

5 DEC, 2011, 08.39AM IST, SANKET DHANORKAR, ET BUREAU

What to do when a stock delists

Masters In Economics : www.hult.edu - [Top-Ranked Business School. Now accepting applications for 2012](#)
Top Indian Executives : www.dataguru.in - [CEO, CIO, CFO, CTO, GM, Directors Emails, Contact Details, Phone #](#)

Ads by Google

US-based [iGATE Corporation](#) recently set in motion the long-winded process of delisting its Indian subsidiary, [Patni Computer Systems](#). This announcement was followed by frenzied activity in the Patni counter on the Indian bourses. The stock price saw a sudden spike, jumping 22% from the intra-day low of Rs 372.30 on the date of announcement to a high of Rs 452.80 within two days, on the BSE. The investors rushed to buy the stock and the BSE saw a phenomenal spurt in volumes, from a mere 72,500 shares traded a day before the announcement to 20 lakh shares after the declaration.

This is not an unusual investor reaction to a voluntary delisting. Share prices tend to inch up on rumours of delisting and people are lured by such short-term gains. In the past three years, around 85 companies have delisted shares from the Indian bourses. Prominent among these are [Bhuruka Gases](#), [Aztecsoft](#), [Shaw Wallace & Co](#), [Atlas Copco](#) and [Binani Cement](#).

In most of these cases, the stock prices have witnessed a sharp uptick in the days before the delisting. Is it advisable to make a beeline for a stock simply because it is being delisted? If you are a shareholder in the company, how should you interpret such an offer? Should you tender your shares or hold on to them? For a better understanding, let us first examine the dynamics of the delisting process.

Why companies delist

Delisting means permanent removal of securities of a listed company from a stock exchange. After the delisting, the securities of that company can no longer be traded on that stock exchange. But why is a company delisted? It could either be a voluntary delisting on the part of the company or one forced by the stock exchange. If it is voluntary decision, the firm pays its shareholders to return the shares held by them and removes the entire lot of shares from the exchange.

A company can delist for several reasons. The promoters may want to increase their stake in the company, especially in depressed market conditions; the management may be seeking greater freedom in decision-making, without having to adhere to tedious compliance rules of stock exchanges and approval of shareholders; or the company is merged or acquired by another firm, which is the reason for Patni's delisting offer. If a firm is delisting for any of these reasons, it is no cause for alarm. Going private can be in the best interests of the company and make it even more profitable.

However, investors should start worrying when the delisting is forced on the company. It can be asked to do so by a stock exchange under certain circumstances, where the company has not complied with the exchange's listing requirements. These could include failure to meet reporting deadlines, non-payment of listing fee, etc. It is usually a sign that the company has fallen on troubled times. In a forced delisting, minority shareholders of the company may end up getting a shoddy deal as they have no option but to sell their shares at the price decided by the exchange.

Buying on a delisting announcement

Some investors buy into a stock merely on rumours of delisting or announcement of such an offer. The stock price tends to shoot up for the same reason that a buyback offer excites shareholders-investors expect the company to exit at a sizeable premium to the existing market valuation. Sandip Sabharwal, CEO, portfolio management services, [Prabhudas Lilladher](#), says, "Previous trading records suggest that, more often than not, this can be a winning strategy."

However, the stock price need not go up every time. In September, [Mahindra Satyam](#) announced plans to delist from the [New York Stock Exchange](#) (NYSE), citing its inability to comply with US market norms. This led to its share price (listed ADRs) falling by 24% on the NYSE that day.

If the company is not able to generate interest among its shareholders at the price it offers, the delisting will not materialise. Sometimes, the company may also reserve the right to not accept the price arrived at through the reverse book-building process. If the delisting does not occur, the stock price can crash as easily as it can soar on delisting announcement. As such, experts do not prescribe blindly chasing stocks that are about to delist. "Don't buy merely on rumours of stock delisting" asserts

DD Sharma, senior VP, [Anand Rathi Financial Services](#). Even if there is an announcement, get in if there is a reasonable uptick on the cards, he adds.

You can succeed in depressed market conditions when one can expect a generous premium to existing prices. Pankaj Pandey, head of research, [ICICI Securities](#), offers another perspective: "Go after such stocks only if genuine intent is shown by the promoters to delist the company." For this, investors should keep track of changes in the promoter holding because firms can delist if promoter shareholding exceeds 90% of the total shares issued. Also, make sure that the market has not already factored in such an eventuality. Sabharwal adds that a higher benefit will accrue to those who buy the stock earlier and hold on till after the delisting announcement.

