14 Jan 2023

Dipanwita Mazumdar
Economist

Disinvestment is more a case of misses

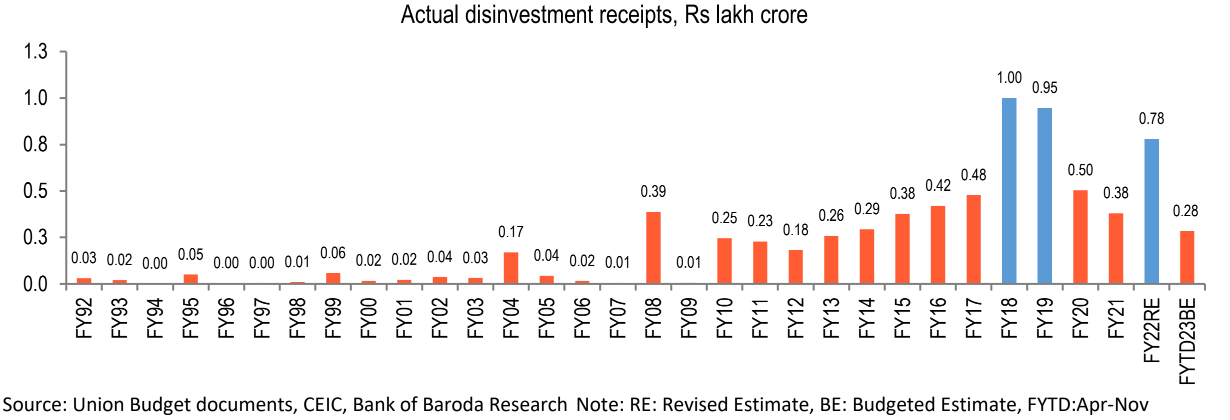
Ahead of the Union Budget there are many conjectures about the disinvestment figure of capital receipts, to get an idea about how the fiscal deficit will be financed. Be it unfavourable macros to raise capital, procedural hurdles or pricing issue, we have seen that disinvestment has been more of a miss rather than a hit in the past. Against this backdrop, this note traces the disinvestment scenario since FY92, when the idea was first floated. We venture into different routes through which disinvestment is carried out and through which route maximum receipts have been garnered. Next we evaluate how BSE CPSE has fared in terms of returns compared with the Sensex. We next delve into the financials of CPSEs to get an idea where the green and red flags exist. Lastly, we attempt to forecast the disinvestment receipt expected in FY24.

How Disinvestment have fared historically?

The figure below gives us an idea about how disinvestment receipts have moved in the past.

- Historically only in FY08, the receipts have been higher than previous periods. This is on account of disinvestment of small portion of government equity in Rural Electrification Corporation (REC), Power Grid Corporation Limited (PGCIL) and National Hydroelectric Power Corporation (NHPC). During this period as well, National Investment Fund (NIF) was in its initial years and proceeds from disinvestment were meant to be channelized through this fund.
- From FY14 onwards, disinvestment receipts picked pace through the route of public offer, exchange traded funds (ETFs) and CPSE to CPSE sale. Several regulatory initiatives in terms of raising minimum public shareholding to 25% from 10% earlier for listed CPSEs, making buyback compulsory for certain CPSEs, introducing IBC code, launching Bharat 22 ETF New Fund Offer and also approving asset monetisation policy, proved to be helpful.
- FY18, FY19 and FY22 have been remarkable years. In FY18, NTPC and GIC garnered maximum receipts through OFS and IPO route respectively. In FY19, Bharat 22 ETF and Coal India bagged major receipts. In FY22, sale of Axis Bank Strategic holding of SUUTI, NMDC and Air India have been the major ones.

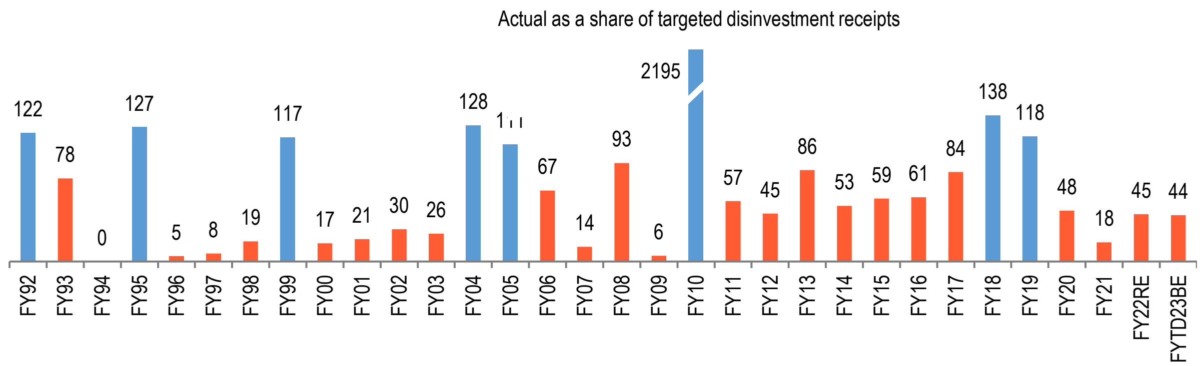
Figure 1: Disinvestment Receipts earned throughout the year



