

Strategic PSU and PSU enterprises policy

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The need for structural reforms especially in the public sector has necessitated proper classification and mergers in PSUs. These steps also aim at boosting efficiency and productivity in the public sector.

In news: The Union Cabinet will soon consider new public sector enterprises (PSU) policy.

Placing it in syllabus: Public sector enterprises (PSEs)

Dimensions

1. What is strategic and what it could mean
2. LIC stake sale
3. Mergers, consolidation and competition

Content:

What is strategic and what it could mean?

- The Department of Investment and Public Asset Management (DIPAM) under the Finance Ministry defines Strategic disinvestment as – “ ***the sale of a substantial portion of the Government shareholding of a central public sector enterprises (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.***”
- The Finance Minister in her Budget 2019-20 speech had stressed on the government's aim to continue strategic disinvestment of select CPSEs.

Difference between strategic disinvestment and disinvestment:

- Selling minority shares of Public Enterprises, to another entity be it public or private is disinvestment.

In this the government retains ownership of the enterprise.

- On the other hand, when the government sells majority shares in an enterprise, that is strategic disinvestment/sale. Here, the government gives up the ownership of the entity as well.

Under the new policy, a list of strategic sectors will be notified where there will be at least one and a maximum of four PSUs apart from private sector companies. In other sectors, central public sector enterprises (CPSEs) will be privatised, depending on the feasibility.

LIC stake sale:

- The government is planning to seek cabinet's approval to sell 25% stake in the LIC.
- The government currently owns 100 per cent in LIC.
- This move is to seek resources to plug a widening budget gap.
- The government has planned to amend the act of parliament under which the LIC was set up to prepare for the sale.
- The timing of the initial public offering (IPO) will depend on market conditions and the sale is likely to be done in tranches.
- **Deloitte Touche Tohmatsu India Ltd. and SBI Capital Markets Ltd.** have been picked up by the government to help LIC prepare for an initial share sale.
- The advisers will help evaluate the capital structure of it and aid the company in reworking its financial statement.

Mergers, consolidation and competition:

- The government has planned to create a public sector consultancy giant by bringing together about half a dozen smaller engineering companies and merging it with

much larger and profitable Engineers India Ltd (EIL).

- EIL is the biggest state-owned PSU which provides turn-key engineering solutions to projects in India and abroad.
- Discussions would be initiated to explore if merger of engineering and consultancies PSUs working in similar areas such as Engineering Projects (India) Ltd, MECON Ltd, Telecommunications Consultants (India Ltd) and WAPCOS could bring about operational synergies.
- It would be a step forward in the direction of bringing about consolidation in the public sector.
- This move could create a PSUs consultancy giant that can establish India's footprint in the global business of project consultancy.
- The merger would create an entity with capacity to bear higher risks, create more value for the stakeholders and take on the might of global giants with a stronger bargaining power for projects.

Mould your thought:

1. How has the public sector reoriented itself in the post reform era? Do you think time has come for economic rethinking?

Approach to the answer:

- Define strategic disinvestment
- About recent plans of government on mergers and consolidation of PSUs
- Benefit of LIC stake sale
- Conclusion