Disinvestment of CPSEs in the last 6 years: Resources raised and change in government equity


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In this article, we describe the methods adopted for disinvestment of CPSEs since FY2015. We use the BSEPSU disinvestment database and individual annual reports of firms to arrive at the magnitudes of disinvestment. We use two measures:

- *Disinvestment proceeds and shares sold*. The proceeds are the amount realised through the sale process. Shares sold is the ratio of the number of government shares sold by the total equity of the firm.
- *Change in government equity*. This is the difference between the share of government in total equity of the firm before and after the disinvestment transaction.

The latter is especially important as disinvestment has great potential to improve economic efficiency by reducing government control. By focusing only on resources raised as an outcome, we end up ignoring the more important *economic rationale* for undertaking disinvestment.

Disinvestment methods

Table 1 provides an overview of disinvestment by the government in the last 6 years. It shows the number of transactions, the number of CPSEs, the disinvestment proceeds, % of total shares sold and the change in government equity post the transaction.

Table 1: Disinvestment from FY15 to FY20

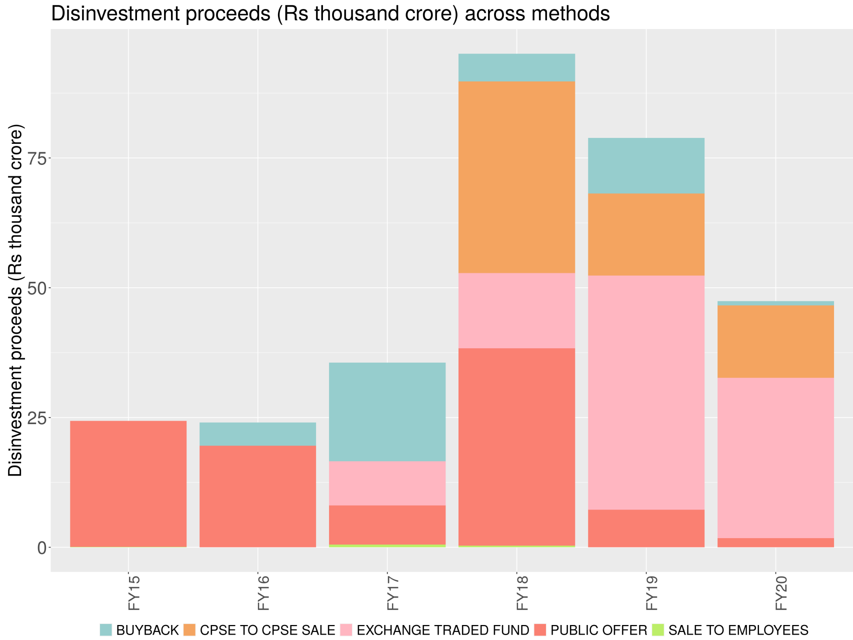
S. No.	Methods of disinvestment	Number of transactions	Number of CPSEs	Disinvestment proceeds (INR million)	Average % of shares sold	Average change in % of govt equity post disinvestment
1	PUBLIC OFFER	37	32	984,054	10	10
2	BUYBACK	36	23	403,549	8.34	0.64
3	SALE TO EMPLOYEES	21	15	9,379	0.138	0.138
4	EXCHANGE TRADED FUND*	10	18	989,490	1.09#	1.09#
5	CPSE TO CPSE SALE	8	8	667,119	77.15	77.15

