

Disinvestment



What does it mean?

by Pankaj Yadav

Disinvestment simply means withdrawal of investment. Let's say you purchased 1000 shares of a company, now when you sell these shares to someone, you dis invest. Or let's say a company invested in a new business and now they are not able to manage the new business and the new business is now running in losses, so when the company sells this business to other company, they have dis invested.

The term Disinvestment is generally used in context with Public sector undertakings (PSU) which are owned and operated by the Government.

When the government sells a public sector undertaking, partly or fully it is known as disinvestment. This is done by selling the shares of the company or by selling of certain assets of the company to the private investors. So basically by dis investing, PSUs reduce the ownership in the company by selling its equity or shares.



How does Government disinvest?

1. Minority stake sale – Here the government sells a part of a PSU in such a way that it still has the ownership in the PSU. This is possible when the government owns more than 51 % shares or the capital of the PSU. So to ensure this, only less than 49 % percent of the PSU is offered for sale. So in this investment the control over management is retained by the Government.
2. Strategic Disinvestment – in this type of disinvestment, the management control and a portion of a Public sector undertaking is given to a strategic partner .So 50% stake is offered for sale in this type of disinvestment.

Why does government Disinvest?

1. To Modernize and upgrade the Public Sector undertakings – Modernization requires technical support of the private sector in the PSUs. Exploiting the progressing globalization process and making PSEs more effective and focused, these units need to be modernised with the help of private sector.
2. To reduce fiscal deficit – fiscal deficit is the difference between government expenditure and revenue. Now disinvestments increases government's revenue and reduces fiscal deficit. The revenue here comes from the money received from selling the shares or assets of a PSU.

Latest Disinvestments in India.

Air India

Air India was suppose to pay the debt of ₹52,000 crore. Out of which ₹22,000 crore debt was for aircraft acquisition loan and the reaming debt was taken to meet its day to day operation expenses. Air india was also running in losses. Unable to pay the debt , the Government decided to go for the disinvestment.



So the Union Cabinet on June 28 decided to go for Air India's strategic disinvestment, and as explained earlier, which means the management and substantial part of Air india will be handed over to private sector. The strategic disinvestment was also done for five of Air India's subsidiaries.

NTPC

It's a Minority stake sale type of disinvestment.

The government will offer to sell up to 10% stake of NTPC for Rs 13,800 Crore. It will be one the biggest disinvestment done by the government. Last such big disinvestment was the Rs 22,500 crore disinvestment in Coal india in 2014 -2015. This disinvestment will be done by offering 412 million shares at Rs 168 per share .



The government currently has 69.7 ownership in the NTPC . After disinvesting ,the stake would come down to 59.7 percent .