WHY DIVESTMENT IS AN ELUSIVE TARGET

The government's plans for disinvestment are crawling along at a snail's pace; the trouble runs deep

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"The deal is rigged," BJP leader Subramanian Swamy tells this writer on phone, keeping his tone light and matter-of-fact.

On 16 December, he had petitioned the Delhi high court alleging that Air India's disinvestment process was "arbitrary, unconstitutional, unfair, discriminatory, unreasonable" and, therefore, shouldn't be allowed to go through. Swamy's pet peeve: he thinks there was only one bidder—the Tatas—the second bidder was a consortium led by the promoter of SpiceJet Ltd, Ajay Singh. SpiceJet is facing insolvency proceedings in the Madras High Court.

Swamy, a Rajya Sabha member of Parliament and a member of the Parliamentary Consultative Committee on civil aviation, is known to shake up things. After all, his public interest litigation (PIL) against the 2G licenses given out on a first-come-first-serve basis led to the cancellation of all such licenses by the Supreme Court in 2012. It paved the way for spectrum auctions as the only way for selling airwaves.

In the Air India case, Swamy is demanding a court monitored or CBI (Central Bureau of Investigation) inquiry. The high court's decision is likely to come this week but Swamy is keen to take the fight to the Supreme Court if needed.

For the government, the petition appears to be just another irritant in the minefield of divestments, just when it probably thought that Air India was a great case study—one of the few strategic divestment plans that could finally close after years of delay. Besides opposition from within its own party, the BJP government regularly faces multiple headwinds in trying to improve its chances of earning from the sale of its holding in the public sector companies. There are regular protests from unions and requests of reconsideration from state governments, for instance. The result: the Centre misses its

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2021-22 will be no different. The government had set a target of ₹1.75 trillion from strategic as well as non-strategic stake sales in public sector enterprises (PSEs). It also wanted to privatize two public sector banks and one national insurer. However, thus far, the government has received a total of ₹44,446.62 crore from the proceeds of disinvestment and dividends. Of this, only ₹9,329.9 crore was generated from the divestment of strategic and non-strategic sales. Non-strategic sales included offer-for-sale of NMDC, Hudco and Hindustan Copper Ltd.

The cabinet committee on privatization is yet to take a decision on divesting the two public sector banks, finance minister Nirmala Sitharaman said in Parliament last month, amid reports of divestment in Indian Overseas Bank and Central Bank of India.

While the government has said that the IPO of Life Insurance Corporation (LIC) of India will hit the markets by March 2022, the divestment plans of enterprises—Bharat Petroleum Corporation Ltd (BPCL), Neelachal Ispat Nigam Ltd (NINL), BEML, Pawan Hans, Container Corporation of India (Concor), and Shipping Corp of India (SCI) among others—may well get deferred.

According to people aware of the developments, the timing of financial bids for BPCL is yet to be decided amid reports of one of the bidders, ISquared Capital, opting out of the race. Meanwhile, financial bids for Pawan Hans, BEML, NINL are expected this month, and due diligence for SCI is at an advanced stage. The expression of interest for Concor continues to be in limbo since the ministry of railways is still finalizing its land lease policy.

Meanwhile, the pandemic may have played a role in making the divestment plans crawl. The new wave of Omicron could be yet another spanner in the works. "With rising uncertainty in the global markets due to the pandemic, divestment plans seem to have fallen short of their fiscal targets in the past two years. Though the government seems to be trying to turn the wheel around, the Standing Committee on Finance noted that the disinvestment process usually takes a long time with some entities even undergoing a fourth iteration," said Arvind Sharma, partner at law firm Shardul Amarchand Mangaldas & Co.

In as many as 21 cases, cleared by the union cabinet since 2015-16, the government is yet to conclude strategic disinvestment transactions, he noted.

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THE CRACKS

PSEs were initially set up with the ideology of a socialist doctrine where the government is the provider of jobs for a large majority of people. But this view did not hold true in the post-liberalization era where private companies flourished to become the leading wealth generators. At the same time, the ability of PSEs to show profits or self-sustain came under the scanner. Consecutive governments have therefore envisaged divestment targets, primarily by selling stake in central public sector enterprises (CPSEs).

According to government data, gross divestment receipts have seen a gradual increase over the last decade, but in most instances, the targets set have not been met *(see table)*. The exceptions were in 2017-18 and 2018-19, when the government exceeded its annual divestment targets. In 2017-18, it exceeded the target of ₹1 trillion by ₹56 crore, while in 2018-19, it exceeded the target of ₹80,000 crore by a massive ₹14,727 crore, as per the Budget documents seen by *Mint*.

That achievement of targets depends on a number of factors, some of which are truly beyond the control of any government—global economic conditions, sector outlook and financial appetite of potential investors, among others. However, the trouble with divestment of PSEs runs much deeper.

"The major issue after selecting companies is getting the right valuation and timing of the issue. When the market is down, there is a lot of uncertainty on whether the disinvestment should be done. Problem is that due to politics, selling at a lower price can create a problem for the government," said Madan Sabnavis, chief economist at CareEdge.

Abheek Barua, chief economist at HDFC Bank, concurred, stating that the lack of political will to back divestment is the biggest issue derailing plans. "Although there is an economic case, the political capital behind it has been rather weak. There hasn't been too much of an effort to build that except for a brief period during the Vajpayee government when they managed to push it with the disinvestment ministry," he said.

Sabnavis highlighted another challenge: no government official would want to be caught post retirement, just in case there is an investigation on selling at a lower price.

