

# A strategic pause

Govt is right in avoiding hurried disinvestment, but privatisation as a policy must continue

**T**WO RECENT STATEMENTS from the government have encouraged the notion that it may be going slow on the privatisation agenda via “strategic sale” of companies owned by it. Speaking in Parliament last week, Prime Minister Narendra Modi waxed eloquent on PSUs (central public sector enterprises) gaining in strength and giving “record returns” to the stakeholders under his stewardship. Earlier, the interim Budget was markedly less ambitious on receipts from full or partial liquidation of government stakes in companies, and even dispensed with the practice of keeping a separate non-debt receipts head for “disinvestment,” effective FY24. Ever since 1992, India’s disinvestment policy has been on a rollercoaster ride.

The peak of disinvestment was during the period of the Vajpayee government (1999-2004), which saw the formation of a separate department of disinvestment, its elevation to a ministry, and the entry of the word “privatisation” into the official lexicon. That government presided over sale of a few PSUs—Videsh Sanchar Nigam, Hindustan Zinc, Balco, IPCL, Modern Food—as well as some ITDC hotels. It also heralded a process that culminated in the eventual exit of the government from Maruti Suzuki. While the UPA-I regime was guarded on disinvestment—it did not sell profit-making PSUs, scaled back the ministry concerned to a department, UPA-II was more willing to take the policy forward, but was again thwarted by adverse market conditions.

The Modi government created the department of investment and public asset management (Dipam) with a comprehensive mandate, including “privatisation,” and began setting ambitious disinvestment targets during its second term. Its privatisation resolve was in evidence as it sold loss-making national carrier Air India to the Tata Group in early 2022 for very little cash consideration, after several pragmatic tweaks to the bidding terms, including expunging of the airline’s ₹61,000 crore-plus legacy debt. The Budget FY22 unveiled a new policy under which the government would have a “minimum presence” in the four broad “strategic sectors”. While nearly half of the FY20 disinvestment target of ₹1.05 trillion, was achieved, the later years saw significant under-achievement, leading to scaling down of the targets themselves, with the goal for FY25 being set at just ₹35,000 crore, under a nebulous head.

The apparent rethink on the PSU policy must be seen in the changed global context, where the market has, at least transiently, ceased to be the sole mechanism for resource allocation. There is undoubtedly a pressing need to wind up perennially loss-making state-owned companies, via the insolvency code-based process or otherwise. The languishing physical assets with them, including the redeemable land parcels, could be efficiently monetised and deployed for more productive use. PSUs that have long enjoyed monopolistic market power with subpar efficiency like Coal India and PowerGrid are now being pitted against private players with lesser privileges, forcing them to shape up. It may be presumptuous to think that none of them would survive in an innovation and tech-driven market, as the recent underground mining ventures of Coal India would testify. All the past disinvestment deals haven’t been value-enhancing either. That said, there is still considerable scope for strategic sale of PSUs, including many profit-making ones, where privatisation might bring about synergies. A few larger ones like ONGC, NTPC, Coal India and SBI may be allowed to grow into global-sized firms, taking cue from a strategy China has used effectively—“grasp the big, release the small.”