THE OBSERVER
OF BUSINESS AND POLITICS

MONDAY DECEMBER 12, 1994

Disinvestment in a limbo

The present approach of treating PSUs as milch cows is counter-productive, says **Uttam Gupta**

THE government's disinvestment programme in public sector undertakings during the last three years has been in a state of limbo. The resources garnered through this programme have not only been much short of the targets, but have even failed to make any significant dent on reducing the overall fiscal deficit, which was the sole aim of the exercise.

The disinvestment undertaken during the current year has so far yielded only about Rs 2200 crore as against a target of Rs 4000 crore. It remains to be seen whether the disinvestment contemplated during February, 1995 will make up this gap.

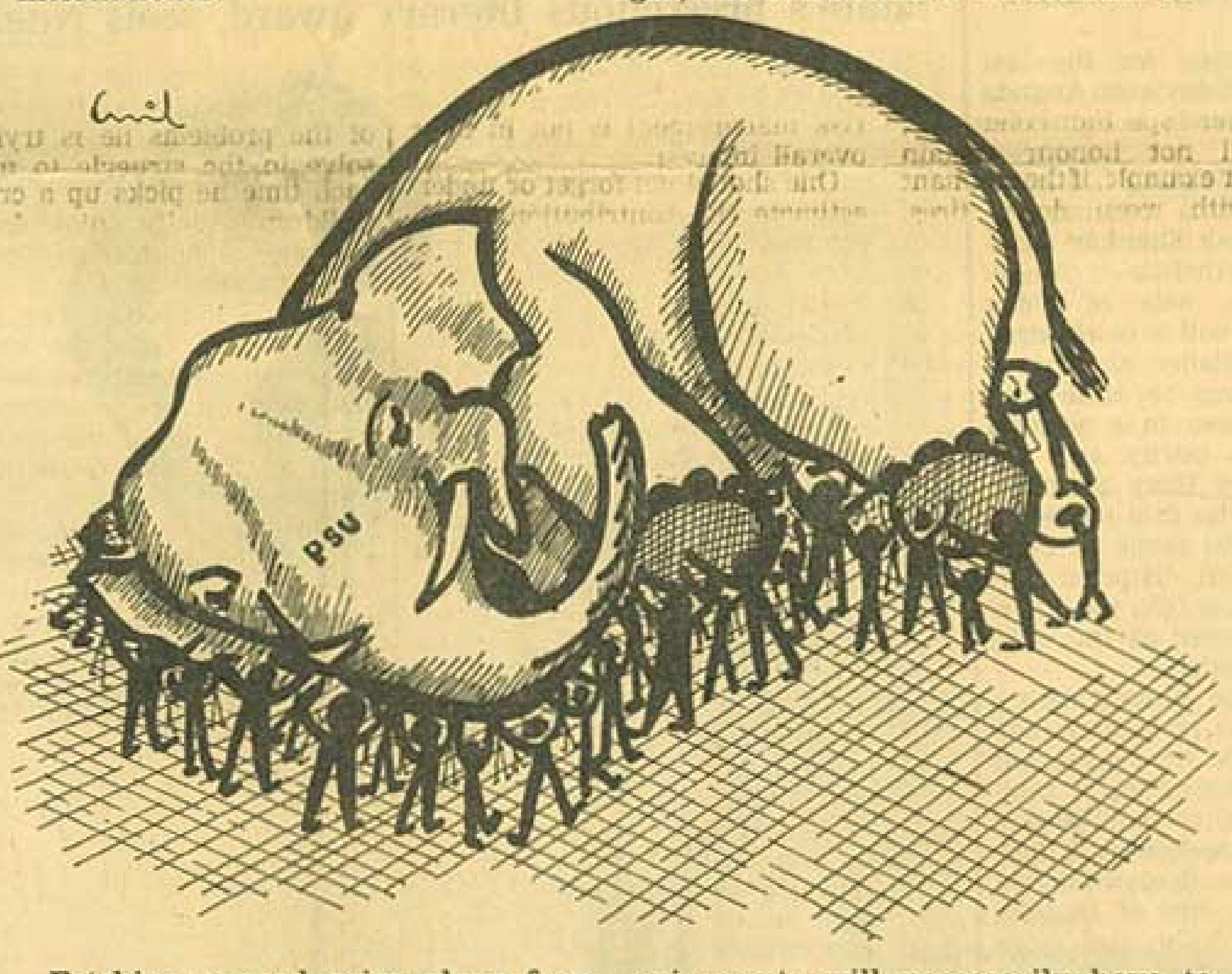
Surprisingly, it has taken almost four years for the finance ministry to realise that the present scale and methodology of disinvestment in the PSUs will not, in any meaningful way, help in reducing the fiscal deficit. It has been estimated that the government would need to generate well over Rs 10,000 crore in 1995-96 through the disinvestment route to contain the fiscal deficit at the projected level of 5 per cent of the GDP.

