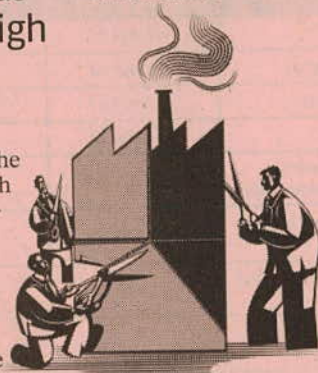


Govt missing the perfect opportunity for privatisation: Experts

Say Centre should push PSU share sale as markets hit record high

SUCCESS STORIES



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New Delhi, 25 January

The government is missing the opportunity offered by the bullish markets to push share sales in public sector units (PSUs) and privatise them, according to experts. With the current market boom, the government has so far cut its stake through offers for sale (OFS) only in five PSUs, with the fifth one yet to go through.

NR Bhanumurthy, vice-chancellor of Bengaluru Dr BR Ambedkar School of Economics University, said the government should have sold shares in companies in which minimum public shareholding norms had not been met when the markets were at historic highs. However, divestment is expected to pick up in the coming year, he said.

Minimum public shareholding in a listed PSU has to be 25 per cent.

Former Reserve Bank of India governor Raghuram Rajan recently said the government should take advantage of the peaks in the equity markets and sell stakes in PSUs. He said: "Nothing really has been privatised. You should be selling shares from every rooftop if you

are in a tight constraint."

According to the recent data of the Department of Investment and Public Asset Management (DIPAM), this fiscal year the government announced OFS in four state-owned companies — Hindustan Aeronautics, Indian Railway Catering and Tourism Corporation (IRCTC), Bharat Dynamics, and Steel Authority of India (SAIL). It has also announced stake sale in Tata Communications partly through an OFS and the rest to the strategic partner.

Divestment receipts from share sales in these four PSUs have been nearly ₹13,000 crore. So far, divestment receipts this fiscal year have been ₹17,958 crore against the target of ₹2.1 trillion.

CPSE	Govt share divested (in %)	Method of divestment	Receipts (in ₹ cr)	Govt shareholding post divestment (in %)
Hindustan Aeronautics	14.82	OFS	4,924.23	75.15
Bharat Dynamics	12.82	OFS	771.46	74.93
Indian Railway Catering and Tourism Corpn	20	OFS	4,473.16	67.4
Steel Authority of India	10	OFS	2,737.56	65
Indian Railway Catering and Tourism Corpn	0.003	Employee OFS	0.76	67.4
KIOCL	0	Buyback	155.72	99.03
NTPC	0	Buyback	1,065.37	51.1
NMDC	0	Buyback	1,375.65	68.29
Mazagon dock shipbuilders	0	IPO	442.79	-
BITES	0	Buyback	173.16	72.2
Others	-	-	1837.84	-
TOTAL			17,957.70	

The Sensex hit an all-time high of 50,184 intraday on Thursday, before closing at 49,625 points. It lost 1.5 per cent to settle at 48,878.54 points on Friday. However, former finance secretary Subhash Chandra Garg said the markets had started gaining momentum since September, but PSU shares had not risen proportionately, adding that some PSUs' stock prices were still below last year's levels.

"It's not correct to say the government has not moved ahead with divestment," he said. The government has announced IPOs, and as the situation started improving, it started share sales by announcing OFS in companies like SAIL and IRCTC, he added.

Privatisation: Strategy is the issue

Not just share sale, the government has moved slowly on privatisation, largely due to the impact of the pandemic, and partly because of low investor interest.

The big-ticket privatisation of Bharat Petroleum Corporation (BPCL), Shipping Corporation of India (SCI), and Container Corporation of India (CONCOR), announced in November 2019, has been stalled. The privatisation of Air India and Pawan Hans has seen extensions because of a poor response from investors.

The reason privatisation is not receiving an appropriate response is uncertainties on employee retention, government guarantees on borrowing,

guarantees or financial obligations for other entities not connected with PSUs, etc, said Sandeep Shah, managing partner at NA Shah Associates LLP.

He said "insufficient preparatory work before finalising a transaction is a fundamental issue". Citing the example of BPCL, Shah said since the government had decided to sell its subsidiary Numaligarh Refinery separately, it should have sold it before announcing the privatisation of the oil-marketing firm. This would have helped in obviating suspicions among investors about a profit-making subsidiary going with the territory.

Garg said major divestment receipts would come from strategic divestments in firms like BPCL and CONCOR, which are on track despite some policy irritants. These issues, like land policy changes connected with CONCOR, could have been resolved.

"Strategic divestment has not been expedited as it should have been," he said. There are constraints and legal processes in privatising PSUs and those hamper the transactions, said Bhanumurthy. "It's not necessary that pricing would solely depend on an uptick in the market. Several issues like labour, valuation, assessing the future business, and competition can't be handled in a hurry," he said.

Divestment has other macro-economic dimensions including labour markets, said Lekha Chakraborty,

professor at the National Institute of Public Finance and Policy. The regulatory framework required for divestment needs a relook, she said.

Bhanumurthy said success in such transactions depended on sectors the PSUs were in and if there was any investor interest. Citing an example, he said Jet Airways struggled to find a buyer, and the sale of Air India was pending due to stress in the sector.

'Junk new privatisation policy'

The delay in detailing the new privatisation policy is the biggest indication the Centre has not moved fast with divestment, said Garg. He said identifying strategic and non-strategic sectors was "erroneous".

All sectors — including power, oil and gas, and banking — have a private sector presence. "There's nothing strategic about it." The policy was announced in the stimulus package in May and the government has not been able to find which sectors are strategic and non-strategic, he said. "Having about four PSUs in strategic sectors is an unnecessary diversion, and the government should junk the idea and go ahead with strategic divestment."

Finance Minister Nirmala Sitharaman had said in May the government would come up with the public sector enterprise policy. Under the policy there would be strategic sectors with at most four PSUs. In other sectors, all PSUs will be privatised.