Profile of Central Public Sector Enterprises and their Structures in India
CHAPTER III
PROFILE OF CENTRAL PUBLIC SECTOR ENTERPRISES AND THEIR STRUCTURES IN INDIA

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3.1 INTRODUCTION

Since the implementation of disinvestment policy was implemented the overall performance of public sectors improved. The profit before Depreciation interest and taxes were recorded continuously increasing trend. It has grown up for Rs.22,229 crores as to Rs.69,288 crores on by 2000-01. The net asset has gone up to Rs. 2,356 crores to Rs.15,653 crores on registering a growth rate of 15.05%. However it is observed that in most of the years there loss making units are more in numbers, where compared to the profit making units. The losses incurred by this loss making units almost eat away 50% of this profit of profit making units. The Profit Before Interest and Tax (PBIT) to capital ratio shows marginal improvement during this period the dividend payout ratio was fluctuating. But the last few years it has shown continuous improvement. However the overall ratio is continues to be quite low.

The Major highlights of the year 2000-2001 at a glance are:

Net profit has increased to Rs.15,653 crores in 2000-2001 from Rs.14,331 crores in 1999-2000 registering thus a growth of 9.22%. The Rate of Return on share capital (net profit to paid up capital ratio) was 18.17% for 2000-01. i.e., earning per share (EPS) was Rs. 1.83 per share of Rs.10/-as against EPS of Rs.1.74/- in the previous year.

Net Profit Before Tax (PBT) has increased to Rs.24,966 crores in 2000-01 form Rs.22,037 crores in 1999-2000 thus a growth registering an increase of 13.29%. Profit before tax to Net Worth for 2000-01 works out of 14.16%.

Profit Before Interest, Depreciation and Tax has increased to Rs.69,288 crores in 2000-01 from Rs.62,212 crores in 1992-2000, thereby registering a growth of 11.37%.

Public sector Enterprises as a whole have earned a Return on Investment (Profit before interest and tax to capital employed) of 14.75%

Turnover/Operating Income has Increased by 17.74%. In absolute terms, the turnover has increased by Rs.69,028 crores i.e. From Rs.3,89,199 crores in 1999-2000 to Rs.4,58,227 crores in 2000-01.

Overall performance as measured by MOUs-out of 107 MOU signing Public Sector Enterprises evaluated, 49 were rated as 'Excellent' and 26 as 'very Good'
Increase in Investment in central public sector enterprises by Rs.21,369 crores i.e. from Rs.2,52,745 crores in 1999-2000 to Rs.2,74,114 crores in 2000-01, indicates an increase of 8.45%.

The Capital Employed of public sector enterprises has gone up by 9.17% i.e., from Rs.3,02,867 crores in 1999-2000 to Rs.3,30,649 crores in 2000-01. Increase in Net Worth by Rs. 11,470 crores i.e., 1,64,886 crores in 1999-2000 to Rs.1,76,356 crores in 2000-2001, an increase of 6.97%

The Foreign exchange earnings by exports of goods and rendering various types of services have increased to Rs.24,772 crores in 2000-01 from Rs.19,737 crores during 1999-00.

Central Public sector enterprises have declared a dividend of Rs.8,260 crores in 2000-01 as against Rs.5,455 crores during 1999-00, this indicates an increases of 51.42%.

The dividend pay out ratio has gone up to 52.77% as against 38.06% in the previous year.

The Contribution on Central Exchequer by way of excise duty, customs duty, corporate tax, on Central Government loans, dividend and other duties and taxes has gone up by Rs.4,821 crores i.e. from Rs.60,978 crores to Rs.56,157 crores, an increase of 8.58%.

3.2 PROBLEMS BEING FACED BY PUBLIC SECTOR ENTERPRISES

The most important criticism levied against the Public sector has been that, in relation to the capital employed, the level of profit has been too low. Even the Government of India has criticized the performance of the Public Sector Enterprises. For instance, the Eighth Five Year Plan notes that Public Sector has been unable to generate adequate resources for sustaining the growth process. Moreover, the poor performance of Public Sector enterprises was due to the host of problems which might be classified into financial and non financial problems based on various studies. Some of the problems can be enlisted as follows:
i. Underutilization of installed capacity was considered a major reason for the low level of profitability and poor performance in Public Sector Enterprises particularly in case of capital intensive units. A large number of these enterprises have operated at less than 50 percent of their capacity for a number of years. It affected the operational efficiency of the enterprises.

ii. Generally, prices are determined at a level that would cover total cost (including taxes) and provide a sufficient rate of return over and above this. As against this, the pricing policy in PSU is determined by the political and social objectives rather than financial objectives. Lack of rational pricing policy has resulted in poor profitability and has left little profits for financing the expansion programme.

iii. Most Public Sector Enterprises are over-capitalized and hence the productivity of capital is low. The reasons are poor planning, heavy expenditure during construction, wrong selection of project sites and allocation of funds on non-productive heads.

iv. Excessive dependence on external sources of funds and consequent interest payment obligations affected the commercial viability of most public sector enterprises. The poor generation of internal sources is attributed to the poor financial performance of these enterprises.

v. Lack of autonomy, political considerations in filling top management positions and frequent interference into the affairs of day to day administration by respective ministers reduced the flexibility in taking up commercially viable decisions and thereby incurred large amount of opportunity losses.

