The government's stake-selling agenda: If not now, then when?

The market rally in PSU shares offers it a fine opportunity to raise resources by offloading its equity

SACHCHIDANAND SHUKLA
is group chief economist at Larsen & Toubro.

Markets have been hitting new highs almost every week and the total wealth in equity assets has also risen to all-time highs. Not surprisingly, promoters are set for record stock dilution. As per media reports, promoters of over 200 companies have cumulatively sold stock worth around $4 billion in the last two months alone, taking advantage of richer valuations and cashing-in on the equity they hold.

In this context, it is pertinent to note that the market capitalization of public sector undertakings (PSUs) has almost doubled from about $404 billion in 2022-23 to $804 billion currently. To put this number in context, total budgeted expenditure in the 2024-25 interim budget is about $560 billion. PSUs have attained record high returns on equity and PSU profits are expected to be around 2% of gross domestic product (GDP). Almost every PSU and public sector bank (PSB) stock has seen a humongous rally, with these stocks significantly outperforming their private peers as well as the market.

This must be a rather pleasant outcome for the Government of India, which, as a 'promoter' in a different class altogether, has reaped the benefits so far in the form of chunky dividends, but needs far more money to create infrastructure, generate jobs and strengthen economic engines. Not very long ago, the country was trapped in a vicious cycle of a twin-balance-sheet crisis, with the finances of corporates and banks both under stress. PSBs were reeling under a mountain of non-performing loans, with a few even being 'technically bankrupt'.

This prompted the government to initiate measures such as its 4'R's strategy of recognizing non-performing assets (NPAs) transparently, resolving and recovering value from stressed accounts, recapitalizing banks and reforming banks through an agenda of PSB reforms. Governance moves, capital infusion and bank mergers helped restore their financial health, though it took huge dollops of taxpayer money (over $35 billion) and plenty of time to heal balance sheets. But it eventually helped improve confidence, shore up their capital base and reduce operational costs.

The big turnaround in PSU fortunes has been rewarded with the sharp rally in their stock prices and presents a ripe opportunity for the monetization of government stakes and putting the money back to work productively in the economy. The rally should also be attributed to massive governmental efforts that improved PSU financial performance. Monetization will help the fisc and generate resources to build growth-supportive infrastructure assets, a process that is known to have a high multiplier effect and create jobs in larger numbers—a key imperative in the current context.

Moreover, it will also improve liquidity in markets. We have seen a surge in market capitalization, but public shareholding in PSU stocks has remained low. This scenario provides an opportunity for state-held listed entities that still haven't met the market regulator's minimum public shareholding (MPS) norm to comply. The government's stake in many PSBs exceeds 75%, although Sebi requires the proportion to be reduced below that mark. In fact, a few banks such as Indian Overseas Bank, UCO Bank and Central Bank of India have state shareholdings as high as 96%, 95% and 93%, respectively.

There are well known difficulties involved in the disinvestment process, including the involvement of multiple stakeholders, extended regulatory processes, global economic volatility, political opposition and accusations of the 'family silver' being sold off.

To overcome these challenges, market experts point out other ways of offloading stakes. For example, using the offer-for-sale (OFS) mechanism available to promoters, which could entail shorter time periods if done through a special window at stock exchanges. The government could also consider selling chunky stakes via block deals. Or it could explore selling small quantities in the secondary market. Of the $50 billion odd that has been raised in the last 10 years from divestments, $37.5 billion came from minority stake sales.

The government has set a divestment target of about $6 billion for 2024-25, which is 67% higher than its revised target of $3.6 billion for 2023-24. Note, the government's "miscellaneous capital receipts," which include realizations from disinvestment and other forms of asset monetization, exceeded the revised estimate of $3.4 billion in 2023-24, of which proceeds from disinvestment totalled $1.95 billion.

Interestingly, the interim budget did not classify disinvestment receipts as a separate head under the broad category of miscellaneous capital receipts. While this may be a procedural or classification shift, India's strategy to generate resources needs a quick qualitative swing to seize the moment. The Centre should not be content with just PSU dividends. Its revitalization of these entities was hard-earned. Stakes need to be sold. The government would also do well to use this as a signalling device to affirm the economic principle that the government should not be in the business of running businesses, especially non-strategic ones.

These are the author's personal views.