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Don't sell PSUs in haste

Guest Column

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Divestment of government's equity in the public sector undertakings (PSUs) has been at the centre-stage of the reform process all through the decades of the 90s. But, there has been little progress primarily because of the Government's unwillingness to give up majority ownership and control. For the same reason, the proceeds of divestment have been substantially short of the target year-after-year.

It was only at the dawn of the new millennium that the Government took a conscious decision to give up majority ownership. Already, it has divested 74 per cent of its holding in Modern Foods and 51 per cent in Balco. In several undertakings viz., IBP, Videsh Sanchar Nigam Limited, it has plans to bring in private companies as a 'strategic' partner accompanied by transfer of management control.

Undoubtedly, this is a move in the right direction. But, alas, this has come a bit too late! For major part of the 90s, the PSUs enjoyed a virtual 'monopoly' in their respective areas of operation. But, thanks to the sweeping wave of liberalization and globalization, this has now been broken thereby, making a dent on a major source of attraction amongst investors.

Oil PSUs face intense competition from refineries in the private sector on one hand and imports under liberalized quantitative restrictions free regime on the other (under EXIM policy 2001, naphtha was put on open general licence thereby adding to former's woes).

Dismantling of APR for petroleum products and entry of private sector in marketing in April 2002 will further diminish their charm. In the gas sector, GAIL has monopoly over supply and distribution. This will be broken following its deregulation (likely in April 2002) and introduction of the 'common carrier' principle.

Under a deregulated environment, gas PSUs viz., Oil and Natural Gas Corporation, OIL too will face competition from suppliers of gas in the private sector on one hand and imported liquified natural gas (LNG) on the other. In the fertiliser sector, Government has already announced — in Union Budget 2001-02 — its decision to replace existing unit-wise RPS by a uniform urea concession scheme based on ERC recommendation. Under this scheme, there will be substantial erosion in bottomlines of National Fertilizers, Madras Fertilizers, Rashtriya Chemicals & Fertilizers. This in turn, will affect their valuations. In the telecom sector, the decision to open up international traffic to private players in 2002 (as against 2004 proposed earlier) has drastically reduced the valuation of VSNL (by about Rs 3,000 crore, according to an estimate).

On the other hand, Mahanagar Telephone Nigam Limited no longer commands a good valuation in view of intense competition from private players. In the automobile sector, in mid 90s, when, divestment of Government's equity in Maruti Udyog Limited was first talked about, its valuation was then, placed at a whopping about Rs 8,000 crore. But, because of dilly dallying, a wonderful opportunity was lost. Now, with private players (including various multinational companies) encroaching into its market share, sale of equity would fetch only a fraction of this amount. In the aviation sector, already, the response to Government's offer of its equity holding in Indian Airlines and Air-India is lukewarm.

Whereas, in respect of the former, there is not even 'one' bidder left in the fray, in the latter, reportedly, a possible deal with the lone bidder viz., Tata-Singapore Airline consortium, may be aborted due differences over the extent of equity allowed to Singapore Airlines.

In view of above, if, divestment is carried through in a hurry, the 'family silver' would have been sold for a song. The Government should put a 'moratorium' on this for a reasonable period. In the meanwhile, it should put in place a 'conducive' and 'stable' policy in all key sectors on one hand and 'unshackle' PSUs on the other. Only after bringing them back to a position of strength, it should undertake sale of its stake.

The author is the chief economist, Fertiliser Association of India and views expressed here are personal.