CHAPTER – III

INDIAN DISINVESTMENTS – AN OVERVIEW

INDIAN DISINVESTMENTS - AN OVERVIEW

After discussing the silhouette of global disinvestments in the yester-chapter, the chronology of crewise of disinvestment process in India since inception, is discussed hereinbelow:

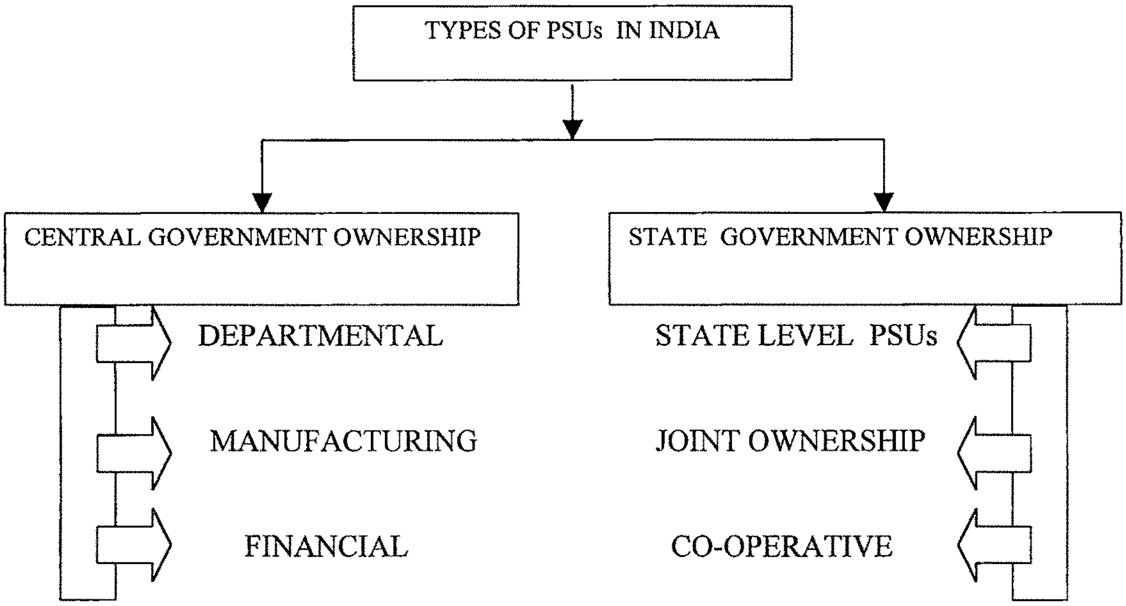
3.00 GENESIS OF PUBLIC SECTOR UNDERTAKINGS IN INDIA

After independence, the history of Indian PSUs dates back into 4 phases[1].

- The first phase may be christened as *'commanding heights'* phase lasting from 1950s to the mid – 1960s.
- The second phase (post mid-1960s to 1970s) saw the *'nationalisation'* phase, wherein, nationlisation of commercial banks and insurance companies, were made alongwith the evolution of the concept of a Joint-Sector.
- The third phase in the late 1970s upto mid-1980s, was characterized by a review of approaches to planning and the role of PSUs, mostly not on the basis of ideologies but may be *'forced compulsion'* of economic necessity.
- In the forth phase (post mid –1980s to 1990s) was, *inter alia*, characterized by a set of policies christened as *"New Economic Policy"* (NEP), allowing India to radically rethink and strategically restructure the Indian economy.

3.01 TYPES OF INDIAN PSUs

For the purpose of analysis, it is useful to differentiate between different sets of PSUs in India[2].



(A) Central Government's Ownership

(i) Departmental Enterprises (e.g. Railways, Irrigation Works, Telecommunication, Door-Darshan (TV), All India Radio etc)

(ii) Manufacturing/Productions of Goods (basically in a corporate form including Section 25 companies)

(iii) The financial sector

(B) State Government and Local Authorities Ownership

(iv) The state level public undertakings, (viz State Electricity Boards (SEBs), State Road Transports, Promotional and Investment Corporations etc.)

❖ **Joint Ownership**

(v) The joint sector companies, wherein both Central and/or State Government, or the Government companies hold equity but in all do not exceeds 50% These are basically not treated as PSUs

❖ **Co-operative Sector**

(vi) At a state level, the co-operative sector exists, such as National Dairy Development Corporation at Anand – Gujarat This sector is based on the principles of voluntary association, with the support of Government of Gujarat.

3.02 BROAD OBJECTIVES OF PSUs, SINCE INCORPORATION

The staple objectives, goals and motivations for establishing mammoth PSUs in India[3] are, *inter alia*, as under :

(i) To build infrastructure for economic development and promote rapid economic growth and industrialization of the country after independence.

(ii) To create employment opportunities and promote balanced regional development.

(iii) To create a sustainable self-reliant economy, through the development of local industries

(iv) To generate investible resources for development by earning suitable returns.

(v) To prevent/abate concentration of private economic power and redistribution of income and wealth.

(vi) To assist the development of small scale and ancillary industries and to act as import substitutes, save and earn sparse and scarce Foreign Exchange for India

3.03 BROAD COMPARISON OF ACHIEVEMENTS AND FAILURES - 1950-1990

A. Economic Achievements

(i) Out of 240 PSUs, in 108 PSUs Memorandum of Understanding (MOU) with their administrative ministries have been signed based on the evaluation method prescribed in MOUs, 45 PSUs have been rated as excellent 25 as very good, 13 as good, 22 as fair and 3 as poor[4].

(ii) Profitability ratio-wise, the performance of all PSUs was of a mixed bag This is self-evident from Table · 3.04, depicting 10 years profitability analysis and comments offered therein. In addition, to the above, a detailed analysis of PSUs wise profitability revealed that out of 236 PSUs (as at 31.3.98), 134 earned net profit of

Rs.20267/- crores over Rs.4917/- crores in 1988-89, thereby showing CAGR of 17.05% in 10 years. However, much alarming is loss-making 104 PSUs who had made losses of Rs.6541 crores as against losses of Rs.1923/- crores in 1988-89. The CAGR increase in loss due to sub-optimal performance is 14.55%.

(iii) From the analysis of sector-wise performance in profitability, out of 21 sector of cognate group, the profitable sectors were 11, viz. Minerals and Metals, Coal and Lignite, Power, Petroleum, Chemicals and Pharmaceuticals, Trading and Marketing Services, Industrial Development and Technical Consultancy Services, Tourist Services, Financial Services, Telecommunications Services, Section 25 Companies However, 9 sectors have remained loss-makers such as Heavy Engineering, Medium and Light Engineering. Transport Equipments, Consumer Goods, Textiles, Transport Services, Contract and Construction Services, Fertilizers, Agrobased Industries. One sector in Steel Industry remained in mix of loss-profit-loss scenario.

Besides profitability, PSUs had made contribution to Exchequers of Rs.38665/- crore in 1998 to Rs.19107/- crores in 1990-91 thereby showing CAGR hike of 10.58% per annum. Indian PSUs also made value addition to Indian Economy. In the year 1997 -98, PSUs in manufacturing sectors had added value of Rs.72690.61 crores as against Rs.31922/- crores in 1990-91, thereby showing CAGR hike of 12.45% per annum.

B. Non-Economic Achievement

On Non-economic side, the PSUs have provided bread & butter through employment opportunities. The PSUs provided regular employment to 19.27 lacs employees in the F Y.1997-98 as against Rs.21.07 lacs in F.Y. 1984-85 and Rs.22.19 lacs in 1990-91 The numbers had been decelerated by CAGR of 2% per annum. However, average annual per capita emoluments had been increased from Rs.49,179/- (1990-91) to Rs.1,32,232/- (1997-98), *inter alia*, evincing CAGR of 15.17% per annum (this excludes non-salary remuneration).

PSUs have also achieved investment and employment goals but at the cost of externalities and side effects such as inefficiencies as relatively compared to private sector.

C. Failures

(i) ***Contributor to deficit***

As discussed above, losses of loss making PSUs have been increased. Based on study made by Gupta (1992) [5] the deficit of PSUs in energy sector alone adds upto 4% of GDP. Further deficit of PSUs have also added to countries large stocks of public and external debts at about $100 billion, which in turn results into colossal annual cash outflow and liabilities on account of interest payments. The interest payment, alone which has financed much of investments and losses of Indian PSUs eventually, added upto Rs.520/- billion, 4.8% of GDP[6] in 1995-96. It is also surprising to note that despite being *over protection and stash subsidies* allowed to several PSUs in the form of concessional interest rates, land at low prices etc., they still continue to incur losses. However, thinking that all PSUs are inefficient and unprofitable is a fallacious. Besides, reasons for losses includes, uneconomic environment in which they have to operate and no autonomy to function on the basis of commercial principles of business, albeit with political interference and personal perks, known as 'Creature Comforts' the PSUs provide in terms of cars, telephones, decoration of offices, etc.

(ii) ***Over-staffing***

Banerji and Sabot[7] cited in The World Bank 1995 that there is an overstaffing to the tune of 19.80% in telecommunications, 91% in Container sector (in Bombay Port) and more than 33% in Steel, Chemicals and Textiles. Therefore the PSUs are overstaffed than the required size.

(iii) ***Inefficiency in performance***

In general, Indian PSUs have been alleged for generating inefficiency in economic and operational aspects. This in turn, had cascaded the cost of living to the citizens and the taxpayers. Though, the PSUs are not to blame solely for the same, we also attribute some responsibility to the environmental factors including eco-socio-political and above all lack of clear cut vision and strategy. The pigheadedness of Indian PSUs was converted into phocomelia of inefficiencies.

