

Discussion Paper on Delisting of Equity Shares - Review of “Reverse Book Building Process”

Background

- 1) SEBI came out with SEBI (Delisting of Securities) Guidelines, 2003 whereby the concept of price fixation was changed from fixed price announced by the acquirer to a reverse book built price determined by the existing public shareholders. The same process was continued in SEBI (Delisting of Equity Shares) Regulations, 2009 ('Delisting Regulations, 2009') which superseded the SEBI (Delisting of Securities) Guidelines, 2003.
- 2) Subsequently, to examine and review the framework for the delisting of equity shares of companies, SEBI came up with a discussion paper in 2014 to solicit the views of all stakeholders. Accordingly, after taking into consideration all the views received from stakeholders and Primary Market Advisory Committee (PMAC), vide notification dated March 24, 2015, SEBI (Delisting of Equity Shares) Amendments Regulations, 2015 were notified, thereby amending Delisting Regulations, 2009.
- 3) Key changes introduced by the said amendment included Responsibilities of the company's Board, Revisiting the Reverse Book Building ('RBB') mechanism including determination of price, Minimum level of acceptance of shares by promoters and ensuring maximum participation of shareholders of that class, Enlarging the scope of small companies on the basis of net worth and paid up capital and SEBI Board's power to relax strict enforcement of regulations.

Reverse Book Building Process and Issues

- 4) Currently, in voluntary delisting an issuer/promoter has to first take the approval of shareholders of that class, then an in-principal approval of the stock exchange followed by RBB Process to discover the price. The promoter may choose to pay a price equal to or more than the discovered price to the shareholders who had

tendered their shares in the RBB process. Delisting is regarded as successful if promoter shareholding reaches 90% pursuant to RBB at the discovered price which is acceptable to the promoter.

5) Several concerns have been raised by the stakeholders regarding implementation of the reverse book building process. Such concerns are summarized herein below:

- a) Price is influenced by the arbitrage seekers. Some shareholders who are actually arbitrageurs/speculators waiting for delisting opportunity may get into the company through the secondary market route and disproportionately influence the price discovery by bidding at very unrealistic levels. In such scenario, the process of delisting becomes very onerous on the promoters at such price levels.
- b) After the public announcement of delisting, some shareholders may form groups, bid at exorbitantly high prices in order to drive the high premium and in case premium to the floor price comes at significantly high levels, then promoter/acquirer exercises his unilateral right to reject the offer price. Such shareholders may end up holding the company and promoter to ransom.
- c) No country except India has adopted the reverse book building method to delist the shares of the company. Unlike IPO (no investors can bid at unreasonably low level and/or high level, everyone has to bid within the price-band only), in the reverse book building, only floor price is fixed and disclosed and it is totally left to the wisdom of the shareholders to bid at any price. The bids may be placed at such price levels which may not be as per company fundamentals and/or current market sentiments, and as a result, a price which is unreasonably high may be arrived at. If the discovered price is onerous to the promoter, he may reject the price and all the efforts to delist the company finally go futile.
- d) Few groups of shareholders may take up large holdings post the announcement and get the ability to influence the process by driving the premium to restrictively high levels which may not be acceptable to the

promoters and accordingly, small shareholders are denied a chance to exit.

- e) Small shareholders are unable to comprehend the reverse book building process, as unlike IPO, there is only floor price and no price band. Without fully understanding the various attributes of valuation, such shareholders may end up bidding at very unreasonable level, which may totally vitiate the delisting process, because in such scenarios, promoter exercises his unilateral right of rejecting the discovered price and the entire exercise defeats its objective.
- f) Further, it has been also pointed out that promoters in order to influence the price discovery through RBB systematically divest their stake to friendly shareholders and subsequently come with delisting proposal and such friendly shareholders don't bid independently in order to keep the price as per the wishes of the promoters.
- g) The floor price computed before initiating RBB process doesn't consider the book value. While discovering the price through RBB process, promoter needs to compute the "Floor Price" as per Regulation 8(2) of Takeover Regulations, 2011, which doesn't take into account the book value of the company in case of frequently traded shares. A related example is cited below for illustration:

"As per BSE reference, it was informed that in one of the delisting matters book value of the shares of the company was nearing three times higher than the floor price determined in terms of Regulation 8 of Takeover Regulations. In that case, a floor price of Rs. 510/- per share had been fixed by the acquirer, whereas the book value of the equity shares of the company was Rs. 1569/-.

In this case as well as in couple of other cases, the concerns raised by several investors were that the acquirers were voluntarily delisting the equity shares of the company by offering a much lower price than book value of the shares, causing the minority shareholders to suffer a huge monetary loss".

