Syllabus subtopic: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Prelims and Mains focus: about the suggestions/observations made in the survey regarding disinvestment of CPSEs

News: The Economic Survey has aggressively pitched for divestment in public sector undertakings (PSUs)

Observations and suggestions made in the survey

- The government can transfer its stake in listed CPSEs to a separate corporate entity. This entity would be managed by an independent board and would be mandated to divest the government stake in these CPSEs over a period of time.

- This will lend professionalism and autonomy to the disinvestment programme which, in turn, would improve the economic performance of the CPSEs.

- The survey analysed the data of 11 PSUs that had been divested from 1999-2000 and 2003-04 and compared the data with their peers in the same industry.

- Analysis shows that these privatised CPSEs, on an average, performed better post-privatisation than their peers in terms of their net worth, net profit, return on assets (ROA), return on equity (RoE), gross revenue, net profit margin, sales growth and gross profit per employee.

- More importantly, the ROA and net profit margin turned around from negative to positive, surpassing that of peer firms, which indicates that privatised CPSEs have been able to generate more wealth from the same resources. The analysis clearly affirms privatisation unlocks the potential of CPSEs to create wealth.
Interestingly, according to the government document, the recent approval of strategic disinvestment in Bharat Petroleum Corporation Limited (BPCL) led to an increase in value of shareholders’ equity of BPCL by ₹33,000 crore compared to its peer Hindustan Petroleum Corporation Limited.

Aggressive disinvestment, preferably through the route of strategic sale, should be utilised to bring in higher profitability, promote efficiency, increase competitiveness and to promote professionalism in management in CPSEs.

The focus of the strategic disinvestment needs to be to exit from non-strategic business and directed towards optimising economic potential of these CPSEs, it added, highlighting there were about 264 CPSEs under 38 Ministries or departments.