The PSU disinvestments policy of the government has drawn widespread criticism. The policy neither served the purpose of privatization nor did it boost up the financials of the PSU. It had also been said that it only helped the government reduce the fiscal deficit to some extent. The governments' proposal to swap the equity stake among cash rich PSUs has been criticized, for it does not lead to real disinvestments or privatization.

The policy is criticized mostly on the ground of methodology and valuation aspects of disinvestment. The buy-back proposal though it improves some ratios like EPS by extinguishing the equity, many PSUs were not willing to undertake this route for several reasons. Important among them were the lack of clarity in buy-back norms and the imminent divergent of surplus funds for the buy-back of shares when several investment plans were on the anvil. And government also did not encourage this idea as it may not bring in funds to its treasury.

After the buy-back proposal, there came the proposal of equity swaps. It is an ingenious route to take away the reserves and surpluses of the PSUs in the name of disinvestments to plug the fiscal deficit.

The governments will sale a part of its stake in a PSU to another PSU of related business and the proceeds will go into the government exchequer. In the process governments control will not get diluted since the stake goes to another PSUs. Modalities of cross holding amongst the oil enterprises inter se adopted 1998-99 and 1999-2000 is not an actual
disinvestment methodology. It has in fact locked up funds in the enterprises involved in cross holding.

The disinvestment policy has never been more dubious or devious. Since the economy would be numbed by declining growth rates in government stock revenues, run away expenditure and adampened stock market has jeopardized the Rs.5000 crore target for revenues from disinvestment in PSUs. That is why the Union finance minister Yashwant Sinha and his team devised a novel solution: force the cash- reach among the PSU to either buy-back their shares from the government or to pick up equity stakes in other PSUs, buying them from the government. Of course, sleight-of-hand fools no one. Mr. Jipan Mukhopadya, Assistant Economic Advisor, Tata services says: "It is accounting jugglery; it is not genuine privatization."8.1 Worse, the plan is not in the best interests of the PSUs. For the objective of any privatization program is to prepare them for a new competitive era. But this cannot be achieved through these short cuts, whose sole objective is to boost government revenues. Indeed cash flows will also affect the PSUs reserves, skew their debt to equity ratios and affect their investment plans. Mr. G. V. Ramakrishna, chairman, Disinvestment commission, who was not privy to the plan, complains: "No other country has taken such a route to disinvestments or privatization."8.2 Some PSUs, like the National Aluminium Co. (NALCO) and Bharat Heavy Electricals Ltd. (BHEL) opposed the government's moves says Kirit Parikh, Director, Indira Gandhi Institute of Development Research (IGIDR): "This will affect the PSUs' investment plans"8.3

8.1 ICFAI Reader, April, 1999 "PSU Disinvestment Robbing PSU (Peter) to pay exchequer (Paul) by – Ranju Sarker) Pg 71
8.2,8.3Business India March 1-14, 2004, Pg 44 "The IPO jitters"
While PSUs will float debt instruments like bonds. The government will use the inflows to finance unproductive revenue expenditure. Moreover, the privatization process will be derailed by political expediency.

Ever since the NDA government’s Disinvestment Minister Mr. Arun Shourie took over the reins of the ambitious programme of disinvestment of PSUs the issue got embroiled in some or other controversy. His style of functioning and the methodology adopted came in severe criticism not from the opposition parties but also by his colleagues and NDA MPs. Prominent among the union ministers who opposed the disinvestment on some or other ground included Ms. Uma Bharti, Dr. Murli Manohar Joshi, Mr. Jorge Fernandes, Mr. Ram Naik. Among the NDA partners who opposed the disinvestment programme were Shiv Sena MP Mr. Sanjay Nirupam. Most of these ministers and leaders objected to the policy and method of disinvestment. Many of them and most of the opposition parties {main being Congress} felt that the government should not disinvest the profit making PSUs but first disinvest the loss making PSUs and then think about the profit making PSUs. The BALCO CASE, the sale of Centaur Hotel {Juhu Mumbai} to Mr. Ajit Kerkar’s firm, sale of Centaur Hotel {Near Airport in Mumbai} to Batra Hospitality Pvt. Ltd., who in turn re-sold the same to Sahara Group within 3-months making a clean profit of about Rs. 35 crores, stirred the hornet's nest, raising a storm in the Parliament.

The Nation witnessed a spate of protests and agitation from trade union which brought the disinvestment to a grinding halt for sometime and the Prime Minister had to personally intervene in the matter to keep the disinvestment process moving. While the Impasse over the disinvestment of {BHARAT PETROLEUM CORPORATION LIMITED} BPCL and {HINDUSTAN PETROLE
CORPORATION LIMITED } HPCL stalled the entire process of disinvestment for some time. Stiff opposition raised against these two oil PSU and the process was challenged in the Supreme Court by filing a PIL.