D. Potent Recipe – Drumbeat of Disinvestment

The international invasion and shoehorn of privatization strategy for growth did not allow even India to remain *de hors* of global change. Eventually Dr. Manmohansingh - the maverick, the then Hon'ble Finance Minister of India ushered in the new economic policy 1991, *inter alia*, by de-regulation of private industry, liberalization and autonomy to PSUs emphasizing market culture, augmenting the competition, redefining the role of Government and PSUs and PSU and market relations.

(i) The wave of 'Minimalist State' as against 'Sputter of Command State' have altered the thinking of the then Hon'ble Prime Minister of India for state reforms and economic development The 7th Five Year plan (1985-90) emphasizes the need to introduce market elements and develop capital market, *inter alia*, to help funding PSUs. However, it does not envisage disinvestment at that time.

(ii) A number of Government appointed expert committees, which have gone into the working of physical controls, regulated financial systems, trade, economic, monetary, fiscal policy, etc., have emphasized "*competition*" as important element but have not suggested privatization. However, Dr Arjun Sen Gupta committee examined the issue of PSUs, largely confirming PSUs covered by Bureau of Public Enterprises. Though, he considered participation of private equity in public sector, he dismissed it as not desirable. He however, recommended resource mobilization by PSUs through capital market by issue of shares. Thereafter, a body consisting of the Chief Executives of PSUs in India a Standing Conference of Public Enterprise (SCOPE) has recommended at its annual conference in January, 1987, that upto 49% of shares of select PSUs should be made available to public and workers. This first dose of syphilis was followed by strike by union workers in January, 1987 and March, 19988.

(iii) There is no major '*Gas-Bag*' political party, which came out openly in support of large scale privatization. However, the Hon'ble Finance Minister in his budget speech (1988)[8], announced that 5% of capital issue will be reserved for employees. However, besides this ambivalent political scenario, the following compelling reasons, requires India to go for disinvestment.

(a) Economic Reasons :

From the analysis of PSUs in India, it has been found that the performance of PSUs were not satisfactory, in the sense that they are relatively economically inefficient, and their sub-optimal profits and accumulated losses have become an unsustainable burden on the budget and banking system, *inter alia*, absorbing scarce and sparse public resources.

The returns by way of dividend were also found far from satisfactory. Moreover, over extended and poorly performing PSUs have had also slowed the growth of the private sector, inter alia, by 'crowding out effect', blocking the entry of private firms (monopoly of state in energy, ship yards, non-ferrous metals, telecommunications, equipment, mining, steel plants, etc.).

Worsening balance of payment position of India in 1990 and cascading fiscal deficit with decreasing domestic savings ratio and other economic profligacy compelled Indian Government to search new sources of revenues/funds which are not inflationary in nature. These factors prompted the Government to raise resources to finance its budgetary deficit, partly through disinvestment.

Inefficient provision of critical inputs by badly managed PSUs in India have increased the costs of business to private firms and limited the potential for expansion and modernization. Besides, in a third wave of revolution viz. "Information Revolution" and rapid development of information technology, accompanies by thrust on "Knowledge Management" with a changing priorities all over the globe, the PSUs had failed to keep pace with the velocity of decision making as in other sectors. This may be due to the pedal of politicization and bureaucratization of processes and procrastinated responses to change, and due to ownership of Government. Therefore, in India inculcating the competition is the crux for PSUs.

(b) External Reasons :

Due to sombre Macro- Economic Indian scenario accompanied by worsening Balance of Payment situation, cascading external debt position of India in 1990 and conditionalities imposed by the World Development Agencies viz. World Bank, IMF etc, India had no alternative but to go for disinvestment as a part of privatization process.

(c) Ideological Reasons :

In India, much of the force for disinvestment is economic and external sails than ideological one. However, the dictum of minimal Government and redefined state-role touched the mind of congress Government laid by Hon'ble P.V. Narsimha Rao- and his cabinet which included the stickler Dr. Manmohansingh, who had paved the way for privatization in India by announcing *New Economic Policy* 1991.

Eventually, in order to improve the portfolio and performance of PSUs, the Government of India announced on 24 7.91 as a part of the statement on Industrial Policy, a statement on Public Sector Policy, also containing the following decisions .

- The portfolio of Public Sector Investments will be reviewed with a view to focus on Public Sector on strategic, high tech and essential infrastructure. Whereas some reservations for the public sector is being retained, there would be no bar for area of exclusivity to be opened, upto the private sectors selectively Simultaneously, Public Sector is also allowed entries in areas not reserved for it.
- A social security mechanism will be created for sick/BIFR units in Public Sector.
- In order to raise resources and encourage wider public participation, a part of the Government's share holding in the public sector would be offered to mutual funds, Financial Institutions, General Public and Workers.
- Board of PSU would be made more professionals and given greater powers, *inter alia*, through the mechanism of MOU and to ameliorate performances of PSUs.

Keeping in view the above, the Government equity in selected PSUs was offered to mutual funds, FII, workers and general public, since 1991-92 as a dawn of disinvestment in India.

3.04 VITAL STATISTICS ON INDIAN PSUs

PSUs have grown in India over a period of time, since independence. Table : 3 01 gives Plan-wise growth of PSUs in India.

TABLE : 3.01

PLAN-WISE GROWTH OF INVESTMENT IN PSUs IN INDIA

PARTICULARS	*TOTAL INVESTMENT (RS. IN CRORES)*	*NO. OF ENTERPRISES*
At the commencement of the 1st Five Year Plan (1.4.1951)	29	05
At the commencement of the 2nd Five Year Plan (1.4.1956)	81	21
At the commencement of the 3rd Five Year Plan (1.4.1961)	948	47
At the end of 3rd Five Year Plan (31.3.1966)	2410	73
At the commencement of the 4th Five Year Plan (1.4.1969)	3897	84
At the commencement of the 5th Five Year Plan (1.4.1974)	6237	122
At the end of 5th Five Year Plan (31.3.1979)	15534	169
At the commencement of the 6th Five Year Plan (1.4 1980)	18150	179
At the commencement of the 7th Five Year Plan (1.4.1985)	42673	215
At the end of 7th Five Year Plan (31.3.1990)	99329	244
At the commencement of the 8th Five Year Plan (1.4.1992)	135445	246
At the end of 8th Five Year Plan (31.3.1997)	191799	242
As on 31.3.1998	204054	240

Source : PSE Survey 1997-98 (Vol. 1 through Vol.3) DPE, GOI, India, p.9.[9]

From the Table it follows that, at the end of 7th Five Year Plan (1990s) the Central Government had made 48.67% of total cumulative investment (as at 31-03-1998) in 244 PSUs. However, in the latest last decade, more than equal amount of investment made up to 7th Plan was made, alongwith disinvestment in the same period. India has a mammoth Pubic Enterprise Sector. It consists of nearly 1300 enterprises[10], owned and managed by the Central Government, State Government, Union territory Government and Local Government in the country. Out of 1300 PSUs, as on 31.3.98, 240 PSUs[10] managed and owned by Central Government. The below Table : 3.01 exhibits the position of central Government PSUs, which have evolved through different ways, *by its origin*. **TABLE : 3.02**

CENTRAL GOVERNMENT PSUs BY ORIGIN

Ownership Pattern	***Started by C.G.***	***Taken Over***	***Joint Venture***	***Acquired Nationalize***	***Total CPUS***	***Non CGPSUs***	***Total***
No.	166	47	12	15	240*	1060	1300

Source : PSE Survey 1997-98 and Disinvestment Strategy and Issues Disinvestment Commission (DC), December, 1996, p.9.[11]

* The number of PSUs, have come down from 242 in 1996-97 to 240 in 1997-98, *inter alia*, due to merger of India Fire Bricks and Insulation with Bharat Refrectories Ltd. and Scooters India (International) GMBH, West Germany Ltd. became non-operational. From the above table, it is very clear that the Government has created the ownership of PSUs for achieving different economical social purposes and objectives. These itself made the Government of India as the largest investor and assets holder in India as compared to the private sector.

TABLE : 3.03

SECTOR WISE CLASIFICATION OF PSUs AS AT 31.3.98

NO.	*COGNATE GROUP*	*TOTAL ENTERPRISES AS ON 31.3.1998*
I	Enterprises under construction	04
II	Enterprises Manufacturing/Producing Goods	
	(i) Steel	08
	(ii) Minerals & Metals	11
	(iii) Coal & Lignite	09
	(iv) Power	04
	(v) Petroleum	14
	(vi) Fertilizers	08
	(vii) Chemicals & Pharmaceuticals	21
	(viii) Heavy Engineering	15
	(ix) Medium & Light Engineering	23
	(x) Transportation	12
	(xi) Consumer Goods	18
	(xii) Agro-Based Industries	04
	(xiii) Textiles	14
	TOTAL	161
III	Enterprises Rendering Services	
	(i) Trading and Marketing Services	17
	(ii) Transportation Services	09
	(iii) Contract and Construction Services	10
	(iv) Indus. Dev. and Technical Consultancy Ser.	13
	(v) Tourist Services	09
	(vi) Financial Services	07
	(vii) Telecommunication Services	02
	(viii) Section – 25 Companies	08
	TOTAL	**75**
	GRAND TOTAL	**240**

Source : PSE Survey 1997-98 (Vol.1), DPE, GOI, India, p. 4.[12]

From the above table, it is clear that 67% of PSUs were engaged in manufacturing and Production of goods, and 31.25% PSUs were engaged in rendering services, leaving the balance under construction. The pattern of aforesaid investment was desideratum after the Independence.

