

Promoter stake sale through OFS route at four-year high

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MUMBAI: Promoter stake sales through the offer for sale (OFS) route in listed Indian companies hit a near four-year high in the first six months of calendar year 2019, driven by foreign strategic investors and debt-related issues.

The first six months saw ₹18,545 crore being offloaded by promoters, which is nearly double the shares sold via the OFS route in calendar year 2018, and a little more than the ₹18,094 crore sold in 2017, according to primary market tracker Prime Database.

The biggest driver of activity through the OFS route has been foreign strategic investors selling their stakes, both to meet regulatory obligations and also because of strategic business needs.

"One of the reasons for the increase in share sales through the OFS route is to meet Sebi's (Securities and Exchange Board of India) minimum public shareholding norms," said Pranav Haldea, managing director at Prime Database.

Valuations have been rich in the last few months, thus making it an opportune time for promoters to dilute their stakes, Haldea said.

The offer for sale route is frequently used by promoters to either raise capital or reduce their holding in listed firms by selling shares mainly to institutional investors, with a mandatory 10% reservation for retail investors. According to Sebi rules, listed companies are required to increase public shareholding to at least 25% within three years from their date of listing.

Foreign firms that have sold stakes through OFS this year include BNP Paribas Cardif, Prudential Corp., and Standard Life. Last week, French insurer BNP Paribas Cardif sold a 2.5% stake in SBI Life Insurance Co. Ltd in



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an offer for sale. In May, Standard Life, one of the promoters of HDFC Life Insurance, sold a 1.78% stake in the insurer for ₹1,404 crore, bringing the promoter holding down to 74.36% from 76.14%.

That happened two months after Standard Life sold a 4.93% stake worth ₹3,500 crore in HDFC Life through the OFS route.

"Some of the foreign strategic investors have been facing shareholder pressure in their home geographies because of stagnant or underperforming share prices. At the same time, their Indian investments have seen sharp rise in valuations, thus they have sold parts of these investments to raise capital, which can be deployed back home or elsewhere to push business growth," said an investment banker, on condition of anonymity.

Indian promoters have also used this route to bring down their shareholdings and meet regulatory requirements. In June, L&T Technology Services' parent firm, Larsen & Toubro Ltd sold a 3.88% stake in the firm via an offer for sale.

While meeting Sebi norms was a major reason behind the increase in OFS activity this year, another reason was the promoters' need to deleverage in the face of existing liquidity stress in the

market.

"The trend of increase in OFS, in my view, will continue for the next 12-18 months wherein Indian promoters will use it as a deleveraging tool as the present liquidity crisis in the system leaves less room for accessing funds otherwise," said Gopal Agrawal, co-head, investment banking at Edelweiss Securities. "Parallely, liquidity with mutual funds fuelled by continued systematic investment plans (SIP) inflow has created enough appetite in the market for secondary trade," he said.

The year saw Anil Ambani-led Reliance Capital Ltd selling 10.75% of its stake in Reliance Nippon Life Asset Management (RNAM) in two successive transactions. Later, it exited the mutual fund business by selling a 22.49% stake in RNAM to Nippon Life Company. The entire proceeds worth ₹6,000 crore from the two OFS and the transaction with Nippon Life would be used to reduce Reliance Capital's outstanding debt, the company had said in a statement.

There have also been other instances such as promoters of debt-laden Emami Ltd selling 10% stake sale in the group company and Bajaj Resources' 7% stake sale in Bajaj Consumer Care.