Thus, it is evident that Public Sector Enterprises were incurring losses continuously due to the presence of numerous financial and non-financial problems. Besides, one essential cause for the losses incurred by these enterprises is the poor operating and financial performance of these enterprises. At the same time, policy makers, bureaucrats, managers and also researchers have not given due weightage or importance to this problem.
3.3 PUBLIC SECTOR REFORMS

The public sector was originally conceived as holding the commanding heights of the economy and leading technological advancement. It was also intended to generate inevitable surpluses and become an engine for self-reliant growth. The public sector has contributed significantly to the diversification of India’s industrial structure. But its contribution in terms of generating internal resources for further expansion has fallen short of expectations, and its inability to do so has now become a major constraint of economic growth.

In 1991-92, the government undertook a limited disinvestment of a part of public sector equity through public financial institutions and mutual funds in order to raise non-inflationary finance for development. It was throughout that disinvestment would also bring in greater public accountability and help to creates a new culture in their working which would improve efficiency. The objective of public sector policy was to improve the operational efficiency of these units and return them to their original goals. Recognizing that sickness is a serious problem, in many public sector units, the Government amended the sick Industrial companies also within its preview. This made sick public sector units subject to the same discipline as private sector units including reference to the BIFR for identification of a viable restructuring package or closure as a case may be.

3.4 PUBLIC SECTOR CHALLENGES

In the wave of Liberalization, Privatization and Globalization (LPG), our Public Sector Undertakings have to compete with the private sectors as well as with the Multi National Corporations (MNCs). Therefore, the Public Sectors today has the following major challenges to be combated.

(a) Public sector must increase efficiency and reduce the dependence of Government budgetary support Public sector undertakings must broad base their resources and mobilize money from the market. This would be possible with a reduction in the equity held by the Government in most Public Sector Undertakings and with a new emphasis on profitability.
(b) Another area of change that is required is in the speed of decision making in the Public Sector Undertakings. Any PSU competing on a commercial basis must be free to develop its own decision-making processes and take business like decisions in a business like fashion. They must extricate themselves from the bureaucratic mind set and accountability norms currently prevalent. The culture of risk avoidance also needs to be discarded to enable Public Sector Undertakings to evolve and be judged on the basis of overall performance.

(c) In the recent past in India, various areas like civil aviation, financial services, banking have all been opened to competition and the pressure of this competition has been intense. In this changing scenario Public Sector Undertakings have, therefore, to raise resources from banks and capital markets. To do this successfully they now need to employ of external consultancy, as well as, develop alliances with domestic and foreign enterprises to become more competitive.

(d) Public Sector Undertakings going public require new disclosure norms and management must review the needs constantly. These are not easy decisions for Public Sector Undertakings to take. However, a new orientation towards customers and profits needs to be developed in order to enable Public Sector Undertakings to survive in today’s competitive environment.

3.5 PRIVATISATION OF PUBLIC SECTOR UNDERTAKINGS SOME BASIC ISSUES

Privatization of public enterprise raises a few basic questions, the answer to which may help one to evaluate the tool as regards its appropriateness for particular economy. The questions are:

1. What is privatization?
2. Why privatization?
3. Which one to privatize and how?
4. Can privatization be the be all and end all?
5. If not, what else could be the alternative?
'Privatization' for common understanding is 'denationalization'. Most discussions assume that 'Privatization' means nothing more or nothing less than divestiture or denationalization, which implies government selling away its stake in public sector Enterprises. Broadly 'privatization' means the entry of private enterprise into the share holding of public enterprise. As a corollary to the broader perspective being advocated, privatization could also mean:

- End of demarcation of the areas of activity for public and private sectors.
- Closure on non-viable units on the same line as they could be in case of private sector units.

The two dimensions that follow from the above broader perspective are one with regard to future policy for new investments in private sector formerly confined to public sector alone, and the other with regard to the existing enterprises whose share could be transferred to private sector either wholly or partially.

3.6 PUBLIC SECTOR MAY BE THOUGHT FOR DE-NATIONALISATION FOR REASONS LIKE

- Need for funds for other developmental activities,
- In efficiency of public sector units,
- Withdrawal of government from economic activities,
- To do away with the burden, of public sector, in the form of budgetary subsidies.

Government may think of selling away public sector to transform the deficit budget economy and use of funds for other priority sectors (Ex-Britain). Some times the huge losses of public sector units prompt the government to consider transferring it to the private counterpart which seems to be relatively efficient(Ex-India). Also privatization can be sought for to relieve the government from financial and administrative burden of vast investment and service network of public sector (Ex-Japan). Privatization is also resorted to when government feels that the losses of public sector and their financial burden are too much to shoulder.
Having accepted the objective, the next question is “which one to privatize and how”? There can be three alternatives before the Government.

