

A Study on Loss making PSUs

The DPE has been publishing annual survey of PSUs. From that one can infer how many units are in profit mode and how many are in the loss making mode. The Survey is listing details of every PSU on the basis of their cognate group like Telecom, Power, Chemicals, etc. NITI Aayog is giving its recommendations whenever warranted. Parliamentary committee is also interested to study about the PSUs and even special sittings are there for loss making units. This note is a compilation of some prime findings of above said agencies.

As per the 16-17 survey the loss making units are more in numbers (82) comparing 71 in 17-18. More detailed study about 16-17 is found involving NITI Aayog, CII etc.

Analyzing the Loss Making PSUs of 2016-17, of the 82 units, below 20 cr loss making units are 41 in number, between 20 cr to 50 cr 9 are PSUs, between 50-100 cr are 8 PSUs, above 100 cr are 24 Units and in that above 1000 cr are only 5 PSUs that are big tickets. In most of the PSUs the loss is very meager.

BSNL, Air India Ltd, MTNL are the 3 top most loss making units in the year 16-17 as well as in 17-18. Out of total losses, these 3 are sharing 55.66 % in 16-17 and 52.15 % in 17-18. The loss making percentage of BSNL is 25.57%, Air India 17.01 % and MTNL 9.51 % in the year 17-18.

The loss share of the top 10 loss making units is 84.71 % and for the remaining 61 PSUs the share is 15.29 %. When we analyze this sharing aspect for 16-17 the top 10 loss making units cover 83.82 % of the total losses and the remaining 72 PSUs cover 16.18 %

2

As BRPSE is no more there, Govt has given instruction to the concerned ministry to monitor and plan for revival of Sick/Loss making units as per the relevant DPE guidelines issued since 2015 , after the formation of BJP Modi Govt. Ministries may report back to parliament about the reasons for sickness/ loss making of the concerned PSUs. Reasons may vary. But certainly there are some common reasons like the following broadly found by various agencies

Old and obsolete plant and machinery

Outdated technology

Low capacity utilization

Low productivity

Poor debt-equity structure

Excess manpower

Weak marketing \ strategies

Stiff competition

Lack of business plans

Dependence on Government Orders

Heavy interest burden

High input cost

Resource crunch

Committee of Secretaries chaired by cabinet Secretary during July 2015 identified 48 Sick/loss making units and adding this DPE referred another 26 sick/Loss making Units. NITI Aayog on its part is reporting that it is giving recommendations only for all these 74 Units and final decision rests on the respective ministry only.

The BSNL is running into losses since Financial Year 2009-10. The reasons to incur losses in BSNL , as stated by BSNL, are as follows :

BSNL is providing Telecom services in remote and hilly areas in various states e.g. Himachal Pradesh, Uttarakhand, J&K, North East, Chattisgarh, A&N Islands and Lakshadweep Islands through satellite and Point to Point Radio Links. Point to Point Radio links were also provided in backbone network in other part of the Country. For using point to point links huge spectrum charges are to be paid to WPC. Similarly, satellite transponders charges are payable to ISRO for satellite links, which are very huge. Due to this, BSNL is incurring huge losses for providing services in the remote areas where optical fiber cable connectivity is either not reliable or not feasible.

The optical fiber cable (OFC) Network of BSNL is being damaged severely during road expansion and it has become very difficult for BSNL to maintain the OFC network, which is a backbone for all services. To overcome this

problem, BSNL is compelled to hire bandwidth from other Operators like PGCIL, Oil India Limited and Rail Tel. PGCIL's network is working on electric lines (OPGW) and Rail Tel Network is along Railway lines. Therefore, OFC Network of these operators is not affected by road widening/expansion work. BSNL is spending about Rs.125 Cr. per annum towards hiring of bandwidth from other operators.

To overcome the present condition and make it a profit unit, BSNL has an ambitious plan for monetization of its land and building assets to earn revenue. The other needs are

All Government funded projects may be given to the BSNL.

All government Department and Government Owned PSUs may be asked to take their telecom requirement from BSNL as first choice.

