P: ISSN NO.: 2321-290X RNI : UPBIL/2013/55327 VOL-6 * ISSUE-6 * (Part-1) February- 2019
E: ISSN NO.: 2349-980X **Shrinkhla Ek Shodhparak Vaicharik Patrika**

Public Sector Undertakings-Disinvestments

Umaid Raj Tater
Head,
Dept. of Business Administration,
Jai Narain Vyas University,
Jodhpur, Rajasthan, India

Anubha Bhandari
Guest Faculty
Dept. of Business Administration,
Jai Narain Vyas University,
Jodhpur, Rajasthan, India

Abstract

Most of the PSU's are synonyms with politico-socio ills and evils resulting in huge losses and functioning of them; wasting tax payer's money. Quick disinvestment and privatization is the only remedy to make these PSUs healthy, viable, competitive, profitable and operationally efficient. This paper attempts to give the definition of disinvestment, states the difference between disinvestment and privatization, arguments giving a summary of public sector in India and new approaches of government policy towards the disinvestment.

Keywords: Public Sector Undertaking, Disinvestment, Government, Privatization, Stake.

Introduction

After independence public sector undertakings played a key role for the balanced economic development of the country. At the time of their establishments balanced regional development, generation of employment, and economic development of the country were the objectives of PSE's. Thus, Public sector Undertakings were established in India as a whole part of mixed economy.

Definition of Disinvestment

It is also referred to as 'divestiture' or 'divestment'. Disinvestment can referred as the action of selling or liquidating an asset or subsidiary of an organisation or government. Disinvestment means the stake dilution in a public enterprise of the Government. This can be done in two ways. When the Government sells a part of its equity of a public enterprise less than 50 per cent of its total stock, it is called merely disinvestment and in this case control and management of the business enterprise remains in the hands of Government.

In other way, when 50 percent of its equity capital exceeds, disinvestment or sale by the Government has the majority in ownership and therefore management and control of the enterprise is given to private enterprise, which results in privatisation. Therefore, in any disinvestment programmes government keeps possession of the total equity capital of the public enterprises of 51 per cent or more so those management and control remains with it.

Difference between Privatisation and Disinvestment

Privatization means if public sector or private limited company belong to owner or government totally then they offload their holding in market by offering to people and institutions and getting listed in stock exchange.

Disinvestment, total ownership of company then they sell partly to investor who buy s stake whatever offered. In Some cases, owner sells shares or holding total to investor who is interested to buy. i. e. IPCL total government company was sold to reliance industries at market price and then that is disinvestment.

Objectives of the Study

1. To give knowledge about disinvestment, its approaches of government policy towrds disinvestment.
2. To reduce the financial burden on the Government.
3. To improve public finances.
4. To introduce, competition and market discipline.
5. To fund growth.
6. To encourage wider share of ownership.
7. To depoliticize non-essential services.

Types

1. Minority Disinvestment.
2. Majority Disinvestment.
3. Complete Disinvestment

1. Minority disinvestment is one such that, the government retains a majority stake in the company, typically greater than 51%, thus ensuring management control. Earlier, minority stakes have been either auctioned off to institutions (financial) or offloaded to the public by way of an Offer for Sale. The present government has made a policy statement that all disinvestments would only be minority disinvestments via Public Offers. Examples of minority sales via auctioning to institutions go back into the early and mid 90s. Some of them were Andrew Yule & Co. Ltd., CMC Ltd. etc. Examples of minority sales via Offer for Sale include recent issues of Power Grid Corp. of India Ltd., Rural Electrification Corp. Ltd., NTPC Ltd., NHPC Ltd. etc.
2. 2. Majority disinvestment is one in which the government, post disinvestment, retains a minority stake in the company i.e. it sells off a majority stake. Earlier, majority disinvestments have been typically made to strategic partners. These partners could be other CPSEs themselves, a few examples being BRPL to IOC, MRL to IOC, and KRL to BPCL. Again, like in the case of minority disinvestment, the stake can also be offloaded by way of an Offer for Sale, separately or in conjunction with a sale to a strategic partner.
3. 3. Complete disinvestment is a form of majority disinvestment wherein 100% control of the company is passed on to a buyer. Examples of this include 18 hotel properties of ITDC and 3 hotel properties of HCI. Disinvestment and Privatisation are often loosely used interchangeably. There is, however, a vital difference between the two. Disinvestment may or may not result in Privatisation. When the Government retains 26% of the shares carrying voting powers while selling the remaining to a strategic buyer, it would have disinvested, but would not have 'privatised', because with 26%, it can still stall vital decisions for which generally a special resolution (three-fourths majority) is required.

