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Delisting tough for MNCs as retail investors hold on to their shares

MUMBAI: Retail investors, aided by friendly regulations, are beating back multi-national companies' designs to buy out minority holders, making any such attempt an expensive one and forcing corporates share their prosperity with small investors.

Global companies such as Atlas Copco have agreed to pay a hefty premium to the market price as they want to buy out minority holders, rather than risk diluting their holdings to fulfil listing norms that mandates at least 25% public holding in three years.

"Somewhere in the regulatory framework, a clear philosophy seems to be emerging to strengthen and enhance participation from public, right from the initial stage of shareholder approval up to the final stage of participation in the delisting offer," says Mehul Savla, director at Ripple-Wave Equity Advisors, a boutique investment banking firm.

US tyremaker Goodyear , Anglo-Swedish drug producer AstraZeneca , industrial gases producer BOC, a unit of Gemany's Linde, are among the firms that were defeated in their plans in the past one year to delist shares as investors clung on to their holdings on earnings prospects. Investors now are empowered to decide unlike in the past where they had no choice than giving up their holdings once a management decided to delist from stock exchanges.

In some cases, the proposal got nipped at the budding stage itself with shareholders voting against it. While in other cases, despite securing shareholders' approval, their offers were unsuccessful because of lack of investor participation. A company in India can be delisted if the delisting offer results in the promoter holding exceeding 90% or the promoter acquiring at least 50% of the public holding whichever is higher.

The price is determined by investors in what is called reverse book-building where they indicate prices at which they are willing to sell. The average price is the final. This is a reverse of what happened in the late nineties and the early 2000s, when leaders such as electronics company Philips, film maker Kodak and consumer goods maker Reckitt Benckiser delisted at a price determined by themselves.

Global companies such as Nestle and Procter & Gamble get higher share of their total profits from emerging markets such as India. The small investor empowerment was done in 2009, when delisting norms mandated shareholders' approval through postal ballot where at least two-third need to vote in favour of the plan. Moreover, promoters can't vote unlike in the past when a special resolution was passed at a shareholders meeting.

Another major factor is that rules don't encourage downward revision of price that is discovered through the reverse book-building process. "Investors are not keen to give their shares in a hurry as they see potential in these companies," says AK Narayan, president, Tamilnadu Investors Association .

"They also feel better valuation will prevail if they hold on to their shares." Sweden's Atlas Copco had agreed to pay 22% premium to the floor price to buy out minority holders at Rs 2,750 a share. "Delisting is a high-risk high-reward opportunity," says Anil Jindal, an investor, who owns MNCs such as chemical maker Foseco and BOC.

"After the announcement of any delisting, short-term players buy shares for short-term arbitrage. They are willing to tender their shares at a small premium. The longterm investors, who have been holding on to the shares for years, are the ones who demand more premium."

Another deterrent in delisting is the tax benefits that are available otherwise. "There is no availability of capital gains tax benefit as in a tendering no securities transaction tax is paid," said Jindal.

Analysts say though several multinationals managed to delist from Indian bourses in the past, some retail investors, however, continue to hold on to these shares since there is no mandatory exit, even though these companies' shares are no longer traded on the exchanges. "There is no compulsion to tender nor any fool-proof technique whereby a squeeze out of minority shareholders can be assured without court intervention," says Shardul Shroff, managing partner at India's biggest law firm Amarchand Mangaldas .