Re-imagining PSU bank privatisation

What is the issue?

- The sudden surge in the pandemic has caused a loss of momentum in the government's privatisation exercise, but it is still a priority.
- In this context, the government will need to be careful to avoid further pitfalls, and here is a proposed strategy blueprint for that.

What are the elements to be factored in?

- **Independent authority** - Transfer the entire government stake in the relevant PSB to a separate quasi authority like SUUTI (Specified undertaking of the Unit Trust of India).
- This will signal a clear intent to divest at market prices once the bank's financial health improves.
- This would also remove the vigilance overhang that affects decision-making.
- **Governance** - In addition to reputed independent directors, strengthening the bank board is essential.
- This should be through addition of eminent banking talent from the industry.
- Also, making the senior bank executives accountable for time bound implementation of revised business plans is needed.
- **Capitalisation by anchor investor** - Fresh capital infusion by an anchor investor, selected amongst eligible bidders via open auction can be done.
- This is to give it a significant minority stake, thereby diluting overall government stake.
- The selection bid mechanism could be similar to erstwhile SEBI screen-based auctions that involved FPIs/FIIs placing premium bids for winning government and corporate debt limits.
- **Share sale** - There will be no stake sale to the private anchor investor.
- Over the next few years, with regular capital infusions, the anchor investor will creep up to the desired regulatory comfort level.
- **Divestment target and dividends** - The capital receipts to the exchequer will accrue vide subsequent sales in driblets in the open market, post restoration of the banking house.

- The government, however, continues to earn revenue receipts to meet budgetary priorities.
- This will be through regular and even one-time structured dividends via SUUTI, which is expected to retain majority holding in the near future.
- A planned dividend history also benefits the share price, thereby eventually yielding better price as SUUTI pares down its holding.
- Short-run divestment shortfalls can be met by quickly disposing of marginal SUUTI/government stake in blue chips.
- Generating value from unlisted holdings like NSDL and SHCIL is another step.
- Fast-tracking smaller PSU privatisation that are far less complex than PSB divestments which attract scrutiny at every step can be taken up.
- **Stakeholder welfare** - The anchor investor brings in much needed capital for growth besides supporting the bank improve its market positioning, taking along all stakeholders.

Source: Business Line

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