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Disinvestment potential

In the current fiscal year, we are noticing that disinvestment receipts are running much behind the revised target also. Compared with FY23RE of Rs 50,000 crore, government has so far garnered only Rs 31,000 crore. In this brief analysis we look at the potential resources that can be collected through disinvestment working on the premise that the government continues to hold 51% share in all the PSUs including those in the financial sector. This will indicate the maximum amount that can be raised without any change in ideology of government ownership at current market prices. However, as this theoretical scenario does not take into account strategic and non-strategic sectors/companies, the numbers stated below should be read with caution.

Current disinvestment target and status

Every year government announces a disinvestment targets in its annual budget presentation. For instance, for FY23, initially budgetary target was set at Rs 65,000 crore which later brought down to Rs 50,000 crore. For FY24, the target has been set at Rs 51,000 crore.

So far in FYTD23, government has collected Rs 31,106 crore in disinvestment receipts and a bulk of it came from LIC's IPO (Rs 20,516 crore). The balance was covered by "offer for sales" (OFS) method used for ONGC (Rs 3,059 crore), IRCTC (Rs 2,724 crore), and PPL (Rs 472 crore); sale of Axis Bank shares held by SUUTI (Rs 3,839 crore); sale of enemy shares (Rs 0.24 crore), and GAIL's buyback of shares (Rs 498 crore). Thus it seems likely that government may miss the revised target also for FY23.

Potential kitty

The list of companies chosen for disinvestment each year is strategically determined, based on government's overall governance agenda (minimum government, maximum governance), the extent to which the sectors are critical and market conditions. In this note, we have undertaken a hypothetical exercise to determine what can be the potential size of disinvestment receipts if government was to divest its stake in all PSEs, PSBs and insurance companies up to 49% thus retaining control with 51% shareholding. The data has been taken from the website of Department of Investment and Public Asset Management (DIPAM). The market capitalisation along with the current shareholding of the government is based on the closing price of 8 Mar 2023 as specified on the website.

Non-Bank PSEs

Amongst the 53 PSEs under the ambit of the central government which are listed, maximum dilution (above 35%) is possible in 10 companies, namely: KIOC ltd, Scooters India Ltd, HMT Ltd., ITI Ltd., ST trading corporation, Fertilizers and chemicals Travancore Ltd, MMTC Ltd., Andrew Yule and Company Ltd, ITDC and SJVN Ltd. However, the revenue earned from these will be limited (Rs 24,929 crore) as their current market capitalisation is low.

On the other hand, maximum revenue potential (based on current M-cap) exists from dilution in companies, such as Hindustan Aeronautics Limited, Coal India, ONGC and Indian Railways Finance Corporation which can potentially raise around Rs 75,000 crore. (See Table 1 below)

Table 1: Revenue potential from stake sale in PSEs

Name of the company	Total market capitalisation as on 8 Mar 2023 (Rs crore)	Revenue Potential from stake Sale (Rs crore)	Maximum potential Dilution while maintaining government stake at 51%
Hindustan Aeronautics Limited	95,735	23,120	24.15%
Coal India Limited	1,38,538	20,966	15.13%
Oil And Natural Gas Corporation Ltd (ONGC)	1,98,957	18,720	9.41%
Indian Railway Finance Corporation	36,670	12,968	35.36%
NHPC Limited	41,828	8,344	19.95%
IRCTC	49,444	8,107	16.40%
Fertilizers and Chemicals Travancore Lim	15,960	6,224	39.00%
KIOCL Limited	11,693	5,617	48.03%
Mazagon Dock Shipbuilders Limited	14,983	5,068	33.83%
Steel Authority of India	36,097	5,052	14.00%
SJVN LIMITED	13,055	4,669	35.77%
Bharat Dynamics Limited	17,289	4,137	23.93%
Rail Vikas Nigam Limited	13,340	3,629	27.20%
ITI LIMITED	8,924	3,488	39.09%
Bharat Heavy Electricals Ltd.	27,181	3,308	12.17%
NMDC Ltd	33,526	3,284	9.79%
NLC India Limited	11,411	3,218	28.20%
Housing &Urban Development Corporation Ltd.	9,429	2,905	30.81%
Power Finance Corporation Ltd	44,485	2,222	4.99%
MMTC Ltd.	4,794	1,866	38.93%
RITES Limited	8,435	1,788	21.20%
Oil India Limited	28,997	1,640	5.66%
Hindustan Copper Ltd.	9,810	1,486	15.14%
CONTAIN CORP	36,935	1,403	3.80%
BHARAT PETRO	70,653	1,396	1.98%
RASHTRIYA CH	5,773	1,386	24.00%
Cochin Shipyard Limited	6,328	1,384	21.86%
HMT LTD	3,220	1,374	42.69%
Garden Reach Shipbuilders & Engineers Limited	4,971	1,168	23.50%
IRCON International Ltd	5,180	1,149	22.18%
India Tourism Development Corporati	2,775	1,000	36.03%
Mishra Dhatu Nigam Limited	3,755	864	23.00%
NATIONAL FER	3,398	806	23.71%
RailTel Corporation of India Limited	3,559	777	21.84%
SHIPPING COR	5,536	706	12.75%
NBCC (India) Limited	6,523	702	10.75%
INDIAN OIL C	1,11,812	557	0.50%
POWER GRID CORPORATION OF INDIA LIMITED	1,59,005	540	0.34%
MOIL Limited	3,639	486	13.35%
Andrew Yule & Company Ltd	1,081	413	38.25%
GAIL INDIA	73,115	381	0.52%

