Chapter – 4

POLICY IMPLICATION IN POST LIBERALIZED ERA
A. POLICY IMPLICATION OF DISINVESTMENT IN POST LIBERALIZED ERA

4.1a. DISINVESTMENT POLICY OF GOVERNMENT OF INDIA

The whole policy of disinvestments has undergone a drastic change. Initially, it was one of offering a part of the equity to various private sector players both domestic and foreign. Now it is one of outright sale of majority shares to so call strategic partners, with a clear commitment to ultimately off-load the rest of the shares after a time lag. And with such a strategy, the anxiety of the present government to bridge the fiscal deficit is creating a situation of distress sale of public sector units to private hands. Therefore, it is no longer disinvestments policy, but clear-cut policy conclusive privatization. The whole privatization process has become an instrument of transferring public property to private hands for a song much to the detriment of the national interest and the industrial economy of the country in particular. And with the whole process, corruption is woven intrinsically. The very concept of privatization of public sector units and more so the blue chip ones, in itself is a bankrupt corrupt policy perception, treachery with the nation and fraud on the people of the country. Therefore, we oppose this policy and demand its reversal.

4.2a. The Policy to Wipe Out Public Sector

Under the on-going drive of privatization, the Government has mainly targeted most of the blue chip profit making PSUs which were decorated with the classification of ‘Ratnas’. Further, the most strategic sectors have been engulfed under the drive for privatization. Notable
among them are oil & petroleum, power, telecom, rail, road and air transport, ports & docks, airports and of course the financial sector. The game plan is to completely erase the public sector network from the industrial map of the country. The creation of a separate disinvestments ministry clearly demonstrates the present government’s point of priority to completely destroy the public sector. This fact was reflected in the budget-speech (2000-01) of the union finance minister pronouncing that “Government have recently established a new Department for Disinvestments to establish a systematic policy approach to disinvestments and privatization and to give fresh impetus to this programme, which will emphasize increasingly on strategic sales of identified PSUs”.

As given above, when the government is desperately taking steps to wipe out public sector from the country, the mention in the agenda note that the Government strategy is “strengthening strategic units, privatizing non-strategic ones” is nothing but travesty of truth.

The Government has refused to recognize the strategic importance of the PSEs in energy, telecommunication and defence production sectors including the airports in protecting the economic sovereignty and even security of the country’s independence. They have identified these CPSUs as non-strategic and selling them off chaotically. And after that talking about strategic and non-strategic sectors is nothing but extreme hypocrisy and self deception.

Similarly, it is nothing but a stupid argument that “Price realized through the sale of minority stakes, was low as compared to price realized through strategic disinvestments ...”. It is natural that
conclusive privatization is bound to fetch higher yields than off-loading of minority shares. The price differential is bound to be there between simple share holding and acquiring the ownership including whole sole control of the enterprise and its management which in turn open up host of private commercial interest to the buyer. On the other hand, the dangerous fall out of conclusive privatization is also colossal. Realizing higher price by so-called ‘strategic sale of PSUs is short sighted and suicidal for the country. Therefore, there is no rational behind the suicidal steps of strategic sale of CPSUs, particularly the blue chips ones.

The claim of the Government that “The concerns of the various Stakeholders are taken care of through the shareholders’ Agreement (SHA), Share Purchase Agreement (SPA) and Parent Guarantee Agreement (PGA)” is not correct, except extending due and undue benefits to the private buyers, the strategic sale cause immense harm to all the nation, the people and of course the workmen.

4.3a. Asset Stripping

The Tata Tele Services Limited (TTSL) acquired 25 percent stake of Videsh Sanchar Nigam Ltd. (VSNL) from the Government at a price of Rs. 1,439 crore. The company further acquired another 20 percent stake of VSNL through open offer at a cost of Rs. 1,151 crore. Now, with 45 percent stake. The TTSL has been handed over the total management control of the telecom giant. VSNL is a classic example of pre and post privatization asset stripping.

Immediately prior to privatization, the Government compelled the VSNL to pay an abnormal 500 percent dividend and mopped up Rs.
741 crores against its 52 percent equity holding. The amount of dividend for the remaining equity of 48 percent worked out to Rs. 684 crores. Further, the PSU had to declare a special dividend of 750 percent and pay to the Government an amount of Rs. 1,411 crores. Here again the amount of dividend for the remaining part of equity worked out to Rs. 1,025 crores. Thus, pre-privatization stripping game took away an amount of Rs. 3,561.5 crores from the reserve of VSNL. The post privatization asset stripping has already been initiated by the Tata’s with the decision to take away Rs. 1,200 crores from the reserve of VSNL. In the controversial May 28 meeting, the VSNL Board has approved the proposal to sale out part of the equity holding of VSNL with Intelsat and Immarsat, which is expected to generate an amount of Rs. 1,000 for the company. The VSNL scandal has brought in to light how the public sector companies are looted both by the Government and the foreign and Indian private big business houses. Inferring from the Tata – VSNL episode it has been observed that in coming days, “we will see all other divested PSUs being stripped off their assets in the shortest possible time. They may end up dumped as sick companies.

4.4a. The Fund Bank Design in Operation

The Indian ruling polity cannot claim any originality in their disastrous design on the country’s economy and her people. Each and every move is designed under the prescription of the World Bank and the IMF and at the behest of the imperialist powers and the Multinational companies. The world bank publication, called ‘Research Report’ and titled “Bureaucrats in Business” has already detailed out each and every step, the Indian rulers have been taking since 1991 to dismantle the public sector network in the country including the
various modalities of privatization. The publication also had written down with every detail the game plan to create downward pressure on wages of the public sector employees, curtail worker’s rights, and stop industry - wise wage settlement and to make the PSUs an unholy destination by suitable policy engineering from Government level.

It is amusing that the current model of outright privatization through strategic disinvestments’ pursued by the Government has been copied from the World Bank prescription. The ‘Research Report’ of the World Bank has prescribed that “If potential buyers cannot raise the funds, the enterprise can be sold in trenches with freedom to hire and fire. This is an important factor in successful management contracts. The message of the World Bank’s guideline is loud and clear: tune your privatization strategy to the advantage of the potential buyers, the foreign and Indian corporate without bothering for the immense financial loss and harm to economic sovereignty caused to the country.

Thus, it is clear to the country that the public sector is not guided by financial or managerial prudence but it is the ideological position taken by IHF/WB/WTO with rich countries led by united states pushing from behind, that there should be no public sector any where in the world. Private sector want complete command over the entire world economy and they would not tolerate even a token presence of PSU on their way.

