

An interview with Mian Mohammad Mansha, Chairman Nishat Group, 'All state-owned enterprises should be privatised'

Mian Mohammad Mansha needs no introduction. BR Research (BRR) caught up with Pakistan's most renowned business tycoon at MCB Bank's head office at Jail Road, Lahore and had a candid discussion on issues ranging from privatisation to textile exports. Below are edited excerpts from the conversation.

BRR: What is your opinion about the new government?

Mian Mansha: I think they are well meaning people who are trying to introduce important reforms and initiatives. Time will tell whether they are able to deliver on the reforms they have promised.

BRR: The PTI government is aiming to turn around state-owned enterprises by creating a sovereign fund similar to the Khazanah model in Malaysia. Do you think this is an advisable move or is privatisation the way to go?

MM: State-owned enterprises operating businesses in various sectors are a source of distortions in the market and the economy. I have always been a proponent of privatisation and believe all state-owned enterprises should be privatised. The Malaysian model was not without problems as massive corruption was alleged, in which politicians and an executive of one of the biggest investment banks in America were also found to be involved. A number of efforts to reform and revive these enterprises in the past have not succeeded.

On the other hand, the examples of countries embarking on privatisation are increasing. Air India is going to be privatised after they failed many times to turn it around. The same could be done with other entities such as power generation and distribution companies here in Pakistan. The privatisation of the water service in Metropolitan Manila was one of the best success stories of privatisation of a water and sanitation company in Philippines.

A particularly successful case was the privatisation of the power sector in Delhi, which had line losses of 58 percent when it was state-owned. However, the sector was opened up to the private sector through bidding in which Reliance and Tata Group were brought in and now the transmission losses have been reduced to 8 percent.

The same should be done in Pakistan. In our country, the DISCOs are not effectively managed and need urgent remedial support. I understand there is resistance as it will result in loss of jobs but there are other solutions as well. The government can simply issue more licenses to the private sector for power distribution while keeping the existing ones intact. Unless we move to a competitive electricity market system, things will not change. Let there be competition which will bring efficiency to the system just like we have already successfully done in our telecom sector, where new 4 companies have come in over the years and the system is vibrant and efficient, and is providing great service to the people and generating huge revenues to the government. Just give additional licenses for power distribution too.

I also feel we should talk about our successes. MCB was the first big privatisation of a bank in the world back in 1991. I also believe that it is one of the most successful privatisation stories you will find. Today, MCB Bank stands as the most valuable bank by market capitalisation in the country and employs more people than prior to its privatisation. We are also one of the largest taxpayers in the banking sector. In fact, all privatised banks are running well after their privatisation in the nineties and have managed to cope better

than most countries in the world during recessions, including the Asian Financial Crisis in 1997 as well as the global recession in 2008.

BRR: There are those who do not share your view on MCB being a success story. Rather, the privatisation case has been investigated for more than a decade now with frequent inquiries alleging fraud. How do you respond to these allegations?

MM: They are all baseless and without merit. The first allegation on us is that we, the National Group that comprised of 12 leading business houses of the country including Din Group, Sapphire Textiles, Siddiq Sons, Golden Arrow, Nishat Mills and Ibrahim Fibres, having sound financial base and good corporate record, were the fourth highest bidders, so how did we get MCB Bank? The way it happened was that there was Tawakkul Group which placed the highest bid of Rs56 per share. But they had no intention of buying the bank and were also defaulters of MCB and only wanted to hold back the privatisation process. The bid evaluation committee headed by Governor SBP didn't let them proceed. Adamjee also stood disqualified because they could not meet the eligibility criteria. Next in line was the Crescent Group who was offered the shares at the highest bid price of Rs56 while their original bid was Rs45.40 per share. They refused to buy at that price and finally we were offered the deal. Although, our bid price was Rs43.59 we still decided to buy the Bank at Rs56 per share. The reserve price had been fixed at Rs35 per share, which was three and a half times of the face value of Rs10 per share. So the fact of the matter is that the bid evaluation committee considered the National Group as the only eligible buyers that were willing to buy MCB Bank by matching the highest bid price of Rs56 per share.

The second allegation was that the bid bond the National Group had been given from the Pakistani branch of Faysal Islamic Bank of Bahrain was not with the permission of their Head Office in Bahrain. To that, the reply is very simple. When the inquiry was started three years ago we wrote a letter to Faysal Bank Pakistan requesting them to confirm that the bond was valid. In response, they sent us a letter confirming the issuance of the bond by Faysal Islamic Bank of Bahrain (formerly).

Another allegation is that the funds of MCB Bank were allegedly utilised by some of the members of the National Group for making payment of the shares opted to be purchased out of the third tranche of 24 percent shares offered for sale. For this purpose, some loans were taken from private sector banks, which stand fully repaid. No complaint has been lodged by any bank, Federal Government, State Bank of Pakistan or Privatisation Commission in this regard as there is no merit in the allegation.

BRR: One more contention is the IPPs case where it is alleged that you made undue profits. How do you respond to this?

