Learnings from LIC must guide PSU stake selloffs

The government should offload PSU stakes even on market dips, woo value investors, and signal that it's offering reasonably priced shares, not just trying to maximize its revenue

Investors who had subscribed to the Life Insurance Corporation (LIC) of India initial share sale in May last year would be a disappointed lot today. As against the issue price of ₹949 apiece, the stock closed at ₹605 on the BSE on Monday. This implies that state-run LIC has lost more than a third of its value since then. So, what went wrong? To be sure, shares can drop for a variety of reasons, including market trends beyond a company's control. But many investors would've been left with the impression that the issue was overpriced. Since retail investors tend to repose faith in government enterprises, and LIC especially was a fancied business for its dominance of India's insurance sector, a high valuation may have got overlooked in the buzz over its stake sale. It suited the government. After all, the greater the valuation, the higher its disinvestment revenue. The downside is that the experience may have left investors somewhat wary of government stake issues in general. While this could cast a shadow on the Centre's disinvestment programme, it also argues for a publicly noticeable change of tack. Although even a modest target of ₹51,000 crore worth of stake sales is proving steep this fiscal year, the government would do its selloff agenda a big favour by signalling that offering well-priced shares is its primary aim, not stuffing its coffers.

On Monday, *Mint* reported that the government is considering asking public sector units (PSUs) for big dividend payouts and may seek a special bounty from state-run oil companies that have been flush with cash. This would help it bolster revenue collections to offset any shortfall that may arise elsewhere in budgeted plans for this fiscal year. The disinvestment goal for 2023-24 is among those seen at risk of not being met. In particular, there is anxiety over whether a stake sale in IDBI Bank can be achieved before the year ends; it has already been delayed for various reasons. Other planned disinvestments for the year, such as those of Shipping Corporation of India Ltd, BEML Ltd and Container Corporation of India Ltd have had only limited success thus far. In all, the effort to offload slices of ownership has fetched the Centre just over ₹8,000 crore so far, barely 15% of its full-year aim. Its repeated failures on this front, barring a few years, should prompt a review of its basic approach. Instead of waiting for stock market buoyancy to go in for PSU stake sales, it might be better off not making any attempt to time the indices. Importantly, it should not be deterred by any market weakness. In fact, opting for public offers during bearish phases could help convey confidence in a pricing strategy that's focused on assuring subscribers good value for their money. In support of this, it could launch a publicity campaign to portray valuations as a function of a company's earnings, rather than unmoored figures that vary wildly with market vagaries. Classically speaking, it's for dividends that shares are meant to be bought. It so happens that equity sold at fair value is likelier to reward investors with capital gains as well. After the LIC let-down, such a shift made in the full glare of public attention could get people looking at PSU share issues more favourably.

True, the government would have to pencil in less revenue per share if it reorients its stake-sale agenda to primarily woo value investors. But the recent market correction offers an opportunity to do it and the eventual benefits will surely make it worthwhile. Disinvestment needn't be a process in perpetual distress.