6) The delisting data, pursuant to amendment in 2015 are as follows:

| Data of Voluntary Delisting through "RBB" During (F.Y. 2015-16 to 2017-18) | | | | | | | | | |
|---|---|--------------------------|--------------------|--|----------------|---|---|--|--------------------------|
| Sr . N o. | Company Name | Year of delisting | Floor price | Discov ered Price (RBB) | Premium | Premiu m to Floor price in % | Delisting successful (Yes/ No) | Book Value (Rs) (calcul ated as Netwo rth / Numb er of Share s) | Highe r Price |
| 1 | PANASONI C APPLIANCE S INDIA COMPANY LTD | 2015- 16 | 167.65 | 380 | 212.35 | 126.66 | Yes | 9.11 | Exit Price |
| 2 | HELLA INDIA LIGHTING LTD | 2015- 16 | 52.39 | 52.39 | 0 | 0.00 | Yes | 91.77 | Book Value |
| 3 | SRINIVASA HATCHERIE S LTD. | 2015- 16 | 110 | 130 | 20 | 18.18 | Yes | 95.10 | Exit Price |
| 4 | FULFORD (INDIA) LTD | 2015- 16 | 701.71 | 2400 | 1698.29 | 242.02 | Yes | 384.15 | Exit Price |
| 5 | REGENCY HOSPITAL LTD. | 2015- 16 | 48 | 52 | 4 | 8.33 | Yes | 42.88 | Exit Price |
| 6 | BOMBAY SWADESHI STORE LTD. | 2015- 16 | 126 | 126 | 0 | 0.00 | Yes | 19.29 | Exit Price |
| 7 | ESSAR PORTS LTD | 2015- 16 | 93.66 | 133 | 39.34 | 42.00 | Yes | 62.34 | Exit Price |
| 8 | ESSAR OIL LTD. | 2015- 16 | 146.05 | 262.8 | 116.75 | 79.94 | Yes | 33.22 | Exit Price |
| 9 | ARORA FIBRES LTD. | 2015- 16 | 10 | 10 | 0 | 0.00 | Yes | 3.79 | Exit Price |
| 10 | CIRCUIT SYSTEMS (INDIA) LIMITED | 2016- 17 | 13 | 14 | 1 | 7.69 | Yes | 14.24 | Book Value |
| 11 | ELF TRADING & CHEMICALS MFG. LTD., | 2016- 17 | 2500 | 2500 | 0 | 0.00 | Yes | 427.82 | Exit Price |
| 12 | HARYANA TEXPRINTS (OVERSEAS | 2016- 17 | 3 | 3 | 0 | 0.00 | Yes | 2.45 | Exit Price |

| | | | | | | | | | |
|----|---------------------------------------|-------------|-------|-------|------|-------|-----|--------|---------------|
| |) LIMITED | | | | | | | | |
| 13 | MEWAR POLYTEX LTD. | 2016- 17 | 56 | 56 | 0 | 0.00 | Yes | 62.97 | Book Value |
| 14 | ASSAM PETRO- CHEMICALS LTD. | 2016- 17 | 76 | 76 | 0 | 0.00 | Yes | 53.91 | Exit Price |
| 15 | CLARIS LIFESCIE NCES LIMITED | 2017- 18 | 351.6 | 399.3 | 47.7 | 13.77 | Yes | 443.38 | Book Value |

7) Observations from the above table are as follows:

- a) During the period F.Y. 2015-16 to F.Y. 2017-18, a total of 15 companies got voluntarily delisted, by following the reverse book building process.
- b) Seven companies got delisted at the floor price (Premium being zero) and 8 companies got delisted at a premium ranging between 7.69% to 242.02%.

Proposal

- 8) Since, introduction of bidding within “Price Band” (Floor & Cap Price) may be detrimental to the interest of the investors, it is suggested that RBB in the present form may be amended as per the following:

Price discovered as per “Reverse book building method” along with counter offer of promoter.

Currently, if the price discovered through RBB is not attractive to the promoter, he may unilaterally reject the price and the whole exercise becomes futile. Instead, the promoter may be allowed to make counter offer to the shareholders of that class. If the counter offer is lucrative to the shareholders and if it is accepted, delisting should be treated successful.

- 9) Further, it is also suggested that in case promoter(s) give a counter offer, then the counter offer price should not be less than the book value and the counter offer should be accepted by such number of public shareholders where the promoter shareholding reaches 90%.

Public Comments

1. Considering the implications of the instant matter on the market participants including the investors, promoters and listed companies, public comments on the issues/ proposals made at **paragraphs 8 & 9** are solicited. Specific comments/ suggestions as per the format given below would be highly appreciated:

| Name of entity/ person/ intermediary: | | | |
|--|--------------------------------|------------------------------------|------------------|
| Name of organization (if applicable): | | | |
| Contact details: | | | |
| Sr. No. | Pertains to para number | Proposed/ suggested changes | Rationale |
| | | | |

2. Such comments may please be e-mailed to rbbreview@sebi.gov.in or sent by post at the following address latest by August 16, 2018.

*Mr. Narendra Rawat
Deputy General Manager
Corporation Finance Department
Securities and Exchange Board of India
SEBI Bhavan
Plot No. C4-A, "G" Block
Bandra Kurla Complex
Bandra (East), Mumbai - 400 051
Phone: +912226449383*
