BEYOND THE JEWELS, IT'S ALL DOWNHILL

TEMPLES OF SLOTH

The government is neither selling public enterprises that are guzzling taxpayers' money nor making it easy to do business for ones that have potential, writes Dinesh Narayanan

Hindustan Salts Ltd (HSL), a small state-owned company based in Rajasthan, typifies the long wobbly tail of Indian government's commercial portfolio. One of the smallest among the nearly 300 centre-owned non-financial companies, HSL produces salt mainly from the saline waters of Sambhar lake (through subsidiary Sambhar Salts Ltd), India's largest saltwater lake and at Kharaghoda near the Rann of Kutch in Gujarat.

The company has been accumulating losses for some time now. Its Kharaghoda refinery had been shut for at least five years. Sambhar Salts is stressed because most of the company's raw material—brine—is stolen by locals who bore wells and pipe away water from its land. "We've lost more than ₹1,000 crore in the past few years," says SP Bansal, who took charge as chairman and managing director of HSL eight months ago. "The company will start making profits if the theft stops."

The government has often reiterated its commitment to get rid of businesses where it has no business to be in. Recently, after prolonged efforts to revive them failed, it shut down Hindustan Photo Films and watch maker HMT

According to another senior company official, if the company has to dig wells, it has to apply for permission because the area has been declared wetlands where migratory flamingoes roost in winters. "It takes about five years for us to get permission," he says. The 'mafia' is protected by local politicians, police and even the electricity distribution company that helps lay several kilometres-long cables to work the water pumps.

Bansal says he is beseeching every authority to intervene to stop the theft. The CMD, who has got more than five years at the helm, is now hoping to revive HSL's closed units and also use its large landholdings to produce solar and wind power.

Lack of management expertise, inefficiency and inability to adapt to market realities have plagued the Indian public sector for long. While the big ones, called the Ratnas or jewels, have managed to up their game somewhat, the smaller ones have not been able to make the transition to [illegible] enterprises. Companies like Scooters India Ltd and Hotel Corporation of India (that once managed or made iconic products) are now languishing in the still backwaters of the country's public sector. Created during the glory days of a state-controlled economy, they still consume a substantial amount of taxpayers' money which mostly serves as short-term life support.

According to PK Jain, who teaches at the Department of Management Studies at IIT, Delhi, the public sector should be evaluated on the total revenue to the government and not just profits. In a study of state-owned companies, Jain, with academics Seema Gupta and Surendra Yadav, estimated that public enterprises accounted for over 22% of the country's GDP, 6% of formal employment and over 22% of direct and indirect tax collections in 2011-12.

According to the Public Enterprises Survey, the latest edition of which looked at the year 2013-14, there were 234 operating PSUs of which 163 were profitable and 71 lossmaking. Fifty six more PSUs were being set up. The sector as a whole generated profits of ₹2.21 lakh crore of which the bulk, ₹1.6 lakh crore, was generated by 27 large PSUs. Another 15 companies with a turnover between ₹5,000 crore and ₹10,000 crore, generated profits of about ₹26,000 crore.

The survey found that the government ran 36 companies that had a turnover of less than ₹10 crore and no return on capital. It owned another 49 with a turnover of more than ₹10 crore but less than ₹100 crore and a return on capital of just 4.32 per cent.

The government has often reiterated its commitment to get rid of businesses where it has no business to be in; making scooters for instance. Recently, after prolonged efforts to revive them failed, it shut down Hindustan Photo Films and watch maker HMT. At the beginning of the current fiscal year it vowed to sell its ownership worth ₹69,500 crore. Yet at the end of the first nine months it had managed to sell equity worth only ₹12,701 crore; that too in blue-chip companies like IOC, REC and PFC.

Though the state has been tapering—it has budgeted for less than ₹6,000 crore as equity investment, including ₹2,500 crore in Air India and a similar amount in about 14 metro rail projects this year—down the practice of routinely recapitalising its companies despite losses and no regrets, they still get substantial support from the indulgent owner.

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Three years ago, Scooters India got a ₹202-crore revival package after several years of losses and a mounting debt burden. The package included the government writing off ₹112 crore of loans. Yet the company is struggling. Several lossmaking companies have asked the government to write off their mounting debts or convert them into equity. The disinvestment policy had originally meant to get rid of capital guzzling PSUs, but the government has been rather unsuccessful in selling them off.

IIT Delhi's Jain says 5-10 per cent disinvestment does not help. He pitches for strategic disinvestment which, he says, improves decision making.

Trying to turn around badly performing companies is often tough. A member of the Public Sector Enterprises Board responsible for finding top managers for state-owned companies says that good talent is simply not available. While managers from the private sector rarely want to work in government companies, those within the sector complain of excessive scrutiny by the Comptroller and Auditor General (CAG), Central Vigilance Commission and the Central Bureau of Investigation.

The fear of the agencies not only slows down decision making, it often leads to bad calls. The bad calls often waste money and time, even in large firms. CAG reports have consistently pointed out badly enforced contracts as the primary reason for public sector companies losing money.