TABLE : 3 .04

PROFITABILITY PROFILE OF PSUs – 10 YEARS COMPARISON

(Rs. in Crores)

NO.	*DETAILS*	*88-89*	*89-90*	*90-9*	*91-92*	*92-93*	*93-94*	*94-95*	*95-96*	*96-97*	*97-98*
1	No of operating Ent	226	233	236	237	239	240	241	239	238	236
2	Capital Employed	67629	84760	102084	117991	140110	159836	162451	173948	20149	223047
3	Gross Margin	13438	16412	18312	22223	25227	27707	33384	40161	44809	52615
4	% age of Gross Margin to capital employed	19 9	19 4	17 9	18 8	18 0	17 3	20 6	23 1	22 2	23 6
5	Depreciation & Deferred Revenue Expenditure	4866	5790	7210	8548	9270	9151	10754	12574	14201	16522
6	Gross Profit	8572	10622	11102	13675	15957	18556	22630	27587	30609	36093
7	% age of Gross Profit to Capital Employed	12 7	12 5	10 9	11 6	11 4	11 6	13 9	15 8	15 2	16 2
8	Interest	4167	5329	7601	9673	10881	11901	12862	13966	15403	16714
9	Pre-tax Profit/Loss	4405	5293	3501	4003	5076	6655	9768	13621	15206	19379
10	Tax	1411	1504	1229	1647	1805	2110	2581	4047	5214	5654
11	Net Profit/Loss	2994	3789	2272	2356	3271	4545	7187	9574	9992	13725
(a)	Profit of profit making Enterprises	4917	5751	5394	6079	7384	9768	12070	14763	16109	20267
	No of Enterprises	117	131	123	133	131	121	130	132	130	134

NO.	DETAILS	88-89	89-90	90-9	91-92	92-93	93-94	94-95	95-96	96-97	97-98
(b)	Loss of loss making Enterprises	1923	1962	3122	3723	4113	5223	4883	5188	6117	6541
	No of Enterprises	106	98	111	102	106	116	109	102	104	100
(c)	No. of Enterprises making neither profit nor loss	03	04	02	02	02	03	02	05	02	02
12.	% of Net/Profit to Capital Employed	4 4	4 5	2 2	2 0	2 3	2 8	4 4	5 5	5 0	6 2
13	Dividend	353	323	413	687	792	1028	1436	2205	3084	4051
14	Retained Profit	2641	3466	1859	1668	2480	3517	5751	7369	6908	9675

Source PSE Survey 1997-98, Vol. I, DPE, GOI, N. Delhi, pp. 21-22.[13]

The table exhibits the profitability of operating PSUs as a whole for last 10 years commencing from 1988-89 through 1997-98. On analysis of the above it is observed that the percentage of gross margin to capital employed has been increased from 19.9% to 23.6% and percentage of gross profit has increased from 12.7% to 16.2% in a period of 10 years mentioned hereinabove.

Likewise, the percentage of Net Profit to capital employed has increased from 4.4% to 6.2% for the period under reference. It is interesting to note that number of enterprises making profit is increasing from 117 to 134, while number of PSUs making losses has shown a marginal deceleration from 106 to 100. However, the losses of loss making enterprises in rupee term have been steeply augmented from Rs.1923 crores to Rs.6541 crores for the period, under reference. The PSUs which have neither made any profit nor loss remained in the range of 2 to 4 PSUs.

TABLE . 3.05

RETURNS BY WAY OF DIVIDENDS BY PSUs – 1996-97 AND 1997- 98

(Rs. in Crores)

NO.	*PARTICULARS*	*MFG. COMPANIES*		*SERVICE CO.*		*TOTAL*	
		96-97	*97-98*	*96-97*	*97-98*	*96-97*	*97-98*
1)	Dividends Declared (a) No. of Companies (b) Dividend Declared	 52 00 2631.41	 55 00 3376 26	 29 00 452 35	 32.00 674.42	 81.00 3083 76	 87 00 4050.64
2)	Share of Central Govt (a) Dividend Tax (b) Dividend	 239 22 1629.21	 306 93 2003 87	 41 12 334.67	 61.31 492.65	 280.34 1663.88	 368.24 2496 52
	TOTAL	***1868.43***	***2310.80***	***375.79***	***553.96***	***2244.22***	***2864.76***

Source: PSE Survey 1997-98, Vol. I, DPE, GOI, N. Delhi, p. 29.[14]

From the Table, it is interesting to note that out of 240 PSUs, only 87 PSUs have declared dividends and 153, i.e. about 64% of the PSUs under reference had not declared dividend.

TABLE : 3.06

YEAR WISE BUDGETARY SUPPORTS TO PSUS (EXCLUDING PROVISIONS FOR VRS)

(Rs. In Crores)

F.Y.	*Plan Out Lay*		*Non-Plan Loans*	*Total Support*	*Dividend Paid*
	Equity	*Loans*			
1991-92	2491	2735	759	5985	687
1992-93	2238	2403	600	5241	792
1993-94	2419	4072	780	7271	1028
1994-95	3442	3613	911	7966	1436
1995-96	2880	3218	1134	6452	2205
1996-97	2439	2956	1459	6854	2836*
1997-98	3004	2550	1583	7137	3609*
1998-99	3215	2161	1854	7230	4932
TOTAL	***21298***	***23708***	***9130***	***54136***	***17526***

* Difference between figures exhibited in table no. 3.05 and this table is *inter-alia* due to time-lag involved for dividends declared and dividends paid.

Source : India Today, Vol XXV, No. 29, July 11-17, 2000, pp. 34-42.[5]

From the Table, it emerges that, though Indian Government has realised the need for Market economy in the 1990s, the total support to PSUs had been augmented from Rs.5985 Crores to Rs.7230 Crores, evidencing CAGR of 2.73 % during the period under reference.

3.05 CHRONOLOGY OF DISINVESTMENT SINCE 91-92

Government of India has commenced disinvestment as a part of its economic reforms, since 1991-92 with predetermined target. The details of target and achievements of disinvestment are as under :

TABLE : 3.07

TARGETS AND REALISATIONS FROM DISINVESTMENT

(Rs. In Crores)

F.Y.	*Target*	*Realizations from Disinvestments*	*Remarks*
1991-92	2500	3038	Target Exceeded
1992-93	2500	1912	Target Not Achieved
1993-94	3500	0	Target Not Achieved
1994-95	4000	4852	Target Achieved
1995-96	7000	169	Target Not Achieved
1996-97	5000	390	Target Not Achieved
1997-98	4800	940	Target Not Achieved
1998-99	5000	5369*	*
1999-00	10000	1479	Target Not Achieved
TOTAL	**44300**	**18149**	

* The target achieved by raising Rs.4900/- crores by way of cross-holding by GAIL, IOC, ONGCL

Source : Processed from PSE Survey 1991-92 through 1997-98 and Business India July 2000, for F.Y. 1998-99 and 1999-2000.[16]

From examination of the Table, it is crystal clear that out of 9 years, only in 3 years the Government has achieved the target fixed for disinvestment, including 1 year in which the *modus operandi* of cross-holding within the PSUs have been resorted to, while in remaining 6 years the Government failed to achieve the target fixed for disinvestment. Among other reasons for the failure, it is felt that due to the inexperience of the Government in the area of management of disinvestment strategy and lack of total sponsorship on long term basis have had resulted the lack-lustre scenario for India Besides, the issue of valuation and pricing in particular, the Government has not pursued any competitive strategy for disinvestment. Competitive strategy for disinvestment means, offensive or defensive actions to create a dependable position in the world, to cope successfully with competitive forces and thereby yield a superior return on investment for Government of India as sovereign investor. Indian economy had not followed Focus Niche Strategy. It struck in the middle strategy. The Indian economy has followed the shadow boxing strategy for its brushfire disinvestment.

TABLE : 3.08

YEAR WISE COMPARATIVE ANALYSIS OF GDP, INVESTMENT AND DISINVESTMENT IN PSUs

(Rs. In Crores)

Year	*GDP at (Current Price)*	*Investment*	*Disinvestment*	*% of Disinvestment to Investment*
1991-92	5,52,768	1,46,971	3038	2.06
1992-93	6,30,772	1,47,587	1961	1.32
1993-94	7,81,345	1,64,960	0	0
1994-95	9,14,194	1,72,438	5078	2.94
1995-96	10,67,220	1,77,599	362	0.20
1996-97	12,37,290	1,91,798	379	0.19
1997-98	13,84,446	2,04,054	906	0.44

Source : Processed from Economic Survey 1998-99 and 1999-2000 and PSE Survey 1990 -91 through 1997-98 (vol.- I).[17]

From the above table, it is self- evident that since 1991-92, Government of India has consistently followed the policy of raising non-tax revenue by way of disinvestment in PSUs. The geometric average percentage of disinvestment to investment in PSUs under reference for the above mentioned period is 1.02% And 0.06% of GDP respectively.

