

Fixed-price exit for PSUs may hurt minority investors, say experts

NEW FRAMEWORK. Special carve-out for PSUs expected to simplify the process of taking them private

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SEBI's proposed fixed-price delisting route for low-float PSUs may help lower the government's outlay for such an exercise but experts warn that it could erode minority shareholder safeguards.

The new framework suggests a special route at a fixed exit price instead of the current reverse book-building (RBB) process, and also waives off the requirement of securing two-thirds approval from public shareholders.

In its consultation paper, SEBI argued that if the current norm of 60 days' volume weighted average market price is taken for delisting, it

would result in a higher floor price and therefore a higher budgetary outlay for the government.

EASY PSU EXITS

This special carve-out for PSUs is expected to significantly simplify the process of taking these companies private as the current process is commercially unviable and likely to result in a highly-volatile stock, said Abhishek Dadoo, Partner at Khaitan & Co.

"A minimum premium to the floor price, say 15 per cent premium, would be a reasonable approach to protect the rights of minority shareholders ... and a similar approach can also be considered for non-governmental entities who could

PSUs with 90% or more promoter stake

Company	Market value (₹ cr)	Shareholding as % of total share capital
KIOCL	14,251	99.03
Life Insurance Corp. of India	4,87,924	96.50
IDBI Bank	83,546	94.71
Indian Overseas Bank	70,997	94.61
Punjab & Sind Bank	29,020	93.85
HMT	5,380	93.68
UCO Bank	40,716	90.95
State Trading Corp. of India	689	90.00
ITI	23,947	90.00
Fertilisers & Chemicals Travancore	37,248	90.00

Source: primeinfobase.com

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genuinely benefit from the carve-out," Dadoo said.

Anand Jayachandran, Partner at Cyril Amarchand Mangaldas, echoed the same, suggesting a similar mechan-

ism to be extended to other listed companies to create "fair delisting pathways".

The government will be likely looking to delist only those companies that have

poor float and are loss-making or if profitable, the companies have outdated product lines.

MINORITY INTEREST

"The financial interest of the public shareholders appears to take a hit," said Varun Singh, Partner at Foresight Law Offices. "By fixing the price and removing the need for public shareholder approval, their voice is taken away."

Rashi Dhir, Senior Partner at DMD Advocates, said, "This could set a precedent that weakens governance standards, dilutes minority shareholders' protection built into the RBB process and fuels concerns about regulatory favouritism toward State-run entities."