PSU public offers to the rescue

Divestments through the public route will not only provide depth to the capital market but will also see greater retail involvement in equities

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The Indian capital market has been in bad shape for over two months now. As a result, new offerings have suffered and most IPOs have been put on hold. Something big and interesting has to happen to get the market going again. This can be achieved by offerings from high-grade PSUs with unquestionable credentials. With right pricing, they can become the harbinger of strong markets.

It was a PSU divestment – the Maruti issue in June 2003 – that had earlier led the recovery of the primary and secondary markets. The subsequent huge offerings in 2003-04 had demolished the myth that the market lacked depth and that an overflow of paper would see it tank. The market, in fact, saw the greatest bull run thereafter.

With Rs 15,128 crore of PSU divestments in 2003-04, strong hope was generated that the government had finally become serious about PSU divestments and that it would route them through public offerings. The change in the government in May 2004 changed all that. Fiscal 2004-05 saw PSU divestments fall to Rs 2,684 crore (NTPC in October 2004), and to nil in fiscal 2005-06. In the current fiscal, we are already in the fourth month and not a single divestment has taken place.

While the stated intentions of the majority in the government appear noble on this front, the compulsions of coalition are playing mischief, with some divestment proposals being jettisoned by vested interests a few days after receiving cabinet approval.

In public interest

The government should once again initiate the revival of the market through PSU divestments. The arguments favouring divestment – especially through the public route -- are compelling and free from controversies. For one, it helps the social cause; divestment proceeds are earmarked for the National Investment Fund to be used for welfare activities.

Importantly, the PSU public offering route can provide much needed depth and width to our capital market, curtailing excessive speculation and volatility that results from a grave scarcity of listed capital. Also,, millions of retail investors can be brought back to the capital market to help the economy grow. In a country of over 100 crore, we have at best only 7 million equity investors. Moreover, public holdings would also increase transparency and accountability in these companies. This will have another positive impact: very wide distribution reduces post-listing selling pressure and consequent price destabilisation resulting from large institutional sales.

The pipeline of PSU offerings has continued to build through the past two years and has more than 50 companies on the list today. The sad news is that the buckling down that has happened this time, in the case of Neyveli, seems to indicate that all PSU divestment efforts can now be buried, at least till the present political coalition lasts.

This subject should be re-debated. Moving ahead, we should first get clarity on policy. We should understand there are three types of PSU public offerings. In one, there is a pure divestment of the kind seen in early 2004. The second involves divestment-cum-fresh capital offerings. At the end of the spectrum we have fresh capital raisings by PSUs. Though privatisation (majority control divestment) has surely been put on the backburner, a national consensus on part divestments needs to be urgently reached , where post-offer control shall still substantially rest with the government. There should also be a consensus on raising fresh capital for undertaking expansion programmes of PSUs.

My view is that all PSU issues should be made only through public offerings, only to retail investors, and at a fixed and attractive price. The Left surely can have no opposition to the beneficiary being the common man! As far as liquidity with the retail is concerned, it has been proven that the domestic appetite is infinite for good offerings.

The offerings should be made only through the fixed-price route, as retail investors are ill equipped for book building; over 97 per cent of all past issues used the "cut-off" option.

As public offerings would only be of profitable PSUs, there would hardly be any negatives as far as the issuers' credentials are concerned. As such to enlist greater retail participation, the issues should be made at reasonable prices. Many may argue that the public issue route may not maximise returns for the government. Though this may not necessarily be true, the wealth created by public enterprises through domestic public resources shall be shared rightfully only with the public.

There is never a bad time for a good investment, and this is as good a time as ever for the government to enlarge the investor base and the capital market, and to raise the money it so desperately needs. PSU stocks offer the retail investor the 'safety of capital' he needs. The advantage that the retail also sees with the PSUs is that they will not go overboard on pricing. Time the government saw merit in PSU public offerings and doing it fast.