

# Trends in Disinvestment of Government's Equity: An Explicatory Study of Public Sector Enterprises in India

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RESEARCH PAPER

## Abstract

A Public Sector Enterprise (PSE) is an enterprise which is owned and proscribed by the Local, or State or Central Govt. In a civic enterprise, the investment is either entirely or partially made by the Govt. Under PSEs, the Central Public Sector Enterprises (CPSEs) occupy an important position in the economy. They were set up to achieve fiscal development, self-support in manufacturing, intemperance equilibrium of expenditure, and controlling the deflationary and inflationary trends. These macro-economic objectives are taken as an instrument for structural change of the nation with equality and social fairness. Disinvestment is a process in which the Govt. equity fund is introverted either in fraction or in totality. The Govt. of India introduced the process of disinvesting its equity shares in Indian PSEs in the fiscal year 1991-92. The prime tenet at the back of disinvestment is to boost prosperity, endorse public partaking at wider scale and to bring improved market answerability. In this backdrop, the present study is an attempt to analyze the trends in disinvestment of Government's equity in Indian PSEs during the period 1991-92 to 2019-20. For this purpose, secondary information has been sourced from the available yearly reports of the Public Enterprises Survey, Govt. of India. Overall, a low level of disinvestment is observed during the initial years (i.e., up to 2008-09). Thereafter, more or less an increasing trend is observed in actual disinvestment as compared to actual disinvestment in the earlier years. The real proceeds from disinvestment have fluctuated at certain point of time during the period under study. Furthermore, actual receipts from disinvestment are less than that of the budgeted receipts in most of the years under study.

**Keywords:** Disinvestment, CPSEs, Privatization, Indian PSEs, Trends

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## Introduction

A Public Sector Enterprise (PSE) is an enterprise which is owned and proscribed by the Local or State or Central Govt. In a civic enterprise, the investment is either entirely or partially made by the Govt. Under PSEs, the Central Public Sector Enterprises (CPSEs) of India occupy an important position in the economy. They were set up to achieve fiscal development,

self-support in manufacturing, intemperance equilibrium of expenditure, and controlling the deflationary and inflationary trends. These macro-economic objectives are taken as an instrument for structural change of the nation with equality and social fairness.

There were five CPSEs with a capital expenditure of Rs. 29 crore in the 1<sup>st</sup> Five Year Plan. However, as on 31<sup>st</sup> March 2019, there are 348 CPSEs with a capital expenditure of Rs. 16,40,628 crore. The CPSEs are taken as tactical players towards formation of the economy. They supply essential merchandise and services as well as inhabit a momentous market place in important sectors like oil, coal, electrical energy, steel, etc. The CPSEs also function in competitive markets like telecommunications, IT, hospitality, etc.

The augmentation of the CPSEs was intended for the achievement of nationalized goals i.e., diminution of poverty, attainment of self-sufficiency, deletion of inequalities relating to earnings, boost in employment facilities, etc. However, these goals could not be achieved up to the ideal level. As a result, the process of disinvestment took place in the Indian PSEs.

Disinvestment is a process in which the Govt. equity fund is introverted either in fraction or in totality. The Govt. of India introduced the process of disinvesting its equity shares in Indian PSEs in the fiscal year 1991-92. The prime tenet at the back of disinvestment is to boost prosperity, endorse public partaking at wider scale and to bring improved market answerability. The most imperative purpose of disinvestment is to guarantee optimal use of nationwide prosperity and to boost industrious effectiveness of the public sector enterprises.

### Importance of Disinvestment

In this context, the significance of disinvestment may be outlined as follows:

1. To finance the monetary shortfall that is incessantly growing.
2. To finance major infrastructure projects for economic development.
3. To support disbursement by investing in the economy.
4. To support in diverse social activities like wellbeing and education.

### Objectives of the Study

The objectives of the study are stated below:

1. To analyze the approaches to disinvestment of Government's equity.
2. To analyze the trends in disinvestment of Government's equity in Indian PSEs.

### Materials and Methods

- **Sample:** The study has considered all the operating PSEs in India.
- **Study Period:** The study has been conducted during the period 1991-92 to 2019-20.
- **Methodology:** The study is explanatory in nature. It is primarily based on resultant information. The relevant information has been collected from the available yearly information of Public Enterprise Survey, Govt. of India

### Results and Discussion

**Approaches to Disinvestments:** Generally, there are three dissimilar approaches to disinvestments from the point of view of the Govt.:

- **Minority Disinvestment:** It indicates that category of disinvestment in which the Govt. has a majority stake of its shares in the company, thereby acquiring administration control in the company.
- **Majority Disinvestment:** This type of disinvestment is the process of disinvestment in which the Govt. holds a minor stake of its equity shares in the company after disinvestment. In other words, majority of the shares are sold by

the Govt. under this approach. This approach is applicable to the tactical partners which might be other CPSEs themselves.

