Editorial

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THE HINDU BUSINESS LINE

PSU divestment brooks no delay

Having taken a conscious decision to 'exit' from the business of running an enterprise, except in strategic areas, the Government should not slacken the pace. Time is of essence. Any delay in executing the divestment plans through the 'strategic' route could result in huge loss to the exchequer, says **Uttam Gupta**.

IN ITS meeting on September 7, the Cabinet Committee on Disinvestment (CCD) postponed a decision on the divestment of Government equity in Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL) for three months. However, indications are that the postponement is for an indefinite period!

In the meanwhile, a strong group within the political establishment has questioned the very approach of selling a sizeable chunk of Government equity to a 'strategic' partner along with transfer of management control. Instead, it has favoured selling equity to the general public in 'small lots' while, at the same time, retaining Government control.

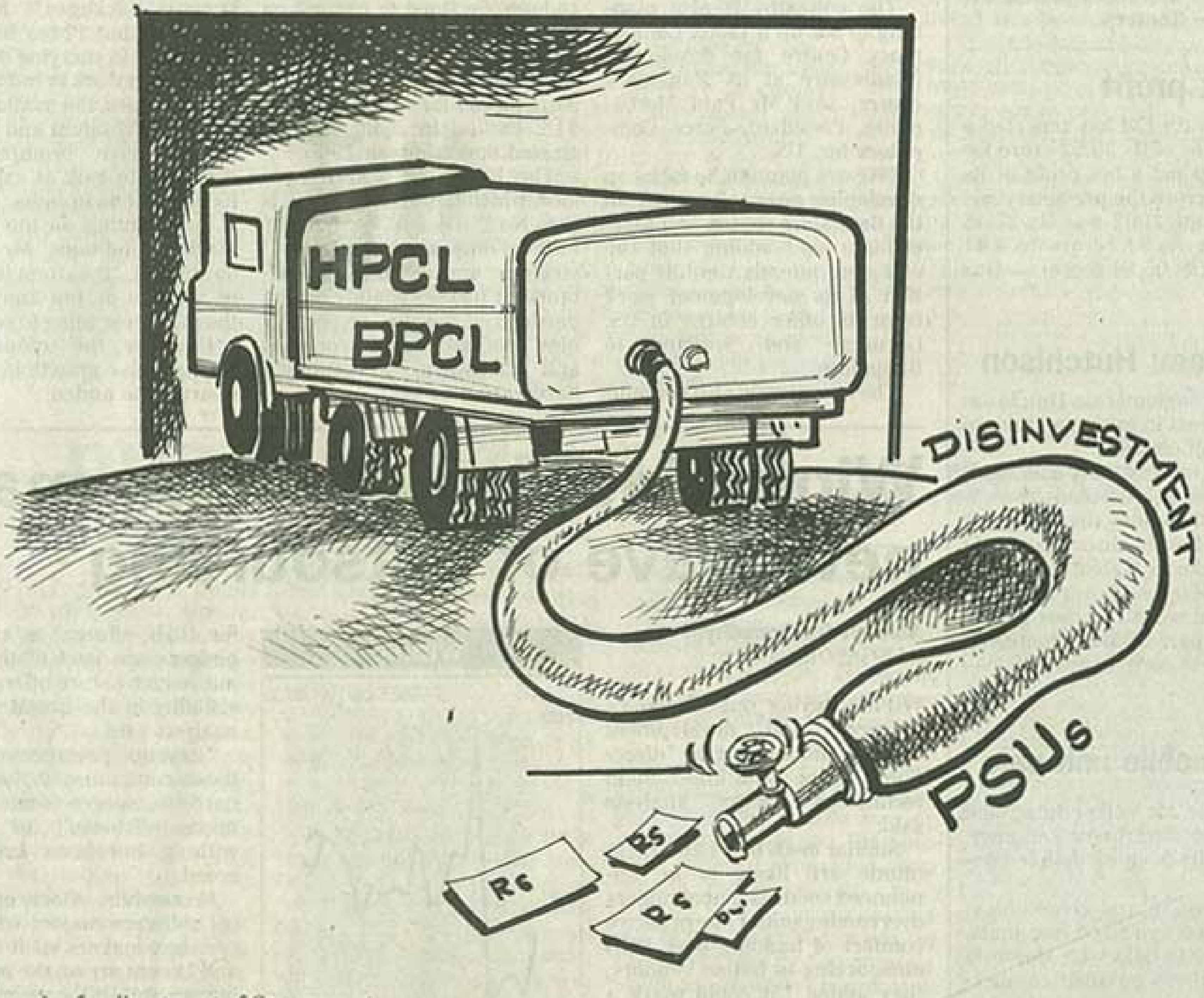
The group is of the view that this would achieve the two-fold objectives of (i) distributing wealth to general public instead of handing this over to private companies, including multinationals and (ii) garnering resources needed for funding the revamp, expansion and modernisation programmes of the PSUs.

Already, the wealth embodied in PSUs belongs to the public. The Government is merely a 'custodian'. In view of this, the first objective is totally irrelevant. And yet, the group has raised this bogey just to gain some public sympathy. Perhaps, it thinks that the talk of selling equity to a private company may not go well with the voters!