BSNL needs to firm up its space in whole sale business of leasing out its core network. Also it may be more remunerative to deal in ICT products rather than vanilla Telecom services for which company needs to create its forte in IT segment by upgrading in-house skills.

3

DPE is reporting that many of these CPSUs are in control of valuable resources (e.g. land, buildings, etc) that are, in many cases, not being put to good use. Action needs to be taken to ensure efficient usage of resources by the enterprises

The three strategies regarding loss making units are revival, sale, or closure of PSUs. There are multiple ways of implementing each of these strategies. The following are the key ways in which each of these strategies can be implemented:

- i. Revival: a CPSU's revival could be pursued on a standalone basis, it could be merged with another CPSU, or it could be revived through a strategic partnership or management contract with a suitable firm.
- ii. Sale: a CPSU could be sold to another firm, or it could be listed in the stock markets and converted into a board-managed private sector company.
- iii. Closure: Closure could be outright closure of the entire CPSU, or partial closure of certain businesses of a CPSU. It is important to state the principles to be applied to choose between these strategies

for any sick or loss making CPSU. Such principles should be uniformly applied to all CPSUs to recommend suitable strategies for each CPSU

The 14th Finance Commission was tasked with recommending a strategy for “relinquishing non-priority enterprises”. The Commission provided a list of illustrative criteria that could be used for priority classification of CPSUs. These criteria are:

- i. activity assessed as strategic in terms of public interest;
- ii. the enterprises having earmarked or assigned natural resources with sovereign or quasi-sovereign functions;
- iii. the enterprises required to cater to market imperfections;
- iv. enterprises where returns on investments are higher than any alternative investment by the government; and public utilities, where some presence of public enterprises may be desirable as a reference point for getting more reliable information for the regulators.

NIPFP’s (National Institute of Public Finance Policy) view, the criteria should include:

Strategic importance:

Does the enterprise serve such a strategic purpose that the government would like to retain direct control over it?

Is the enterprise a public utility, where such presence of public enterprises may be desirable as a reference point for getting more reliable information for the regulators?

It is understood that for regulation of public utilities, regulators need reliable information from regulated entities to ensure they are able to make sound regulations and effectively enforce them

All low priority CPSUs with significant enterprise value may be considered for sale. There is a strong case to prioritize sale of sick and incipient sick low priority CPSUs, if they have significant enterprise value, beyond the value of their land and buildings. Further, any low priority CPSU that is sick or incipient sick, and does not have any significant enterprise value beyond the land and buildings it controls, should be recommended for closure

On a query regarding whether the telecommunication is a strategic sector, the Department of Telecommunications in a written reply to the DPE submitted as under:

'As per the information furnished by Ministry of Communications, Department of Telecommunications, the PSUs have played a pre-eminent

role in provision of telecom services in the country, particularly in rural, remote, backward and hilly areas. Contribution of BSNL and MTNL to broadband penetration in the country is significant. The importance of PSU in meeting the strategic and security needs of the nation can also not be understated. The PSUs also play a key role in balancing market forces in the interest of consumer..Presence of PSUs like BSNL and MTNL enhances the Government capabilities to facilitate in matters of national security/natural calamity or international importance, including execution of bilateral projects funded by Government of India. It serves security needs in areas of strife and conflict and is also the principal vehicles for fulfilling the socio-economic obligations of Government by implementing projects of national importance for Government. Government can also provide vital support for domestic manufacturing of Indian Telecom Products through/within Telecom PSUs for deployment of indigenously developed Telecom products with Indian IPR. PSUs serves security needs in areas of conflict and is also the principal vehicles for fulfilling the socio-economic obligations of Government by implementing projects of national importance for Government like BharatNet.

