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Annual Review

OPEN OFFERS IN 2000-01 GENERATE POOR RESPONSE, DELISTING CASES ON THE RISE : PRIME

The recently concluded fiscal 2000-01 recorded 77 open offers made under SEBI's Substantial Acquisition of Shares & Takeover Regulations according to Mr.Prithvi Haldea of PRIME, the country's premier data base on the primary capital market which today released the annual report on Open Offers.

This represented a 4 per cent increase over 1999-00 which had witnessed 74 open offers. The year 1998-99 had seen 62 offers. By amount, the total offer size aggregated Rs.1584 crore, compared to Rs.469 crore in the previous year, representing an increase of 238 per cent. In 1998-99, the value of all offers was Rs.1688 crore. A total of 7 offers were made by foreign companies in 2000-01.

However, the response from the shareholders, according to PRIME, was extremely poor. Only 10 of the 77 offers managed to acquire the targeted shares, the balance 67 offers or 87 per cent failing, of which 13 could not elicit any response at all. The main reason for this, of course, was that most of these were technical issues and the offer prices were very unattractive.

This is substantiated by the fact that as many as 66 of the 77 offers were below Rs.10 crore, of which 62 were below Rs.3 crore and 54 below even Rs.1 crore, as per PRIME. There were only 3 offers of above Rs.100 crore each. In a likewise manner, as many as 40 offers were made at a discount to the face value, 10 offers at face value and only 27 at a premium to face value.

Furthermore, according to PRIME, as many as 30 offers were made solely for the purpose of acquisition of a small listed company and then changing its object clause to undertake a new business activity. Significantly, of these 30 companies, the new business activity of as many as 28 companies is in the ICE (Information, Communication, Entertainment) sector.

According to Mr.Haldea, of the 77 offers, there was just 1 hostile bid (GESCO) which too was matched by a counter offer. 67 offers were for takeover, 7 were in the nature of consolidation of holdings and 1 for substantial acquisition. **In as many as 11 cases, the disclosed objective was delisting from stock exchanges.**

In fact, open offers, according to Mr.Haldea, are appearing to be an increasingly preferred route for delisting. Between April 1998 and March 2001, as many as 41 companies have made open offers for delisting, most of these being good companies being taken over by their Indian promoters or good Indian companies being acquired by MNCs or domestic units of MNCs now being converted into subsidiaries.

Indian companies which have already been acquired by MNCs with the objective of delisting them from the local bourses, according to PRIME, include Rossel Industries, Poritts & Spencer, Bundy, Kemwell International, Industrial Oxygen, GE Capital Transporation, Steelage Industries, Punjab Anand Lamp, Philips, International Bestfoods and Orient Cerlane. Most of those companies either do not require the capital market at all for their resources-raising needs or would rather prefer the more efficient global capital markets. The need, therefore, to remain listed in India is almost non-existent.

Several Indian promoters have also used the open offer route for eventual dilisting. Over the last 3 years, such companies which have delisted are Bharti Telecom, Shreyas Shipping, Merind, Albright & Wilson, Superior Air Products, B.Arunkumar's, Tata Advanced Materials and Tata SSL.

The new year, according to Mr.Haldea, has begun on a very bullish mood. This has been further fuelled by low prices in the secondary market which has encouraged several companies to take this route, specially for the purpose of taking over full control and then delisting. **As many as 25 offers have already been announced in just the first 2 months for the current year**. Of these, the majority are proposing delisting; prominent among these being Vijay Industries, Carrier Aircon, Otis Elevator, Centak Chemicals, Sandvik Asia, Hitech Drilling, Cabot India and Hoganas India. Significantly, in all these cases, the offer prices are in excess of the market prices to make the offer attractive to the domestic shareholders. Most shareholders would also exercise their option as they would not risk illiquidity once the scrips get delisted.

If this trend of delisting continues, it shall lead to the already narrow Indian capital market being further shorn of several good, blue-chip companies, which is already impacted adversely by lack of accretion of new IPOs over the past 5 years. According to some market estimates, there are nearly 95 companies which have foreign promoter's holding in excess of 51 per cent and that many of these are actively considering the delisting option, converting thereby their Indian ventures into fully-owned subsidiaries.