Scope of disinvestment in India

The scope of disinvestment program varies from improving efficiency of the PSEs to transformation of the society.

The Government of India is hardly left with any surplus for capital expenditure on social and physical infrastructure because of the huge revenue expenditure on items such as wages and salaries of Government employees, interest payments etc. Sectors such as trading companies, consultancy companies, hotels, textile companies, pharmaceuticals and chemical companies, consumer goods companies etc. blocked huge amounts of resources which the Government would have otherwise used on primary health and family welfare, basic education etc.

Elements of Disinvestment

1. Disinvestment of Government equity in all non-strategic Public Sector Undertakings (PSU) to 26 per cent or lower if necessary.
2. Those public sector enterprises which are potentially viable have to be restructured and revived.
3. That Public Sector Undertakings (PSU) which cannot be revived would be closed down.

Reasons for the disinvestment or privatization

1. To reduce budget deficit, Government needs more resources.
2. To make investment in infrastructure, social sectors such as education, public health and for poverty alleviation programmes.
3. For improvement of working efficiency of existing public enterprises which were in huge losses.
4. For repayment of Government debts.
5. For expansion and diversification of firms.
6. For encouraging wide share of ownership or Government stake.

Disinvestment Process

Disinvestment of public enterprises can be made in a number of ways:

1. Total Government holding in a PSU can be sold to a private sector firm, highest bidder or otherwise an ownership is transferred totally. As was the case Modern Food was sold to Hindustan Lever.
2. Secondly, disinvestment can be made by selling a part of the Government holding to a strategic private company, which has a strategic interest in the public enterprise and can run it efficiently. The strategic buyer can be chosen by inviting offers from the private companies.
3. Thirdly, through the stock-market intermediaries, the Government can offer for sale its shares to the general public. This may or may not transfer management control.
4. Finally, Government may sell a substantial quantity of shares in a PSU through auction among one or more selected private firms. The reserve price of shares for such auction may be determined with the help of merchant bankers. This too may not transfer management control.

Pros of Disinvestment

1. Disinvestment would force the companies to become more efficient and survive or cease on their own financial and economic strength once they are exposed to market forces.
2. They would be able to respond to the market forces much faster and professionally in order to cater to their business needs.
3. It would also result in introduction of corporate governance in the privatized companies by freeing the PSEs from the Government control.
4. Small investors and employees would benefit from disinvestment as it would lead to a wider distribution of wealth in the form of public offerings of privatized companies.
5. Disinvestment helps in achieving greater inflow of private capital that has a very positive effect on the capital market; the rise in floating stock would

provide more depth and liquidity to the market, help in establishing more accurate benchmarks for valuation and pricing, give investors easier exit options, and facilitate fund raising by the privatized companies for growth and expansion in future.

6. Disinvestment would result in an increase in an overall economic activity that would benefit the economy by providing higher rates of employment and greater tax revenues in the medium to long term.
7. In many areas, the end of public sector monopoly would benefit the primary consumers by way of more choices, better quality of products and services at cheaper prices.

Cons of Disinvestment

1. It will encourage growth monopoly power in the hands of big business house. It will result in greater disparities in income and wealth.
2. Private enterprise may not show any interest in buying shares of loss- making and sick enterprises.
3. In modern world, both public and private enterprises professional managers can be employed to manage the industrial enterprises to ensure efficiency in working. Thus, for professionalization of management, disinvestment of public enterprises is not needed.
4. Economic power of public enterprises will be in hands of privates and thus exploitation of consumers and workers can be seen which will further lead inequalities of income and wealth.
5. Because of tendency to use capital-intensive techniques in production, generation of many employment opportunities will be reduced which results in unemployment problem.
6. To protect the jobs and interests of the workers, sick units which were taken over by the Government from the private sector, are ultimately not results in loss making public enterprises.
7. The private sector may not uphold the principles of social justice and public welfare.

Conclusion

There may be reasons for and against disinvestment of public enterprises, the needs for resources by the Government are very large and hence Government of the day has little options but to go for their disinvestment. This needs to be taken up more seriously to conduct the process with transparency by the government with a time bound framework. To get the real benefits and financial returns, institutional structures must be insulated from political and bureaucratic interference.

References

dipam.gov.in › disinvestment-policy

Disinvestment of Public Sector Enterprises in India, subho mukher

https://www.docsity.com/en/business-system-disinvestment/30400/

Disinvestment of Public Sector in India - IOSR Journal, Management Study Guide

Times of India› Disinvestment

International Journal of trend in scientific Research and development (IJSRD), Anaysing the impact of Indian Disinvestment Policy on the basis of Profitability: A case of Selected Public Sector Units.