4.5a. Revival of Sick PSUs

The Government has finally declared that they are not going to do anything for revival of the sick and loss-making PSUs, made to turn sick by the Governments’ own discriminatory policies only. Such PSUs
are stated for closing down and decision of closure of eight public sector units have already been announced and for many more are actively processed by the Government. The irony is that the government is hell-bent to close down those eight PSUs despite the fact that the cost of closing down (only on account of VRS to workers – Rs. 517 crores) is much more than the cost of revival (around 300 crores) as per proposals lying with BIFR.

Besides the BIRF route, the Government of the day has also been trying to hasten up the closure process in respect of many PSUs by way of granting liberal permission for closing down through the labour ministry in exercise of the provisions in the Industrial Disputes Act. And while doing so the central Government did not bother to even consult the concerned state Governments.

4.6a. Manual on Disinvestments & Strategic Sale Agreement

On the basis of the experience of disinvestments in the last decade in more faithful tune with the World Bank guidelines, the union ministry of disinvestments has brought out a “Manual on Privatization”. By the said manual, the process of drain on national wealth through fast track privatization as prescribed by the World Bank has been sought to be systematized and legitimized with deceptive posture of transparency. While dealing at length various methods of valuation of the PSUs under sale, the manual recommends a particular method – ‘The discounted cash flow method (DCF), which ensure price fixing for the PSUs under sale at a low level, without any consideration of its huge asset base and replacement cost, solely to the advantage of the prospective buyers.
The said manual published by the Disinvestments ministry has squarely discarded the asset valuation method which could capture the real value of the huge national assets created by the public sector industries over a long period. While recommending the Discounted cash flow method (DCF), the manual went a step a head to advise that the prospective cash flow to the company under sale must also capture for discount the future (after sale) presumable cost for modernization, capital replacement, market etc that may be incurred by the new owner, which would lead to assessment of the ‘cash flow’ at a lower level and facilitate low pricing to facilitate the prospective customer.

The love and affection of the Government of the day at the centre for the private business is further exposed in yet another document published by the ministry of disinvestments ‘understanding The strategic sale agreement’. As if the under valuation and other undue concessions granted while transferring the national assets to the private buyer for a petty cash are not enough, provision has been made to pay cash ‘reward’ in the name of ‘post closing adjustment’. The perception of the government has been expressed in the statement of the disinvestments minister Arun Shourie to the financial express on 07.03.2002: “This means that the Government could actually end up paying private bidders to rid itself of loss making PSUs, now a concrete example is the sale of Paradip Phosphates Ltd. (PPL). PPL has been privatized and purchased by the sole bidder Zuari – Maroc combine at a cost of Rs. 151.7 crore against the reserve price of Rs. 176 crore. Taking advantage of the “Post closing adjustment” clause, Zuari – Maroc has claimed an amount of Rs. 190 crore from the Government. Thus, the net outcome of the privatization deal is the private business combine got a
PSU plus a cash gift of Rs. 39 crore. In the deal of modern foods, the Hindustan Lever also got some money under the same consideration. So was the case of ITDC hotels deal where an amount of Rs. 27.5 crore is being returned to the buyers.¹

4.7a. Deliberate Statistical Distortion

It is important to expose thoroughly the game of defaming the CPSUs with alleged ‘inefficiency’ with the help of false formulations and twisted projection of facts and figures by the privatization lobby. The return on the total investment, return on the equity and the payments on account of interest on loans, taxes and duties paid by the CPSUs are not clearly shown. Thus, a distorted picture is painted about profit earned and total contribution to Government exchequer made by the PSUs. To conceal the truth and to hoodwink the people of the country, the break up of equity and loans in the total investment of the government in the entire public sector is kept under cover by the advocates of privatization while pleading their case. The annual reports of public enterprises survey[2000-01] shows that the total investment in CPSUs as on 31.3.2001 is Rs. 2,74,114.00 crore, which consist of a total paid up capital of Rs. 86,152.00 crore and long-term loan of Rs. 1,84,777.00 crore plus Rs. 3,185.00 crore share application money. Further, the share of the central government in the total equity amount is Rs. 71,664.00 crore and in the total long-term loan is Rs. 48,977 crore only.

4.8a. Contribution to the Exchequer

It has been correctly observed that, “PSUs provide good returns to the government in many cases, which will disappear once the
enterprises are sold". As would be evident from the discussion below that the CPSUs have been contributing to the central exchequer in a big way on an ever increasing scale as against the reverse situation of ever increasing default of the private sector in this matter. The other financial manipulation apart, the ever increasing defaulting track record of the private business in the matter of payment of taxes and duties to the governments and repayment of loans taken from the public sector banks and financial institutions and the indulging role of subsequent governments, is too well known to the people of the country. The long-run dangerous impact of dismantling the public sector in the matter of revenue earnings of the government is a very important question that requires consideration. The fund bank dictated policy of privatization carried out by the NDA government is nothing but frittering away of revenue earning assets and consuming the capital for addressing the fiscal deficit. This is what has been rightly termed as ‘selling the family silver to pay the butler’.

Along with the desperate move of privatization the disinvestments ministry has been carrying on a tirade against the public sector. In fact, almost all the debates in parliament on public sector witnessed a harmful campaign by the ministers and government spokesman against the performance of the public sector industries while justifying wholesale privatization. It is disgusting that the note circulated by the labour ministry noted, “Private sector has matured in to vibrant sector, the public sector has been reduced to a symbol of inefficiency”, but what is the reality. In their own parameter of stock market status, it is pertinent to note, “Among top 200 companies quoted in the list of stock exchanges, 32 were identified as central PSEs. Their
market cap is placed at Rs. 1, 21, 226.00 crore, which exceeds the total investment of 246 PSEs. The equity total Rs. 17,778 crore. During the capital of these 32 organizations decade of 1991-92 to 2000-01 central PSEs mobilized over Rs. 1,39654.00 crore of total extra budgetary resources which is more than total capital invested by the government so far by way of both capital and loans (Chairman, SCOPE – July 2002). Is this not a shining example of performance? The financial performance of the public sector if judged from the above facts and figures, it clearly establishes how it intentioned and unfounded is the claim of union ministry of disinvestments that in the matter of “price earning ratio .... privatized enterprises generally perform better than state enterprises”. In the year 2000-2001 the net profit earned by the PSUs is Rs. 15,653 crore which is 18.17% of equity share capital and 14.16% of return on capital employed which is no way inferior to private sector, if not superior in many cases. Compared to the previous year the net profit has increased by 9.22%. The total contribution of the PSUs to the exchequer on account of corporate tax, excise duty, customs duty and other duties, dividend and interest on loan etc. for the year 2000-2001 is Rs. 60,977.97 crore. It would be worth noting that the unpaid outstanding from the most favored private sector on account of corporate tax, income tax, custom duty etc was more than Rs. 60,000.00 crore. In the same year, the PSUs also generated gross internal resources to the tune of Rs. 37,802.00 crore. Here it will be befitting to quote from an editorial note, “Not only can PSEs, match private sector companies (in performance), they can even do better over time. The chronically visceral critics of PSEs ought to shed their tinted glasses”.

