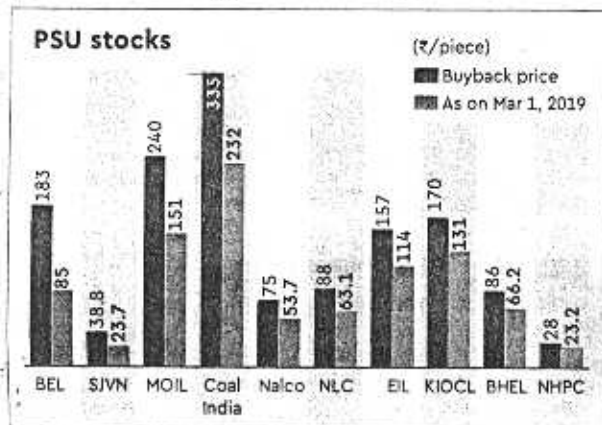


PERCEPTION ISSUE

PSU stocks plummet post buyback process



PRASANTA SAHU
New Delhi, March 10

BY DEFINITION, BUYBACK of its own shares by a firm shrinks its equity base and enhances the value of each share. However, this hasn't been the case in any of the series of buybacks by PSUs since FY17. On the contrary, the stocks of all the PSUs which have bought back chunks of their shares have fallen since the exercises were completed.

An FE analysis of 10 of these firms which have undertaken the share buyback exercise once or more show their stocks losing value by as much as 17-54% (a few others too, undertook buybacks but the stocks split thereafter).

The decline in most of these PSU stocks is sharper than the nearly 16.4% fall in the total market capitalisation of all listed PSUs to ₹12.7 lakh crore as on March 1, 2019, from ₹15.2 lakh crore on March 31, 2017. During the same period, the BSE M-Cap had risen 17% to ₹14.2 lakh crore.

Defence PSU Bharat Electronics (BEL) saw its share value lose a massive 54% (as on March 1, 2019) compared with the buyback price of ₹183 on March 15, 2018. SJVN, which bought back shares at a price of ₹38.8 on January 19, 2018, saw its shares lose 39% from that level, as on March 1, 2019.

Continued on Page 2

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SIMILARLY, MOIL bought back shares at a price of ₹240 on March 20, 2018, but its share was quoted 37% lower at 151 on March 1, 2019.

"The performance of the public sector companies has not been that great in the past 2-3 years. Also, investors weigh in government interference in these companies," said Prapav Haldea, managing director of PRIME Database.

Following in the footsteps of private companies, the government revised the capital restructuring guidelines for PSUs in May 2016, mandating every central PSU with a net worth above ₹2,000 crore, and cash and bank balance of over ₹1,000 crore to exercise the option to buy back a portion of their shares with effect from FY17. The capital restructuring rules have paid off as 7 PSUs bought back shares worth ₹18,963 crore or 41% of the total disinvestment receipt of ₹46,247 crore in FY17. The buybacks fetched ₹5,340 crore in FY18 and about ₹12,000 crore in FY19.

Buybacks and liberal divi-

dends have depleted the surplus cash of the CPSEs from as high as ₹2,63,502 crore in FY14 to ₹1,71,107 crore in FY18. Besides rewarding shareholders, one of the arguments for PSU buybacks, usually at a premium to the prevailing price, have been that such a move would rally the shares of the companies as the shares bought back would be extinguished.

In fact, many PSUs such as MOIL, NHPC, NMDC, Coal India and BEL have undertaken multiple buybacks since FY17, which while boosted the government's disinvestment revenue, but didn't help much their share prices. The biggest buyback was by NMDC for ₹7,528 crore on September 30, 2016 at a price of ₹94 per share. It did buy back again on February 27 this year for ₹1,000 crore at ₹98 a share. But NMDC's share price has not moved. It was at ₹102 on March 1, 2019.