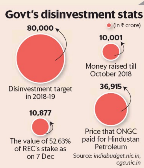
How the PFC-REC deal will reflect on govt's books

BY VIVEK KAUL

The Cabinet Committee on Economic Affairs has approved the sale of the centre's 52.63% stake in REC Ltd to Power Finance Corporation Ltd (PFC). The centre also owns 65.64% in PFC. In effect, it is both the buyer and the seller, leading to the question: what's happening here?



1 Why is the Union government taking this step?

Over the years, disinvestment of shares that the Union government owns in public sector enterprises has become a very important form of revenue for it. The disinvestment target for 2018-2019 stands at ₹80,000 crore. Until the end of October, the government had managed to raise ₹10,101 crore, or 13% of the target. Thus, it has a lot of catching up to do on this front. As of 7 December, the government's 52.63% stake in REC, formerly Rural Electrification Corp., was valued at ₹10,877 crore. Selling REC to PFC will clearly help in filling part of the disinvestment gap.

2 But can this deal really be categorized as disinvestment?

In the books of the government, the money coming in from PFC's acquisition of REC will be categorized as disinvestment receipts. Nevertheless, real disinvestment takes place when the government sells its stake in a public sector enterprise to a private company— this hasn't happened in a long time—and if not that, at least sells shares to retail investors and institutional investors. In this deal of PFC buying REC, the government is both the seller and the buyer. Therefore, in effect, the government isn't really selling anything.

3 Has a deal like this happened before?

Yes. Last year, state-run explorer Oil and Natural Gas Corporation Ltd (ONGC) bought the government's 51.11% stake in Hindustan Petroleum Corp. Ltd (HPC) for ₹36,915 crore.

4 What are the details of the ONGC-HPC deal?

ONGC borrowed close to ₹25,000 crore to fund the purchase of HPC from the government. If ONGC hadn't bought HPC, the government would have ended up with a higher fiscal deficit, which is the difference between what it earns and what it spends. It would then have to borrow more to finance this "extra" deficit. But with ONGC buying HPC, in effect ONGC had to borrow money. The government thus managed to outsource borrowing that should have ended up on its books on to those of ONGC.

5 Is the government trying something similar with the PFC-REC deal?

Yes. As of 30 September, the total cash and cash equivalents on the books of PFC were ₹1,799 crore. As on December 7, the government's 52.63% stake in REC was worth ₹10,877 crore. Given this and depending on the premium PFC will have to pay on this price, there is a lot of money that it will have to borrow to fund the deal. Some things don't change.

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