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Why cheaper stocks could mean vanishing stocks

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TNN
Jun 25, 2020, 00:30 IST

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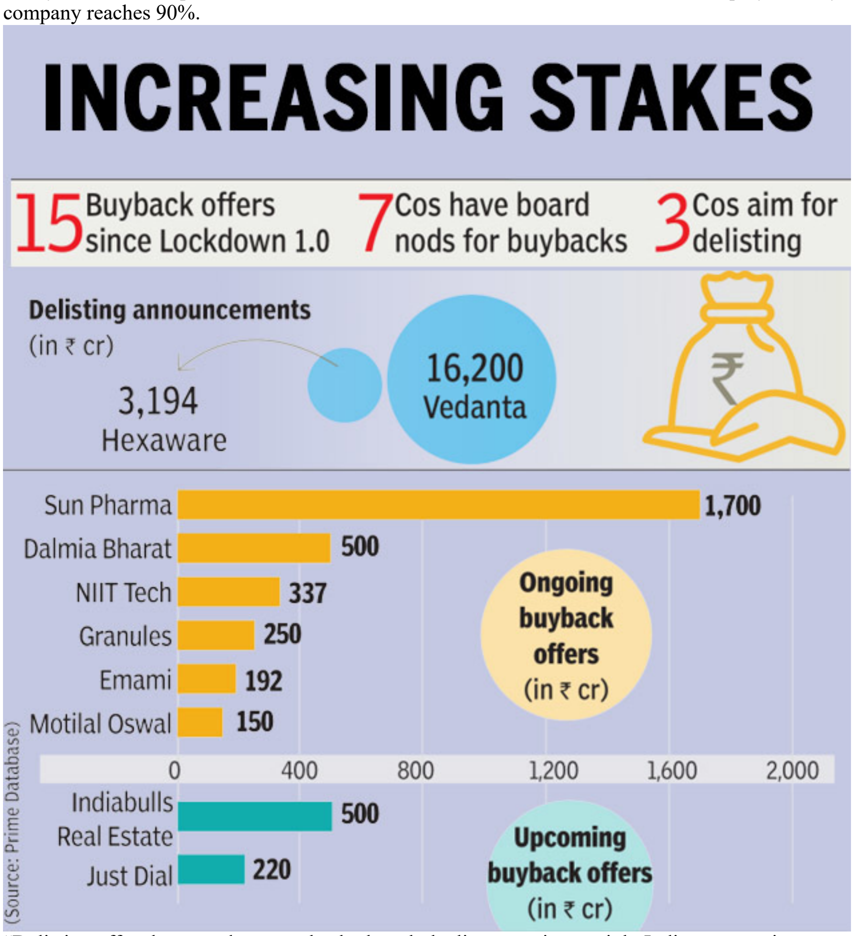
Delisting from bourses gains momentum during a downturn making it easier for promoters to call the shots in their business — that's happening now

MUMBAI: Depressed stock valuations, triggered by coronavirus-induced business impacts, have prompted several companies to repurchase their shares and offered promoters a chance to delist their units from the bourses.

The moves allow management to increase stake in their companies, and signal their confidence in businesses amid an economic growth contraction projection for fiscal 2021. Delisting, which enables promoters to take their entities private, also gives them the liberty to restructure the businesses without public scrutiny.
Indo-Canadian billionaire Prem Watsa-backed Thomas Cook India, metal tycoon Anil Agarwal-led Sterlite Technologies and local search engine Just Dial have joined the list of those buying back their shares as valuations become attractive. Additionally, promoters of Vedanta, Adani Power and Hexaware Technologies have proposed to buy out the entire public float in order to remove the stock from the bourses. An equity security can be delisted from the stock exchange if promoters' holding in the company reaches 90%.



"Delisting offers have made a comeback, though the list comprises mainly Indian companies compared to MNCs as the latter continue to fetch premium valuations," said RippleWave Equity Advisors' partner Mehul Savla. "Another fallout from the stock market slide has been buybacks by some companies, though amounts are not large as they conserve cash." Savla added that the trend of buybacks through the market route without promoter participation is likely to increase.
Thomas Cook India said the perceived negative impact of Covid-19 on travel businesses has affected the company's share price, and hence the share buyback. Thomas Cook will buy its stock from shareholders at Rs 57.50 apiece. But, its promoters will not be participating in the buyback.

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Mehul Savla, RippleWave Equity Advisors' partner
From March 23, when India went for a shutdown, till June 8, when the country entered the first phase of opening up its economy, Thomas Cook's price has been trending between Rs 25 and Rs 32. In December 2019, a peak month for the travel and hospitality industry, and before Covid entered India, its shares had touched Rs 70.
Even as business restrictions are easing to shore up the economy with airlines, hotels and restaurants permitted to function and the Narendra Modi administration pledging a Rs 20-lakh-crore stimulus package, experts predict a growth contraction in fiscal 2021 as consumers are likely to curtail spending because of declining incomes.
"Companies which don't need excess capital on account of lack of growth opportunities are providing an exit to shareholders through buybacks," said J Sagar Associates' partner Anand Lakra. He added, "Delisting is a win-win situation for promoters and public shareholders. Promoters gain operational flexibility with less compliance burden of managing listed enterprises, and shareholders get to exit at valuations determined by them."
Agarwal, who also leads Vedanta, is offering Rs 87.5 a share to the mining company's non-promoters. Since the business tycoon announced the delisting offer, Vedanta's share price has been climbing, now trending above Rs 100. Public shareholders, according to rules, will have to place bids above Rs 87.5 and the price that brings in the required quantum of shares permitting Agarwal to delist Vedanta from the stock exchanges will be the discovered rate. If Agarwal accepts the discovered price, then he could go ahead with the delisting process. He also has the option to make a counter offer to the discovered price.

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Anand Lakra, partner, J Sagar Associates
Delisting, which gains momentum during a downturn, like what was seen during the 2008-financial crisis, makes it easier for promoters to call the shots in the business. If they want to sell the unit, then the prospective acquirer needn't go through the lengthy process of making an open offer to minority shareholders. Private equity firm