

With Air India done, can LIC be far behind?

With the stock market on a roll, the time is right for the stake sale in LIC and two PSU banks



MADAN SABNAVIS

The sale of Air India has been an achievement of sorts and provides hope for a successful disinvestment programme going ahead. But if one looks at the Air India sale closely, one can conclude that it has been more of a compromise for the government. There is relief that the government has been able to sell a large loss-making company rather than earning a neat sum of money as part of disinvestment.

A debt of ₹61,000 crore was hard to load on anyone interested in buying the airline. Finally, ₹46,000 crore is still with the government and will be in a SPV that will be forgotten over time. Given that outstanding market loans are to be around ₹80 lakh crore, this debt will be around 0.5 per cent of the amount which is not much.

Tatas have actually paid only ₹2,700 crore to the government while taking on ₹15,300 crore of debt. The government will be happy to have the company off its hands as it was making a loss of ₹20 crore a day. Tatas will have to figure out how to handle this part of the deal, which otherwise appears to be a good one. The gains from aircraft, landing slots, number of flights, experienced staff etc. have been very tempting and proved to be the clinching factor.

The workers get protected for a year, after which there can be some

serious reconfiguration of staff. That will be another worry for the employees as a one-year time span does not afford much space to look for alternatives. Practically speaking based on what happens in all such consolidation activity, the staff end up getting a raw deal. There is no reason why it should be different for a loss-making company that has found a buyer.

While the government will be relieved, the amount received is too small for the target of ₹1.75 lakh crore. There is the big LIC sale that has to be reckoned with and while the company will find many takers being an excellent pick, working out the deal before March 31 will be a challenge.

To garner around ₹1 lakh crore (which is what the Budget talks of from LIC and the two banks' sale), the company has to get a valuation of at least ₹10 lakh crore as the government is talking of 10 per cent stake sale. There is talk of reservations for foreign investors, institutions and retail and the entire process has to be worked out with the finer details given the amount involved.

Any sale which hopes to get in such a big amount is betting on the market having appetite for this quantum of disinvestment. As this will be towards the end of the year, availability of funds plus the state of the market are important factors.

Sizzling stock market

There has been over ₹80,000 crore of IPOs already offered in the market. The Sensex is rulling

at a level of around 60,000 and the doubters are questioning the size of the upside to any sale/purchase done at this time. Around half of the IPOs this year have done well — especially those that were out in the first part of the year.



Great expectations Given LIC's stature, investors are keenly anticipating its public offering REUTERS

The good part of the LIC disinvestment is that it has been accepted as a viable proposition. Probably this is because currently the talk is of only 10 per cent sale with the assurance that the government stake will always be 51 per cent or higher. Clearly all investors in the insurance behemoth would be putting in their money for improving their return and net worth rather than take control of the institution. Here it will be useful if the government provides a calendar for future disinvestment too till the 49 per cent mark is achieved as this will affect the free float of shares in the market and have an impact on valuations.

From the market perspective just like how the debt of Air India was a consideration, in case of LIC its perceived role as the 'investor of last resort' will be something that will come up for discussion. In the past it was widely believed that UTI and public insurance companies were used for major interventions by the government to steady the market. When disinvestment

came in, public institutions (insurance companies in particular) and other PSUs (especially cash rich OMCs in the public sector) have played a significant role in making these plans successful even if it meant picking up shares at a high cost.

This will not be possible in the new setting once the company gets listed. However, on the positive side none of the OMC valuations have been affected by their cross holdings in other PSUs and therefore this may not matter. This may give hope to the government that it can still be business as usual for the LIC, post IPO. But at this stage it should be thought through closely.

The two PSBs' sale will also be watched not so much on valuation but the approach to its fulfilment. The government has hinted at letting go of these banks which means that the stake can come down to less than 51 per cent. The market is already buzzing with talk of a complete sale which must necessarily involve a big purchaser

which can be a private bank.

The internal working group of the RBI had been open to corporates getting a licence subject to caveats. This could be an opportunity for an entry given that whichever bank is going to be sold will be adequately capitalised (as per latest news on infusion of funds by the government) with an experienced staff to handle the physical infrastructure. Existing private banks or NBFCs wishing to gain size or make inroads into banking will find these offers tempting and this can make the valuation attractive for the government in achieving the ₹1 lakh crore target set for the financial sector.

Hence with the pandemic behind us and a successful progress of vaccination it does look like business as usual for the economy and the market will have exciting times that goes beyond the 60,000 level. Disinvestment has to carve its niche in this setting.

The writer is Chief Economist, CARE Ratings. Views expressed are personal

Scan & Share