Madras Fertilizer Limited	1,006	345	34.27%
MSTC Limited	1,993	274	13.75%
NTPC LTD	1,73,376	180	0.10%
ST TRAD CORP	437	170	39.00%
BEML LTD	4,943	150	3.03%
Scooters India Ltd.	248	106	42.87%
BHARAT ELECT	70,254	95	0.14%
MAHANAG TELE	1,314	69	5.25%
National Aluminium Co. Ltd.	15,147	42	0.28%
Engineers India Ltd.	4,338	14	0.32%
Hindustan Organic Chemicals Ltd.	179	14	7.78%
Bharat Immunological & Biologicals	109	9	8.25%
Total	**16,51,183**	**1,69,785**	

Source: DIPAM, Bank of Baroda Research

Table 1 show that the potential from non-finance PSUs is around Rs 1.7 lakh crore if the ideology is not to change the nature of governance. This is when the market is at a very high level (Sensex above 60,000). This amount can come down if there is a sharp correction in the market and can also go up as the economy revives and grows at an accelerated pace in future. The top 10 companies account for around Rs 1.1 lakh crore and hence would be the big tickets from the point of view of the disinvestment process.

Non-Bank PSEs

Amongst the 16 banks and other financial institutions, we have excluded LIC (as stake sale has already taken place and there are indications that there may not be any further sale in the near future) and IDBI Bank (GOI’s share is already lower than 51%) from our analysis. Amongst the remaining 14 entities, maximum dilution (above 40%) can be made in Punjab & Sind Bank, Indian Overseas Bank, UCO Bank, Central Bank of India and Bank of Maharashtra. The revenue earned from dilution of stake in these can amount to Rs 62,471 crore (based on their current M-Cap). Other major PSBs which have high market capitalisation, can give the government over Rs 1 lakh crore of revenue if stake in those banks is lowered to 51%. (See table below)

Table 2: Revenue potential from stake sale in Banks and other financial institutions

Name of the company	Total market capitalisation as on 8 Mar 2023 (Rs crore)	Revenue Potential from stake Sale (Rs crore)	Maximum potential dilution while maintaining government stake at 51%
State Bank Of India	4,98,966.5	32,433	6.5%
Indian Overseas Bank	47,464.4	21,539	45.4%
Union Bank	50,183.6	16,305	32.5%
UCO Bank	32,484.7	14,420	44.4%
Punjab National Bank	56,692.7	12,557	22.1%
Bank Of Baroda	89,983.5	11,671	13.0%
Indian Bank	36,271.3	10,468	28.9%
Bank of India	32,813.6	9,979	30.4%
Central Bank of India	23,413.0	9,852	42.1%
Punjab and Sind Bank	19,567.1	9,245	47.3%
General Insurance Corporation of India	25,185.7	8,760	34.8%

Bank of Maharashtra	18,548.9	7,414	40.0%
Canara Bank	56,514.0	6,742	11.9%
The New India Assurance Company Limited	16,817.2	5,792	34.4%
Total (ex-LIC)	**10,04,906**	**1,77,177**	

Source: DIPAM, Bank of Baroda Research

Banks and insurance companies have potential of around Rs 1.8 lakh crore of disinvestment without affecting the public nature of the enterprise.

Concluding remarks

The above analysis shows that potential kitty for disinvestment receipts if government decides to bring down the stake in all PSEs, PSBs, other financial institutions to 51%, would be at ~Rs 3.5 lakh crore. Of this, Rs 1.7 lakh core can come from PSEs and Rs 1.8 lakh crore from financial institutions.

However, as the stake of the government comes down there would also be lower dividend inflows from these enterprises. Currently, dividend earned from all PSEs (bank and non-bank) stands at Rs 50,000 crore. At the present level of the Sensex, total market capitalization of government holdings in these enterprises (PSEs and FIs) is around Rs 17 lakh crore. Bringing down the stake to 51% across the board would be releasing around Rs 3.5 lakh crore. This implies that the dividend yield stands at around 3.0%.

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