Apart from huge losses, accountability quite limited

As chief minister of Gujarat, Narendra Modi did manage to turn around several state-owned PSUs and, despite the Congress -created controversy around it, GSPC did exceedingly well to find the kind of gas reserves it did in the Krishna-Godavari basin. But extrapolating from this to assume all PSUs can be turned around is a bad idea. So while prime minister Narendra Modi is said to be keen to revive PSUs, he needs to be careful—Niti Aayog's reported suggestion that sick PSUs be merged with profitable ones is borne out by, last week, the Cabinet approving National Buildings Construction Company's takeover of Hindustan Steel Works Construction Ltd. The futility of saving an Air India is cited often—its losses of R27,000 crore over the last 5 years is more than the R22,000-odd crore infused into it—but finding a buyer for it was never going to be easy. Ditto for BSNL which, while making losses of over R35,000 crore over the last five years, has 2.2 lakh employees—but with wages equal to 45% of turnover as opposed to 5% for private telcos, no revival plan makes sense without dramatic surgery. With an 8.5% market share—and higher if you look at rural markets—BSNL may still have a strategic importance, but surely MTNL with a 0.34% market share won't be missed by anyone? One basic rule for Modi's plan to revive PSUs, then, has to be whether the PSU has any importance other than retaining jobs for the labour aristocracy—what relevance does a Hindustan Photofilms that made a R2,163 crore loss in FY15 even have today?

A second rule has to be the issue of whether it can ever be revived—MTNL's employee costs are over 80% of turnover and its EBIT is not enough to cover even the interest costs on borrowings. According to the latest CAG report on central PSUs, 11 of the 34 listed firms also have an interest cover of less than 1; 67 of the 124 unlisted central PSUs have this dubious distinction. Indeed, 64 of the 157 loss-making PSUs—accumulated losses of R110,285 crore in FY15—have a negative net worth of R74,100 crore as against their equity of R21,847 crore. And while the government's dividend from profitable PSUs was a healthy 12.7% of the amount invested in all PSUs, it is important to note the bulk of profits come from PSUs in areas where there is very little competition—if a Coal India or an ONGC had not got the best acreages or had more private competition, it is not certain their profits would be as high. The rule, therefore, has to be to infuse more competition in areas with PSU monopolies such as piped gas firm IGL. Other special dispensations for PSUs such as preferential sales to govt—27% of central PSU sales in FY15 were to government organisations according to CAG—also have to go. Apart from the fact that cash infusions of the type made in Air India and BSNL seriously distort the competition and mean there is little market discipline for PSUs—Air India can keep discounting and bankrupt the competition—the near-complete absence of any check on PSUs can also be seen from the fact that, according to the latest CAG report, 27 PSUs including the likes of BHEL and NTPC do not have the requisite number of independent directors and 16 including Coal India and GAIL have none at all. It is unlikely Niti Aayog's blueprint on loss-making PSUs deals with any of these issues.