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Cash-rich Castrol to reward its investors

Rajesh Mascarenhas, ET Bureau Sep 13, 2013, 10.26AM IST

MUMBAI: Automobile lubricant maker Castrol will return half of its Rs 494.56-crore equity capital in its books to its shareholders by giving Rs 5 for every share they own, a first of its kind move by an Indian listed company.

In simple terms, Castrol will reduce its face value by half to Rs 5 and return the remaining Rs 5 to its shareholders and reduce the share capital. Share capital is derived by multiplying the number of shares with the face value of the share. After the offer, the share capital of Castrol will be reduced to Rs 247.28 crore. Shareholders will also be exempted from any tax liability.

As on December 31, 2012, Castrol had Rs 575 crore cash and Rs 155 crore of reserves. For the year ended December 2012, the company posted a profit of Rs 447 crore on revenues of Rs 3,193 crore.

"Capital reduction would help individual members to invest the funds in other better yielding securities, thereby maximising the return there as against company's investment in treasury which yielded a pre-tax return of only 9.17% until December 31, 2012," the company explained to its shareholders.

"The proposal by Castrol is a novel method to return excess cash to shareholders as it is cash-rich and has positive free cash flows," said Shriram Subramanian, founder and MD of InGovern Research Services.

"While there is no differential treatment of minority investors, as it is a court-approved scheme, it would mean that majority of minority shareholders would need to approve it."

Global companies with huge cash in their books and with no expansion plans are often under the radar of shareholders.

Apple Inc, which had multibillion cash on its books, had to make an offer to buy back its shares. Indian companies reward their shareholders by giving dividend, bonus shares and through share buyback.

"The reduction of capital is done by companies for numerous reasons, including increasing shareholder value, producing a more efficient capital structure and may be to overcome the limit for distributing dividend amount per annum," said Mehul Salva, founder of Ripplewave Equity.

Some bankers say a promoter who holds large stake in the company will be the highest beneficiary. "This could be one of the ways for a promoter to transfer company's excess reserves to his account as in the case of Castrol, the major chunk of Rs 176 crore out of Rs 247 crore will go to the promoters' pocket as their holding in the company is 71%," said an investment banker.

In the past too companies have rewarded shareholders in unconventional ways. In May, Zee Entertainment, one of India's largest media and entertainment companies, has announced distribution of Rs 2,000 crore to its shareholders by declaring a bonus issue of 21 redeemable preference shares of Rs 1 each for every equity share of Rs1 held in the company.

The redeemable preference shares will carry an interest rate of 6% payable annually. India's largest FMCG company Hindustan Unilever had also done a similar kind of offering to shareholders worthRs1,455 crore, way back in October 2001.