- Whole public sector,
- Profit making units,
- Loss making units.

Privatizing while public sector remains outside the purview of consideration as it defeats the welfare objective of the Government. Thus the choice left is either profit making or loss incurring units. The profit making units call for privatization when government wants to have surplus state by selling away such units. In the other cases loss making units, which become a burden on budget and ultimately on economy are opted for privatization? As such privatization, is advocated for increasing efficiency. After deciding which one to privatize the next issue which crops is “how to privatize”?.

The choice is between:

- Complete denationalization, or
- Partial denationalization.

Complete de-nationalization can be dome by out right sale of public enterprise. Partial de-nationalization can be worked out by any of the following ways:

- Issuing share to the public,
- Opening up areas for private sector, hitherto reserved for public sector,
- Private management with public ownership,
- Providing environment of autonomy and accountability similar to that of private sector,
- Concentrating on core activities and contracting other activities to private sector or cooperatives.

3.7. THE HISTORY OF PRIVATIZATION PROGRAMMES FROM 1961 TO 1990

Modern privatization programs are usually associated with the Thatcher government in the United Kingdom. It was in fact the government of Konrad Adenauer, elected to power in the Federal Republic of Germany (FRG) in 1957, that launched the first large scale, ideologically motivated denationalization” program of the postwar era. The first
major sale account in 1961, when the FRG sold a majority stake in Volkswagen in public share issue heavily tilted towards small investor, and four years later it orchestrated a similar, but even larger, secondary share issue for VEBA. These two issues increased the number of shareholders in Germany from approximately 5,00,000 to almost 3 million, but public enthusiasm for further issues cooled down after VEBA’s stock price declined, thereby prompting a rescue operation by the German Government aimed at protecting small shareholders.

A remarkable aspect of the official motivations expressed by the Adenauer Government on launching its privatization program is how similar they are to the objectives expressed by the Thatcher government two decades later. In fact, almost every government decides to follow the privatization route regardless of its ideological basis expresses similar objectives. All are ultimately based on disappointment with the actual performance of State Owned Enterprises (SOEs), and the perception that the lure of financial incentives and the discipline of the capital markets will spur greater efficiency. The specific objectives which tend to be very similar to those of the United Kingdom, as describes to Price Waterhouse. Which include these to raise up revenue for the state, promote increased efficiency, reduces government interference in the economy, promote wider share ownership, provide the opportunity for introduce competition and exposing State Owned Enterprises (SOEs) to market discipline, goal of developing the national capital market.

3.8 THE THATCHER PRIVATIZATION PROGRAMME

When the new Thatcher government first experimented with privatization in the early 1980s, there was great skepticism concerning the government’s ability to successfully sell many of its State Owned Enterprises and vehement political resistance to the entire notion of privatization by the labour party. In fact, labour threatened to renationalize several of the early Thatcher privatizations, such as British Aerospace and Cable and Wireless.

In spite of the opposition, however, the Thatcher government prevailed. The share issues themselves were enthusiastically received and the recently privatized firms were widely perceived as being more efficiently running after divestiture, further, it also soon
became evident that the spur of readying a company for privatization served to overcome organizational inertia and focus the targeted State Owned Enterprises employees on the task of improving efficiency and profitability. Finally, the government was able to dramatically lower its public sector borrowing requirement through the ongoing privatization share sales. When Margaret Thatcher won a second term in office in 1983, the future of privatization in Great Britain was secure.

It was the British Telecom (BT) issue in November 1984 that launched privatization programs on the world. This colossal share issue by far the largest equity offering in history to that time was met with strong demand by investors (including employees) both home and abroad. The 3.9 billion issue created 2.25 million new shareholders in the U.K. and the response of Japanese and American investors to the tranches offered in Tokyo and New York proved that a global market for privatization being share issues existed Furthermore, the regulatory process adopted for BT while necessarily being a compromise, appeared workable and fair to consumers, BT’s competitors, and its investors. Most of all the successful sale of BT shows that sheer size was not an impediment to privatization.

3.9 NON U.K. PROGRAMMES FROM 1985 TO 1993

After BT, many different governments adopted privatization programs like a most of these, however, were rather limited sales of individual companies or natural evolutions of denationalization programs begun earlier. The next major country to adopt a large-scale privatization program was France. Privatization on France was marked by such a sharp break with the country’s deregister tradition of state intervention. The conservative Chirac government came to power in March 1982 committed not only to selling off the industrial and financial groups nationalized by the socialists during 1981 to 1982. The Chirac government sold 22 major companies worth $12 billion in a 15 month period beginning in September, 1986. When the socialists returned to power in 1988 they stopped the sales of further companies, but they did not attempt to renationalize those already sold. In addition to France, Austria, Belgium, Holland, Jamaica, Japan, Spain, Sweden and the United States, all executed significant privatization Nippon Telephone and Telegraph (NTT) is significant for several reasons.
The major privatization through public share issue implemented by the U.S. government was also one of the most highly politicized of all the major divestitures of the late 1980s. Even so, the $1.65 billion Conrail issue was successfully executed and well received.