- **Absolute Privatization:** It refers to that type of disinvestment in which the purchaser acquires 100% control of the company.

### Trends in Disinvestment of Government's Equity in Indian PSEs

The year-wise disinvestment trends of the PSEs in India are presented below in Table – 1

The highest receipt (Rs.100642 crore) from disinvestment has been observed in the year 2017-18, while the lowest receipt (Rs.168 crore) from disinvestment is observed in the year 1995-96.

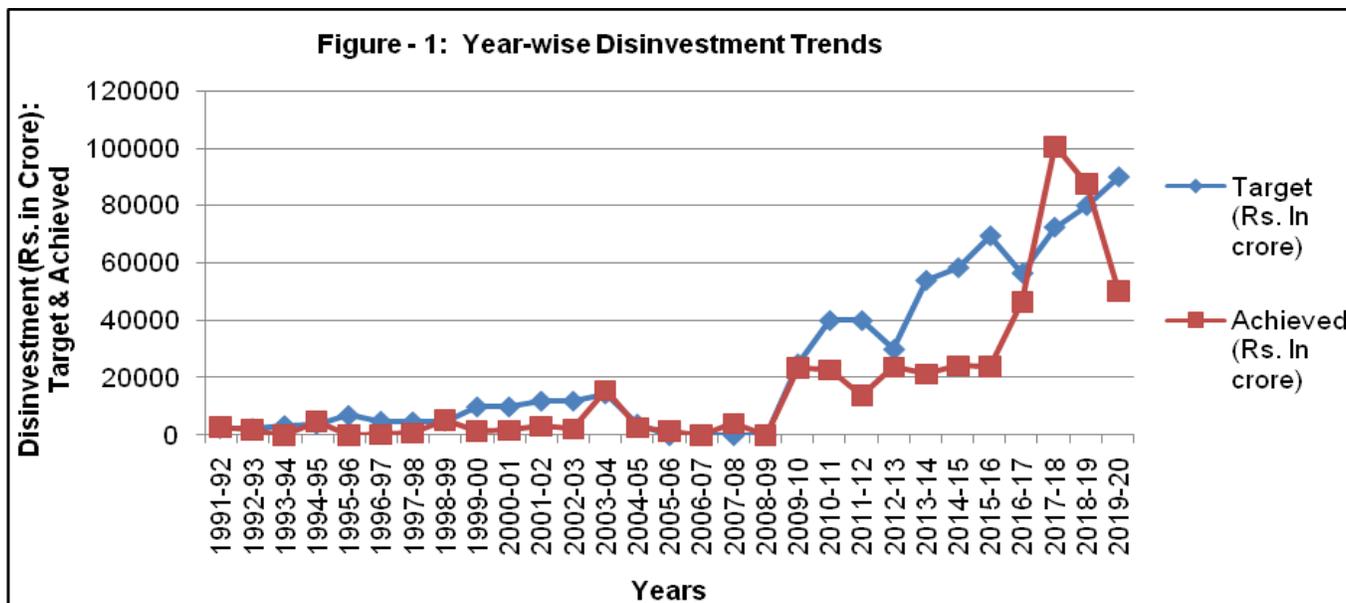
**Table-1: Year-wise Disinvestment of Government's Equity**

Financial Year	Actual^ (Rs. in Cr.)
1991-92	3038
1992-93	1913
1993-94	00
1994-95	4843
1995-96	168
1996-97	380
1997-98	910
1998-99	5371
1999-00	1585
2000-01	1871
2001-02	3268
2002-03	2348
2003-04	15547
2004-05	2765
2005-06	1570
2006-07	00
2007-08	4181
2008-09	00
2009-10	23553
2010-11	22763
2011-12	14035
2012-13	23857
2013-14	21321
2014-15	24349
2015-16	24058
2016-17	46378
2017-18	100642
2018-19	87513
2019-20	50294

**Notes:**

^ Excludes other receipts of the Government from the disinvestment of the CPSEs.

