

Tools for value creation – Privatization and data monetization

The Government has no business to be in business – this intention has been articulated not just repeatedly by the Prime minister, but also by the Government as a part of the Economic Survey 2019-20. An entire chapter of the Survey discussed privatization as a tool to create value for all stakeholders. Examining the realized efficiency gains from privatization in the Indian context, the chapter analyzed the before-after performance of 11 Central Public Sector Enterprises (CPSEs) that had undergone strategic disinvestment during 1999-2004. Comparing such privatized CPSEs with their peers in the same industry group, showed that on an average, they performed better post privatization than their peers in terms of their net worth, net profit, return on assets and equity, gross revenue, net profit margin, sales growth and gross profit per employee. More notably, the return on assets and net profit margin turned around from negative to positive surpassing that of the peer firms. ***This indicated that privatized CPSEs could generate more wealth from the same resources.*** This improved performance held true even for each CPSE considered individually. The analysis clearly affirmed that privatization unlocks the potential of CPSEs to create wealth.

Evidently, it is established that businesses which are outside the control of government perform very differently and more efficiently, thereby enhancing value for all concerned. Post this guidance in the economic survey, under the Atmanirbhar Bharat program too, the Finance Minister announced that public sector firms in non-strategic sectors will be privatized. Also, no more than four public sector undertakings, to be notified, will remain in the strategic sectors category.

The intention of the government indeed appears clear and rightly placed. The need now is for speedy execution – any delay will only mean erosion in value. The market value of listed PSUs has come down by almost by 40% in the last one year even as the overall market went up in the same period. Besides this, the government had to contribute additional capital for some of the PSUs and approve of additional borrowings by them from the market. The situation of the unlisted PSUs is expected to be no different.

A lot of time has been lost in debating over the right method of disinvestment/ privatization – strategic sale to the highest bidder, sell down in the market to dilute below 50%, a professionally-managed holding company to own government stake in the PSUs, or a combination of these. But there is no one right answer – going by the economic survey which examined the UK and Singapore models of privatization, different countries have followed different models. While there are a variety of methodologies to achieve this objective, no one solution will meet all the criteria. However, any solution will be better than inaction and this transition will be beneficial for all the stakeholders.

Let us go beyond the traditional areas to create value!

Furthermore, the government should start contemplating a new phase of privatization. It should take a holistic view of the units which are not corporatized and in which private sector can bring more efficiency or value. For example, ***post-offices*** are struggling as they have not kept pace with the rapid changes in technology. However, the value of their largest physical network in the country, can still be unlocked through forward integration with a bank or a business correspondent (BC) service. Additionally, involvement of private sector in the ***local bodies like municipal corporations, township management*** etc. can bring a lot of efficiency not only in the service quality for the user but will also reduce the burden on the Government.

A new asset created by the government through focus on digitisation!

The Government and its agencies have over the last few years acquired a ***gold-mine of data*** with roll-out of initiatives like GST, Aadhar, fastag, e-bills, securities market, banking data with regulators, etc. Management and monetization of ***this largest pool of data can be more effective and revenue-generating*** with private sector partnership - of course with all relevant data protection covenants. Some of this data may already be getting used by private sector for expanding their business and reach. An adequate framework on right mining and monetization of this can be invaluable for the government. Given the focus on digitization, the data can be used more productively and generate value for everyone.

This government has been taking several difficult but firm decisions. Putting the PSU strategy in the pole-position will go a long way in changing the face of the country and its economy. ***Privatization and data monetization together can provide a long-term solution*** for the country's fiscal deficit. They can be a revenue generating device for the government, and at the same time it is a great tool to manage resources much better. ***These are certainly a win-win for all!***

Sunil Sanghai

Founder & CEO

NovaDhruva Capital Pvt. Ltd