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MNCs DELISTINGS ON THE RISE

There is an increasing incidence of MNCs acquiring the entire equity of their Indian subsidiaries through open offers and then delisting from the stock exchanges. According to Mr.Prithvi Haldea of PRIME, country's premier database on the primary capital market, there were only 6 such offers in 1999, which jumped to 8 in 2000 and has now grown to an alarming 16 in 2001. This is only likely to grow rapidly with over 90 companies estimated to be in the pipeline.

Buying out the domestic shareholding is coming quite cheap, given the prolonged depressed secondary market, which makes acquiring shares based upon market prices very attractive. According to PRIME database, while Cadbury is shelling out Rs. 875 crore, seemingly a large amount but small considering its valuations, the other buyouts have come for significantly lower amounts… Philips (Rs.234 crore), Carrier Aircon (115), Otis (109), Industrial Oxygen (104), ITW Signode (90), Wartsila (71), Rossel (61), Sandvik (42) and Infar (41). Some other well-known names, which have spent even lesser monies, include Steelage Industries, Cabot and Hoganas.

There are several reasons, according to Mr.Haldea, for the emergence of this trend.

First of all, a company normally seeks listing for raising capital, while none of these MNCs need Indian capital, says Mr.Haldea. It may be recalled that in any case, these MNCs had not listed on the Indian bourses for this objective. They were, in fact, forced to list under the FERA-dilution Act. Even at that time, listings had taken place through dilution of existing equity and not through fresh issue of capital. Subsequently too, these companies never used the Indian capital market and when in need of funds, relied on their parent companies.

Second, most MNCs prefer to list the shares only of their main arm. Multiple listings in multiple countries are not only cumbersome but can also be a nightmare in view of different listing, disclosure and compliance requirements.

Third, with total control of the subsidiary, the foreign parent is more comfortable with putting more proprietary technology or more brands or more R&D expenses into their Indian operations.

Fourth the complex, multiple and overlapping regulations in India serve as dampeners for most MNCs.

Fifth, many MNCs feel that their low share prices, despite company's good financial performance, can have a negative rub off on their brands. **Also, many MNCs are concerned that India's scam-ridden market may unnecessarily implicate them or their company management at some point of time.**

Finally, of course, the historical low prices of shares over the last six months makes buying back very attractive at present times.

According to Mr.Haldea, delisting by MNCs is making our markets narrower, and hence more speculative. Worse such delistings are unfair to the minority shareholders who are being forced to sell their holdings compulsorily, as they will otherwise be left with untradable stock after delisting. Even more unfair is the price at which they are being asked to exit, which may not necessarily reflect the company's fundamentals or its true worth.

Mr.Haldea feels that there is an urgent need to introduce some disincentives to dissuade companies from delisting. For those who still take this route, there is a need for them to provide a fair value to the minority shareholders. As delisting means a permanent exit, the true value of the company needs to be shared with its departing shareholders. The offer price used in the case of substantial acquisition or takeover should not be applied here.

The SEBI guidelines, in cases of delisting, according to Mr.Haldea should be based on the book value of the share and not on the average of preceding six-month price, with a proviso of 'whichever is higher'. It may be mentioned here that when it comes to selling its shares, existing listed companies would normally use their earnings, book value and several other parameters, and not just the share price.

Another alternative for pricing, according to Mr.Haldea, could be to **consider an average of the share price of the three highest of the preceding five years,** as this would look beyond a possibly depressed six-month period.

The Government could also consider levying **some special taxes on companies delisting, and even an additional tax surcharge on a one-time or a continuing basis in the case of MNCs. The stock exchanges should also consider levying a delisting fee, feels Mr.Haldea.**