From stealth privatisation to genuine stake sales?

Govt will easily meet this year's disinvestment target, but getting LIC or ONGC to help is not quite *kosher*

WITH THE PUBLIC sector General Insurance Corporation (GIC) mopping up ₹15,000 crore on Day 3 of its IPO, the government is well on its way to meet its ₹72,500 crore target from disinvestment of PSUs, making this the first year of such an achievement since specific targets started being made seven years ago. While a total of ₹19,760 crore have already been mopped up through IPOs, etc, selling HPCL to ONGC will fetch another ₹33,970 crore, and another ₹10,000 crore is expected from the Bharat 22 ETF. Though this is no mean achievement from the point of view of meeting budget targets, especially in the face of likely shortfalls in both tax and non-tax revenues, it isn't quite *kosher* for a variety of reasons. For one, ONGC buying HPCL can't be considered strategic disinvestment—budget target ₹15,000 crore—and is really nothing but transferring money from one pocket of the government to another; that this lowers ONGC's funds for capex and opex is another matter. Apart from this, it doesn't help that a very large share of the other funds—in the IPOs, for instance—have come from the state-owned LIC; so far, in this year, LIC has invested ₹9,700 crore in various PSUs (excluding the GIC share purchase). In addition, so far in this year, three PSUs—OIL, EIL and Bharat Dynamics—have done share buybacks of ₹2,242 crore.

Genuine privatisation is critical because, by and large, PSUs are either loss-making or, where they make profits, this is below their potential or what their private sector counterparts make. In the case of ONGC, for instance, between FY07 and FY17, its gas production has risen from 22.4 bcm to 23.3 bcm while crude oil production fell from 26.1 million tonnes to 25.5 million though the PSU claims to have increased gas reserves from 540 bcm in FY07 to 788 bcm in FY16 and oil from 561 mt to 578 mt. Similarly, both MTNL and BSNL have lost market share rapidly. Indeed, a CAG report pointed out that, in FY15, 11 of 34 listed PSUs had an interest cover of less than one, as did 67of the 124 unlisted ones—this makes their revival almost impossible. Hindustan Photo Films, one of these PSUs, has 352 employees, and keeping it alive has meant its losses going up from ₹1,561 crore in FY13 to ₹2,528 crore in FY16. As a result, since the time prime minister Narendra Modi took charge, the share of non-bank PSUs in the country's non-bank market capitalisation has fallen from 16.7% to 13.4% and, in the case of banks, this has fallen even more precipitously from 40.1% to 25.5%. If the share of PSUs is falling—in both market-share and market-capitalisation—even without a single PSU being privatised, the lesson for Modi is that it makes more sense to sell them. More so since, as in the case of Air India or an MTNL, there are so many better choices available, few will even miss them if they are shut down. The advantage of privatising them, on the other hand, is that the government may be able to save some of the workers' jobs if this is done in time or if the privatisation deal is structured to ensure some portion of the workers are retained.