

The greater common good

The government should look at PSU divestments as a way to get the small investor back into the capital market

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Despite this government's intent to raise money through PSU disinvestments, it has done very little since it took charge. While 2003-04 saw divestments worth Rs 15,127 crore through seven offerings, 2004-05 saw this fall to only Rs 3,884 crore through two offerings. Three months into the current fiscal, it is yet to get on the scoreboard. The Left, of course, has been a major hurdle to this process, the latest example being BHEL.

Reconsider...

The deadlock on divestments means an opportunity to develop the capital market and to bring the small investor there is being frittered away. It's a no-win situation, really. Through divestment, the government, without relinquishing ownership, can raise huge sums of money to fund its ambitious development programmes, including resurrection of sick PSUs. The PSUs can also raise money from the market to fund their expansion plans. Both ways, public participation will lead to better corporate governance.

By listing, the PSUs can increase the depth of the capital market. It will also increase investor numbers. In a country of over a billion, there are only 7 million equity investors, as a series of scams have dented the small investor's confidence. What he needs is some nurturing and handholding, which the government can do with 'safe' public offerings.

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Confusion exists, as privatisation and divestments are used interchangeably, as goals and routes are often mixed up. A change in approach is called for. The government should categorically declare that there would be no privatisation, putting an end to all controversies regarding loss of control and valuations. Divestment should be rephrased as PSU offerings, covering both sale of government stakes and fresh capital issuance that helps companies expand. Gleaning for the past, here are six suggestions on how best to achieve the objectives:

- Use the public issue route only. Many will argue that it might not maximise returns for the government. Although not necessarily true, this way, the wealth created by public enterprises through domestic public resources will be shared rightfully only with the public, and this is also criticism-free.
- Focus on the small investor. There should be no allocation to FIIs, as they didn't play any role in creating this public wealth. The issues could, however, have a 15 per cent reservation for domestic institutional investors. It's a myth that FII money is needed to see an issue through. During February-March 2004, when six divestment offers were made, domestic non-institutional investors put in Rs 23,067 crore -- high networth individuals Rs 13,611 crore, small investors Rs 9,456 crore. All upfront, which means they couldn't even recirculate their money. The appetite of domestic investors depends on their hunger, quality of food and its price. Given the right mix, domestic appetite is infinite.
- The issues should be made at attractive prices. As the public offerings would presumably be of bluechip PSUs, their credentials will be good. But the offer has to be made at discounted prices. Even a huge discount will be non-controversial, as it is transparent and is returning wealth to the public.
- The fixed-price route, not the book-building mechanism, should be used for all issues. Retail investors don't build the book -- in all past issues, about 97 per cent of them bid at the cut-off price.
- Shares should be distributed widely. No investor should be allotted more than Rs 1 lakh worth of shares. Besides widening the shareholder base, it reduces post-listing selling pressure -- large sales by institutional investors often destabilise prices.
- The public offerings should be spaced out through the year. In 2003-04, the government's desperation to push through issues by March 31 to meet divestment targets caused issues to get bunched up. Besides forcing investors to prioritise between issues, it put great strain on the entire financial infrastructure. Simultaneously, the antiquated system of applications/allotments in public issues should be made simpler and seamless, starting from a redesign of the application form.