Gangadhar and Dr. M. Yadgiri (2020). In his article entitled 'Disinvestment of PSUs, Leaving Money on them tried to show that the takeover guidelines could cause a transfer of wealth from the majority shareholders. The problem, on which he emphasizes, is that lower proceeds (than otherwise) are raised in disinvestment involving strategic sale of

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5. METHODOLOGY:

To conduct a thorough data analysis, the researcher acquired secondary data using a range of methodologies, including surveys, questionnaires, phenomenology, and historical research and data. The inclusion of secondary data in this study broadens the available body of information and allows for a thorough investigation of the research topic. The investigator can improve on prior understanding and study intricacies in the material by integrating data from pre-existing surveys, questionnaires, and phenomenological inquiries. A thorough approach to data collecting and analysis allows the researcher to thoroughly investigate the nuances of the research issue and ensures that the qualitative study has a strong basis. The complexity of the research issue and ensuring that the qualitative investigation is well-founded. The research aims to contribute to the body of knowledge currently available in the subject by offering a full understanding of the phenomena under examination through the synthesis of data from multiple sources and approaches.

6. ANALYSIS AND INTERPRETATION:

The Indian government aims to sell ₹50,000 crore by fiscal year 2024-25. This plan involves the government relinquishing complete or partial control of Public Sector Enterprises (PSEs). Panel data regression is used to compare the performance of listed PSEs with varied amounts of government ownership. The findings suggest that divesting government ownership in PSEs above a particular threshold has a detrimental impact on performance. While there are other techniques for achieving divestiture, this study critically examines the most common avenues used by the government for divestment: public offer and buyback. In addition, the reasons behind the government's failure to properly implement strategic sales are examined. Problems with Disinvestment include the fact that the process of disinvestment is not socially favored, since it is detrimental to the interests of socially disadvantaged persons and society in general. This approach will undoubtedly have an influence on the government's social aims. Furthermore, the coalition administration at the center, which includes a variety of parties, has presented a significant danger to this program. Conflicting interests have made it impossible to reach a national agreement, and the majority of the units selected for disinvestment are in terrible health and do not provide attractive returns. The government, because to a lack of funding, is likewise unable to resurrect it. The legitimacy of the disinvestment process has been questioned on a variety of grounds, slowing the sale of public assets. However, two key legal opinions established broad bounds for the Disinvestment process. Privatisation is a policy choice, prerogative of the executive arm of the state; courts would not intervene with it. Privatisation of the PSE constituted by an act of parliament would require legislative approval.

