

On PSUs, GoI Has Taken The Right Call

Take a more holistic approach to privatisation

Finance secretary TV Somanathan's assertion that GoI no longer sees disinvestment from a budget-balancing perspective is a welcome development. It suggests greater government confidence about revenue buoyancy and tighter control over expenditure. Principally, though, the public sector is undergoing a revival, which makes it attractive to shareholders in terms of valuations and dividends. The sector has acquired a new agency to push investment growth, and GoI is rightfully wary of scaling up disinvestment, considering the scope for structural changes to the economy that PSUs can accomplish. The public sector will have to take up some of the slack of slowing government capex till the private investment recovery is more robust. Widening the scope of divestment policy to include PSU asset value, their earning potential and capacity buildup is a more holistic approach than creating a selloff calendar and sticking to it.



Divestment ambitions have remained modest for most of the tenure of this government, partly on account of the appetite for stake sales during global economic crises. Repeated missed revenue targets have trimmed

ambitions and have led to a rethink over announcing a schedule that leads to investors beating down prices. The markets currently fancy PSU counters, but these are companies that have benefitted from specific policy actions, such as climate mitigation and logistics cost reduction.

Delinking divestment from the fiscal math gives the government more room to assess individual PSUs' economic value. Set against GoI's longer-term commitment to scale down its role in business, this allows better realisation at a time of the government's choosing and not that of the market. Disinvestment serves a larger role than realising value in that it enhances the economy's competitive intensity and improves corporate governance. GoI would do well not to lose sight of these effects as the fiscal urgency to sell PSU stakes is reduced.