Is government over-pricing PSU IPOs?

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NOT ATTRACTIVE

Co	P/E at divestment	Co	P/E at divestment
NHPC	38.3	GAIL*	8.8
PTC	29.6	Bank of Baroda	8.5
CMC	15.3	Andhra Bank	7.6
Power Grid Corp	14.7	Union Bank	7.5
ONGC*	12.3	PNB	7.4
Oil India	10.1	Maruti	7.3
Central Bank	9.8	Dredging Corp*	6.8
REC	9.6	OBC	6.3
NTPC	9.2	Allahabad Bank	5.2
Power Fin Corp	9.0	Indian Bank	4.4

* 5% discount for retail investors

MUMBAI: The market gave a lukewarm response to NHPC when its listed on Tuesday. This came despite the buzz created around the issue which was in the true sense of the term a PSU divestment after a gap of over 18 months. Compared to its IPO price of Rs 36, the scrip was listed at Rs 39 on BSE and finally settled at Rs 36.70, a listing-day gain of just about 2%.

Although merchant bankers associated with the issue said it is a long-term bet, the not-so-enthusiastic listing of NHPC is also leading to doubts in some quarters if the issue was priced aggressively. If you consider one of the most widely accepted valuation parameters — price to earnings (P/E) ratio — the answer is yes.

A look at the record of the past seven years, starting from the now-famous Maruti divestment in 2003, one sees that NHPC shares were offered at a P/E of 38.3, the highest in the 24 divestments, including follow-ons and bank IPOs, during the period under consideration.

The Oil India IPO, which opens next week in the Rs 950-1 ,050 price band, is at a P/E of a little over 10 at the higher end of the band.

A TOI analysis of PSU divestments since the Maruti issue in 2003 indicate that the government's pricing strategy has been changing with time and it doesn't want its enterprises to be undervalued . Says Dina Mehta, former BSE president and MD of Asit C Mehta Investment Intermediaries , " Since public sector units are created out of taxpayers' money, the benefit (its IPO) should also benefit them. Their issues should not be fully priced in a bid to attract mass participation."

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An IPO, especially from the government stable, is mainly intended to give people , mainly retail investors, ownership of state-run units and leave something on the table for investors. In India, bulk of an issue is dominated by qualified institutional buyers with 60% of an issue allotted to this group as against 30% for retail investors , if the dilution is less than 25%.

Merchant bankers say investment horizon and pricing preference for QIBs appear to be at odds with the preference of retail investors. Among other things, pricing is determined by the feedback of institutional investors during the issue's premarketing exercise.

Back in mid- '80s, the UK government under Margaret Thatcher applied the popular saying, you attract 'more' bees with honey, to her privatisation programmes. It set the IPO price of British Telecom — UK's first government entity to go public — artificially low so that it benefited its citizens. The result: Over two million small investors applied for the company's shares. Some, have a different take. Mehul Savla, who runs his own transactions advisory firm, RippleWave Equity, said, " It is a notion. Pricing of an issue is more to do with market timing."