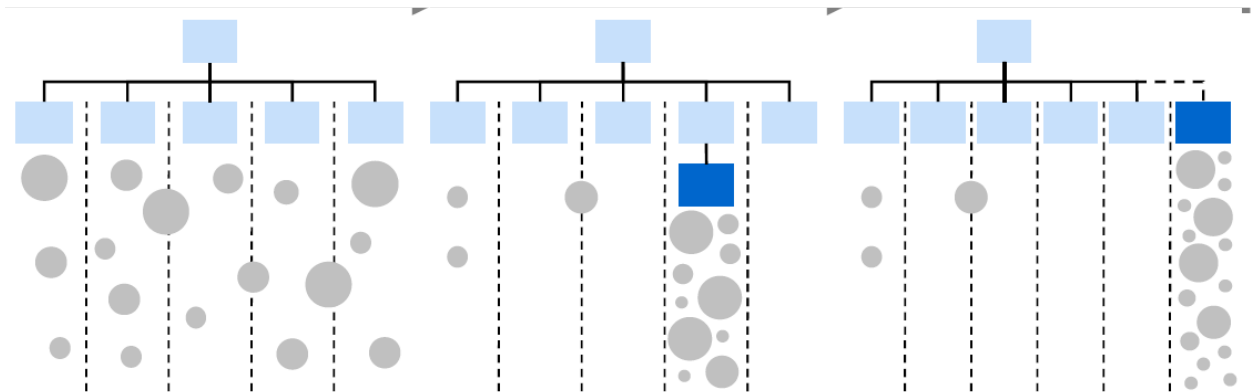


# Having your cake and eating it

*The time is right to consolidate government equity into a holding company*



In a scene in *Yes Minister*, the constantly thwarted minister Jim Hacker wants to move through some legislation. His secretary Humphry Appleby says: "I recommend that we set up an interdepartmental committee with fairly broad terms of reference so that at the end of the day we'll be in the position to think through the various implications and arrive at a decision based on long-term considerations rather than rush prematurely to precipitate and possibly ill-conceived action which might well have unforeseen repercussions."

"You mean, no?" asks the minister.

For those who did not grow-up on a diet of *Yes Minister*, it was a political satire aired on BBC in the 1980s. In this Jim Hacker a cabinet minister and Sir Humphry Appleby, his permanent secretary battle their wits to stymie the other. The minister usually desires to formulate and implement policy or to bring about change while Appleby fights to maintain a status quo. They only join forces when their remit is being cut. As an aside, it resonated enough for a hindi remake *Ji Mantriji*.

This is that time of the year when the finance minister's inbox is planted with suggestions. As druid, she decides which to pluck and throw into the cauldron to either keep the economy cantering, humming, or to re-vitalize the moribund parts (-depending on your interpretation of the data) and which parts to reinvent.

Our preference is for fixing the PSUs by consolidating the governments equity into a holding company. This has been proposed often, but stymied.

The relative underperformance of PSU shares in the market reflects all that is wrong with the current ownership and governance structure. The more recent [push back that investors have been giving](#) board appointments in government owned companies is another wake-up call. Apathy is not a business strategy.

In the past divestment where the government sells shares while the governance structure remains unchanged, was offered as a cure. The big challenge is to change the governance structure, and this has not been easy given the very direct pulls and pressures for those sitting behind the desk in the ministry. For one, they are [answerable to parliament and their ministers](#). So, a missive from the stock-exchanges or even SEBI, does not cut much ice. Two, the mind-set is one where the commercial angle is usually sacrificed for the greater social cause what is needed is balancing the two. And three, the larger remit and relatively short tenure those in the Ministry have – if anything this makes oversight over the PSU an adjunct to their bigger job. And an eye on the next role within the government usually cannot not auger well for long-term decision making.

