## Strategic disinvestment

# Unshackling profit-making PSUs

*To really unshackle the PSUs, the Government must sell a chunk of its shares to a "strategic" partner. This would result in transfer of ownership and control to the "strategic" partner and lead to fundamental changes in the way the company is run. Besides protecting the interest of all stakeholders, this would fetch the government a better price for its shares than via a piecemeal sale, says* **Uttam Gupta**.

THE GOVERNMENT'S plan to divest its equity holding in profit-making public sector undertakings (PSU) is facing strong opposition from various quarters including the constituents of the ruling alliance.

It is time to carefully assess the current approach to divestment for various stakeholders — the divested undertaking, the Government, the shareholders and the public at large.

The current approach — as articulated in the context of the now given up divestment of BHEL (the Government wanted to dilute its stake from 67.7 per cent to 57.7 per cent) — is founded on three pillars.

First, the Government will sell its shares to the public in a manner that even after divestment, it will continue to hold majority stake (51 per cent or above) in the PSU concerned.

Second, it will ensure that the shares thus divested are widely distributed and that no single private entity holds a significant block of shares.

Third, the proceeds of the divestment will be deposited in the National Investment Fund (NIF) to be used for building social infrastructure and reviving sick PSUs.

Emboldened by the success of divestment undertaken last year (divesting of shares in ONGC alone fetched about Rs 10,000 crore), the Government aims to garner huge resources from continuing this exercise.

However, one is not sure whether the Government would make funds available on a scale required to benefit the public at large.

Last fiscal, it used the entire divestment proceeds to meet its budgetary requirements.

From the current year, even as it has decided to put divestment proceeds in the NIF, only the interest earnings on the corpus will be available for spending on health, education or revival of sick PSUs.

Way back in 1974, a cess on domestic crude was introduced and Parliament sanctioned the use of collections from this for supporting exploration and development in the oil sector only. During the last three decades or so, the cess must have yielded thousands of crore rupees. However, the government has used almost the entire money for meeting its overall budgetary needs.

In view of the above, the availability of divestment proceeds for the benefit of public is highly uncertain. Inefficient delivery systems make things worse.

What happens to PSUs after divestment? Will the current approach help them survive competition in an emerging liberalised regime?

At the outset, we need to know what hampers their capabilities. At present, the PSUs are hamstrung by a plethora of controls: (Ministries, Parliament, CAG, CVC and so on) and denied the much needed the autonomy and flexibility to run as an enterprise.

Despite the constant talk of giving autonomy, even managements of *Navratna* PSUs are not free to take decisions on large capital expenditures, setting up of joint ventures, and so on.

In almost all critical areas such as product mix, pricing, location, and manpower, where competitive forces demand prompt decisions and their implementation, the managements have to look for directions from the administrative Ministries.

Low remuneration of CEOs in PSUs *vis-à-vis* their private sector counterparts is a major stumbling block to attracting the best talent to the former.

In recent years, oil PSUs have suffered heavily due to rigid price controls, preventing them from proportionately increasing petrol and diesel prices in the face of rising crude prices. In the case of kerosene and LPG, the Government has neither increased its subsidy amount nor allowed an increase in prices to cover the rising cost of crude.

The resulting huge under-recoveries on sale of the above four products have seriously eroded the bottomline of the oil PSUs.

In April-June 2005, BPCL, HPCL, IOC and IBP reported substantial loss. In the case of IBP, the loss incurred during the first quarter of the current year has completely wiped out the surplus accumulated by it over the decades.

The Government has also directed ONGC to meet a portion of the oil subsidies. In April–June 2005, it had to shell out about Rs 3,000 crore on this account. At this pace, its reserves would be wiped out in three years.

Due to the unprecedented cash crunch, the oil companies have put their capital expenditure plans on hold. This can be seriously detrimental to their interest in the long run.

If such damaging interventions in the area of pricing continue and managements not accorded sufficient autonomy, the PSUs will bleed more and more.

This wouldalso jeopardise the interests of minority shareholders including those who bought shares as part of the government's divestment exercise by paying a hefty premium.

They could incur a huge loss due to the market value of the share plummeting to levels much below the purchase price.

