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Assessment of Current Methods of Disinvestment in India

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ABSTRACT: *Disinvestment in CPSEs (Central Public Sector Enterprises) is an important plank of Government Policy to raise resources for development, rein in budgetary deficit, facilitate listing of PSUs, foster greater public accountability and unlock the true value of these enterprises. The key challenges to the disinvestment process come from lackluster performance of many CPSEs, poor perception of PSU's by investors, opposition from unions and failure to get proper valuations for stake sale. Given the increasing reliance on Disinvestment to meet budgetary targets, its execution has posed challenges and Government has been facing difficulties in selling these stakes at fair prices to a wider base of investors. In the past, many Disinvestment offers by Government have met with lukewarm response from institutional and retail investors and government institutions like LIC had to step in to bridge the gap. Having set ambitious targets for disinvestment, Government has come out with more modes of disinvestment than were initially attempted. To its credit, Government has succeeded for the first time in many years in exceeding its disinvestment targets in the fiscal 2017-18. An assessment of the disinvestment methods has been attempted to compare their effectiveness, relative merits and demerits and their ability to meet broad objectives like a fair return to Government, ensure wider distribution of CPSE shareholding and also ensure reasonable returns to investors in medium to long term. As the government mulls a step-up in its divestment program and expands its Disinvestment horizon by including Insurance companies, subsidiaries of Indian Railways and CPSEs engaged in Defense sector, it may be appropriate to assess the Disinvestment methods available at this juncture and compare their effectiveness and suitability.*

KEYWORDS: *Buy Back Of Shares, CPSEs Disinvestment, CPSE ETF, Disinvestment Policy, Methods of Disinvestment, Strategic Disinvestment*

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I. INTRODUCTION

The term 'Disinvestment' was popularized by Keynes who defined disinvestment as "the sale of an investment". The disinvestment process of CPSEs (Central Public Sector Enterprises) in India was initiated in the year 1991 with the advent of Government's new economic policy. Disinvestment was started mainly through sale of minority Shareholding in CPSEs and has considerably evolved over the years influenced by market conditions, need to bridge resources gap, and recommendation of bodies like Rangarajan committee, Disinvestment commission set up under Shri GV Ramakrishna and changing political leadership in the country. While the initial stake sale in CPSEs was restricted to financial institutions alone, it subsequently got extended to mutual funds, then to FIIs (Foreign Institutional Investors), employees and finally the retail investors. The disinvestment methods today available with the government have evolved considerably from the time when VSNL became the first CPSE to be offered through a public offer in the fiscal 1999-2000. In a significant decision which gave a boost to the disinvestment program, SEBI (Securities & Exchange Bard of India) in October, 2014, stipulated that listed public sector companies will have to comply with the norm of 25 per cent minimum public shareholding by August 21, 2017. Earlier public sector companies were required to maintain 10 per cent minimum public shareholding, while listed private sector entities were required to have 25 per cent public shareholding. This facilitated the disinvestment of already listed CPSEs through schemes like FPO (Further follow on Offer) and OFS (Offer For Sale though an auction method). Another noteworthy instrument introduced in the process of disinvestment was ETF (Exchange Traded Fund) based on basket of stakes from several CPSEs. This instrument which was first introduced in year 2014 as Goldman Sachs CPSE ETF (Now Reliance CPSE ETF) was revived with two successful follow on offers in fiscal 2016-17 and has been followed by Bharat-22 ETF in this fiscal. Other means like buy back of shares, encouragement to PSUs to buy stake of other similar PSUs have also gained prominence as means of disinvestment as the Government goes in an overdrive mode in its disinvestment program. As the government mulls a considerable step-up in the divestment program it may be appropriate to assess the methods available at this this juncture and compare their effectiveness.