After 1987, privatization programs spread rapidly around the world, particularly to the developing countries of South America, Africa, and South Asia.

Finally, an acceleration of privatization programs in the European Community was seen in the mid 1990s.

3.10 DISINVESTMENT CONCEPTUAL ASPECTS

Disinvestment is one form of privatization and has been resorted to by a number of countries including India.

Disinvestment of shareholding of Public Sector Undertakings by the government may be in response to the demands of the various financing of donor agencies, and/or a part of economic reforms pursued. Objectives are always with respect to time frame. Immediate objectives in these case might be to enhance efficiency and improve performance of Public Sector Undertakings and to realign with the developments in the industrial and economic policy pursued by the government. The Rangaarajan committee, appointed by the Government to advice and make suggestions and recommendations on various aspects related to disinvestment of shares in Public Sector Undertakings, has laid down the following as the broad objectives of disinvestment:

- As an immediate objective to mop up resources of non-inflationary character to meet the budgetary needs which include requirement to development activities and social obligations,

- To sub serve, in the medium term, the overall fiscal objective of gradually reducing the fiscal deficit and bringing about a positive over all impact on future liabilities and income flows to government,

- To improve the overall economic efficiency by bringing about move competitive atmosphere with emphasis on the cost and quality of product and service to the customers of public enterprises,
• To enhance the efficiency of individual enterprises by imparting a new dynamism in the management of these enterprises through diversification of ownership and control and as also large and freer access to the expanding capital markets in India,

• To realign the extent of ownership, control and regulations different activities consistent with the technical needs and developments in industrial policy.

3.11 MEANING OF DISINVESTMENT

The global trend is towards eventual privatization of public enterprises. This is sought to be done through the disinvestments process. Disinvestment is the process under which the shares of public enterprises are sold in the market so that the government holding in Public Sector Undertakings comes down to 49% or less of the share capital. Disinvestment is not a liquidation sale. Disinvestment is not the sale of share of a company being wound up. Disinvestment process can be thought of for profitmaking as well as lossmaking Public Sector Undertakings.

The following options are available for the disinvestments:

1. Sell the shares up to 49% of the equity of the Public Sector Undertakings with the government retaining a majority of 51%. These enterprises can be called as government majority public enterprises,

2. Sell the shares up to 74% of the equity of the Public Sector Undertakings, with the government retaining 26% (which under the law can block special resolution). These Enterprises are called Government Controlled Enterprises,

3. Sell more than 74% of the equity of the Public Sector Undertakings so that the Government becomes a minority and the government becomes a portfolio investor with no role in management,

4. Sell all the shares. This amounts to full privatization.

3.12 SELECTION AND LIMITS

Selection of Public Sector Undertakings for disinvestment would be linked with the objectives. With an objective to mobilize resources, it is the profitable ones which are selected for disinvestment. However, it has to be in accordance with the overall
economic and industrial policy as Public Sector Undertakings in the core areas and of strategic importance are normally to remain with the Government and are not opened up to the private sector. Sale of loss making Public Sector Undertakings is a cumbersome process, as it involves decisions relating to financial restricting and other socio-economic considerations of development of human and other resources. To sum up: “to build up confidence in a programme of divestiture, it was advisable to start with some easier causes. The enterprises that lend themselves to rapid divestiture are profitable nationalized companies and in attractive industries with good medium-term prospects. Private companies that have been nationalized because they were unprofitable are difficult to divest unless profitability is been restored and sustained. And preparing corporations that have always been in the public sector for divestiture takes time sometimes several years for what a programmed of divestiture, may therefore include the rapid divestiture of easy cases and the preparation for sale of move complex candidates later.”

On the overall considerations that the tangent level of disinvestment be consistent with industries policy. The Rangarajan committee recommended that percentage of equity disinvested should be generating under 49 percent industry reserved public sector and over 75 percent in other industries.

In sector other than those reserved for public sector, the Government should justify its continued holding of equity on considerations as an investors and not as an owner. Though Government may hold more than 26 percent of the total equity in enterprises with outstanding prospects, the disinvestment would still need to be justified on the basis of desirability of government control. The effort should, therefore, be to invest the holding at the best available price at the most opportune time.

The desirable level of public ownership by expanding the equity base through public offering disinvestment maybe reached with great advantage to the PSU concerned and government.

3.13 METHODS OF DISINVESTMENT

Disinvestment can be done by offering the shares to the financial institutions or to the public. The various methods of disinvestment. Sale of shares to financial institutions can be either by way of auction or on a fixed basis price. For auction disinvestment,
selected banks and financial institutions are invited to bid for tenders as per the laid-down norms, which in turn offload the share purchased in stock market. This process of disinvestment does not lead to broad basing the equity holding pattern of Public Sector Undertakings until the shares are listed on a stock exchange and are available to the public thereafter.

