RULE TO MAINTAIN MINIMUM LEVEL OF PUBLIC HOLDING CONTINUOUSLY

Exempting select PSUs from minimum free float norm reverses govt stance

FM in FY20 Budget: 'Will take necessary steps to meet public shareholding norms of 25% for all listed PSUs'

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DISREGARDING ITS commitment to raise minimum public shareholding in state-owned companies to 25 per cent, the Central government has empowered itself to exempt public sector companies from this rule that is aimed at increasing public float and improving governance. Through a recent notification in the government gazette, the Department of Economic Affairs has amended the Securities Contract (Regulation) Rules, 1957 (SCRR) to say that the "Central government may, in the public interest, exempt any listed public sector company from any or all of the provisions of this rule" of increasing minimum public shareholding to 25 per cent.

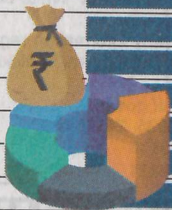
Sections in the government and market participants feel the move would affect liquidity in PSU company stocks, dissuade institutional investors and may even have a bearing on the disinvestment programme. Minimum public shareholding (MPS) is the minimum level of public holding (other than promoters) in a company to be maintained on a continuous basis.

While the timeline for achieving 25 per cent MPS for listed companies was 2013, the timeline for public sector companies i.e., PSUs and public sector banks (PSBs), was extended multiple times closer to the deadline due to lack of efforts from such companies towards compliance. The previous such extension granted them time till August 2, 2021 for compliance.

Of 1,705 listed private sector companies on the NSE, only 2 were non-compliant with MPS requirement as of June-end. In contrast, during the same time, 27 of 77 public sector companies on the NSE had public shareholding less than 25 per cent. Of them, 11 companies have public shareholding of less than 10 per cent.

PSUs WITH GOVT HOLDING OF 90% OR MORE

Company	Shareholding (%)*
KIOCL LTD	99.03
PUNJAB & SIND BANK	97.07
INDIAN OVERSEAS BANK	96.38
UCO BANK	95.39
HMT LTD	93.68
BANK OF MAHARASHTRA	93.33
CENTRAL BANK OF INDIA	93.08
BANK OF INDIA	90.34
ITI LTD	90.06
STATE TRADING CORP OF INDIA LTD	90.00
FERTILISERS & CHEMICALS TRAVANCORE LTD	90.00



Shareholding as a per cent, as on June 30, 2021
Source: primeinfobase.com

The Securities and Exchange Board of India's (Sebi's) rules, put in place in October 2017 for better compliance with MPS norms, requires companies to pay a structured fine for every day of non-compliance. Other penalties include freezing of promoter shareholding and compulsory delisting. While private sector companies have to comply with norms, the government has now created a carve out for PSUs. Industry sources said the government's latest dispensation is surprising since the Budget itself has committed to comply with MPS norms and the government has outlined a clear intent towards privatisation. Adequate free float in a listed company is essential for providing sufficient liquidity in trading stocks thereby facilitating efficient price discovery and maintaining market integrity.

In her 2019-20 Budget speech, Finance Minister Nirmala Sitharaman said: "For bringing better public ownership of the PSUs and also bring greater commercial and market orientation of the listed PSUs, the Government will take all necessary steps to meet public shareholding norms of 25 per cent for all listed PSUs and raise the foreign shareholding limits to maximum permissible sector limits for all PSU companies which are part of Emerging Market Index." She added: "It is right time to consider increasing minimum public shareholding in the listed companies. I have asked Sebi to consider raising the current threshold of 25 per cent to 35 per cent." Experts, however, do not see a rationale behind the move.

"The reason for this wide ranging exemption remains unclear, especially in light of announcements made by the Government earlier. A special exemption could have been made only for LIC instead," said Pranav Haldea, MD, Prime Database. He added, "PSUs have historically been non-compliant on various regulations applicable to listed companies. Instead of having various kinds of exemptions and extensions every now and then, it may be worth considering having completely separate regulations governing listed PSUs. After all, PSUs are audited by the CAG and are answerable to Parliament."

There are some who feel that while the rationale behind the MPS was that a higher public float ensures that there is lesser price manipulation in the stock, they don't see how it can work differently for government-owned and private sector company.

Maintenance of minimum public float by listed companies helps attract higher foreign capital and increases India's weight in international indices like MSCI and FTSE. Government firms not adhering to these norms could be a drag on inflow of foreign capital. This can be detrimental at a time the government is planning strategic sales in various PSUs including BPCL, Shipping Corporation, and Air India. "Low free float is one of the reasons why PSU stocks command low valuation in the market. Investors, especially foreign ones, are wary of investing in such stocks due to absence of liquidity – because of high promoter holding," an industry source said. Various government expert committees have in their reports argued all listed entities, government or private, should be treated at par on governance standards.