The IPO Muddle

The success of MUL’s IPO hints at the possibility of achieving disinvestment targets which were never met before. This very success of IPO seemed to offer a new route for disinvestment. Immediately after this success, the Disinvestment Minister Mr. Arun Shourie indicated that the DCC had cleared the disinvestment of government stake in another five PSUs through the market route. For the first time, the government has tried disinvestment through the market route. Earlier, it was the strategic disinvestments route where the government and disinvestment commission had to face the challenges posed by various political parties, labour unions and other parties. Another important factor that would probably determine the success of disinvestment via primary market is timing of issue. Mr. B. G. Mahesh, CEO, Indiainfo.com opines “the government should tackle and handle the timing of disinvestment. It the Bull Run is for bank shares, government should think about disinvestment in banks and not in steel sector.”

8.4 Chartered Financial Analyst, Sept. 2003, Y. Chandrashekhar, Disinvestment-Revival of Interest, Pg. 46
This very first phase of IPO boom lasted shorter, then there was a
dismal response for the residual stake in the already privatized PSUs.
Arun Shourie, Disinvestment Minister, had reason to be worried as the
unskillful handling of the government's disinvestment exercise
threatened to derail the entire IPO market.

But on the other side IPCL and CMC have sailed through, though
not with the same degree of over subscription as Maruti or TV today, IBP
was having a rough road at the time of writing. Dredging corporation
had a pathetic response on the opening day too. IPCL and CMC are,
essentially Relience and Tata companies (the latter is practically a TCS
proxy) so an over subscription is not a credit to the minister.

Mr. Shourie was further criticized variously. It is said that what
disinvestment minister has tried to over subscribe his issue is not the way
the market works. It is a matter of ego message and a rating of his
achievement.

"Investors are not in the business of giving the shining India
campaign a vote of approval," says the merchant banker quoted earlier.
"They are in the business of making money."8.5

8.5 Business India March 1-14, 2004, Pg 44 "The IPO jitters"
It is easy to get mis-led by earlier success. People have made lot of money from IPO in recent past, Maruti made a cool 30 percent on the offer price of Rs.125 on listing. Those still holding on to it have seen it grow into a four-bagger in barely seven months. Ditto for the Indraprastha Gas which was offered at Rs.48 and got listed at Rs.120, a cool 150 percent profit or the TV today offering, which got listed at 100 percent premium to offer price only to subsequently slide but still quote at 50 percent premium to the offer price. The Divis Lab. Issue has made many an investor lakhpati in less than 10 months. Investors in primary issues have tasted blood and are thirsting for more:

Sadly though, issues such as ONGC and GAIL offer very little in terms of upside in the short term while the government has not come out with a floor price in the case of ONGC, reliable sources say it could be between Rs.600 – Rs.650 (The stock is quoting at Rs.700-odd). In the case of GAIL, the minimum price set is Rs.185 (The stock almost touched Rs.197 on announcement).

There is no denying that these stocks would prove good investment in the long term. But most players want to make a quick buck, even if they are not stags, they want to see their investment multiply manifold. In ONGC how much they will gain on listing. They are the great unknowns with huge speculative value. They sell dreams; ONGC and Gail sell oil and gas. Already listed companies can be significantly higher than their market price. You may get 5 percent discount the government is offering retail payers as your immediate listing return, which is very meager and barely covers your cost of capital. In fact, you could end up losing money if one has availed of loans to apply. A listed company can never be over subscribed more than a couple of times if the pricing is close to the current market price. ONGC may be a good solid company for the long term, but not many are interested in
that. But we might see a different story in case of Bank of Maharashtra, though the issue has been panned by a lot of people.

However, in reality, the primary market seems to have got the jitters. The reason for that is a BPT issue. Bunching, pricing and timing (BPT) of these issues is the main problem for which government is blamed.

Indeed, so close has been the bunching together now of six assorted IPOs –IPCC, CMC, IBP, Dredging Corporation, Gail and ONGC that many retail investors cannot take advantage of the rollover of their funds. Due to bunching of issues government failed to meet their target for the year.

The six IPOs have been started between 20 Feb and 5 March 04, which is barely a fortnight. Mr. Shourie admits that bunching has been a major problem.

"There is little we can do as the disinvestment proceed as required by the finance ministry by the current fiscal year to achieve the magic figure of the fisc."8.6, he says.

8.6 Business India March 1-14, 2004, Pg 44 "The IPO jitters"
The common criticism that the disinvestment is not about improving the health of PSUs through strategic transfer of management. Where as the main aim is to reduce the fiscal deficit. There is also a hidden aim as well and this is to sustain feel good factor among the middle class. The money markets are one of the major yard-sticks of the feel good factors and retail investors add up to middle class. To earn investing public's goodwill, the government announced a different pricing for the retail investors eyeing the IPOs. But the problem was that Shorie and his team have over looked middle class investors with limited resources while the bunching of the six IPOs together made the problem of raising fresh funds more complicated for the middle class. As the middle class investors would have problems raising fresh funds if they were to subscribe to any other. For instance, an investor going for the IPCL issue will be in no position to roll over his funds for the ONGC IPO. The delay due to internal bickering led to the government losing out on the lean months of November and December, which witnessed only one issue, Indraprastha Gas raising about Rs.192 crore. If a couple of these bunched up issues were scattered right through November, disinvestment minister would have been saved these difficulties.