This process of private placement of shares is relatively less cumbersome, involves less administrative expenses and results in higher realization. However, there is a need to guard against consortium formation by bidders. It raises a question will this process of disinvestment though financial institutions not lead to transfer of shares to another government institutions when banks and financial institutions are government institutions.

3.14 IMPLEMENTATION OF DISINVESTMENT

The process of disinvestment discussed above requires clarity of objectives, identification of Public Sector Undertakings, preparation of the Public Sector Undertakings and choice of appropriate mode of disinvestment. Preparation of the Public Sector Undertakings concerned refers to conversion of departmental organizations, or statutory corporation into joint stock companies, restructuring their capital structure in terms of commercially acceptable debt-equity ratio restructuring their its manufacturing and infrastructure facilities by way of injecting funds called ‘green dowry’ and creating awareness of the strengths of the enterprises.

For disinvestment by inviting tenders, minimum reserve price (MRP) of shares offered for sale is laid-down in advance. Similarly, for public floatation for private placement, the shares prices have to be fixed, since these shares have never been traded earlier in the market.

Three possible methods of valuation of shares adopted are:

Net Assets Value (NAV): It indicates the value of the assets but not the profitability income to investors.

Profit Earning Capacity Value Method (PECVW): It is based on the profit actually earned or anticipated.
Discounted Cash Flow Method: It reflects the expected income flows to the investors. Pricing of shares for disinvestment purposes should be more to reflect on investor perception of the worth of the enterprise rather than cost of assets to the enterprise.

The recommendations of the Rangarajan committee made the following recommendations regarding share valuation include

- Discounted cash flow method, though most difficult one has greatest relevance.

- An explicit assessment of the scope and limit for selling non-income generating assets (land or building) and rationalizing labour force (Voluntary retirement scheme, etc,) should be made.

- Government policies affecting future profitability (such as disappearance or guarantees off take or guaranteed rate of return) and their implications on the economic efficiency may have to be spelt out.

- Influence of social constraints in the past working of the Public Sector undertakings and the extent of benefit accrued 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 realistic basic and presented while reckoning the intrinsic worth of the Public Sector Undertakings.

Book building method, many times, is used for pricing of shares. In this method the price is determined on the basis of a demand scheduled determined by the ‘book-runner’ by aggregating the order from institutional investors at different prices. The price is then used both for the private placement as well as for the public offers. This method characteristic similar to the auction method. The Securities and Exchange Board of India (SEBI) has permitted companies making issues of Rs.100 crores or more to use the system of ‘book building’ to price their shares. However, the book building process will be made available only for that part of the issue which is reserved for institutional investors and other corporate bodies, and share issues to small investors will be made at a
price which would be decided after the assessment of the institutions buyers has been taken into account. Considering the management of investment in public sector enterprises, and with an objective to maximize the proceeds from disinvestment, there is a need to have a long term strategy towards disinvestment regarding pricing of shares.

The process of disinvestment should neither be under priced to have longer investor participation nor be overpriced to investors and jeopardize the future disinvestment should process. Further, disinvestment should balance government's needs for funds along with the limited availability of investable resources in capital market.

Lastly, disinvestment is a complex, long drawn exercise, and an apex level autonomous agency like a separate privatization ministry or High level board be established to plan, co-ordinate and implement disinvestment policies. Other issues relating to disinvestment are whether disinvestment is an annual budgetary exercise or should it be to meet routine expenses or to meet fiscal deficit or be a part of planning process introduce competitiveness and market forces so as to improve the performance of Public Sector Undertakings.

3.15 PSU DISINVESTMENT IN INDIA

This section discusses the disinvestment of Public Sector Undertakings shares in India. It gives a historical background of the disinvestment and addresses questions like: Does it lead to improvement in privatization performance? Does it help in monitoring public enterprises? Does it help in monitoring public enterprises? Was the price realized close to the shares worth in the market? What are macroeconomic effects of disinvestment? What is the likely future scenario?

3.16 PUBLIC SECTOR UNDERTAKINGS SELECT FOR DISINVESTMENT

The Department of Public Enterprises (DPE) under the Ministry of Industry, involved the task of collection, evaluation and maintaining information relating to the working of Public Sector Undertakings, was involved in the exercise of disinvestment of shares selected Public Sector Undertakings, along with the concerned Public Sector Undertakings, their Administrative ministries and Ministry of Finance. Public Sector Undertakings selected for disinvestment included profitable units other than those from
the power sector or of strategic and defense importance. Accordingly Public Sector Undertakings excluded for disinvestment were those under construction stage or of insignificant size, or then have net asset value (NAV) per share or non-profit organizations falling under section 25 of companies Act, or those function to in the power generation transmission sector, or in which shareholders of the government was below 60 percent, or those engaged in production of goods of strategic nature of for defense purposes.

31 Public Sector Undertakings were selected for disinvestment in the first phase of 1991-92 and these were profitable ones in the area of petroleum, fertilizers, chemicals, computers and communication, electronics, and heavy engineering enjoying virtual monopoly and were mainly the 'cash cows' with 'star performance' Disinvestment in subsequent years comprised shares of companies amongst those 31 companies supplemented with three more companies during 1992-93 and seven companies during 1994-95 and five companies 1995-96 and as on 2002-03.

