BUSINESS LINE, Delhi, 3.4.2018
Page No. 8, Size:(18.98)cms X (2.02)cms.

PSU offers need better packaging

The Centre will need to up its disclosures and marketing skills to make its PSU offers more appealing to investors

AARATI KRISHNAN

CIRCUIT BREAKER

From the government's point of view, this year's public sector disinvestment programme has certainly been a blockbuster hit. By mopping up a record ₹1-lakh crore, the programme this year has met its ambitious target and made a big contribution to bridging the yawning deficit. It has also featured a good mix of market sales, new listings and strategic sales.

Digging deeper suggests that some amount of *Jugaad* has gone into getting to the number. Thirteen PSUs have returned capital to the Centre through buyback offers in FY18, contributing ₹5,337 crore to the 'market sales' kitty. Strategic sales have been propped up by ONGC purchasing the Centre's 51.1 per cent stake in HPCL, at a premium valuation of ₹36,915 crore. Recent IPOs from the government stable such as GIC, New India Assurance, Hindustan Aeronautics and Bharat Dynamics may not have sailed through without aggressive bidding by LIC.

Investors who participated in the FY18 PSU offers are also an unhappy lot, with 11 of the 14 stocks now languishing below offer price.

While the NDA government has no doubt managed to wrap up Season 1 of its rebooted disinvestment programme with a fat purse, Season 2 could face a rocky reception, unless it focusses on addressing some issues.

Scan & share
http://bit.ly/2GKfbL5

No State secrets, please

Defence stocks have enjoyed a scarcity premium in the markets lately, given that defence is the centrepiece of the NDA's Make in India drive and that armed forces' equipment are badly in need of a makeover. PSUs supplying defence equipment also get favourable treatment in government contracts by way of offset clauses and priority procurement.

This should have logically ensured smooth sailing for India's largest defence PSU Hindustan Aeronautics, missile and torpedo maker Bharat Dynamics and speciality alloy maker Mishra Dhatu Nigam during their maiden offers this month. Apart from being near-monopolies in niche markets, each of these PSUs also boasts of a good profit record and order book. The offers were reasonably priced at about 14-17 times trailing earnings, despite frothy markets.

But demand details for all three offers reveal zero bids from Foreign Portfolio Investors (FPIs) and tepid participation from domestic mutual funds. Reports suggest that some of these IPOs may have bombed without support from the LIC. Lest we attribute this to market conditions, Bandhan Bank's IPO had institutional bidders thronging to it and managed a 15 times over-subscription, despite being the nth universal bank to list in India.

It transpires that institutional investors found the IPO disclosures by the defence PSUs too sketchy to take a call on their prospects. While their prospectuses and roadshow pitches offered reams of macro information on India's defence budget they lacked sufficient company-level data on segment-wise revenues, product mix, their clients and key drivers of costs and profits.

All three PSUs cited "national security related concerns" to withhold material information from their prospectuses. For good measure, they've also obtained waivers from SEBI on ongoing disclosures on such matters, after they list.

The question really is: If the government is reluctant to open up the operations of these sensitive firms to public scrutiny, what was the need to pick these PSUs out of the many unlisted ones, for an IPO? Were they selected simply for their ability to quickly fill the year-end shortfall in the disinvestment kitty?

Now, as arms of the government, the Central Ministries overseeing unlisted public sector firms may be quite used to playing their cards close to their chest and withholding information. But this attitude will need a sea-change, if they are to succeed as sellers of assets in the public markets, where they're competing with savvy private promoters and umpteen listed companies.

So, if the Centre is keen to secure better response to PSU IPOs in FY19, it must choose candidates which are able and willing to make complete public disclosures.

Needing a makeover

When private sector promoters prepare their firms for a public debut, they spend many months giving them a full bridal makeover. IPOs are usually preceded by extended corporate campaigns and a multimedia advertising splash. A string of media appearances for top managers is carefully orchestrated by a PR agency to present a rosy picture of their prospects. This ensures that when the company knocks at investors' doors, they're convinced that they're dealing with a highly desirable brand.

But recent IPOs from state-owned firms have been sprung on the investing public with scarcely any notice. Given that many of these PSUs are B2B firms who sell mainly to the government, investors and even analysts are completely unfamiliar with their brands, operations and even the industry in which they operate. The three- or four-day window available during the offer is far too short for investors to come to grips with the business, probably prompting them to give it a miss.

Many PSUs also seem to rush into IPO mode without sufficient groundwork on showcasing the best aspects of their financials to the public. The New India Assurance Company faced quite a struggle with its IPO in October

BUSINESS LINE, Delhi, 3.4.2018
Page No. 8, Size:(18.98)cms X (2.02)cms.

2017, despite its many strengths in the general insurance business — a vast customer and agent base, market leadership, high solvency margins, a diversified portfolio and a high-yielding investment book.

At the time of the IPO, most analysts voted the offer too expensive based on its FY17 numbers, as it was priced at 78 times trailing earnings and five times its book value. The insurer had also reported an operating loss in four of the five years preceding the IPO. The management was at pains to explain that a turnaround was imminent and that the actual book value was many times the reported number, due to unrealised gains on legacy investments. But this didn't cut ice with investors as they did not feature in the official prospectus.

The company's operating and net profits have managed a big turnaround in the quarters following the listing. But the point is that a private sector promoter would surely have timed the IPO to the period when profits were galloping, rather than when they were in the doldrums.

The above instances suggest that for the managers of PSU offers, marketing lessons from some of India's private sector promoters who excel at putting lipstick on pigs, would not be amiss.

The other issue of course, is how the government itself behaves as the promoter of listed PSUs. Every time the Centre fills its coffers by arm-twisting a listed PSU into a buyback offer, general dividend or cross-holding deal, it only strengthens the market perception that PSU stocks can never turn out to be long-term wealth creators.