

## 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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