**Source:** bsepsu.com (as on 7.7.2021).



**1991-92 - 2000-01 Phase:** In India, the process of disinvestment started in 1991-92. The 31 PSEs that were selected for disinvestment purpose fetched Rs.3,038 crore (Table – 1) to the Govt. In the year 1996, the Disinvestment Commission (DC) was formed in order to recommend, monitor, verify and make public aware of ongoing disinvestment of the PSEs. Nevertheless, the DC was discontinued in the year 2004.

The Disinvestment Department was formed in the year 1999. In the year 2001, it was renamed as Ministry of Disinvestment. During this phase, marginal disinvestment took place. Moreover, from Figure – 1, it is observed that actual proceeds from disinvestment were far less than that of the targeted disinvestment. The shortfall in the realization of actual disinvestment may be due to lack of intelligibility, inappropriate market condition, no clear policy on disinvestment, etc.

**2001-02 to 2003-04 Phase:** During this phase, maximum quantity of disinvestments occurred either through tactical auction (i.e., shift of control and administration to a private entity) or through propose for auction to the society with the Govt. in charge of control on the administration. As observed from Table -1 and Figure - 1, the Govt. during this phase realized an amount of Rs. 21,163.68 crore from the process of disinvestment against the targeted amount of Rs.38500 crore.

**2004-05 to 2008-09 Phase:** During this phase, the disinvestment process did not show satisfactory performance with respect to realization of proceeds from disinvestment. Table -1 reveals that total takings from disinvestments were Rs. 8515.93 crore.

**2009-10 to 2019-20 Phase:** In this phase, disinvestment took place by selling marginal share in the profit-making PSEs that were listed as well as unlisted. Against the targeted amount of Rs.40000 crore in 2011-12, the Govt. collected a sum of Rs.14,000 crore. Table-1 as well as Figure-1 further reveals that in the year 2019-20, real proceeds from disinvestment were Rs.50304 crore against the targeted sum of Rs.105000 crore.

**Conclusion**

Overall, a low level of disinvestment is observed during the initial years (i.e., up to 2008-09). Thereafter, more or less an increasing trend is observed in actual disinvestment as compared to actual disinvestment in the earlier years. The real proceeds from disinvestment in Indian CPSEs have fluctuated at certain point of time during the period under study. Furthermore, actual receipts from disinvestment are less than that of the budgeted receipts in most of the years under study.

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**CMA (Dr.) Sudipta Ghosh**, presently an Assistant Professor (Academic Level 12) in the Dept. of Commerce (UG & PG), Prabhat Kumar College, Contai, (Affiliated to Vidyasagar University), W.B., India, has over 16 years of teaching experience, of which 10 years of teaching experience at post graduate level. Before joining Prabhat Kumar College, Contai, he worked as a Lecturer in Dewan Institute of Management Studies (Approved by AICTE), Meerut, U.P., India. He also served as a Guest Faculty in the Department of Commerce as well as in the Department of Business Administration, Vidyasagar University, W.B., India. Dr. Ghosh obtained his Ph.D. Degree in 2014 from Vidyasagar University, in the area of Indian Power Sector. He is an Associate Member of The Institute of Cost Accountants of India (Statutory Body under an Act of Parliament) and also acted as a Nodal Officer of the College for AISHE, Ministry of HRD, Govt. of India. He has published 81 research papers in reputed journals and edited books and also presented several research papers in national and international conferences. His research work has also been shared in reputed national and international journals.

**Prof. P. Sreeramana Aithal**, presently the Vice-Chancellor of Srinivas University, Mangalore, India, has 32 years' experience in Teaching & Research and 22 years' experience in Administration. Prof. Aithal currently has FIRST RANK in TOP 12,000 Business Management Authors in the Global Ranking of Elsevier's SSRN (USA) for maximum number of open access research paper publications in SSRN. He got his first Ph.D. degree in Physics from Mangalore University and second Ph.D. degree in Business Management from Manipal University. He worked as Post Doctoral Research Fellow at PRL, Ahmedabad from 1999-2000. In the year 2002, he has been selected for the prestigious Overseer Fellowship of Dept. of Science & Technology, Govt. of India – BOYSCAST Fellowship and did Post Doctoral Research at CREOL, University of Central Florida, U.S.A. Recently, he obtained D.Sc. Degree from Srinivas University for his research on Technology Management. Prof. Aithal has more than 600 research publications in refereed International Journals and presented more than 300 research papers in National & International Conferences/Seminars. He has also written text books on Engineering Physics and Basic Electronics, which have been published by ACME Publishers, New Delhi.

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