II. GOVERNMENT DISINVESTMENT PROGRAM

The Government Disinvestment exercise started in 1991-92 as the country stared at a dire economic crisis and need was felt to free resources for more productive use from CPSEs many of which were engaged in non-core activities. Disinvesting CPSEs which were at one stage called 'Temples of modern India' by Pandit Jawaharlal Nehru was an anathema till that time and hence the Policy of Disinvestment saw many changes in small steps and has taken shape after considerable debates, budgetary constraints, inability of the government to support loss making CPSEs and need to raise resources for more productive use as finally the need to rein in budgetary deficit.

The disinvestment was handled by the Department of Public Enterprises (Ministry of Heavy Industries) till 1996-97 and subsequently, from 1st April, 1997 till 9th December, 1999, by the Department of Economic Affairs (Ministry of Finance). The Department of Disinvestment (DoD) was set up as a separate department in December, 1999 and was subsequently renamed as Ministry of Disinvestment (MODI). From May, 2004, the Department of Disinvestment is one of the Departments under the Ministry of Finance. The Department of Disinvestment has been renamed as Department of Investment and Public Asset Management (DIPAM) from 14th April, 2016.

The Disinvestment proceeds of the Government hit a low during the rule of UPA-1 Government (2004-2009) as the government was dependent on support from Left parties. In the last decade, disinvestment has picked up considerably but has lagged behind the Government targets. In a rare feat, it is the first time in many years that the target set up has been exceeded and the Government Disinvestment program ended garnering about Rs. 92000 Crore in the fiscal 2017-18 which tantamount to exceeding the target by around 29%. The amount raised though Disinvestment vis-à-vis the targets for last few years are depicted in Table 1.

Pariculars / Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Disinvestment Target	25,000	40,000	40,000	30,000	54,000	58,425	69,500	56,500	72,500
Disinvestment Actual	23,553	22,763	14,035	23,857	21,321	24,338	32,210	44,378	92,476

Table 1: Year wise Disinvestment Targets & Achievements (In Rs. Crore)

The year wise Disinvestment figures in Table 1 are also exhibited as a chart in Figure 1.

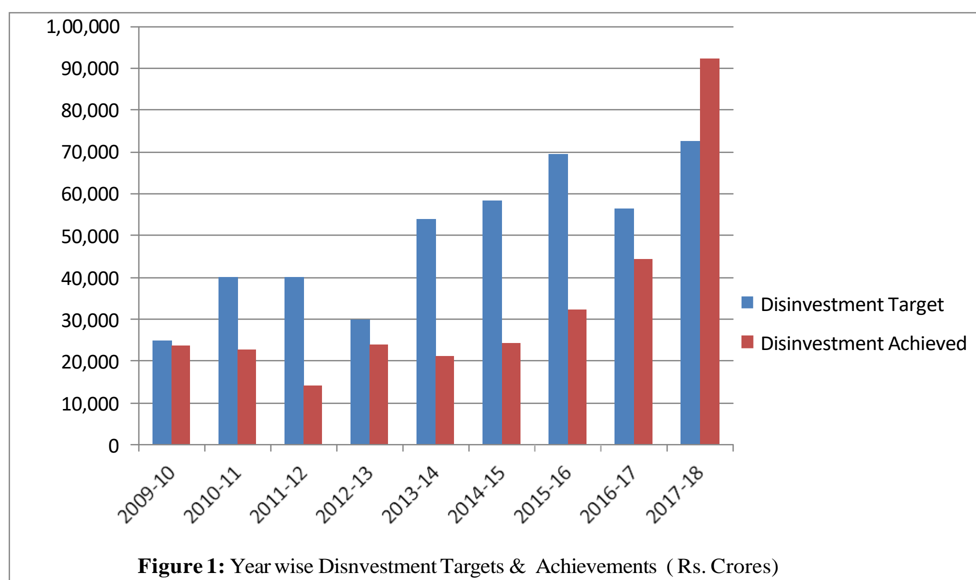

Figure 1: Year wise Disnvestment Targets & Achievements (Rs. Crores)

The exceeding of a record target set for fiscal 2107-18 has been achieved using a mix of several disinvestment modes which we intend to cover in this paper with broad objectives outlined below.

