Tough Sell

Two decades after the first central PSU was privatised, the government is on an aggressive disinvestment drive. But Modi may find it hard to repeat Vajpayee's success

:: G Seetharaman

Bleeding ulcers, not crown jewels. That is how Arun Shourie, India's first disinvestment minister, memorably described the state-owned companies the Atal Bihari Vajpayee government was trying to sell, around 20 years ago. But that is not an argument the Narendra Modi government can fall back on, or perhaps even wants to, as it embarks on the most ambitious sale of state assets in 20 years, in a bid to reach the 2019-20 disinvestment target of over ₹1 lakh crore.

While the government is making another attempt to sell Air India, the debt-saddled flag carrier, after failing to do so in 2018, it has also put on the block profitable entities such as Bharat Petroleum Corporation (BPCL), the second-largest state refiner, and Container Corporation of India (Concor).

It is increasingly unlikely the government will be able to complete the transactions by the target deadline – March 2021. But timeline aside, a big question looms: can Modi do what then Prime Minister Vajpayee – and Shourie – pulled off during the first full term of the National Democratic Alliance (1999-2004)?

India started divesting equity stakes in central public sector undertakings (CPSUs) in 1991. But it was not until 2000 that it allowed private companies to acquire majority stakes. In January 2000, Hindustan Unilever (then Hindustan Lever) picked up 74% in Modern Food Industries, a bread maker, for ₹105 crore. A dozen other companies – including Bharat Aluminium Company, Hindustan Zinc, Maruti Udyog and Videsh Sanchar Nigam Limited, besides around 20 hotels – changed hands before 2004, when the NDA government made way for the Congress-led United Progressive Alliance (UPA).

The UPA, under Prime Minister Manmohan Singh, chose to stay away from privatising CPSUs over the following decade, and so did Modi after being elected to power in 2014, though both governments continued raising money by selling pieces of CPSUs without losing control of them. That changed in November 2019, when the Centre announced it wants to divest its entire stake in BPCL (53.3%) and Shipping Corporation of India (63.8%), and 30.8% (out of a total 54.8%) in Concor. Together, these companies have a market capitalisation of ₹1.4 lakh crore. The government will separately sell BPCL's 61.7% stake in a subsidiary to another of its oil & gas companies, and transfer its stake in two power generation companies to National Thermal Power Corporation (NTPC), India's largest power producer. The government is the majority owner of NTPC.

TT Ram Mohan, professor at the Indian Institute of Management, Ahmedabad, believes the government's plans are driven primarily by revenue considerations. "Selling off valuable government assets merely to fill a fiscal hole is not the ideal objective for a strategic sale." In a year when the economy is expected to grow at just 5%, the slowest in 11 years, affecting tax collections, the government has been left with few options other than big-ticket stake sales in CPSUs to manage its fiscal deficit.

"I don't see any efficient alternative in the next 3-6 months," says Arvind Virmani, former chief economic advisor to the central government.

India is likely to miss its fiscal deficit target of 3.3% of the gross domestic product in 2019-20, even as it plans to cut expenditure by 7% in the backdrop of a revenue shortfall of ₹2.5 lakh crore, according to Reuters.

Govt has only met annual disinvestment target twice in a decade (₹ cr)

	Realisation	Disinvestment target
2010-11	22,144	40,000
2011-12	13,894	40,000
2012-13	23,957	30,000
2013-14	15,819	40,000
2014-15	24,349	43,425
2015-16	23,997	69,500
2016-17	46,247	56,500
2017-18	1,00,057	1,00,000
2018-19	84,972	80,000
2019-20	17,364	1,05,000

Source: Department of Investment and Public Asset Management

On the block are loss-making Air India and profitable BPCL

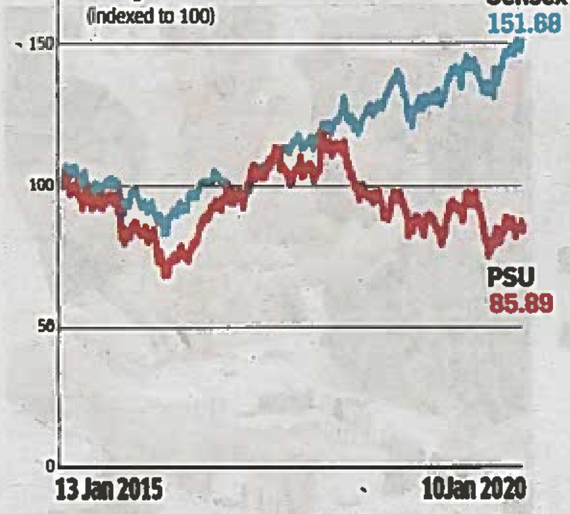
	Air India	Shipping Corporation of India	Bharat Petroleum Corporation	Container Corporation of India
Govt wants to sell	100%	63.8%	53.3%	30.8%
Govt holding	100%	63.8%	53.3%*	54.8%

