{ THE BIG PICTURE }

Disinvest State stake in PSUs for market boost

How to make government the biggest beneficiary of the current bull run

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The BSE Sensex has moved up from 51,360 on June 13, 2022, to its current level of 81,381. New issuances in the equity market between April–September 2024, have seen 196 IPO listings, of which 159 have been on the NSE/BSE SME index. Bajaj Housing Finance IPO's total issue size of ₹6,560 crore was oversubscribed 63 times with subscriptions exceeding ₹3 lakh crore. Gone are the days of 100% subscribed issuances. On the contrary, 77 of the 159 SME issuances were subscribed more than 200 times the issue.

The government of India (GOI) owns 389 central public sector enterprises (CPSEs) and their subsidiaries. If we took just the top 50 listed CPSEs, their aggregate market capitalisation has risen from ₹23 lakh crore in 2022 to ₹66 lakh crore (about $800 billion as of October 4, 2024), or about 21% of our Gross Domestic Product (GDP). GOI holding in CPSEs is valued at over ₹44 lakh crore (about $525 billion), with a holding of around 67% on an average basis.

If we were to compare the GOI holdings in its companies versus that of larger private conglomerates in India, we observe that their average shareholding ranges between 18% and 56%, across a sample of Tatas, Birlas, Mahindra, and Bajaj. In 25 out of the 30 listed companies, the parent shareholding is below 51%, but they do ensure that they are the single largest share owner. They run these companies well, treating minority shareholders fairly and in compliance with the laws of the land.

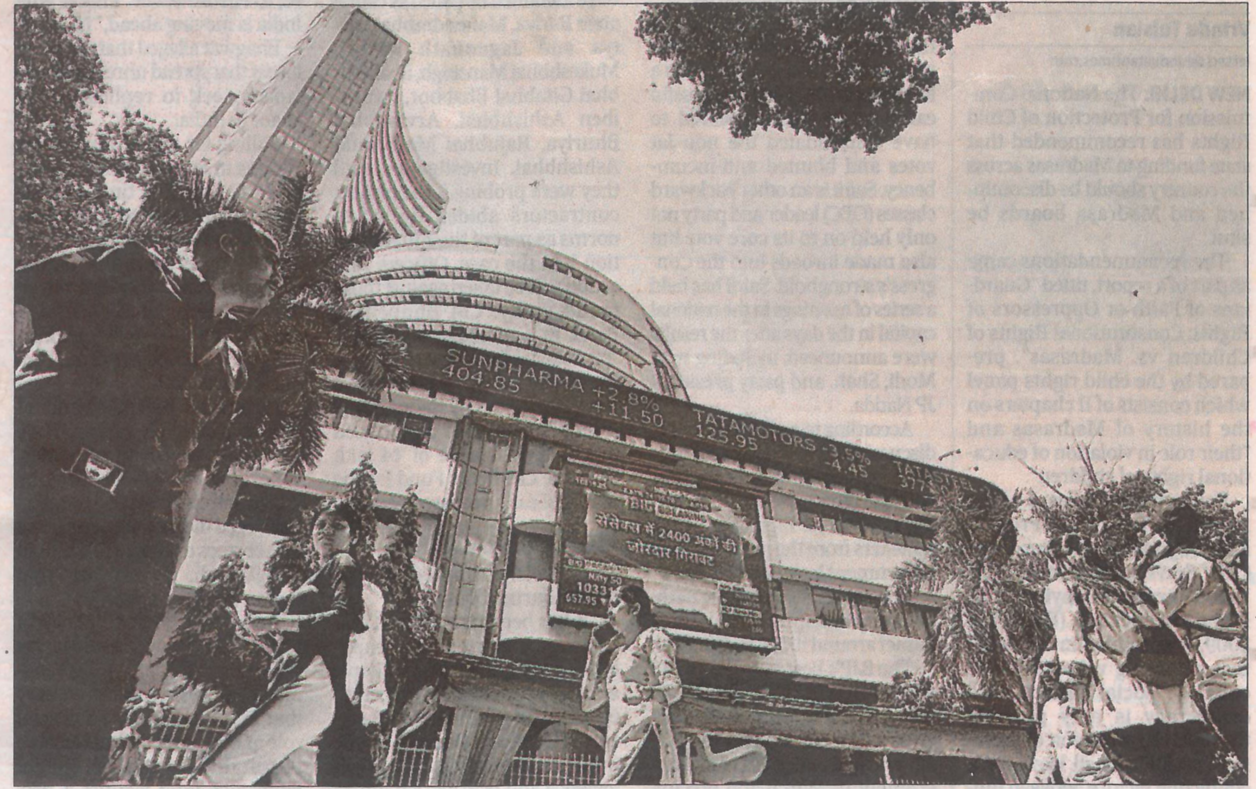
Consider as a thought experiment that GOI followed suit and reduced their holding from 67% to 33% in the top 50 PSEs. They would instantly obtain ₹22 lakh crore ($250 billion) at the current price to book of these companies. What may ₹22 lakh crore get GOI?

