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## An impending fiasco

The government could end up selling its stake in the PSUs much below their inherent worth, says Uttam Gupta

**T**HE ongoing divestment of the government's equity holding in select PSUs is unlikely to yield the desired results. First, the government's target of Rs 7000 crore from the divestment during the year is much too ambitious — considering that against a cumulative target of about Rs 13,500 crore, the actual resource mobilisation in the last four years through this route was about Rs 9700 crore.

Second, there was buoyancy in the capital market from 1991-92 to 1994-95 except in the immediate wake of the securities scam. That provided an overall conducive environment for the divestment programmes. In sharp contrast, the market today is depressed.

Despite excellent rating backed by its considerable clout, even the IDBI's mega issue had to be saved through support from FIs and commercial banks. The scrip is presently quoting below the issue price. Needless to say, this has shattered investor confidence. When IDBI could barely sail through, how can the MTNL, CCI or OIL do better? All the more so, when they are not doing well on the stock exchanges.

Institutional support which, in the past was an available cushion, can no longer be taken for granted. In recent months, even the commercial banks/FIs have refused to subscribe to government's dated securities forcing the latter to take recourse to issuing ad hocs to RBI for meeting its budget needs. Recently, even the UTI refused to take further exposure in the IDBI share that the government desired in a bid to prop up the market sentiment in it. Against this backdrop, subscription to PSU shares will not be easy going.

Third, with virtual squeeze on bank credit consequent to insufficient growth in deposits on the one hand and government cornering a major chunk through its dated securities on the other, the private corporate sector has enormous unsatisfied demand. Consequently, it is a major contender for very limited funds in the capital market. Against this backdrop — even assuming that the government can organise an effective campaign — the prospects for mobilising the desired funds through the divestment programme are bound to diminish.

Fourth, the government has launch-

ed only the first phase of the disinvestment well into the second half of the current year, and the process could drag on till the end of December, 1995 or beyond. It will be virtually impossible to complete the subsequent phases in the few remaining months without compromising on the quality of disinvestment. Logically, the government should postpone the subsequent rounds and wait till market conditions improve.

But this is unlikely because in its budget calculations and, specifically in projecting the fiscal deficit, it has already taken credit of the expected

price for the first round, the government proposes to go on the basis of the recommendation of the merchant bankers; in other words, the price as quoted in the bids. This is unlike the earlier practice when the higher of the average price in the previous rounds on the one hand and the bid quotation under the proposed divestment on the other, was taken as the basis.

In view of this and compulsion of sticking to the fiscal deficit target, the government could end up selling off its stake much below the inherent worth of these blue chip companies.

is unlikely that the independently planned public issues of these PSUs would fetch a better price.

Sometime back, when the government was contemplating to combine its divestment with the public issues of concerned PSUs, their management had vehemently opposed fearing an adverse effect on the performance of the latter. Although, the government has relented on its original plans, the adverse effect cannot still be averted so long as disinvestment precedes the public issues.

The PSU's problems arise mainly because the government's sole preoccupation is to use them to generate surplus funds for meeting its own consumption needs. Majority of the PSUs are government monopolies in their respective fields. For all these, the government has raised administered prices to boost their profitability and surplus accruing to itself. In the process, many of the user industries have become unviable and inflationary pressures in the economy got aggravated.

With the Rangarajan Committee recommending giving back the proceeds to concerned PSUs, there was some hope of a possible change in approach. But that report is gathering dust. Now the government only talks of using divestment proceeds for lowering its fiscal deficit.

When the approach to divestment programme is seriously flawed and meeting artificial targets hangs as Damocles sword, there is no way the government can undertake a proper divestment exercise in terms of timing the auction right, fixing an attractive price and, of selling the issue well?

For the first time, the government's divestment programme is seeking to bring foreign investors within its fold. When Indian companies in the private sector are selling equity abroad, there is no reason why PSUs cannot do the same. However, even this effort is unlikely to succeed, so long as the sales programme is driven by external considerations.

There is an urgent need to delink the government's divestment programme from the Union Budget, bring the concerns of the PSUs to the centre stage and give the proceeds back to them for supporting their expansion, growth and modernisation. This would also clear the way for evolving and implementing best packages for the PSUs.

revenue of Rs 7000 crore from proceeds of divestment. Any shortfall will inevitably increase the fiscal deficit, which is simultaneously coming under pressure from increasing subsidies, pay hikes and funding of a host of poverty alleviation and social assistance schemes not originally provided for in the budget.

With the government's borrowing programme getting into serious trouble and RBI's warning about increasing recourse to ad hocs, it may not wish to take any chances. Consequently, it would still go to the market even if it means disposing of the shares at throwaway prices and selling much more than originally contemplated.

An indication of this is already available. In determining the floor

Most of the PSUs under government divestment programme are planning public issues on their own. They know that the market sentiment is weak and, for quite some time, have kept away in the expectation of some improvement and resultant possibility of getting a better price and full subscription. However, they cannot keep these issues on hold for too long as that would delay their expansion, modernisation programmes and implementation of new projects.

Unloading of the government's equity will not only affect subscription to these issues (overall availability of funds being limited), it may also adversely influence the price. With subscription to government's divestment going at a lower quote, it