It has also been said by the ruling party official that the southward march of the sensex in the day preceding the first of the five IPOs may have to do with the fact that both small and large investors were perhaps withdrawing from the secondary markets to have adequate funds in hand so as to be able to participate in IPOs. Says a prominent Mumbai-based broker: "for the past couple of weeks I have been only issuing payouts to my clients."  

8.7 Business India March 1-14, 2004, Pg 45 "The IPO jitters"
Pricing is another conflict area between government and the retail investors. The government says that it is keeping the floor price markedly low to make the issues attractive. The discount ranging form 5-15 percent is said to be too low and the investors expect higher discount.

Another major factor is timing that could go against some of the IPOs coming out in February and March. As in this period middle class plans out its savings by investing in government bond and other investments. There is a lot of tax planning done in these months. Only those with surplus funds invest in equity markets. Besides, mutual funds, banks and post office saving remained the preferred destination of the middle class.

One more factor neglected by the government is that it has not tapped the overseas market. Actually, India is one of the most sought after investment destination. According to a financial consultant, "It seems clear case of being ill advised" further he says, China plans to mobilize upwards of $15 billion and China construction Bank alone plans to raise $5 billion. In the last 12 yrs, China government has already sold more than $60 billion (Rs.2,70,000 crore) worth of corporate paper. "Our government had certainly missed major opportunity in tapping overseas investment. People are looking at India seriously and we should have capitalized on that."
The disinvestment minister should have taken the public offer route and put the money in common investor’s pocket. In September 2003 when the supreme court put the breaks on the disinvestment of IPCL and BPCL, the disinvestment program that Shourie had pursued since 2000 appeared to come to an end.

The privatization process has invited controversy even since a separate ministry was setup to oversee it in 2000. When Shourie took over ministry, it was assumed that his sincerity and his felicity with facts and figures would see him successfully steer the program. But he pursued the idea of strategic sale of PSUs almost blindly. When it came to oil marketing majors, HPCL and BPCL, the process hit an oil slick. It also got vitiated because corporate interests were seen at work in pushing the sale because of the massive retailing network of the two PSUs.

Petroleum Minister Ram Naik was the first to put the spoke in the wheel. Defense Minister George Fernandes followed him. A compromise formula was evolved whereby HPCL was to be sold to a strategic partner while there was to be a public issue for BPCL. The apex court’s ruling that HPCL and BPCL were set up by acts of Parliament and its approval is necessary nixed the plan.

When government decided to go in for a set of IPOs to meet in its disinvestment target, Shourie pursued the target zealously. The success of IPOs has partially vindicated him. His line of strategic sale may have ended up as a political failure but nobody can fault his sincerity of purpose.
The Policy to Wipe Out Public Sector

Under the ongoing drive of privatization most of the blue chip profit making PSUs has been targeted by the Government. The most of the strategic sector have been covered under the drive for privatization. Notable among them are oil & petroleum, power, telecom, rail, road and air transport, port and dock, airport & the financial sector. This is the plan to completely erase the public sector network in the country. The creation of a separate disinvestment ministry points out the governments view to completely destroy the public sector, as this fact is 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 approache to disinvestments and privatization and to give fresh impetus to this program, which will emphasize increasingly on strategic sales of identified PSUs.

This shows that 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 shocking representation (travesty) of truth.\textsuperscript{8.10}

\textsuperscript{8.10} Internet, www.disinvestment.com
The government has refused to recognize the strategic importance of PSUs in energy, telecommunication & defense production sectors including airports in protecting the economic sovereignty and even security of countries independence. They have identified these CPSUs as non-strategic and selling them off chaotically. This shows the extreme hypocrisy and deception on the part of the government.

Similarly it is nothing but a stupid argument that, price realize though the sale of minority stakes was low as compared to price realized through strategic disinvestments. It is but 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 high prize by so called strategic sale of PSU’s is short cited and suicidal for the country. Therefore, there is no rational behind the suicidal steps of strategic sales of PSU’s; particularly the blue chip ones.

The claim of the government that the concerns of the various share holders are taken care of through the share-holders agreement (SHA), share purchase agreement (SPA) and parent guarantee agreement (PGA) is also criticized. “Except extending due and undue benefits to the private buyers the strategic sale, cause immense harm to all the nations, people and the workmen. The SHA is supposed to protect the interest of the employees and act against assets stripping.”

8.11: Internet, www.disinvestment.com
Strategic Importance of PSUs

The other reasons advocated against privatization of PSUs include

1. Neglecting the strategic importance of PSUs under disinvestment. Notable among them are oil and petroleum, power, air transport, telecom, rail, road transport.

2. Profit making units, which were under the classification of Ratnas, were also targeted for disinvestment.

3. BALCO was a profit making co., which earned the government an average dividend, over eight years, of Rs.569 crore every year on the equity sold. CMC was another very well managed and profitable company, government equity in which was disinvested.

The Disinvestment Target Never Met

Since the announcement of Industrial policy 1991, the coalition forms of different governments that came to power adopted the disinvestment policy with minor modifications here and there but till September 2002, as against the target of Rs.78300 crores during this period actual realization has been of the order of Rs. 29482 crores. It is only 37.6 percent of the target.