PRIVATISATION

Private players are being roped in for several govt-owned enterprises and experts say privatisation will be the buzzword in 2018. But how much of it will actually go through?

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WHEN FORMER BRITISH PRIME minister Margaret Thatcher ruthlessly initiated the privatisation boom by selling over 50 public-sector companies in the 1980s, she led the world to believe that the government has no business to be in business. With the Niti Ayog suggesting strategic sale of close to 20 PSUs and disinvestment of an equal number of PSUs, it seems like the Indian government is thinking similarly, albeit with a little less aggression. The biggest flagbearer of privatisation is perhaps the Air India sale, which is a classic case of indecision resulting in a total debt of ₹48,877 crore (end of March 2017). The sale, announced in June 2017, now looks imminent by the middle of 2018, with the government looking at several prospective buyers.

Some noise was also made about privatising Railways for an effective rail transport system. But privatising train operations looks unlikely, and the government is happy involving private partners for development of railway stations alone. The Railways has currently adopted three models for station redevelopment—a PPP model, collaborating with foreign governments to develop stations and a third model where bidders are given complete control. Longer lease periods and mortgaging land to raise capital are some moves to attract players.

As R Shivadasan, former finance commissioner, Indian Railways, says, "Allowing private players to run trains isn't going to happen, as passenger service is a public-sector obligation of the government. But we will have to look at privatisation of some areas of Railways in 2018." Privatisation—in parts—of defence, another sector that the government fiercely guards, is also being considered. The government plans to privatise defence production, marginalise the monopoly of ordnance factories, as well as hand over technology to private players.

Analysts predict that privatisation will be the buzzword the coming year. "While the focus will remain on optimising government presence in commercial ventures, there will be a continued process of gradual offloading of shareholding in these enterprises. The logical next step being privatisation, the execution of these could spill over to even after 2018," says Ranen Banerjee, partner, public finance, economics and urban, PwC India.

"Privatisation of state-owned firms, particularly those that are loss-making for several years, is actually a logical step and the government should seriously consider it across various sectors. Loss-making PSUs are a heavy hit on the government exchequer and can only be revived by going for privatisation, which will not only generate revenue for the government, but would also bring innovative ideas and technologies through private players," says Atul Pandey, associate partner, Khaitan & Co, a law firm.

Over the years, the government has adopted two methods of disinvestment—selling of shares in select PSUs and strategic sale of a PSU to a private-sector company. The former method was used in the 90s and from early 2000 onwards, the emphasis has shifted to the latter, which involves strategic sale of a PSU to a private-sector company through a process of competitive bidding.

As per the website of the Department of Investment and Public Asset Management, as of November 1, total disinvestment proceeds in the current financial year stood at ₹30,185.67 crore. The government has set a record disinvestment target of ₹72,500 crore this financial year, of which ₹15,000 crore is to come from strategic sales. In the strategic sale to private players, land is to be part of the deal and management control will be with the buyer. The Bharat-22 Exchange Traded Fund, which opened in November for anchor investors, got subscribed six times, earning ₹14,500 crore. Bharat-22 ETF comprises 22 stocks of blue-chip PSUs.

The companies in which the government proposes to sell stake and hand over management control include Dredging Corporation of India, Central Electronics, Scooters India, Hindustan Prefab and Pawan Hans. Others include Hindustan Latex, Goa Shipyard, Triveni Structurals and HEC. Also, the government has drawn a list of 11 fields of ONGC and four of Oil India, in which 60% participating interest would be auctioned to private players.

Commercial coal mining, which for the last four decades has been in the government domain, will now be open for private players. The Centre is expected to open 10 coal blocks for private commercial mining bids in 2018—four blocks each in Odisha and Chhattisgarh and one each in Madhya Pradesh and Jharkhand. Then, to encourage private players into infrastructure development, the government started the hybrid annuity model, which minimises the risk load of private developers and has revived the interest of private developers. Nine developers have bid for each of the five projects, and bids were submitted early this year. This interest is going to gather further momentum in 2018.

There are also talks about privatisation of power distribution, which might come through with the amendment in the Electricity Act 2003. And, while there had been much speculation about privatisation of public-sector banks, that has been halted with capital infusion for now. "But the problem can't be solved by capital infusion," argues Bharat Jhunjhunwala, former professor at IIM Bengaluru, adding, "No PSU works efficiently unless it has a monopoly the way Air India was profitable decades back when it was the sole operator on international routes."

But purists have a reason to worry with all these moves. Often privatisation changes the landscape to such an extent that PSUs further bleed to death. The telecom sector is a case in point. The leading four telecom operators in the country are private players, which have pushed government-run BSNL and MTNL to a corner. The same happened with Air India when private players made it obsolete, but at least that is being rectified now.

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What to expect in 2018

ALL EYES ARE FIXED on Air India's sale, with the government making all the right noises. However, there is scepticism too. "With general elections just 15 months or so away, the sale of Air India looks highly unlikely. The government wouldn't risk the ire of thousands of employees who might suddenly become jobless," feels Bharat Jhunjhunwla of IIM Bangalore.

Protests are already on the cards. Defence employees are likely to launch an indefinite strike in the first week of January. Reports suggest that over 30,000 employees are going to be affected or rendered surplus as a result of privatisation moves. Some trade pundits also feel privatisation might remain a damp squib in 2018 with elections round the corner. "The pace of divestment and privatisation will pick up steam in the current financial year, that is, up to March 2018. Given the negative perceptions of these measures, we might see lesser action in the remaining part of 2018," predicts Banerjee of PwC.