

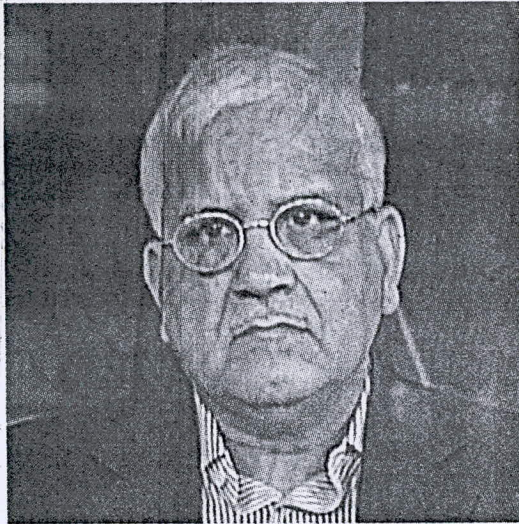
Offer-for-sale: Govt should consider closed auction route

PDB + BSEPSU
(Ques)

BY LATHA VENKATESH & SONIA SHENOY
CNBC-TV18

PRADEEP GAUR/MINT

J.N. Gupta, managing director of Stakeholders Empowerment Services, and Prithvi Haldea, managing director of Prime Database, discuss whether the government should conduct offer-for-sale (OFS) on Saturdays, when the secondary market is closed. The proposal is aimed at preventing market participants from beating down the price of announced OFS. Edited excerpts:



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Market scene: (From left) J.N. Gupta, managing director of Stakeholders Empowerment Services, and Prithvi Haldea, managing director of Prime Database.

Is it legally tenable at all? Securities and Exchange Board of India (SEBI) hasn't given permission I believe?

Gupta: We have to look into from a limited angle. One is that as of now this facility of offer-for-sale through market route has been permitted to 200 top companies, but look at the difference between this OFS and normal OFS. Normal OFS which promoters do is through the prospectus route. In that case, the shares are indeed allotted on any day, it doesn't have any link with the market price. So in this case, it is only the reverse auction process or whatever book building process you can say is being done. So in my opinion there should not be any legal hurdle as far as this OFS is concerned because in normal OFS through prospectus, what is the market price of the share is not material. Secondly, we have to understand that all the cries that have been raised is that the market gets depressed on the day of OFS or price comes down or there is some manipulation—let us divide it into two, one is the manipulation part. There is a price war—whenever supply of shares will increase in the market, whether it is through the OFS route, through the prospectus or direct through the stock market, there will be impact and that impact will always be reflected in price and over a period of time, that impact can be evened out. So in my opinion the allotment on Saturday should not have any legal hurdle.

There won't be any legal hurdle, but do you think that the volatility of these shares could increase further. Now the government is trying to reduce volatility, but if during the trading halt period there is no trade that takes place in the OFS, then the market may not be

able to discount any positive or negative news at that point in time, giving rise to further volatility later on. That is at least one view. What is your own perspective on that?

Gupta: I would say that I am not in favour of stopping the trade on a trading day. However when you say allotment on Saturday that means till Friday all the news has been already discounted. When you have OFS through the prospectus route, there also a price is fixed and all the news has been discounted; news keeps on coming but people who have already applied for shares do not have any exit option. So in my opinion, (in) both routes there is an inbuilt risk to the investors and to the nature of the market.

Is that a healthy way to go about an OFS?

Haldea: I am one of the few people in the country who has been saying for the last 5-6 years that the way OFS is being done or earlier the follow on public offer (FPO) were done the government was under huge pressure because government would typically announce an FPO or an OFS substantially in advance and we have seen instances in almost every case where the prices would be hammered down and the government would either call off the OFS or FPO or would be forced to sell the shares at the current market prices. The second was that it was slightly ironical the company share is competing with its own share in the market because you have an OFS and you have a current market price. It was not a fair way of doing it. So I have been saying that you should, a-

should not take the market by surprise. There is no need for this kind of transparency that moment to moment you inform the market that this OFS has now reached this stage and now cabinet approval, etc. and by the time the OFS is done you finally find that you lost out substantially. The second part like Australia, even in India there are many corporate actions where trading in a share is suspended. For example if there is a merger of two listed companies people are not able to discover the right prices. We have seen stocks being put on a suspension mode until the merger is finally affected. I have been saying that a stake sale of this kind should also be treated as a corporate action and there is no harm in therefore suspending the trade for that day because as I said it is ironical for two prices to be competing with each other in the marketplace. So Saturday is a good idea the market, you could announce an OFS at 4:00 close of trading hours on a Friday which stock is going for the OFS next day. There is no trading in any case taking place and you do the OFS on that. So I see no problem at all in implementing this and the government should be able to therefore realise much better values. Second thing along with this for some of these stocks I have been also advocating that the government should actually look at a closed auction route. Which is basically that allot the shares; the bids are in a closed envelope. Sebi (Securities and Exchange Board of India) guideline permit this and the highest bidder gets the share that is applied for. One very good

example of this has been the Maruti Suzuki stake sale which happened almost 8-9 years ago. There the government actually realised prices better than the market prices. I believe that there are long-term institutional investors who are not into a day trade or flippers who would like to acquire stock of good companies in quantity that they want and they will be willing to even bid at the price higher than the ruling market price. Therefore we should seriously consider also the close auction route.

When you say closed auction route should there not at least be a lock-in? It is always possible for a private company to even rig its way and get a high price in closed auction route and thereafter immediately sell off or get out when the prices rise. Is a closed auction route a clean route?

Gupta: It is a very clean route because what you do is first of all you put a condition that nobody can apply for more than 5% or 7% or some percentage of the total sale. So there is no significant acquisition by one single investor.

Number two: you set a floor price which means that if anybody bids below the floor price which is in a sealed envelope submitted to Sebi obviously shares are not allotted to him.

So you have a minimum floor price and you accept only bids from top-down onwards in terms of prices and you allot to people who have bid at the highest prices which are all above the floor price.

So there is no possibility of any rigging or allocation to some investor through the backdoor or through any unfair means.