Privatized Air India’s takeoff can lead other PSUs to thrive as well

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A little over a year ago, Air India was a chronically sick and loss-making public sector undertaking (PSU). It cost the taxpayer around $1 billion a year to keep the state-run airline’s aircraft flying. Then in January 2022, Air India was finally privatized when the Indian government sold 100% of the company along with its subsidiary Air India Express to the Tata Group. About a year later, the airline placed the biggest order of aircraft in India’s aviation history. There could not be a better example for how privatization works and delivers positive outcomes in short span of time.

Given the global airline industry average of 150 employees per aircraft, Air India’s order of 470 new aircraft will create around 70,000 direct jobs. These will be jobs at different levels of skills, from managers and pilots to cabin crew and ground support staff. And then, there will be hundreds of thousands of indirect jobs, as associated sectors like airports and tourism get a boost. Air travellers are expected to benefit from newer routes, more competition on existing routes, cheaper fares and better overall service. News reports have lately begun to hint that rival airlines may place orders of more than 1,000 aircraft in the near future.

From being an objection of derision—because of flight delays, cancellations and poor service—Air India is likely to once again become a carrier of the country’s pride internationally. The presidents of the US and France, the home countries of Boeing and Airbus, which bagged the airline’s aircraft orders, joined Indian Prime Minister Narendra Modi to celebrate the announcement.

Incredibly, though, Air India was the first PSU to be privatized since 2003. Meanwhile, India’s 250 plus operating PSUs continue to do their best to generate value within the constraints of government control. There is the matter of constant reporting to the particular sector’s parent ministry as well as the continuous microscopic oversight exercised on decision-making by the Comptroller and Auditor General (CAG) and often also the Central Vigilance Commission (CVC), Central Bureau of Investigation (CBI) and Courts of law.

Running a successful business is principally about risk-taking. There may be mistakes which lead to setbacks from time to time, but with the right incentives, private enterprise delivers. In PSUs, however, all the incentives are aligned to play safe, which is not the best mantra for corporate growth.

The country has a big opportunity to unlock value for PSUs, the government and indeed the entire economy by freeing them from the control of government. Prime Minister Modi is a big advocate of India's government not being in the business of business. Often, practical problems have got in the way of a more successful privatization drive. It is tough for a government system with limited manpower and capacity to monetize what are public assets without fingers being raised.

The national discourse on privatization must therefore move from a 100% sale of government assets to private promoters to one in which PSUs are listed and their shares offloaded to the public at large with no individual or institution permitted to own more than a 10% stake. This alternative 'corporatization' approach may turn out to be more transparent and practical to execute.

A stock market listing grants access to a good price-discovery mechanism for shares. A process of slowly but consistently offloading shares in the market would insulate the government from short-term price swings and broader bouts of volatility in the equity market. The moment the government's stake falls below 50%, a PSU becomes a private entity with an independent board and professional management, without any oversight of the 4Cs—CAG, CVC, CBI and Courts—mentioned earlier. Efficiencies would kick in immediately. And the government could continue to sell the remainder of its stake at a premium until it has completely exited the business. Employees can gain by an offer of stock options and a commitment of no retrenchment by the management.

There are precedents of successful privatization via the corporatization route. In the UK, British Airways, which was 100% owned by the British government until the early 1980s, was privatized by offloading its shares to the public at large in the equity market. It has no single promoter. In India, ICICI Bank is also an example of how what was a public sector entity was essentially made private by diluting the government's stake by using the stock market. Today, this bank has no single promoter.

If the Indian government moves along this path, it could potentially create a huge cluster of large companies that are not promoter-driven but which are run by independent boards and professional managements. Only a handful of companies in India currently follow this pattern: L&T and ITC are the most prominent examples. But globally, this is indeed the norm. Think of renowned companies like General Electric, Boeing, Visa, British Petroleum and Unilever… the list is very long of mega-corporations owned by a diverse group of shareholders—both institutional and retail—and not promoters.

The government has some low hanging fruit in which it can reduce its take below 50%. For example, in Concor it holds a 54.8% stake, in

Bharat Petroleum Corp Ltd 53%, in Indian Oil Corp Ltd 51.5%, and in BEML (formerly Bharat Earth Movers Ltd), 54% . India is currently the flavour the global economy. There is great investor appetite for Indian assets, foreign as well as domestic, institutional and retail. Now is the time for the government to unleash public sector enterprises. It will also earn the Centre good revenues, which it can invest in infrastructure and the social sector. It's the perfect pathway to a $5 trillion economy.

Anil Agarwal is chairman, Vedanta Group.