MM: There is no doubt that our power projects have done very well. While there are some accusations that some IPPs earned a higher return than they were supposed to get. There is a reason behind this. We were given a 15 percent dollar indexed return back when the dollar was equivalent to Rs60, which now is at Rs140. The tariff was initially awarded to a Brazilian company and the same tariff was awarded to six companies including ours. The 1994 and 2002 power policies both have guaranteed dollar based returns and the same in the recent past has also been awarded for CPEC projects. We got the same benchmark heat rate as the rest. There is also an accusation that we benefited from a better heat rate than what we actually achieved. It is a matter of common sense that when a project life is given as 25-30 years, power plants get de-rated with time; they run more efficiently in early years and less so in later years. If we have run our plants more efficiently why is that an issue?

BRR: There seems to be a witch hunt in Pakistan against people who become wealthy and it could be argued that wealth creation has been dis-incentivised. Do you agree that there is a feeling of resentment against the rich?

MM: It is not Pakistan specific but rather a global phenomenon. Only last week there was an Oxfam report highlighting the extreme disparity between the haves and have-nots. You see it in Europe where there have been serious protests in France. Discontentment is there and disparity is the main reason.

My view is that in Pakistan people should at least be allowed to reach a certain level of quality of life. The economy and businesses in Pakistan have suffered so much from nationalisation that was enforced under the policies of the 70's. The fact is the country has still not recovered from its impact. Our businesses were unable to achieve scale otherwise we could've been the same level as our counterparts in India, such as, the Tatas and Ambanis.

BRR: Do you feel that judicial activism has harmed our economy?

MM: I think in some cases it was good but in some cases involving economic and business concerns, perhaps it was not the best course that could be taken. Business requires certainty and continuity.

BRR: The Nishat Group's renewable footprint is increasing at a rapid pace. Do you agree that renewables are the future?

MM: The previous government set up extremely efficient coal and RLNG power plants, which go to their credit. But my prediction is that even those power plants will become obsolete at some point in the near future simply because new technology is taking over so fast that we are talking about renewable energy at 3-4 cents per unit. We are utilising solar energy at five locations and are going to put up wind-mills as well. I have installed solar system at our Emporium Mall, garment factory and dairy farm. In fact, when our dairy farm at Sukheke in the area of Gujranwala, distribution company produces excess electricity, it supplies this to the grid through net-metering. So let's go towards these things. Renewables will out-compete everything else in the near future soon.

BRR: Moving on to the auto sector, what is the latest on the Hyundai-Nishat venture?

MM: The plant is under construction and we should be able to start manufacturing by either the end of this year or beginning of the next year. We expect to manufacture around 7,000 cars initially and scaling it up to 30,000 cars in next 5 years' time. Our hybrid vehicles are already here for test and trial and there is good demand for them. We will start selling them within the next two months. I would like to add that technology is advancing rapidly in this sector and future mobility is now touted to be powered through hydrogen. Hydrogen cars are already being tested in Korea and Japan. South Korea is investing billions to develop the country's hydrogen fuel cell vehicle ecosystem. We also need to get ready for this revolution.

BRR: That is exciting indeed. Now moving on to the textile sector, a lot of people are saying the currency has been devalued by more than 30 percent yet exports have not risen. What do you think?

MM: There's not a button that if pressed will automatically increase exports. These things take time and the devaluation has resulted in most major industrialists including us looking to expand. I think at least five times expansion in the current capacity on the value added side is on the cards as the future looks promising for the textile sector. But one thing is important. Rather than going for a big devaluation, the currency should be allowed to depreciate in small bits each month in order to keep our exchange rate competitive. For substantive increase in exports, much will depend on the extent and reach of supporting measures taken by the government to this end.

BRR: What is your view on the interest rate?

MM: It should not be increased further.

BRR: What are some other issues that could be improved for textile exports to go up?

MM: The trade agreements have to be renegotiated. The Chinese are our best friends yet when I export something to China it is taxed even when the same product is exempted for some other countries. For example, Pakistan's cotton yarn is subjected to a 3-5 percent duty while India and Vietnam have zero duties on their cotton yarn exports to China. So these things need to be sorted out. Same is the case for our exports

to Japan and Korea where duty levels for us are higher than for other countries. In Canada, Bangladesh has an advantage of about 25 percent over us. We should make efforts to get a fair deal.

BRR: How much additional capacity is Nishat Mills looking to set up?

MM: We are looking at almost a 50 percent expansion on the value added side.

BRR: How do you increase cotton production in Pakistan?

MM: Seed development needs to take place. We have already formed a company called SANIFA, which is a joint venture between Sapphire, Nishat and Fatima Group in this regard. We hope that when new seed is available, cotton production will automatically increase. With the exchange rate devaluation, cotton prices have also increased so with a lag time that will also be positive.

BRR: Do you think there should be another amnesty scheme?

MM: Yes, and it should be with a higher rate than the previous one. But this time it should be applicable across the board including to politicians and bureaucrats.

BRR: Why did the previous scheme not attain the level of success people were expecting?

MM: In my view it was successful and a lot of people availed it. But of course, if the unreasonable figure of \$200 billion stashed abroad is used as a benchmark then it would seem unsuccessful.

WASIM IQBAL