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Further, it must be ensured that the return on the total investment, return on the actual equity capital and the contribution to the exchequer under the nomenclatures of dividend, interest on loans, host of taxes and duties paid by the PSUs, must be properly spelt out while calculating the financial contribution to Government exchequer and the total return on actual investment.

Moreover, there are other socio-economic contributions of CPSUs those must be taken in to consideration before jumping in to the too much simplistic and slanderous advocacy of 'price-earning ratio' with the motive to discredit the CPSUs. Some immeasurable contributions of the CPSUs in the socio-economic fields of the country are: ancillary industries development, overall development of rural areas, special programmes for welfare and rehabilitation of physically handicapped and mentally retarded persons, ecological balance, promotion of cultural and sports activities, preservation of Indian' heritage and culture etc. very rightly, it has been noted that, "Any study of the benefits flowing from the central public sector enterprises to the economy will remain incomplete if these contributions (socio-economic and welfare measures, promotion of balanced regional development) to the state economies are not taken into account". Ignoring the shinning records and significant contribution to the government exchequers by the CPSU, the impudent pen pushers, serving the cause of big business houses, advocating dismantling of the public sector and making too much noise of imaginary efficiency of the private sector, better take lesson from the aforementioned efficient record of performance of the public sector in our country.

4.9a. Current Targets: The cash-Rich PSUs:
The blame of inefficiency attributed to the so-called sick and 'uneconomic' PSUs are also nothing but a plans to justify the closure of such PSUs. Had that not been so, then why the most efficient and profit making PSUs are being privatized. It is evident that whether loss making or profit making, good or bad record of performance, the onslaught of Fund Bank dictated policy of closure and privatization of public sector shall spare none is mainly raised by the critics of disinvestment. It has been aptly said that, “what is shourie's argument? PSUs are loss making, therefore profit making PSUs should be the first to be sold.”

The Government has been repeatedly projecting the performance records of the comparatively weak PSUs to justify the privatization policy. However, the interesting fact is that the recent past cases of privatization and the ones lined up for the forthcoming period, are all profit-making cash-rich public sector companies. Indian Petrochemicals Corporation Ltd. (IPCL) has been handed over to the Reliance Industries Ltd. (RIL) own by the Ambanies. While RIL has acquired the controlling share of IPCL at price of Rs. 1,491.00 crore, at the time of privatization the IPCL had an amount of Rs. 2,946.13 crore as reserve and surplus. The sterlite group has acquired the equity and management control of Hindustan Zinc Ltd. (HZL) at a price of Rs. 445.00 crore and the PSU has a reserve fund of Rs. 737.00 crore and estimated asset base of around Rs. 10,000,00 crore.[kaleidoscope,march,2002]

Infact, the CPSUs which are under current prioritized initiative of the Government for privatization are from among the top ten profit making public sector companies with huge invertible surplus and
belong to very important sectors of the economy namely: oil, power and Telecommunication. The two cash rich profit making oil PSUs which are in the advanced stage of privatization are Bharat Petroleum Corporation Ltd. (BPCL) and Hindustan Petroleum Corporation Ltd. (HPCL). These two CPSUs together have earned a profit of Rs. 1,908.13 crore in the year 2000-01.

4.10a. The International Experience

To derive justification of the privatization policy of the government, the labour ministry note has observed that ‘Countries all over the world .... Started declining in the role of the state in commercial activities and privatization of the state owned enterprises”. Privatization did take place in different countries of the world. But the policy of privatization has ruined the economies of many countries and the process of reversal has already started.

The International experience of the privatization is very much shocking. Argentina is one of the countries went for large-scale privatization under the dictate of the fund-bank in the initial period. The economy of the country has gone bankrupt as an after effect of privatization. The number of job losers has reached to a devastating figure of around 2,80,000 on an average per month the unemployment figure has gone up to around 30 percent. Starving people have come out on the street and food riots are taking place. The government revenue has gone down by 29 percent; GDP has been reduced by 16.3 percent in the first three months of 2002. There are many more such examples. The bankruptcy of the policy of privatization has already started to surface glaringly in many countries in the world signaling a reverse process.
The failure of the policy of privatization is also evident from the increasing popular opposition across the globe—Seattle—Genoa—Doha—Washington and so on.

The countries which pioneered privatization during the last decade and half have silently started a reversal process. The power sector in the state of California in USA, was privatized into multiple companies had created such a mess that the government had to take back the control again. Amongst the advanced capitalist countries, Great Britain was identified as the ‘showcase’ in the matter of privatization. British experience would be better evaluated with the experience of privatization of two vital industries, railways and coal mines. The British railways were privatized in 1984. On 8th October 2001 Rail Track, the biggest of the private rail company in Britain went into official liquidation and the British Government had to take it over. The cost for the British Government to reorganize the railway system could be as much as 21 billion pound starling. The Rakesh Mohan Committee has suggested privatization of Indian Railways along the lines of Britain. The Government will have to take a decision whether to learn any lesson from the costly British experience or blindly follow the suit of Mrs. Thatcher. In 1987, the Thatcher Government transformed the National Coal Board into the British coal and the newly corporatized entity was given a mandate to privatize the coal mines. The story of subsequent ruination of the British Coal is too well known. In the process, about 1.5 lakh coal workers have been thrown into the street. The present move of the government to privatize the coal mines, if imposed upon, “a major industry in India is bound to become extinct in the same way as it happened in Britain”. Same is the story of
privatization of Airlines in New Zealand, where after a visible mess in the entire Airlines the government re-nationalized it. There are many such examples spread all over the world to show the utter failure of the policy of privatization. The irony is that the leading capitalist economies of the world – the USA, the UK and others are prescribing the wholesale privatization for India and other developing countries disregarding the failure in their own countries. The claim and counter claim, the support and opposition apart, either we learn from experience or pay the price for the neglect.