TABLE : 3.09

COMPARATIVE ANALYSIS OF TOTAL INVESTMENTS AND DISINVESTMENTS OF PSUs – COGNATE GROUP WISE – AS ON 31.3.98

(Amount in crores)

No.	*Cognate Group*	*Total Investment*		*Total Disinvestment Rs. Realised*		*Percentage (%) of*	
		Nos. of PSUs	*Amt*			*Investment*	*Disinve-Stment*
1	PSUs under Construction	04	5709.59	-	Nil	2.80	N.A
2	Manufacturing / Production PSUs						
	(a) Steel	08	25189.14	1	998.34	12.35	8 84
	(b) Minerals & Metal	11	5212 03	5	584.39	2 55	5 17
	(c) Coal & Lignite	09	15655.68	1	152 98	7 67	1 35
	(d) Power	04	34492.22	-	-	16 96	N A
	(e) Petroleum	14	23548 28	8	4170.88	11.55	36 90
	(f) Fertilizers	8	8717 62	3	78.21	4 27	0 70
	(g) Chemical & Pharma	21	5250 37	2	298 70	2.57	2 64
	(h) Heavy Engg	15	2274 56	1	505.05	1.11	4 46
	(i) Medium & Light Engg.	23	2660.65	5	232.91	1.30	2.06
	(j) Transport Equipments	12	2825.54	1	137.25	1 38	1.22
	(k) Consumer Goods	18	3763.58	1	15.35	1.83	0 14
	(l) Agrobased Indus	04	64 76	-	-	0.03	-
	(m) Textiles	14	4069.99	-	-	1.99	-
	TOTAL	***161***	***133724.42***	***28***	**7174.06**	**65.56**	**63.48**
3	Service Sector PSUs						
	(a) Trading & Marketing	17	2646.93	3	15.61	1.29	0 14
	(b) Transport Services	09	9219 99	3	499.96	4.51	4 42
	(c) Contract & Construction Services	10	4490.91	1	0.29	2 20	0 01
	(d) Industrial & Technical Construction services	13	9331.34	1	67.53	4 57	0.60
	(e) Tourist Services	09	127.64	1	51.95	0.06	0 46
	(f) Financial Services*	07	30845 10	*	*	15.11	*
	(g) Telecommunication Services	02	7273 67	2	3491.60	3.56	30 89
	(h) S.25 Cos.	08	684 69	-	-	0.33	-
	TOTAL		**64620.27**	**11**	**4126.94**	**31.64**	**36.52**
	GRAND TOTAL		**204054.28**	**39**	**11301**	**100**	**100**

- This sector is not covered in the PSE Survey Volume (I to III), (infra) and hence not taken for the purpose of study.

Source :Processed from PSE Survey VOL. (I to III) 1991-92 through 1997-98.[18]

The data in the above table is processed for the purpose of analysis, from the PSE Survey (*supra*). Out of 240 PSUs, in 39 PSUs the Government of India has divested its equity, as a part of the disinvestment strategy. Out of 21 cognate groups of industries and services, in 4 cognate groups, not a single disinvestment has been made so far and in the 17 cognate group the Government has divested its equity. Moreover, the Government has realised the highest percentage of disinvestment proceeds from Petroleum (36.90) and Telecommunications (30.89%) and least from Construction (0.01%) and Consumer sector (0.14%). Though the Government has made the highest percentage of investments in power sector (16.96%), not a single Rupee disinvestment was made

TABLE : 3.10

DISINVESTMENT IN DETAIL SINCE 1991-92 TO 1997-98

(Rs. In Crores)

F.Y.	*Month*	*Round No.*	*Method of disinv-estment*	*No. of PSUs Disinvested*	*No. of Shares Sold*	*Amount Realised*	*Target*	*Average Price Per Share(Rs.)*
1991-92	Dec. '91	1	Bundling	30	51 609	1427.00		27 65
	Feb. '92	2	"	16	35.602	1611 00		45 25
	TOTAL				87.211	3038.00	2500	***34.85***
1992-93	Oct. '92	3	Tender	08	12 869	0681.95		53 00
	Dec. '92	4	"	14	30.929	1183.83		38.27
	Mar. '93	5	"	09	00.797	0046.13		57.85
	TOTAL				44.595	1911.91	3500.00	***42.87***
1993-94	-	-	-	-	-	-	3500.00	-
1994-95	Mar '94	6	Tender	6	1.3168	2291 15		202 45
	Oct ' 94	7	"	6	4.2010	2236 33		532 35
	Feb. '95	8	"	5	04.2529	0315.59		074 20
	TOTAL				19.7707	4843.07	4000 00	***244.96***
1995-96	Oct. '95	9	Tender	4	1 5293	168.47		110 15
	TOTAL				1.5293	168.47	7000.00	***110.15***
1996-97	Mar. '97	10	GDR	1	0.39	390.00		1000 00
	TOTAL				0 39	390.00	5000 00	***1000.00***
1997-98	Dec '98	11	GDR	1	4 00	940 00		237 50
	TOTAL				4 00	940.00	450.00	***237.50***

Source : Processed from Public Sector Enterprise Survey Volume (I to III), from F.Y. 1991-92 through 1997-98 and Business India, July 10-13, 2000.[19]

In the above table comprehensive information as to month and year of disinvestment, rounds of disinvestment, method adopted for disinvestment, number of PSUs in each round of disinvestment alongwith method of sale, year-wise target and amount realised from the disinvestment strategy and average price realised per one equity share of Rs. 10/-, etc. have been presented in a tabular form. For the period covered under reference, the disinvestment has been resorted in eleven rounds since 1991-92 through 1997-98. In all, only three methods of sale of equity shares have been practiced as against seven methods resorted to by several countries all over the globe. They are bundling, tender and GDR method. By adopting bundling method the Government had realised disinvestment proceeds of Rs.3038/- crores (26.90% of total realisations) and Rs.6924/- crores (61.30% of total realisations) by tender method and Rs.1330/- crores (11.80% of total realisations) by GDR method. The average price realization in the first two round of disinvestment was at Rs.34.85 per equity share of Rs.10/-. This has increased to Rs.42.87 per share in the next three rounds of disinvestment in the year 1992-93. In the another three round of disinvestment in the year 1994-95, the heydays of Indian Capital Market, the Government realised Rs.244.96 per equity shares, which is the highest domestic realisation per equity share in all the eleven rounds of the disinvestments. In the fourth year of major disinvestment, the government realised Rs.110.15 per equity share of Rs.10/-. Therefore, against all the odds, the Government of India has started its disinvestment program, *inter alia* by following the techniques of disinvestment of share firstly in bundles and subsequently by tender methods of disinvestments. It seems that no much heed is paid to the reflexive forces and dynamics of determination of strategy for ological valuation and pricing for the disinvestment. The available experiences of global disinvestment were not ologically and optimally utilized to realize the optimal value for the diabetic Indian economy and scaling Indians.

Table 3.11 exhibits yearwise details in terms of pecentages of equity holdings of Government of India after disinvestment during the period underreference. On analysis of the Table it has been observed that the Government of India has not resorted to big-ticket disinvestments in India in the last decade of this century. The disinvestment ranges from a miniscule of 0.27% to 49% in the portfolio of its equity holdings. The staple reasons for the same includes lack of strategic co-ordination among various ministries, opposition from labours and political parties, and organisation culture with specific reference to resistance to change, etc.

TABLE : 3.11

PERCENTAGE OF HOLDING BY GOVERNMENT OF INDIA 1991-92 THROUGH 1997-98

SR. NO.	NAME OF PSUs	F.Y. 91-92	F.Y. 92-93	F.Y. 94-95	F.Y. 95-96	AS AT 31.03.1998
(1)	AYCL	62 80	62 80	62 80	62 80	62 80
(2)	BEML	80 00	80 00	60.08	60 08	60 08
(3)	BEL	80 80	80 80	75 86	75.86	75 86
(4)	BHEL	80 80	79 54	67 72	67.72	67 72
(5)	BPCL	80 80	70 00	66 20	66.20	66 20
(6)	BRPL	8080	74 60	74 47	74 47	74 47
(7)	CMCL	83 31	83 31	83 31	83 31	83 31
(8)	CRL	55 04	55 04	55 04	55 04	55 04
(9)	CONCOR	100 00	100 00	80 00	76.93	76 93
(10)	DCIL	98 56	98 56	98 56	98.56	98 56
(11)	EIL	100 00	100 00	94 02	94 02	94 02
(12)	FACT	97 46	97 35	97 35	97 35	97 35
(13)	GAIL	100 00	100 00	96 63	96.63	96 63
(14)	HMTL	95 14	90 32	90 32	90 32.	90 32
(15)	HCL	96 36	97 97	97 97	95.97	95 97
(16)	H COP L	100 00	98 88	98 88	98 88	98 88
(17)	HOCL	80 00	80 00	56.90	56.90	56 90
(18)	HPCL	80 00	70 00	60 25	51 00	51 00
(19)	HPMCL	87 47	87 47	87 47	87 47	87 47
(20)	HZL	80 04	75 93	75 93	75 93	75 93
(21)	IOCL	99.88	99 88	96 08	91 04	91 04
(22)	IPCL	80.00	80 97	62 40	61 43	59 95
(23)	IRCON	99 73	99 73	99 73	99 73	99 73
(24)	ITIL	79 72	77 798	77.02	77.02	76 67
(25)	ITDCL	100 00	100 00	89 97	89.97	89 97
(26)	KIOCL	100.00	100 00	100 00	99 00	99 00
(27)	MRL	67 70	67 70	51 80	51 80	51 80
(28)	MTNL	80 00	80 00	67 18	56 20	56 20
(29)	MMTCL	99 33	99 33	99.33	99 33	99 33
(30)	NACL	97 28	87 20	87 15	87.15	87 15
(31)	NFL	97 72	97 66	97 65	97 65	97 65
(32)	NMDCL	100 00	98 38	98 38	98 38	96 36
(33)	NLCL	95 42	93 85	94 19	93 29	93 29
(34)	ONGCL	100 00	100 00	98 00	96 12	96 12
(35)	RCFL	94 36	92 50	92 50	92 50	92 50
(36)	SCIL	81 49	81 49	80 12	80 12	80 12
(37)	STCIL	92 02	91 02	91 02	91 02	91 02
(38)	SAIL	95 01	89 49	89 04	85 82	85 82
(39)	VSNL	85 00	85 00	85 00	82 02	66 96

Source : Adopted from Simrit Kaur, "Public Enterprise Disinvestment in India- A Theoretical and Empirical Framework", The Journal of Institute of Public Enterprise, Vol. 21, No. and 2, Jan.-March;April-June, 1998, pp. 26-27 and also Processed from Public Enterprises Survey 1991-92 through 1997-98 (Vol. – I).[20]

TABLE : 3.12

DISINVESTMENT BY EQUITY SWAP BY PSUs.