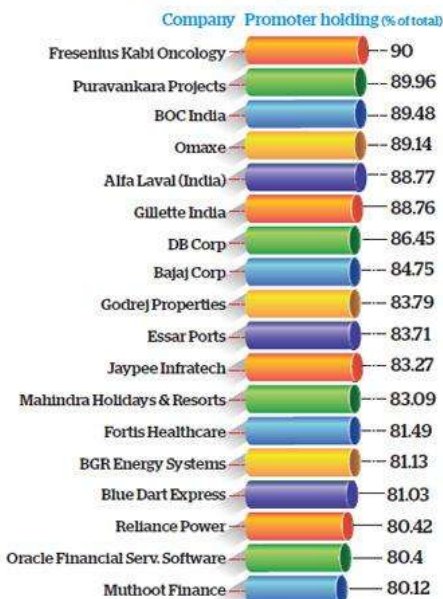
Companies that delisted this year

Company	Delisted on	Price on delisting date (₹)	3-month price movement*	6-month price movement*
Balaji Distilleries	6 Jan	50.8	3%	26%
Elgi Rubber Company	10 Jan	8.79	-27%	-2%
Siemens Healthcare Diagnostics	21 Mar	1726.8	17%	17%
Nirma	23 Mar	255.65	11%	18%
Sparsh BPO Services	20 Apr	108.1	21%	23%
Harleystreet Pharmaceuticals	26 Apr	27	-1%	38%
Atlas Copco (I)	12 May	2,720.75	31%	46%
Binani Cement	20 May	90.5	5%	7%
Hindustan Spinning & Wvg Mills	15 Jun	36.55	2%	-21%
Television Eighteen India	20 Jun	62.05	-15%	-11%
Midas Pharmasec	28 Jun	28.55	8%	35%
Maharashtra Electros melt	1 Aug	229.9	-32%	-25%
SCIL Ventures	17 Aug	121	16%	20%
Solvay Pharma India	25 Aug	2,141.55	1%	15%

*Price movement prior to delisting for the period mentioned; Source: ETIG database

Potential candidates

Companies can delist if promoter shareholding exceeds 90% of the total shares issued. Here are some firms that can be likely candidates.



Data as on 30 Sep 2011. Source: CMIE Prowess

their shares," it states. However, the firm may not go ahead if shareholders ask too much through the reverse book-building process. An analyst with a leading research firm says, "Indications are that Patni shareholders may ask for more than Rs 500, the price at which iGATE acquired Patni. If so, the promoters may defer delisting since they have a limited war chest to fund the share purchase."

What happens if you do not tender your shares? If you are still holding on to them once the stock is delisted, you would continue to be a shareholder, receive dividends and retain the right to cast votes at shareholder meetings. If you want to unload shares after the delisting, you can do so by tendering them to promoters within one year from the date of delisting. As per regulation, the promoters are required to accept the shares tendered at the same price at which the delisting took place.

However, after one year, you would be stuck with the shares and have few options to get rid of them. Rarely do firms relist shares after delisting, in which case you can trade them in the secondary market.

Should you tender or hold on?

So, should investors tender their shares at the open offer price or hold on to them? Whether the delisting is good or bad for you will depend not only on the price at which the delisting takes place, but also on the future prospects of the company. It could be a wise decision to tender the shares if you are uncertain about the firm's growth. Also, if you feel that the price provides a fair exit point and the delisting offer could go through, tendering the shares would make sense.

Says Sabharwal: "If you are convinced that delisting may not happen or that sufficient premium is not being offered, don't tender the shares." The firm may come up with a better offer if shareholders do not give the requisite shares at the first instance, which is what happened in the case of Cadbury India. The revised offer price may give you a better opportunity to exit.

Pandey suggests that investors compare the offer price to the valuations of peer companies in the industry and consider surrendering the shares if it provides sufficient premium to these valuations. For shareholders of Patni, experts feel that though the floor price has been fixed at Rs 357 (much lower than the then market price), the final offer will be at much higher levels, which could provide a good exit opportunity, especially as the firm's fundamentals are not too strong now.

ICICI Securities has advised shareholders to exit the stock. "Given the firm's limited visibility on transition and integration, investors should take advantage of the open offer and tender

Spare time for Trading:

1 hr
 3 hr
 5 hr

Experience in Trading:

Yes
 No

Desired Profit (weekly)

\$100-\$999
 \$1000-\$4999
 \$5000 +

bforex

[Check Results](#)



[Home](#) | [News](#) | [Markets](#) | [Personal Finance](#) | [Mutual Funds](#) | [Infotech](#) | [Jobs](#) | [Opinion](#) | [Features](#) | [Videos](#) | [My Portfolio](#)

Other Times Group news sites

[Times of India](#) | [इकॉनॉमिक टाइम्स](#)
[छँडेन्नेमिड टाइम्स](#) | [Mumbai Mirror](#)
[Times Now](#) | [Indiatimes](#)
[नवभारत टाइम्स](#) | [महाराष्ट्र टाइम्स](#)

Living and entertainment

[Timescity](#) | [iDiva](#) | [Bollywood](#) | [Zoom](#)

Hot on the Web

[Christmas SMS](#) | [Christmas 2011](#)
[New Year 2012](#) | [What is AIDS](#)
[Indiatimes Shopping](#) | [Desi Boyz](#)
[Songs](#)

Services

[Book print ads](#) | [Online shopping](#) | [Business solutions](#) | [Book domains](#) | [Web hosting](#)
[Business email](#) | [Free SMS](#) | [Free email](#) | [Website design](#) | [CRM](#) | [Tenders](#) | [Remit](#)
[Cheap air tickets](#) | [Matrimonial](#) | [Ringtones](#) | [Astrology](#) | [Jobs](#) | [Property](#) | [Buy car](#)
[Bikes in India](#) | [Online Deals](#)

[About us](#) / [Advertise with us](#) / [Careers @ TIL](#) / [Terms of use](#) / [Privacy Policy](#) / [Feedback](#) / [Sitemap](#) / [Code of Ethics](#)

Copyright© 2011 Times Internet Limited. All rights reserved.

