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## Centre turns pragmatic on divestment pricing, lowers floor

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The government seems to have learnt a lesson from its mistakes and kicked off the divestment programme for this fiscal on the right note.

On Thursday, it fixed the floor price for the 4% stake sale in Hindustan Copper through the offer for sale (OFS) route, due to take place today, at Rs 155 per share — a 41.8% discount to its current market price.

Though intended at financial institutions, the issue can also be subscribed to by retail investors, albeit with 100% margin. SP Tulsian, an independent analyst, believes the pricing is attractive and will see the issue through.

“Though people may say that the price is at a huge discount to market price, the fact is that based on valuations, Hind Copper should be valued closer to Rs 15,000 crore. Considering its expected profit after tax, which may come to around Rs 200-250 crore for this fiscal, the valuation based on earnings may be closer to Rs 5,000 crore, with the rest of the attributed value coming from its copper mines.”

The stock surged 11.3% on Thursday to close at Rs 266.30 with its full market capitalisation reaching Rs 24,638 crore. Tulsian feels the spike was the handiwork of market manipulators “who do not want the government to divest stake in the company so that they

can continue taking advantage of low free float”.

The government had a bad experience in setting the floor price in case of ONGC. It had set the floor at Rs 290 a share, which was at a premium to the prevailing market price of Rs 283.55. But if one looks at recent OFS issues, the price has been at a discount similar to what the government is offering on Hindustan Copper. Disa India, which successfully completed an 11.5% stake sale by its promoter through OFS on Wednesday at Rs 2,610 apiece, had set the floor price at Rs 1,500, when the market price the day earlier was Rs 2,500.

Mehul Savla, director at RippleWave Equity, a boutique investment bank, believes it's a pragmatic move and reflects the government's intent to get the divestment programme through.

“Floor price, if set closer to market price, may act as a deterrent, while if the price is set at discount to market price, it helps in getting more people,” Savla said. “Though the actual price discovery may be closer to market price when the bidding starts, lower price provides a cushion. You don't want a case where the outcome is uncertain.”

The government intends to divest stake in NMDC, Oil India, NTPC, Nalco, MMTC and Neyveli Lignite as part of its Rs 30,000 crore target this fiscal.

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