Our Views

Ease delisting regulations for companies trading below face value

Over the years, the Indian capital markets have evolved and transformed significantly – be it in terms of technology, regulations or depth and participation. The just concluded large rights issue of Reliance Industries in this lockdown situation speaks volumes about the effectiveness and maturity of the market and the technology strides it has taken. Another dimension on which the maturity of a market can be measured is the seamless entry and exit experience it offers to both investors and issuers. Here again the Indian markets have gained enough depth from an investor's perspective. For the corporate issuers too, it offers a supportive regulatory framework to efficiently raise public equity. The one area which could be further smoothened, in my view, is the regulatory framework with regard to exit or delisting of corporates from the bourses.

Typically, at the time of listing a company has a positive and growth oriented outlook. However, with time, many new factors may influence the corporate and circumstances may change. Some of them may have challenges in sustaining their business model and some may go through a corpoarate restructuring. Such events may adversely impact a company's valuation and, resultantly, liquidity in the stock also reduces. The management may be forced to delist the shares from the bourses, and in most cases such delisting would be a positive for minority shareholders as well.

However, the existing SEBI regulations and company law provisions on delisting and 'take-private' make the process arduous and lead to the delisting offer price being at a significant premium to the fair value of the company. As a result, there are very few delisting precedents that we see in the Indian market. To be precise, only 37 companies have successfully delisted since the delisting regulations came into force. Comparatively, over 800 companies delist per annum in the US.

If we delve deeper, there is indeed a need for a comprehensive review of the delisting and 'take-private' mechanism. SEBI (Delisting of Equity Shares) Regulations, 2009, require companies willing to delist to follow a reverse book-building process for price discovery. In this process, during a given window, offers are collected from the existing shareholders at various prices. The promoters/acquirers are required to reach at least 90% shareholding by acquiring shares at a price equal to or more than the price discovered in the reverse book building process. This current reverse book-building process for price discovery is very cumbersome and can be misused. A group of Shareholders, either due to a genuine expectation gap or vested interests, may drive prices unreasonably higher making the entire delisting process arduous and impractical. This may hold genuine shareholders and promoters hostage, and not let them acquire the mandatory 90% shareholding mark, making the entire exercise futile.

As a step towards easing the process and making it more practical, the regulator could begin with companies whose shares are trading below their face value or par value for a long period of time. Continued listing of such corporates does not serve any purpose - neither for company, nor for investors. In fact, for the concerned corporate, listing then becomes an administrative and regulatory overhead. Last we checked, about 50 such companies were trading below par and had a negative book value. For this category of companies, a one time opportunity could be provided to promoters/ controlling shareholders to delist these companies. The delisting could be done by way of a simple open offer at an appropriate price, conditional upon the acquirer/ promoter reaching 90% holding. This mechanism will also benefit the stranded retail shareholders of such companies who have no exit route due to lack of liquidity in the stock.

Of course, an overall easing of exit mechanism will reinforce the confidence of new issuers and companies wanting to invest in India. Towards this, and to underpin the ease of doing business in our country, the SEBI delisting guidelines need to be reviewed in general. Pending that a beginning must be made for companies whose shares are trading below its face value.

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