4.11a. Workers Worst Affected

The background note circulated by the labour ministry has projected that the post privatization danger of retrenchment and detrimental change in service condition is totally unfounded, but the reality is different.

Contrary to the promises of the Government, privatization of CPSUs involves reduction of workmen. Such reduction takes place both immediately before and after privatization, as we have seen in the case of ‘asset stripping’ in the VSNL. To cite an example of pre-privatization reduction of workmen, let’s take the case of Bharat Petroleum Corporation Ltd. (BPCL) and Hindustan Petroleum Corporation Ltd. (HPCL). These two PSEs have drawn plan to reduce the number of workmen by around 4,000. The aim of such reduction is to shape the PSEs slim to attract private buyers has been admitted by the Director of BPCL who said, “The VRS was part of ….. efforts to cut cost and make the company leaner - a leaner organization would attract better valuation”. In fact ever, since the government has launched the
privatization onslaught, the management of CPSUs under orders from the Government has been reducing the workmen. The labour ministry note itself has mentioned “during last ten years, the workforce in the public sector undertakings has reduced from 2.3 million to 1.7 million”. In BALCO, most widely noticed case of privatization, several hundred workmen has been retrenched after privatization. In IPCL 400 workmen are being dislodged and further “Reliance has identified 2,000 excess staff at the vadoda plant alone”. So far as the question of wage revision is concerned, the experience of the CPSU workers in privatized companies is very bad. The big claims by the Ministry of Disinvestments citing the example of wage revision of the BALCO workers is rather a case of deprivation. It is a case of suffering and not rejoicing. The wage revision was kept pending by the Government keeping in mind the impending privatization. Further, “the guaranteed benefit of 20% of basic pay” is one of the lowest in a profit making company like BALCO. During its entire period in the public sector, BALCO workers never got such a paltry wage rise. In fact, in many CPSUs the workers got guaranteed benefit of more than 80% of basic pay. The ex-gratia payment of Rs. 5,000 referred in the note of the ministry is in lieu of the unpaid wages of the workers on an average amounting to Rs. 15,000 per worker and hence got gratis from the management. The experience with Modern Foods, ITDC Hotels, Maruti, VSNL are more or less same. The Hindustan lever Ltd. (HLL) management have declared that the acquired modern food employee shall continue to get less pay than the HLL employees. An executive of the company is quoted “we will not pay a modern foods employee the same salary. If, however, we recruit a new employee and post him at
modern foods, he will get the same compensation as his Hindustan Lever Counterparts". In case of workers in the privatized ITDC hotels, there has been a "Cut in their overall compensation due to some perks getting nixed post disinvestments".9

As is generally the case in the private sector, rampant violation of labour laws and blatant refusal to trade rights is seriously confronted by the workers in the post privatized era. Unable to bear the insult and humiliation in the hands of the new private sector management, case of suicide has also been reported.

4.12a. Need for Referendum on Privatization Policy

The economic reform and for that matter, the dismantling of the public sector is carried out by the successive governments keeping the mass of the people rather in dark. It is unfortunate that the national asset built with public money and at the cost of the sweat and blood of out a nation wide public debate. Even the pro-reform forum has noted, "Reforms have been debated in the English language in parliament and in elite forums of discussion, but even though India had two parliamentary elections since 1991, reform have not been thrust into electoral politics as a major issue", (India in the era of economic reform, Harward University, 1996).

The government while spreading Canard against the trade union movement in the public sector opposing the dismantling of public sector claim that they have peoples support in their policy of privatizing the public sector industries. That such claim of the government is baseless is exposed from the foregoing observation. Further, it is relevant to mention that a referendum was held among the public
sector workers on 11th January 2000, seeking their opinion on the government policy of privatization. The referendum evoked unexpected response from the workers and overwhelming majority of the PSU workers gave their opinion against privatization and supported the strike against the Anti PSU and Anti-National policy of the Government.

There are examples of referendum in other countries on such issues. In Uruguay, a referendum was conducted on the question of privatization, 73 percent of the people voted against the move of privatization. Yet another example is Peru, on the issue of privatization of mining of copper, silver and gold in the Tambo Grande valley in Peru a referendum was organized. An overwhelming 95 percent people expressed their opposition to the proposal.

It is analyzed that in our country also a referendum should be conducted to take the opinion of the people on the government policy and steps of privatization of public sector.

B. Issues of Disinvestments in post liberalized Era

The disinvestments of public sector companies has always been accompanied by vociferous protests on the ground that the country is selling off valuable ‘Crown Jewels’ each phase of disinvestments has been mirred in controversy. Allegations of irregularities and corruption fly furiously as political parties, analysts and government audit agencies leap in to the fray. As a result, disinvestments has been carried out in fits and starts with the government of the day caught between
compulsions of raising revenue and the equally urgent need to protect itself from corruption charges.

4.1b. Selling Profit Making Public Sector Enterprises

The Government's decision to sell 10% of its stake in NALCO meets with stiff resistance in Orissa. On June 22, the Cabinet Committee on Economic Affairs (CCEA) announced the decision to divest 10% of the governments' stake each in National Aluminum Company Ltd. (NALCO) and the Neyveli Lignite Corporation (NLC). The sale would result in government equity in NALCO falling to 77.15 percent.

The reactions of the governments of the two states where the companies are headquartered were swift. Orissa chief minister Naveen Patnaik wrote to the Prime Minister asking him to review the decision. His party, the Biju Janta Dal (BJD) launched an agitation in the state.

The Union Finance Minister Mr. P. Chidambram said, “that the proceeds of the sale of 6.4 crore NALCO shares would go to the National Investment Fund (NIF), which will be managed, by the Life Insurance Corporation (LIC), the state Bank of India (SBI) and the Unit Trust of India (UTI).

Mr. Chidambram further said that the two companies “will very much remain Public sector units because the overwhelming majority of shares would still be owned by the government. He mentioned that the proceeds from NALCO and NLC disinvestments would go to the NIF. While 75 percent of the returns earned by the NIF would be spent on social sector programmes, the remaining would be spent on revival of viable PSUs. Union Minister for mines Sir Ram Ola said, “We are against disinvestments of profit making PSUs under the mines ministry,
and NALCO has been doing reasonably well. However, we have agreed 10 percent stake in the PSU, but money accrued from the disinvestments should be reinvested in NALCO.

