Buyback of Shares by PSUs - Disinvestment Target

What is the issue?

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- The government seeks to meet its disinvestment target through buybacks of shares by public sector undertakings (PSUs).
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- But there are concerns that this mode of divestment may not yield the desired results.
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What is the disinvestment scenario?

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- The government, in the Union Budget for 2018-19, fixed for itself a disinvestment target of Rs 800-billion.
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- But the disinvestment target is likely to fall short of the Rs 800-billion Budget Estimates.
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- Given the market conditions, the disinvestment proceeds could be at most Rs 650-700 billion, with a shortfall of Rs 100-150 billion.
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What is the government decision?

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- Government seeks to meet the disinvestment target in part through buybacks of shares by public sector undertakings.
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- So PSUs would pay the government for the shares it holds, reducing the number of their shares in circulation.
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- The effect on government shareholding will depend upon the final construction of the repurchase programme.
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- But it seems nevertheless that a move is afoot for oil sector PSUs in particular to buy back shares worth Rs 100 billion.
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- Reportedly, the full buyback programme may raise up to Rs 200 billion.
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- This would facilitate filling the government's budgeted requirement of Rs 800 billion from disinvestment receipts.
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What are the concerns with share buyback?

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- **Efficiency** - The rationale for disinvestment is to reduce the government's control over PSUs.
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- This is to eventually pass it to the private sector, with all the efficiency improvements that it would bring.
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- Also, it would enforce market discipline on PSUs, which would have to behave like listed companies.
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- However, these particular goals/purposes may not be served, even incrementally, by a share buyback.
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- **Stocks** - Share buybacks could send stock prices higher disproportionately if market trusts that the companies are doing well.
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- But this is not the case here, as certainly the government is merely ordering a share buyback because of its own financial constraints.
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- **Fiscal deficit** - The purpose of controlling the deficit is to ensure that the government is not absorbing all the available investible funds.
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- But PSU share buybacks is certainly the opposite, with transferring resources to the government (principal owner of the PSUs).
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- **Investments** - Economic growth depends upon revitalising investment and PSUs' profits could be spent on such investment.
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- But when it is expropriated by the government, a large part will go to fund government spending.
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- Also, this is a time when oil PSUs could be focusing on investment to scale up production.
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- But at a time when investment revival needs to be nurtured, the government is instead reducing the resources available.
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- It is high time that the government instead focus on genuine, strategic disinvestment.
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Source: Business Standard

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