(Rs. in Crores)

Name of PSUs	Holdings	Proceeds
IOCL Buys →	10% GOI Stakes in ONGC	2600/-
IOCL Buys →	5% GOI Stakes in GAIL	350/-
ONGC Buys →	10% GOI Stakes in IOCL	1600/-
ONGC Buys →	5% GOI Stakes in GAIL	350/-
GAIL →	GOI disinvested 10% stakes in GAIL	700/-
	TOTAL PROCEEDS RAISED	**4900/-**

Source : PSUs Disinvestment, ICFAI Reader, April 1999 (pp. 71-74)[21]

In addition to, the bundling method, the tender method and the GDR route, the Government has also resorted to the method of equity swap by Indian PSUs inter-se and have realised the proceeds to the tune of Rs.4900/- crores in the year 1998-99. No specific analysis as to valuation and pricing of share is available to the public.

TABLE : 3.13

DISINVESTMENT THROUGH EURO ISSUE BY PSUs

PSU	***Issue Size***	***Original Issue Date***	***Final Issue Date***	***Factors Responsible for Delay***
VSNL	$527	Mid-'94	Mar '97	Pricing and timing inappropriate
SAIL	$150	Mar.'96	Mar. '96	Pricing and timing inappropriate
IOCL	$600	July '97	Feb. '98	Economic Consideration
SAIL	$500	Oct '97	Feb. '98	Crash in global stock markets
MNTL	$450	Nov. '98	Nov. '98	Timing inappropriate
CONCOR	$200	Jan. '98	Jan. '98	-

Source :- Indian Journal of Public Enterprise, Volume 14, No. 26, June '99, p- 40 [22]

3.06 RANGRAJAN COMMITTEE ON DISINVESTMENT OF SHARES

The dismal and sombre scenario of valuation of assets / equities of PSUs in the process of disinvestment made in 1991-92 and 1992-93, had prompted the Government to appoint the committee on disinvestment on shares in public enterprises, spearheaded by Dr. C. Rangrajan, the then Governor of Reserve Bank of India. Among other recommendations, the committee[23] had recommended criteria for valuation of equity share of public sector enterprises. The summary of the same is as follows:

CRITERIA FOR VALUATION OF EQUITY SHARE OF PSE

Valuation of shares in the past was generally based on the guidelines formulated by the Controller of Capital Issues. Currently, however, these are no longer in vogue. In general, three methods for valuation of shares are adopted, viz. Net Asset Value Method Profit Earning Capacity Value Method and Discounted Cash Flow Method While the NAV would indicate the value of the assets, it would not be in a position to indicate the profitability or income to the investors. The profit earning capacity is generally based on the profit actually
earned or anticipated
The discounted cash flow is a far more comprehensive method of reflecting the expected income flows to the investors. However, in the context of valuation of shares of public enterprises, none of the traditional methods would by themselves be adequate. The special circumstances that require to be assessed in the context of valuation of shares of public enterprises are :

(a) In the management of the public enterprises, the focus has been on discharging economic and social responsibilities indicated by the Government rather than on projecting profitability to the investor

(b) In regards to valuation of some of the assets, the book value might reflect land and other facilities provided to such enterprises at lower than market cost

(c) The structure of the debt and equity of public enterprises had not necessarily followed commercial norms.

(d) Many enterprises have had gains or losses in the past due to the effect of administered prices. Further, recent policy measures are also affecting immediate business prospects of some PEs (e.g. STC due to decanalisation).

(e) A number of public enterprises have already invested heavily in projects under construction and some of them have ambitious expansion programs.

(f) No effort has been made to project in the public eye and in the market, the strengths of these enterprises in the past for a variety of reasons.

(g) While in some activities such as cement, there are private enterprises whose shares are listed and traded in the market, there are certain other activities where there are no private enterprises involved in the same activity to provide appropriate basis for valuation.

The Committee wishes to record the following relevant factors in the context of valuation of shares :

- Valuation is a difficult exercise, whether in the private or public sector, in India or in other countries and more so when there are wide divergences in valuation by different merchant bankers in respect of the same public enterprise.

- The price at which a share can be sold is determined more by investor perception of the worth rather than any mechanical measures of intrinsic worth. Hence, the importance of information gathering and full disclosure to generate credibility and investor interest.

- Rise or fall in share values of an enterprise soon after disinvestment does not by itself indicate that shares were under-priced or overpriced at the time of disinvestment.

- Difficulties of valuation in a multi-unit and multi-product scenario have to be reckoned.

In assessing the intrinsic worth of a share the Committee recommends the following :

- ❖ Among the three criteria viz. net asset value, profit capacity value and discounted cash flow value, discounted cash flow has the greatest relevance, though it is the most difficult.

- ❖ An explicit assessment of the scope and limits for selling non-income generating assets (land or buildings) and rationalizing labour force (Voluntary Retirement Scheme etc.) would be made.

- ❖ Government policies affecting future profitability (such as disappearance of guaranteed off-take or guaranteed rate of return) may, have to be spelt out. Such assurances wherever required may be extended only after careful assessment of the implications of such assurances on the economic efficiency rather than immediate attractiveness of the shares to investors.

- ❖ The influence of social constraints in the past working of the PEs and the extent of benefit accruing due to provision of certain under-priced facilities like land should be captured and presented. Likewise, costs of projects under construction should be evaluated on a realistic basis and presented while reckoning the intrinsic worth of the PEs.

As regards investor perception, the Committee recommends the following :

- ✓ Each company has to be studied carefully with the help of a merchant banking firm taking into account factors such as value of assets, it market share, potential profit earning capacity and the prevailing price in the market for shares of similar enterprises in the private sector.
- ✓ It is essential that the PE and the merchant banker concerned present all positive aspects of the enterprise in the prospectus.

- ✓ While fielding PEs in the capital market, the main line of activity of the PE concerned and the extent of investors' fancy for the particular industry at the material time may have to be taken into account.

- ✓ In the offering memorandum and during investor presentations, the likely improvements in the efficiency of the PE concerned as a result of changed management attitudes and other relevant factors may need to be emphasized.

- ✓ Wherever disinvestment is made through public issues, the offering price would need to be fixed with a close assessment of the need to project the issue as a success to pave way for subsequent offerings and at the same time avoiding any criticism of under-pricing.

This is the only committee, who has specifically recommended the valuation and pricing of shares for the purpose of disinvestment in India. While making recommendations on the subject of valuation of shares as well, the committee has in their wisdom not considered all the kinky methods of valuations practiced by the acquirer and the divestor all over the globe, such as Shareholder Value Added (SVA), Option Pricing Model (OPM), Fair Value and Interest Method (FI), Treasury Method, etc. After submission of report of this committee, in 1993-94 no disinvestment took place in India. In 1994-95 and 1995-96, disinvestment as shown in the Table : 3.10, were done, however the technique of pricing remained as orthodox as it was in the past in India.

3.07 APPOINTMENT OF DISINVESTMENT COMMISSION

After the Rangrajan Committee, the Government felt the need for an independent legal body to be constituted to over see the entire disinvestment process Accordingly, pursuant to common minimum program, the Government set-up the Disinvestment Commission (DC) with the composition and terms of reference (as per annexure-I), through an executive order, however the Government did not legislate on disinvestment as in Senegal and France. Therefore, the DC's status remained that of an advisory body, whose recommendations are not mandatory on the Government The DC has in all submitted XII Reports,[24] the summary of which is briefly narrated as under:

(1) Report – I (February, 1997)

The report contains an overview of public sector undertakings, disinvestment strategy, long term strategy for disinvestment, approaches to disinvestment in loss making PSUs, principles of disinvestments, frame work for PSUs analysis, criteria for disinvestment, etc. The report recommended for establishment of disinvestment fund, restructuring before disinvestment, recommendations on corporate governance and autonomy, guidelines on disinvestment in PSUs referred to DC, formation of standing and empowered group, guidelines on modalities on selection of intermediaries, retailing of share to small investors and employees. However, it is noted that no specific recommendation as to methods and techniques of valuation and pricing for assets / equities of PSUs for disinvestment in India have been made by the commission, though it is hyper-sensitive, proactive and tangentially touching to every economic pocket of citizens and tax payers of India. In this report specific recommendation for the following three PSUs were made out of forty PSUs referred to it. They are - Modern Food Industries (India) Ltd., Gas Authority of India Ltd. and Indian Tourism Development Corporation.

(2) Report – II (April, 1997)

Besides, general issues on disinvestments and recommendations, the specific recommendations in six PSUs were made in this report. They are - Bharat Aluminum Co. Ltd., Bongaon Refinery Petroleum Ltd., HMT Ltd., Indian Telephone Industries Ltd., Madras Refinery Ltd. and Maganese Ore (India) Ltd.

(3) Report – III (May, 1997)

In this report, specific recommendations for six PSUs were made in addition to general issues and recommendations on disinvestments. The PSUs in which the specific recommendations made are CONCOR, Mahanagar Telephone Nigam Ltd., Indian Oil Corporation, ONGC Ltd., Kudramukh Iron Ore Co. Ltd. and Rail India Technical and Economic Services Ltd.