In Orissa, NALCO employees struck work at the three main bases of the company. And in Delhi, the central trade unions attacked the move strongly. Dipankar Mukharjee secretary, centre of Indian trade unions (CITU) said that the disinvestments move could be used by Nalco’s competitors to gain entry into the company.

Mr. Chidambram, had earlier said that Nalco, which had performed admirably, ought to be a Navratna, a status that would give it greater autonomy.

The aluminum industry in India is oligopolistic in nature. There are three main players, Nalco being the only countervailing force to the other two Hindalco, which is part of the Aditya Birla group, and the Vedanta group. Both companies have demonstrated their eagerness to acquire companies to enhance Market shares. They have also shown their eagerness to acquire Nalco if and when it is placed on the block.

Nalco’s stellar performance raises more questions about the governments’ motives. Why would the government want to dilute its stake in a company that gives it fairly good returns? Between 200-01 and 2005-06 the company’s sales have more than doubled, gross profits have almost trebled. Moreover, the government has earned almost Rs. 1,500 crores as dividend from the company in the last six years. The sale of 6.4 crore shares at the current market price will fetch the government Rs. 1,429 crores. Letting the stock market set the value of the stake is risky and sure to generate controversy. A month ago, before the market
crashed, the Nalco share was trading at Rs. 335. At that price, the government's 10 percent stake would have been valued at Rs. 2,157 crores, suggesting a notional loss of Rs. 728 crores if the stake is sold at the current price. The wide range in values in the space of a few weeks only indicates just how hazardous – and controversial – the process of valuation can be.

Nalco has undertaken significant expansion in capacity in the last few years. Phase-I of the expansion programme, which was completed in 2004, was undertaken at a cost of Rs. 3,700 crores. The second phase is set to cost the company Rs. 4,091 crores by the time it is completed in 2008. Nalco has stopped drawing anything from the union budget for a long time. However, the sale of equity in a growing company raises several questions. How can the company’s intrinsic value be computed when it is regularly ploughing profits for expansion in the future? Nalco is a zero-debt company with reserves of more than Rs. 4000 crores.

Shivaji Patnaik, the veteran CITU leader who heads the federation of trade unions in Nalco said that the fight to save Nalco has caught the popular imagination because the company is one of its kind in Orissa. Nalco is the only publicly owned integrated aluminum producer. More important, its entire operation – from mining bauxite to smelting ore to finished aluminum production is done within the state. The spin-offs are substantial, especially when seen in the context of the fact that most private industries mine ore and take it out of Orissa, deriving the state of value addition and the prospect of employment
generation. No wonder the move is often characterized as an assault on oriya pride. This explains the posture of strident opposition that the BJD has adopted.10

4.2b. Birth of a Monopoly

The acquisition of the public sector Indian Petrochemicals Corporation Limited by the Reliance Group threatens to unleash a domineering monopoly in the Indian Petrochemical Industry. Reliance winning bid for the 26 percent stake of the government, at a price of Rs. 231 a share and aggregating Rs. 1.491 crores, effectively makes it a monopolist in the petrochemicals business.

Reliance's winning bid was way ahead of the other two bids. While the public sector petroleum major, India oil corporation Ltd. (IOCL), bid Rs. 128 a share, Nirma better known as a soap-maker, offered Rs. 110 a share. After the winning bid was announced on May 18, the disinvestments Ministry revealed that the adviser on the IPCL deal, UBS Warburg, had presented the government with four alternative valuations based on four different methods. The evaluation committee of the government fixed the reserve price at Rs. 131 a share by valuing the company on the basis of the discounted cash flow method. The total cost of Reliance acquisition would be Rs. 2,641.45 crore. Including the mandatory 20 percent open offer that it has made at the same price of Rs. 231 a share to public shareholders.

Established in 1969, IPCL represented India's attempt to develop self reliance in the field of petrochemicals. Until then the Indian market was dominated by multinational companies such as Hoechst, ICI (then the imperial chemical industries) and union carbide. The economies of
scale associated with the industry and its capital intensive nature were significant barriers to the entry of private firms.

By 1979, IPCL had established the first integrated petrochemical manufacturing complex at Vadodara in Gujarat. Several state-owned companies among them IOCL, the state trading corporation and engineers India Ltd. provided crucial support to IPCL at this stage. In the early 1980s, IPCL established its second plant at Nagothane, to use natural gas from the Bombay High oil fields as a feedstock. In the early 1990s the company established its third complex at Gandhar in Gujarat.

As a result of the takeover, Reliance gains control of IPCL’s two gas based crackers with a total capacity of 700 lakh tones per annum and one naphtha based cracker with a capacity of 130 lakh tonnes per annum.

J.P. Margon has welcomed the acquisition, pointing out that “the new petrochemical giant will wield pricing power in the Indian petrochemical products market”. Indeed, an interesting aspect of Reliance own reaction to the fears of monopoly dominance after the merger is that it addresses the concerns of IPCL’s shareholders the public at large and its own shareholders in two different voices. It has sought to alloy the public’s fears of a rising monopoly by arguing that the threat of “freely importable”. Petrochemicals and the governments’ commitment to reduce tariffs will restrain Reliance’s ability to impose prices on consumers. It has also highlighted the distinct in between dominance and “abuse of dominance”, which it says is what is bad for business.
Since December 2001, prices of products in the IPCL - Reliance portfolio have increased substantially. Between December 2001 and February 2002, the price of polyester staple fiber (an old Reliance mainstay) increased from Rs. 42,000 a tonne to Rs. 48,000 a tonne in February. Polypropylene prices increased from Rs. 37,000 to Rs. 43,000 a tonne in the same period. Polyethylene prices also increased by a similar magnitude during this phase.

The valuation of an acquisition is always difficult, but when the takeover establishes a monopolist, it is even more so. This is because the merge entity is capable of setting the price in the market without challenge. The privatization process will remain controversial as long as public sector companies, particularly those that hold the commanding heights in their areas of business, are sold to monopoly interests. The price just cannot be right because the valuation cannot account for monopoly power.

Although Reliance has issued statements including one from Anil Ambani, RIL managing Director - to the media, welcoming the 14,000 workers in to “the family”, the staff say they have not heard anything first hand. A general Manager at the IPCL, headquarters in Vadodara remarked “what you tell us is what we know”. Referring to the IPCL disinvestments, he added that “these were share holders’ decisions, taken at the Ministry level”.

The sale of IPCL under the stewardship of disinvestments minister Arun Shourie must have been doubly sweet for the Ambanis, the family that controls the Reliance Group.11

4.3b. Under Valuation of Public Sector Units
An important and perhaps most critical issue in the process of disinvestments or privatization of public sector units is valuation. Be it disinvestments of 1991-92 or that of BALCO in 2001, Valuation has always been at the core of controversy. This is because there are several methods of valuation and different methods yield widely varying results.

