Delinking Open Offer Price in PSU Disinvestments

Why in news?

The SEBI has proposed to ease the pricing formula used for determining the 'open offer' price in case of public sector undertaking (PSU) disinvestments.

What is disinvestment?

- The disinvestment strategy means the market activity in which the government sells or liquidates government-owned assets.
- Objectives of disinvestment
    - Reducing the financial burden on the government
    - Improving public finances
    - Encouraging an open share of ownership
    - Introduction, competition, and market discipline
    - Depoliticising essential services
    - Rationalising and retraining the workforce
    - Building competence and strength in R&D
- Department of Investment and Public Asset Management, Ministry of Finance handles all the disinvestment-related tasks.

How is open offer price in a listed company determined?

- The open offer price in a listed company is determined by taking into account
    - the price at which the stake was sold to the acquirer
    - the volume-weighted average market price of the share over a period of 60 days prior to the date of public announcement
- The higher of the two prices is fixed as the price offered to public shareholders.
- **Problems**- The news about prospective stake sale is known to everyone as soon as the Union Cabinet makes a decision in this regard.
- The long gap between the Cabinet decision and the final PSU stake sale results in heightened speculative activity in these stocks, influencing prices.
- Such speculative rallies deter the acquirer company as it will need to keep revising upwards its cost of acquisition.

What is the SEBI's proposal about?

- The SEBI has said that the 60-day rule for discovering the open offer price could be dispensed with in the case of PSU disinvestment.
- The acquirer shall disclose upfront the negotiated price for both direct acquisition as well for indirect acquisition.
- The intent behind SEBI's open offer provision is to provide an exit to existing shareholders in a company at a fair valuation when the control of the company changes hands.

What is the way forward?

- The Centre needs to deliberate on the reason why the disinvestment program is showing such slow progress.
- A revised road-map needs to be drawn up for the disinvestment policy unveiled in 2021.
- The manner in which the Centre needs to exit PSUs in non-strategic sectors while retaining small stakes in PSUs in strategic sectors such as atomic energy, transport and communication and power is the need of the hour.
- It is important to begin the operations of Special Purpose Vehicle (SPV) for monetising surplus land with various ministries and departments.

References

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