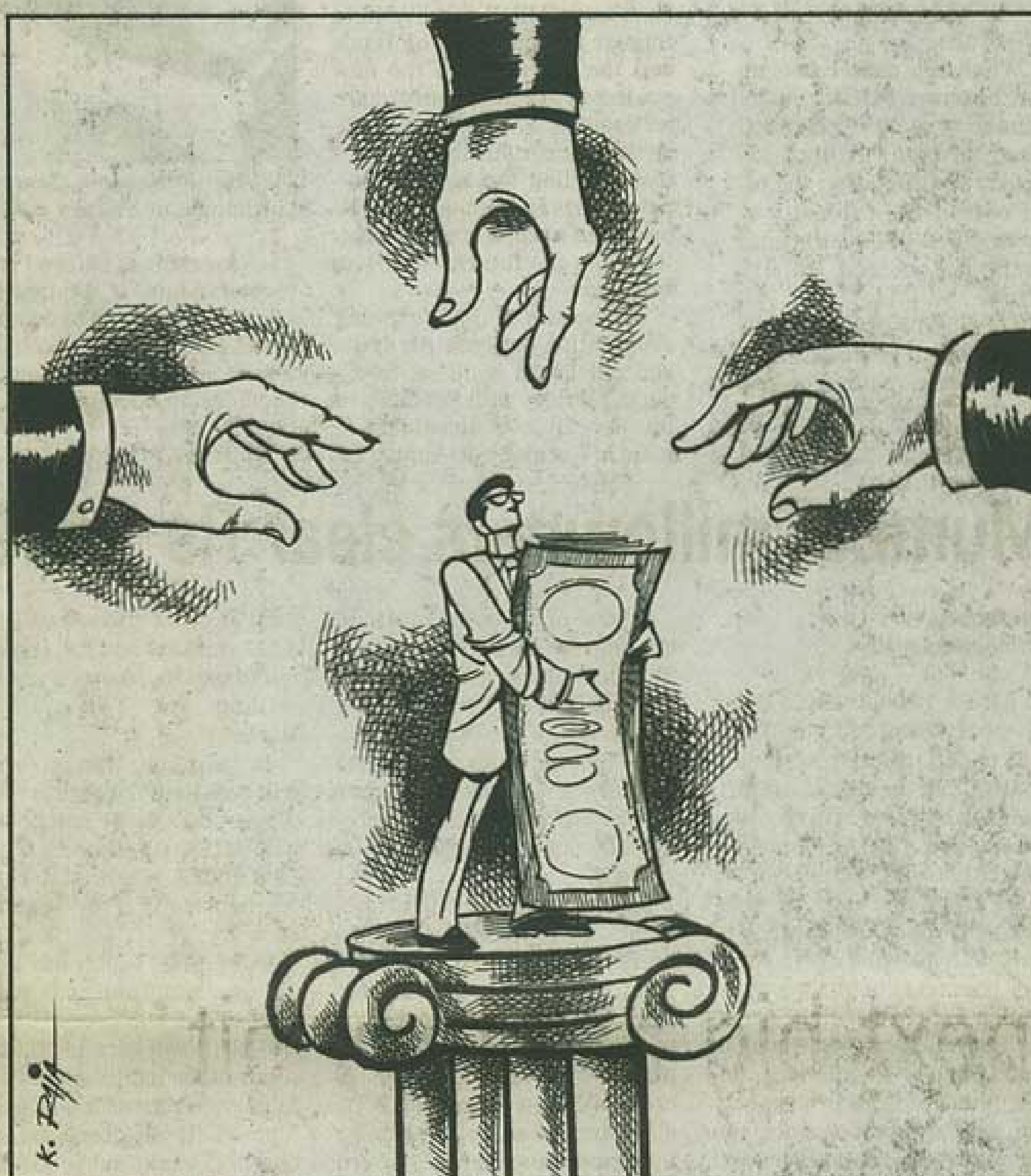
The investment climate in the country would suffer affecting both domestic and foreign investment.

Divestment must be used as a strategy to unshackle the PSUs. This will be possible only if the Government divests a sizeable chunk of its shares to a "strategic" partner that would reduce its holding to below 50 per cent.

The residual shares may be disposed over a period. Such a divestment would result in transfer of ownership and control to the "strategic" partner and thereby lead to a fundamental change in the way the company is run to meet the impending challenges.

Needless to say that the management would get full autonomy as a matter of right instead of limited freedom issued through executive orders.

Besides protecting the interest of all stakeholders, the strategic divestment route would also enable the government realise a better price for its shares than the amounts it would get under the current approach focused on piecemeal sale.



The government should make sincere efforts to actually use the divestment proceeds (merely creating NIF is not good enough) for building assets, both human and physical (especially in Agriculture and the rural sector).

Post divestment (read strategic), the government may have concerns in regard to financing subsidy on kerosene and LPG. However, these need to be addressed by preventing leakages/misuse and ensuring that the benefit of subsidy goes only to the poor.

Sick PSUs are a perennial drain on the Exchequer. Revival options have been examined time and again but have not been found feasible.

Meanwhile, the financial burden of keeping them on the respirator has increased to unacceptable levels.

The Government may not find it easy to sell these enterprises by themselves. However, the prospects of selling may improve if such PSUs are bundled with privatisation of profit-making companies.

*(The author is Resident Director, CropLife India, New Delhi. The views are personal.)*