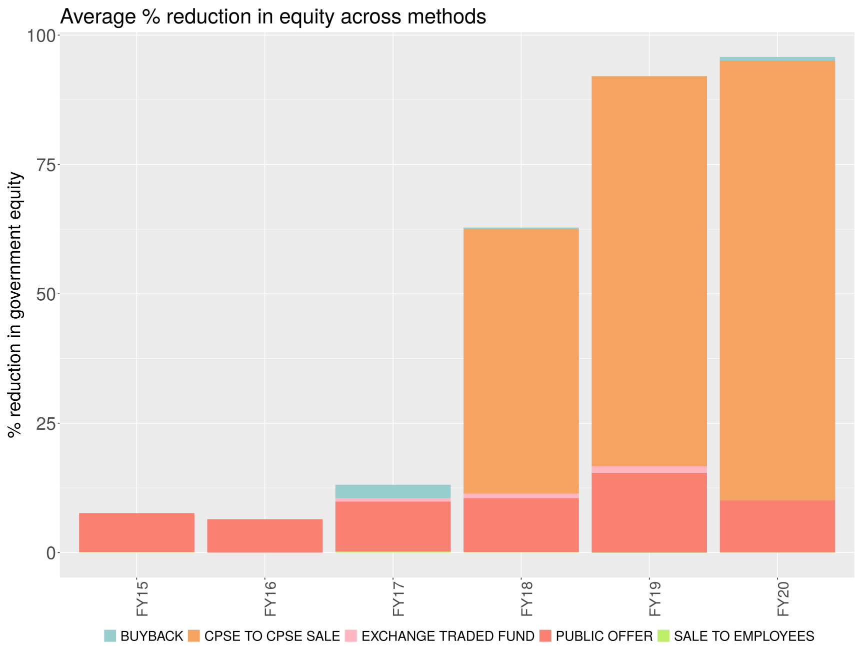
Source: BSEPSU database and authors' calculation based on annual reports

* There were a total of 10 tranches of ETFs in this period. Each tranche contains a basket of firms. If the disinvestment in each firm that was part of an ETF tranche is considered separately then we would have 90 ETF transactions instead of 10. The average change in government equity for ETFs is therefore calculated across these 90 transactions, and not the 10 tranches.

The government of India disinvested its stake in 50 CPSEs and raised a total of INR 3,053 billion using five methods: public offer, buy back, CPSE to CPSE sale, exchange traded funds and sale to employees. On an average, the government sold 7.28% of total shares and the average reduction in government equity has been around 5.84%. The sum total of the number of CPSEs in column 2 does not match with the total number of 50 unique CPSEs because some CPSEs adopted multiple methods across years. Public offer was the most used method with 32 firms and 37 transactions. The second most popular method was buyback with 36 transactions. The maximum revenue was raised through ETFs followed by public offer. The maximum share of sales and change in government equity was through CPSE to CPSE transfers. There is some missing data on % shares sold for buyback and ETF transactions as annual reports for FY20 is not published yet (indicated by #).

Figure 1 below shows the yearly distribution of amount raised and % reduction in equity across various methods from FY15 to FY20. The significant increase in proceeds in FY18 and FY19 is driven by ETFs and CPSE to CPSE sales. Besides CPSE to CPSE sales, the average % reduction in government equity remained low and constant across all years. We next study the five methods in detail and understand the extent of disinvestment in each method.





Public offer

Public offer has been the most common method of disinvestment. Since FY 2015, there have been 37 public offer transactions including 21 offer for sale (OFS) transactions. The public offer route is considered as a transparent way of offloading government shares and aims to encourage public participation. In several public offer transactions, the Life Insurance Corporation (LIC), whose shares are fully owned by the central government, has bought the majority of the shares. Some examples include BHEL 2014 public offer (bought 5.94% stake in firm), Coal India and Indian Oil in 2015 (bought one third and 86% of offered shares respectively), NTPC 2016 (59% of offered shares), Public offer of General Insurance Corporation Ltd. and New India Assurance Ltd. in 2017 (bought Rs 80,000 million and Rs 65,000 million worth of shares respectively), Hindustan Aeronautics Ltd. 2018 (70% of offered shares) and Rites 2019 OFS (bought 2.38% stake). LIC spent roughly INR 381,620 million on these transactions. This constitutes 38.7% of the disinvestment proceeds raised through the public offer method in the period of our study.

Buyback

Buyback is a process where a company purchases its shares from its existing shareholders. This helps a company to restructure capital and increase the underlying value of shares. The company is required to extinguish the bought back shares. The government has used buyback in the past as a method of disinvestment. However in 2016, buyback was made compulsory for CPSEs who met the prescribed threshold of net worth and cash reserves.