On the issue of merger of BSNL and MTNL:

Regarding chalking out a future plan for BSNL and MTNL, when asked whether they agreed to a suggestion regarding merger of BSNL and MTNL to bring them out of losses, MTNL submitted as under:

'The possibility of revival after merger of BSNL and MTNL is expected due to the fact that the same would pave the way for (i) Pan-India Presence of combined entity (ii) Leveraging combined capacities, (iii) Reduction in fixed costs, (iv) Avoidance of duplication of facilities, (v) Optimization in utilization of infrastructure; and (vi) Enhancing the competence of combined entity to meet the competition

DPE submitted the following information :

'BSNL and MTNL have been incurring losses for a number of years. Therefore, as per Department of Public Enterprises (DPE) guidelines, both BSNL and MTNL have been declared as "Incipient Sick". On the issue of merger of BSNL and MTNL, it has been decided that keeping in view the various challenges involved in the merger, it is not advisable to pursue the merger of MTNL and BSNL at this juncture, till a resolution on MTNL employees, debt of MTNL and MTNL properties is reached'

On the Issue of Disinvestment, NITI Aayog submitted as follows :-

"All CPSUs except under those in the strategic areas are eligible to be considered for strategic disinvestment The strategic areas are: CPSUs serving National security purposes; CPSUs serving a sovereign or quasi-sovereign function that would otherwise have been performed by the Government directly; and CPSUs that are performing developmental functions that the Government may consider important, where the private sectors are not present or failing to perform

Regarding VRS :

On the issue of VRS to its employees, CMD-BSNL during the course of oral evidence submitted to the parliamentary committee as under: 'There was a question regarding VRS. The VRS proposal at the moment is with the DoT. It has not yet been communicated to us. One lakh employees were supposed to have been given VRS, but the matters is still under consideration of the Government. The need for VRS was established when the company was going in for losses for consecutive years and there was a presentation made to the BRPSE. At that point of time, the question of VRS had come into being and the DoT also has not taken a decision in this regard. One lakh people were supposed to have been given VRS, as per the Sam Pitroda Committee also. This is the genesis of the whole issue.'

MTNL CMD Reported:

It is only on 2013-14 that the Government has taken over the pension liability; otherwise MTNL was making the pension payment for all its employees from 2000 onward till March 2013. The total pension liability which was accumulated was to the tune of ₹ 10,900 crore which MTNL has to provide in its books of accounts. We have already submitted a proposal for VRS to the Government in which they have agreed for 20 per cent VRS employees who are retiring in next 10 years, for 5300 employees at a cost of ₹ 1000 crore. The proposal has already been approved by the Telecom Commission which is a multi-departmental body. It is under inter-Ministerial consultation. We look forward; this is only the first phase of VRS. It is because, even with the 5300 employees, it is not a great number by which we can get it. But, one positive part is this. My 25,000 employees are retiring in next 10 years. Every year, 3000 plus employees are retiring.'

NITI Aayog Stated:

On a specific query whether NITI Aayog has made any estimate on the full implications on VRS and any budgetary provision proposed in the event of closure of the 26 CPSUs recommended for closure by NITI Aayog, the Aayog clarified as under: 'No estimate has been made by NITI Aayog. Administrative ministries draw up the VRS plan. No provision is made. It is possible from the sale of assets of closing CPSUs to offset VRS.

LAND MANAGEMENT AGENCY

The Government has designated NBCC (National Bldg Construction corp Ltd) as the Land management Agency (LMA) and entrusted NBCC to monetize the assets of loss making CPSUS. NBCC stated that NBCC sent an Expression of Interest (EOI) to 74 CPSUs requesting them to appoint NBCC as their Land Management Agency (LMA). Thus far, 10 CPSUs have appointed NBCC as their LMA and 28 CPSUS have declined.

- MTNL shared a list of properties with NBCC, where redevelopment could be taken up.
- NBCC and MTNL have discussed issues such as land use permission, leasehold status of land, etc. with the DDA.
- Most of the properties at Mumbai are freehold; however, they were allotted for specific use. Hence, change of land use is required for monetization.
- MOU is yet to be signed with MTNL for the proposed monetization of their assets.
- NBCC has presented to the CMD and other senior officials of MTNL and clarifications on the proposed draft MoU have been provided to MTNL. Draft MoU is still under consideration with MTNL.
- Further action will be initiated after signing of MoU for joint development/monetization.

