

Divestment: LIC, SBI play white knight

The two lapped up the bulk of shares during the offers for sale of HAL, Bharat Dynamics

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The government's 2020-21 disinvestment drive would have been off to a rocky start if not for the helping hand from state-owned institutions, such as Life Insurance Corporation (LIC) and State Bank of India (SBI).

The Centre kicked off this fiscal year's disinvestment programme with a ₹4,900-crore offer for sale (OFS) from Hindustan Aeronautics (HAL) and followed it up with the ₹770-crore OFS from Bharat Dynamics (BDL).

The latest shareholding data for the two defence stocks revealed that LIC and SBI played white knight to the government.

The life insurance giant subscribed nearly 50 per cent of shares on offer in the HAL OFS, while LIC and SBI put together bought nearly three-fourths of the shares in the BDL OFS.

This is not the first time the likes of LIC have had to bailout PSU divestments. Experts question the viability of the ₹2-trillion disinvestment target if relatively smaller share sales fail to generate organic demand from investors.

"History is being repeated here; we have seen in the past how IPOs



and follow-on offerings had to be bailed out by LIC and other financial institutions. This shows that the government is not getting its pricing right; if it had, the market would have lapped up these issues. The government has to reconsider pricing IPOs, follow-on offerings and OFS," said Prithvi Haldea, founder, PRIME Database.

In the first half of FY21, the public sector firms had managed to raise

only a small fraction of the full-year target despite supportive market conditions. This even as the share sales by private companies hit a record this year. During the calendar year 2020, capital raising through equity-linked instruments has totalled \$32.7 billion (₹2.4 trillion) — a record for any calendar year.

"The markets are rising despite the economic impact of Covid-19 and fundraising is also at a new high. But

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The Centre continues to rely heavily on state-owned institutions

	Hindustan Aeronautics	Bharat Dynamics
Issue size (₹ cr)	4,924	771
Stake increase (%)		
LIC	8	8
SBI*	0	1
Investment** (₹ cr)		
LIC	2,372	500
SBI*	0	74
Base price (₹)	1,001	330
Current price (₹)	742	299
Change (%)	-26	-9

Note: *Assuming SBI held 0% stake in the June quarter; **At base price
Source: BSE, Dipam

investors seem to be indifferent to PSU stocks," said Arun Kejriwal, founder, Kejriwal Research & Investment Services.

The Centre is expecting the IPO of LIC to do the heavy-lifting this financial year. However, with the draft offer document still far from ready, it is unlikely that the Centre will be able to launch this issue this financial year.

Experts said the government will soon have to identify large disinvest-

ment candidates.

"Small stake sales as seen in the first half will not make much of a difference. Unless there is a big-ticket divestment, the government is unlikely to achieve its disinvestment target. One deal that may help is BPCL where the government has already invited expression of interest (EoI). If this deal goes through, it will help the government in a big way to achieve its targets," said Kejriwal.

Haldea said the system is flushed with liquidity and the government should make use of this by pricing and timing the share sales carefully.

Besides the two OFSs, the government launched the initial public offering (IPO) of Mazagon Dock Shipbuilders (MDL). The issue garnered the highest-ever subscription for a PSU IPO at 157x.

Experts say Mazagon Dock IPO is an example that if the share sale is priced right, the government won't have to rely on state-owned institutional shareholders to make up for the demand shortfall. MDL's shareholding data released on Monday showed that the IPO was subscribed by wide-ranging investors — over 30 mutual funds and foreign portfolio investors, and more than 20 banks and insurance companies. However, MDL's IPO size was less than ₹450 crore.