III. OBJECTIVES

1. To review the methods used for disinvestment in fiscal year 2017-18.
2. Evaluate the merits, demerits, suitability and effectiveness of these methods
3. Comparative assessment of ETF versus OFS route for disinvestment.

IV. SOURCES OF DATA

This paper utilizes the secondary data available on exchanges like NSE and BSE with respect to IPOs and OFS by CPSEs, BSE/NSE announcements regarding floor prices and allotment for these issues. Data

related to ETF is collected from prospectus /details of these ETF by SEBI (Securities & Exchange Board of India) and the respective AMC (Asset management company) website. Data related to disinvestment has also been extracted and tabulated from DIPAM website (Department of Investment and Public Asset Management). Further information has also been gathered for reports of Disinvestment commission and recommendations of NITI Aayog.

V. METHODS OF DISINVESTMENT

The policy on disinvestment has evolved considerably ever since the Statement of Industrial Policy of July 24, 1991 stated that in order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers. Thus, disinvestment process started in 1991-92, when minority shareholding of the Central Government in 30 individual CPSEs was sold to selected financial institutions. The scope for disinvestment continued to enlarge and evolve over the years shaped by recommendations of Rangarajan committee in 1993, Disinvestment commission in 1996, setting up of department of Disinvestment, Political dispensation at the Centre etc. and finally evolving and refining of Disinvestment methods.

Faced with the challenge to keep fiscal deficit under check, the Government has set higher disinvestment targets with each passing year in the last decade (with a minor exception in 2012-13). To meet these targets, in addition to traditional modes like IPO (Initial Public Offer) and FPO (Follow on Public Offer) the Government revived schemes like strategic sales, made significant refinements in Offer for sale through auction methods and over the time introduced new ideas like ETF (Exchange Trade Fund) for CPSEs to broad base the choice of alternatives available for Disinvestment. Following methods were adopted in the fiscal 2017-18 for disinvestment.

1. Initial Public Offering (IPO) – offer of fresh shares by an unlisted CPSE or sale by the Government out of its shareholding or a combination of both to the public for subscription for the first time.
2. Further Public Offering (FPO) – offer of shares by a listed CPSE for subscription.
3. Offer for sale (OFS) - Sale of shares by Promoters (Government in this case) through Stock Exchange mechanism by adopting auction route.
4. Strategic sale- Sale of substantial portion of the Government shareholding of a central public sector enterprise (CPSE) along with transfer of management control.
5. Buy Back of own shares by cash rich PSUs.
6. Institutional Placement Program (IPP) – only Institutions can participate in the offering.
7. CPSE Exchange Traded Fund (ETF) –Disinvestment through ETF route allows simultaneous sale of GoI's (Government of India) stake in various CPSEs across diverse sectors through a single Product offering.

The Disinvestment carried out in fiscal 2017-18 and the methods used are depicted in Figure 2:

