Govt should think differently while selling stake in listed PSUs

RINGSIDE VIEW.

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Public sector companies or PSUs are an important resource for the Centre when it comes to raising funds, but that is proving a Herculean task, especially when it comes to listed firms. By selling stake, the Centre achieves the twin target of meeting minimum public shareholding (MPS) norm for listed players and raising funds for its kitty.

According to current SEBI rules, companies have to mandatorily maintain the public shareholding of at least 25 per cent within three years of listing. Though PSUs are exempted from this now, public sector companies should voluntarily consider of meeting 25 per cent public norm, for better functioning of secondary market.

On most occasions, the Centre finds its difficult either on timing or on pricing front. Earlier, domestic institutions used to bail out the government on disinvestment and the vertical fall in the share price post the stake sale, left investors in the lurch.

Due to this conundrum, the union government not only failed to meet disinvestment targets (from listed entities) but also in achieving MPS. To facilitate MPS, the regulator, among the other frameworks, came out with offer-for-sale (OFS) mechanism to promoters. Just a day of notification is enough for promoters to announce the OFS.

However, the stake sale should be done in special window of the stock exchanges for two days (first day for institutions and the next day for retail investors). This method has been fairly successful for many promoters, including the Centre.

LIC STRATEGY

Amidst this background, the Centre, a few days back came out with a heartening decision with respect to meeting the MPS for Life Insurance Corporation of India. "The Department of Economic Affairs, Ministry of Finance vide Office Memorandum dated December 20, 2023 has decided in the public interest, to grant a one-time exemption to Life Insurance Corporation of India to achieve 25 per cent Minimum Public Shareholding within 10 years from the date of listing i.e., till May 2032," LIC said.

The change of stance is welcome as it clearly reveals that "public interest" tops the Centre's thinking.

Though most PSUs are turning profitable and paying hefty dividends back, the Centre may rethink on disinvestment altogether. Besides, most PSUs have already achieved MPS. However, in nearly two dozen listed companies that included LIC, General Insurance, IRFC and New India Assurance, the Centre holds over 75 per cent.

For that, the government can consider selling stake in small doses in the secondary market instead of OFS that often disrupt stock price, as it always comes with at least 5 per cent discount to the prevailing market price. The Government can take a leaf out of LIC strategy, which as investor in so many companies, offload them hassle-free.

WAY FORWARD

For instance, a daily selling of one lakh shares of a company will cumulatively come to 2.5 crore shares in a year (given 250 trading days). It can sell one or more stocks at the same time this way. For most of PSUs, average trading volume is quite healthy at the bourses.

Selling of 2.5 crore shares of LIC even at the 52-week low price of ₹530 would fetch ₹1,300 crore to the government. As the average daily trading volume at the bourses is currently around 50 lakh shares, selling one lakh would not be that difficult.

However, the department can strategically decide on the quantum, besides timing (i.e. daily, weekly or monthly) in the secondary market based on market condition and liquidity of the particular stock.

The department can also actively pursue "block deal" mechanism, where it can negotiate with prospective buyers and offload even bigger chunk. Of course, there will be operational difficulties, as monitoring of price movement and market condition must be done constantly which may require a special task force.

Thinking differently while selling stake, will help all stakeholders, especially for the PSUs, as wild swings in stock price are not good for any company.