

Govt's trading halt idea opposed

Market raps disinvestment department's proposal to Sebi for suspension of trading in a stock during divestment as ill-conceived, unfair and unproductive

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The Union government's idea to suspend trading in scrips of public sector undertakings (PSUs) on their divestment day has not gone down well with market players, who feel the proposal is unfair and would put existing investors in a spot.

The department of disinvestment (DoD) has sent a proposal to the markets regulator, Securities and Exchange Board of India, to suspend trading in a stock on the day of its share sale by the government. The Centre has set a disinvestment target of ₹69,000 crore for 2015-16.

Market players say the proposal is contrary to global practice. Arun Kejriwal, founder of advisory firm KRIS Research, says such a move would be unprecedented.

"Just because secondary market volatility creates impedance for a share sale doesn't mean the trading should be suspended. Nowhere else is it done. It would shut investors and traders from accessing the market and that would be unfair," he said.

Market players said disinvestment is an event in the company's lifecycle and investors should be allowed to freely buy and sell a listed stock, to factor in various variables impacting the company.

UPCOMING DISINVESTMENT ISSUES

Companies expected to be part of the government's divestment programme: Existing shareholders in these companies average about half a million

| | Market-cap (₹ cr) | No. of existing shareholders* |
|------------------------|----------------------|----------------------------------|
| ONGC | 2,73,604.57 | 524,590 |
| Indian Oil Corporation | 84,541.31 | 182,389 |
| PowerGrid | 81,089.64 | 761,122 |
| NMDC | 50,490.66 | 191,586 |
| NHPC | 24,847.50 | 993,418 |

*As of December 2014

Source: BSE

The rationale behind the DoD proposal is to prevent bear-hammering or short-selling of a stock, which puts pressure on the scrip, leading to lower realisations for the government. Also, high volatility on the day of share sale impacts investor participation. For instance, if the secondary market price drops below the offer price, investors get dissuaded from participation.

Experts, however, say a halt in secondary market trading would lead to higher volatility before or after the event. The move could also clash with the future & options activity in the stock.

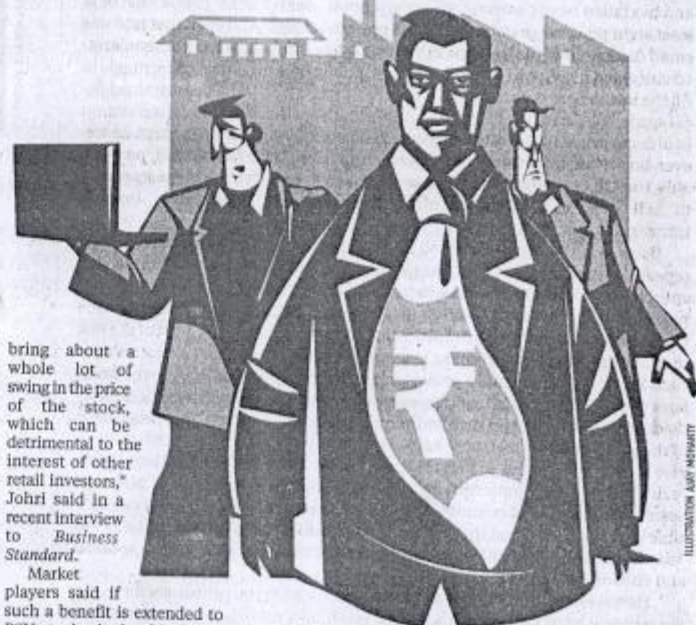
"During the trading-halt period, the markets will not be able to discount any news about the company or the sector which it operates in. It will only be able to do so after

trading re-opens, which could make the stock much more volatile," said the head of research of a domestic brokerage.

Also, it could be unfair to investors who are looking to liquidate their positions urgently, he added.

NMDC, NHPC, Neyvelli Lignite, State Bank of India, Indian Oil, Oil and Natural Gas Corporation and Hindustan Copper are among the big names where the government is expected to pare its holding.

Divestment Secretary Aradhana Johri has said the volatility witnessed during the Coal India offer for sale (OFS) prompted the trading halt idea. "We have suggested that we need to see whether secondary trading of the stock in question can be suspended on the day of the OFS. Secondary trading can



bring about a whole lot of swing in the price of the stock, which can be detrimental to the interest of other retail investors," Johri said in a recent interview to *Business Standard*.

Market players said if such a benefit is extended to PSU stocks, it should also be made available for private companies. "Even on the Budget day, this is the reason why we wanted markets to stay open. We did not want the volatility that comes from people adjusting their positions before or after an important event. And, a primary issuance could lead

to similar volatility if the stock is not allowed to trade on or before that day," said the head of another domestic brokerage.

Circuit filters could be one way of containing the volatility, analysts said.

Kejriwal said a more successful way of protecting

investor interest would be to conduct the issuance on a non-trading day. "Earlier, there was a proposal that the OFS be conducted on a Saturday, to avoid volatility. If that is brought back and merged with the current government proposal, it could work," he said.