That may well be an impossible task. So, the argument goes why not step up the scale of disinvestment to a level at which it would be possible to mobilise resources in the desired quantum. Against this backdrop, disinvestment even upto 51 per cent is being justified. That is what majority of the chief executives of the PSUs have been demanding. After the initial disappointment, they are pinning hopes on the government reducing itself to a minority partner.

But the manner in which large scale disinvestment is being contemplated leaves much to be desired. The finance minister's logic remains unchanged: That, it wants to use the proceeds for bridging the fiscal deficit even as the major issues legitimately relevant to the disinvestment exercise are being sidelined. Let us look at the implications of this approach, which would not be different irrespective of the scale of disinvestment.

The key issue involved here is that the sale of the government's equity should fetch a good price and enable induction of some non-government nominees in the board of directors of the PSUs. The process is expected to give the company a chance to not only have access to additional resources, but also a more dynamic management under the direct scrutiny of the public.

Technological upgradation, plant modernisation, quality management and improvement of services which are all critical to survival and growth in the present competitive environment, are possible only under such a dispensation. Under these conditions, as the undertaking builds up its track record, it will get ample opportunities to raise more resources from the market, both domestic as well as international.



Fetching a good price alone from the initial round of disinvestment is not enough. It is equally necessary that a vibrant and sustaining market for the equity of the company is built up with reasonable liquidity and scope for appreciation. And herein, it is not merely a question of making some cosmetic changes such as better marketing of the equity brand or the road shows etc., but that of addressing the fundamentals of the company.

Unfortunately, the progress in this respect has been disappointingly slow. Bulk of the disinvested equity in PSUs has been with the mutual funds, financial institutions and the commercial banks. The shares are yet to gain the confidence of the general public.

So much so, the equity holdings of some companies like the Neyveli Lignite Corporation (NLC) are like dead wood with the mutual funds/FIs struggling to find buyers. The VSNL which was traded for a while during the Euro-issue phase is no longer in the limelight at the Bombay Stock Exchange. The ONGC share for which the government received an attractive price of Rs 2600 (Rs 10 per value), too may meet a similar fate, unless the fundamentals are addressed.

For its massive exploration and production programme for oil and gas, the astronomical investment requirements will necessarily have to be funded through the capital market. The PSUs' equities have to gain the confidence of the investing public — both Indian and foreign. Only then is there a future for the PSUs.

The present approach of treating the PSUs only as a milch cow may prove to be counter-productive even from the viewpoint of maintaining overall fiscal balance. It is a known fact that even profit-making PSUs are in dire need of funds for timely replacement and modernisation. With the overall budgetary support itself dwindling and if the proceeds from the disinvestment is also not given back to them, where will the PSUs find the funds to sustain their present level of activity, let alone finance for future growth?

Public will not invest the money unless the undertakings show good working results and promise future growth prospects. And, since the latter is not possible without timely modernisation, funds are unlikely to flow from the capital market. That takes them back to the budgetary support regime, implying increased budget deficit.

Erroneously, the interest element alone is often blamed for fiscal deficit. There is need to realise that this arose from the past heavy borrowings meant for the PSUs as also from its improper use. The government's enterprises may be classified into three broad categories: (a) areas of strategic interest (b) loss-making and sick enterprises, and (c) profit-making enterprises.

In category (a), the question of the government's disinvestment is irrelevant. For (b), there will be no takers for the government's equity. For (c), for which the scope exists, the approach so far adopted and its continuation on a much larger scale, has the dangerous portents of either making them sick or companies ultimately falling into the hands of private corporate giants for an unreasonably low price. The latter possibility is likely to be given a fillip by the government's entrenched practice of using the PSU disinvestment as the fulcrum of its deficit reduction exercise.

There is an urgent need for a change of gear. The disinvestment of government equity should be delinked from the exercise of balancing the budget, the entire proceeds of disinvestment should go to the concerned PSU for its expansion and modernisation programmes. Second, the changed equity pattern should get legitimately reflected in the composition of the board of directors. Third, the reconstituted boards should then work on a two-pronged strategy of improving the fundamentals of the company on the one hand and marketing their equities effectively on the other.

The government should concentrate exclusively on either reviving and re-activating the dead wood wherever possible, or disposing them off for a good price. The proceeds thus obtained may be used either for settling their liability or reducing the overall fiscal deficit or a combination of both.