ILLUSTRATION: BINAY SINHA

Bailing out a PSU

Infusing equity into RINL says a lot about the govt's changed approach to state-owned enterprises

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Last week, the Union Cabinet Committee on Economic Affairs approved a financial package of ₹11,440 crore to revive the ailing Rashtriya Ispat Nigam Limited (RINL), a state-owned enterprise that operates the Visakhapatnam Steel Plant. The package included an equity infusion of ₹10,300 crore into RINL and the conversion of ₹1,140 crore of its working-capital loans into 7 per cent non-cumulative preference share capital that could be redeemed after 10 years.

During the current year, RINL's total liabilities have risen to over ₹35,000 crore, with defaults on its loan repayment and interest payment. Therefore, last week's decisions are expected to help RINL address its financial challenges, raise the much-needed working capital, and gradually achieve its full capacity of producing 7.3 million tonnes of steel in a year.

But where will this money for the equity infusion come from? The ministry of steel's budget has made no provision for this amount to be spent on RINL during 2024-25. Only a small amount of ₹620 crore for capital outlay is provided in the plan for RINL, and even this is to be raised by the public sector undertaking (PSU) through unspecified "other" routes. There is no budgetary provision for central funds for the ailing steel plant either, even though the Budget speech did talk about an additional allocation to be made towards capital investment in Andhra Pradesh for economic development.

In such cases, the money is provided through the passage of a supplementary demand for grants, which also means that the actual expenditure burden on the Centre goes up, unless, of course, there are matching savings under some other heads. The good news in the RINL case, however, is that there may be no need for a supplementary demand for grant and the amount to be infused into the ailing PSU will not result in an additional burden on the Union Budget. In an unprecedented display of husbanding its scarce resources, the Budget for 2024-25 earmarked an estimated ₹62,593 crore under capital outlay for new schemes. Very little of that has been spent under this head till the end of November 2024. Presumably, the capital infusion for RINL will come from this allocation already included in the government's expenditure plan.

That will also imply good financial planning. However, the not-so-good news emerging from this development is that the government has abandoned its plan for privatising RINL. Remember that in January 2021, the same Cabinet Committee on Economic Affairs had given its "in-principle" approval for 100 per cent disinvestment of the government's equity in RINL. The Union Cabinet had reportedly delegated powers to a finance ministry group to decide whether the subsidiaries of RINL would be included in the privatisation plan, after taking on board feedback from potential investors. RINL has been incurring losses since 2016-17, barring 2018-19, when it posted a net profit of ₹97 crore. Its efforts to introduce a voluntary retirement scheme for employees to cut costs have had little impact on its financial performance.

It would appear that the decision of January 2021 to privatise RINL was taken in a different era. The Union Budget for 2021-22 was unveiled a few weeks later, outlining the government's intentions to complete over the following few months an array of strategic disinvestment in PSUs like Bharat Petroleum Corporation Limited, Air India, Shipping Corporation of India, Container Corporation of India, IDBI Bank, Bharat Earth Movers Limited, Pawan Han, and Neelachal Ispat Nigam. Barring Air India and Neelachal Ispat, both of which were sold to the Tatas in January 2022 and July 2022, respectively, the proposed transactions of all other PSUs have either been held up or called off.

Even the policy of strategic disinvestment of PSUs, approved by the government, has made tardy progress, even after taking into account the recent sale of 100 per cent equity and management control of Ferro Scrap Nigam to a Japanese company at ₹320 crore. But in general, ambitious targets for realising disinvestment proceeds have been scaled back, and from the current year, the Budget has even stopped identifying disinvestment proceeds as a separate item, preferring to club it under miscellaneous capital receipts. The change in the government's approach is too obvious to be ignored.

In that sense, the bailout measure for RINL is proof of how the Modi government has been slow in pursuing its own policy on strategic disinvestment. This change of mind in the case of RINL has become too pronounced after the general elections of 2024. For instance, in September 2022, there were reports of the Adani group making a bid to acquire RINL, which was expected to be privatised in January 2023 under the government's strategic disinvestment policy. Those ideas, however, were quickly buried.

Blame it either on a pure change in its policy approach or the compulsions of coalition politics after the formation of the government in June 2024 with the support of regional parties, but RINL was soon taken off the list of PSUs to be privatised. Note that RINL is located in Andhra Pradesh, ruled by the Union government's coalition partner, the Telugu Desam Party of N Chandrababu Naidu. Indeed, in September 2024, the government began considering a merger of RINL with another state-owned company, Steel Authority of India Limited. The sale of RINL's land parcel to National Mineral Development Corporation, another PSU, was under consideration. Eventually, a direct bailout through equity infusion with the help of taxpayer money was the decision taken last week.

Can this shift in policy approach be justified on the grounds of nurturing state-owned enterprises and enhancing the value of these assets owned by the government? In the last five years, the financial capacity of PSUs in raising their own resources to fund their investment plans has taken a big hit. Total investment by the Union government's PSUs using their internal and extra-budgetary resources has almost halved from ₹6.4 trillion in 2019-20 to ₹3.2 trillion in 2023-24. Consequently, the dependence of these PSUs on the Union government's budgetary support in the form of equity infusion and loans has risen significantly in the same period. The share of government's budgetary support in the PSUs' total capital outlay has gone up from 25 per cent in 2019-20 to 61 per cent in 2023-24. In other words, the PSUs' financial performance has seen no improvement in the last five years, even as their reliance on government support has only increased.

Apart from making no positive impact on the financial health of these PSUs, the trend in PSU investments over the last five years shows how the government's stated policy on strategic disinvestment has been inverted to make it look like a policy on strategic investment in state-owned enterprises. In 2024-25, PSUs were expected to generate ₹3.7 trillion on their own, which along with the government's budgetary support of ₹5.45 trillion, would have helped them fund a capital outlay plan of ₹9.13 trillion.

Will PSUs be able to generate more internal resources in 2025-26? Will they rely less on the government's budgetary support to fund their capital outlay? And will the government return to a more focused pursuit of its stated policy on strategic disinvestment of PSUs? Some clarity should emerge on February 1, when Finance Minister Nirmala Sitharaman presents her Budget for 2025-26. If no clarity emerges, it would be better to make a formal announcement to suitably modify the policy on strategic disinvestment of PSUs.