Source: Union Budget documents, CEIC, Bank of Baroda Research Note: RE: Revised Estimate, BE: Budgeted Estimate, FYTD:Apr-Nov

Disinvestment: Hits and Misses: *Out of 32 occasions, since the concept was first introduced, disinvestment could achieve its target or surpassed its target in only 8 occasions*. On 9 occasions, it surpassed 50% of the targeted value. FY10 turned out to be an outlier as the target was virtually insignificant. In this period, Coal India IPO was issued.

Figure 2: For most of the years, disinvestment receipts missed the target as set in the Budget



Source: Union Budget documents, CEIC, Bank of Baroda Research Note: RE: Revised Estimate, BE: Budgeted Estimate, FYTD: Apr-Nov

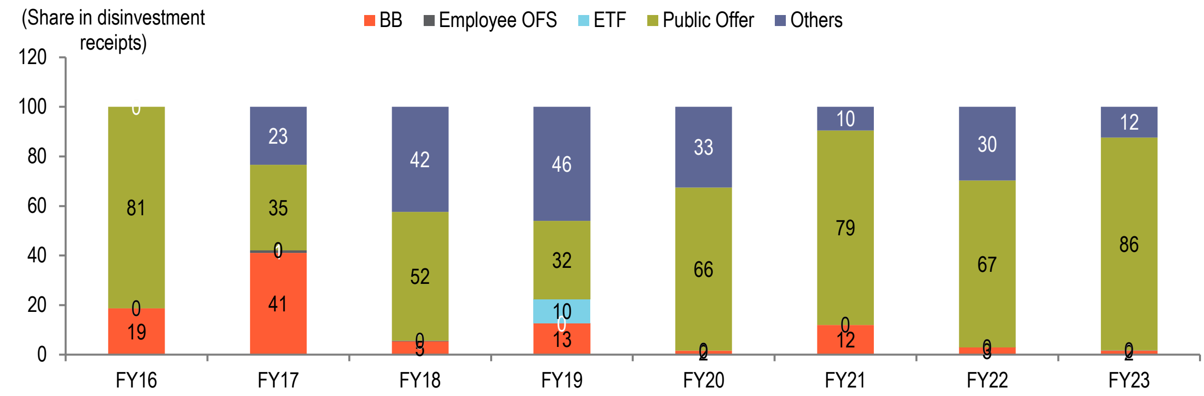
In FY23 as well, the actual might most probably fall short of the target. Due to volatility in the oil market, strategic disinvestment in this sector may not fructify in FY23. We expect a shortfall of around Rs 25,000 crore in FY23 in the disinvestment receipts.

How is disinvestment routed?

There are various routes through which disinvestment is carried on such as 1) **Initial/ Further Public Offer (IPO/ FPO)** where an unlisted company makes a fresh issue of shares, for FPO an already listed company makes either a fresh issue or an offer for sale 2) **Exchange Traded Fund (ETF)** is a basket of stocks reflecting an index deriving value from underlying stocks 3) **Offer for Sale (OFS)** is share sale through the exchange platform for listed companies 4) **Buyback** (BB) of shares is repurchase by a company of its shares from its existing shareholders and 5) **Strategic sale** of CPSEs is sale of a substantial portion of the government shareholding of up to 50% or higher.

- Historically between FY99-FY00, maximum disinvestment receipts have been routed through strategic sale followed by public offer.
- In the next phase that is between FY00-FY14, CPSE to CPSE sale, ETFs and buyback gained prominence.
- In the figure given below, we have shown time period from FY16 onwards where maximum disinvestment receipts have been garnered. Here also we have seen that *public offer dominated the space*. Lower interest rate regime (as it was an accommodative policy space barring the recent hike cycle which commenced on May'22), surplus liquidity, better corporate performance and favourable cost of capital, contributed towards the same.