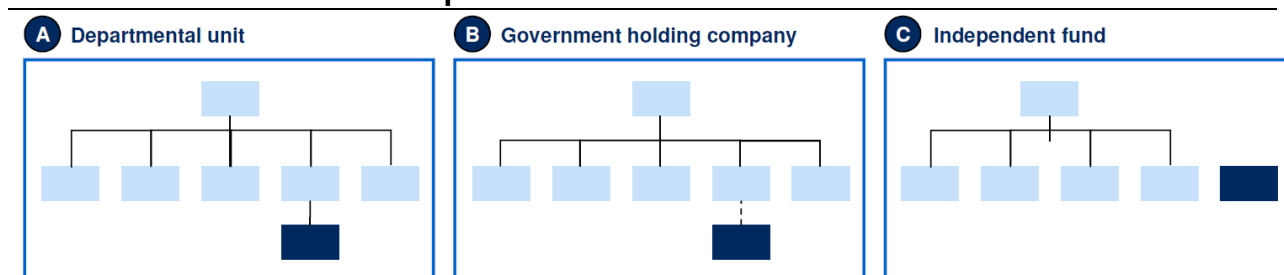
Currently state-owned enterprises are dispersed across different ministries. For example, those in the oil and gas sector are under the purview of the Ministry of Petroleum and Natural Gas and companies linked to the railways are under the administrative control of the Ministry of Railways. While this is an upgrade from commercial enterprises functioning as a departmental unit – as was the case with BSNL, till it was corporatized, there are alternative structures that might better serve the governments objectives. Railways are a commercial enterprise. If the social objective of running them is not so strong, they too can be corporatized.

Given that the default option is not to cede control, we suggest transferring the Government's shareholding to a government holding company, one the lines of Temasek Holdings in Singapore or Khazanah in Malaysia. It is also not as 'revolutionary' as an independent fund - outside the ambit of the government, giving money to third parties to manage. Under this So while the ministry has to let go, the government remains in control.

The advantage is that such a fund can have a strong emphasis on the performance of these companies while keeping an eye on the returns to the government. It will serve as a centre of 'ownership excellence,' and like PE firms, constantly learn and evolve as an owner of business. The structure enables it to have consistent processes,

be it performance targets or board appointments (including the relevant ministry nominee) or leadership roles. The annual report will measure aggregate and individual company performance, sales, profits, margins, dividend declared, and so on. Comparing across businesses and over time will bring focus. And what gets measured gets done.

### Exhibit 1: Alternate Ownership Structures



Source: McKinsey & Co.

True the ministry does try and tick these boxes, but without the seriousness running a business deserves, for reasons cited above behaving like the absent landowners and have repeatedly failed to exercise the stewardship over the businesses under their charge.

The market value of GoI's shareholding in 59 listed companies and 15 listed banks and insurance companies as on 31 December 2020, is Rs 9847.1 bn (or US\$ 133 bn). Assuming the same market cap-to-networth for unlisted entities as those listed, the two aggregate Rs 16,303.8 bn. or roughly US\$220 bn. See Exhibit 2, 3, 4A and 4B. One can quibble about these assumptions, but this is the roughly size of the fund we are talking about – without Life Insurance Corporation of India. Given the nature of banks, they can be held in a separate fund, with a cautionary note that a multiplicity of sectoral funds might detract. Further the [budget documents](#) had estimated the FY20 dividend at Rs 482.6 bn. or US\$ 6.5 bn.

### Exhibit 2: Value of GoI Holdings

	Network	Listed			Unlisted		in INR Bn.
		Total Market Value	Market Value to Network	Market value of holding	Network	Implied Market Value	Total Implied value
<b>Manufacturing &amp; Services</b>	8,108.7	10,771.4	1.33	6,505.4	2,410.2	3,201.6	9,707.0
<b>Banks &amp; Insurance</b>	1,286.2	4,708.8	3.66	3,341.7	889.1	3,255.1	6,596.8
<b>Total US\$ Bn</b>	9,394.9	15,480.2		9,847.1	3,299.3	6,456.7	<b>16,303.8</b> <b>220.3</b>

Source: Department of Public Enterprises, BSE, IiAS Estimate

Were these numbers to double – in say three years, just by changing how the shares are held and by exercising of stewardship responsibilities, the government can raise as much as today's value of its holding, while having the same amount leftover. This is an idea whose time has come.



