Government of India's Investment in CPSEs – A Policy Perspective

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The Hon'ble Prime Minister in the CPSEs' Conclave held in April, 2018 urged the CPSEs to make a collective effort to double their contribution (net value addition) to GDP and become the "Third Arm" of revenue generation for the Centre after Direct and Indirect taxes. In the light of above statement, the current policy of Government of India on investment and disinvestment in CPSEs gains added importance.

In order to look at the Government's policy perspective on investment in CPSEs, one has to go back to a pre-Budget review meeting held on February 6th, 2016 wherein the Hon'ble Prime Minister discussed the approach being followed for managing Government's investment in CPSEs. As a follow-up to this review meeting, the Government decided to migrate from a divestment-based approach to the concept of efficient management of investments in CPSEs. The Budget speech of the Finance Minister mentioned about renaming of the Department of Disinvestment as the Department of Investment & Public Asset Management (DIPAM) with an expanded mandate. The change in nomenclature and work allocation denotes a paradigm shift in the thinking process of the Government on its strategy to manage its investment in Indian CPSEs.

With this change in approach, the Government recognized the importance of investments in CPSEs as an asset for accelerating economic growth. The need of the hour is to adopt a comprehensive approach for addressing critical inter-linked issues such as (i) leveraging of assets to attract fresh investment; (ii) capital restructuring; and (iii) financial restructuring.

Accordingly, DIPAM after detailed deliberations brought out comprehensive guidelines on "Capital Restructuring of CPSEs" on 27th May, 2016 for efficient management of Government's investment in CPSEs by addressing various aspects, such as, payment of dividend, buyback of shares, issues of bonus shares and splitting of shares. The comprehensive guidelines are expected to result in (i) leveraging of net-worth for higher investment;(ii) disincentivise parking and sub-optimal investment of funds; and (iii) ensure best possible outcome from the investment made in CPSEs.

Some of the salient features of these Guidelines include:

- Every CPSE would pay a minimum annual dividend of 30 per cent of PAT or 5 per cent of the net-worth, whichever is higher subject to the maximum dividend permitted under the extant legal provisions.
- Every CPSE having net-worth of at least Rs. 2,000 crore and cash & bank balance of over Rs. 1,000 crore shall exercise the option to buy back its shares.
- Every CPSE shall issue bonus shares if their defined reserves and surplus is equal to or more than 10 times of its paid up equity share capital.
- A CPSE where market price or book value of its share exceeds 50 times of its face value will split off its shares appropriately provided its existing face value of the share is equal to or more than Re. 1.

There is an inter-Ministerial Committee on Management of Government's Investment

in CPSEs (CMGIC), headed Secretary (DIPAM), which considers exemption requests from CPSEs. Implementation of these guidelines has lead to a higher payment of dividend by CPSEs; buy-back of shares etc. The higher dividend payment has also resulted into an improvement in investors' confidence in CPSEs and their market capitalization. As of May 31st, 2018, the 52 listed CPSE stocks accounted for a little above 10 per cent of the total market capitalization in both the major stock exchanges. This clearly gives scope for listing a larger number of CPSEs in the stock markets.

As far as the disinvestment policy is concerned, the Government has certain thrust areas/ broad focus as outlined below:

- Listing of profitable CPSEs which will result in unlocking the value of the company; and promoting people's ownership and accountability of the stakeholders.
- Disinvestment through minority stake sale in listed CPSEs wherein the Government to retain majority shareholding & management control; and achieve 25 per cent public shareholding as per extant SEBI norms; while raising resources for the Government.
- Strategic disinvestment by way of sale of substantial portion of Government's shareholding in identified CPSEs up to 50 per cent or more; wherein the Government will exit from non-strategic business; while promoting efficiency and professional management of the company; and unlocking optimum economic potential of business enterprises. Strategic disinvestment decisions are based on recommendations of the NITI Aayog on case to case basis.

The above measures were supplemented by new instruments including the buy-back of shares by large CPSEs having huge surplus; merger and acquisitions among CPSEs in the same sector; and launch of exchange traded funds (ETFs).

