

A privatization plan that heralds the rise of the Indian elephant

Its implementation in true letter and spirit could prove to be a game changer for our economy just as the 1991 reforms were



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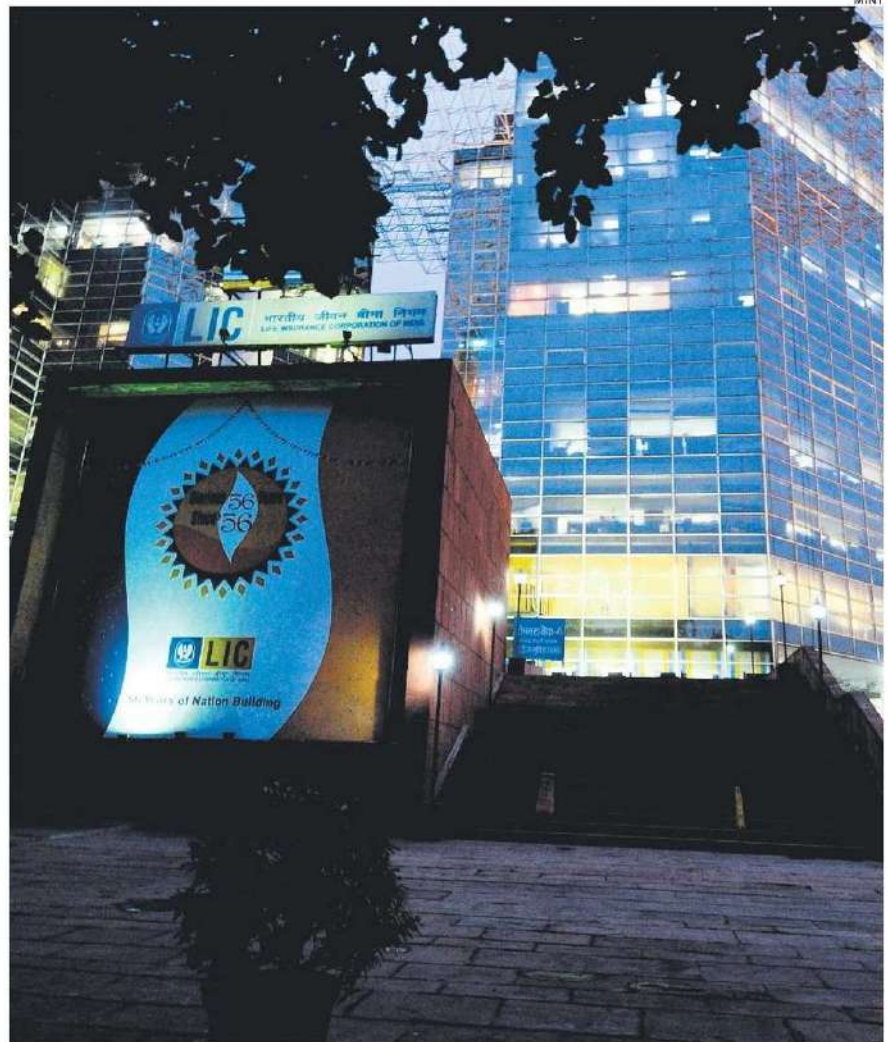
One of the many highlights of the Union Budget for 2021-22 was the bold resolve of the government to push for an aggressive privatization policy of public sector enterprises (PSEs), which would seek to unlock their potential to create wealth in India's economy. In view of the urgency to realize the target of ₹1.75 trillion from disinvestment receipts in 2021-22, the government will have to pursue this goal both relentlessly and proactively.

Encouragingly, the government has shown its resolve to go big on PSE stake sales this time around by clearing the decks for implementation of India's new Disinvestment Policy, which provides a clear roadmap for the disinvestment and privatization of PSEs in non-strategic as well as strategic sectors. If the policy is indeed implemented in its true letter and spirit, there would be no iota of hesitation in anyone's mind that, akin to the reforms of 1991, this too will prove to be a 'game changer' for the economy.

The policy has delineated four strategic sectors, namely atomic energy and defence, transport and telecommunications, power and petroleum, and banking and insurance, in which there will be a bare minimum presence of PSEs, while PSEs in non-strategic sectors will either be fully privatized or closed down.

Privatization is expected to play a significant role in improving competencies within enterprises, along with the building of resource efficiency among units at a time when PSEs have been incurring losses. As per a Confederation of Indian Industry analysis, the cumulative losses of the 55 non-strategic central PSEs (listed and unlisted) in the three years from 2016-17 to 2018-19 stood at a staggering ₹45,748 crore. An exploration of the merits of privatization in the *Economic Survey 2019-20* also affirmed better performance by privatized central PSEs, on an average, than their peers in terms of their net worth, net profit, return on assets (RoA), return on equity (RoE), gross revenue, net profit margin, sales growth and gross profit per employee.

At a time when there is an urgent need to raise resources to fund spending on an economy that is recuperating from the covid pandemic, the money garnered from the privatization process would come in handy. It would also free up government capital and management bandwidth for more productive deployment. Specifically, the revenue intake will prove useful in financing the 34.5% rise that has been budgeted for capital expenditure in 2021-22, which has been targeted mainly at major infrastructure expansion initiatives. This would have a multiplier effect on other sectors of the economy too. Besides, given the need to enhance



the economy's overall productivity, which is critical for it to grow at high rates on a sustained basis, the assertive stance of the government on privatization could not have come at a more opportune time.

There is considerable enthusiasm surrounding the privatisation drive, as the discourse this time has not just been limited to the budget document. In fact, government officials have been at work in collaboration with the Niti Aayog for months now, drawing up a privatization strategy. Going by publicly available information, 31 PSEs have so far got the Union cabinet's 'in-principle approval' for privatization. Many notable names feature on this list, such as BPCL, Air India, Shipping Corp of India, Container Corp of India, IDBI Bank, BEML, Pawan Hans and Neelachal Ispat Nigam Ltd, among others, that are expected to go under the hammer in 2021-22. In addition, the ball has been set rolling for the initial public offering of Life Insurance Corp of India (LIC) by the introduction of necessary legislative amendments through the Finance Bill, 2021.

However, to enable better monitoring of India's privatization/disinvestment targets, it is advisable that apart from these 31 PSEs, the government draws up a list of other PSEs in which it intends to bring down its share of ownership below 51%, or disinvest fully, in advance. This will also help to improve their valuations before the actual process of selling equity begins. The privatization of non-

strategic PSEs listed on the bourses could be given priority, as they are relatively easy to offload, thanks to their publicly-known valuations.

There is also a need to improve the quality of receipts from disinvestment by going in for genuine stake sales, rather than resorting to moves that have one PSE buying another. On the lines of strict regulations in place for third-party transactions, the government should also define principles of corporate governance for PSEs, especially for those which are not listed.

Carrying forward this reformist zeal, in a recent public interaction, Prime Minister Narendra Modi reiterated his government's commitment to privatize all PSEs, barring the bare minimum in four strategic sectors. His assertion that the government had "no business to be in business" lends further credence to that intent, and evokes the hope that a new era is emerging in which the private sector is lauded for its role in nation-building, a role that the Prime Minister acknowledged in Parliament.

Central PSEs were initially created to fill gaps in the economy where the private sector was not willing to invest. Given that the prevailing business environment in India is largely characterized by a dynamic market economy and vibrant private sector, this approach may no longer be required. Thus, the lead taken by the Centre to implement its agenda of privatization/disinvestment at this juncture is both appropriate and welcome.