A road map for PSUs

Time to address the bigger underlying issues

Debt in public sector undertakings (PSUs) is on the rise. As reported by this newspaper on Monday, the average debt-equity ratio in a sample of 40 listed non-financial PSUs went up by 10 basis points, year-on-year, to a new high of 0.68 in FY19. The ratio has worsened for the third consecutive year. The balance sheet of the private sector also deteriorated, partly because of unfavourable earnings, marking a reversal in the deleveraging process. While this could affect revival in investment, weakening PSU balance sheet will have implications for government finance as well.

The combined borrowing by PSUs went up by 13.5 per cent, while their cash balance declined by 12.8 per cent during the last financial year, to a large extent because of the government's dependence on dividend payments to balance the Budget. This could lead to multiple problems for PSUs, and the government being the largest shareholder would also suffer. For instance, given their lower cash balance, these firms will not be in the best position to make investments, which will affect growth prospects and the ability to generate cash. This would not only be a drag on the flow of dividend in future, but also on tax collection. Further, continuous government interference affects investor sentiment, resulting in lower valuations of listed PSUs. Depressed valuations weigh on resource mobilisation through disinvestment. Therefore, the government would do well to reduce its dependence on PSUs to fund expenditure. This will, perhaps, be possible only if it has a broad policy for the PSUs.

To be fair, problems in the context of managing PSUs and the need for a broader framework are not new. Governments in the past have also used cash-rich state-run firms to supplement revenue collection. As a result, the bigger underlying issues remained unaddressed. For instance, as a 2018 report of the Comptroller and Auditor General of India showed, out of 212 companies that declared profits in 2016-17, about 75 per cent of the contribution came from 49 companies in three sectors — coal and lignite, petroleum and power. This clearly shows that most profitable state-run enterprises are in sectors where the government has excessive control. Further, there were 188 government companies with accumulated losses in excess of ₹1.23 trillion, and the net worth of 71 companies had been totally eroded.

Evidently, these PSUs are a drag on government finances. To its credit, the government has reiterated its commitment to strategic disinvestment. It needs to accelerate the process. This will enable the government to recycle assets and push investment. It is important to note that proceeds from disinvestment should ideally be used to fund capital expenditure and create new assets. NITI Aayog has a list of PSUs for strategic disinvestment and this could be a good starting point. However, the government should not stop at loss-making ones and aim to get out of all non-strategic PSUs over time.

In this context, it would help if the government has a clear medium-term road map, so that disinvestment is not used just to bridge the shortfall in revenue collection. A road map would also enable market participants to plan for the kind of assets they want to bid. In the interim, PSUs should be given full functional autonomy, which will help improve valuations.