Disagreement on the pricing is one of the major reasons for sluggishness in disinvestments programme in India as different people put different values on the public sector units leading to suspicions and controversy and consequent confusion.

The government had sold 51% equity of profit earning public enterprise BALCO (Bharat Aluminum Company) to a private company SIL (Sterlite Industries Ltd.) for Rs. 551.50 crore. A lot of hue and cry was made in 2001 by the BALCO employees, Chhattisgarh government and opposite groups in the parliament. Trade unions launched a strike and complaints about wrong valuation of assets voiced in the Media. According to them the real worth of BALCO was Rs. 965 crore. The Net result was that industry was forced to shut down for days leading to damaged equipment in the smelter and resulting in loss to the company.

The deed, which was scheduled to be signed in February 2001 but due to strong objections of the opposition, government decided to have debate on the issue in the parliament. After the approval of the parliament the deed between the government and SIL was signed on March 2, 2001 and SIL presented a cheque of Rs. 551.50 crore to the government. After signing of this deed, the control and management of
BALCO got transferred to SIL and the promoter of SIL Mr. Anil Agarwal took the responsibilities of chairman and managing director of BALCO. According to the conditions mentioned in the deed, BALCO cannot transfer its 51% share in equity to any other party for the next three years while the government is free to sell its 49% share but the first right to buy this government will go to SIL itself. BALCO employees and Chhattisgarh government opposed this deed. But the Supreme Court in its order dated December 10, 2001 validated BALCO disinvestments.

In the BALCO, case some people thought that the price realized from sale of 51% share of BALCO was reasonable, others thought that price realized was only a fraction of the real value and the deal smacked of scam and corruption.

The other case, which was recently under controversy, was the undervaluation of Airport Centaur Hotel. The airport Centaur Hotel at Mumbai, which was bought from the government by Batra Hospitality for a sum of Rs. 83 crore early this year, was resold to the Sahara Group for Rs. 115 crore six months later, which works out to be a capital gain of Rs. 32 crore or an annualized return of 77%. This is more than the profits made by the Hotel during its entire life. In a sense, disinvestments have ended up handing over the country's wealth to private parties. Similarly HPCL was sold for Rs. 243 against the market price of Rs. 550 crore. NLC was sold for Rs. 11 crore against the market price of Rs. 82 crore.

Another aspect which makes the valuation as sensitive issue is that disinvestments of public sector units involves transfer of
ownership of public assets to private individuals and any suspension on account of valuation can give the impression that undue benefit has been given to the buyers who are private individuals at the expense of public exchequer.  

4.4b. Growing Politicization and Intransparency in the Process of Disinvestments

The major area of uncontrolled policy-making has been disinvestments especially since 1998. This ‘bonanza’ dispensation came in various forms. It was not always clear what the disinvestments were for? To offload loss-making commercial mistakes? To raise revenue? Or to simply sell national resources?

One of the biggest sales of the last half century is the plan to ‘privatize’ the Hindustan Petroleum Corporation Limited and the Bharat Petroleum Corporation Limited through sale of shares. Amidst considerable publicity, the Attorney General, Soli Sorabjee opinion was sought. Mr. Sorabjee declared that the disinvestments of HPCL and BPCL could take place without reference to parliament.

In September 16, 2003, the Supreme Court invalidated the governments’ decision to sell the shares of these companies to private parties without parliamentary approval. In the court the Government pursued its usual public policy argument that just as the Maruti and BALCO sales were matters of Public policy, so were these investments which were good for the nation and the public interest. The union’s counsel pointed out that the de-regulation of the petroleum industry was already taking place and referred to the authorization to Reliance and Essar in certain critical areas. This raised other questions not
brought to the fore. Who was the government dismantling its petroleum apparatus for? But since the government got away with disinvestments under the broad banner of public policy, it expected the court to permit it to do so again. But justice Rajendra Babu’s judgement in this petroleum case not only stopped the disinvestment, but also added important insights into questions of disinvestments generally.

Thus, the growing politicization and intransparency in the processes of disinvestments, especially in the case of BALCO, HPCL and BPCL has marred the objectives of the policy.

The government had taken an in principle decision to privatize HPCL and BPCL in February 2002. Due to difference between within the government and more especially, between the disinvestments and petroleum ministries on the quantum of shares to be off-loaded and the mode of sell-off.

After four-month old political impasse ended when the government announced that HPCL will be sold to a strategic investor while BPCL sell-off through public offerings in the domestic and international markets. Public sector companies have been barred from bidding for HPCL. The government has decided to sell 34.01 percent in HPCL to a strategic investor. Another 5 percent will be given to company’s employees.\(^{13}\)

4.5b. Disinvestment Programme at a Crossroads

The debate over the appropriateness of one method over the other is far from over and is at the core of the opposition to disinvestments.
Two separate announcements regarding the sale of government stake in banks and central public sector undertakings appear to be related but they are not. Other than the basic fact that the government, the Majority shareholder in both cases is not willing to cede control, that is bring down its shares to below 51 percent in a PSU or a bank, the objectives of the two announcement differ enormously.

In fact there is very little common between the public sector disinvestments programme and the dilution of a bank’s public sector character through a stock sale by the government. The decision not to let the government stake fall below 51 percent in a public sector bank is not surprising at all. Unlike a PSU sale, the dilution in a PSB was intended to boost its capital adequacy, an issue that has come to the fore in the light of the new Basel norms.

4.6b. Banks on Different Footing

Most Public sector banks were funded by the government. The NDA government had thought of reducing the government stake to 33.33 percent while maintaining their public sector character”. In two banks, oriental bank of commerce and Dena Bank, the government stake is below 51 percent. In other banks, there is still room but that may not be enough to increase their capital adequacy. In four banks central bank of India, Indian Bank, united bank of India and Punjab and Sind Bank, the government owns 100 percent of the capital. The disinvestments programme, one of the important components of the economic reform programme since the early 1990s, usually refers to the sale of government stake in public sector enterprises under central government control.
While several states too have their own versions of disinvestments, it is the programme at the centre that has been identified with the reform agenda and is in many ways the most controversial of all its items. We can say that the disinvestments programme has been beset with not just one but a number of controversies right from inception. The methodologies chosen by the government have drawn plenty of flak. So much so, on many occasions, the chorus of criticism directed at one particular method was mistakenly perceived as a condemnation of the entire programme.

