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Show urgency in fulfilling one manifesto promise: Divestment to public

The recent Congress Party manifesto has stated that “every Indian has a right to own shares in PSUs”. This is one promise it can live up to, and instantly. The IPOs of NHPC and Oil India are already holding SEBI approval, and can enter the market right away. Others can follow.

We may recall that 2003-04 was the golden year for PSU divestments through public issues, raising an astounding Rs.15,128 crore in just one month. Subsequent compulsions of coalition played mischief, and the next 5 years saw a meagre Rs. 4,498 crore of divestment. This can now be reversed.

Given the political and social compulsions, full exit by the government should surely be put on the backburner. However, there can be no debate on either part-divestments, where post-offer control still rests substantially with the government or with raising of fresh capital. The only opposition could come from employees of some PSUs. To counter this, ESOPs should be introduced which would not only reward the employees and thereby win their support, but would also enlist their longer term commitment.

This is the best time, as ever. There is nothing as on “opportune time”. The government should not wait for a further revival of the market to float these IPOs in the hope of getting better valuations. Private promoters can be greedy, government should not be. It should realize that the real and substantive gains would accrue to it later. As an example, let us look at the recent past 5 years which had 4 PSU IPOs. The value of the government holding, courtesy the market, has gone up nearly 3 times from Rs. 80,791 crore on the issue date to Rs.2,30,805 crore presently, despite depressed markets. In one specific case-NTPC, the value of the 89.5 per cent government holding on the IPO date was Rs.45,754 crore. Today, this holding is worth Rs.1,57,002 crore, a gain of 243 per cent. This also means that investors in these IPOs have made similar gains.

There are more arguments in favour of PSU offerings. This is totally criticism-free; allotments are to anonymous investors. PSU divestments help bridge the fiscal deficit, a major cause of concern right now, and the estimates of how much money the government can raise through just token divestments range from Rs. 1 lakh crore to Rs. 2.50 lakh crore. Listing increases transparency and accountability, in better corporate governance and in efficiencies.

Equally importantly, the public offering route can provide the much needed depth and width to our capital market; a grave scarcity of listed companies and listed capital continues to exist which causes excessive speculation and volatility. Finally, the household savings of millions of retail investors can be brought to the capital market to help grow the economy. Despite rising savings, less than 5 per cent of household savings are currently invested in the capital market and worse, in a country of over 100 crore, we have at best only 1 crore equity investors. Moreover, PSU IPOs can actually be the instrument for reviving the sentiments;

remember that it was a PSU divestment- Maruti in June 2003- that had earlier led the recovery of the market.

To make the huge divestments happen, there is a need to be pragmatic. A radical new approach is warranted, which will also require a relaxed regulatory framework. Here are some of my suggestions:

- **Relax the minimum offering clause.** As even at 5 per cent, the issue size in many cases will be very large, the focus should be on the float size and not on percentage.
- **Drop the requirement of independent directors.** This, given the fact that PSUs have additional accountability to the CAG, CVC and the Parliament In any case, despite non-compliance for more than 3 years by already-listed PSUs, no regulatory action has been taken.
- **Dispense with IPO grading for PSU IPOs** given the high credentials of the PSUs.
- **Offer these only to the retail investors.** Government paper offers to the retail investors the 'safety of capital' that they want given the high credentials of PSUs and the comfort that PSUs will not go overboard on pricing. Questions may be raised about the depth of the retail market. This, as ever, is a bogey, given the experience of the recent past. The Reliance Power IPO could attract as many as 46.23 lakh retail investors who collectively put in a massive Rs. 39,919 crore as advance application money in just 5 days. And, these were man-on-the-street investors, who put in applications of less than Rs. 1 lakh each, and were genuine investors, sans the multiple applications, following the strict enforcement/regulations post the IPO scam. An only retail policy will have a major positive impact: a very wide distribution reduces post-listing selling pressure; large sales by institutional investors often destabilize the prices. Also, this policy would be politically correct; what better opportunity to please millions! (Some reservations can be made for the domestic mutual funds) .
- **Offer IPOs at reasonable prices, and FPOs at a discount of at least 10 per cent to the market price.** This shall surely not maximize returns for the government. It should, however, be first recognized that in this manner, the wealth created by public enterprises through domestic public resources shall be shared rightfully only with the public. In any case, true price discovery post listing, as demonstrated above, would get government much larger gains than the small loss it may incur in pricing the IPOs low. Moreover, there would be no post-listing price pressures/embarrassments; the PSUs would forever be in the investors' Thank You list!
- **Use only the fixed price route** as the retail investors are ill-equipped for bookbuilding.
- **Ensure a wide distribution** with no individual investor getting more than Rs. 1 lakh in allotment.
- **Incentivise distribution system** to enthuse merchant bankers/brokers etc to reach out to first-time investors
- **Stagger the issuances,** learning from the fiasco of 2004. The new ASBA system would come in good stead. This would also release monies quickly for the investors to apply in successive PSU IPOs.
- **Allow allotments in physical mode:** Investors would be saved from the hassles of opening demat accounts. They would also save on custodial

charges; many investors may like to hold the “family silver” for long periods. Only for selling, demat account may be mandated.

The divestment process can begin with a bang and continue to create new milestones. With all these offerings, the shape and size of the Indian capital market will change for ever, and for good! It would be a pity if these got stalled because of government’s greed or regulatory hurdles. It would, of course, be a dream demand in case government monopolies, for example, in P&T and railways are corporatized as even a token divestment then in these would rake in very large sums of monies for the government.