Shares of public sector undertakings (PSUs) have underperformed thus far in the calendar year 2018 (CY18). The BSE PSU index – a gauge to measure the performance of state-owned enterprises (SOE) – has slipped 14 per cent year-to-date (YTD), as compared to 4 per cent rise in the S&P BSE Sensex.

On the NSE, too, the Nifty PSE index has lost 11 per cent (YTD), as against a two per cent gain in the Nifty50.

Analysts attribute the underperformance to intermittent roadblocks / events in individual sectors such as non-performing assets (NPAs) in the banking space, rising oil prices that impacted the oil marketing companies etc.

According to reports, the government is planning to pare stake in select PSUs, which can keep stock prices under check going ahead, analysts say. That apart, it has been milking these companies for dividends over the past few years to bridge the fiscal deficit, which they believe, has not found favour with investors.

"Dividend pay-outs have gone substantially up over last three – four years, but not because companies are making a huge profit. Government has been finding it difficult to contain fiscal deficit as revenues are not growing at a same pace as the expenditure. To bridge the gap, it has been pushing PSUs for higher dividends," said Deepak Jasani, head – retail research at HDFC Securities.

As regards divestment, G Chokkalingam, founder and managing director at Equinomics Research says the government should instead look at stake sale of mid-sized PSUs that have a good asset base, which can be a big draw for the private sector players.

"Money has been moving away from the midcap space, with stocks falling at least 20 per cent from record highs hit in January.

With 60 per cent PSU stocks being midcap, overstretched valuations and fall in foreign investment in the midcap space are also affecting the sentiment in the PSU space," Chokkalingam adds.

Banks, OMCs HIT HARD

Over 40 stocks in the S&P BSE PSU index are down over 10 per cent so far in CY18. BEML, IFCI, Power Finance Corporation, Bharat electronics, Engineer's India, Rural Electrification Corporation (REC), Shipping Corporation of India, Hindustan Copper and MMTC are down over 25 per cent YTD, ACE Equity data shows.

Public sector banks (PSBs) have suffered the most with the Nifty PSU Bank index falling over 19 per cent so far this year, owing to increase in their non-performing assets (NPAs). Oil & gas stocks, too, slipped on higher crude oil prices. Chennai Petroleum Corporation, Mangalore Refinery & Petrochemicals, Hindustan Petroleum Corporation (HPCL), Bharat Petroleum Corporation (BPCL), Indian Oil Corporation (IOC), Oil & Natural Gas Corporation (ONGC) and Oil India (OIL) have lost between 9 per cent – 34 per cent thus far in CY18, ACE Equity data shows.

Chokkalingam believes PSU banks will bounce back, but investors must look at PSBs where net non-performing assets (NPA) are less than the bank's net worth. He likes Vijaya Bank, Indian Bank, Shipping Corporation of India (SCI) and Cochin Shipyard in the PSU basket.

Mayuresh Joshi, fund manager at Angel Broking suggests investors look at a company's earnings visibility / steady cash flow, government policy, macro-economic conditions before investing. He likes construction, metal and bank stocks in the PSU segment.

Company Name	29-Dec-2017 (in Rs)	5-June-2018 (in Rs)	% Change
Punjab National Bank	171.50	85.65	-50.05
Allahabad Bank	73.40	42.00	-42.77
BEML Ltd.	1617.65	944.75	-41.59
IFCI Ltd.	30.90	18.20	-41.10
Bank Of Maharashtra	22.85	13.53	-40.78

Source: AceEquity