A company is under an obligation to provide a buyback offer to all existing shareholders. In such a case, reduction in the total equity is higher than the reduction in government shares which may lead to an increase in % of government equity post buyback. However, if a CPSE is wholly owned by the government, total number of shares will be reduced (extinguished) by the same number of shares bought back. Hence, there will be no change in % of equity held by the government post buyback.

Table 2 presents the impact of buyback transactions on government shareholding. Since 2015, 23 CPSEs have bought back shares from the government raising INR 403,549 million. It is important to note that % shares sold for three buyback transactions in FY20 is unavailable since annual report for the year is not published yet (indicated by *). Out of total 36 buyback transactions, 9 transactions led to an increase in government equity. In 11 transactions, where CPSE was wholly owned by the government, there was no change in government holding. The remaining 16 transactions recorded an average reduction of 1.19% in government equity. In column (2) the count of individual number of CPSEs do not match with the total number of CPSEs because same 8 CPSEs recorded increase in equity in one year while decrease in another (indicated by **).

Table 2: Summary of buyback transactions

Transaction type	Number of transactions	No. of CPSEs	Total disinvestment proceeds (INR million)	Average % of shares sold	Average change in % of govt equity post buyback
Reduction in government holding	16	12	244,947	7.63	(1.19)
Increase in government holding	9	9	83,591	2.31	0.16
No change in government holding	11	7	75,011	15.55*	0
Total	36	23**	403,549	8.34	(0.64)

Source : Authors' calculation based on annual reports

Sale to employees

As part of its disinvestment strategy, the government has often reserved a certain quantity of its shares for offer to the CPSE employees. Usually these shares are offered at a discount. Such transactions are expected to incentivise the employees and create dispersed shareholding. In the last six years, there have been 21 such transactions across 15 firms from which the government raised a total of INR 9,379 million. On an average, the % of shares sold to the employees is around 0.14%. Almost half of the proceeds from this method comes from two transactions in FY17 by Indian Oil Corporation Ltd. and NTPC Ltd. In May 2016, government sold 0.29% of the total shares of Indian Oil Corporation Ltd. to its employees raising INR 2,624 million. Pursuant to the 5% OFS stake in February 2016, NTPC offered to sell 2.06 crores equity shares of government to the employees at a discount rate of 5%. 85% of the shares were subscribed by around 10,800 eligible employees and government raised approximately INR 2,037 million.

Exchange traded funds (ETFs)

ETF is a pool of stocks that reflects the composition of an index, like S&P BSE SENSEX. This method has been frequently used for disinvestment in the recent past, where the government sells shareholding in select CPSEs to a fund house which owns the ETF. The ETF fund manager first formulates the scheme and offers to the public for subscription by way of a new fund offer (NFO). The subscription proceeds are used to purchase the shares of constituent companies in similar composition and weights based on the underlying index. Shares are usually sold at a discount to the scheme and the fund manager in turn creates and allots units of the scheme, to the investors. Once the NFO closes, the units are listed on the exchanges.

The government has launched two ETFs, namely, CPSE ETF and Bharat-22 ETF. CPSE ETF was launched in 2014. It contains stock of 11 listed CPSEs and follows the NIFTY CPSE index. In 2017, Bharat-22 ETF was created. This comprises of 16 CPSEs, 3 public sector banks and 3 private company stocks held by Specified Undertaking of the Unit Trust of India (SUUTI). The underlying index is the S&P Bharat 22 index. From FY15 to FY20, there were six tranches of CPSE ETF and four tranches of Bharat-22 ETF transactions which raised INR 989,490 million.

Table 3 lists each ETF tranche from FY15 to FY20 and provides details on allotment date, number of constituent CPSEs, amount raised by government and average reduction in % of government equity post each tranche. It is important to note that the average % reduction in government equity for three ETF transactions in FY20 is unavailable since annual report for the year is not published yet (indicated by *NA).

