

Government Disinvestment Programme

What is the issue?

- The government's ambitious disinvestment programme offers investors an opportunity to become shareholders in what were so far closely-held institutions.
- In this backdrop, here is an assessment of the various opportunities and the risks involved.

What are the plans for disinvestment?

- In Budget 2021-22, the government announced a strategic sale/disinvestment policy for four strategic sectors.
- These include banking, insurance and financial services.
- The government will have a "bare minimum presence" in these sectors.
- The government completely exits PSUs through the strategic sale.
- Apart from this, the Centre has lined up minority stake sale through various routes including offer for sale (OFS) and initial public offering (IPO).
- The biggest will be the IPO of LIC.
- The Budget has also announced privatisation of two public sector banks (in addition to IDBI Bank) and one general insurance company in the upcoming fiscal.
- Privatisation of the two banks will set the trend for a long-term project that envisages only a handful of state-owned banks.
- The rest will be either consolidated with strong banks or privatised.
- The Centre has pegged the disinvestment target for the upcoming fiscal at Rs 1.75 lakh crore.
- This is compared to Rs 2.1 lakh crore budgeted in 2020-21.
 - OFS has been the preferred route for disinvestment.
- Increasing the FDI limit in insurance from 49% to 74% is expected to lead to an unprecedented expansion of the insurance sector.
- This could also give retail investors the chance to ride this profitable sector on a long-term basis.

How does it benefit retail investors?

- The progress on privatisation plans of BPCL, Shipping Corporation of India and CONCOR, among others, has already led to a big rally in their shares.

- Investors bet that the new management and private ownership would bring in higher efficiency leading to higher profits.
- As privatisation will be a long-drawn process over 5-10 years, patient investors can pick and choose the companies they want to bet on.

What is the scope to buy PSU stocks in the secondary market?

- Some do not want to get into the unknown territory of profits resulting out of privatization.
- For them, there is an existing pool of PSU stocks and exchange traded funds to choose from.
- Central public sector enterprises, public sector banks and the insurance companies have been favoured by institutional investors in recent months.
- There has been a steady recovery in PSU stocks, especially after the government announcement on a strategic sale policy and clear intent on privatisation.
- As the equity markets are showing steady recovery, the PSU stocks will continue to do well at least in the medium term.
- Consumption- and privatisation-focused stocks such as IRCTC, BPCL, Shipping Corporation, BEML, and PSU banks are expected to offer reasonable returns over the medium term.

What are the other opportunities?

- As market sentiments have revived after the Covid-19 pandemic, around Rs 1 lakh crore of public issues (excluding LIC) under IPOs are waiting to hit the markets in the near term.
- Markets are likely to witness a bull run in the next financial year as well.
- IPOs of public sector firms earlier were not very encouraging as the pricing was not proper.
- However, recent IPOs provided good gains for investors.
- All these hint at a favourable climate for investment.

What are the risks involved?

- The fate of the IPO market is clearly linked to the performance of the stock market.
- If [bond yields in the US](#) rise further, the equity market will get hit as foreign investors might pull out.
- For the current economic recovery to sustain, containing bond yields is essential.
- It should be done not through 'yield curve management' but through moderating inflation expectation.

- Other risk factors are the possibility of a spike in Covid and lockdown, further rise in crude oil prices, rise in inflation and a possible rise in interest rates.

Source: The Indian Express