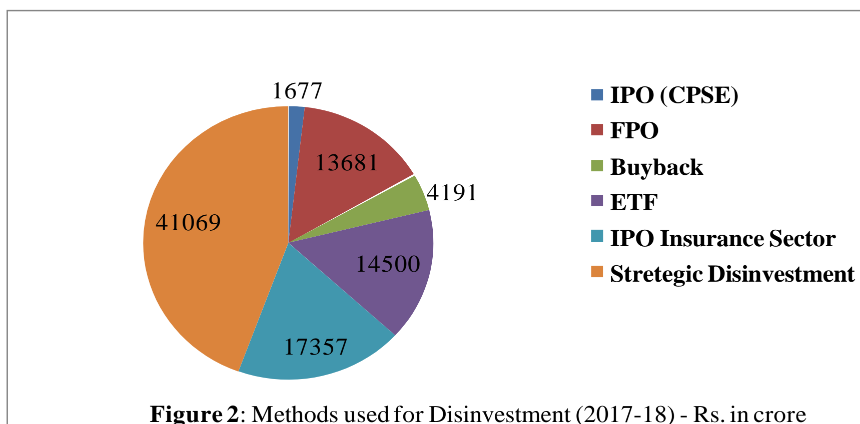

Figure 2: Methods used for Disinvestment (2017-18) - Rs. in crore

As can be seen in Figure 2, a large chunk of disinvestment has come from strategic disinvestment and IPO"s of Insurance sector. There was no contribution from these two methods earlier and this has helped the government to exceed its disinvestment targets in fiscal 2017-18.

VI. DISINVESTMENT THROUGH IPO & FPO ROUTE.

The Disinvestment policy of the Government has from the very beginning stressed on listing of CPSEs to discover and enhance their value and bring market orientation into these CPSEs. This has been facilitated through the IPO (Initial Public Offer) route and subsequently further disinvestment was many times done through equity dilution using FPO (Follow-on Public Offer, also called Further Public Offering).

The Government enlarged the ambit of disinvestment by including for the first time, Insurance sector to the list of companies where it wanted to divest its stake. IPOs were planned for five insurance companies which included General Insurance Corporation (GIC Re), New India Assurance Company, United India Insurance,

National Insurance and Oriental Insurance. Out of these five insurance companies, only two companies GIC Re and New Indian Assurance came out with their IPO in 2017-18 which got a tepid response from the market. Further to subscribe to these issues, LIC (Life Insurance Corporation) had to buy a substantial stake and the issues quoted below the offered prices. Thus in true sense the Government failed to meaningfully divest its planned stake of 10% each in GIC Re and New India Insurance and these two companies ended up with considerable cross holdings by Government owned LIC. On the positive side, these companies got listed and budgetary targets of disinvestment were achieved. The cold shouldering by investors of the two insurance sector IPOs led to postponement of other three planned IPOs in this sector and subsequently in this budget Government has announced its plans to merge the remaining three insurance companies and then come out with an IPO.

Other notable sector in which Government has put forward its plans for disinvestment includes subsidiaries of Indian Railways and CPSEs engaged in Rail sector. The government proposes to push through initial public offers (IPOs) of IRCON, IRFC, Rail Vikas Nigam Limited (RVNL) and RITES etc. Similarly PSUs engaged in Defense sector have been identified and IPOs of HAL (Hindustan Aeronautics Ltd.), Bharat Dynamics, Mazagaon Dock Shipbuilders Limited, Mishra Dhatu Nigam Ltd. (MIDHANI) etc. may materialize in near future. The details of disinvestment through IPO route in fiscal 2017-18 is depicted in Table 2.

Name of CPSE	% Govt holding sold	Receipts		Name of Insurance Company	% Govt holding sold	Receipts
HUDCO	10.193	1207.35		General Insurance Corp.	12.5	9704.16
Cochin Shipyard Ltd.	25	470.01		New India Assurance	11.65	7653.32
Subtotal CPSE IPOs		1677.36		Subtotal Insurance IPOs		17357.48
Total Disinvestment though IPO Route		19034.84				

Table 2: Disinvestment though IPO/FPO Route during 2017-18 (All figures in Rs. Crore)

As can be seen from the table, a major share of IPO disinvestment receipts in the year 2017-18 has come through IPOs of the Insurance companies.

VII. OFS (OFFER FOR SALE)

In June 2010, securities market regulator SEBI (Securities & Exchange Board of India) had asked all companies (other than PSUs) to attain minimum 25 per cent public shareholding within three years. The Offer for Sale (OFS) was first introduced by SEBI in 2012, to make it easier for promoters of listed companies to cut their stake and comply with these minimum public shareholding norms by June 2013. The method was quickly adopted by listed companies. In October, 2014, the rule for minimum 25 per cent public shareholding was made applicable to listed CPSEs as well. To comply with these norms, over 30 listed PSUs needed to raise their public shareholding to minimum 25 per cent by August 21, 2017, and Government started using the OFS route to divest its shareholding in public sector enterprises.

