Strategic sales sans strategy

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Disinvestment of government equity in public sector undertakings (PSU) is one area where the Narendra Modi government in the last five years has done much better than its immediate predecessor. Total disinvestment receipts during the five years of the Manmohan Singh government (April 2009 to March 2014) were estimated at ₹99,367 crore. The Modi government almost trebled this to ₹2.9 trillion in the five years between April 2014 and March 2019.

Even when compared with the disinvestment targets the two governments had set during their respective regimes, the performance during the Modi years was better. Disinvestment receipts in the Modi government's five years were about 89 per cent of the targets that were set in the annual Budgets. The Manmohan Singh government, in its second term, had set a Budget target for disinvestment only in four of its five years. In spite of that, the achievement in those five years was only 66 per cent of the total target amount.

The Modi government's disinvestment track record stands out in comparison with that of the Singh government for another reason. The entire disinvestment proceeds between 2009 and 2014 came from the sale of the government's minority shareholding in PSUs. But in the following five years under the Modi regime, the share of such receipts in total disinvestment was only about 71 per cent or ₹2 trillion.

In other words, the Modi government experimented with different types of sales of its shares in PSUs to boost disinvestment receipts. The new types of disinvestment included offer for sale of shares in PSUs to their employees, buyback of shares, initial public offers, and floatation of the PSU exchange-traded fund. Receipts from such transactions were estimated at ₹15,243 crore in five years of the Modi government or just about 5 per cent of the total disinvestment receipts.

Where did the remaining 24 per cent of the disinvestment receipts come from during this period? This amount, an estimated ₹69,161 crore, was collected through what the government described as strategic sales. In the early years of the Modi regime, the mention of strategic sales in the disinvestment receipts section of the Budget was construed to be linked with privatisation. But as it is widely known, the government failed to privatise either IDBI Bank or Air India — the only two privatisation proposals it had taken up during this period.

It was initially believed that the Modi government would rake in significant amounts from the privatisation of these two entities and the target for strategic sale would not be difficult to meet. However, none of the two sales materialised — Air India sale has been put on hold, while IDBI Bank has been bailed out by the state-owned LIC of India, which has acquired a majority stake in the bank. So, where did ₹69,161 crore of receipts from strategic sales come from?

A quick look at the sources of this revenue will reveal how the Modi government has cleverly redefined what is understood by strategic sales and how it has used PSU resources to shore up its disinvestment revenues. Over the years, the government had accumulated shares of companies like Axis Bank, ITC and Larsen & Toubro, which were owned by the now-defunct Unit Trust of India. These shares were parked in the government-owned Specified Undertaking of Unit Trust of India or SUUTI. Income from such SUUTI shares, including sales and remittances, has contributed to the government's strategic sales revenue in a big way. In 2016-17, such receipts were estimated at ₹10,779 crore and in 2017-18, they were a little lower at ₹5,553 crore.

The government completed four other transactions in the last two years and declared them as revenues coming from strategic sales. In 2017-18, the government decided that state-controlled oil exploration major, ONGC should acquire another state-controlled company, HPCL, which is in oil refining and marketing. ONGC acquired the entire majority stake in HPCL held by the Union government. The total consideration ONGC had to pay to the government for this transaction was ₹36,915 crore.

Critics questioned the logic of this acquisition. ONGC's finances came under strain as it had to borrow from a clutch of banks to fund the purchase of the government shares in HPCL. It was an off-market deal. Minority shareholders in both ONGC and HPCL were completely ignored. There were murmurs of protests even within the managements of the two companies as there were doubts over the likely benefits and the challenges that could arise out of different work cultures. But the government managed to raise a significant amount of disinvestment revenue and showed them as receipts under strategic sales.

Last year, three such transactions took place to mobilise for the government an amount of ₹15,914 crore. Of this, the biggest chunk came when the state-controlled Power Finance Corporation (PFC) acquired a majority stake in another state-controlled company, Rural Electrification Corporation or REC. The transaction meant that PFC became the majority shareholder in REC and the government got richer by ₹14,500 crore by the sale of its majority stake in REC to PFC. Where did PFC get the money to buy those shares in REC? It financed 70 per cent of the cost of acquisition from its cash inflows and the remaining was arranged through debt.

Similarly, NBCC, a state-controlled company, acquired 100 per cent stake in Hospital Services Consultancy Corporation, an undertaking operating under the Ministry of Health and Family Welfare, by paying to the government an estimated ₹285 crore. The deal was concluded through a competitive bidding process. Another deal was concluded last year in which the government's entire shareholding in Dredging Corporation of India was sold to a consortium of four ports — Visakhapatnam Port Trust, Paradeep Port Trust, Jawaharlal Nehru Port Trust and Deendayal Port Trust. The government realised a sale value of ₹1,049 crore.

Note that none of these transactions, which the government describes as strategic sales, has resulted in any change in the PSU character of the enterprises concerned. Nor has their ownership been privatised. The government has sold its stake, but to another PSU. They will continue to function as any other PSU does.

Many questions, therefore, arise. Why describe these transactions as strategic sales? What could be the strategy behind the government move to sell its shares to another PSU? Many of the acquisitions by PSUs were financed by fresh loans. Is the idea of burdening PSUs with more loans to help the government meet its disinvestment targets a wise strategy? Finally, would the sale of their shares in the market, instead of tapping into the resources of some other PSUs, be a better option? Hopefully, the new government to be formed next month will address these questions and find satisfactory answers.