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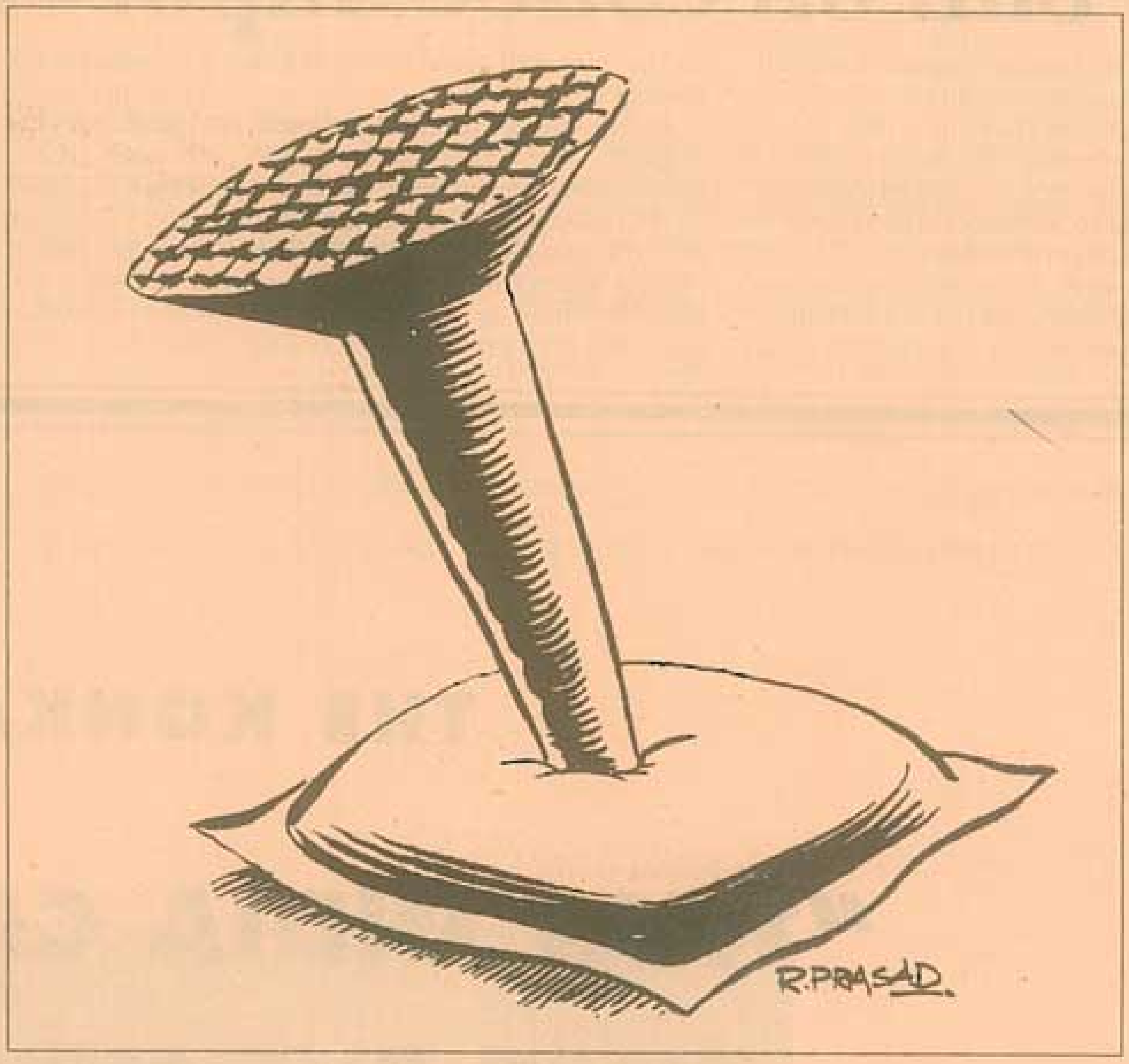
COMMENT

Uttam Gupta **says that the bogey of loss-making units is only a ploy to deny autonomy to public sector cos**



PSUs must be unshackled

AS the picture about the urea import transaction carried out by National Fertilisers Limited (NFL), a government undertaking, becomes clearer, there is a strong possibility that the undertaking will have to absorb a staggering loss of about Rs 133 crore. This would seriously erode its profitability and has dire implications for continued production.

In fact, the impending liquidity crunch is already evident: NFL reportedly defaulted in its payment obligation of Rs 50 crore to IOC towards purchase of fuel oil. This has led to suspension of supplies and consequential stoppage of production at two of its plants i.e. Panipat and Nangal. The erosion of NFL's profitability will affect its entire internal resource structure, especially in view of the recent decision of the Government requiring all profit-making PSUs to give a minimum of 20 per cent of the equity as dividend. Lenders may now be unwilling to accept fresh exposures in NFL at least until the uncertainties generated by the urea scam are cleared. This will impede the pace of implementation of on-going projects including expansion at Vijaipur and revamp of Nangal.

