PSE sell-offs: The Centre must take a clear stance

Sluggish disinvestment signals a shift in the government's position on state ownership of businesses. We need clarity on PSEs. Doesn't their privatization favour India's economy?

In recent years, the government's policy on disinvestment has been cloudy. While it has in the past endorsed the mantra that 'the government has no business being in business,' its actions would suggest otherwise. Its move to grant Indian Railway Catering and Tourism Corporation (IRCTC) and Indian Railway Finance Corporation (IRFC) 'Navratna' status should bring back attention to this aspect of India's policy. But first things first. These ticketing and financing arms, respectively, of the Railways will now join the ranks of a couple of dozen other public sector enterprises (PSEs) that have been proclaimed as proverbial crown jewels in the Centre's portfolio of assets. Navratna status is awarded on the basis of such criteria as the company's earnings per share, inter-sectoral performance and key measures like net profit and net worth. The ratio of manpower cost to the total cost of output, return on capital employed and profit in proportion to turnover are also considered for eligibility. Based on this checklist, state-owned firms can be slotted into three classes of jewels: Maharatna, which is the highest, the mid-level Navratna bracket, or the Miniratna category.

It is more than just an honour. Jewel status gives a company greater operational autonomy in taking financial decisions or making investment moves, among other liberties. A Navratna company, for instance, is permitted to invest up to ₹1,000 crore or 15% of its net worth in a single project without the government's approval. It can also form joint ventures or go in for mergers and acquisitions without getting entangled in bureaucratic red tape. In effect, it gains greater flexibility to respond to dynamic market conditions, aiding its ability to stay competitive and pursue growth. Since Indian Railways provides a major public service and its elaborate infrastructure makes it a natural monopoly, its state ownership is justified. It is no surprise that plans to let private operators run their own trains made little headway, given how service quality must inescapably depend on the larger railway apparatus. But what about other PSEs? India's disinvestment programme has seen a marked slowdown over the past half decade or so. Before 2022-23, the Centre's annual PSE sell-off targets exceeded ₹1 trillion for some years, even though actual sales fell short. In the current fiscal year, it has raised only about ₹8,625 crore through stake sales till January, a far cry from the past. In fact, now it doesn't even set an explicit target for offloading PSE equity, having subsumed it under 'miscellaneous capital receipts' in the budget for 2025-26.

Ironically, the government had stated about half a decade ago that it would retain its ownership of enterprises only in a few 'strategic sectors' and divest the rest. Divestments, however, stayed sluggish even during the post-pandemic stock market boom that ended last autumn, a phase it could have used well to privatize its holdings. While private firms raised capital in droves, the government sat on the sidelines. Willy-nilly, this signalled a shift in its view on state ownership of businesses. If this constitutes a policy revision, no official argument has been made for it so far. As a result, confusion prevails. To be sure, large PSE dividends going into central coffers could be part of an explanation. But that doesn't counter the point that privately run firms, especially if held under the scrutiny of a wide investor base, are observably more efficient and thus likely to serve the economy better. We need clarity on the government's stance on disinvestment.