PSU sales power up Centre's disinvestment kitty

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The Centre's strategic sale of state-owned companies has ensured that the ownership of public sector undertakings (PSUs) remains with the public, despite divestment of its stake. Union Finance Minister Arun Jaitley said the sale of Rural Electrification Corporation (REC) to Power Finance Corporation (PFC) will be completed in the current fiscal year.

Oil and Natural Gas Corporation (ONGC) taking over Hindustan Petroleum Corporation (HPCL) in January this year gave a mega push of ₹369.15 billion to the Centre's budget in FY18, and not only helped it achieve the budgetary disinvestment target of ₹725 billion but also exceed the same.

This year, it is PFC's buyout of the government's 52.63 per cent in REC that will rake in an estimated ₹108 billion, or 13 per cent of this year's target of ₹800 billion, to the exchequer.

Another 6 per cent of the government's equity stake in REC will be sold through the ETF mechanism, which means that this one PSU alone will give the government around ₹120 billion. If the government asks for a premium, this figure could rise further.

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Though Jaitley said such sales were in line with his announcement regarding consolidation of public sector units in the February 2017 budget, it is clear that the deal is helping the Centre meet fiscal targets without running the political risk involved in controversial sales to the private sector.

According to the Centre, this buyout might allow "cheaper fund raising with increase in bargaining power for the combined entity", especially in the areas of energy access and efficiency. However, it is too early to know how this will be done since the energy access programme, according to the government's own claim, has already been achieved under the Deendayal Upadhaya and Saubhagya programmes.

For energy efficiency, another state-owned firm Energy Efficiency Services (EESL) is already on the job.

Both REC and PFC are financiers to the power sector and there could be synergy between the two, given the government pushes its power sector budget for various programmes through the two firms.

PFC has the added responsibility of monitoring the perennially problematic power distribution companies, and the government's UDAY scheme of discom debt restructuring.

In its current form, this "consolidation" policy is just translating into a disinvestment exercise where a public sector undertaking ends up with a debt to meet the Centre's fiscal needs. PFC, like ONGC, might end up with debt on its book, which will not go into development of the power sector or infusion of liquidity, but to the government.