



## RINL CASE - PUBLIC SECTOR UNDERTAKINGS (PSUs) IN INDIA: ECONOMIC: GS - III



India's economic landscape has been shaped significantly by **Public Sector Undertakings (PSUs)**. Established primarily after independence, PSUs were envisioned as vehicles for economic growth, job creation, and self-reliance in critical industries. Over time, however, many PSUs have faced challenges, requiring reforms to address inefficiencies, rising debts, and the need for modernisation. The recent decision to bail out **Rashtriya Ispat Nigam Limited (RINL)**, a struggling PSU, highlights the complexities of balancing government intervention and privatisation in the public sector.

### Defining Public Sector Undertakings (PSUs)

PSUs are government-owned corporations or enterprises established to achieve specific socio-economic goals. They operate in key sectors such as steel, coal, energy, and transport, where private investment was initially scarce. PSUs can be broadly classified into three categories:

1. **Central Public Sector Enterprises (CPSEs):** Managed by the Union government.
2. **State Public Sector Enterprises (SPSEs):** Managed by state governments.
3. **Statutory Corporations:** Established through Acts of Parliament.

PSUs were envisioned as the backbone of India's industrial and infrastructural growth. While they contributed significantly to nation-building during their early years, they have increasingly faced issues that hinder their efficiency and profitability.



## Challenges Faced by PSUs Today

Over the years, PSUs have encountered various problems that have raised concerns about their sustainability:

### 1. Inefficiency and Bureaucratic Delays:

- Many PSUs suffer from outdated technology, overstaffing, and cumbersome decision-making processes.
- Red tape and lack of operational autonomy often hinder their ability to compete with private players.

### 2. Financial Stress:

- PSUs have faced mounting losses due to poor financial planning and inefficient operations.
- For example, RINL has accumulated over ₹35,000 crore in liabilities and has been defaulting on loan repayments and interest payments.

### 3. Declining Internal Resource Mobilisation:

- PSUs' ability to fund their investments through internal resources has deteriorated significantly. Between 2019-20 and 2023-24, their internal investments halved from ₹6.4 trillion to ₹3.2 trillion.

### 4. Dependence on Government Support:

- The share of budgetary support for PSU investments increased from 25% in 2019-20 to 61% in 2023-24. This rising reliance on taxpayers' money raises questions about their efficiency and sustainability.

### 5. Privatisation Stalls:

- The government's ambitious plans for strategic disinvestment have seen slow progress, with only a few PSUs like Air India and Neelachal Ispat Nigam successfully privatised. Many others, including RINL, remain in limbo.

### 6. Political and Regional Considerations:

- Decisions on PSUs are often influenced by political pressures, especially when they are located in regions with coalition partners, as in the case of RINL in Andhra Pradesh.

## Significance of PSU Reforms in India

Reforming PSUs is critical for ensuring that they contribute effectively to India's economic growth. The reforms are not about dismantling state-owned enterprises but rather redefining their roles in a competitive, globalised economy.

### 1. Enhancing Efficiency:

- Reforms aim to professionalise management, reduce bureaucratic interference, and adopt modern technology.

### 2. Reducing Fiscal Burden:



- Privatisation or disinvestment helps reduce the financial burden on the government, allowing it to allocate resources to other critical areas like education and healthcare.
- 3. **Attracting Investment:**
  - Strategic disinvestment can bring in private capital and expertise, enhancing the competitiveness of PSUs.
- 4. **Focusing on Strategic Sectors:**
  - The government's policy has shifted towards retaining control over critical sectors like defence and energy while exiting non-strategic sectors.
- 5. **Promoting Economic Growth:**
  - Well-performing PSUs contribute to GDP growth, generate employment, and facilitate infrastructure development.

## The Case of Rashtriya Ispat Nigam Limited (RINL)

RINL, which operates the **Visakhapatnam Steel Plant**, has been struggling financially for years. Its total liabilities exceed ₹35,000 crore, and it has defaulted on loan repayments. Despite its operational challenges, RINL is strategically important as one of the country's leading steel producers.

