Out of business

Centre must take up strategic disinvestment with vigour

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THE PRIME minister made a pledge to US investors a year ago, which he repeated to German investors this month, that "the government has no business to do business". But India still has 243 Central public-sector undertakings (PSUs), of which seven are maharatnas, 17 are navratnas and the rest are miniratnas — the crown jewels of India's socialist legacy. There are also over 1,000 PSUs in state and municipal hands. It's time to clean up this costly legacy.

The NDA government under PM Atal Bihari Vajpayee took up strategic disinvestment aggressively, against heavy opposition. The UPA 1 and 2 governments shelved strategic disinvestment and used partial disinvestment, primarily to earn revenue. The UPA gave greater commercial autonomy to PSUs through memorandums of understanding (MOUs). Now, the NDA 2 government under PM Narendra Modi is retesting the climate for strategic disinvestment in a small way. Of the total receipts expected from disinvestment in 2015-16 (Rs 69,000 crore), some Rs 28,000 crore is to come from strategic disinvestment and the rest from minority share sales.

What does the evidence on the performance of PSUs that underwent strategic disinvestment tell us? Some 30 entities were strategically disinvested. Of these, several were hotels, sold largely for their land and assets. Some PSUs were sold to other PSUs, and therefore didn't really pass into private hands. Twelve companies were genuinely privatised — over 50 per cent of their shares and management control passed into private hands.

The performance of these 12 PSUs — Bharat Aluminium, CMC, Hindustan Teleprinters, Hindustan Zinc, ICI India, Indian Petrochemicals, Jessop and Co, Lagan Jute Mills, Maruti Udyog, Modern Food Industries, Paradeep Phosphates and Videsh Sanchar Nigam — shows huge improvements after strategic disinvestment. Their weighted average return on assets (ROA) doubled from around 5.8 per cent in 1999-2004 to 10.2 percent in 2010-15. The return on capital (ROC) in the same period tripled from around 3.4 to 11.6 per cent.

But India still has 243 Central PSUs whose average ROA has gone up from 4 per cent in 1999-2004 to 4.5 per cent in 2010-15, and whose ROC has gone up from 3.5 per cent to 10 per cent over the same period. Over this period, some 210 PSUs have signed MOUs that delineate more clearly the targets that they must archive. These MOUs have had some positive, though modest, impact on the overall performance of these companies. Though it would have been better had many more of them been privatised.

Among PSUs in the manufacturing sector, the average ROA and ROC were only 2.5 and 4 per cent, respectively, during 2010-15. In service-sector PSUs, the average ROA was only 4 per cent and the ROC, 2 per cent in 2010-15. These PSUs have locked up a lot of assets without much return. Any plan for strategic disinvestment — where the goal is not revenue but productivity enhancement — must focus on PSUs in these categories. Mining-related PSUs have better returns but that is largely because they have monopolies in specific natural resources, not because they are inherently efficient.

Disinvestment aimed at raising revenue has been shown to have no positive effect on returns. It is like selling the family silver to pay the grocer's bill. In many cases, shares are sold to other public entities, so it's simply a way of shifting money from one pocket of the government to another. Even if this is done, the funds raised should not go into the regular budget but into the strategic investment fund.

India's first attempt at strategic disinvestment during NDA 1 was mired in controversy. But a careful analysis shows that it was successful in transforming PSUs into well-run private companies. The way forward is more aggressive privatisation — especially for the 200-odd miniratnas, the 17 navratnas, and, most of all, the tiny PSUs in state government hands. Only then will the PM's words that "the business of government is not business" have some meaning. Just appointing better managers and signing MOUs will not be enough.

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