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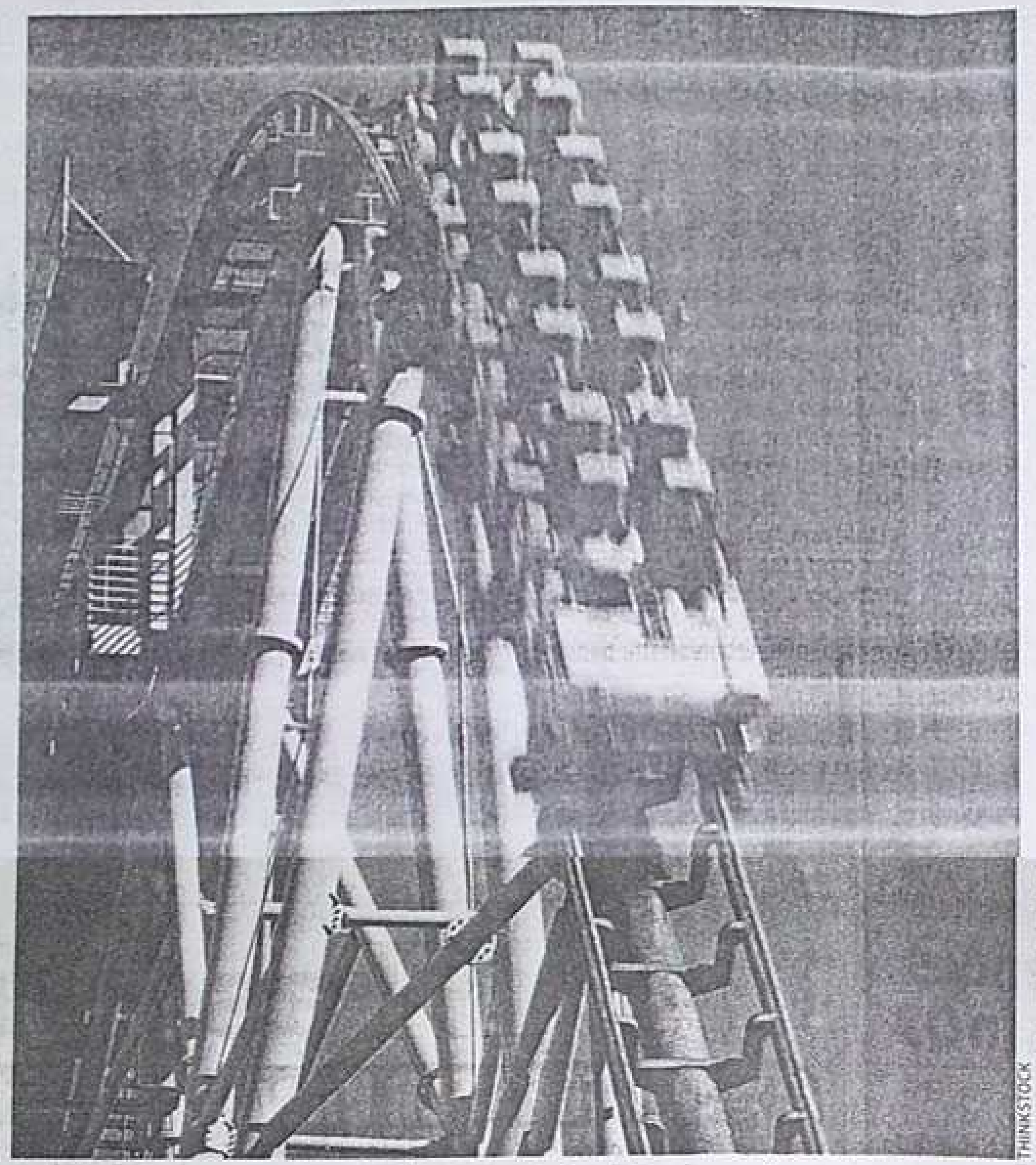

THINKSTOCK

State of PSUs

234 No. of operating PSUs

163 No. of profitable PSUs

71 No. of lossmaking PSUs

Source: Public Enterprises Survey in 2013-14

22% Contribution of PSUs to GDP

6% Share of formal sector employment

22% Share of PSUs towards direct and indirect tax collections

Source: Public Sector Enterprises in India, authored by PK Jain, Seema Gupta and Surendra Yadav; Figs for 2011-12

The Prized Public Assets

Company	Assets(₹cr)	Share(%)
ONGC	2,70,607.78	21.91
BSNL	1,70,920.39	13.84
NTPC	1,61,880.73	13.11
IOC	1,46,488.24	11.86
Power Grid Corp	1,45,980.37	11.82
ONGCVidesh	1,08,569.47	8.79
SAIL	87,818.90	7.11
Nuclear Power Corp	48,067.18	3.89
NHPC	47,588.15	3.86
HPCL	47,052.32	3.81
Grand Total	17,57,450.17	100.00

Source: Public Enterprises Survey in 2013-14

Top 10 companies account for 70% of the total assets of PSUs. The top three have more than a third of the total assets.