## The Government's Decision

In January 2021, the government announced plans to privatise RINL, but these plans have now been shelved. Instead, a **revival package of ₹11,440 crore** was approved in January 2025:

- ₹10,300 crore as equity infusion.
- ₹1,140 crore of working capital loans converted into preference shares.

## Funding Source

The funds are expected to come from the government's **existing budgetary allocation** for capital outlay, ensuring no additional burden on the Union Budget.

## Reasons for the Shift

1. **Political Factors:** RINL's location in Andhra Pradesh, a coalition partner's state, influenced the decision to abandon privatisation.
2. **Economic Considerations:** A direct bailout was seen as a quicker solution to stabilise the PSU.

## Significance of the Government's Decision

1. **Supporting a Strategic Industry:**
  - RINL plays a vital role in India's steel production, contributing to infrastructure



development and economic growth.

## 2. Job Preservation:

- The bailout helps safeguard jobs in a region heavily dependent on the steel plant for employment.

## 3. Boosting Regional Economy:

- Reviving RINL can have positive spillover effects on Andhra Pradesh's economy.

## 4. Avoiding Public Backlash:

- Privatisation could have faced resistance from workers, unions, and local communities.

## Future Implications

While the bailout provides immediate relief to RINL, it raises important questions about the long-term approach to PSUs:

### 1. Sustainability of PSUs:

- RINL and other struggling PSUs need structural reforms to become financially viable. Dependence on government support is not sustainable in the long run.

### 2. Balancing Privatisation and Intervention:

- The government must decide whether to pursue its privatisation policy or focus on nurturing state-owned enterprises.

### 3. Impact on Fiscal Deficit:

- Increased reliance on budgetary support for PSUs could strain the government's finances and widen the fiscal deficit.

### 4. Credibility of Privatisation Policy:

- Frequent reversals in disinvestment plans may undermine investor confidence and delay much-needed reforms.

### 5. Role of Political Dynamics:

- Future decisions on PSUs may be influenced by regional and political considerations, impacting the pace and direction of reforms.

## Conclusion

PSUs have played a pivotal role in India's economic development, but their relevance in a competitive, global economy needs to be re-evaluated. The government's decision to bail out RINL reflects the challenges of managing state-owned enterprises, balancing regional and political pressures, and adhering to fiscal discipline.

While the revival of RINL is a welcome move for the steel sector and the regional economy, it also underscores the need for comprehensive PSU reforms.

The upcoming Union Budget 2025-26 will be crucial in clarifying the government's stance on PSU reforms, privatisation, and strategic investment. A well-defined policy is essential to ensure



that PSUs contribute effectively to India's growth story while minimising the fiscal burden on taxpayers.

## MAIN PRACTICE QUESTION

### Question:

Discuss the challenges faced by Public Sector Undertakings (PSUs) in India and the significance of reforms, citing the recent bailout of RINL as an example. (250 words)

### Answer Guidelines:

#### Introduction (30-40 words):

- Define PSUs and their role in India's economic development.
- Briefly mention the declining performance of PSUs and the importance of reforms in making them efficient and competitive.

#### Body (170-180 words):

##### 1. Challenges faced by PSUs:

- **Inefficiency:** Overstaffing, outdated technology, and bureaucratic delays.
- **Financial stress:** Rising liabilities, defaults, and poor internal resource generation.
- **Political interference:** Regional and political considerations influencing decisions.
- **Privatisation delays:** Slow implementation of strategic disinvestment plans.
- **Dependence on government:** Increased reliance on budgetary support.

##### 2. RINL Bailout as a Case Study:

- ₹11,440 crore revival package, including equity infusion and loan restructuring.
- Abandonment of earlier privatisation plans due to political dynamics in Andhra Pradesh.
- Implications for job preservation, regional development, and PSU policy shifts.

##### 3. Significance of Reforms:

- Professionalising management, modernising technology, and reducing inefficiencies.
- Balancing privatisation with strategic investment in key sectors.
- Ensuring financial sustainability to reduce dependence on taxpayers.

#### Conclusion (30-40 words):

- Emphasise the need for a clear, consistent PSU policy balancing efficiency and public welfare.



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- Highlight the importance of upcoming Union Budgets in addressing these challenges and clarifying reforms.

## MINDMAP:

