Privatisation process of PSM to begin afresh

MUSHTAQ GHUMMAN ISLAMADAD (January 07, 2013) : Privatisation Commission is said to commence the privatisation process of Pakistan Steel Mills (PSM) afresh as continuous bleeding of scarce financial resources under the guise of Revitalisation is no longer feasible, sources close to Chairman PSM Board told *Business Recorder.* As a first step, Privatisation Commission will withdraw the review petition filed on August 8, 2006 in the Supreme Court against its decision to strike down PSM privatisation. "Taking cognisance of the deteriorating condition of the PSM despite the administrative and financial efforts made and the inherent potential for its revival towards commercial viability, the Board of Privatisation Commission, after thorough deliberations resolved to withdraw the review petition after soliciting the consent of co-petitioners and Law Division," the sources quoted a letter written by the Privatisation Commission just one month earlier. The Board also directed that the Supreme Court be apprised of the compelling reasons for its withdrawal. Pakistan Steel Mills Corporation (PSMC) was incorporated as a private limited company and commenced its production in 1985. PSMC has designed capacity of 1.1 MT/annum to manufacture standard grade of steel and can cater to about 20 percent of country's demand if operated on 100 percent capacity utilisation. Owing to inefficiencies, mismanagement, over staffing and outdated technology, PSMC continued to operate below economical capacity and never posted profits except during years 2001-2007 and declared dividend of Rs 1 billion in year 2007 alone, primarily due to surge in international steel prices. In accordance with prescribed rules & regulations framed under Privatisation Commission ordinance 2000, the process for the privatisation of PSMC was initiated in 2005-06 and appointment of Financial Advisor (FA) was made. Expression of Interest (EoI) for privatisation of PSMC was advertised in August 2005. As many as 19 EoIs were received; 13 parties submitted pre-qualification documents and nine parties were pre-qualified after due process. Following the standard practices and the instructions notified in advance, bidding was held on 31 March 2006. Consortium of Al-Tawariqi Group (Saudi Arabia), Magnitogorsk Iron & Steel (Russia) and Arif Habib Group (Pakistan) gave the highest bid of Rs 16.80 per share (totaling Rs 21.68 billion - $362 million) to acquire 75 percent shares along with management control against reference price of Rs 16.18 per share (totaling $348 million). The bid was admitted and Letter of Acceptance (LoA) was issued to the successful bidder and the requisite Share Purchase Agreement (SPA) was signed on 24 April 2006. Privatisation of PSMC was challenged in Sindh High Court, Karachi by the Pakistan Steel Mills Workers Union (CBA) which was dismissed. The privatisation of PSMC was also challenged in the Supreme Court of Pakistan (SC initially by Wattan Party). The SC, in its short order of June 23 2006 declared the LoA on March 31, 2006 and the SPA of April 2006 as void and of no legal effect. The detailed judgment was released on August 8, 2006 and the review petition was filed within 30 days of the said short order. Although said review petition was admitted for hearing, however, it remains pending for adjudication since 2006. In the ensuing years, PSMC suffered huge losses to the tune of Rs 26.5 billion for the year ending 30 June 3009 followed by loss of Rs 11.5 billion and Rs 11.4 billion in the year ended 30 June 2010 & 2011 respectively; and it still continues to bleed. These losses were mainly due to inadequate and inconsistent supplies of raw materials owing to non availability of funds translating into lower capacity utilization which ultimately led PSMC to experience a severe liquidity crunch. To encounter the financial conditions, PSMC utilized cash reserves of Rs 9 billion and Rs 8 billion from employee funds. In 2009, the Federal Government constituted Cabinet Committee on Restructuring (CCoR) which focused, reviewed and recommended financial and administrative restructuring of PSMC. PSMC with negative equity in the year 2008-09 requested the Federal Government in May 2009 for Rs 10 billion as capital injection in addition to facilitate it in the provision of bank loans amounting Rs 10 billion to restore its raw materials stock and enable it to maintain its production capacity. The Federal Government did not inject capital however approved a bailout package of Rs 10 billion, comprising Rs 8 billion term loan and Rs 2 billion as running finance, through consortium of banks. The financial assistance was utilized in adjustments of the outstanding L/Cs by the banks (Rs 6.5 billion) and PSMC was left within sufficient amount of Rs 3.5 billion for fresh L/C to improve the raw material stocks. Again in the year 2009-10, PSMC demanded approx. Rs 25 billion whereas the Federal Government allowed Rs 10.6 billion only which was adjusted against the outstanding L/Cs (Rs 5.1 billion) leaving Rs 5.4 billion for fresh L/Cs for the procurement of raw materials and hence there was no turnaround in the affairs of PSMC. Besides bail outs/ financial assistance other initiatives and reforms plans for the rehabilitation of PSMC undertaken by both Ministry of Production and Finance Division (Economic Reform Unit) under the guidance of CCoR were not implemented and included: indigenization of raw materials, appointment of new independent Board of Directors, separation of the offices of the Chairman and CEO, revaluation of fixed assets, initiating the revival of MoU with the Russian company including technical audit of the PSMC for capacity expansion up to 1.5 MT/annum, organizational restructuring including hiring of professionals etc. Hence PSMC could not achieve the desired reforms and revival of PSMC is far off. The operational and financial conditions of PSMC continued to deteriorate and recently its production has dipped below 15 percent capacity, well below the break even of 75-80 percent of production capacity, thus causing an estimated financial haemorrhaging of Rs 1.6 billion per month. Accumulated losses of the company have crossed the mark of Rs 56 billion (31 Mar 2012), negative equity of Rs 23 billion, outstanding liabilities increased to Rs 67 billion (31 Mar 2012), deficit in gratuity funds plan assets of Rs 6 billion and outstanding contribution of Rs 3 billion to employees provident fund trust and additional adverse impact of Rs 1 billion per annum on account of regularization of over 5000 employees in FY 2010. Despite the administrative and financial efforts made under the CCoR revival of PSMC is yet far away as PSMC management is finding it extremely difficult to adhere to its proposed business plan(s) primarily due to the insufficient and untimely release of the requisite funds. Notwithstanding the bleak financial and administrative conditions, PSMC contains the potential to be revived subject to provision of sufficient funds; competent professional management; independent & entrepreneurial decision making etc. The federal government also approved a special bailout package of Rs 14.8 billion and its two tranches have already been received by the PSM management. There are speculations in the official circles that the government may outsource the mills to a private group, however, CEO, PSM rejected these speculations.