

Centre to be more conservative in pricing IPOs of State-run firms

Change in approach aimed at enhancing value proposition

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The Department of Investment and Public Asset Management (DIPAM) has changed its pricing strategy for initial public offering (IPO)-bound state-run firms by setting a minimum price with no category-wise discounts as it looks to entice investors and allay concerns that PSU stocks were not doing well or are priced high while going public.

"DIPAM is of the view that it is better to test the market with a minimum price in the IPO,

and subsequently when the markets decide the valuation of the company, offload further equity and capture the upside," said a merchant banker hired by the government for upcoming share sales.

"This will add value to the investors also. Otherwise, DIPAM is of the view that investors are shying away from investing in government stocks on concerns that the government is trying to extract, in the first go itself, whatever maximum is possible," he added.

Fundamental change

The "fundamental change" in approach of the government's asset sale managers is reflected in the pricing of Mazagon Dock

Shipbuilders Ltd's shares for the planned IPO beginning September 29.

The government has set a price band of ₹135-145 a share for Mazagon Dock, keeping it below the trading price of Garden Reach Shipbuilders & Engineers Ltd (GRSE) of ₹172 a share. This is despite the fact that the order book of Mazagon — India's biggest warship builder — is many times more than that of GRSE, a peer company.

"Deliberately, the share price of Mazagon Dock has been kept below GRSE so that there is a value visible to the investors on immediate basis from the day of the listing itself. If you notice, the government has also

not given any retail discount in Mazagon IPO. This is a shift in DIPAM's strategy. It is offering a discount to everybody. So, there is no category-wise discount; the discount is built into the price band itself," the banker said.

The move also seeks to enhance value proposition to the investors.

"Now, the government is more focussed on the post listing performance of PSUs, which was not the case earlier. DIPAM wants to leave some value on the table for investors and make it a win-win situation for the government as well as the investors and send a strong message across the markets that it's not that the PSU stocks

are not doing well or their price is high during IPO," he said.

Pricing strategy

The change in pricing strategy follows the recent IPOs of Hindustan Aeronautics Ltd (HAL) and Bharat Dynamics Ltd (BDL), among a few others, whose shares are trading below the IPO price.

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"While pricing Mazagon's shares, it has been kept in mind that we derive value both for the government as well as the investors. We would also like to have a good post listing performance of the stock," said Alok Pande, Joint Secretary, DIPAM.