3.17 DISINVESTMENT MACHINERY

The following are machinery for disinvestment:

(i) Cabinet Committee on Disinvestments: The central Government has set up a separate ministry for Disinvestment with a cabinet rank. Further the Government has appointed a Cabinet Committee on Disinvestment (CCD) consisting of the Minister for Disinvestment, The Ministry for Industries and the Finance Minister as its members.

(ii) The Disinvestment Commission: Disinvestment Commission was set up by an executive order in August, 1996, as an advisory body and not as a statutory commission located in the Ministry of Industry and that has led to some difficulties in smooth functioning.

The primary terms of reference are to draw up an overall long term programme, recommended a mode of disinvestments, supervise the sale process to and monitor the progress of disinvestment.

The mechanism available to the Disinvestment Commission in terms of administrative, support, professional technical inputs has been inadequate and raises
questions about its successful functioning. In light of this, it may be advisable to have a permanent statutory disinvestment body under a separate act which should function in a decentralized manner. Its recommendations should have credibility and bind the Government towards a transparent process of disinvestments. The disinvestments commission was abolished in November, 1999.

(iii) The Department of Public Enterprises (DPE): DPE was the nodal agency to steer the disinvestments process. The Department was empowered to prepare the bundles, advertise the bids, select the bidders, finalize the price and effect the disinvestments. An empowered committee of secretaries was appointed to oversee the process of disinvestments affected by the DPE. The DPE had to furnish the recommendations on behalf of the committee to the committee on Economic Affairs, whose approval was necessary to see the transactions through

(iv) Department of Disinvestment: The Government has set up a new Department of Disinvestment after the tenure of the Disinvestment commission ended in November, 1999, of aims to establish a systematic policy approach to disinvestments and to give a fresh impetus to the program disinvestments, which would increasingly emphasize strategic sales of identified Public Sector Undertakings (PSUs).

3.18 RECENT TRENDS IN DISINVESTMENTS

The Finance Minister, while proposing budget for the year 2001-2002 has estimated an amount of Rs. 12,000 crores from the privatization.

The first round of disinvestments, began by the P.V. Narsimha Rao, Manmohan Singh combined in 1991, driblets of the Equity of 47 Public Sector Undertakings were sold in bundles consisting of “very good”, “good” and “average” companies. The rationale then was that it would be difficult to get rid of “the average” (Loss making) companies. Investors could only buy such companies if they were tagged in to better performing companies.

In the year 2000-2001, the Government of India raised Rs. 1,868 crores as against a target of Rs.10,000 crores. In the past 10 years, the Government had been able to mobilize only Rs.20,506 crores from the sale of equity of Public Sector undertakings
against a target of Rs.5,4,3000 crores. On account of this, the Government has lost the fundamental reason for disinvestments.

The total disinvestments in India from 1991-97 was to a tune of Rs.11,291 crores. The target for 1997-98 was Rs.4,500 crores, which would revise the total to Rs.16,500 crores. On an investment of Rs.2 lakh crores in the public sector, an average annual order of disinvestments of Rs.2,500 crores works out for a mere 1.25 percent. On the other hand fresh investments in PSE's were about four times the amount increased during the period 1991-97. This indicates the slow pace of disinvestments process in India and also questions the extent and order of effectiveness of the disinvestments programme in relation to the goals and public policy. Since the disinvestments was initiated by the Central Government, it is identified that 39 Central Public Sector Enterprises enable the Government to raise about Rs.10,000 crores the last six years. For this purpose, the Government has accepted the Commission's recommendation with respect to Gas Authority of India Ltd., (GAIL), Container Corporation of India (CCIL) Ltd., and Mahanagar Telephone Nigam Ltd., (MTNL) An international issue of GDR with respect to GAIL and MTNL is planned, which would help the Government raise about Rs.35,000 crores in the current fiscal year.

The Disinvestment Commission under the Chairmanship of Mr. G.V. Rama Krishna has given its recommendations on 19 Public Sector Enterprises for disinvestments.

At lease-cum management contracts for hotels in prime locations like Delhi and Bangalore.

The United Front Government has initiated an important move for disinvestments up to 74 pre cent more of Government holding in nine loss making Public Sector Enterprises of the ministry of Heavy by the induction of joint venture. This is also in line with the report of the Committee on Disinvestment of shares in Public Sector Enterprises headed by Sri C. Rangarajan, former Governor, Reserve Bank of India, which indicated that the level of Central Government holding in Public sector Enterprises (PSE's) could be reduced to less than 51 per cent.
3.19 THE DISINVESTMENT IN PRACTICE OF CENTRAL GOVERNMENT UNDERTAKINGS

The Group of Ministers (GOMs) consisting of Finance Minister, Petroleum Minister, Fertilizer and Chemicals Minster and Disinvestment Minster, on the disinvestments of Indian Petro Chemical Corporation Limited (IPCL) is in favour of its outright sale. The GOM will refer a proposal to the Cabinet Committee on disinvestments for further approval and necessary action. The IPCL’s one unit at Vadodara, Gujarat with a capacity of 130 million tonnes, would be given on nomination basis to IOC. The Government had decided to sell its stake in the other two units of IPCL at Gandhar and Nagothane would be divested through the bidding process.