A modified version of this blog titled 'Eating your cake and having it' appeared in Business Standard on 27 January 2021. Subscribers to the newspaper can access it [here](https://www.business-standard.com/article/opinion/having-your-cake-and-eating-it-121012601144_1.html) or typing the following url: [https://www.business-standard.com/article/opinion/having-your-cake-and-eating-it-121012601144\\_1.html](https://www.business-standard.com/article/opinion/having-your-cake-and-eating-it-121012601144_1.html)

**Related blogs and research:**

- [Investors signal that regulators must enforce board composition norms for PSEs; November 2020](#)
- [For want of a nail; September 2018](#)
- [Listed PSUs: Explaining the governance gap; March 2016](#)
- [PSU's must lead the governance agenda, not trail behind: August 2015](#)
- [Coal India must expand its board; August 2015](#)

## Annexure

**Exhibit 3: Networth of PSUs as on 31 March 2019 as on 31 March 2019** (in Rs. bn.)

#	Sector	Networth of listed PSUs	Networth of unlisted PSUs	Total Networth
1	Agro Based	-	7.02	7.02
2	Crude Oil	2,058.89	405.96	2,464.85
3	Coal	139.97	188.68	328.65
4	Other minerals & Metals	412.90	57.29	470.19
5	Chemicals & Pharmaceuticals	(9.20)	12.03	2.83
6	Fertilisers	31.10	6.46	37.56
7	Heavy & Medium Engineering	560.08	20.75	580.83
8	Industrial & Consumer Goods	1.88	49.37	51.25
9	Petroleum, Refining & Marketing	1,715.95	55.61	1,771.56
10	Steel	389.28	75.38	464.66
11	Power Generation	1,603.72	640.91	2,244.63
12	Textiles	-	9.85	9.85
13	Transportation & Equipment	21.87	-	21.87
14	Contract& Construction & Tech Consulting	115.74	108.27	224.01
15	Hotel & Tourism	14.23	(4.01)	10.22
16	Power Transmission	589.40	25.71	615.11
17	Telecommunication & Information Technology	(97.35)	772.95	675.60
18	Trading & Marketing	8.35	21.11	29.46
19	Transport & Logistics	551.91	(43.17)	508.74
	<i>Sub-total</i>	<i>8,108.72</i>	<i>2,410.17</i>	<i>10,518.89</i>
20	Insurance and banks	1,286.18	889.12	2,175.30
	<b>Total</b>	<b>9,394.90</b>	<b>3,299.29</b>	<b>12,694.19</b>

Source: Department of Public Enterprises

**Exhibit 4A: Value of GoI Shareholding holding in listed companies (excluding banks and insurance) as on 31 December 2020** (in Rs bn.)

#	Name	Market Cap	GOI holding %	Value of GoI holding
1	Oil & Natural Gas Corporation Ltd.	1,172.48	60.4	708.3
2	Power Grid Corporation Of India Ltd.	992.96	51.3	509.4
3	NTPC LTD	982.53	51.0	501.3
4	Indian Oil Corporation Ltd.	856.22	51.5	441.0
5	Coal India Ltd.	841.10	66.1	556.2
6	Bharat Petroleum Corporation Ltd.	826.38	52.9	437.8
7	GAIL (India) Ltd.	556.33	52.1	289.9
8	NMDC Ltd.	350.28	69.6	244.0
9	Hindustan Petroleum Corporation Ltd.	331.22	51.1	169.3
10	Steel Authority Of India Ltd.	306.04	75.0	229.5
11	Power Finance Corporation Ltd.	301.63	55.9	168.9
12	Bharat Electronics Ltd.	292.39	51.1	149.5
13	Hindustan Aeronautics Ltd.	283.53	75.1	213.1
14	REC Ltd.	264.24	52.6	139.1
15	Container Corporation Of India Ltd.	243.14	54.0	131.5
16	Indian Railway Catering & Tourism Corporation	231.20	87.4	202.1
17	NHPC Ltd.	228.53	70.9	162.1
18	Bharat Heavy Electricals Ltd.	125.01	63.1	79.0
19	ITI Ltd.	117.12	93.0	108.9
20	Oil India Ltd.	116.47	56.6	66.0
21	SJVN Ltd.	97.66	86.7	84.7
22	National Aluminium Company Ltd.	80.41	51.5	41.4
23	Housing & Urban Development Corporation Ltd.	79.98	89.1	71.2
24	NLC India Ltd.	76.47	79.2	60.6
25	Rites Ltd.	67.88	72.0	48.9
26	Mangalore Refinery & Petrochemicals Ltd.	62.13	87.0	54.1
27	Bharat Dynamic LTD	60.53	87.8	53.1
28	Hindustan Copper Ltd.	56.62	76.1	43.1
29	NBCC (India) Ltd.	52.38	61.8	32.3
30	Rail Vikas Nigam Ltd.	50.04	87.8	44.0
31	Engineers India Ltd.	49.48	51.5	25.5
32	Cochin Shipyard Ltd.	48.90	72.9	35.6
33	Shipping Corporation Of India Ltd.	41.11	63.8	26.2
34	Ircon International Ltd.	41.08	89.5	36.8
35	BEML Ltd.	40.27	54.0	21.8
36	Fertilisers & Chemicals Travancore Ltd.	39.67	90.0	35.7
37	MMTC Ltd.	39.60	89.9	35.6
38	Mishra Dhatu Nigam Ltd.	37.54	74.0	27.8
39	MOIL Ltd.	33.96	59.2	20.1