The acquisition of HPCL by ONGC is in line with Government's policy to efficiently manage its investments in CPSEs and improve value of its enterprises for economic growth. The aforesaid transaction was expected to create an integrated public sector oil major having presence across the entire value chain.

Exchange Traded Fund (ETF), as an asset class offers the benefits of liquidity and diversification of risk with similar tax benefits as applicable for equity. With stable and better yield than broader market index and low transaction cost, this instrument has grown very fast, especially among the new investors like retirement funds and retail. Globally also ETF is a popular and fast growing asset class. Starting from January 2017, the Government started using index based ETF to offer an investment opportunity in CPSEs to pension funds and retail investors in India. The New Fund Offer (NFO) of BHARAT 22, consisting of 22 major stocks, which was opened for subscription in November 2017, had been oversubscribed in all segments of investors, such as, anchor investors, retirement funds, retail investors and others, i.e. Qualified Institutional Bidders (QIB) /High Net worth Individuals (HNI). The Government received Rs.14,500 crore from this NFO. A Further Fund Offer (FFO) of Bharat 22 was launched in June 2018 with a target to mop up Rs 6,000 crore with a green-shoe option of another Rs 2,400 crore. The scheme was oversubscribed by 2.57 times of the targeted issue size. The Government has realized Rs. 8,325 crore approximately from this offer.

As a follow-up to a Budget

announcement made on 1st February, 2018, the Government is exploring the possibility of creation of a Debt-ETF to enable CPSEs to access the debt/ bond market to partially meet the CAPEX needs by leveraging their aggregate strength. CPSE Debt-ETF will be created by including eligible CPSEs in the index. The index may include bonds issued by select CPSE (issuers) with consistent AAA/AA+ credit rating and high primary and secondary market transactions. An Inter-Ministerial Group (IMG) has been constituted with the approval of the Finance Minister for appointment of one Advisor, one Market Maker and one Legal Advisor for creation, launch and implementation of Debt ETF.

As a result of this multi-pronged approach towards disinvestment, the Government could garner Rs. 46,247 crore as disinvestment proceeds in 2016-17 vis-à-vis an average annual amount of Rs. 20,403 crore in the previous five years from 2011-12 till 2015-16. The total realization/ receipts in 2017-18, was Rs. 1,00,057 crore which is an all-time record in the history of disinvestment.

Another new initiative to augment the resources of CPSEs is through monetization of select assets with stable revenue / cash flow potential. Accordingly, DIPAM has been assigned this major task of working on public sector asset monetization. Asset monetisation / asset recycling is a way of unlocking potential value of assets lying idle / unused for generating revenue for expansion of projects/ new projects or for reducing debts of CPSEs. Assets amenable to monetization could include highways / roads, power transmission lines, telecom towers, surplus land, unused buildings etc. Already NHAI has adopted a Toll-Operate-Transfer (ToT) model in respect of 9 roads involving a total length of 680 km and has received substantial upfront payment from the concessionaire. Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (ReITs) could be other models adopted respectively for operational assets like power transmission lines, telecommunication towers etc. and land & buildings. The major activities involved in this task would be the identification of assets & relevant CPSEs; identifying suitable models of monetisation; valuation of assets; preparation of legal documents & model contract agreements; finalization of suitable institutional mechanism along with levels of approvals. Detailed consultation process with the Administrative Ministries/ CPSEs concerned and other stake holders is an essential pre-condition for starting the exercise.

The real challenge for the Government is to work out suitable linkages among various strategies/ methods so that the overall target of achieving a high economic growth (while keeping the fiscal deficit under control) is achieved. Hence, it is essential to ensure that collectively the CPSEs contribute significantly to the GDP; the productivity and revenue of CPSEs gets augmented through higher Capex /business activities etc. The Government has a wide range of options including the restructuring of CPSEs, greater leveraging of net-worth, achieving higher capital expenditure by optimising return on investment and generating more resources through disinvestment and monetisation of the assets of CPSEs. ■

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