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Privatisation dilemma

Disinvestment funds should be used to support rehabilitation of sick, but potentially viable PSUs, says Uttam Gupta

RECENTLY, the Union cabinet decided to disinvest up to 49 per cent of government equity holding in the core profit making PSUs. Why up to 49 per cent only? Why not up to 50 per cent, or 51 per cent or even beyond? The reasons are pretty obvious to seek.

Disinvestment up to 51 per cent will lead to the government losing majority control, something which is not acceptable to it.

Unloading of 50 per cent implies that the non-government entities will have equal say in the management and running of the enterprise. The too does not find favour with the government, specially in view of the Maruti experience (the GOI and Suzuki have 50 per cent equity stake each) wherein its one-upmanship has been challenged on more than one occasion.

If the government's main aim is to remain in the driver's seat and not even allow the non-government entity the status of a co-driver, then why create a false impression that it believes in restructuring.

In substance, the proposed disinvestment plan is no different from the exercises undertaken by the previous regime.

As was the case earlier, the motive behind disinvestment by the present government is also to utilise the proceeds for reducing the budget deficit. In this context, similar exercises since 1991-92 until last year, failed miserably.

In fact, during 1995-96, realisation was only Rs 320 crore against a target of Rs 7000 crore.

For this, however, the government would tend to put the blame on the depressed market conditions, improper timing of disinvestment or choice of incorrect methodology (e.g. bundling of shares of different PSUs) etc.

By avoiding these flaws and taking proper care, it hopes to achieve better results.

But, the government is missing a fundamental point, i.e., the PSU shares do not enjoy credibility with the public at large. This is despite the fact that the core PSUs have virtual monopolies in their respective areas of the operation, e.g. PoL, telecom etc, and can charge prices or set other terms at will, enabling them to make fantastic profits. Moreover, these areas being basic to the

economy, the growth opportunities are unlimited.

The real problem is that the government is perceived as a bad manager. This, in turn, is because of too many controls on the one hand and the government's attempts to use the PSUs for subserving objectives other than their continued health and growth on the other.

This has made majority of the PSUs sick and even the profit-making PSUs are not without serious problems.

Recently, the managements of the undertakings in the oil and gas sector

IFFCO does not get any budgetary support. In view of this, in its annual report, it has observed that the internal resources should be conserved; and very rightly so, specially when it has a number of projects under implementation.

Despite this, a steep increase in the dividend payout will be counter-productive.

Besides using the profit making PSUs as milch cows for supporting its own fiscal profligacy, the government forces them to support the loss-making undertakings by way of loans, not for undertaking investment in

are unlikely to do so now as even with the contemplated disinvestment of 49 per cent, the government's writ on the management would remain unaltered.

The proposed disinvestment plan is highly motivated. The government wants to have the cake and eat it too. It wants good money for the shares disinvested and, at the same time, remain in command.

This is impractical and, therefore, unlikely to succeed in the current environment.

The plan may have a chance of succeeding only if the government gives demonstrable evidence that it is ready to allow PSUs function freely and independently on the same lines as any private company.

Towards this end, it should implement, without any further loss of time, a series of bold steps with confidence.

Amongst others, these should include the following: (a) reconstitute PSU boards by inducting professionals as government nominees including on the position of chairman, (b) get the best talent for the post of chief executive by offering attractive salaries and ensure continuity by filling vacancies in time, (c) give full freedom to the management for all decisions including undertaking investment (this will require dismantling the PIB) (d) stop day-to-day interference and making the CE accountable only for the overall financial results, and (e) reducing the role of statutory watchdogs to the bare minimum.

The government has to do serious introspection and assess whether it can go that far.

If it cannot, it should decide to disinvest up to 51 per cent, and thus give a clear signal that it is ready for minority ownership in the wake of liberalisation.

With this, it should ask the disinvestment commission to carry out the exercise in a totally professional, impartial and objective manner.

Through this, it can hope to realise a good price and consequently, huge funds.

The government should, however, refrain from using these funds for meeting current consumption needs. Instead, these should be used for supporting rehabilitation of sick, but, potentially viable units and for retiring a portion of the outstanding debt.



expressed their inability to implement the expansion/modification plans due to shortage of funds.

They, in fact, blamed the government for not providing any budgetary support and, yet, not leaving them free to take decisions.

That the government does not provide any budgetary support is bad enough. Even worse, it is hell bent on having its share of the cake, irrespective of the resource position of the PSUs.

In the case of IFFCO, cooperative giant in the fertiliser sector (majority equity is with the government), during 1995-96, despite its profit after tax plunging by 37.5 per cent, the dividend to the government was raised by an equivalent amount.

revamping and modernisation, but, for financing unproductive current consumption of the latter.

Of late, the government has made inroads even in the routine commercial transactions of the PSUs, forcing heavy losses on them.

The loss of Rs 133 crore to NFL in the infamous urea import deal is a case in point. Since 1993, the purchase functions of MTNL were handled by the minister for communications.

In view of the above and the possibility of profit-making PSUs going deeper into a financial mess, it is unlikely that the investors would respond enthusiastically to the sale of government's equity.

They did not respond to the disinvestment call in the past, and