(4) Report – IV (August, 1997)

In this report, in addition to general recommendations and suggestions, except on the subject of valuation and pricing of a share for disinvestment, the specific recommendations in four PSUs viz. Hindustan Copper Ltd., Power Grid Corporation India Ltd., Pavan Hans Helicopters Ltd. and Shipping Corporation of India Ltd., were made.

(5) Report – V (November, 1997)

In this report the DC has made specific recommendations for eight PSUs out of the total PSUs referred to it. They are - Engineers India Ltd., Engineering Project (India)

Ltd., Hindustan Pre-Feb Ltd., IBP Co. Ltd., NTPC Ltd., NEPA Ltd., Ranchi Ashok Bihar Hotel Corporation and Utkal Ashok Hotel Corporation Ltd.

(6) Report – VI (December, 1997)

In addition to giving guidelines on VRS and review of progress on disinvestment, specific recommendations in seven PSUs were submitted. They are – Electronic Trader Technology Development Corporation, Hindustan Vegetable Oil Corporation Ltd., HZL Hotel Corporation of India Ltd., National Hydro Electronic Power Corporation Ltd., Pyrites Phosphates & Chemical Ltd. and Rehabilitation Industries Corporation Ltd.

(7) Report – VII (March, 1998)

Besides normal review of disinvestment, specific recommendations in the following seven PSUs were submitted. They are – Fertilizer & Chemicals (Travencore) Ltd., Indian Petrochemicals Corporation Ltd., National Aluminum Co. Ltd., National Fertilizers Ltd., Neyvialy Lignight Corporation Ltd., Steel Authority of India Ltd. and Hindustan Latex Ltd.

(8) Report – VIII (August, 1998)

Besides, normal review of disinvestment recommendation already submitted by the DC, in this report specific recommendations for PSUs such as Central Electronic Ltd. and Air India Ltd. were submitted for consideration.

(9) Report – IX (March, 1999)

In this report, like earlier other reports of the commission, specific recommendations for PSUs such as Hindustan Steel Works Construction Ltd. and The State Trading Corporation of India Ltd., were submitted for consideration.

(10) Report – X (June, 1999)

In addition to the general review of their recommendations, in this report also specific recommendations for the following five PSUs were made. They are – MMTC Ltd., National Mineral Development Corporation Ltd., ONGC (Updated), Pradeep Phosphate Ltd. and PEC Ltd.

(11) Report – XI (July, 1999)

In this report, as well like the earlier reports, specific recommendation for four PSUs viz. MECON Ltd., MSTC Ltd., Mineral Exploration Corporation Ltd. and Sponge Iron India Ltd., were made for consideration

(12) Report – XII (August, 1999)

In this report in addition to evincing their disgruntlement for not accepting in time recommendations, the DC gave specific recommendation in the case of BHEL, Hindustan Insecticides Ltd., Hindustan Organic Chemicals Ltd., Rashtriya Chemicals and Fertilizers Ltd. and Rashtriya Ispat Nigam Ltd. In Nutshell, in all 72 PSUs were referred to DC from September 1996 to January 1999, out of it 8 PSUs were withdrawn from the commission and 6 PSUs were already referred to BIFR.

While the status of general recommendations by the Disinvestment Commission and action taken thereon by the Government are presented in the *Annexure-II*, the various guidelines on the modalities of disinvestment suggested by the Disinvestment Commission is briefly discussed as under:[25]

1. **Offer of Sale**

   'Book building' process similar to that followed in the international market for GDR issue should be followed for Domestic Offer of sale to institutions also.

   Action Taken : Book Building followed in GDR issues.

2. **Strategic Sale**

   Detailed and transparent procedure for the selection of strategic partners recommended including the selection of Financial Advisors for strategic sale. In order to ensure that the strategic partner beings in necessary technological and financial inputs the selection should be made through a process of pre-qualification. The Government should assure the strategic buyer of its commitment to withdraw from the PSU by spelling out the details, including the time frame. The restructuring and VRS measures should be implemented before inviting the offer for strategic sale for realising the efficiency gains in the disinvestment proceeds. The Commission recommends that the Government may keep its direct share holding below the level of investment being offered to the strategic bidder by divesting some portion of its equity to multilateral financing institutions, private equity funds, mutual funds and a few select PSUs, who have business interest in the particular PSU being disinvested.

   Action Taken : Process for selection of global financial advisors for the strategic sale of BALCO and KIOCL has been initiated.

3. **Selection of Intermediaries**

Detailed and transparent procedure for the selection of all intermediaries for the offer of Sale of shares either in domestic or international market. The financial advisors need not evaluate the disinvestment options recommended by the commission.

Action Taken : Accepted

4. **Retailing of PSU shares to small Investors and employees**

Detailed procedure for the Commission has recommended offer of shares to small investors and employees. The Commission has also recommended on the maximum number of shares and the discount to be offered to small investors and employees. Sale of shares of the PSUs, especially the profit making ones, to the small investors would broad base the shareholding.

Action Taken : Accepted

5. **Recommendation on joining the NSDL**

In order to enable the PSUs to prepare for meeting the demands of the capital market, Commission recommends that all PSUs which were earlier disinvested and which are proposed for disinvestment to join the NSDL.

Action Taken : Accepted

6. **Audit of disinvestment transactions**

It would be desirable to conduct an audit of the disinvestment transaction within six months by C&AG with the involvement of professionals familiar with working of the industry and capital markets. This provides opportunities for improving the quality of subsequent disinvestment transactions

Action Taken : Decision Awaited.

Table : 3.14 exhibits the details of modalities of disinvestment suggested by the Disinvestment Commission and status of the action taken by the Government of India, as reported in the last Report (No.-XII). From the analysis of the Table, it is crystal clear that the Sovereign divestor of India has not taken the required steps and the speed for the process of the disinvestment in India.

TABLE : 3.14

DISINVESTMENT MODALITIES RECOMMENDED IN REPORT I TO XI AND ACTION TAKEN BY GOVERNMENT

MODALITIES OF DISINVESTMENT	*NO. OF PSUs*	*NAME OF PSUs*	*STATUS OF GOVERNMENT DECISION*				
			Accepted	*Deferred*	*Implemented*	*Being Implemented*	*Awaited*
Trade Sale	8	ITDC, MFIL, HCIL, R-ASHOK, U-ASHOK, PHL, SIIL, MSTC				MFIL, HCIL, R-ASHOK, U-ASHOK	ITDC**, PHL, SIIL, MSTC
Strategic Sale	24	HTL, ITL, BALCO, BRPL, KIOCL, MFL, EIL, HPL, IBP, NEP, HZL, PPCL, NFL, FACT, IPCL, HCL, SCI, HLL, AI, HSWCL, STC, MMTC, PPL, MECON		FACT		HTL, BALCO, KIOCL, EIL, IPCL	ITI**, BRPL, MFL**, HPL, IBP, NEP, HLL**, PPCL, HCL, HZL**, SCI, AI, HSCL, STC, MMTC, PPL, MECON, NFL
Offer of Shares	5	GAIL, CONCOR, MTNL, NALCO, NMDC			CONCOR, MTNL*	GAIL**	NACLO, NMDC
No Disinvestment	1	RITES	RITES				
Disinvestment Deferred	11	OIL, ONGC, MOIL, NTPC, NHPC, NLC, POWERGRID, SAIL, CEL, PEC, MECL	OIL, ONGC, NTPC, MOIL, NHPC, PGCLO, SAIL, NLC				CEL**, PEC, MECL
Closure /sale of Assets	4	EPIL, ET&T, HVOC, RICL				EPIL	ET&T, HVOC, RICL
TOTAL	***53***		***9***	***1***	***2***	***11***	***30***

* Pending fulfillment of certain specified conditions.

* * Some decisions have reportedly been taken by Government in respect of these PSUs, but not formal communication has been received by the commission.

Source : Report No. XII of The Disinvestment Commission.[26]

Eventually, no further life to Disinvestment Commission was given by the Government of India and hence, it automatically came to an end in August, 1999 [27] However, as a bold step, the Government of India has evinced her interest in the process of disinvestment, *inter alia*, by creating a new ministry known as Department of Disinvestment (DOD), under the able hegemony of Shri Arun Jetley as minister in charge in the year 2000, after the abolition of life of the Disinvestment Commission However, the portfolio of Department of Disinvestment is now headed by Shri Arun Sourie with effect from July, 2000 [28] Among others the Department of Disinvestment has a vision and is acting as a 'Strategic Coordinator' for the process of Disinvestment Management.

3.08 SILHOUETTE OF DISINVESTMENT STRATEGY IN INDIA

Among all the available 'Strategic Options' and methods of growth including divestment, the Government of India has followed defensive / followers strategy, as against leader / attack strategy for the purpose of economic development in general and disinvestment, in particular The basic strategy is to unbundle its shareholding portfolio in selected PSUs, *inter alia*, by following sale of equity shares either in bundles to mutual funds / financial institutions or employees / general public, since 1991-92. This was adopted due to belated realisation of fact that supposed – **'synergies are anergies'.** Here, anergies means negative synergies and mathematically it can be summarised that its investments resulted into anergy of 2 + 2 = 3, as against private investors synergy of 2 + 2 =5 Moreover, the strategy needs to balance several considerations. If the shares are relatively under priced, in the short run as a strategy to attract investors participation, there is a lower realisation to the Exchequer, while relative over pricing may drive away the existing / prospective investors and jeopardize the further disinvestment process. In addition to the above, it also needs long term strategy for end use of disinvestment proceeds, *inter alia* to be used in welfare and social investments rather than to be consumed the family silver for revenue expenditure.

