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Kennametal's delisting hurdles may hurt similar plans of other MNCs

MUMBAI: US-based industrial tool maker Kennametal's plan to take its Indian arm private has hit a roadblock after its shareholders rejected the company's share buyback proposal, underscoring growing shareholder activism in the country.

The company planned to acquire the shares through purchase of 11.84% public stake or 26 lakh outstanding shares for Rs 514.98 a share.

But a majority of the Bangalore-based company's public shareholders voted against its delisting proposal. Kennametal India , in a regulatory filing, said that of the total 470 postal ballots received from shareholders, 265 dissented the proposal while 203 votes were in favour. On Tuesday, the company's shares closed at . 565, up 2.64% to Monday's closing price.

"The votes cast by public shareholders in favour are less than two times the number of votes cast by the public shares against it. Therfore , the special regulation to delist shall not be acted upon," said the company in a note to exchanges.

This is the second instance in recent months after Anglo Swedish drugmaker AstraZeneca's proposal to delist its Indian arm was rejected by minority shareholders.

Investment bankers say that the experience will provide valuable insights to other MNCs such as Blue Dart, Honeywell, Ineos Abs, Timken, Alfa Laval which have promoter holding in excess of 75%. Listing rules require companies to maintain at least a 25% public float and this has triggered MNCs to delist their Indian arms.

Another reason is the growing contribution of the Indian units to the parents' revenues, industry experts say, that global corporations are reluctant to share the profits with locals. However, more power to minority shareholders are upsetting the delisting plans of MNCs.

The current situation is a reversal of what happened in the early 2000s, when a flurry of MNCs announced delisting plans, taking advantage of the rules then.

"These two deals highlight the growing participation of minority shareholders in the delisting process. MNCs can no longer take the process for granted and will have to consider improved communication about the delisting rationale, future growth plans and offer significant premium to market price to attract shareholders votes," said Mehul Savla, director, Ripple Wave Equity.

Delisting norms were further firmed up a couple of years ago. Rules mandate that at least twice the number of minority holders support a delisting proposal compared with those who are not in favour of such a move. Earlier, just the resolution to delist needed to be approved at the shareholders meeting.