4.7b. Row over Strategic Sale

The latest government announcement clarified by the Finance Minister is about shutting out one method, namely the strategic sale route while keeping alive the other option of selling its stake in tranches with the objective that the government holding should not fall below 51 percent. The announcement refers to 13 PSUs, all profit making and identified by the NDA government as candidates for strategic sales.

Strategic sale involves the sale of a large chunk of the unit's shares to a strategic investor who takes control of the management too. The method was adopted with a fair amount of success. Beginning with modern foods, the government sold a number of PSEs such as BALCO, VSNL and CMC through this route.

Expert opinion, including that of the disinvestments commission, supported the decision to rely on strategic sale in preference to the offer for sale route. In terms of realization to the government. It can be argued that this route will fetch more. Since the strategic investor is obliged to make an open offer to the non-government minority
shareholders (after entering into an agreement with the government) the control premium will be shared equitably by all shareholders.

4.8b. Fear of Privatization

However, strategic sale came to be associated with privatization. It was contended that the unit will cease to be in the government fold. As the present controversy over the strategic sales of the two Centaur Hotels shows, this method will be successful only if its nuances are articulated properly. In a strategic sale, the conventional valuations involving concepts such as asset value, profit earning capacity and so on are useful but the allegation of subjectivity has remained. Especially in cases like the Centaur Hotels where there were few or just one bid.

Finally, ideological objections to the change in ownership from the public to the private sector can never be wished away.

The shelving of the strategic sale route in 13 profit making companies, therefore, has not come as a surprise. It is possible that the government may still find a way to Garner political support and sell small lots of shares in these profit making PSEs without ever countenancing a dilution to below 51 percent.14

4.9b. Timing Issue of Disinvestments: (Airlines disinvestments runs into rough weather)

There were some controversial issues in the disinvestments of Air India and Indian Airlines that the government has ignored. For one, the draft of the shareholders agreement, the share purchase agreement and the guidelines came just on the eve of the call for financial bids, leaving room for litigation by disqualified companies. Secondly, the government has discounted meeting with seven trade unions of Air
India, where a categorical assurance was given on the grievances of 19,000 employees, mostly concerning retrenchment and protection of salary and perks. Despite assurance, the government has only offered a safety net of a year and shares at par. The most emphasized offer is, of course, the VRS at the pre-disinvestments level.

The government also ignored the issue of its global advisor, J.M. Morgan Stanley's chairman having a brief stint as director of the Tata-owned India Hotel Groups. There are apprehensions that the connection might influence the valuation of the airline on which the reserve price would be based. The figure doing the rounds is about Rs. 6000 crores. If that is correct, then the 40 percent equity for the strategic partner would allow the partner to buy stake at a price just above Rs. 2400 crores, which would at best be enough to purchase 3 or 4 aircraft.

However, an internal assessment by Air India puts its value between Rs. 15000 and Rs. 20,000 crore. The Rs. 3,250 crore debts on Air India that the Government talks of is the term loan incurred for the purchase of aircraft over the years. But there seems to be a strong political will to justify the sale of Air India by undermining it and playing on its drawbacks. The fact that the Maharaja was one of the top players till the government started interfering in its day to day functioning - the demand on its limited fleet for Hajj and VVIP travel and the virtual ban on purchase of new aircraft has been lost in the cacophony for disinvestments.

In contrast, after a freeze on revising bilateral air services agreement for two years, the government went on a signing spree in 2000 to the advantage of the new strategic partner. Moreover, there is a
more now to lower the price of the aviation turbine fuel (ATF) for Air India by removing the high rate of domestic sales tax on it. If that is done, then the strategic partner would make an annual saving of about Rs. 1000 crore in operational costs. This was not done for the nationalized Air India, but is now being done for privatized Air India. There are also apprehensions about the sole bidder, Tata Group’s partner, Singapore Airlines, being owned by the Singapore government and whether the new partnership will not give access to a foreign government. It must be understood that the first rate Singapore Airline is cash rich and is looking for profitable ventures to invest in. It has eyed India for a few reasons, one to make India a hub for its operations. Secondly, to gain access to various destinations all over the world through the bilateral that will pass on to privatized Air India and thirdly, to pick up traffic.

When the centre set out to disinvestments in Air India and Indian Airlines, the market was showing signs of growth. But suddenly there has been a slump. Capacity is available and fares have fallen. Also, about seven airlines are up for sale in the world, including three Latin American Airlines and Iberia of Spain, Malaysian Airlines, Thai Airways and Ansett of Australia. But there are no takers. In that sense, it is good time for bidders to buy, but bad time for the government to sell.15

4.10b. Debating India - Disinvestments Designs

Bharat Heavy Electricals Limited, incorporated in 1964, is India’s leading producer of power generation equipment and a pioneer in the field. Over the years, it has faced competition from multinationals and
symbolized self sufficiency in its area of expertise. However, its fortunes took a turn for the worse after the government announced its new power policy in 1991. The policy, aimed at wooing foreign capital, proved not only controversial but also costly, as the Enron affair has demonstrated. Despite these disadvantages, BHEL has managed to stay afloat in the face of a hostile policy environment. In 2004-05 the company had a turnover of Rs. 10,686 crores, an increase of about 22 percent over the previous year and made a net profit of Rs. 1,003 crores against Rs. 658 crores the previous year.

Reports indicate that while the department of disinvestments had initially proposed to sell 16 percent government stake in BHEL, the department of heavy industry gave approval for offloading only 10 percent.

The left greeted the move with protest leaders of the left parties insisted that they had been kept in the dark. Dipanker Mukherjee, communist party of India member of the Rajya Sabha, said his party had stated its opposition to the disinvestments of the government stake in BHEL in its pre-budget memorandum to the Finance Minister.

To recall Chidambaram of the commitment in the common minimum programme (CMP) to desist from privatizing profit-making PSUs the memorandum referred specifically to BHEL as a case where there ought to be no disinvestments.

The CCEA mandated a book-building route for the disinvestments. After several rounds of creeping disinvestments in the company, the government now holds 67.72 percent stake in it. The 10 percent disinvestments amounts to offloading about 2.2 crore shares
foreign institutional investors have cornered a substantial portion of the shares that are not in the hands of the government.

Chidambaram’s defense has centered on two counts. First, he has argued that the disinvestments did not violate the coalition dharma as enshrined in the common minimum programme. He asserted that the CMP provided for the sale of shares to retail investors. He also argued that the CMP required the government to find ways to revive ailing PSUs. His second set of arguments centered round what he proposed to do with the money mobilized through the sale.