*excluding BPCL's 61.7% stake in a subsidiary
Source: Press Information Bureau, NSE

"I don't think there is full ideological conviction on strategic disinvestment"

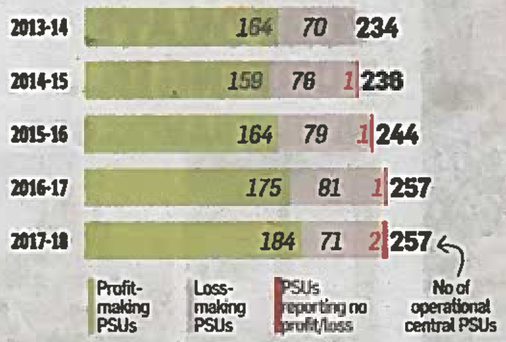
Ajay Chhibber, chief economic adviser, Ficci

BSE PSU index has outperformed Sensex
(indexed to 100)



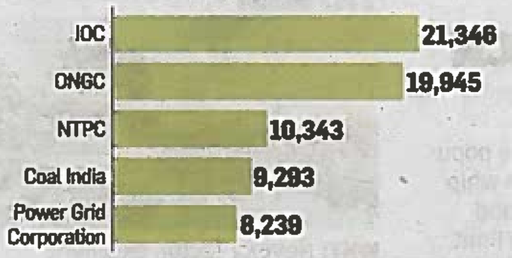
Note: Index also includes state-owned banks
Source: ET Intelligence Group, BSE

Performace sheet of PSUs



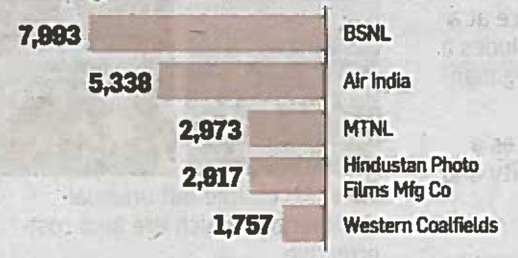
Source: Public Enterprises Survey 2017-18

IOC makes most money among PSUs (net profits in 2017-18 in ₹ cr)



Note: Index also includes state-owned banks
Source: ET Intelligence Group, BSE

BSNL loses most money among PSUs (Net losses in 2017-18 in ₹ cr)



Source: Public Enterprises Survey 2017-18

PSUs have slipped on key indicators

Source: Public Enterprises Survey 2017-18

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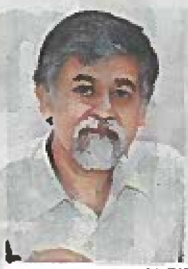

"Every PSU whose efficiency can be improved through privatisation should be sold. The government also has to keep the extent of political resistance in mind in choosing the order in which PSUs are privatised"

Arvind Virmani, former chief economic advisor to Union govt

Rashesh Shah, chairman of Edelweiss Group, says the purpose of the latest disinvestment exercise is to fund spending on infrastructure at a time when companies are unable or reluctant to spend.

Ajay Chhibber, chief economic adviser for Ficci, an industry body, does not believe the government's latest stake-sale plans are part of a larger policy. "I don't think there is full ideological conviction on strategic disinvestment." This fiscal year, the government has only met 16.5% of the disinvestment target (₹17,360 crore out of a target of ₹1,05,000 crore), according to the Department of Investment and Public Asset Management (Dipam), the nodal agency for disinvestment. In the past nine years, the government met the target only twice – in 2017-18 and 2018-19.