7. DISCUSSION:

Currently, the government of India has around Rs. 2.4 lakh crores invested in PSUs. The disinvestment of the government's shares in these enterprises is thus far too big for the Indian economy. The disinvested funds may be used to finance India's growing fiscal deficit, fund large-scale infrastructure projects across the country, boost consumption and demand, and reduce government debt. Approximately 40-45% of the Center's earnings is spent on repaying public debt or interest, as well as executing social programs in the health and education sectors. On the other side, private entities or firms purchase these disinvested interests in PSUs for a low price, and the skills, discipline, and talent brought in by such private organizations assists in improving the overall performance of such sick units. During difficult times, the government may opt to sell the entire company or a majority part of the enterprise to private investors. This leads to privatisation, which means that the government no longer owns and controls activities. This is referred to as total privatisation or massive disinvestment. However, this is an uncommon occurrence in reality. Typically, the government holds more than half of the investment in PSUs, allowing it to maintain control. All disinvestment-related responsibilities are handled by a distinct team inside the Ministry of Finance, known as the Department of Disinvestment. The Department of Investment and Public Asset Management will now operate independently. The department's goals are set in each Union Budget and also vary every year. Since the 1990s, each succeeding government has set a disinvestment aim to raise revenue by selling a stake in PSUs. Before deciding to disinvest in a firm, the government considers a number of criteria, including the government's current share in the company, the private sector's interest in the enterprise, market circumstances, and predicted value realization. In 1992, India's new economic strategy focused heavily on the privatisation of state firms. Disinvestment is a way of privatizing state companies. It is a significant step towards privatisation and liberalization of the Indian economy. Bankruptcy had a negative impact on the Indian economy from 1981 to 1991. The public sector, which was intended to reach new heights and was taught to be the ideal road for India's economic progress since independence, has been plagued with poor and unhealthy performance. In 1991, there were 236 functioning PSUs, only 123 of which were profitable. The top 20 profit-generating PSUs accounted for 80% of earnings, meaning that less than 10% of all PSUs were responsible for 80% of profits. The return on PSU investments in 1990-91 was roughly 2%. Allowing the private sector to inject cash into these troubled PSUs would, of course, help to turn them around while also providing monies to the government for social programs. As a result, India's disinvestment process began in 1992. Between 1999 and 2004, the BJP-led NDA government made four strategic divestment: Bharat Aluminum Company (BALCO) and Hindustan Zinc to Sterlite Industries Ltd., Indian Petrochemicals Corporation Limited (IPCL) to Reliance Industries Ltd., and VSNL to the Tata Group. Again, between 2014 and 2018, the BJP-led NDA government sold a total of Rs. 1,94,646 crore, including minority and majority stake sales of the most profitable public sector enterprises, such as the ONGC-HPCL transaction worth Rs. 36,915 crore. In the budgetary declaration for fiscal year 2017-18, the Finance Minister stated that the government began strategic disinvestment in 24 PSUs, including Air India, this fiscal year. Between the fiscal years 1991-92 and 2017-18, administrations led by political parties sold a total of Rs. 3,47,439 crore in public assets.

7.1. Disinvestment Target (FY 2021-22)

During the presentation of the Union Budget 2021, Finance Minister Nirmala Sitharaman recommended the privatisation of two public sector banks (other than IDBI Bank) and one general insurance firm in FY 2021-22. She also suggested that LIC would be receptive to an initial public offering. She acknowledged that the government had approved the program for strategic disinvestment in public sector firms. According to the proposal, the basic minimum of CPSEs will be retained, with the remainder being privatized. NITI Aayog would create a list of Central public sector enterprises for disinvestment in the next phase. Furthermore, an incentive structure will be established to incentivize governments to divest their public-sector firms.