The Central Government decided to close down Five public sector industries under the control of the heavy industries and Public Enterprises and they could not be revived. These five established, in West Bengal. They are as follows.

i) Bharat Process and Mechanical Engineering Company,

ii) Weigh Bridge India,

iii) Rehabilitation of Industries Corporation,

iv) Tanner and Footwear Corporation and

v) Nationals Bicycle Corporation of India.

The Central Government’s proposal to divest majority stake in Five heavy industrial Public Sector Undertakings (PSUs) including BHEL, HMT, and HEC, instead of diluting only minority stakes the Central Government’s disinvestments programme seemed to have finally takeoff. In the current financial year, the first sell of the management control of CMC and HTL would fetch the Government Rs.207 crore amounting to less than two percent of the disinvestments target of Rs. 12,000 crores for the year 2001. If the pace of disinvestments is maintained, the Government will get closer to the target than ever before. Further, the Government has also taken up the disinvestments of Hindustan Zinc. According to the agenda of the Government, it is proposed to sell off 12 more Public Sector Undertakings (PSUs) including gains like BSNL, Maruti Udyog and DIPCL.
On 16th October 2001 the Government of India through the Ministry of Disinvestment has transferred 74 per cent equity of HTL, incorporated in 1960, (Hindustan Tele printers Ltd.) to Himachal Futuristic Communications Ltd., (HFCL) for a consideration of Rs. 55 crore. A tripartite agreement to this effect was signed by the HFCL. The Department of Telecom and the Department of Disinvestment. HTL which is among the 13 PSE’s listed for disinvestments during 2001-2002 is the 3rd privatization deal after Modern Foods and BALCO.

Government has also decided to sell six hotels owned by the Indian Tourism Development Corporation (ITDC) while two Five Star Ashoka Hotels in Delhi and Bangalore would be offered on a 30 year lease to private parties. In addition the Centaur Hotels run by the Hotel Corporation of India in Delhi and Mumbai will be hived off along with the Chef air subsidiary; and small Hotel Rajgir.

The transaction documents for the sale have been cleared by the Cabinet Committee on disinvestment (CCD) these setting the stage for disinvestment of Government equity in these 13 entities for which the price bids will be invited. The CCD also decided that in the case of IBP disinvestments, the bidding would be restricted to companies which are prepared to invest Rs. 2,000 crores in the Hydro-Carbon sector within 10 years. Further, it is also proposed that 26 per cent disinvestments in Hindustan Zinc Limited (HZL) would begin immediately as the transaction documents had been approved.

For disinvestment of Hotels, the Government of India has invited bidders, and 124 bidders have submitted for purchase of these properties out of the, which 97 had expressed interest in the ITDC Hotels and 18 in the HCL Hotels. Therefore, it had been decided to stagger the bidding since it would be difficult for so many bidders to arrange for bank guarantees altogether.

The move to withdraw the Government from, the business of running hotels had been initiated shortly after market reforms and liberalization policies were put in place by the Narasimha Rao Government in 1991. Thought the list of short listed hotels been ready but it has taken a decade for the disinvestments to be actually implemented. The CCD also examined the progress in disinvestment for 13 Public Sector Undertakings
(PSUs) which had been identified for accretion in the current fiscal year. The time table for disinvestments was being adhered to in most cases. This would not affect the overall time table which was not scheduled.

The Department of disinvestment has approached the SEBI for the relaxation of takeover norms with regard to listed Public Sector Undertakings (PSUs) being disinvested. The Ministry for Disinvestment has written to SEBI for changes of the open offer guidelines in regard to the competitive bidding in strategic sales.

3.20 PROGRESS OF DISINVESTMENT

The Government in July 1991 initiated the disinvestments process in India, while launching The New Economic Policy (NEP). The Government appointed the Krishnamurthy Committee in 1991 and Rangarajan Committee in 1992. Both the Committees have recommended disinvestments to fulfill objectives of modernization of the public sector through the following steps by strengthening the Research and Development following initiating diversification/ expansion programmers, retraining and reemployment of employee, funding genuine needs of expansion, widening the capital market basis and mitigating fiscal deficit of the Government. These committees made a distinction between the short-term and long term goals of disinvestment and advised the Government not to sacrifice the long term goals for the sake of fulfilling the short term objectives. The Government has announced in its NEP that mitigating the fiscal deficits is the only objective of disinvestments.

