Divestment news attracts investors to govt companies

Half a dozen PSU stocks have gained over 15% each

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With the rally playing out in the large-cap and mid-cap space, investors' focus seems to have shifted to the public sector undertaking (PSU) pack.

So far this month, the Nifty PSE index has gained 7.1 per cent, outperforming the benchmark Nifty, which has risen 3.5 per cent.

Half a dozen government-owned companies have posted strong gains of over 15 per cent each. PFC, SAIL, and NTPC have been top gainers, with their stocks surging more than 20 per cent, supported by good volumes.

Besides ultra-low valuations, government action has spurred buying into this space, say experts.

"Several policy initiatives by the government has helped improve sentiment for PSUs. The push to improve domestic manufacturing, the relaxation of borrowing limits for state government-owned power distribution companies, and the defence ministry's decision to ban the import of certain military items are some of these measures," said Siddhartha Khemka, vice-president-head of research, Motilal Oswal Financial Services.

Some believe optimism that the government would privatise some companies also has contributed to the buying interest.

"On July 27, the government cleared divestment of 23 PSU stocks to raise ₹1.2 trillion, which fuelled the rally in PSU stocks," said Arjun Yash Mahajan, head-institutional business, Reliance Securities.

Besides, low attractive valuations and a liquidity surge in the market have helped stocks of government-owned firms.

"The sell-off in March made a few of the PSUs to trade at historic low valuations. Considering this, along with divestment news, buying into them was almost a no-brainer. The final straw was abundant liquidity in the system," Mahajan said.

Experts said while the outright sale of PSUs may unlock the value of these firms, minor disinvestments can only increase the paper supply in the market and weigh on further upside.

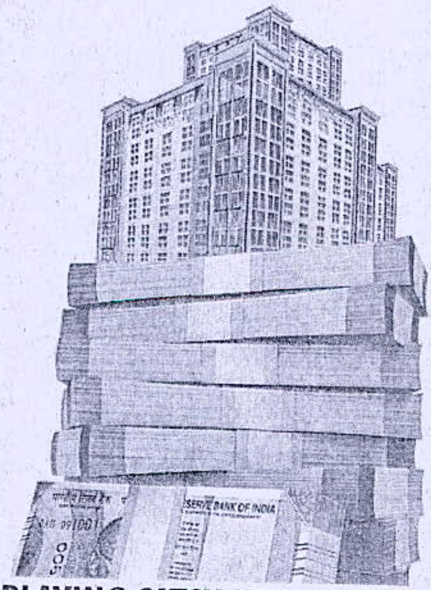
"Disinvestment is one risk factor that may affect PSUs. Whenever the government wants to disinvest, there can be a correction in valuations. We are bullish on defence-related PSUs as they are the most well run," said A K Prabhakar, head of research, IDBI Capital.

"The order book of defence PSUs has started to increase because of tensions along the Line of Actual Control, and there is an urgency to push with the order book."

Experts said aggressive disinvestments in PSUs through the exchange-traded fund (ETF) route is one of the key reasons for depressed valuations.

In 2019-20, the Centre raised nearly ₹31,000 crore by divesting shares in several PSUs in the so-called CPSE ETF and Bharat 22 ETF basket.

"Divestments through the ETF route have created a bad overhang for stocks. Under this route, the government has to offer shares at a discount to the market rate. This leads to price distortion. Over the past many years, the government has used the ETF route aggressively. This has led to many PSUs trading below their intrinsic value," said a fund manager. On a year-to-date basis, the NSE PSE index is down 17.5 per cent, while the Nifty is down 5.8 per cent.



PLAYING CATCH UP

PSU index has outperformed the Nifty

	Last close	Change (%) MTD	YTD
Nifty50	11,466.5	3.5	-5.8
Nifty PSE	2,660.9	7.1	-17.5

A GOOD RUN

Top 5 PSU stocks in August

	Last close	Change (%) MTD	YTD
SAIL	41.8	22.9	-2.6
Power Finance Corp	98.0	21.2	-16.9
NTPC	105.4	21.1	-11.5
Bharat Electronics	114.6	19.6	14.5
Nalco	37.7	15.1	-13.6

Source: Capitaline