DELISTING

Delisting rush

Depending on valuations, delisting is a lucrative way to make a quick profit

The Indian stock market has slumped and so has fund raising via initial public offers, rights issues, etc, which has come to a standstill. However the market is seeing a flood of companies seeking to delist their shares. They want to take advantage of the weak market and low valuations, besides meeting the June 2013 deadline stipulated by the ministry of finance in June 2010. The ministry had issued guidelines pertaining to the minimum public shareholding for all listed companies. As per the guidelines, all private sector listed corporates must have at least a 25 per cent public holding, while listed PSUs should maintain a minimum public holding of at least 10 per cent. The corporates were given a time period of three years to abide by the guidelines.

To adhere to this guideline, companies have to either increase public shareholding by fresh issue to maintain the 25 per cent level or delist. Corporates, particularly fundamentally strong multinational companies (MNCs), may not have the inclination to increase their public holding and, so, are opting for the second alternative.

ICICIdirect.com has come out with its report on the delisting candidates. The research firm has filtered the companies based on the criteria of a minimum promoter holding of 75 per cent and return on capital employed (RoCE) higher than 10 per cent (*see table*). The list includes Walt Disney launching a delisiting offer to UTV Software; Wockhardt promoters Khorakiwalas wishing to take Carol Info Services off the bourse; Sweden-based Alfa Laval announcing delisting of its India unit and iGate going for delisting of Patni Computer. These are all companies in which promoter entities hold over 75 per cent stakes. "To arrive at this list, apart from promoter holding, we have also applied the criteria of more than 10 per cent RoCE and checked the availability of funds to buy back the public holding," said Pankaj Pandey, head of research at ICICI-direct.com.

Going by the last few delisting offers, the promoters have not been successful in completely buying out the stock. Take the case of UTV Software. While Walt Disney had fixed the floor price at ₹835.03, most investors tendered their shares at ₹1,100 – a case of valuations play an important role. Look at the Alfa Laval offer price of ₹2,045, which will open on 15 February 2012. Alfa Laval's nine month EPS is about ₹57, which, on an annualised basis, will come to about ₹76. At the indicative price of ₹2,850, this gives a P/E of 38 times, which is lucrative for investors.

The long list

	CMP (₹ crore)	Promoter holding (%)	Mkt cap (₹ crore)	P/E
Oracle Fin. Serv^	2,092	80.4	17,561	17
Novartis (I)*	683	76.4	2,183	13
Honeywell Auto*	2,305	81.2	2,038	16
Timken India*	207	80.0	1,319	18
Thomas Cook (I)*	41	77.1	869	13
GMM Pfaudler*	114	75.6	167	12
Fres.Kabi Onco*	105	90.0	1,661	56
Ineos ABS (I)^	602	83.3	1,059	16
Singer (I)*	37	78.9	40	10
Kennametal (I)*	817	88.2	1,796	18
Fairfield Atlas^	100	83.9	273	10
Wendt (I)*	1,599	79.7	320	19
Warren Tea*	349	83.5	374	21
Gillette (I)*	1,915	88.8	6,240	100
Alfa Laval (I)*	2,826	88.8	5,132	39
Astra Zeneca Pharm*	1,676	90.0	4,190	52
Blue Dart*	1,668	81.0	3,958	30
3M (I)*	3,452	76.0	3,889	49

*September 2011. ^December 2011. CMP: Current Market Price as on Feb 1, 2012

Changing FDI scene

Previously, Atlas Copco opted to delist and offered about 30 times earnings. The price of Alfa Laval in the market has come close to the indicative offer price of ₹2,850.

Currently, the promoters hold about 88.77 per cent of the equity of the company, the rest being with the public. The holding is highly scattered, with about 10,000 shareholders holding the 2.04 million shares – this means no single shareholder with a large block who opposes can pull the deal down (unlike in the case of BOC, where opposition to the offer by a large shareholder block killed the deal).

"Mostly MNCs will delist the shares from Indian stock exchanges because listing of those foreign companies had taken place at the time when there was a restriction to FDI to the extent of 74 per cent. They did not have any option, but to go for listing of the company then to maintain their share holding to the extent of 74 per cent. Now however, since in most sectors FDI has been allowed up to 100 per cent, they will go for delisting. The investor will be able to get a premium price for those shares. But, if any investor is left out in this process, or he has not offered his shares, then it may be difficult for him to sell his shares later on," says Lalit Dangi of Libord Finance, who feels that the slew of delisting offers in the market would be beneficial to both the investor as well as to the company.

In the recent past, wherever delisting has been unsuccessful, the share price of the company dropped by 30-40 per cent. A few examples of delistings that failed are: BOC, Good Year Tyres and Astra Zeneca. Thus, investors holding on to the stock have lost out. So, at times, looking at valuations, investors should use the delisting offer as an opportunity to exit.

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