The OFS mechanism is used only when existing shares are put on the block and while the initial OFS mechanism followed one day auction, this was subsequently amended to two days, with first day auction for non-retail investors and second day for retail investors. In OFS, the entire retail bid amount is backed by 100 per cent margins in the form of cash and cash-equivalent. The process is quick and any excess fund, due to non-allotment or partial allotment, is refunded to the participants on the same day, after 6 pm.

The OFS mechanism in its present from is based on announcement of OFS date, just a day before the OFS issue opens (after close of Market) i.e. T-1 day (T day being the day of the OFS) with a Floor price which is generally at a discount to closing market price of scrip on that day. The first day is reserved for Non-Retail bidders and second day is meant for retail bidders. Non- Retail investors are allowed to carry forward their bids to T+1 day if they exercise an option. This is allowed so that retail investor’s portion does not remain unallocated due to insufficient demand by the retail investors. Announcing of OFS & Floor price on T-1 day after close of market hours ensures that no positions can be taken in F&O (Future & Options) prior to OFS opening. The allocation in OFS remains subject to final price discovered through the auction route. The allotment is done starting from the highest price bid till all shares get allocated. The lowest price at which the OFS issue gets subscribed is termed as the cut off/clearing price. OFS route enjoys considerable advantage over follow-on public offer (FPO), which takes considerable time, as it requires filing of draft papers and obtaining necessary approvals from SEBI (Securities & Exchange Board of India). While OFS is based on price discovery though a quick one day auction, an FPO, on the other hand, defines a price band within which bids are placed. The details of Disinvestment in CPSEs through OFS/Employees OFS route in fiscal 2017-18 is depicted in Table 3.

OFS				Employees OFS		
Name of CPSE	% Govt. holding sold	Receipts		Name of CPSE	% Govt. holding sold	Receipts
NALCO	9.2125	1191.73		HCL	0.07	3.73
RCF Ltd.	5	205.15		BEL	0.25	79.51
NFL	15	530.72		NTPC	0.12	151.14
HCL	6.83	404.71		NALCO	0.4	50.51
NTPC	6.63	9117.92		HCL	0.0064	0.36
NLC	5	722.29				
NMDC	2.52	1223.13				
Subtotal Through OFS Route		13395.65		Subtotal Employees OFS Route		285.25
Total Disinvestment though OFS / Employees OFS Route = Rs. 13680.9 crore						

Table 3: Disinvestment though OFS / Employess OFS Route during 2017-18 (in Rs. Crore)

Under Employees OFS, CPSE Employees are offered shares at 5 per cent discount to the OFS offer price, after a cooling-off period of 12 weeks post disinvestment. Since Employee OFS issues are now being made after a considerable cooling time from the OFS date when the price has stabilized and a 5% additional discount is offered, they have in general elicited good response from the employees.

VIII. BUY BACK OF SHARES

In June, 2016, DIPAM (Department of Investment and Public Asset Management) released guidelines on capital restructuring, in a move to help the Government achieve its disinvestment target. It said that cash-rich, state-run companies could buy back their shares from the market, followed by strategic stake sales once the market improves. The government then instructed CPSEs with a net worth of at least Rs. 2,000 crore and cash balance of more than Rs.1,000 crore to buy back their shares from the Stock Exchanges to meet the disinvestment targets. The Government felt that CPSEs could subsequently offload these shares once the market improves. DIPAM expressed the opinion in its guideline that for cash-rich CPSEs, which do not have expansion plans, buyback of shares improves investors‟ confidence in the company and is likely to help the company to raise capital in future when it requires funds for expansion/diversification for growth. Consequently many CPSEs as depicted in Table 4 came out with offers to buy back their own shares.

