

# Taking stock of govt share sales

Government's disinvestment programme offers investors an opportunity to become shareholders in what were so far closely-held institutions. What factors should you keep in mind before investing in these?



SUNNY VERMA &  
GEORGE MATHEW

THE GOVERNMENT'S ambitious disinvestment drive is expected to send the primary market — or the initial public offering (IPO) market — into overdrive in the coming months. The move offers great opportunities to public sector firms and the government to raise funds, and gives investors a chance to become shareholders of iconic institutions like Life Insurance Corporation (LIC).

## What are the plans for disinvestment?

In Budget 2021-22, the government announced a strategic sale/disinvestment policy for four strategic sectors — including banking, insurance and financial services — in which it will have a “bare minimum presence”. Apart from strategic sale through which the government completely exits PSUs, the Centre has lined up minority stake sale through various routes including offer for sale (OFS) and IPO.

The biggest will be the IPO of LIC. The Budget has also announced privatisation of two public sector banks (in addition to IDBI Bank) and one general insurance company in the upcoming fiscal. Privatisation of the two banks will set the ball rolling for a long-term project that envisages only a handful of state-owned banks, with the rest either consolidated with strong banks or privatised.

The Centre has pegged the disinvestment target for the upcoming fiscal at Rs 1.75 lakh crore. This is compared to Rs 2.1 lakh crore budgeted in 2020-21, of which Rs 21,302.92 crore has been raised so far while the Budget has pegged revised estimates at Rs 32,000 crore. OFS has been the preferred route for disinvestment as the government raised Rs 4,924 crore through OFS of HAL, Rs 4,473 crore through IRCTC OFS and Rs 2,737 crore through SAIL OFS. IPOs of IRFC and RailTel have yielded Rs 1,541.37 crore and Rs 817.60 crore, respectively.

Also, increasing the FDI limit in insurance from 49% to 74% is expected to lead to an unprecedented expansion of the insurance sector. This could also give retail investors the chance to ride this profitable sector on a long-term basis.



LIC IPO will be the biggest on offer in a long-drawn disinvestment plan. Express Archive

## How does it benefit retail investors?

The progress on privatisation plans of BPCL, Shipping Corporation of India and CONCOR, among others, has already led to a big rally in their shares, as investors bet that the new management and private ownership would bring in higher efficiency leading to higher profits. As privatisation will be a long-drawn process over 5-10 years, patient investors can pick and choose the companies they want to bet on. Existing companies being put on the block could be the starting point, while investors can wait for clarity to emerge on which banks and insurance company will be privatised.

## Are there lucrative options to buy PSU stocks in the secondary market?

For those who do not want to get into the unknown territory of profits resulting out of privatisation, there is an existing pool of PSU stocks and exchange traded funds to choose from. Central public sector enterprises, public sector banks and the insurance companies have been favoured by institutional investors in recent months. There has been a steady recovery in PSU stocks, especially after the government announcement on a strategic sale policy and clear intent on privatisation. The NIFTY CPSE Index has rebounded to 1892 (from a low of 1137 in March 2020) in closing prices at National Stock Exchange on Tuesday. As the equity markets are showing steady recovery, the PSU stocks will continue to do well at least in the medium term. Consumption- and privatisation-focused stocks such as IRCTC, BPCL, Shipping Corporation, BEML, and PSU banks are expected to offer reasonable returns over the medium term. For conservative investors looking for exposure to PSU bank stocks, NIFTY

PSU BANKBEEES also offers a viable option.

## What are the opportunities in IPOs of private companies?

With the benchmark Sensex going above 50,000, the primary market in India saw strong activity in the ongoing financial year, despite Covid-19 disruptions pulling down economic growth. Typically, IPO listings depend on secondary markets. In fact, there were no new IPO launches or stock market listings in the first half of the financial year, but the second half rewarded investors as equities made a resounding recovery.

According to Prime Database, 18 of the 23 IPOs so far this year saw first-day gains. That represents 78% of the total stock listings in FY21, compared to only 69.23% of the total 13 IPOs in FY2020 and 53.3% of the 15 IPOs in FY2019 that saw listing gains. “As market sentiments have revived after the Covid-19 pandemic, around Rs 1 lakh crore of public issues (excluding LIC) are waiting to hit the markets in the near term as markets are likely to witness a bull run in the next financial year as well,” said Vaibhav Agrawal, CIO, Teji Mandi.

## How have recent IPOs of state-owned companies fared?

While IPOs of public sector firms earlier were not very encouraging as the pricing was not proper, recent IPOs provided good gains for investors. RailTel Corporation, which came out with an IPO at Rs 94 per share, is currently quoting at Rs 151, a rise of 61%. IRCTC which offered shares at Rs 320 per share in September 2019, is now traded at Rs 2,025, a gain of 533%. Rail Vikas Nigam Ltd (IPO Rs 19 per share) is now traded at Rs 31 (up 63%). MSTC rose to Rs

328 per share from the IPO offer price of Rs 120 (up 173%). The biggest gain was by Powergrid Corporation, from the offer price of Rs 52 to Rs 215.95 as on March 9, 2021.

Pricing holds the key, especially given past experience with two public issues — General Insurance Corporation of India Ltd and New India Assurance Co Ltd, in 2017. Shares of New India Assurance IPO, offered to investors in the range of Rs 770-800, are now quoting at Rs 164. General Insurance Corporation offered shares at Rs 912, but prices have come down to Rs 170. However, both companies issued one bonus share for every share held by shareholders between June and July 2018. That means that if the investor got one share of GIC at Rs 912, he would be holding two shares for Rs 170 each — a loss of 62% from his investment.

## What are the risks to keep in mind?

The fate of the IPO market is clearly linked to the performance of the stock market. Domestic equity markets continued to trend higher in February. The bull rally was majorly broad-based and across sectors. In February, small-cap stocks (12%) and mid-cap stocks (10%) delivered the highest returns followed by large-cap stocks (7%), despite the rise in bond yields. “Globally, however, the worries on inflation and the unsettling moves on the US 10-year yield gave a glimpse, a ‘trailer’ of reality — valuations could compress; economic growth could get stunted, if bonds yields sustained and moved ahead. For the current economic recovery to sustain, containing bond yields, not through yield curve management but through moderating inflation expectation will be a key variable to track for the rest of the year,” said a report from IDFC Asset Management Company.

According to veteran stock broker Pawan Dharmidharka, the market is now moving in a range with fundamentals showing signs of recovery. As surplus liquidity is currently driving the market, analysts rule out a big correction. “If bond yields in the US rise further, the equity market will get hit as foreign investors might pull out. Other risk factors are the possibility of a spike in Covid and lockdown, further rise in crude oil prices, rise in inflation and a possible rise in interest rates,” he said.

The Sensex has bounced back sharply from the 52-week low of 25,638 on March 24, 2020 to over 51,000 now. “If the market manages to retain this level, we can expect a host of IPOs from the public and private sectors, including LIC,” Dharmidharka said.

That said, investors should be prepared for uncertainties.