

Resurrect sick PSUs

The underlying fundamentals point towards the need for immediate decisions and follow-up action, says Uttam Gupta

THE long-delayed rehabilitation and modernisation plan of mills under the National Textile Corporation has been all but jettisoned. Implementation of the plan hinged primarily on sale of the surplus land belonging to these mills. Although, this in turn, would have necessitated legislative enactment to facilitate transfer of ownership to the Government of India, it would, by itself, have only meant some delay. The real cause for almost abandoning the move lies elsewhere.

The government now proposes to evaluate the wider implications of the contemplated enactment. Considering that no timeframe for completing this exercise has been indicated, the possibility of NTC getting a chance to rejuvenate and resurrect its ailing units, at least in the near future, looks remote.

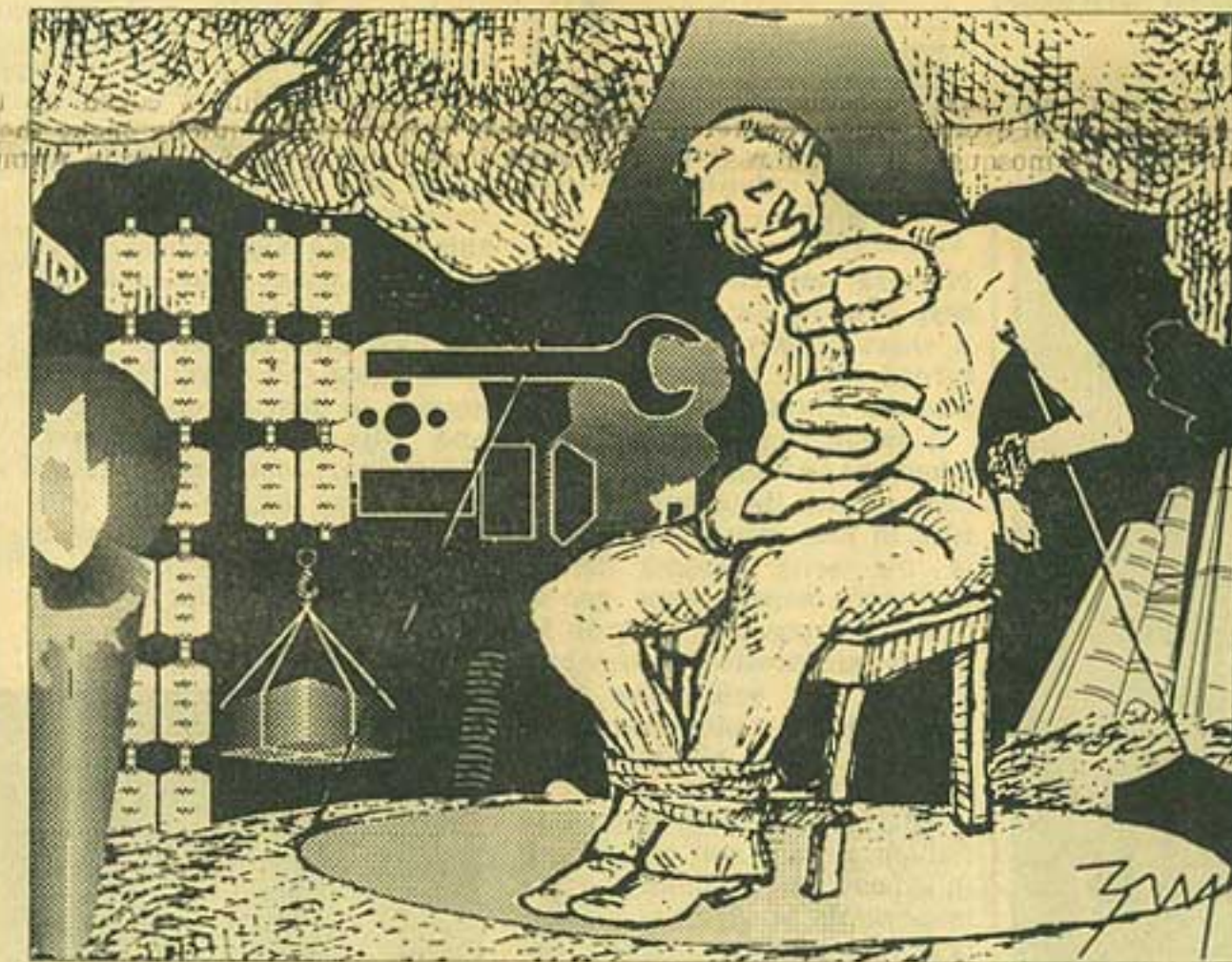
At prices prevailing two years ago, the cost of the plan has been estimated at about Rs 2,000 crore. After updating, the cost would have already crossed about Rs 2,500 crore. Even assuming that the government were to take a decision a few years from now, the resultant further escalation may render it unviable.