As regards the second objective, its realisation will depend largely on the response of the public to the Governments' offer for sale of equity. And, so long as the Government retains majority control (holding 51 per cent or more), it is most unlikely that the investors will put in their money! This is because the latter perceive the former to be more of a 'hindrance' in effective operations of the enterprise.

Because of excessive controls, the PSUs are not free to take decisions. Even undertakings enjoying 'navaratna' status — HPCL, BPCL, etc. — have to get approvals in regard to all major decisions, such as setting up a new project, including expansion at existing site, forming an alliance/joint venture with a private company, undertaking internal restructuring, and so on.

Invariably, nominees of the Ministries concerned dominate the board of directors of a PSU. Even 'professional' Directors (this practice was started in the early 1990s) are hand-picked. The Government appoints the chief executive as well. Against this backdrop, even if, the management is given full autonomy, officials in Ministries and their political bosses will continue to call the shots. In view of the above, any



exercise for divestment of Government equity that does not result in transfer of management control will only elicit a lukewarm response from the public. Such an approach followed all through in the 1990s' was a big disappointment. The results will be no different if this strategy is re-adopted.

In sharp contrast, the 'strategic' route for divestment of Government equity followed in recent years has yielded good dividends. The proceeds of divestment during the last two years exceeded the collections during the entire decade of the 1990s.

While the former consists predominantly of collections from the 'strategic' investor and general public, the latter included to a considerable extent, the subscription — albeit forced — by financial institutions and commercial banks.

This year — up to September 9 — when the divestment through the 'strategic' route picked up momentum, there has been an unprecedented increase in the market capitalisation of PSUs by about Rs 75,000 crore (an estimate cited by Mr Arun Shourie). This clearly demonstrates the confidence shown by the investing community including the foreign investors in this mode of selling equity.

At the same time, the uncertainty about continuation of this route following staunch opposition by a majority group in the meeting of CCD on September 7 triggered off a substantial loss in the market capitalisation of PSUs by about Rs 12,000 crore in less than two weeks. This implies that the public has categorically rejected the Governments' virtual decision now to wear the old hat.

There is yet another lacuna in the groups' thinking on the subject. When it talks of mobilising substantial funds (Mr Ram Naik intends to fund the proposed BPCL's Bina refinery through an IPO), the implicit assumption is that public will buy shares at prevailing market price. But the moment it is known that the Government will not relinquish control, the price will crash. Therefore, the proceeds from whatever limited sale takes place will be meagre.

A number of prominent Ministers have sought to justify continued Government control on the ground that the concerned PSUs are profit-making. But we need ponder whether these undertakings will continue to make profits? And will this be possible under the existing dispensation?

Generally, the PSUs — particularly those in the oil sector — have made high profits in the past largely because of their 'monopolistic' position. They exploited this by charging high prices for the products. The prices were neither related to the reasonable cost of production and distribution nor to the prevailing import parity price (IMPP).

Following liberalisation — both internal and external — and dismantling of administered price mechanism (APM) in the oil sector from April 1, 2002 the PSU monopoly has been broken.

As a result, the prices have declined in turn, squeezing their margins. The situation will get aggravated due to further lowering of import duty on petroleum products a per the WTO diktat.

Against this backdrop, it would be a serious mistake to think that the PSUs will continue to generate wealth on the scale they did in the past.

In the emerging highly competitive environment, it would be commendable even if the undertakings earn a bare 'minimum' return. But this may not be easy if the PSUs remain in the Government stable.

In view of the likely scenario, it is imperative that the Government vigorously pursues divestment of its equity through the 'strategic' route, right now. At present, the bidders are showing keen interest. Tomorrow, when, the prospects of generating good returns diminish, they may not even look at the PSUs or value these at ridiculously low levels!

The message is loud and clear. Having taken a conscious decision to 'exit' from the business of running an enterprise except in strategic areas (Defence, Railways, etc), the Government should not slacken the pace. Time is of essence. Any delay in executing the divestment plans through the 'strategic' route could result in a huge loss to the exchequer.

At the time of the sale of Governments' equity in IBP Limited (this was picked up by IOC) in 2000, the Cabinet had taken an in-principle decision to bar a PSU from bidding for another PSU slated for divestment. The Government should stick to this, as any reversal will tantamount to maintaining the status quo.

All along, in the past, Government has used the proceeds of divestment to reduce its Budget deficit. This is akin to selling household assets to meet current consumption. This practice should be discontinued 'immediately'. The proceeds should be used either for retiring debt (consequential reduction in interest burden will release resources for development) or invested for building infrastructure.

The Government spends thousands of crores to bail out institutions in financial distress largely because of mismanagement and irregularities in transacting business. Thousands of crores are siphoned off from anti-poverty programmes and welfare schemes. This must be avoided. There is no point pouring hard-earned money (including that from sale of PSUs) into a Treasury Box with a deep hole!

(The author is Additional Director, Fertiliser Association of India, New Delhi. His views expressed are personal.)