the hindu businessline.

SATURDAY - JANUARY 25, 2025

Revisiting disinvestment

PSU policy needs review in a changed context

The Centre's disinvestment policy appears to be at a crossroads currently. Minority stake sales in profitable enterprises have been lacklustre, and attempts at strategic sales of PSUs to private enterprises have met with little success in the last decade. In this backdrop, there appears to be a shift towards reviving ailing PSUs as seen in the ill-advised move to infuse ₹11,440 crore into Rastriya Ispat Nigam Ltd. RINL is neither a strategic PSU nor is it a well-run undertaking.

There has been a paradigm shift since the Covid years, with a global thrust in favour of protecting and creating critical domestic capacities to cope with shocks to global supply chains. While the public sector enterprises policy of 2021 says, "All PSEs in non-strategic sectors shall be considered for privatisation, where feasible, otherwise such enterprises shall be considered for closure", this seems outdated now. Instead of this broad guideline, each PSU can be individually reviewed, weighing its strategic importance and the extent of government stake needed. A recent report in this newspaper, which says that many ministers and bureaucrats are opposed to privatisation of profitable and critically important PSUs, only underscores the need for a new policy. Some large PSUs play an important role in addressing infrastructure gaps, even though they may belong to non-strategic sectors under the 2021 policy. Many of these companies pay handsome dividends to the Centre. A fresh view to identify PSUs that are indeed important can do no harm.

The disinvestment policy should be geared towards supporting key, well-performing PSUs, and improving managerial efficiency by divesting critical stake. It should not be seen as a Budget revenue item, or a means to address any fiscal gap. Minority stake sales in PSUs have generally not served any significant purpose. They have increased the ownership base and improved liquidity of the shares, but since control remains entirely with the government, operational efficiency and business prospects remain unaltered. It is well that the Centre has stopped considering such sales as a revenue generation avenue. Asset monetisation of PSEs is a better option in this regard.

As for strategic disinvestment, where the control moves from the government to a private enterprise, that too has not taken off. The sale of most of the companies lined up for strategic disinvestment in recent past, such as RINL, Shipping Corporation of India, NMDC, CONCOR, BEML, HLL Lifecare has been stalled. Adverse risk-reward balance for the buyer due to large debt, outdated and inefficient plant and machinery, problems with land ownership and belligerent employee unions have derailed these sales. The most successful strategic disinvestment in recent past, Air India, had to be sold at a giveaway price of ₹2,700 crore. Strategic sale roadblocks deserve attention in the event of a policy review.