Name OF CPSE	% of Shares Disinvested	Receipts in Rs. Crores	GOI Holding Post Disinvestment
Mazagaon Dock Shipbuilders Ltd.	10	253.48	100%
IRCON	5	190.59	99.71%
Hindustan Aeronautics Ltd.	7.5	921.5	100%
Garden Reach Ship Builders & Engineers	7.5	77.62	100%
Hospital Services Consultancy Corporation	25	49.55	100%
Security Printing & Minting Corp. of India Ltd.	10	455	100%
Total		1947.74	crore

Table 4: Disinvestment Receipts through Buyback in 2017-18 (in Rs. Crore)

DIPAM also issued guidelines for payment of dividends, issue of bonus shares and splitting of shares to enhance the cash flow from CPSEs and improve their valuations. Every CPSE was mandated to pay a minimum annual dividend of 30% of profit after-tax or 5% of net worth, whichever is higher and issue bonus shares when their defined reserves and surplus are equal to or more than five times their paid-up capital.

IX. STRATEGIC SALE

Strategic sale of a PSU involves transferring a significant proportion of a PSU‟s share to a strategic partner along with management control. The first strategic sale of a CPSE happened in 1999-2000 when 74% shareholding of the Government in Modern Foods was divested to Hindustan Lever. Other such sales involved Hindustan Zinc Limited, BALCO, IPCL, Maruti Udyog Ltd, some hotels of ITDC, VSNL etc. This practice was subsequently abandoned after change of guard at Centre in 2004. The last strategic sale was in Jessop and Co. in

2003-04 where the government stake of 72% was handed over to a private partner.

In 2016, the government again decided to revive the strategic sale method of Disinvestment for mobilizing funds. NITI Aayog was entrusted by the Centre to suggest ways to divest the government's stake in profit-making, loss-making and sick units. Under the strategic sale, the government is willing to hand over control of a PSU to a private party and bring down its stake to anywhere between 49 per cent and a total sale.

However in a slight change of tactics and considerable difficulties involved in selling to private parties, Government came out with a tweaked option of Strategic sale which involves selling majority stake & management control to other larger CPSE. Under this route Oil and Natural Gas Corporation Ltd. (ONGC) acquired 51.1% stake in Hindustan Petroleum Corporation Ltd.(HPCL) from Government of India for about Rs. 37000 crore. This small tweak thus helped the government to overshoot its disinvestment targets, even as this deal may not meet the fundamental definition and objective of strategic disinvestment.

NITI Aayog has already recommended 40 sick PSUs for strategic disinvestment. While strategic sale to private players is likely to continue, there are good chances of companies like NBCC and those in Oil sector going for strategic buyouts and help the Government meet the disinvestment targets.

X. ETF (EXCHANGE TRADED FUND)

An ETF or exchange-traded fund is a marketable security that tracks a basket of assets such as stocks. In contrast to mutual funds, it trades like a stock as it is listed on the stock exchanges. ETFs are passively managed funds and provide exposure to a diversified portfolio of stocks akin to mutual funds. Being passively managed, ETFs are characterized by a very low expense ratio and are a popular avenue for investing in many developed and emerging market economies. While ETF’s have been in existence in India for quite some time, “CPSE ETF” was the first ETF based around CPSEs to be launched in May 2014 and was based on a basket of ten CPSEs. The idea was to pack select CPSE shares into an ETF that is then purchased by investors and the government sells the CPSE shares to the ETF. Thus the investors get exposure to a basket of stocks in a defined proportion. In the first CPSE ETF, the government had offered a 5% discount and a loyalty bonus of an additional one unit for every 15 such units held to make it attractive for investors. This issue collected Rs. 2500 crore. The CPSE ETF follow on offer at 5% discount in February 2017 collected Rs. 6000 crore and a further follow on issue in March 2017 at 3.5% discount collected Rs. 3000 crore. Thus the CPSE ETF collected around Rs. 11,500 crore in three tranches.

