Restructuring loss making PSUs

Why in news?

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The government is considering the restructuring and future role of three state-owned trading firms.

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What is the background?

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- Metals & Minerals Trading Corporation of India(MMTC), State Trading Corporation (STC), Project & Equipment Corporation of India(PEC) are firms under the administrative control of the commerce ministry.
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- These state-owned firms have incurred heavy losses for quite some time, after the post liberalisation phase.
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- Government is now considering measures with the help of Crisil, a consulting firm, to close or restructure them by merging.
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What are the reasons?

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- **Liberalisation** - These firms worked as government designated canalising agencies facilitating import and export of various items.
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- The import and export of canalised items can take place only with certain licensing and regulatory restrictions as directed by the government.
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- Canalisation made them as virtual government departments, gave them monopoly and meant no competition.
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- However, post-liberalisation the government de-canalised various items, as a result of which these state-owned firms lost their relevance.
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- **Dependence** - Currently, these firms are engaged in exports and imports of items such as agro commodities like pulses.
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- The overall business is more import-intensive.
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- However, the firms generate export with the assistance of other private or public companies, called "**associates**".
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- Associates seek financial help called pre-shipment credit from these PSUs for export business and "letter of credit facility" (LC) for import business.
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- Thus, the PSUs are now acting more like NBFCs (non-banking financial companies) and associates ensure that PSUs don't get into any risks or losses.
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- However , the very process of de-risking by these associates are risking by creating counter liabilities for the PSUs.
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- Factors like failure or mismanagement or hyper-speculation of associates, market volatility, etc drive the businesses financed by PSUs to partial or full **defaults**.
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- These shortfalls have substantively eroded profits and net worth of MMTC, STC and PEC.
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What should be done?

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- **Reducing dependency** on associates or private parties would empower the PSUs to "trade" in the real sense.
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- So, government must take measures to ensure a safe and rewarding environment to trade without the fear of loss.
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- Merging or any other restructuring of firms would materialise into better

performance only after such governance measures.
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Source: Financial Express

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