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Multinational firms shun delisting weaker arms

However, they are more aggressive when it comes to attempting to take profitable arms private

Multinational corporations (MNCs) aren't likely to push for the delisting of their smaller or less profitable Indian subsidiaries from local bourses, according to a study. However, when it comes to attempting to take their profitable arms private, MNCs are aggressive.

Of the last five delisting attempts that failed, three involved loss-making companies, while four of the five successfully delisted companies were profitable, said a recent study by RippleWave Equity. While the four delisted entities had cumulative profits of Rs 810.8 crore, the three companies whose delisting attempts fell through had cumulative losses of Rs 48.4 crore.

A delisting offer falls through when there aren't enough investors tendering shares at the price offered by the company.

High investor expectations, even in the case of companies recording losses, could have resulted in failure to delist, said Mehul Savla, director at RippleWave Equity. "Investors want higher premium for loss-making companies, which MNC promoters may not be willing to pay," he said.

For the failed attempts, the average premium of the discovered price over the floor price was 141 per cent; for successful companies, it was 83 per cent. The failed attempts also had a much smaller deal size — the average deal value for these stood at Rs 70.1 crore. Four of the five offers had values less than Rs 60 crore. The successful ones had an average deal value of Rs 584.3 crore, the study said.

The failed delisting offers included those by Indo Tech Transformers, APW President Systems, Ricoh India and Saint Gobain Sekurit. Offers by Patni Computer Systems, Exedy India, UTV Software, Atlas Copco and Alfa Laval were successful.

In a telephonic conversation from Sweden, Thomas Thuresson, chief financial officer of Alfa Laval, told Business Standard MNCs had to deal with unrealistic valuations. "The set of rules established around two years ago provides an opportunity for minority shareholders to force the valuation upwards in a manner that is not a standard practice in stock exchanges around the world. We had to pay a multiple well beyond 30 times the earnings, which only shows the rules push the balance of power in an unacceptable fashion towards one section of the market. Still, some like us have chosen to delist. For those who didn't, I see two main options -— they can either cease operations in India or continue through a wholly-owned subsidiary," he said.

The other companies either declined to comment or didn't respond to emails.

This year, investors have bet big on delisting

STRATEGIC MOVES

Of the last 5 failed delisting attempts, 3 involved loss-making companies

Company	Outcome of offer	Net profit (₹ cr)	Discovered/ Exit price (₹)	Floor price (₹)	Premium to Floor price (%)
Indo Tech Transformers	**Failed**	-40	250	106	**135**
APW President Systems	**Failed**	-5.8	250	164	**52**
Ricoh India	**Failed**	-2.6	130	54	**141**
Saint Gobain Sekurit	**Failed**	6.8	90	29	**210**
BOC india	**Failed**	53.2	600	225	**166**
Patni Computer Systems	**Successful**	401.5	520	357	**46**
Atlas Copco	**Successful**	165.7	2,750	1,426	**93**
UTV Software	**Successful**	135.5	1,100	835	**32**
Alfa Laval	**Successful**	108.1	4,000	2,045	**96**
Exedy India	**Successful**	-6.5	350	141	**148**

Source: RippleWave Equity

candidates among MNCs, as companies have to meet the Securities and Exchange Board of India (Sebi) minimum public shareholding requirements. Sebi has asked all companies to cut promoter shareholding below 75 per cent by June, the rule change referred to by Thuresson.

Pavan Kumar Vijay, managing director at financial consultancy firm Corporate Professionals, said MNC parents of Indian companies with good earnings visibility were pushing for delisting. “Foreign companies make valuation decisions on the basis of cash flows. So, they are more likely to spend capital on delisting a profitable company, rather than an unprofitable one,” he said.

P Phani Sekhar, fund manager (portfolio management services) at Angel Broking, said the delisting theme might be losing sheen. “After a few trades, people got ahead of themselves…they believed all MNCs with high promoter shareholding would try and delist at any price. This has not really panned out, and many who jumped on the bandwagon have ended up with losses,” he said.