Moreover, disinvestment makes available the much sparse and scarce capital (and contribution made by tax payers), invested by the Government of India in PSUs for alternative uses in the projects of larger and greater importance, pruning down budgetary deficits, or repaying public debts acting as check on containing inflation and augmenting market capitalisation. Till formulation of DC in August 1996, the goals of disinvestment[29] were different from those stated by DC. They are:

- To raise resource mobilization.
- Encourage wider participation.
- Promote greater accountability.

These are not the appropriate goals for country like India and it seems that upto 1996, the Government has just acted in short-termism, *inter alia* due to compelling necessity, inexperience and untrained privatization officials, etc. for implementation of disinvestment. However, the following goals have been formulated by the DC in August 1996,[30] however, the same remained on the paper.

- Maximise enterprise value on a long term basis.
- Optimize intrinsic share value.
- Augment budgetary receipts and abate budgetary support for loss making enterprises.
- Maintain transparency, and
- Credibility of disinvestment process.

From the close, careful and proximate analysis of chronology of major disinvestments in India and in particular, the prices at which the disinvestment have been made and realised, it itself evidences that the Government had not achieved the first two objectives of maximizing the enterprise value on a long term basis and optimize intrinsic share value. The most discernible reason includes absence and failure of the Sovereign divestor to determine ological and optimal values and prices of shares of Indian PSUs for disinvestment.

With a view to achieve the above mentioned goals, the following disinvestment strategy[31] was described by the Disinvestment Commission.

Disinvestment Strategies :

- Seek wide-ranging consultations and involvement of all the constituents to develop an understanding of the process. In this regard, the commission will publish papers on aspects relating to disinvestment to promote greater transparency.
- Evolve overall disinvestment criteria applicable to different industries and also specific criteria for each PSU by a case-by-case analysis of the units processed to be disinvested. The first step in the process of disinvestment is often related to the thoroughness of the analysis of the concern entity.
- Restructure where necessary, to enhance the value of the equity. The prioritization and timing of disinvestment will be driven to a large degree by the extent of restructuring required in PSUs. When restructuring involves administrative action without significant outlays and enhances share value, it could precede disinvestment. Discussion on restructuring should include consultations with the management of the PSUs.
- The commission will try to introduce innovative disinvestment measures and apply them on a case-by-case basis. Sales modalities will need innovation, as the capital markets in India are still not deep enough to absorb the equity of the PSUs. Discussions on sale modalities should include consulation with the management of the PSUs.
- Propose changes in legislative acts that may be necessary to meet overall goals of the disinvestment process.

Such a task of considerable importance may require a national debate involving market intermediaries, the PSUs themselves, academicians, investors, labour representatives and industry professionals. It is felt that such a debate will help crystallize opinions on various crucial issues such as the objectives of restructuring, its scope, valuation methodology and application, etc. Keeping this in mind, certain issues relating to disinvestment have been raised to facilitate discussion.

Privatization Vs. Disinvestment

In India, a distinction needs to be made between privatization and disinvestment.[32] In the Indian context, privatization has meant opening up certain sectors for private sector participation rather than outright privatization of state owned enterprises. Unlike other countries, the public sector will continue to play an important role even in a privatized economy Disinvestment, on the other hand, has been viewed as a tool for bringing down the budgetary deficits of the Government. The issue of disinvestment has raised wider questions such as the need for restructuring PSUs, the extent of disinvestment of Government shareholding in operating sectors and the partial/total withdrawal of Government from certain industries.

The Common Minimum Program has acknowledged that the public sector should be strong and competitive and hence requires reforms and restructuring. The extent of disinvestment in strategic, core, non-core and non-strategic sectors has been indicated elsewhere by the Government as nil, 49% and 74% or more respectively. The document also asserts that the question of withdrawing PSUs from non-core and non-strategic sectors needs careful examination. The Disinvestment Commission has been set up in order to advise the Government on the above steps. Considering the multiplicity of objectives and the need to evolve a focused long-term strategy, views have been expressed that the objectives of the Disinvestment Commission need deliberation. In the process of disinvestment, the issue of valuation and the pricing has been just discussed in the casual way by the Disinvestment Commission, in addition to other issues of disinvestment. The commission has remarked that valuation should be independent, transparent and free from bias and accordingly has considered only three methods of valuation as under:

- Discounted cash flow method.
- Relative / Comparable company valuation method.
- Book value method.

It is pertinent to mention that sticking to only three methods *sans* going further into the expectations and network of various methods of valuation practiced by the investor and the narrow and backward looking approach may results into sub-optimization. Therefore, it is desideratum that the strategy of valuation and pricing of shares for disinvestment must cover new methods of valuations having a large scope and diversity, such as method of Shareholder Value Added (SVA) based on strategic valuation of corporate entity, which is being used in the world since 1980s. The Commission has stated their strategy on valuation as under[33] :

- **Valuation**

The valuation of equity of a firm gain importance in case of disinvestment of companies, which are not listed, or in cases where capital markets may not fully reflect the intrinsic worth of a share disinvested earlier. Valuation should be independent, transparent and free from bias.

- **Valuation Method**

There are three basic approaches. The discounted cash flow relates the value of an asset to the present value of expected future cash flows on the asset. In the second method, relative valuation is used to estimate the value of assets by looking at the pricing of comparable assets relative to a common variable like earnings, cash flow, book value or sales. In the third method, the net asset value of the share is used as a basis for valuation.

- **Application of valuation methods**

The use of a particular method of valuation will depend on the health of the company being evaluated, the nature of industry in which it operates and the company's intrinsic strengths. The depth of capital markets will also have an impact on the valuation. For example in the United Kingdom, the London Stock Exchange has helped in creating markets by enabling "credible price discovery" for the shares of privatized companies listed on the exchange

➢ Discounts for valuation

Although valuation methods will indicate a range of valuations, it is felt that some discounts may need to be applied due to the following reasons.

The lack-of-marketability discount : This takes into account the degree of marketability (or the lack of it) of the stocks being valued. This is applicable to cases, which had been disinvested earlier and have been referred for disinvestment again. Discount on this consideration stem from the fact that investor will probably pay more for a liquid stock than for a less liquid one. However, the concern of overhang of supply may adversely affect valuation even for liquid stocks.

Minority Discount : The extent of disinvestment in core, non-strategic and non-core PSUs will have a bearing on the valuation process. The transfer of a controlling block may help to reduce the discount that has to be applied.

Multi-Business Valuation :- If all the businesses of a PSU are not equally profitable, it may be necessary to restructure the businesses before disinvestment. However, if this is not possible, a discount may have to be applied.
On analysis of this recommendation, the Disinvestment Commission has discussed only about the amount of discounts to be given and not the amount of premiums to be charged, *inter alia* for ceding management and other controls, enjoyment of other stash sops directly or indirectly made available, as a sequel to disinvestment, in the appropriate cases

➢ Some Perceptions

The earlier disinvestment rounds have raised several issues regarding valuation methods and their application. In this context, it would be useful to highlight some incorrect perceptions about valuation :

❖ Since valuation model is quantitative, valuation is objective

It is true that valuation does make use of quantitative models but the inputs leave plenty of room for subjective judgements. At the same time there may be no such thing as a precise estimate of a value. Even after the end of the most careful and detailed valuation of a company, there could be uncertainty about the future of the company and of the economy.

❖ **The market is generally wrong (or right)**

The benchmark for most valuations remains the market price (either its own price if it is listed or that of a comparable company). When the value from a valuation analysis is significantly different from the market price, the two possibilities are that either one of the valuations could be incorrect Valuation done before listing takes into account anticipated factors whereas market prices reflects realised events which are influenced by unanticipated factors

3.09 CRITICAL ASSESSMENT OF DISINVESTMENT IN INDIA

As discussed earlier, the performance of PSUs was a mix bag of good and bad This was, *inter alia*, due to following strategy of 'Tunnel Vision' by the internal stake holders, not sticking to knitting approach to core competence, lack of true autonomy and entrepreneurship, fixed pay remuneration system and poor performance evaluation systems, not staying close to customers due to near monopoly status and no strategic positioning before the debut of disinvestment process. From the close, careful and objective analysis of disinvestment process since inception, the following observations are made

(1) Blinkered approach

Though disinvestment has been the professed credo of every national Government in India during 1990s, the fact remains that there was lack of total sponsorship by political parties. For the entire decade in India no total support either on ideological sails or on economic sails were seemed to have been available with a staple strategic intent, much less to talk about supports of institutions and infrastructures. The political parties failed to distinguish their strategy between nuances of privatization vs. disinvestment in its, scale, scope, diversity, degree, time, etc. This was also evident from comments offered by Mr. P. Chidambaram, former Finance Minister of India and TMC Leader, which is reproduced as under[34]

"…. *But the Government seems to be oscillating between disinvestment and privatization In early June Jaitely announced that Government had decided to appoint a new disinvestment commission When I drew Sinha's attention to the choice of word 'disinvestment', all he could managed was a weak smile*".

From the above it is crystal clear that very few politicians have had understood the true meaning, scope and purpose of privatization vs. disinvestment. In nutshell, disinvestment had only one purpose in India viz. to raise resources to meet deficit. It has no larger purpose which the DC was able to elucidate viz. efficiency, growth, augment in quality employment, retaining PSUs space in competitive environment and above all, enhancing the total value of enterprise and all the involved stakeholders. The former Chairman of the DC, Shri G.V. Ramkrishna,[35] commented that disinvestment goes with clear headed political will, "Here there is neither clear head nor political will".