7.2. Current Disinvestment Target (FY 2024-2025)

The current disinvestment target for India, as indicated in the Union Budget for fiscal year 2023-24, is Rs 51,000 crore. This target is about 21% lower than the budget plan for the previous year. For fiscal year 2024-25, the government has set a disinvestment target of Rs 50,000 crore. For the fiscal year 2023-24, the Indian government initially set a disinvestment target of Rs 51,000 crore. The goal was, however, decreased due to a variety of factors, including market conditions and strategic considerations. As of January 31, 2024, the government has achieved around 24.5% of its goal, with disinvestment earnings reaching Rs 12,504.32 crore. Looking ahead to fiscal year 2024-25, the government has set a reduced disinvestment target of Rs 50,000 crore. This statistic is part of the government's overall fiscal strategy and indicates money generation targets achieved through the sale of PSE holdings. Looking ahead to fiscal year 2024-25, the government has set a reduced disinvestment target of Rs 50,000 crore. This statistic is part of the government's overall fiscal strategy and indicates money generation targets achieved through the sale of PSE holdings. The disinvestment process is managed by the Department of Investment and Public Asset Management (DIPAM), which reports to the Ministry of Finance. DIPAM is responsible for strategic disinvestment, minority interest sales, asset monetization, and capital restructuring for PSEs. To achieve the release of a huge number of public resources that have been locked up in non-strategic public sector units for re-employment in sectors with greater social priorities, such as health, family, and welfare. Privatisation would assist to halt additional outflows of scarce public resources required to support the unviable non-strategic public sector entity. Privatisation would make it easier to shift the business risk to which taxpayer money locked up in the public sector is subject to the private sector, wherever the private sector is ready to intervene. Privatisation would release tangible and intangible. The increase in floating stock would give the market more depth and liquidity, give investors early exit options, help establish more accurate benchmarks for valuation and raising funds by privatised companies for their projects and expansion, opening up the public sector to private investment will increase economic activity and have an overall beneficial effect on the economy, employment, and tax revenues in the medium to long term. Provide consumers with more options and higher-quality products and services, such as in the telecom industry. The sum raised from disinvestment from 1991 to 2001 was Rs. 2051 crores per year, which is insufficient. Furthermore, the method money released by disinvestment is used remains hidden. The loss of PSUs is increasing. The figure was 9305 crores in 1998 and 10060 crores in 2000. This is positive, but disinvestment in profitable public-sector organisations will deprive the government of decent returns. Furthermore, if the disinvestment department intends to avoid commercial risks, why should it keep shares in disinvested PSUs, such as Balco (49%), Modern Foods (26%), and so on? The growth of the social sector is not hampered by a lack of manpower. This is true only if the government ensures that the market system regulates and disciplines privatised firms in the public's interest. Privatisation programmes are generally unaffected by public stock offerings. Previously, share sales (1991-96) attracted employees to a limited degree and were unfavourable to small investors and employees. In most cases, shares of disinvested PSUs are held by institutions with minimal floating stock. The current approach of privatisation through strategic partners will likewise fail to fulfil these goals. Hindustan Lever has expressly indicated that it has no plans for capital injection in Modern Food Industries, which it bought in January 2002. Supporters of disinvestment believed that private sector investment would save taxpayers money, and that no monopoly is beneficial. Only fair and open competition can provide relief to consumers. Disinvestment is important because it allows monies to be used to finance the growing fiscal deficit, large-scale infrastructure projects, For investing in the economy to stimulate expenditure, Nearly 40-45% of the Center's revenue sources are used to service public debt/interest. For social programmes such as health and education. Disinvestment is especially critical in today's increasingly competitive market, which makes it difficult for many PSUs to operate profitably. This causes a quick depreciation in the value of public assets, necessitating early disinvestment in order to get a high return.

7.3. Case studies

A cabinet panel authorized shifting ₹29,000 crore of **Air India's** debt to an SPV called Air India Asset Holding Company. The government intended to sell 76% of equity share capital and transfer managerial control to private enterprises. The buyer would take on ₹24,000 crore of debt and ₹8,000 crore of liabilities. Failed Stake Sale: The stake sale received no offers at the end of the bidding procedure on May 31. Current Disinvestment Strategy: The government aims to sell Air India to a strategic investor this fiscal year, with the goal of generating USD 1 billion from the transaction the next fiscal year. The strategic sale of Air India's ground handling division, Air India Air Transport Services, has been finalized, and another subsidiary, Air India Engineering Services, is scheduled for sale. The proceeds from the sale of subsidiaries and assets will be directed to the SPV to assist reduce the airline's debt burden. The strategy calls for moving non-core debt and assets to an SPV, conducting Organizational changes, and formulating unique business strategies for Air India's primary operations.

7.3.1 18-hr shifts, 'harassment', late pay, pink slips

Tejas Express employees' lengthy list of woes This is a headline that was found in the newspaper, here. Brandavan Food Products engaged Tejas Express attendants on a contract basis as 'coach crew'. According to current and former train employees, around 30 people continue to work on the Tejas Express, while up to 20 have been sacked. They said that the firings occurred abruptly and without warning. Salary payments, the employees said, were released weeks later. Avantika Singh, who joined the Tejas Express as a manager during its inaugural run, said the majority of her 12-person staff was let off after Diwali. When she questioned about their firing, she stated that the management cited poor performance as the reason. Prachi Patel, another of the sacked crew members, claimed she was not notified about the extended working hours when she joined. Her work would begin at 5 a.m., and she would not get home until after 10 p.m., she explained. Staff workers who are still employed reported that the layoffs increased work pressure. According to them, management threatened to dismiss the employees who discussed the problem with them, forcing them to remain silent.