Figure 3: Public offer dominated the disinvestment route

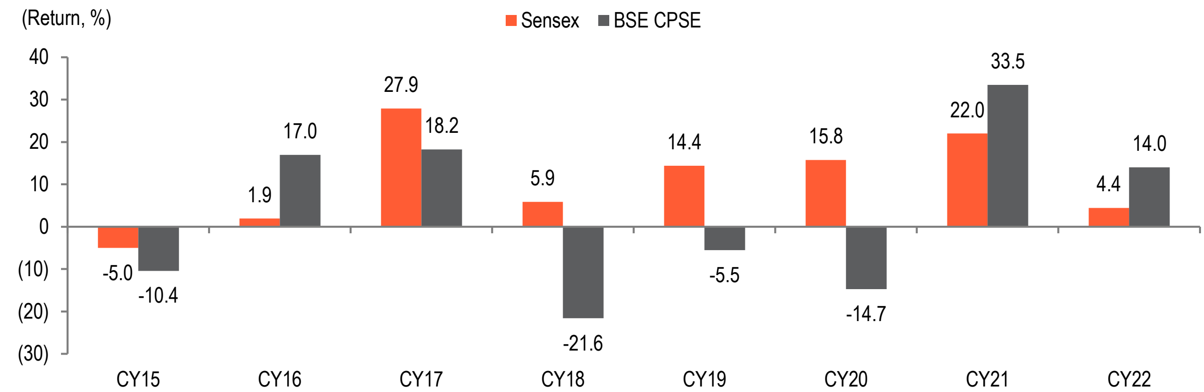


Source: DIPAM, Bank of Baroda Research, Note: Public Offer includes IPO, FFO, NFO and OFS, others include strategic disinvestment.

Underlying dynamics: Understanding CPSEs performance in the stock market

Before understanding the financials of the CPSEs in detail, we have looked at how the CPSEs have performed as an aggregate in the stock market. *Since CY15, in 5 out of 8 occasions, CPSEs have underperformed Sensex*. However in the last two years the CPSEs have performed better than the Sensex. This has been seen after CY16.

Figure 4: CPSEs have given lower return compared to Sensex



Source: Bloomberg, Bank of Baroda Research, Return calculated as on last day of the calendar year

Major Financial indicators of CPSEs:

- Net profit of CPSEs have fallen considerably in FY22.
- There has been a persistent increase in long term borrowing of CPSEs since Covid period (FY20 onwards). This raises concern in terms of payment of debt.
- The contribution to exchequer has only picked up in FY21 and is at the same level in FY22 as well.
- Foreign exchange earnings have not picked up much due to unfavourable global macros and pressure on currency.
- Gross Block of CPSEs which shows gross fixed assets of CPSE have grown at CAGR of 5.7% since FY15, and indicates that CPSEs have contributed modestly to capital formation in the economy.

Table 1: Financial performance of CPSEs

Rs lakh crore	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Total Gross Block of CPSEs	19.1	16.7	17.7	19.7	21.8	24.4	25.7	28.1
Contribution to Exchequer	2.0	2.8	3.6	3.5	3.8	3.8	5.0	5.1
Foreign Exchange Earnings	1.0	0.8	0.9	1.0	1.4	1.3	0.9	1.5
Net Profit	1.0	1.1	1.3	1.2	1.4	0.9	1.6	0.0*
Interest	0.4	0.5	0.5	0.6	0.8	1.0	1.4	1.2
Short term borrowings	2.2	2.4	2.3	3.1	3.6	3.6	3.1	2.2
Long term borrowings	8.8	9.4	10.1	11.1	13.6	18.5	18.4	19.0
Total borrowings	11.0	11.8	12.4	14.2	17.2	22.1	21.5	21.2

Source: PSE Survey Reports, Bank of Baroda Research, Note: Green highlighted numbers reflect improvement, Red highlighted ones are areas to be monitored, *In FY22, net profit figure is 0.02 lakh crore

- Top 10 profit making CPSE contribute around 65% of overall net profit earned by all CPSEs. Even they contribute around 46% to the exchequer.

Table 2: Net profit and contribution of top 10 profit earning CPSEs

CPSEs	Net profit, Rs crore, FY22	Contribution to Exchequer, Rs crore, FY22
Oil & Natural Gas Corporation Ltd.	40,306	16,832
Indian Oil Corporation Ltd.	24,184	157181
Power Grid Corporation Of IndiaLtd.	17,094	8,860
NTPC Ltd.	16,111	6,550
Steel Authority Of India Ltd.	12,015	16,510
Coal India Ltd.	11,202	6,270
GAIL (INDIA) Ltd.	10,364	8,665
REC Ltd.	10,046	3,229
Power Finance Corporation Ltd.	10,022	2,373
NMDC Ltd.	9,398	8,895
Total	**1,60,742**	**2,35,364**

Source: PSE Survey Reports, Bank of Baroda Research Note: Contribution to exchequer is in the form of corporate taxes, dividends, excise duties and sales tax

- What has been a respite is that the aggregate loss of loss making CPSEs moderated significantly Rs 14,586 crore in FY22 from Rs 31,058 crore in FY21. Even their aggregate borrowing is a smaller portion of overall borrowing, which is a relief on the debt front.