Therefore, the true will and total sponsorship to the larger purpose of disinvestment in India was not upto the mark, as in the other countries, which is desideratum for the concept of 'GAMING', meaning thereby altering the behavior, so as to obtain strategic advantage, all over other considerations and the countries in the globe.

(2) Myopia and tunnel vision

There is no doubt that the strategy of disinvestment was put in practice but the purpose was very narrow, backward looking, myopic with tunnel vision and the performance in a decade of disinvestment was characterized by convergence, an emphasize on not being exposed to outlier on any ground, rather than a desire to be outstanding. The Blinkered approached has laid to very modest annual targets of disinvestment and due to sub-optimization and in the absence of strategic coordination, the targets except for 3 years were not achieved. There were no larger disinvestments in India in the last decades, except to finance deficit of Government of India. No big-ticket disinvestments were finalised, during the period under the study.

(3) Sub-optimal valuations and pricing for disinvestment

Everywhere, not only in India but also at a global level, not only in public sector but also in the private sector, as well, it is general accusation by the opposition in parliament and the critics in finance and economics, that the state has sub-optimally realised the proceeds of disinvestment. This allegation in turn, speaks about under valuation of assets / equities and thereby under pricing and eventually resulting into tangible losses to citizens / tax payers of the nation.

(a) **Underpricing**

The following quotes by eminent experts in the field substantiates the allegations of under-valuation / pricing of state's assets / equities at the time of disinvestment.

- "The Rao Government was poorly advised to go in for the bundling method It turn out to be bungling".[36]
- "Disinvestment is akin to selling of family silver to pay the grocers bill" [37]
- "That the share price were not a true reflection of value of a company".[38]
- "Sale of public enterprise shares – Frittering away Nation's wealth. It goes without saying that any major program for disinvestment should be supported by a suitable mechanism capable of getting the best value for the state . . ."[39]

(b) **Osscification**

- The Government has evinced disinclination to experiment with new and innovative methods of valuation and pricing, practiced all over the world. The bundling and bidding methods were adopted as the first method of disinvestment, followed by tender method and method of issuing Global Depository Receipt (GDR). In 1998-99 the Government of India has tried, again sans examining strategically, the method of raising revenue through cross holding of equity and buy-back, just to achieve the target to finance the deficit. Moreover, the auction and public float methods were never used for effective disinvestment management. Even Department of Public Enterprise (DPE) put its foot in its mouth by contradicting its own claim that it would realise the best value from Disinvestments by pricing the rate of shares on the basis of peak averages value indicator by two out three approaches, simply Net Asset Value Method (NAV), Discounted Cash Flow Method (DCF) and the Current Cost Method (CCM).

Finally, DPE look into consideration and realisations based only on the NAV method. The department has no database,[39] excepting a couple of officials, its complements of experts who were well-versed in the sense of disinvestment. It is surprising to note that why the Strategic Valuation Methods was not used as one of newly adopted valuation method on a global scale both by the private investor and the divestiture, as a better marketing tool by the Government.

- DPE did not profit from the valuable international experience of privatization in general and methods of pricing in particular. It had hand picked the domestic advisors viz., IDBI, SBI Caps, ICICI as advisors for disinvestment, who had much less abysmal experience on privatization, *inter alia*, also limiting their scope only recommend prices at which the shares could be disinvested. However, even these agencies have appeared on scene much later. Initially the role was assigned to M/s. S.T.Raja Consultant Ltd All these, hampered realisations of the optimum price by DPE for them the cash-crunch ridden Central Government.
- *A Fortiori*, the decision of bunching of PSUs for disinvestment in "bundles" in 1991-92, was *sans* any logical explanation and rationale conclusion especially when international exposure and experiences of privatization was made available to sagacious Indians.

The U.K., Chile and Pakistan followed the disinvestment by case by case approach and had divested profitable PSUs including core ones. The Singapore, there was a consensus to divest shareholdings in all PSUs. Canada and Spain started disinvestment in loss making PSUs. In Mexico, Romania, Russia, small PSUs have been preferred for disinvestment. European countries have gone for full disinvestment and not partial disinvestment. India has some how followed a mixed bag of PSUs and modalities, *inter alia*, thereby evidencing their ignorance about the merits and demerits of partial vs. full disinvestment.

Some of the reasons[41] may also be attributed for partial disinvestment is plagued by the presence of Article 12 of Indian Constitution, the CAG (Comptroller and Auditor General) of India and the fear of vigilance. This is self evident from the observations of under valuation of shares disinvested, raised by CAG at the time of first two round of disinvestment.

(c) **Shadow-boxing approach to disinvestment**

The process of disinvestment is full of shortcomings. The Initial Public Offering (IPO) in UK was made to get the feel of right price as against fixed price method used by France to divest shareholding. In Malaysia, including UK and France stock market route was followed as against 'Bundling' in India. Moreover, there was dominance of bureaucratic meddling which resulted into lack of active, purposive and deontic motivation of executives of PSUs. The country had followed Italian model of gradual disinvestment but the speed, control and competence were crippling. The linear forward movement of disinvestment program with an investment of Rs.2,04,054/- crore (upto 1997-98), the disinvestment realisation fund about Rs.11,292/- crore which measure upto a abysmally low of 5.50% of total investment (a less than 1% per annum). This realisation turns out to be about 38.55% of over all target of Rs.29,300/- crore for disinvestment between 1991-92 and 1997-98. On other hand fresh investment in PE turn out to be four times the disinvested amount during the period 1991-92 to 1997-98. The CAG also criticised that the disinvestment has been resorted without development of a relevant database. In the UK, France, Chile, Singapore and Malaysia the rate of Disinvestments was very high because of introduction of the 'golden share' concept, which is akin to the vito power exercised by the permanent members of the UN Security Council. In France, the valuation is done by two independent banks and the Privatization Commission that review the disinvestment prices so determined. The Government could in no instance reduce the final price recommended to Government by the Privatization Commission. The policy makers have given regard to the capital market dimension of the disinvestment. In many countries capital market have been reformed by the introduction of measures such as dematerialization of shareholdings, removal of restriction on the repatriation of dividend and interest, listing on foreign bourses. Against this backdrop, in India some of the divested PSUs have even applied to SEBI to exempt from submitting the quarterly returns (IPCL being one of them). There are other enterprises following the suit. The status of the machinery of disinvestment is a significant factor affecting the efficacy of the disinvestment program. In France a separate privatization commission has been set-up to deal with disinvestment program. In Mexico a unit of seven people in the Ministry of Finance directly reports to the top of the political hierarchy on disinvestment. In Philippines, a separate Assets Privatization Trust has been found with a qualified businessman as its head. In Malawi, the Department of Statutory Bodies handle the disinvestment. In Kenya a decentralized structure with different holding institutions were made responsible for disinvesting the elements in its portfolio. Following the suit, India has also recently (F.Y. 2000-2001) established Department of Disinvestment (DOD), as discussed earlier in this chapter.

(d) Any well devised disinvestment program would always evince a high concern to welfare consequences of disinvestments for all the stakeholders including workers, consumers, Government and buyers. In the case of UK's National Freight Corporation, Mexico's Telemex and Chile's Enter, workers were involved in the disinvestment exercises. To thwart any loss to consumers, regulatory bodies were set-up in UK, France, China & Mexico. In India also small advance in this regard has been made by establishing Telecom Regulatory Authority of India (TRAI) and the Insurance Regulatory Authority (IRA).

(e) In order to fetch better price and realisation from disinvestments and to make the disinvestment as an interesting proposition, most of enterprises in the UK, Chile, Singapore, France, Argentina undertook internal and external restructuring. The elements of commercialization, corporatization & privatization were injected very deep in the bodies of corporate. In South Africa, in order to prevent the culture of non-payment, users councils were set-up Besides, the normal restructuring, financial restructuring in the capital structure of PSUs, alongwith product market balancing were also carried out before the actual disinvestment occurred. However, in India this was not carried out in the letter and spirit, as done all over the globe.

(f) In the case of French PSUs, the Government shareholdings have been deliberately brought below by a system of interlocking of share holdings, ensuring the need for broad control of PSUs and envisaging the need for an extensive control of the Government. In India this aspect was not pursued implicitly, as the PSUs in many cases are treated as personal perks by the interested parties.

(g) Above all the main issue of valuation and pricing of state assets/equities for disinvestment in a strategic implementation of disinvestment process was also not properly addressed. As a citizens of India, it is painful to note that neither

Disinvestment Commission nor any privatization officials have recommended and/or computed the "range of micro- pricing", *inter alia*, to protect India and Indians from deleting values and decreasing ones wealth Repertoire of methods of pricing must have been used to market the strategy of disinvestment.

To have a grand success for successful implementation of disinvestment strategy, India and Indians must wriggle out to impart best out of them may it is pecuniary or non-pecuniary. Every Government going for privatization must know that "Theory Pays" in addition to pragmatism. The following remarks of the Author[42] is worth noting here:

"Theory Pays", the economist called it "when Government need worldly advise, where they can turn? To mathematical economist, of course ....as for the firms that want to get there hands on a silver of the airwaves, their best is to go out of first and hire themselves a good game theorist. The economic theorist probably never had it so good. The major telephone companies and Government relied on their advice. Pacific Bell, Bell Atlantic, MCI as well as FCC hired game theorist as consultants. For once it really paid to do theory".

In India as well this quotation is equally and squarely applicable for determination of optimal value and pricing of a share for disinvestment.

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