7.3.2. Life Insurance Corporation of India:

The government announced a disinvestment in the country's largest insurance in 2021. LIC has around 69 percent of the market share. LIC disinvestment is a unique issue since it would necessitate changes to the LIC Act. The LIC Act oversees numerous aspects of the company's activities, including the transfer of surpluses and the government's guarantee on policies.

According to sources familiar with the subject, the government may be considering selling a 25% interest in the corporation. However, the 25% sale will be realised in phases, with the first step providing only a 5% sale. The 5 percent sale is expected to earn more than Rs 50,000 crore. The government has hired Deloitte and SBI Capital Markets as transaction consultants, marking the first stage in the disinvestment process.

7.3.3. BPCL Disinvestment:

In November 2019, the Indian government announced the disinvestment of five public sector units (PSUs), including the majority share in Bharat Petroleum Corporation of India (BPCL) and Shipping Corporation of India (SCI). Along with these two PSUs, the government announced intentions to sell a 31% share in the Container Corporation of India (CONCOR). According to a memorandum issued by DIPAM, Ministry of Finance, BPCL is India's second-largest oil marketing business, with a market share of around 21% in FY19. Additionally, the corporation possesses the country's third-largest refining capacity. The national government plans to sell its full 52.98 percent interest in BPCL. However, this includes BPCL's 61.65% interest in Numaligarh Refinery Limited. The government has received three expressions of interest, one from Anil Aggarwal's Vedanta and one from each of two overseas funds (Apollo Global Management and Think Gas, all marketed by I Squared Capital). The expression of interest will be used to pre-qualify interested parties. Those that qualify will be able to advance to the next level.

7.3.4. Shipping Corporation of India (SCI)

On December 22, 2020, the government requested offers to sell its 63.75 percent ownership in SCI, coupled with the transfer of management control. The deadline for submitting the initial proposal has been established for February 13, 2021. The stock has risen by around 75% since November 2020, on news that various domestic and foreign firms are vying for a stake in the privatisation process. At current market prices, the government's share in SCI is worth more than Rs 3000 crore. SCI's divestiture procedure is carried out through competitive bidding. The PIM (preliminary information memorandum) for the invitation is available for download on the DIPAM website. The Cabinet Committee on Economic Affairs (CCEA) also approved the sale of the whole interest in Tehri Hydro Development Corporation of India (THDC) and North Eastern

Electric Power Corporation (NEEPCO) to NTPC. With this, the government has set an ambitious objective of generating Rs 1.05 lakh crore in FY20. However, because of the Covid-19 outbreak, the government had to prolong the deadlines for submitting expressions of interest (EoI), resulting in a failure to raise the required 1.05 lakh crores.

7.4. Disinvestment policies

1991 to 1999

To clarify the country's economic reforms and the performance of PSUs, a new Industrial programme was drafted in 1991, which reviewed the role of PSUs and developed a comprehensive programme for disinvestment of public sector undertakings. The policy provided autonomy to PSU boards and pushed them to increase operational efficiency. The government chose PSUs as priority sectors and focussed on them, later privatising the majority of the loss-making enterprises. During industrial reform, the government opened up the bulk of industries to private enterprises. The public sector concentrated on railroads, mining, and atomic energy. Another important aim of the 1991 project was to eliminate "red-tapism" known as industrial licencing, which required acquiring a licence before starting a private sector business. As a consequence, any private organisation will be able to build an industrial unit without incurring significant delays. One of the primary objectives of the industrial policy statement, as stated in the 1992 Union Budget, was to reduce the number of industries earmarked for the public sector from 17 to 4. Furthermore, budgetary provisions for PSUs were significantly reduced, and the majority of loss-making firms were submitted to the Board of Industrial and Financial Reconstruction. C. Rangarajan chaired a team that developed criteria for disinvestment. In 1993, the panel issued a report recommending disinvestment of up to 49 percent in public-sector businesses and 100 percent in other organisations.

