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Some 60 stocks of the over 5,000 listed stocks have the Government of India as their owner. This list includes behemoths like NTPC, IOCL, SBI, SAIL, Coal India, etc. Of these, 20 are banking stocks, 37 are manufacturing or other stocks including oil marketing and refining companies. One each are state level public enterprises (Gujarat Mineral Development Corporation) and financial company IFCI. In all of these companies the government (mostly central) has a stake of 51% or more of the equity or ownership structure.

However, investing in these behemoths might just not be the right choice for the discerning investor.

About the investment potential for the retail investor into Public Sector Undertaking (PSU) stocks, Pritam Deuskar, fund manager, Bonanza Portfolio said, "Historically, PSUs have never created good returns for investors, with perhaps the exception of oil marketing companies."

**What ails PSU sector**

The BSE PSU Index ended at 9,160 points on January 1, 2018 and ended at 7,220 points on November 9, 2018. This is a fall of almost 1,940 points or 21% year-to-date.

On the other hand, the Sensex on January 1 closed at 33,812 points and on November 9, 2018 closed at 35,158 points. This is a gain of 1,346 points or a gain of about 4%.

"The lack of ownership or accountability, is one of the main reasons for the lacklustre performance of PSU stocks," said Deuskar. Other factors for their below par performance includes constantly changing directors and the almost continuous divestment by the government of PSU stocks.

PSU stocks are typically bifurcated or divided into banking and non-banking stocks. Deuskar feels that only a couple of PSUs have investment potential and he singles out Indian Oil Corporation and Steel Authority of India Limited - because of an uptrend in commodities, from the PSU basket.

The story is dismal amongst the PSU banking stocks too. "We feel that PSU

# Stay cautious while investing in PSU funds

Lack of ownership or accountability, constantly changing directors, continuous divestment are reasons for the lacklustre performance



banks are yet to meaningfully come out of pressure," said Lalitabh Shrivastawa, AVP, research, Sharekhan by BNP Paribas. This is worrisome as the PSU banking basket includes biggies like Allahabad Bank, Bank of Baroda, Corporation Bank, State Bank of India and UCO Bank.

"Performances of these PSU banks is expected to be weighed down by high slippages, elevated provisions, and capital adequacy challenges. SBI apart, I am cautious on PSU banks from the investment perspective," Shrivastawa said.

"Some PSU Banks are informing (the government) that they do not need a capital infusion; which should be

**PSU sector is risky for retail investors**

Fund	Returns (%)			
	YTD	1 year	3 year	5 year
Invesco India PSU Equity Gr	-20.47	-20.23	6.20	14.29
SBI PSU Reg Gr	-25.46	-25.97	3.12	6.66
Kotak PSU Bank ETF	-21.37	-28.09	-2.86	4.17
Reliance ETF PSU Bank BeES	-21.4	-26.13	-2.21	4.61
BHARAT 22 ETF	-7.05	-	-	-
CPSE ETF	-18.66	-17.22	5.21	-

Data as on 22nd Nov 2018 Source - Morningstar

a good sign. But issues affecting the PSU banks are far from over," said Deuskar.

PSU banks frequently have non-performing assets (NPAs) of 10% or more, which is a concern. Another worry is the possible merger of various subsidiaries and associate banks into the SBI

Group. There is a possibility that post merger high slippages, provisioning (for bad loans) and capital adequacy may weigh down on SBI's performance.

**Are PSU MFs/ETFs a good option**

Even investing in instru-

ments like Mutual Funds (MFs) and Exchange Traded Funds (ETFs) does not look like a viable option. A compilation by research house Morningstar into various MFs (Invesco India PSU Equity, SBI PSU, Reliance PSU) and ETFs (Bharat 22 ETF, CPSE ETF) indicate negative returns from most of them.

"PSU focused funds have done badly as most PSUs have various performance related issues and are not seen as creating wealth for shareholders," said Mrin Agarwal, Financial Educator and Money Mentor, Finance.

**Not for retail investors**

Agarwal also points out that the allocation of such funds

is for specific themes and are not recommended for retail investors. "Retail investors are better off investing in diversified funds," she added.

Reliance MF has announced a Further Fund Offer-3 of their Central Public Sector Enterprise - Exchange Traded Fund to raise Rs 8,000 crore (plus any additional amount) as part of the Government of India's divestment programme.

"We would like to reach out to retirement funds to invest in this fund and consider this an opportunity to secure their funds and benefit from the growth of these PSUs" said Sundeeep Sikka, ED and CEO, Reliance Nippon Life Asset Management that is handling the issue.

Experts are dismissive of this offer to the investing public. "The fund is highly concentrated with the top four stocks; NTPC, Coal India, IOC and ONGC having almost 80% allocation," Agarwal pointed out. Thus, such concentration of asset allocation is not suitable for retail investors and are only for the High Networth Individuals (HNIs) who want to bet on certain themes.

"In any case the best stocks from this ETF would be present in any multi-cap MF fund. Don't look at a fund just because it has a low cost structure and a discount (to offer piece)," advised Agarwal.

**Outlook for PSU sector**

Analysts are also of the opinion that that any increase in the fiscal deficit will push the government onto a greater PSU divestment programme, thus upsetting the PSUs' already fragile performances and parameters.

Also, the fact that the government gives frequent bailouts to PSUs is not a good thing. "Complacent policies makes investors fall into the trap of fallacious thinking, that by investing in PSU or government stocks they are safe," said Deuskar.

So what is the way out for PSU stocks? "The government should do a divestment once and then there will be no further dilution or divestment for the next 10-15 years. Then investors will have confidence in PSU stocks," said Deuskar.