FinMin may have bigger say in disinvestment

Failure to sell Air India, IDBI may have prompted a change in strategy

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The Narendra Modi-led government is planning a change in the strategy for strategic disinvestments.

The proposal is to let the Department of Investment and Public Asset Management (DIPAM) in the finance ministry play a key role in designing and leading the transactions instead of the administrative ministry concerned.

The change is being considered as in its first term the National Democratic Alliance government had been less than successful in strategic sale of public sector units (PSUs) — be it Air India or IDBI Bank.

Senior government sources said this could help the government push strategic disinvestment.

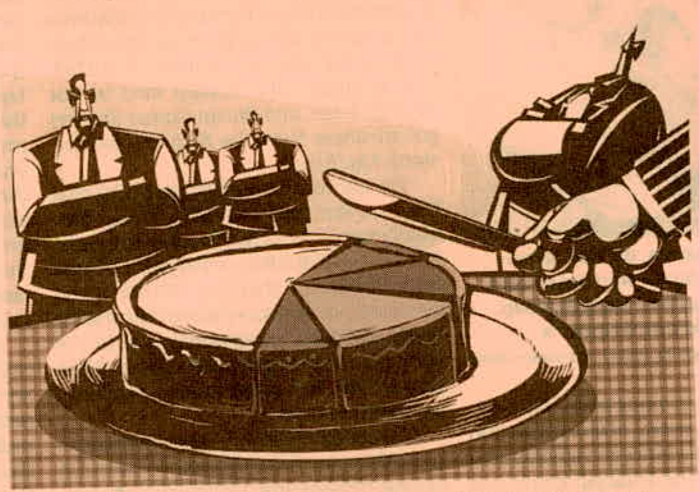
Though the government managed to exceed its disinvestment target in 2018-19 — earning ₹85,000 crore while the target was ₹80,000 crore — through 28 transactions, there has hardly been any change in the manner in which these companies are run. Most of them still function like public sector units (PSUs).

Pure privatisation — leading to change in ownership and operation — did not happen.

A top source closely associated with the developments said in the case of Air India, in particular, there was bureaucratic resistance and intransigence at the level of the administrative ministry — the Ministry of Civil Aviation — in the design and contours of the transaction.

Following this, the government appeared to develop "cold feet" with IDBI Bank, which had substantial bad loans on its books.

While some stake in IDBI was offloaded in a sense through the sale to LIC, it did not lead to any change in running of the organisation. The bank's losses continued to mount for the quarter ended March 2018, up 77 per cent from the previous year.



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According to officials, the new expression of interest (EoI) document for Air India will consider and rework all the issues raised last time by those who were interested.

Experts and analysts familiar with the deal said at least four major changes needed to be introduced. Air India needs to be made zero debt or at best having a nominal debt on its books.

Sources said the government knew that successfully selling Air India would in fact help it save close to ₹4,000 crore annually.

In addition, the government stake needs to be brought down to nil instead of it retaining 24 per cent. The new owner has to be offered the flexibility of offloading redundant or underperforming staff after a cooling off period of two-three years.

"At best the government can ask the new owner to retain some of people for some years," said an analyst.

Lastly, the government's keenness on retaining the Air India name and brand is questionable. Experts argued that if the brand was so valuable, it will be in the new owner's interest have it.

"Clauses requiring buyers to keep the brand alive or to not merge something are superfluous if the brand that is being sold is valuable enough," said an industry observer.

He said for instance if a mall that is iconic changes hands, it should be in the new owner's interest to retain the original name

"The design of the EoI needs to be such that competitive bidding occurs as it did in the case of the six airports recently offered to the private sector," said one source. The Adani group that won the contract offered revenue per passenger higher than was expected as there was a fair amount of interest in the project.

Even though nothing further is expected on the Air India sale process till after the Budget (second week of July), official thinking is on these lines.