

## 480 Cos Vulnerable to Hostile Takeover Risk

### ET study of 3,000 listed cos finds that promoter holding is below 25% in 15% of them

**RAJESH MASCARENHAS MUMBAI**

The Subhash Chandra-controlled Essel Group's move to mount a hostile bid on IVRCL, a Hyderabad-based infrastructure player, has put the spotlight on companies in which promoter holdings are precariously low. An ET study of 3,000 listed companies shows over 15% of them, or 480 firms, are vulnerable to hostile takeover risks with promoter shareholding below 25% of total equity.

With the new takeover code allowing acquirers to make an open offer for an additional 26% on purchase of 25% stake of the target company, it gives acquirers an opportunity to gain easier control of targets. Consultants and lawyers said the risk of such hostile takeover bids for the companies with lower promoter holdings has only increased. "The danger of hostile takeover bids for promoters has always been there for many years, but this risk has certainly gone up as the new takeover code has given enough incentive to mount an attack," said KH Viswanathan, executive director, RSM Astute Consulting.

Of the 3,000 companies, promoter's stake in 290 companies are below 15%. Companies, in which promoters hold less than 30% include United Spirits, United Phosphorus, Opto Circuits, India Cements and Mindtree among others.

"Companies with hidden values such as IPRs (intellectual property rights), huge real estate bank and unlisted subsidiaries could be targets of such hostile bids," said Vishwanathan.

India's relatively nascent mergers and acquisitions (M&A) space has seen very few hostile takeover attempts in the past. The first such move was made by London-based businessman Lord Swraj Paul, who launched a bid in the early 1980s to take over Escorts and DCM, which was thwarted by the Nandas.

Most recently, hotel chain operator EIH managed to get Mukesh Ambani, Reliance Industries' chairman, to buy a stake in the company to prevent ITC from launching a takeover bid for the company. ITC has been steadily accumulating EIH shares in the last few years.

"In India, most companies are ruled by the promoters who always safeguard their interest. Hence taking on them is not an easy task. Only those who had the appetite to fight the management or promoters have gone ahead with hostile bids," said Sandeep Parekh, founder of Finsec Law Advisors, and a former Sebi executive director.

Since the takeover bid by Essel, E Sudhir Reddy, the promoter of IVRCL, has been trying to mobilise support from Andhra-based construction companies in his defence.

"Fear of hostile takeover bids puts the promoters on the edge, which is a positive thing in the context of governance," said Vishwanathan.

But, it may still take some time for such unfriendly takeover attempts to finally result in the acquisition of the target company in foreseeable future.

"There is a financial merit for hostile takeover in India. However, efforts for gaining the operational control of a target

company through a hostile bid may not be worth it because the outgoing promoters can wreck havoc. Also funds for hostile bids are not available easily in India," says Mehul Savla of Ripplewave Equity.

## Ripe for Acquisition?

### Companies with Low Promoter Stake

Company	Promoters Stake (%)	Institutions Stake (%)	Retail Stake (%)	MCap (Rs Cr)
Mah & Mah	28.34	48.81	8.15	42,788
Dr. Reddy's Labs	28.81	40.92	8.22	28,820
Grasim Inds	26.56	41.49	10.83	24,114
United Spirits	28.01	55.44	9.10	7,827
United Phosphorus	27.94	51.08	8.34	6,009
Opto Circuits (I)	28.12	38.56	18.25	4,830
GE Shipping Co	29.88	37.22	24.97	3,719
Redington (I)	21.08	45.96	2.06	3,507
Strides Arcolab	28.42	54.49	8.66	3,488
Hexaware Tech	28.16	50.86	10.97	3,455
India Cements	28.77	42.88	8.50	3,418
IVRCL	11.98	42.51	22.30	1,788
Infotech Enterprises	22.88	32.25	6.73	1,686
Polaris Financial	28.17	33.83	10.63	1,630
Alok Industries	28.95	32.46	24.12	1,618



PHOTO: GETTY IMAGES

PHOTO: GETTY IMAGES