Table 3: Summary of ETF tranches from FY15 to FY20

ETF Name	ETF tranche	No. of constituent CPSEs	Allotment date of ETF units	Average % reduction in government equity	Amount realised (in INR million)
CPSE ETF	FURTHER FUND OFFER 1	10	28/01/2017	0.98	59999.9
CPSE ETF	FURTHER FUND OFFER 2	10	25/03/2017	0.39	24999.9
CPSE ETF	FURTHER FUND OFFER 3	11	07/12/2018	2.88	170000
CPSE ETF	FURTHER FUND OFFER 4	11	29/03/2019	1.22	93500.7
CPSE ETF	FURTHER FUND OFFER 5	10	26/07/2019	NA*	100003.9
CPSE ETF	FURTHER FUND OFFER 6	10	07/02/2020	NA*	165000
BHARAT 22-ETF	NEW FUND OFFER	16	24/11/2017	0.93	145000
BHARAT 22-ETF	FURTHER FUND OFFER 1	16	29/06/2018	0.58	83252.6
BHARAT 22-ETF	TAP OFFER	16	22/02/2019	0.92	104045.9
BHARAT 22-ETF	FURTHER FUND OFFER 2	16	10/10/2019	NA*	43688

Source : Author's calculation based on annual reports

While aggregate proceeds from ETF may have been high, the average reduction in government equity has been low.

CPSE to CPSE sale

Under this method, government transfers its shares in one CPSE to another CPSE. There have been eight such transactions in the last six years which raised a total of approximately INR 667,119 million. The details of each of the transaction is given in table 4. Except REC Limited, the entire government shareholding was transferred to another CPSE. In case of REC Limited, government still holds 0.25% shares. Post these sales, the firms became subsidiaries of the buyer CPSE firms, but continue to remain government companies as defined under section 2(45) of the Companies Act, 2013.

Table 4: CPSE to CPSE sales from FY15 to FY20

CPSE	Date of transaction	Buyer's Name	% of shares sold	Amount realised (in INR million)
HINDUSTAN PETROLEUM CORPN. LTD.	31/01/2018	OIL & NATURAL GAS CORP.LTD.	51.11	369,150
H S C C (INDIA) LTD.	06/11/2018	NBCC (INDIA) LTD.	100.00	2,850
DREDGING CORPN. OF INDIA LTD.	09/03/2019	CONSORTIUM OF FOUR PORTS	73.47	10,491
R E C LTD.	28/03/2019	POWER FINANCE CORP.LTD.	52.63	145,000
KAMARAJAR PORT LTD.	27/03/2020	CHENNAI PORT TRUST	66.67	23,830
NORTH EASTERN ELECTRIC POWER CORPN. LTD.	27/03/2020	NTPC LTD.	100.00	40,000
T H D C INDIA LTD.	27/03/2020	NTPC LTD.	74.49	750,00
NATIONAL PROJECTS CONSTRUCTION CORPN. LTD.	26/04/2020	WAPCOS LTD.	98.89	798

Source : BSEPSU disinvestment database

The CPSE to CPSE sale transactions constituted around 22% of total disinvestment proceeds in the last six years. While technically, the government may have divested 77% shareholding in these CPSEs (as shown in Table 1), it did not bring any change in government ownership of these firms.

Conclusion

There has been a huge increase in disinvestment proceeds in the recent years. However, reduction in government equity in the CPSEs has not witnessed much growth. About 5.19% of disinvestment proceeds came from buyback transactions that led to an increase (or no change) in government equity and 21.8% came from CPSE to CPSE sale transactions that led to no change in government ownership. While 32.2% of proceeds came from public offer, almost 39% of these were actually purchased by LIC. Thus, purchases by LIC accounted for 12.49% of the total proceeds which also imply no change in government ownership. Finally, around 32.4% came from ETFs which, on an average reduced government equity by 1.09%. These considerations become central issues for any research on disinvestment and its impact.

The authors are researchers at NIPFP. We thank Karthik Suresh and Sarang Moharir for useful comments.

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