To put this number in sharp perspective, the total GOI debt is ₹250 lakh crore of which the Centre's share is ₹174 lakh crore (about $2 trillion) at the end of FY24. Expected gross borrowings for FY25 are expected to be ₹14 lakh crore. In FY24, it was ₹10.5 lakh crore and constituted 24% of GOI budgetary expenditure. Essentially, ₹22 lakh crore could service the entire debt of GOI for FY24 of ₹10.5 lakh crore, and, in addition, almost eliminate the need for any borrowing in FY25.

Almost everyone believes if GOI were to bring its holding down below 51% the multiple for these companies would rise, anticipating governance improvements due to increased market pressures, thereby increasing the amount of money GOI could raise.

There are other benefits that accrue also. A reduction of India's debt-to-GDP ratio would improve the prospects of a credit rating upgrade reducing the cost of borrowings. Further, the release of equity float in the markets could help arrest the ongoing frothiness witnessed in our bourses. There is enough and more evidence of the highly exuberant behaviour being displayed by market participants. Strange things are witnessed; three of the four public sector banks (PSBs) with the highest price-to-book ratios (higher than the State Bank of India) are also among the bottom five performers of the sector. Their valuation is thus not driven by performance, but by more money chasing a low free float as GOI holding in all these four stocks is over 90%.

Bringing more scrips into the market would also help in terms of releasing money back into the system for capex funding by the banks. We have seen credit growth outpace deposit growth for the last nine quarters, and the just concluded Q2 is not expected to be any different. This has translated into many banks pulling back on credit growth across retail and corporate avenues. However, as GOI reduces its debt, thereby moving money from Reserve Bank of India (RBI)-held GOI nodal accounts to bank-held investor accounts, it will inject much-needed liquidity back into the system.



There is hunger among investors to participate in the equity market almost to the extent of instability from frothy valuations REUTERS

GOI would do well to begin with by creating an advisory board of eminent persons who would be a recommending body to the Union finance minister about the scrips to disinvest in and across what time frame (to reduce the risk for the bureaucrats that will be responsible for the actual sale). To begin with, GOI could start this process in a phased manner. It could begin by reducing its holdings in the well-performing PSBs to 51%. These PSBs have consistently outperformed their private peers and have seen a doubling in their total market capitalisation from ₹7.3 lakh crore in March 2022 to ₹15.5 lakh crore in February 2024. The value of government holding in these entities is about ₹10.7 lakh crore. Just taking this down to 51% will release almost ₹2.9 lakh crore, and taking it down to 33% could release ₹5.7 lakh crore. This does not incorporate any change in valuation due to dilution of government holding which could easily add another trillion of value unlock.

So, to summarise, there is a hunger amongst investors to participate in the equity market almost to the extent of instability from frothy valuations. There is intent on the part of GOI to make a *Viksit Bharat*. Reducing GOI holding to 33% in CPSEs, yet remaining the single largest owner, in just the top 50 CPSEs could give a bull market boost of ₹22 lakh crore.

Nobel Laureate Paul Samuelson wisely said, "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." Dear finance minister, the paint is dry enough, and the grass is long enough for GOI to start creating some excitement. Let's just do it for India and signal the next phase of worthy reforms.

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The views expressed are personal