There are other internal factors that are stumbling blocks. "These include certain preparatory activities at the level of the PSU such as addressing any special dispensation available to these entities, issues around land title, identifying and carving out non-core assets," said Sandeep Negi, partner at Deloitte Touche Tohmatsu India LLP.

Industry insiders said that one of the key issues stems from the value that the government aims to get from the stake sales, which may be more than the actual value or realistic value of the asset on the block, more so in the case of loss-making units.

"There is a reluctance to go along with the market, reluctance from controlling ministries themselves since their control on the PSE is waning, and there are attempts to dictate pricing," said a senior executive, requesting anonymity.

THE TO-DO LIST

So, what could be done?

Ideally, the government should find ways of redeploying people given that employment is a big issue today. That may help close down loss making units, Sabnavis suggested. "Merging with other PSUs where possible if the product is same (like has been done for banking) is another option," he said, adding that the critical roadblock around bureaucracy's inability to take firm decisions can be handled by giving them immunity.

HDFC's Barua said that in order to address the concerns of the bureaucracy, more assurances need to be given through the disinvestment ministry, which takes ownership of the decision, also backed by the prime minister's office. Bureaucratic reforms may also be the need of the hour. "Either go in for bureaucratic reforms so that it doesn't come to haunt the official or the government has to put its entire weight behind a particular decision and associate it with a senior minister so that the blowback on the bureaucracy is less," he said.

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WHAT

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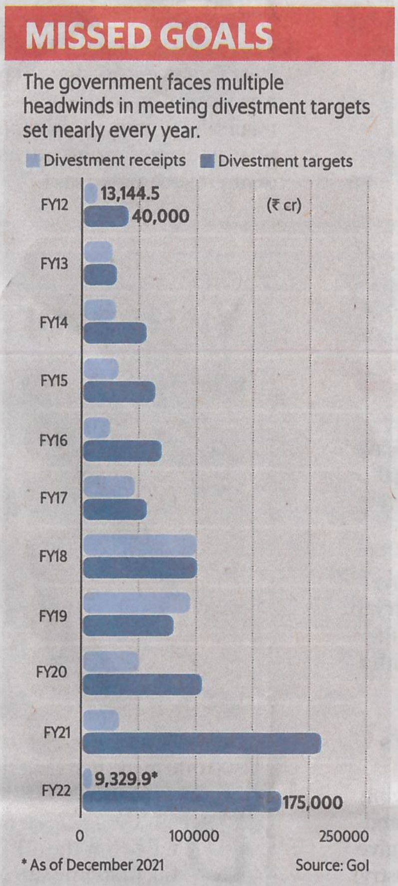
MOREOVER

No government official wants to be caught post retirement, just in case there is an investigation on selling at a lower price. The bureaucracy needs more assurances and reforms.



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Meanwhile, the importance of divesting the right asset at the right time should be understood, experts noted. Decisions ought to be taken quickly lest the value of the unit—like plant and equipment—depreciates to a large extent. Timely divestment can increase the sale value and stakeholder returns.

Experts, nevertheless, held that not all PSEs should be put under the hammer.

"Good units need not be sold, like NTPC or oil companies, which have either monopoly power or have sector benefits, as this becomes useful for the government to garner resources," said Sabnavis. The government has been getting its fair share of revenue from dividends from various PSEs. Many of them are high performers in core economy sectors.

THE POLICY PUSH

As of now, the government has made its stand clear. It has "no business to be in business". A new PSE policy has been enacted to see this vision through.

In 2020-21, finance minister Nirmala Sitharaman laid out a clear road map—the government would move out of PSEs that are non-strategic, opening up the sectors to privatization, and keep a minimal presence in strategic sectors where not more than one PSE will operate. The rest will either be privatized, amalgamated, brought under a holding company, or closed.

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The PSE policy was, among others, established with the goal of providing the Central PSEs (CPSEs) more autonomy, allowing them to be professionally managed and enable them to compete better with private-sector competitors. The policy has identified strategic sectors. Some of them are atomic energy, space, defence, transport and telecommunication, power, petroleum, coal and other minerals, banking, insurance, and financial services. The department of public enterprises, under the purview of the finance ministry, has been entrusted with the responsibility of identifying PSUs for privatization or closure in non-strategic sectors.

The government has also begun questioning the tepid performance of PSEs on the bourses even when they have been giving consistent dividends to shareholders. Dividend payouts have been staggered, such that performance of the PSEs can be consistently monitored.

Additionally, the government is also looking to divest its holdings through dribbling or issuing offer for sale (OFS) of CPSEs from time to time through the stock exchanges. Merchant bankers and legal advisors, who will be empanelled for two years, are yet to be appointed for the mechanism aimed at executing stake sales at a faster pace compared to other forms of divestment.

Despite faltering targets, the long-term goal isn't so opaque. Since 1991, consecutive Indian governments have set a disinvestment target to collect finances in order to move the country towards a more liberal realm.

There seems to be a consensus between multiple governments regarding divestments as a long-term policy. Setting a target for divestment every year and making efforts to achieve the same will help ease financial burden inflicted on public finances by the less productive PSUs.

"Setting disinvestment targets over the medium-term will offer some flexibility, especially in terms of transactions spilling over to the next fiscal year or when substantive legal or framework changes are a precursor to the plans moving forward. Nevertheless, some internal target on annual disinvestment flows will still be required to prepare the borrowing plan for the year," said Aditi Nayar, chief economist at ICRA.

Sabnavis noted that, ideally, disinvestment should not be part of the budgetary numbers and should be tackled separately with the receipts being put in escrow. "But this is not the approach," he said.