

LIC keeps riding in as white knight

State-run insurer has been the biggest subscriber of all three government stake sales this financial year

PAVAN BURUGULA
Mumbai, 26 October

State-owned Life Insurance Corporation of India (LIC) continues to be the lifeline for the central government's divestment plan.

In the recent offer for sale (OFS) of NBCC, LIC is said to have picked up shares worth ₹1,200 crore, which translates into 54 per cent of the total shares on offer during the stake sale. LIC now owns 4.86 per cent stake in the state-owned construction firm.

This is not the first time the state insurer has been the key subscriber to a divestment issue. A few weeks ago, during Hindustan Copper OFS, LIC picked up nearly 75 per cent of the shares on offer worth more than ₹250 crore, taking its ownership in the company to 5.27 per cent.

During the OFS of NHPC in April, the biggest stake sale by the government during the

WHITE KNIGHT, DARK TIMES

Market participants say, though LIC has been the major subscriber of divestment offerings, forcing it to buy in these issues is not healthy

In ₹ cr	Stake sold (%)	Amt raised	Stake bought by LIC (%)	Amt invested by LIC
NHPC	11.3	2,717	5.3	1,200
Hindustan Copper	7	400	5.27*	301
NBCC	15	2,200	4.86	1,200
Total	5,317	5,317	NA	2,701

*Since LIC's previous holding assumed at zero
Sources: NSE, BSE, Dipam; Note: NBCC OFS concludes on Friday

current financial year so far, LIC bid for 48 per cent of the shares on offer. The insurer spent ₹1,200 crore to pick up 5.3 per cent additional stake in the power corporation.

Market participants say, although

LIC has traditionally been the major subscriber of divestment offerings, forcing the insurer to invest in these issues is not a healthy practice.

"It is ultimately the money of investors and LIC is answerable

In the recent offer for sale of NBCC, LIC is said to have picked up shares worth ₹1,200 crore, which translates into 54% of the total shares on offer during the stake sale. LIC now owns 4.86% stake in the construction firm

to its policyholders. LIC is welcome to participate in the issues; however, the discretion to take a call should be given to the fund managers of LIC," said a broker.

These purchases by LIC come at a time when the

stocks of a large number of public sector undertakings (PSUs) have been underperforming Sensex, especially entities from power, mining, and banking.

Given the ambitious divestment target, the central govern-

ment is likely to line up big-ticket disinvestments in the coming months. This could get difficult for the insurance giant as investor appetite for equity-oriented unlinked insurance plans (Ulips) is dwindling.

Ulips are investment-cum-insurance products where the money collected from policyholders is invested in equity and debt, based on investor preference.

For 2016-17, the central government has set itself an ambitious divestment target of ₹56,500 crore. Of this, ₹36,000 crore is estimated to come from minority stake sales and the rest from strategic sales.

Market participants say the government may not have to depend on LIC during Suuti stake sale in companies including Axis Bank, ITC, and Larsen & Tourbo this financial year. Suuti is Specified Undertaking of the Unit Trust of India.

"Unlike PSU disinvestments, investor interest in the three main Suuti companies remains high. Fortunately, the government may not have to fall back on LIC for bailout," said another broker.

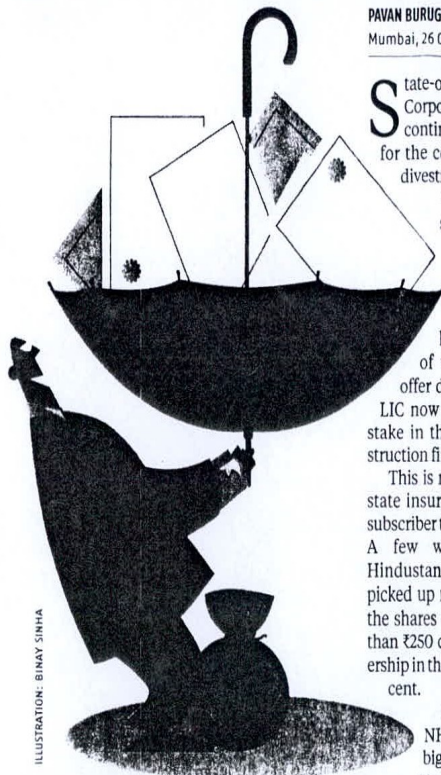


ILLUSTRATION: BINAY SINHA