Disinvestment dividend

Centre should capitalise on PSU turnaround

Central Public Sector Undertakings (PSUs) have been delivering an unexpected bounty to the exchequer in recent times. Their dividend payouts have been overshooting targets, even as the Centre's disinvestment proceeds have been stalling. This newspaper recently reported that dividend receipts from central PSUs topped ₹59,000 crore both in FY22 and FY23 against budget estimates of ₹43,000 to ₹46,000 crore. Disinvestment proceeds for the same years, at about ₹13,500 crore and ₹35,200 crore, respectively, were way below targets.

Trends in FY24 are similar, with disinvestment receipts barely topping ₹10,100 crore so far, even as dividends at ₹43,843 crore are already ahead of the target. Rising dividend payouts are the direct result of a material improvement in the profitability of PSUs, with the BSE PSU index constituents seeing their profits expand over 150 per cent between FY18 and FY23. While the economic rebound post-Covid provided tailwinds to cyclical businesses, deleveraging, planned capex and order flow from the Centre's infrastructure and Make in India initiatives have added to this. The stock markets have taken note, with the BSE PSU index returning 37 per cent annualised in the last three years compared to the Sensex's 14 per cent. While the Centre may be tempted to put disinvestment on the back-burner to enjoy this dividend bounty, this is actually an opportune time to give the programme a fresh lease of life.

The Centre should consider two interventions to ensure that the recent shift in investor perception of PSUs sustains. A key reason why stock market investors have traditionally shied away from PSUs is the lack of visibility on their long-term business plans. Of late, government announcements of investment and renewal plans for defence and the railway PSUs have offered such visibility and driven a sharp re-rating of these stocks. To retain these gains, the Centre needs to follow through on its announcements. PSUs in sectors such as oil and gas and banking would also benefit from similar long-term roadmaps. While PSUs have been anointed Maharatnas and Navaratnas on paper, their actions suggest that they are still attached to the apron strings of their promoter. To change this, PSU Boards need to be granted true operational and strategic autonomy. The latest Excellence Enablers report noted that large PSUs had demonstrated improved governance in terms of larger and more diverse Boards and more independent directors in 2023. But PSU appointment policies need to be tweaked to ensure more skin in the game for top managers.

Governments at the Centre have looked at PSU disinvestment as a last resort to raise revenues for the Budget. Private sector promoters have perfected the art of timing their public offers and Offers for Sale to fetch the best possible valuation for the seller. None of them divest stakes in a sector downturn just to meet a deadline. The government needs to be market-savvy and keep disinvestment out of the annual Budget exercise.