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Companies may take 'public only' bonus route to dilute holding

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MUMBAI: A bonus issue — for minority shareholders only — could be one of the options for companies seeking to raise public holding to 25% as mandated by the recent government directive. Only two companies have so far issued bonus shares while excluding promoter holdings.

This had nothing to do with complying with the new rule, since their decisions came much before the mandatory 25% public holding norm was announced.

Investment bankers, however, don't rule out the possibility of more companies taking the route, at least as the last resort if other options to raise the public holding are not available.

According to investment bankers, most of the companies, in which promoters hold more than 75% equity, would prefer to bring down their stake through different routes like follow-on public offer (FPO) or fresh issue of shares, as these routes have many advantages.

They can raise funds by offering stakes to new investors which will broaden the shareholder base and improve liquidity. However, if a company doesn't have any use for funds, it may be averse to raising them for fear of depressing the return-on-capital employed (RoCE).

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In such a situation, a bonus to public shareholders can come in handy to fulfil the minimum public holding requirement, say bankers.

Mehul Savla, CEO of Mumbai-based private equity firm RippleWave Equity, says that some promoters may favour the option, as it would not lead to any major dilution in the equity and so the impact on the share price will be minimal.

They may also take comfort in the fact that the share price tends to rise after the bonus announcement and so the value of the promoters' holdings will not fall or could be higher even with the lower holding of 75%, adds Mr Savla.

Recently, Kwality Dairy, the Rs 600-crore food processing company, offered a 5:7 bonus to the shareholders other than the promoters. This resulted in a rise in the public holding to 25% from 16%.

The company, however, didn't give any specific reasons behind the move. In 2008, Reliance Power became the first company to offer free shares only to its public shareholders after which its public holding rose to 15% from 10%.

The company had then said that the promoters didn't participate in the bonus issue in the broader interest of protecting and enhancing value for over four million institutional and retail investors of the company.

ET analysed shareholding data of all listed companies and selected a sample of 137 companies in which the public holding stood between 15.2% and 24.9%.

Based on unaudited reserves figures available for 61 companies as on March 31, '10 and December 31, '09, they will be required to capitalise just over Rs 2,000 crore out of their combined reserves of nearly Rs 2-lakh crore to issue bonus shares to raise the public holding to 25% in each of them, according to ET estimates.

According to Prime Databse MD Prithvi Haldea, it is unlikely that many promoters will give up their bonus entitlement for the sake of increasing the public holding.

He fears the bonus issue can be misused to favour the promoters themselves. "It is possible that public shareholders of a particular company are the entities acting as the fronts for the promoters but disguised as the public. In such a situation, bonus will benefit the promoters and will be misleading to the public," says Mr Haldea.

(With inputs from Shailesh Kadam)