Taking a cue from its success with CPSE ETF, the Government in November, 2017, launched the second ETF named “Bharat 22 ETF”. This ETF consists of stocks of a total of 22 firms consisting of Central Public Sector Enterprises (CPSEs), Public Sector Banks (PSB) and some strategic holdings of SUUTI (Specified Undertaking of the Unit Trust of India). Bharat 22 ETF was offered to investors through a New Fund Offer (NFO) at 3% discount. The Bharat 22 ETF elicited good demand and got subscribed by nearly four times, helping the government to raise the issue size to Rs 14,500 crore, making it the highest-ever new fund offer collection in the history of mutual funds in the country. As on January 25, 2018, The CPSE ETF fund yielded 16.7 per cent CAGR return since its inception on March 28, 2014. The performance of Bharat 22 ETF has also been reasonable. These ETFs hold promise of providing better risk adjusted returns due to which they are held for medium to long term by various categories of investors. Going ahead, we should expect substantial increase in Disinvestment through ETF’s where the government is able to sell a substantial quantity of shares without losing control of the companies.

XI. ETF VERSUS OFS

OFS (Offer for Sale) emerged as a quick fix solution for disinvestment of CPSEs following SEBI’s diktat to have 25% public shareholding even in PSUs. OFS offered several benefits over FPO (Further Public Offer) in terms of less clearances needed from the regulator and overall faster process. The OFS mechanism in its present form is based on announcement of OFS date, just a day before the OFS issue opens with a Floor price which is generally at a discount to closing market price on that day and allotment through auction of shares. Further on a Discounted Floor Price, an additional 5% discount is offered to retail investors on their bid price. However in actual practice, the retail generally fails to get allotment in good OFS as allotment is based on auction mechanism and operators change the price at the last moment (3:29 pm) and retail is left out of the process. Hence practically retail participation is minimum and the operators are able to corner even retail quota of shares for arbitrage purpose. Also as the OFS involves a single company, immediately after announcement of OFS date, there is significant fall in its share price due to increased liquidity concerns and lower Floor price. The Government has to give considerable discount to make the OFS a success. The discounts offered in various OFS that raised money in 2017-18 is indicated in Table 5.

Name of CPSE	Receipts in Rs. Crore	OFS Date	Price Before OFS	Floor Price Fixed for OFS	% Discount to Market
NALCO	1191.73	19-Apr-17	73.45	67	8.78%
RCF Ltd.	205.15	29-Jun-17	79.9	74.25	7.07%
NFL	530.72	26--Jul-2017	78.85	72.8	7.67%
HCL	404.71	02-Aug-17	70.65	64.5	8.70%
NTPC	9117.92	29-Aug-17	173.35	168	3.09%
NLC	1223.13	25-Oct-17	95.75	94	1.83%
NMDC	12673.36	09-Jan-18	161.85	153.5	5.16%

Table 5: Discount offered by Government on the Market Price for OFS in 2017-18

Thus with exception of NLC (Neyveli Lignite Corporation Ltd.) and NTPC, the Government had to offer discounts of 5.16%-8.78% to ensure a reasonable response to these OFS. In case of NLC & NTPC, it was well known that OFS was coming anytime and so the price had already moved downward. These discounts are in addition to 5% discount for retail (in practice this is less due to bidding above cut off price)

An ETF consists of a basket of stocks and so its announcement does not lead to rout in individual stocks. The discount in ETF which was earlier in range of 5% has come down to 3% and thus ETF Instrument may be able to get a better price for Government without affecting the short to medium term returns for investors due to its spread out holding. Packaging of Public sector Banks and private company like ITC, Larsen & Toubro, Axis Bank in which Government holds stake as part of Specified Undertaking of Unit Trust of India (SUUTI), can help to make these ETFs more broad based and attractive. Good response to the Bharat 22 ETF NFO & earlier CPSE ETF is likely to result in more ETF based disinvestment exercises. ETFs are also able to attract global pension funds, which lay more emphasis on moderate but safe returns and as these players have a very long term view their participation truly serves the purpose of disinvestment. ETFs are also characterized by lowest AMC charges which make them attractive for retail. Thus compared to OFS, ETF is a much more equitable and powerful instrument for disinvestment and is able to serve the purpose without hurting the underlying price of various stocks.