Table 3: Net loss of top 10 loss earning CPSEs

CPSEs	Net Loss, Rs crore, FY22	Contribution to Exchequer, Rs crore, FY22	Short term borrowing, Rs crore, FY22	Long term borrowing, Rs crore, FY22	Total borrowing, Rs crore, FY22
Bharat Sanchar Nigam Ltd.	-6,982	1,056	10,958	23,240	34,198
Mahanagar Telephone Nigam Ltd.	-2,603	133	10,109	16,709	26,819
Air India Assets Holding Ltd	-1,417	0	0	0	0
Eastern Coalfields Ltd.	-1,061	1,659	7	151	158
Alliance Air Aviation Ltd.	-448	13	2,391	0	2,391
National Textile Corpn. Ltd.	-306	0	270	0	270
Heavy Engineering Corpn. Ltd.	-256	3	204	0	204
MMTC LTD.	-242	461	2,551	3	2,555
Ratnagiri Gas & Power Pvt. Ltd.	-201	7	53	1,336	1,389
HMT Machine Tools Ltd.	-146	13	278	0	278
Others	-926	-	-	-	-
Total	**-14586**	**3344**	**26823**	**41439**	**68262**

Source: PSE Survey Reports, Bank of Baroda Research

What to expect in FY24 on disinvestment front?

In FY24, we expect disinvestment receipts to be around Rs 40-50,000 crore on the assumption of fiscal deficit ratio 5.5-6.0%. Apart from IDBI Bank, a lot is there in the pipeline as per market news such as strategic sale of Shipping Corporation, CONCOR, BEML, NMDC Steel etc. But a shortfall cannot be ruled out in this uncertain macroeconomic environment where raising of capital and appropriate pricing are concerns. A clarity on disinvestment is very important to give market a clear signal. In future a disinvestment calendar may be helpful specifying the CPSE name, quantum of sale and method of disinvestment.

Conclusion:

- Historically disinvestment has been more of misses rather than hits. Out of 32 occasions, in only 8 occasions, disinvestment receipts have surpassed their target.
- Public Offer have been the popular route of disinvestment due to conducive macroeconomic environment.
- Our study shed light on returns of CPSEs which have been lower than Sensex in most of the occasions.
- A closer look at the financials of CPSEs reveal that net profit of CPSEs have fallen sharply in FY22 while contribution to exchequer has remained at the FY21 level.

- Long term borrowing also increased which will lead to higher interest outlay given the rising interest rate scenario.
- However, net profit of top 10 profit earning CPSEs improved in FY22.
- In FY24, we expect disinvestment receipts to be around Rs 40,000-50,000. However, a shortfall is possible if market conditions are not favourable.

Appendix

Table 1: Net profit of major CPSEs in the CPSE BSE list

					(Rs crore)
CPSEs in BSE list	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Bharat Electronics Ltd	1399	1927	1794	2065	2349
Bharat Heavy Electricals Ltd	807	1209	-1473	-2717	410
Bharat Petroleum Corp Ltd	7976	7132	2683	19042	8789
Gail India Ltd	4618	6026	6621	4890	10364
Hindustan Aeronautics Ltd	1987	2346	2842	3239	5087
Indian Oil Corp Ltd	21346	16894	1313	21836	24184
Indian Railway Finance Corporation Limited	2055	2255	3192	4416	6090
MMTC LTD	49	81	-227	-770	-242
National Aluminium Co Ltd	1342	1732	138	1300	2952
National Fertilizers Ltd	213	298	-171	250	108
NHPC Ltd	2769	2631	3007	3245	3538
NLC India Ltd	1849	1267	1414	1010	1237
NTPC Ltd	10343	11750	10113	13770	16111
Oil India Ltd	2668	2590	2584	1742	3887
Oil & Natural Gas Corp Ltd	19945	26765	13464	11246	40306
Power Finance Corp Ltd	4387	6953	5655	8444	10022
Power Grid Corp of India Ltd	8245	9939	10811	11936	17094
Rail Vikas Nigam Ltd	470	607	790	941	1087
Rashtriya Chemicals & Fertilizers Ltd.	79	139	208	382	704
Steel Authority of India Ltd	-482	2179	2022	3850	12015

Source: BSE, PSE Survey Reports, Bank of Baroda Research, Red highlighted ones are CPSEs earning maximum net profit

Disclaimer

Visit us at www.bankofbaroda.com

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com
dipanwita.mazumdar@bankofbaroda.com