The crucial shift in the Government policy for disinvestments in Public Sector Undertakings (PSUs) was mainly attributable to the poor performance of these enterprises and the burden of financing their requirements through budget allocations. In 1991, there were 236 operating public sector undertakings, out of which only 123 were profit making. Top 20 profit making Public Sector Undertakings (PSUs) were responsible for 80% profits. The return on public sector investment for the year 1990-91 was just over two percentage.
The basic charges against the public sector for its poor performance are as follows:

(i) Low rate of ROI,

(ii) Declining contribution to national savings,

(iii) Poor capacity utilization,

(iv) Over staffing, bureaucratization leading to excessive delays and wastage of scarce resources. Further, it was also identified that the goal of privatization is to ensure a better and more effective use of capital and greater investment in the social sector on the one hand and to enhance the efficiency of public enterprises and help them integrate into a competitive environment on the other. As per the Economic Survey 2001, the Government set out the following policies towards Public Sector Undertakings,

(i) Bring down Government equity in all non-strategic Public Sector undertakings to 26 percent or lower, if necessary,

(ii) Re-structure and revive potential viable Public Sector Undertakings (PSUs).

(iii) Close down Public Sector Undertakings that can not be revived and

(iv) Fully protect the interests of workers.

It is clearly evident from the data provided that the cumulative proceeds of total disinvestments from 1991-92 to 2000-2001 stood at Rs. 23,520 crores as against a hefty target of Rs. 57,500 crores. The proceeds realized as against the target set were only 40.9 percent. The investment made by Central Government as on March 31,1991 was of the order of Rs.2,30,140 crores. The total proceeds from disinvestments worked out to a mere 10.22 per cent of the total investment.

The disinvestments proceeds were encouraging and exceeded the target set in three out of 10 years, while it was far lower than the target in the rest of the 7 years. In the year 1991-92, the total proceeds realized were Rs.3,308 crores as against a target of Rs.2,500 crores, accounting for 121.52 per cent. Similarly in 1994-95, the proceeds realized was Rs.5,078 crores against a target of Rs. 4,000 crores forming 126.95 per cent.
Another attractive year for disinvestments proceeds realization was 1998-99 with Rs.5,371 crores for a target of Rs.5,000 crores, accounting for 107.42 per cent.

In the following years the proceeds from the disinvestments were abnormally low at 5.1 per cent in 1995-96, 9.1 per cent in 1996-97, 18.04 per cent in 1997-98 and 18.92 per cent in 1999-2000 of the target amount. More than 50 per cent of the target amount was realized through disinvestments in 1992-93 at 56.03 per cent and 1993-94 at 53.31 per cent.

The reasons for such a low proportion of disinvestments proceeds against the target set were identified as

(i) The unfavorable market conditions were unfavourable the main reason which were responsible for this downward trend of disinvestments,

(ii) The proceeds realized through disinvestments were not paid to the enterprise concerned for their expansion and improving efficiency rather the Government has to be using such disinvestments proceeds to bridge the budget deficit,

(iii) The offers made by the Government for disinvestments of Public Sector Undertakings (PSUs) were not attractive, and stringent bureaucratic procedures discouraged the private sector investors,

(iv) The valuation process, procedures and surplus employees are other major attributes were cumbersome. It was estimated that there were 2.2 million employees in the public sector and nearly 25% of them are surplus,

(v) The Government does not have a comprehensive policy on disinvestments of its Public Sector Undertakings (PSUs),

(vi) The Government is not transparent about its approach towards sequencing the restructuring and the methods of privatization of Public Sector Enterprises (PSE’s).

The data relating to fiscal, disinvestments and capital receipts along with their relative ratios indicate that the disinvestments proceeds are very meager in relation to both of them. The proceeds of disinvestments also fluctuated widely showing greater inconsistency in proceeds realized as against an increased rate of growth in fiscal deficit and capital receipts.
The average growth of fiscal deficit as percentage of fiscal deficit in an average was at 3.6 percent. This forms a very meager proportion of total deficit during the decade, and also suggests that the aim of the Government to mitigate the deficit financing would not materialize through the disinvestments process.

The average capital receipts of the Government and proceeds from disinvestments for the current decade stood at Rs.80,670.4 crores and Rs. 2,352 crores respectively. The proceeds from disinvestments formed a 3.4 per cent of the capital receipts. When we compare the capital receipts vis-a-vis proceeds from disinvestments, it can be observed to that the former is very meager with a wide hit a lowest of 0.91 per cent in 1997-98 of capital receipts. It is observed that the disinvestments proceeds were totally negligible and insignificant in relation to both the capital receipts and fiscal deficit during the decade 1991-2001. This also indicates that context it is promptly said that, “A decade of economic reforms saw very little activity on the disinvestments front. Tall promises were seldom put into action”.

The Government of India has decided to go ahead with the disinvestments process. It has cleared 30 Public Sector Undertakings for disinvestments. Of these 10 have been finalized as cases, where the road maps are read for disposal during the current fiscal year. Some of these are very popular Public Sector Undertakings (PSUs) such as Air India (AI), IPCL, Maruti Udyog Limited, ITDC, NFL, IPCL, VSNL, Indian Airlines, Pradeep Phosphate and Hindustan Zinc. These prospective 30 Public Sector Undertakings (PSUs) for disinvestments, the action of the Government and advisors for the disinvestments process initiated.