PSU Cross-holding - Pragmatic or Problematic?

In a desperate bid to keep its fiscal deficit of 4.8% under control, the government is now planning a tweak to its disinvestment strategy. Having barely raised a fraction of its Rs 40,000 Cr target this year, and finding it difficult to push stake sales through the IPO or OFS route, the government may press cash rich PSUs to buy stakes in each other, according to a report in the Economic Times.

PSUs will be asked to pick up stakes in companies where they have a business linkage. NTPC for instance could be asked to buy shares in Coal India, and the government hopes this cross selling will enable companies to provide valuable suggestions to each other and share business plans apart from ensuring that the entire cash raised through this process goes to the centre.

Some market experts have dismissed the idea, as minority shareholders who would have received at least some benefit had the government decided on a special dividend or a discounted offering, will end up not getting anything.

“Saying cross selling would create value is humbug” said Prithvi Haldea, CMD of Prime Database. “What kind of strategic value can a 3-5% stake sale create when the acquirer neither gets directorship on the board or any control on decisions? This is just a last minute rush to fill up the systemic deficit requirement and completely ignores the larger purpose of disinvestment, which is to enlarge the capital markets.”

Haldea says cross selling also raises questions of corporate governance as these are listed companies and so there must be greater disclosure and transparency on whether they will be able to derive maximum value from such investments. It could also give rise to potential conflict of interest situations going ahead.

“I find this a bit comical” says Sandeep Parekh, former ED at SEBI and founder of Finsec Law Advisors. “It may not do much harm, but will certainly do nothing to improve things.”

But with the fiscal deficit on top of Chidambaram’s mind, some market experts find this a pragmatic route to raising money.

“In the current market scenario a generic approach to disinvestment will not work, you need to try multiple methods. With CIL you have issues with the trade unions; in case of BHEL the market conditions are not suitable. So while the OFS or the FPO route might be appropriate for Power Grid, it may not be the best option for these companies. From the point of view of the ease of doing divestment, a special dividend or cross selling is quickest as market conditions become irrelevant” says Jagannadham Thunuguntla of SMC Global Securities. He warns though that a cash outflow can challenge capex plans and weaken company performance.

With barely 3 months left in the fiscal, the government is mulling all options including share buybacks, ETF launches, stake sale in SUTTI holdings etc to hit its ambitious divestment target. Even post the Power Grid FPO, it has managed to rake in a little less than Rs 3000 Cr through a stake sale in 7 companies. Coal India, IOC, EIL, HAL and BHEL are some of the PSU candidates next in the pipeline.

(Business Standard)