

# Not PSUedo, Get Real



**Sandeep Parekh**

After nearly two decades of attempts at privatisation, just a handful of companies have been truly privatised. Many of those handful have been mired in litigation, not just because labour protested, but because there were more than whispers of crony capitalism. The conspiracy theories were even murkier than the reality, making privatisation a bad word.

Because of legacy issues, the first Narendra Modi administration was cautious. Some neither-man-nor-beast privatisations were carried out that included selling exchange-traded funds with underlying public sector stocks. The problem with these was that GoI maintained full control over the companies. As a result, there was no improvement of corporate governance in them. It's hard for private sector to compete with a competitor like, say, Air India, which just got a multi-billion dollar gift from the taxpayer, and a gift that ensured poor records on every metric of service.

By all accounts, the second Modi administration is keen on pushing the exit of government from almost all businesses. It also has the political spine to carry this out cleanly. What is needed is a multi-step process to maximise value for India's economic growth.

First, comply with the law on minimum public shareholding. Every listed public sector undertaking (PSU) must first achieve a 10% public shareholding and then a 25%. Since most PSUs are already compliant with the first milestone, it could be achieved quickly for the remaining handful. The second milestone could be set at, say, one year from now. No complicated means of divestment is necessary.

The intention can be announced today, and a time-bound divestment should be carried out in the open markets of stock exchanges. So, an announcement to divest, say, 0.1% a day for 100 days would serve the purpose instead of any unnecessarily complex process seeking bids. If announced today, the divestment is completed from Day 365 to Day 465. The timeline would give domestic and international funds time to garner the necessary funds to keep their powder dry and apply at the appropriate time. The advance notice and gradual sale would ensure that the best price is unlocked for GoI.

This alone, of course, will be inadequate. The idea is to privatise, not to be merely compliant with the law on public shareholding of PSUs. For that, GoI should adopt a means of divestment not tried out yet — first, the same advance notice for a staggered sale over the marketplace, but with a longer timeline, and with larger quantities available for sale.

So, an announcement and terms of sale should be announced today for sale after, say, two years. At the end of 730 days, GoI will divest 1% a day, every day till its holding becomes zero.

This method has the benefit of setting the terms of the sale today, so that no one can allege that a sale was carried out to favour one business entity. This process is likely to increase the value today itself, and not after 730 days.

As people see the value being unlocked and the opportunity to get a piece of the pie, they are likely to start buying the PSU shares immediately. The increased valuation would improve the dull valuations of all stocks, PSU stocks in particular. The higher valuation today will also ensure that the assets are not sold at a fraction of their fair market value. It would also allow the PSUs to accept more equity capital and invest in expansion. This could drive both demand side and supply side of the economy.

While theoretically, the concept of a strategic sale of, say, 70% in one go is attractive, it comes with many burdens. One, the allegation of selling out to a specific buyer by setting terms that are onerous, and thus acrimonious litigations to which GoI is a party. Second, buyers come in with scepticism as they have a take-it-or-leave-it approach. Third, a gradual improvement of governance and disclosure norms over two years is likely to improve confidence in the numbers put out by the company, a process not available with a strategic outright sale.

Fourth, while a strategic sale may make sense if one company is being sold a year, it is not an ideal way to sell 200 or more PSUs at one go. For this to work, GoI must carry out a very detailed process analysis, and state the terms of sale, improve corporate governance by adding credible people on the boards of PSUs, and figure a way to minimise labour protests through providing alternate employment where necessary.

Additionally, there is no reason the same process cannot be conducted for unlisted PSUs as well, with additional disclosures.



FILE PHOTO

**Arrey, where's the josh now?**

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