PSU's OFS Is A Liquidity Event, Not a Warning Signal: JM Financial's Balasubramaniam

Krishna Chourasia | Jul 10, 2026

Stock Market # PSU Stocks # OFS # Sebi # DIPAM

Strong subscription to the OFSs reflects the discount's attractiveness relative to the prevailing price, not conviction on the business at that price, he says

The government's aggressive stake sale programme has brought public sector undertakings (PSUs) back into the spotlight. With more than Rs 25,000 crore raised through offer-for-sale (OFS) transactions so far this year, the highest in over a decade, investors are increasingly questioning whether these issues present attractive long-term opportunities or merely reflect a surge in supply that could weigh on share prices. At the same time, several PSU stocks have already delivered exceptional returns over the past two years, prompting fresh debate over valuations, earnings visibility and the sector's future investment appeal.

In an exclusive interview with BW Businessworld, Venkatesh Balasubramaniam, Managing Director and Head of Research at JM Financial Institutional Securities, explained why investors should avoid treating PSU stocks as a single theme and instead focus on business fundamentals. He discussed how Sebi's public shareholding norms, the government's disinvestment agenda and institutional demand are reshaping the sector, identifies PSU segments that continue to offer compelling value, highlights areas where valuations have become stretched, and outlines how retail investors should approach PSU exposure in a diversified long-term portfolio.

Edited excerpts:

The government has raised over Rs 25,000 crore through PSU OFSs this year, the highest in more than a decade. Should retail investors view these stake sales as buying opportunities or as signals to remain cautious?
An OFS is a liquidity event, not a fundamental signal. The government is a seller for fiscal and regulatory reasons, not because it has a negative view on the business. The right lens is price versus intrinsic value. Where

an OFS comes at a meaningful discount in a business with earnings visibility, as we have seen in select power and defence names, it is a genuine entry point. Where it merely adds supply to an already richly valued stock, the discount is compensation for risk, not a bargain. Treat each OFS on its own merits rather than as a category call.

Many PSU stocks have rallied sharply over the past two years. Are valuations still attractive, or has the easy money already been made in the sector?
The easy money, the re-rating from distressed to fair value, is clearly behind us. PSU banks moved from 0.4 to 0.6 times book to 1 to 1.3 times, defence names re-rated from mid-teens to 35 to 50 times earnings. From here, returns must come from earnings compounding, not multiple expansion. That is not a bearish statement; it just means the sector has normalized. Pockets of value remain where earnings are still catching up including power financiers, select upstream oil names, and utilities trading below their growth-adjusted multiples. But the indiscriminate basket trade is over. Stock selection now matters far more than sector exposure.

Sebi's minimum public shareholding norms are forcing the government to dilute stakes in several PSUs. Does this create a structural supply overhang that could cap returns in the near term?
In the near term, yes, and markets are efficient at pricing known future supply. Names where government holding is well above 75 per cent will trade with an OFS discount embedded until the dilution is done. But two mitigants matter. First, the timeline is extended, so supply comes in digestible tranches. Second, higher free float eventually brings index inclusion and higher institutional ownership.

MSCI and FTSE weight adjustments have historically triggered passive inflows that more than absorb the OFS paper. So, it is a near-term cap, medium-term positive. Investors with a two-to-three-year horizon can use overhang-driven weakness to accumulate quality names.

Apart from defence, which PSU sectors currently offer the best combination of earnings visibility, valuations and dividend yield?
Power and power equipment, the thermal capex revival plus transmission buildout gives multi-year order book visibility; BHEL turning profitable in a seasonally loss-making Q1 is emblematic of the cycle. Upstream oil companies like Oil India combine high single-digit dividend yields with realisation of tailwinds and volume growth. And select PSU financiers, power sector lenders offer mid-teens ROE at single-digit multiples with 4 to 5 per cent yields. PSU banks are more nuanced: growth is healthy but margin compression and normalizing credit costs mean the earnings upgrade cycle has plateaued.

Several recent OFSs have been subscribed strongly, but post-issue stock performance has largely remained muted. What explains this disconnect between demand during the OFS and returns afterwards?
The subscription number flatters the reality. A large portion of OFS demand is arbitrage-driven, with institutions bidding for the discount with the intention of exiting within weeks. That paper comes back into the market post-issue, capping the stock. Additionally, strong subscription reflects the discount's attractiveness relative to the prevailing price, not conviction on the business at that price. So, the mechanics almost guarantee muted near-term performance: you've transferred stock from a patient holder (government) to impatient ones (arbitrageurs). Performance thereafter reverts to fundamentals, which is why six-month post-OFS returns diverge sharply between quality and momentum names.

Which PSU segments would you avoid at current valuations? Are there areas where earnings no longer justify the recent share price rally?
Some defence shipyards embed execution assumptions well beyond demonstrated capability. Within metals, SAIL's cost structure leaves it the least leveraged to the steel price uptick. OMCs, meanwhile, face a structurally challenging year, with negative marketing margins and LPG

under recoveries keeping the earnings base highly unstable regardless of stated valuations.

The government has an ambitious disinvestment target for FY27. Could a steady pipeline of OFSs weigh on PSU stock prices, or will improving fundamentals continue to absorb the additional supply?
Both can be true at different price levels. Supply matters when valuations are stretched and marginal buyers are momentum-driven; it matters far less when businesses are compounding earnings and yields support the floor. The OFS pipeline acts as a ceiling on further re-rating, as it is hard for multiples to expand into known supply. At the same time, improving fundamentals helps prevent de-rating. Net result is a market where PSU returns track earnings growth, roughly low-to-mid teens for the better names. That's a healthy, if less exciting, outcome than the past two years.

For long-term investors building a fresh portfolio today, what allocation would you recommend between PSU stocks and private sector companies? Has the risk-reward equation changed after the recent rerating?
I would resist framing it as PSU versus private, as that is a factor bet, rather than an investment thesis. That said, for a fresh portfolio, something in the range of 15 per cent PSU exposure is defensible, concentrated in businesses where government ownership is an advantage (resource access, sovereign-backed order books, regulated returns) rather than a governance liability.

The risk-reward has genuinely changed post-rerating: you're no longer being paid for governance risk through deep discounts, so the bar for owning a PSU should be the same as any private company; earnings growth, capital allocation, and management quality within their constraints. Private sector franchises should remain the compounding core.

Krishna Chourasia
BW Reporters
The author is a Correspondent at BW Businessworld.

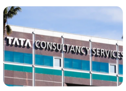
Share ——

Also Read


Equity Mutual Fund Inflows Rise To Rs 28,973 Cr In June; Gold ETFs Rebound Strongly
2 min(s) read

Apollo Micro Systems Shares Rise 3% on Rs 1,550 Cr Deal To Acquire Stakes In Premier Explosives Stake
2 min(s) read


Anand Rathi Wealth Shares Hit 52-week High After Q1 Profit Jumps 74%
2 min(s) read



TCS Shares Rise After Q1 Results Meet Expectations; JPMorgan Reiterates 'Overweight'
2 min(s) read

SBI Sells 1.42% Stake In SBI Funds Management For Rs 1,655 Cr Ahead Of IPO
2 min(s) read


One Trump Remark, a 1,677-Point Crash — and the Liquidity Hole the RBI's Prop-Trading Curbs Left Behind
5 min(s) read