In 2017-18, the latest year for which figures are available, there were 257 CPSUs, according to the Department of Public Enterprises. They have seen their return on capital employed, a key financial metric, decline from 14.6% in 2013-14 to 10.9% in 2018-19. Of the 71 loss-making CPSUs, Bharat Sanchar Nigam Ltd (BSNL) and Air India posted the highest losses, while Indian Oil Corporation and Oil & Natural Gas Corporation reported the highest profits. BPCL had the sixth-highest profits and that is one of the reasons why the sale of the government's stake in the company has been opposed, including by employees of the oil companies. But the counter-argument is that a profitable company has a better chance of finding buyers than a beleaguered outfit like Air India.

Then comes the price at which the CPSU stake is sold. "Valuation is the most critical issue. This is an economically and politically important question. There is potential for allegations of crony capitalism," says Mohan.

The Federation of Oil PSU Officers has pegged the value of BPCL at more than nine times its current market cap of ₹1 lakh crore. "I don't find any reason to sell a profitable entity at a throwaway price," says Ashwani Mahajan, national coconvenor of Swadeshi Jagran Manch, an affiliate of the Rashtriya Swayamsevak Sangh, the ideological parent of the ruling Bharatiya Janata Party. "We are not opposed to privatisation, but it should be at the right value. These assets have been created with taxpayers' money." Besides the valuation, the government will have to safeguard employees' interests, as the last thing it needs is loss of jobs and the political fallout that entails.

Questions sent to Tuhin Kanta Pandey, secretary of Dipam, went unanswered and BPCL declined to comment.

Oil giant Saudi Aramco is tipped to be among the potential buyers of BPCL. But in case there isn't adequate interest among private players, IOC and ONGC have reportedly been sounded out by the government to be prepared to shell out money for the BPCL stake. That would keep BPCL in government control and would not mean a meaningful leap for India's disinvestment policy. "It is convenient to defer privatisation and get one PSU to buy another," says Madan Sabnavis, chief economist, Care Ratings. In early 2018, ONGC bought the government's entire 51.1% stake in Hindustan Petroleum Corporation for ₹37,000 crore. But one government-run company buying another is simply money moving from one hand of the government to another.

Average weighted return on capital of 12 PSUs privatised during Vajpayee's time **trebled from average 5% in 1999-2004 to 15.1% in 2010-2015**

Disinvestment likely helped improve **efficiency of central PSUs by almost 20%** between 1991, when disinvestment was introduced, and 2010

Source: NIPFP, CDS

There are also concerns about private sector interest in Air India. *ET* in December reported that the roadshows held by the government in London and Singapore elicited a lukewarm response from potential bidders. Jitendra Bhargava, former executive director of Air India, says not much has changed since the unsuccessful attempt to privatise the airline in 2018. "Work practices have not been reengineered to make employees more productive and customer-friendly."

Air India's debt as of March 2019 was ₹58,350 crore and its net loss in 2018-19 was ₹8,560 crore, according to data shared by the government in Parliament.

Finding potential buyers for a smaller company like the Shipping Corporation, which is in better shape, may not be easy, either. "It is difficult to get good bidders for SCI. Very few shipping companies are as diversified as SCI," says Sabyasachi Hajara, former chairman and managing director of SCI. "The government shouldn't lose the strategic advantage that SCI provides for such a meagre amount," he adds, referring to how the company played a major role in transporting crude oil during the Iran-Iraq war in the 1980s, when private players stepped back. Shipping Corporation's current market capitalisation is ₹2,750 crore. Questions sent to SCI and Air India did not elicit a response.

There is the oft-repeated argument, championed by Modi in the past, that the government has no business being in business. But it would be naive to expect it to let go of companies such as IOC, ONGC and NTPC, given the role they play in India's energy security. Having said that, there are many state-run companies that could do with a transfer to private hands. "Every PSU whose efficiency can be improved through privatisation should be sold," says Virmani. "The government also has to keep the extent of political resistance in mind in choosing the order in which PSUs are privatised."

A 2017 National Institute of Public Finance and Policy study, coauthored by Ficci's Chhibber, found that the weighted return on capital of privatised PSUs rose from an average of around 5% during 1999-2014 to over 15% in 2010-2015. These companies also fare better on the metric than the Navratnas, a group of 14 CPSUs that includes Concor and SCI.

It is no secret that PSUs are constantly hampered by government interference, and in many cases, are not nimble enough to compete with their private counterparts. The government will, in the coming years, find it harder to justify holding on to most of its companies. At the same time, finding private buyers for some of the CPSUs at the right prices, while handling the accompanying backlash, may be a lot harder than it looks. ■

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