1999 to 2004

The disinvestment plan undertaken by the Vajpayee-led NDA administration from 1999 to 2004 accelerated the country's disinvestment process. The administration made a fundamental change in disinvestment; it was the same government that used the term “privatisation” instead of disinvestment for the first time. The government's new technique involved categorising PSUs into two categories: “strategic” and “non-strategic.” All industries dealing with defense-related equipment were classified as strategic resources, and no disinvestment was proposed in these areas. In contrast, it was recommended that the government share be reduced to 26% in all other non-strategic industries. The NDA government's objective was to enhance PSUs in strategic areas while privatising non-strategic firms. The administration focused on privatising non-strategic PSUs up to 26 percent, or lower if necessary. Looking back on the Vajpayee-led NDA's stint in power, several economic academics have complimented the former NDA administration's efforts towards disinvestment, stating that "the disinvestment policy witnessed a golden period during late Prime Minister Atal Bihari Vajpayee-led NDA government.”

2004 to 2014

So far, the Manmohan Singh-led UPA-I and UPA-II governments ruled from 2004 to 2014; according to DIPAM figures, the government showed insufficient interest in the disinvestment programme, undermining India's long-term economic narrative. The UPA-I administration created a National Common Minimum Programme (NCMP) in 2004 to clearly describe its disinvestment strategy. Some excerpts from (NCMP) proclaimed that no profit-making industries will be privatised. All Navratna firms will be kept and encouraged to raise funds through the public market, efforts will be made to improve all loss-making PSUs, and chronically ailing sectors will be disposed off, with adequate compensation for the workforce. All cash earned by privatisation will be used for specific social sector projects. The UPA government, among many other measures, terminated the process of the "Strategic sale" program of the previous NDA, and notably minority stakes in several PSUs were auctioned.

8. CONCLUSION:

The policy should cover the disinvestment in only those enterprises that will not affect the last man of the country, due to monopolistic measures or due to Marketization of economy. Privatization of Public Sector Undertakings is not only detrimental to the objective of fulfilling social obligations but also endangers constitutional protections because private firms generally are not subject to constitutional restraints. There are other ways in which good results of privatization can be achieved, i.e., without totally disturbing the ownership structure of PSU. This must not be ignored by the enthusiasts of privatization as well as the opponents.PSUs which are doing extremely well should not be touched at all and in fact more operational autonomy be given to do further. In short, profit-making PSUs should not be disinvested. PSUs which are facing certain problems are extended well-designed packages asked to perform turnaround in a given time or else face the Eventuality. PSUs which are beyond revival need to be either closed/ sold transparently so that further amounts of public money get locked up immediately. Government should not go for straight-way disinvestment in all PSUs. The extent of disinvestment should not be beyond 49 percent of equity of the respective PSU. The control & management should be retained with the government. Before going for disinvestment, PSUs should be listed on stock exchanges. When disinvestment is made through public offering, underwriters should be appointed as a precautionary measure. The guidelines issued by CAG, regarding the valuation and pricing of shares, should be strictly followed. Even before declaring reserve price, the opinion may invite from the different strata of the society. After the analysis of these invited opinions, the reserve price may be declared. The mechanism of deciding the reserve price should be Transparent. The highest value irrespective of methodology used should be taken for fixing 'reserve price'. The value of land and assets should be taken into account separately. Post-closing adjustment clauses should be eliminated. The practice of considerable 'under-pricing' of public sector shares and under realization of its assets, resulting in inconsiderable loss to the government, should be stopped immediately. The responsibility should be fixed up and the guilty should be punished. One has to consider that the direct benefits of efficiency accruing from privatization is limited by social disadvantages. In fact, disinvestment is not the solution to make the management of Indian PSUs efficient and effective.

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