XII. CONCLUSION

The Disinvestment program has a come a long way from the cautious start made in fiscal 1991-92 when small stakes in select CPSEs was divested to financial institutions alone. As on 31st January, 2018, CPSEs constituted 10.93% and 11.04% of the total market capitalization of companies listed at BSE and NSE respectively. Government strategies of disinvestment have taken shape over the years and have been influenced by political compulsions, budgetary constraints, market conditions and ideology of ruling political party at the Centre.

Strategic disinvestment which fell out of favor after the loss in elections by the NDA in 2004 has now been revived and contributed the largest chunk of disinvestments for the fiscal 2017-18 albeit on a slightly different note. In this case the majority stake in the CPSE instead of being sold to private hands was purchased by another CPSE. This important tweak in the policy of Government of encouraging large and well managed CPSEs to acquire similar smaller CPSEs could pave the way for further strategic disinvestment without running into opposition from various camps. From the record breaking total receipts of Rs. 92,475.73 crore in fiscal 2017-18, a sum of Rs 36,915 crore (39%) came from the sale of Hindustan Petroleum Corporation Ltd. to another CPSE, Oil & Natural Gas Corporation Ltd. While the Government has met its disinvestment targets, this disinvestment receipt is actually the transfer of cash from a CPSE company to government coffers. Despite this apparent contradiction there is merit in buyback of own shares by CPSEs or Strategic buys of small and similar CPSEs by larger peers as besides little opposition, it can bring in management change in less efficient units, pool together their synergies and also help the government to raise resources for more productive purposes. Further if the equity markets continues to be in bad state, the appetite for IPO/FPO will be very limited and Government will have to increasingly resort to Buy Backs and Strategic Sales. In general companies where Government has give up its majority stake and allowed private sector to manage the things, the performance has been much better and these companies have enhanced shareholders return. Companies like Maruti Udyog Ltd., Hindustan Zinc and IPCL have provided shareholders as well as the Government which retained minority stake in these companies with pretty decent returns after the change of hands. With Niti Aayog identifying several companies for strategic sale in fiscal 2018-19, it is likely that control of many CPSEs will pass to private hands as well.

Besides the ONGC-HPCL deal and the shot in arm from insurance IPOs of two companies, the Government could achieve disinvestment targets helped by buoyant stock market conditions and in that sense it faces considerable challenges going ahead. Many voices have been raised against the blatant use of Life

Insurance Corporation of India (LIC) to buy shares to get the IPO/FPO/OFS issues oversubscribed. This leads to transfer of a chunk of Government shares from one pocket to another and does not very well serve the basic purpose of disinvestment. As the paper has brought out, ETF is a much better option which results in widespread distribution of shareholding, ensures a better price to Government and is a preferred option by long term investors including pension funds. On the other hand, OFS which remains a good quick fix solution to disinvestment leads to lower price realization for the Government. Further OFS which is based on auction method is loaded against passive retail investors and the purpose of distributing CPSE shares to a wider group of investors is not met adequately. ETFs thus provide a good means to offload Government stake on an equitable basis without disrupting individual stock prices. As the paper has highlighted the ETF route holds good promise and has definite advantages over OFS/FPO mode of disinvestment. By making a judicious choice of basket of shares in the ETF, the Government can get better valuations for stake sale and overcome the phenomenon of large slump in prices that immediately follows the announcement of CPSE's FPO/OFS issue. The findings in this paper can help policy makers in deciding the appropriate Disinvestment strategy under given market conditions and investor appetite. As Government seems to go in an overdrive mode on disinvestment, its mettle will be put to test in the case of planned strategic disinvestment of Air India.

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