

SEBI NORMS

Dilution a must

PSUs comply with SEBI's norms, albeit at a steep price

Capital market regulator Securities and Exchange Board of India (SEBI) norms required all state-run companies to have at least a 10 per cent public shareholding by 8 August 2013. In order to comply with the norms and regulations, listed public sector companies have sold shares worth over ₹2,510 crore. Of this, ₹2,086 crore was through the Offer for Sale (OFS) through stock exchange mechanism route and ₹424 crore through the Institutional Placement Programme (IPP) route. Both these instruments were designed specifically by SEBI for promoters to divest their holdings to meet with the norms. This puts to rest the continuing concerns raised by several analysts that PSUs would not comply and some relaxation would be granted to them. Interestingly, Neyveli, under the pressure of the Tamil Nadu state government, used the IPP route with preferential allotment to its own state undertakings.

According to Pranav Haldea, director, PRIME (database on primary capital market), eight PSUs/ PSU Banks, namely Hindustan Copper, ITDC, MMTC, National Fertilizers, Neyveli Lignite, Rashtriya Chemicals & Fertilizers, State Bank of Mysore and STC complied with this deadline. By a recent decision of the Cabinet Committee on Economic Affairs (CCEA), the excess government holding in six other listed PSUs: HMT, Fertilisers & Chemicals Travancore, ITI, Andrew Yule, Hindustan Photo Films

and Scooters India, are to be transferred out of government control to a Special National Investment Fund, which has already been created.

However, the government's effort to comply with SEBI's deadline has clearly led to value erosion in certain PSUs. In the case of MMTC, the government sold a 9.33 per cent stake at a steep discount of over 72 per cent to the market price through the OFS route at a floor price of ₹60. The offering was subscribed 1.5 times at an indicative price of ₹60.86 when the market price was ₹190 with the government raising ₹570 crore. At the current price of ₹49, MMTC has lost 75 per cent since March this year.

Free fall

This had led to fears that this could lead to value erosion in other state-controlled firms which had still not gone up for sale.

Since January this year, STC has lost 40 per cent, National Fertilizers has slumped by 72 per cent while Hindustan Copper and Neyveli Lignite have lost 51 per cent and 33 per cent respectively. These falls also mirror what has happened to private sector companies.

The government's decision to offload the stocks cheap has met with criticism with several market participants as it did an injustice to existing shareholders. According to some analysts, this is a major reason for investors shying away from investing in such stocks. It has been a trend for

public sector companies to witness a sell-off after the announcement of an offer for sale as the market expects the pricing to be at a significant discount.

According to PRIME, in the running financial year, ₹967 crore has been diluted by the government in PSUs through OFS and ₹424 crore through IPP. Haldea, however, noted that "despite a huge disinvestment target of ₹54,000 crore and continuing announcements, only ₹1,391 crore (or just 3 per cent) has been raised till date in this financial year". In the past, when markets were rising, sale of public sector shares, even at a small discount, would not matter, as the general rise in the market lifted all stocks. And even small investors in PSU disinvestments profited significantly. But with SEBI unyielding in its deadlines, both public sector and private sector companies had no choice except to disinvest, despite extremely unfavourable market conditions. Perhaps SEBI could have deferred the deadline till general markets improved.

As far as the private sector is concerned, 105 companies were non-compliant with the 75 per cent public shareholding requirement by 3 June 2013, against whom SEBI had passed penal orders. According to Haldea, since then, 20 of these companies have complied with the requirement (13-OFS, 3-bonus issue, 1-IPP, 1-OFS and IPP, 1-OFS and bonus, 1-rights). According to PRIME, 63 private sector companies had already diluted their stake before the deadline (50- OFS, 7- IPP, 4-bonus, 2-OFS and IPP). Overall, from 1 April 2011 onwards, the total amount of dilution by the private sector has been ₹14,242 crore, of which 57 per cent has been diluted in the current financial year alone.

♦ ALYZA SANGHAI

