Our Views

This isn't Hotel California - Kudos to SEBI for introducing fixed price delisting offer!

"Why should we say that once you are listed you can never leave. This isn't Hotel California. This is a rich, vibrant market. We welcome people, but if for some reason they need to exit, they must be able to" said Chairperson, SEBI this week. And why shouldn't we all agree with this very welcome statement. Over the years, our capital markets have undergone a substantial evolution and transformation. This evolution encompasses technological advancements, regulatory changes, as well as the expansion of market depth and engagement. The maturity of a market is exemplified by the smooth entry and exit experience it provides to investors and issuers alike.

This week not only did we overcome a 17 years of wait to get into the World Cup final, but we also overcame a wait period of 19 years to gain freedom from RRB mechanism for delisting of a company. In our views of January 2020 titled 'Our expectations from Budget 2020', we had advocated for the removal of RRB process for price discovery at the time of delisting. The existing SEBI Delisting Regulations had made the process cumbersome by requiring RBB for price discovery.

SEBI, in its latest board meeting, approved significant reforms to streamline the delisting process in India. This is expected to enhance market efficiency, eliminate speculation and protect the interests of public shareholders. These changes have already been deliberated with market participants as a part of consultative process and therefore I anticipate minimum challenge ant implementation stage.

Currently, achieving the 90% threshold through Reverse Book Building (RBB) is crucial for successful delisting. However, there were concerns about potential manipulation during price discovery. It has been observed that certain operators may corner shares upon the announcement of delisting, collectively holding more than a 10% stake. This inevitably requires their participation to reach the 90% threshold, resulting in a potentially inflated discovered price that may not accurately reflect the stock's fair value.

In order to curb market speculation and ensure fairness in valuation, SEBI has now introduced the right framework for a fixed price offer for delisting the company. This represents a welcome and decisive move by SEBI to overturn the practice of RBB introduced in 2003.

Under the proposed framework, the acquirer will be able to make a fixed price offer which should be at least 15% premium to the floor price as determined under Delisting Regulations. However, SEBI has added a layer of complexity by introducing the concept of adjusted book value as determined by an independent registered valuer. The market price serves as the ideal gauge for assessing the fair value of a frequently traded stock. Therefore, in my view, the addition of adjusted book value is an unnecessary inclusion.

A good change is that the reference date for floor price has been rationalized as the date of public announcement against the date of board meeting presently. This will ensure that unaffected share price is taken into consideration for the purpose of calculating floor price.

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SEBI has also tweaked the framework for eligibility and pricing under counter offer. To clarify, a counter offer is used in cases of reverse book-building (RBB) scenarios where the price proposed by investors after successfully crossing 90% is deemed unacceptable to the acquirer. SEBI has proposed that acquirer will be eligible to make counter offer on achieving 75% shareholding provided that 50% of public shareholders has tendered their shares during RBB. This is a positive development given acquirers who were not able to achieve 90% during RBB are now eligible to make counter offer while shareholders interest is protected by ensuring 50% of public shareholding has participated in the tendering process. However, SEBI has also modified the pricing mechanism under the counter-offer framework by providing that counter offer price should be above VWAP of the shares tendered during the RBB process. The downside to this is that it will provide an opportunity to the speculators to unnecessarily bid at higher price during RBB process in order to inflate the counter offer price.

Overall, SEBI has made a commendable decision by introducing ann alternative to the reverse book building mechanism. This will not only provide greater flexibility for group restructuring for corporates but also enhance the investor confidence in the Indian capital markets.

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