The government's apparent worry is that if it allows disposal of the surplus land by the NTC, it would cause a serious ripple effect — many other loss-making enterprises could come up with similar proposals. One may well ask, what is wrong? After all, far from making any worthwhile contribution in terms of a reasonable return and commensurate dividend to the government, most of them have already more than eaten up their capital and are now permanently on artificial respiration. Their losses are being continuously financed by budgetary support. Often, the government directs other better performing state undertakings to give loans to such units for meeting working capital requirements.

Continuation of the status quo has only negative consequences. Mounting budgetary support increases the government's fiscal deficit and throws its fiscal stabilisation programme completely out of gear. Needless to emphasise that the hapless consumers bear the brunt by having to live with resultant higher rate of inflation. Various categories of tax payers too do not take kindly to a situation of tax rates being increased or new

taxes introduced to make up for what the government loses in supporting sick enterprises.

Since budgetary support is given to the enterprises in the form of loan (not as grant), this leads to an increase in the debt burden on the one hand and compounding effect of interest on such loans on the other. These get further accentuated in view of the government levying penal interest in the event of the company defaulting in repayment. That the latter is bound to default is a foregone conclusion as nothing is being done to reduce and ultimately eliminate the



cash loss.

It has also to be considered that these undertakings hardly get plan support for undertaking fresh investment, financing major revamping and modernisation plans. The government may well feel that there is no merit in committing fresh funds in a sick company; on that very logic, why should they even be given non-plan support which entails expenditure on a much bigger scale and that too on a recurring basis as against a one-time capital expenditure.

The companies are hard placed to secure adequate funding even for routine renewals and replacement of items of plant and machinery. The result: A continuous deterioration in the condition of assets. It is sheer

wishful thinking to expect that FIs or the banks would give them money for carrying out these functions. Of late, banks insist on government guarantee before providing working capital to the loss-making PSUs. The question of their tapping the capital market is at best hypothetical.

The concerned PSUs make loss primarily because they suffer from design deficiencies, obsolete technology and equipment besides bad planning and ineffective management; and labour problems compound these effects. The only way they can come out of the mess is by infusing fresh

capital for bringing in modern technology and compatible equipment. Unfortunately, the government seems unwilling to attend to this aspect even as it continues to support unproductive activities on an unprecedented scale. With accumulating debt, the balance sheet of these companies become progressively grim.

Since there is hardly any productive activity in comparison with the mountain of resources invested and the disproportionate employment, the "idle" labour force exerts a further destabilising effect with potential threat not only to the plants they are supposedly working for, but also have a negative impact on other industries and on the overall economic atmosphere in general. This redundant

labour also happens to be politically active and can be mobilised by vested interests at short notice for launching mass protests, strikes and demonstrations.

So, enterprises like the NTC continue in their prevailing state of haemorrhage. This is because their continued existence satisfies the socialistic instincts of those who still believe in the philosophy of the public sector being at the commanding heights notwithstanding the new economic policy, the thrust on opening up and privatisation.

The underlying fundamentals conclusively point towards the need for taking immediate decisions and follow-up action on restructuring of all loss-making PSUs, and not just the NTC. The sale of surplus land will obviously be one such essential element in this overall exercise. It is a good coincidence that with liberalisation and globalisation catching up, the prices of land and other real estate have shot up in recent years.

The government should take advantage of this and negotiate the best possible price. A lot more work will be required to be done by crossing legal hurdles, inviting bids, evaluation/scrutiny and taking the sale process to its logical conclusion and, thereafter, initiating and completing various processes connected with putting in place the revival and modernisation plans. The need of the hour is to speed up things and not spend more time in reopening the basic issues and going through the motions all over again.

Even in cases where there is absolutely no chance of reviving the concerned unit, the government should immediately initiate the necessary steps for closure. The proceeds from disposal of their land, building and other assets should be utilised (after meeting their liabilities) to fund other units which have been identified as fit cases for rehabilitation and modernisation.

A significant advance on these lines alone will test government's seriousness in undertaking restructuring of public sector enterprises. Needless to mention that the restructured or what one may term as the "reformed" enterprises can not only stall the historic trend of a persistent drain on the exchequer, but also, reverse it and even start paying reasonable dividend to the government.