Buyback of Shares by PSUs - Disinvestment Target

What is the issue?

\n\n

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

\n\n

What is the disinvestment scenario?

\n\n

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

\n\n

What is the government decision?

\n\n

\n
- Government seeks to meet the disinvestment target in part through buybacks of shares by public sector undertakings.
\n
- So PSUs would pay the government for the shares it holds, reducing the number of their shares in circulation.
\n

- The effect on government shareholding will depend upon the final construction of the repurchase programme.
\n
- But it seems nevertheless that a move is afoot for oil sector PSUs in particular to buy back shares worth Rs 100 billion.
\n
- Reportedly, the full buyback programme may raise up to Rs 200 billion.
\n
- This would facilitate filling the government's budgeted requirement of Rs 800 billion from disinvestment receipts.
\n

\n\n

What are the concerns with share buyback?

\n\n

\n
- **Efficiency** - The rationale for disinvestment is to reduce the government's control over PSUs.
\n
- This is to eventually pass it to the private sector, with all the efficiency improvements that it would bring.
\n
- Also, it would enforce market discipline on PSUs, which would have to behave like listed companies.
\n
- However, these particular goals/purposes may not be served, even incrementally, by a share buyback.
\n
- **Stocks** - Share buybacks could send stock prices higher disproportionately if market trusts that the companies are doing well.
\n
- But this is not the case here, as certainly the government is merely ordering a share buyback because of its own financial constraints.
\n
- **Fiscal deficit** - The purpose of controlling the deficit is to ensure that the government is not absorbing all the available investible funds.
\n
- But PSU share buybacks is certainly the opposite, with transferring resources to the government (principal owner of the PSUs).
\n
- **Investments** - Economic growth depends upon revitalising investment and PSUs' profits could be spent on such investment.
\n

- But when it is expropriated by the government, a large part will go to fund government spending.
  \n
- Also, this is a time when oil PSUs could be focusing on investment to scale up production.
  \n
- But at a time when investment revival needs to be nurtured, the government is instead reducing the resources available.
  \n
- It is high time that the government instead focus on genuine, strategic disinvestment.
  \n

\n\n

\n\n

Source: Business Standard

\n

