

Rally a good chance for PSU divestments: Market players

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Mumbai, June 25

ASTHE INDIAN equity market surges to unprecedented highs, market players see a great opportunity for the government to divest stake in public sector undertakings (PSUs) to meet its ambitious fiscal targets.

In the interim Budget, the government set a goal of raising ₹50,000 crore through divestment, monetisation of public assets, and capital receipts for the financial year 2024-25. This target was a first shift away from specific divestment targets, aiming for a more gradual approach.

"This is the best time for the government to divest stake in PSUs with the amount of money coming into the equity market. There is enough demand in the market to easily absorb whatever stake is divested," said DP Singh, joint CEO at SBI Mutual Fund.

PSU stocks have been riding a wave of confidence, driven by government focus on infrastructure, manufacturing, and capital expenditure. The BSE PSU index has soared 35% so far in 2024, outpacing the benchmark Nifty 50, which has gained 8% in the same period.

The PSU sector has been a significant wealth creator in recent years. The market capitalisation of the BSE PSU index has climbed to ₹67.62 trillion, of which public shareholders



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hold ₹20.63 trillion as of June 21.

On June 20, capital market participants urged finance minister Nirmala Sitharaman to divest some stake in low float PSU stocks, pointing to valuation bubbles. A low public float means limited supply, leading to a demand-supply mismatch that can inflate stock prices with even modest buying activity.

"The markets are at all-time highs, and it makes so much more sense for the government to monetise its stake in PSUs to continue its fiscal glide path and even increase the target," said Dhiraj Relli, MD & CEO of HDFC

Securities. In the past two weeks alone, the Nifty 50 index has hit new record highs on seven out of nine trading days.

Despite missing its divestment target for four consecutive years, market participants anticipate a high target of ₹50,000-55,000 crore in the upcoming Budget.

"It remains to be seen if the government will achieve its divestment target after missing it in the past several years, and take advantage of the euphoria surrounding PSU stocks and increase stake sale, through a mix of OFS and ETFs," said Kotak Institutional Equities in a report.

In FY24, the Department of Investment and Public Asset Management (DIPAM) raised ₹16,507 crore in disinvestment receipts, falling short of the already lowered target of ₹30,000 crore. These included smaller stake sale of Coal India, SJVN, Housing & Urban Development Corporation of India, Ireda, Rail Vikas Nigam and Itron International.

Some larger strategic sales of public sector enterprises such as IDBI Bank, Shipping Corporation, NMDC Steel, BEML and Container Corporation, which were delayed due to market conditions, could capitalise on the current rally. Market experts also foresee stake sales in sectors such as power and capital goods, where valuations have surged.