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The big push, finally

Strategic sale decision welcome; should have come earlier

The Cabinet Committee on Economic Affairs has finally set the ball rolling on strategic disinvestment. According to the plan, the government will sell its shares in Bharat Petroleum Corporation Ltd (BPCL), Shipping Corporation of India (SCI), Container Corporation of India (Concor), Tehri Hydro Development Corporation India Ltd (THDCIL), and North Eastern Electric Power Corporation Ltd (NEEPCO). While THDCIL and NEEPCO will be taken over by NTPC, the government will sell its stake in BPCL and SCI with transfer of control. In Concor, the government will not sell its entire stake but will transfer control to the strategic buyer. Besides, the government has also decided to reduce its shareholding below 51 per cent in select public sector undertakings. This will help increase the pool of assets for disinvestment. Although the transfer of stake in THDCIL and NEEPCO to NTPC is not exactly in line with the idea of disinvestment, because it will effectively remain in the government's control, on balance, Wednesday's decision to take the disinvestment process forward and give an impetus to strategic disinvestment is in the right direction.

However, it remains to be seen how quickly the government can sell its stake and transfer management control in these companies. In the case of BPCL, for instance, the company's stake in the Numaligarh Refinery will first be transferred to another public sector undertaking. The transfer of stake in the Numaligarh Refinery and due diligence by potential strategic buyers in BPCL and other firms will take time. In its bid to achieve the disinvestment target of ₹1.05 trillion in the current fiscal year, the government should not try to conclude the process in a hurry because it could affect valuations. Transfer of control should happen at a decent premium. At current market prices, the government stake in BPCL is valued at about ₹63,000 crore and the proceeds from Concor and SCI would be worth about ₹12,900 crore.

Since the government had set an ambitious target for mobilising funds through asset sale, it would have helped if the decision of strategic disinvestment had come earlier in the fiscal year. The process of disinvestment should be more systematic. A ready list of companies for disinvestment, both for strategic and minority sale, should be prepared well in advance. Apart from avoiding a last-minute rush to meet the Budget target, which can potentially affect valuations, it will give the market enough time to prepare and bid for assets put on the block. This will help fetch a better price.

The delayed decision on strategic disinvestment makes the government's task on cushioning the fiscal problems this year even more difficult. Tax revenues are expected to fall short of the target significantly, and in the absence of expenditure compression, the fiscal deficit is expected to overshoot. Therefore, irrespective of the outcome of the disinvestment process, the government will need to reassess its fiscal position more realistically. The economy will benefit if the proceeds of disinvestment are used for building new assets and not to fund recurring consumption expenditure.