#	Name	Market Cap	GOI holding %	Value of GoI holding
40	Madras Fertilisers LTD	30.33	59.5	18.0
41	Rashtriya Chemicals & Fertilizers Ltd.	29.54	75.0	22.2
42	India Tourism Development Corporation Ltd.	27.96	87.0	24.3
43	Garden Reach Shipbuilders & Engineers LTD	22.38	74.5	16.7
44	Balmer Lawrie & Company Ltd.	21.82	61.8	13.5
45	National Fertilizers Ltd.	18.52	74.7	13.8
46	PTC India Ltd.	17.42	26.1	4.6
47	IFCI Ltd.	17.35	61.0	10.6
48	Gujarat Mineral Development Corporation Ltd.	16.73	74.0	12.4
49	HMT Ltd.	16.37	93.7	15.3
50	Chennai Petroleum Corporation Ltd.	15.88	51.9	8.2
51	Orissa Minerals Development Company Ltd.	15.32	50.0	7.7
52	MSTC Ltd.	11.53	64.7	7.5
53	Balmer Lawrie Investments Ltd.	8.96	59.9	5.4
54	Mahanagar Telephone Nigam Ltd.	8.71	56.9	5.0
55	Andrew Yule & Company Ltd.	8.30	89.3	7.4
56	State Trading Corporation of India Ltd.	4.87	90.0	4.4
57	Bharat Immunologicals & Biologicals Corp. Ltd	2.19	59.3	1.3
58	Scooters India LTD	1.40	93.9	1.3
59	Hindustan Organic Chemicals Ltd.	1.29	58.8	0.8
		<b>10,771.38</b>		<b>6,505.4</b>

Source: BSE, ACE Equity

**Exhibit 4B: Value of GoI Shareholding holding in listed banks and insurance companies as on 31 December 2020** (in Rs bn.)

#	Name	Market Cap	GOI holding %	Value of GoI holding
1	State Bank of India	2,452.03	57.63	1,413.1
2	Punjab National Bank	346.29	85.59	296.4
3	Bank Of Baroda	284.17	71.60	203.5
4	General Insurance Corporation of India Ltd.	243.86	85.78	209.2
5	Canara Bank	212.35	78.55	166.8
6	The New India Assurance Co. Ltd.	212.18	85.44	181.3
7	Union Bank Of India	202.14	89.07	180.0
8	Indian Overseas Bank	176.20	95.84	168.9
9	Bank Of India	159.42	89.10	142.0
10	UCO Bank	130.72	94.44	123.5
11	Indian Bank	96.62	88.06	85.1
12	Bank of Maharashtra	85.54	93.33	79.8
13	Central Bank of India	81.38	89.78	73.1
14	Jammu & Kashmir Bank Ltd.	16.48	68.18	11.2
15	Punjab & Sind Bank	9.44	83.06	7.8
<b>Total</b>		<b>4,708.82</b>		<b>3,341.70</b>



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