He said that the money collected by the sale of BHEL equity would remain off Budget. The money is to be deposited in the national investments fund. Chidambaram said that fund managers would ensure that 75% of the funds shall be utilized for health and education and the remaining portion shall be used for reviving sick PSUs.

Chidambaram also said that the proposed stock-split would ensure that small investors and BHEL employees would be able to acquire them. This approach, justifying that disinvestments would be used for laudable purposes, begs important questions.

First, why should BHEL, a company already suffering at the hands of a government that exposes it to unfair foreign competition, be used for what the government ought to do anyway? BHEL has already suffered in recent tenders for power projects. It has been unable to compete with foreign companies, which enjoy the advantage of zero import duty on finished equipment. Critics have also pointed out that the disinvestments, even if only partial, makes things uncertain for the company, its employees as well as its clients.
Second, how does the company plan for the future when there is no certainty about who the owner is going to be a few months or years down the road? The most serious problem relates to the fact that investments in the company’s future are likely to be affected seriously. The owner (the govt.) may well see little rationality in investing in the company when it is going to be bought by a private company in the near future.

Third, why should a publicly owned company be used to pay for dubious objective of rewarding small investors and its employees? In fact studies of privatization have shown that positioning disinvestments as an “investor friendly” measure is used by governments to deflect the flak that privatization attracts for selling public assets at throw away prices. Shares parked in the hands of small investors could come in handy to private investors who may acquire control of the company later if and when it is sold outright. Shareholders who acquire a BHEL share would only be too willing to sell their shares for a small premium to a company that acquires a controlling stake in the company later that would be a cheap option for the acquirer as well.

The other justification for the sale that it would find schemes for education and health or the revival of ailing PSUs is also seen as a cynical excuse. Critics argue that the government could have raised taxes for these schemes instead of milking its own company.16

4.11b. TTL Controversy and the Larger Issues it poses Regarding the Ongoing Disinvestment Process:

Controversy continues to dog the union governments’ disinvestments programme and ensnared in it are some of India’s
leading corporate entities. The latest involves the Tatas, one of the country’s oldest and biggest business groups, which in February 2002 acquired Videsh Sanchar Nigam Limited (VSNL), one of the public sector crown jewels. The controversy erupted as soon as the Tatas announced that VSNL would invest Rs. 1,200 crore in one of its own group companies in the basic telephony sector, Tata Tele Services Ltd. (TTSL). The union cabinet was divided, amid speculation that it was a reflection of an ongoing corporate tussle over how the Indian telecommunications pie was to be divided among private corporate entities.

The principal protagonists in the cabinet were minister for communications and information technology Pramod Mahajan and minister for disinvestments Arun Shourie. Home Minister L.K. Advani played the role of mediator in the drama. After prolonged negotiations, Pramod Mahajan made peace with the Tatas. The Tatas announced that they would go ahead with the planned investment of VSNL funds in TTSL, amid growing unease that the issue that Mahajan had raised, citing the public interest, remained largely unresolved. The only concession made by the company was its acceptance of a government nominee in the committee to monitor VSNL’s investment in TTSL.

Soon after the Tatas’ announcement Mahajan responded with the charge that the Group was indulging in “asset stripping”. He alleged that the more violated the spirit of the deal that the Tatas had struck with the government when the former handed over its 25% stake in VSNL to the Tatas as a strategic partner”. Mahajan claimed that the VSNL board’s decision was made in haste and that due processes were not followed.
On May 28, 2002, the VSNL board decided to invest up to Rs. 1200 crore in the shares capital of TTSL. The group claimed that the “Strategic” investment will be in tune with the company’s initiative to reach out to the end-customers. The Tatas claimed that the move would enable VSNL, which did not have any end-customers in the basic telephony segment, to establish “forward Integration”.

Pramod Mahajan was quick to object to the investment. Mahajan said that the two government nominees would be issued show cause notices to explain their conduct at the meeting of the VSNL board. Officials in Mahajan’s ministry said: The Tatas have no right to transfer resources from VSNL to any of their group companies without seeking permission from Department of Telecommunication (DOT).

Critics allege that Mahajan’s claims to be acting in public and national interest are not justified by the manner in which VSNL was run in the last couple of years before the Tatas gained control of it. First, the deadline for the end of its monopoly on international traffic was advanced to April 2002 from 2004. VSNL was also prevented from establish in a cellular telephony facilities. Ironically, the reason cited was that BSNL and MTNL were already allotted the licence for the third operator in the circles. While every other Internet Service Provider (ISP) could obtain a licence for a mere Rs. 1 to establish operations anywhere in the country, VSNL was not allowed to expand beyond the six cities.

In another twist to the controversy, the VSNL sale was challenged in the Delhi high court. In a public interest petition filed in the Delhi high court, R.K. Maheshwari, an advocate representing the forum for peace and justice, argued that the VSNL sale was violative of the
constitution. He argued that the deal violates constitutional provisions that governed the transfer of land immovable properties of VSNL.

The political controversy over the Tata – VSNL affairs is perceived to be a proxy war between two of the biggest industrial houses in the country, Reliance and the Tatas. While Mahajan has attacked the Tatas, Shourie has defended the group on the grounds that it was well within its rights to do as it pleased with VSNL’s reserves. Sections of the BJP leadership also took sides in the controversy until Advani stepped into settle the issue amicably.

The VSNL disinvestment was the first "big ticket" sale of a public sector company. A significant feature of the three instances of strategic sale of public sector companies – of VSNL, IBP and Indian Petrochemicals corporation limited (IPCL) – has been that there were few bidders. The VSNL disinvestments started off with six bidders. However, as the process unfolded there were just two players – The Tatas and the Reliance group. The Tata bid for VSNL was higher by Rs. 92 crores.17

Conclusion

From the foregoing analysis, the researcher observes that the disinvestment policy adopted as a matter to restore budgetary balance, after the crisis in 1991, has undergone a shift from offering a part of the equity to various Private Sector players both domestic and foreign to strategic partners as a means to overcome the inefficiencies. Disinvestment could not gain much momentum and secure high revenue due to a number of issues which cropped up during the implementation of disinvestment programme in India like under
valuation of public sector units, birth of monopoly, growing politicization and intransparency in the process of disinvestment, selling of profit making public sector units etc. are some of the important issues which need to be solved and good future strategy is the need of the hour to make the disinvestment programme productive in India.

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