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Strategising disinvestment

Transparent PSU sales and asset monetisation, the way forward

The Prime Minister's recent Lok Sabha address has set the tone for a push to disinvestment in 2021-22. The burden of his argument was that the public sector had spread itself too far and wide – which is also the thrust of the public enterprises policy tabled with the Budget. To be sure, the Vajpayee government too unveiled a similar policy along with Budget 2001-02, which called for reducing government stake in non-strategic PSUs to 26 per cent or less; this time, the government has called for a complete exit from sectors other than atomic energy, space, coal, petroleum, banking and insurance. Even in these strategic sectors, PSU presence will be pruned. Having mopped up about ₹4 lakh crore since 2014, the Modi government has outperformed others on this count. While the Vajpayee government managed strategic sales amounting to nearly ₹40,000 crore between 1999 and 2004, its moves courted controversy over valuations – essentially over non-core assets such as land. To avoid a repeat, the Modi government should separate non-core assets from the core business as it proceeds with strategic sales. The two should be valued transparently. Its efforts to monetise operational assets attached to infra agencies such as NHAI, GAIL and PowerGrid to fund fresh projects, can be extended to the units slated for divestment.

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The InVITs route, which will be pursued to monetise operational assets worth ₹5,000 crore with the NHAI and ₹7,000 crore with PowerGrid, is a good idea but it requires some streamlining. Under this, these assets are bundled into a SPV, owned by a trust, which taps the market on the basis of the underlying value of the asset and future cash flows. Where the asset has regular cash flows, the transfer price is easily calculated. But where cash flow visibility is low there could be valuation issues. To set an example, the valuation process of assets for the NHAI and PowerGrid InVITs and their projected revenues can be explained. An independent, transparent process with respect to asset monetisation and strategic sale would lift InVIT valuations. While a buoyant market gives rise to hopes over achieving the divestment target of ₹1.75 lakh crore, it needs to be seen if global players have the appetite to bid for the assets on the block. The government's challenge is to optimise valuations given the constraints.

The Centre should be transparent on use of divestment proceeds. A statement on how these sums will be used, was a feature of past Budgets, such as the one for 2001-02 – which earmarked the projected proceeds of ₹12,000 crore for restructuring PSUs, resettling workers and social sector spending. A disinvestment fund, as in the past, should be set up to ensure that it is used to create infra and social assets, and reskill workers – and not for revenue expenditure. This will create a consensus around the exercise.