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FY20 DISINVESTMENT

Massive mop-up via ETF planned

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WITH TAX RECEIPTS likely to face a shortfall, the Centre is likely to scale up disinvestment programme for the current financial year to all-time high level of over ₹1 lakh crore from the Interim Budget level of ₹90,000 crore. The idea is to boost non-debt receipts to an extent so that the necessity of any additional borrowings to fund the budgeted expenditure is minimised.

A spate of ETF (exchange-traded fund) issues and a couple of PSU-to-PSU deals is likely to be the mainstay of the disinvestment programme in FY20. Other routes such as buybacks by PSUs, strategic sales of a clutch of relatively smaller companies and listing of several firms could also be explored.

Also, the government's stakes in many large PSUs could be brought down to around 51% either via ETFs or offers for sales (OFSs). ONGC, Coal India, NTPC and Oil India are among the Maharatna firms where the scope for such stake reduction is there.

According to sources, after the failed attempt last year, the government will shortly invite expressions of interest (EoIs) from prospective buyers for debt-laden Air India with an objective to conclude the transaction by October-November.

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DISINVESTMENT

FY20 target may be raised to

₹1 lakh crore+

Transactions likely (₹ crore)

Via exchange traded funds
40,000-50,000

From sale of the Centre's stake in SJVN
6,000*

From sale of enemy properties, asset monetisation, IPOs, buybacks and OFSs
20,000-25,000

Others

Value of the government's 53.3% stake in BPCL
45,153*

Estimated value of GAIL's retail business
18,000-20,000

*Market price as on June 27

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IT COULD offer the entire stake (compared with 76% last year) and relax other conditions to lure buyers, they added.

A record ₹45,080 crore via two extant ETFs — ₹26,350 crore from CPSE ETF and ₹18,730 crore from Bharat-22 ETF — helped the Centre mobilise 53% of the disinvestment receipts in FY19. It could try to repeat the feat in FY20. Besides the two extant ETFs, it may launch three new sectoral ETFs consisting of PSUs in financial sector, energy, and metal and commodity.

Last week, the government initiated the process to launch a financial-sector ETF through which it will disinvest shares in listed public sector banks, insurance companies and financial institutions such as SBI, Bank of Baroda, GIC Re, New India Assurance and IFCI.

"Besides ETF issues, one big deal (like ONGC's purchase of the Centre's stake in HPCL for ₹36,915 crore in FY18) is necessary for higher disinvestment revenue," an official said. The assets the Centre could sell completely through this route include oil refiner and marketer BPCL and GAIL's retail business. The Centre's 53.29% stake in BPCL is worth about ₹45,153 crore (based on price on June 27, the BSE). Gas marketer GAIL has started the work to separate its pipeline business into a separate company, two sources close to the development told FE. The Centre, which owns 52.64% in GAIL (market value ₹36,461 crore), could sell its entire stake in the gas marketing business. Given that the company earns 70% of its revenue through marketing, the Centre's stake could fetch at ₹18,000-20,000 crore).

NTPC could boost the Centre's disinvestment coffers this year by acquiring the government's 61.93% stake in SJVN worth over ₹6,000 crore at current market prices.

With three months of the current financial year already over, the government could also give more say to the department of investment and public asset management (DIPAM) in the choice of strategic disinvestment of PSUs. Currently, DIPAM executes strategic deals based on the list of PSUs identified by the NITI Aayog. After the failed attempt last year, the government will shortly solicit expression of interest (EoI) from prospective buyers for Air India with an objective to conclude the transaction by October-November. It could offer the entire stake (compared to 76% last year) and relax other conditions to lure buyers.

While two PSU general insurers, GIC Re and New India Assurance (NIA), have already been listed, there are three unlisted insures — Oriental Insurance Company, United India Insurance Company and National Insurance Company. NIA could buy the government's stake in these companies. Besides giving the much-needed disinvestment revenue, the move would help create a large state-owned general insurance company to take on competition from private players.

This will be the third year in a row, the Centre would be mopping of more funds via disinvestment than originally budgeted: ₹1 lakh crore in FY18 (against a target of ₹72,500 crore) helped by stake sale in HPCL and ₹85,000 crore (against target of ₹80,000 crore) in FY19 helped by the sale of the Centre's entire REC stake to PFC.

Among other transactions this year, about 10 IPOs, a clutch of offer for sales, buybacks and monetisation of CPSEs' asset are also on the cards.

The Centre's net tax revenues (after devolution to states) in FY19 fell short by a massive ₹1.67 lakh crore from revised estimate of ₹14.84 lakh crore, mainly due to shortfall in goods and service tax (GST) and corporate tax revenues. The asking rate of growth to meet the Interim Budget target on net tax revenue is now a daunting 29%.

Besides disinvestment, the Centre is looking at non-tax revenue options including auction of 5G spectrum and a special dividend from the Reserve Bank of India to garner additional revenues.