Moreover, important decisions may be postponed due to the absence of a full-time Chief Executive (presently, the CE of HFC is holding additional charge of NFL). Suspension of the project execution activities is inevitable: this will lead to cost escalations and ultimately affect NFL's viability.

Such a situation is unfortunate: NFL is amongst the few profit-making PSUs which has consistently contributed good revenue to the Government by way of dividend and various taxes and duties. Additionally, the Government has garnered substantial sums by way of disinvestment of a portion of its equity holding and using them for reducing its overall budget deficit. NFL also has a strong presence on the national fertiliser scene, contributing about 2.3 million tonnes out of a total urea production of 15.8 million (1995-96). Besides, the cost of urea supplied from NFL plants (Bhatinda, Panipat, Nangal and Vijaipur) is lower than the industry average and substantially lower than the cost of imported urea. On a weighted average basis, the farm-gate cost of NFL urea is about Rs 5,500 per tonne as against the industry average of about Rs 6,000 per tonne and cost of imported urea at about Rs 9,500 per tonne.

Considering that the selling price of urea is controlled at a low level and the excess of the reasonable cost of production and distribution over this level is reimbursed as subsidy by the Government under the Retention Pricing and Subsidy Scheme (RPS), the subsidy outgo on supply of NFL urea is also lower. Thus any adverse effect on the ability of NFL to maintain its present level of production or add to its installed capacity will inevitably result in non-availability of reasonably priced urea for the farmers. This will directly affect foodgrain production at low cost. Attempts to make up for the shortfall through imports will entail avoidable outgo of foreign exchange and higher payment of subsidy.

The NFL case demonstrates the wide range of adverse repercussions on the entire economy thanks to the NFL management's blunder in deciding to make advance payments in full for 200,000 tonnes of proposed urea imports, from a little-known supplier, and that too without any guarantee. Clearly, this could not have been an independent decision of the CE and his team. Being a government-owned company, NFL comes under the watchful eyes of a number of agencies such as the Chemical and Fertilisers Ministry, government-appointed internal auditors, CAG and parliamentary committees, and it also has a Board of Directors constituted by nominees of the Government. Thus there is a mini-government sitting right in the boardroom of NFL. And yet, if there are lapses of the kind seen in the urea import deal, these arise not because of the lack of a system of checks, but in spite of them.

Widespread and deep-rooted government controls also inflict huge costs on PSUs through time and cost overruns caused more often by endless delays in getting the green signal from the Government rather than the inefficiency of the project implementing authorities. For all projects involving an investment of Rs 50 crore and above, the approval of the Public Investment Board (PIB) is mandatory, which takes a minimum of a year or two. Pleadings from various PSUs to get the investment limit raised, not to mention dispensing with the requirement of PIB approval irrespective of the project size, have fallen on deaf ears. Recently, the Committee of Secretaries (COS) is reported to have rejected this demand from PSUs in the oil and gas sector on the ground that such a decision will have to cover all PSUs. There is no reason why all PSUs could not be covered by the decision. Moreover, even projects involving investment of less than Rs 50 crore are not spared.

The COS has hinted that the Government may wish to retain control on loss-making PSUs. But the latter are precisely the ones which need much greater autonomy and professional management to undertake timely investment for rehabilitation and modernisation. The bogey of loss-making PSUs is only a ploy to deny the management of PSUs — especially the profit-making ones — the freedom to take investment decisions. During the last five years, the only significant action to liberate PSUs was the Government's decision (in 1992) to reconstitute the Board of Directors by inducting professionals as nominees of the Government. But this also remains unimplemented so far.

PSUs have a predominating presence in core sectors like crude, oil, POL, gas, chemicals, fertilisers, steel, and in infrastructure such as power. It is becoming obvious that continued government ownership and management control make it difficult for PSUs to remain healthy. Not too long ago, the Government was looking at NFL (a cash-rich PSU) to help in rehabilitating the loss-making plants of FCI and HFC, but now NFL itself is in trouble.

The Restructuring Group (R-Group) has recommended disinvestment of Government's holding up to 51 per cent for PSUs in the oil sector. That such a suggestion has come from the bureaucracy itself is a welcome sign. The Government should put its seal on this recommendation, and extend its scope to all profit-making PSUs. There are enough instances where the State Government is a minority partner, e.g. SPIC, GSFC and GNFC, to prove that this dispensation would work.

The author is Chief Economist, Fertiliser Association of India, New Delhi.