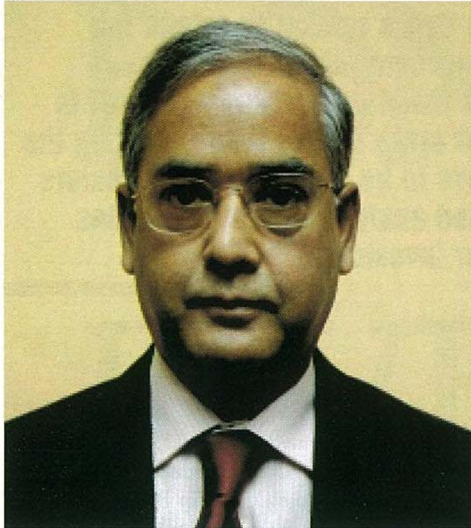

We have taken it up with the government that the same discipline (as for private sector companies) should also apply to PSUs... people (PSUs) should try and honour whatever timeframe has been given.

– U K Sinha

dilute their stakes.

According to Mr. Sinha, listed companies would have to sell shares worth Rs. 32,000 crore to comply with the minimum public shareholding norms.

Undaunted, companies facing the heat have turned to the finance ministry for an extension. "The government fixed the deadline in consultation with Sebi under the Securities Contract Regulation Act (SCRA) provisions and, technically, it can relax the same," says an industrialist who requests anonymity.

The response of the finance ministry, so far, has not been positive. "The decision is a carefully thought out one and it will improve participation in the market. We have told this to the companies which have approached us for relaxing the deadline," said a senior ministry official.

While merchant bankers might salivate at bright business prospects, neither investors nor industry captains are cheering. And for good reasons. There are some doubts about its implications for the companies as well as capital markets.

The global and domestic equity markets are extremely volatile and may stay that way until the eurozone crisis eases. There are also concerns about the ability of retail investors to absorb the raft of papers that would come into the market. The primary market is almost comatose today. To expect investors to warm up to follow-on offers from companies that

DELISTING BY MNCS

Rs. 10,000-crore windfall

As the deadline for raising the public shareholding in their companies to at least 25 per cent is nearing fast, several multinational companies are considering a move to delist their shares from stock markets instead of going for further dilution.

If market rumours are any indication, this group includes MNCs like Astra Zeneca, Fairfield Atlas, Oracle Financials, BOC India, Timken India, Honeywell Automation India, Kennametal India, Elantas Beck India, Oracle Finance, Thomas Cook, GMM Pfaulder, Fresenius Kabi Oncology, Ineous ABS, Sulzer India, Wendt India and 3M, among others. These "delisting candidates" were selected by certain brokerage houses and investment brokers. As a result prices of these shares shot up on the back of hopes that the delisting offer will come at a very high premium.

The spurt, however, could not be sustained in the absence of any confirmation of such a move by any MNC. On the contrary, an announcement by Fresenius Kabi that the company is keen to raise the public stake from the current level of 10 per cent to at least 25 per cent deflated the balloon and the one rupee share price which was bid up to as high as Rs. 176 plunged to the Rs. 80-90 range. Prices of some other scrips also registered a fallback.

According to Delhi-based Horizon Research, Indian investors could be richer by about Rs. 11000 crore ($2 billion) if the promoters of 15 multinationals in which the current public holding is less than 25 per cent decide to delist their companies. On the other hand, if these foreign promoters decide to dilute their stakes below 75 per cent, the total money mobilized would be around $800 million (Rs. 4400 crore). Recently Alfa Laval went for delisting and had to spend Rs. 785 crore.

"And of course, several multinationals are keen to delist on account of rising investor activism which may lead to unnecessary headaches", maintains Mr. Lalit Kumar Dangi, a veteran merchant banker and financial expert. He adds, "Most of

do not really need the money may prove unrealistic. How much additional appetite will investors have for new paper, given that there are rich pickings even in the secondary market?

Then there is the worry that even companies which have no worthwhile investment opportunities may be forced to tap the market just to comply with the new specification and offer shares at very attractive price levels for the investing public. Otherwise, nobody will pick up these shares. If the companies end up issuing fresh shares, they may suffer equity dilution, hurting shareholder returns. Even if their promoters were to reduce their own holdings, they would still be soaking up liquidity that could be put to a better use by other issuers with genuine capital requirements for their projects.

SEBI should allow promoters to offload shares through the secondary market and this should be counted for minimum public shareholding.

— Lalit Dangi

Conversely, companies which were planning to tap the market with initial public offers (IPOs) over the next two-three years to fund profitable projects may find the going tougher. Ironically, the worst sufferer might be the government itself with its line-up of PSU disinvestments over the next one year.

Finally, there are certain categories of companies which may throw up unintended consequences.

Consider, for instance, the plight of Indian promoters of joint venture insurance companies in which 26 per cent equity is held by the foreign partner. Since listing is mandatory for both life and general insurers after 10 years of inception and foreign partners are unlikely to dilute their ownership below 26 per cent, Indian promoters will be left with no option but to bring down their holding. They will lose the controlling interest in the company and will be at par

for investors?

the MNCs would prefer to delist in order to stay away from the huge market glare."

However, the delisting option may prove very costly for MNCs. Some of them have set the funds apart for the purpose, but in view of the spurt in market price and rising investor activism in the case of MNCs, these funds are far short of the current requirement. Recently when Alfa Laval went for delisting, the MNC offered a price of Rs. 2045 per share, as against the market price of Rs. 1475. But even such a high premium on the ruling market price could not satisfy shareholders who insisted on a reverse book building process to determine their exit price. On the basis of the reversed book building, the price worked out at Rs. 3850 and the Swedish MNC had to shell out Rs. 785 crore, the amount which is almost equivalent to its total net profit for the last 10 years.

In these circumstances, some of the MNCs will think twice before going in for delisting in view of the likely high cost. Says Mr. Praveen Chakravarty, CEO (Investment Banking), Anand Rathi Financial Services, "we now expect more companies to eventually make offers for sale or to issue fresh shares to the public, as it will be difficult for them to delist shares within the SEBI-stipulated deadline, given unfavourable market conditions and high shareholder expectations about valuations."

Warns Mr. Ajay Parmar, Investment banking co-head of Emkay Global Financial Services, "prices of some of the MNCs have risen so high on delisting hopes that their valuations look stretched at current levels. If foreign parents cannot meet shareholders' expectations about valuations and prefer to go for stake sale, there is a risk of share price reacting sharply."

The countdown has begun. All eyes are centred on the developments during the next six months. The two million-dollar questions are (1) whether the promoters will be able to get the deadline extended (2) whether MNCs would go for costly delisting.

No doubt the next six months will be highly exciting, for both the promoters and the investors of MNCs. ■