On the issue of monetisation of assets of Air India, C&AG in their Report No. 40 of 2016 had stated that Air India ltd. failed to achieve the target of monetisation of their assets due to improper selection of properties not based on actual feasibility of monetisation and in their recommendation hinted on the absence of proper title deeds as well as limiting provisions/ conditions in the lease agreements of assets of the CPSU thereby impacting their monetization

Observations of Parliamentary committee

1. MTNL and BSNL that are operating in the telecommunication sector also consider themselves of 'strategic' importance. The Committee thus feel that, in the event of the Government itself not having a uniform parameter for categorising CPSUs as 'strategic' it would be difficult for them to arrive at any conclusion 138 whether a particular CPSU is to be retained by the Government, closed or divested. In such a scenario, the Committee recommend the Government to work out uniform definition/parameters of 'strategic' for classification of CPSUs

2. The merger of two loss-making PSUs i.e. Air India and Indian Airlines did not work well and the proposed merger of IL with BHEL failed to materialise, the takeover of Hindustan Steelworks Construction Ltd. (HSCL), a loss-making PSU by a profit making PSU like NBCC seems showing positive results. With regard to the merger of AIL & IAL into NACIL, the Committee would like to recall that in their Report No.18 of 2011, the C&AG termed the merger of AIL & IAL into NACIL as 'ill-timed, without proper justification and synergized operation, without HR integration, delayed and having serious uncertainties'. The NITI Aayog also mentioned that the losses of Air India can also be attributable to the decision of merger taken in 2007 wherein two very different organizations with dissimilar equipment and Human Resources practices were intended to be merged.

3. The Committee caution the Government to analyze all the factors before taking any decision on the merger of two CPSUs, particularly in the context of merger of two biggest loss making CPSUs, MTNL & BSNL whose combined financial liabilities during 2016-17 was a whopping Rs.2403873 lakh, the combined manpower of both PSUs is a staggering figure of 224367 persons and also various procedural lapses have been pointed out in the case of MTNL and BSNL by C&AG of India

4. Surprisingly, NITI Aayog has also not made any estimate on the full implications of VRS nor they proposed any budgetary provision for utilization in the event of closure of these CPSUs. The Committee further observe that there are large number of employees in loss making PSUs who are in the younger age bracket and being a highly skilled workforce and qualified professionals, are eager to work towards turnaround of their company's fortune but are unable to do so due to acute shortage of working capital. The Committee feel that the Government must give serious considerations on all such issues in a specified time frame with a view to not

only utilize the skilled work force of loss making PSUs but also save their dependents from a life of misery and despair. In a nutshell, the Committee would emphasize that it is a humanitarian issue for the Government as dependents of such employees suffer the most when a PSU becomes incapable of disbursing their salaries/completing VRS packages/or when the employees lose their employment due to closure of the PSU.

5. The Committee find that the process of monetization of assets of loss making CPSUs is hardly progressing fast as these properties have not generated requisite interest among potential buyers.. The Committee hence desire the Government to pay attention to these aspects, while reviewing their policy on sale/monetization of surplus land and assets of the loss making PSUs, as well as to ensure that such decisions are in tandem with the prevailing land acquisition laws. Besides the Committee would like to emphasize for making the process of monetization of assets including land of loss making PSUs transparent. With regard to sale of land of loss making PSUs, the Committee would like to be apprised whether the Government has explored any future requirement of the land & assets, currently identified for sale, by such loss-making PSUs, which are slated to be revived, and not closed, because acquiring the assets of such scale and at prime locations again may not be possible in future.

DPE in this regard has emphatically justified the present policy of the Government stating that CPSUs have been set up with public funds and Government is the majority shareholders in these CPSUs and therefore, it may not be appropriate to empower the Boards of CPSUs to monetize their assets. Keeping in view the present scenario of ever-evolving technology and tough competition in the market that a CPSU has to work and the present scenario of more and more CPSUs falling sick, the Committee feel that the aforesaid policy need to be relooked by the Government

.....Pattabi....08.02.2019.