Unlocking PSU value

Listing PSUs can fetch govt up to ₹5 tn eventually

Of all the budget targets, the one on disinvestment—₹72,500 crore—has widely been targeted as most likely to fail. After all, the government has never got anywhere close to this in the past and in the last few years, actual proceeds have been woefully short of target—in FY15, the government got ₹37,737 crore versus the ₹63,425 crore target, it was ₹42,132 crore vs ₹69,500 crore in FY16 and ₹45,500 crore vs ₹56,500 crore in FY17. Theoretically, the government could get ₹38,000 crore from the sale of its residual shares in Hindustan Zinc, but there is a legal hitch—so unless that clears up in FY18, pencilling that in is a bad idea. There is ₹51,600 crore that can be got from the SUUTI sales, but since that has been a low-hanging fruit for several years, it is not clear why that has not been fully sold all these years.

The decision to list all profitable PSUs, though, is a big step forward in terms of achieving the target since this includes profitable subsidiaries of Coal India, the Airports Authority of India, Hindustan Aeronautics, ONGC Videsh and Hudco. Though the top 10 unlisted PSUs account for two-thirds of the profit of all 119 unlisted PSUs that are profitable, the total profits of the group were a healthy ₹32,487 crore in FY15. Given that this adds up to around a third of the net profits of the 47 listed PSUs, it is not unreasonable to assume the market cap of these soon-to-be-listed PSUs could be a third that of listed ones. Once the PSUs are listed, then, they could have a market capitalisation upwards of ₹5 lakh crore. Since listing norms require a fourth of the shares to be publicly held, potentially, this means the government can get as much as ₹125,000 crore for its shareholdings in FY18. The exact amount, of course, will depend on the ratio of the government's shares that are offloaded to the fresh shares issued by the PSUs—money from the latter will go back to the PSU and can be used to fund further investments that are critical for future growth.

The money apart, listing is usually seen as a means to improve governance since there is a lot more disclosure required. Whether that is enough, of course, is not certain since there are enough examples of both public and private sector listed firms being run to the ground, for reasons ranging from siphoning off of funds to managerial incompetence. Though privatisation is generally seen as the most rational choice since this allows more freedom for managements to run companies, the government appears averse to the idea of privatisation and, judging by the work on Air India, is of the view that, with sufficient autonomy and financial reengineering, the PSUs can be turned around. Should that fail, what you will have is stealth privatisation—as has happened in the telecom sector—where the private sector's market-share keeps rising while the government gets little by way of selling off the PSUs' shares.