

A Study on Trend of Voluntary Delisting of Companies in India with focus on financial performance of Delisted companies

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ABSTRACT

Delisting of companies in India happens when listed companies delist their shares from all stock exchanges in India. As a measure of corporate restructuring, it is different from delisting of shares where shares are delisted from trading in one or more stock exchanges but continue their listing in at least one of the stock exchanges. Delisting of Company can be either involuntary or voluntary depending upon circumstances underlying such occurrence. The reasons for involuntary delisting are forced withdrawal from trading on account of non-payment of listing fees, non-adherence to stock exchange regulations. The reasons for voluntary delisting are cost of compliance of listing with stock exchanges, low trade volume for the shares and low market price as compared to true value of shares. Literature Review has brought out that delisting is less studied topic in corporate finance and offers promising field for researchers. The trend of voluntary delisting in India for the period of five years from 2010 through 2014 is taken up for study in relation to set objectives. The selected five listed companies which voluntarily delist shares from the stock exchanges have been identified for this purpose. Secondary data for the five years 2010 through 2014 from BSE are drawn for the descriptive analysis of the study. Legal compliances for voluntary delisting of shares by companies are also covered in the study. The findings and conclusions of the study will help research in this area for the other companies opting for this mode of corporate restructuring in India.

Keywords: *Corporate restructuring; Delisting; National stock exchange; Bombay stock exchange; Security exchange board of India; Earnings per share.*

1.0 Introduction

Delisting of a Company as a tool of corporate restructuring is less explored field of study in corporate finance. Delisting of a Company is different from Delisting of shares. When a company delist shares from one stock exchange but continues trading in one or more other stock exchanges, then, it is termed as Delisting of shares. Delisting of a Company means Company gets delisted from all stock exchanges and shareholders forego their precious right of trading in secondary market.

Delisting of a Company can be either voluntary or involuntary. Involuntary delisting of a Company happens on account of non-payment of delisting fees and non-compliance with stock exchange regulations. This is also called as forced exit from trading of shares of a company from stock exchanges. Voluntary delisting happens on account of reasons such as onerous cost of compliances for listing, low trade volume of shares, market value of shares not reflecting its true value.

SEBI (2009) issued regulations for voluntary delisting of shares. Under these regulations, a Company may delist its equity shares from all the stock exchanges where they are listed or from only recognized stock exchange where they are listed provided all public shareholders holding equity shares of the companies which are sought to be delisted are given an exit opportunity.

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SEBI (2009) also made detailed provisions when exit opportunity to public shareholders becomes obligatory for companies choosing option of voluntary delisting of shares.

The study focuses on voluntary delisting of shares of a Company for the years 2010 through 2014. The tables provide inputs for the study.

Table 1: Number of Companies that have Delisted over the Years due to Various Reasons

| Reason | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------|------|------|------|------|------|
| Amalgamation | 22 | 10 | 10 | 15 | 2 |
| SEBI Delisting Norms | 7 | 5 | 1 | 0 | 0 |
| Voluntary | 1 | 1 | 11 | 10 | 15 |
| Winding up | 1 | 11 | 0 | 0 | 0 |
| Demerger | 0 | 2 | 1 | 0 | 0 |

Source: www.bseindia.com

Table 2: List of Companies Opting for Voluntary Delisting over the Years under SEBI (Delisting of Equity Shares Regulations, 2009)

| Year | Name of the Company |
|-------------|--------------------------------------|
| 2010 | HSBC InvestDirect India Limited |
| | Kanohar Electricals Limited |
| | Micro Inks Limited |
| | Sulzer India Limited |
| 2011 | Atlas Copco India Limited |
| | Binani Cement Limited |
| | SCIL Ventures Limited |
| | Sparsh BPO Services Limited |
| 2012 | Alfa Laval(India) |
| | Carol Info Services |
| | Chemplast Scanner |
| | Exedy India |
| 2013 | India Securities |
| | Jhaveri Flexo India |
| | Lotte India Corporation Limited |
| | Nirma |
| 2014 | Nidhi Polyster |
| | Patni Computer Systems |
| | UTV Software Communications |
| | Amrit Banaspati Company Limited |
| 2015 | Jolly Board Limited |
| | Chettinad Cement Corporation Limited |
| | FICS Consultancy Services Limited |
| | Kampani Consultants Limited |
| 2016 | Mangalam Ventures Limited |
| | Ratanbali Capital Markets Limited |

Source: <https://www.moneycontrol.com/stocks/marketinfo/delisting/index.php>

2.0 Literature Review

Constant Djama, Isabelle Martinez, et.al (2012) viewed decision to delist as less studied in

corporate finance literature as compared to decision to go public despite its importance in the life of the firm. The distinction between involuntary and voluntary delisting is brought out. The incentives for voluntary delisting and strategies to avoid delisting are brought out.

Douglas Muyeche (2014) cited reasons for voluntary delisting such as cost of compliance for getting/continuing with security exchanges, shrinking volume of trade in stock exchange and market price is failing to reflect the true value of the company's equity.

Isabelle Martinez, Stephanie Serve, et.al (2016) provides reasons for delisting and consequences thereof in the US, UK and Continental Europe. The phenomenon of Delisting is characterized by a great heterogeneity and relatively unexplored in the international context. Three areas of contemporary research highlighted by the authors are: (a) Involuntary listing and economic consequences thereof, (b) Types of firms opting voluntary listing and impact of voluntary delisting on shareholders wealth and (c) Impact of involuntary and voluntary delisting on corporate governance of the firms.

Karishma Khadiwala et.al,(2015) in their project report, a Study on Trends in Delisting of Shares in India and its reasons, find that Delisting has become a phenomenon of paramount importance globally and due to dramatic market shifts in recent years, many public companies are facing delisting from NASDAQ and the NYSE.

The authors classified Delisting in India in types such as Voluntary Delisting and Compulsory Delisting. Voluntary Delisting is further classified in to three types viz. Voluntary Delisting from all stock exchanges, Voluntary Delisting from few stock exchanges subject to listing at least at one stock exchange having nationwide trading terminals and Voluntary Delisting for Small Companies. The authors of the project also cited reasons for Compulsory Delisting and Voluntary Delisting in India. Legal framework of Delisting is also brought out.

The authors compared trends of Delisting for the period 2001 through 2007 with trends of Delisting for the period 2008 through 2014. Except for 2004, which saw a huge spurt 977 companies getting delisted in the year of which 876 companies were compulsorily delisted, there is general decline in number of companies getting delisted for both periods. The authors evaluated existing Model and suggested propped model of delisting bring out concept of pink shares to help small companies in the process of listing of their shares and to support delisted companies to relist their shares.

Sun Min Kang (2017) made an empirical research on firms in Korea opting route of voluntary listing. Her findings are summarized as follows. First, firms with higher growth voluntarily delist more frequently. Second, firms with high largest shareholder ratios voluntarily delist more frequently than those with low largest shareholder ratios. Third, firms with higher liquidity more frequently delist voluntarily compared with firms with lower liquidity. Fourth, firms in non-high-tech industries more frequently voluntarily delist than those in high-tech industries.

Tiziano Onesti, Mauro Romano and et.al (2014), the studied the effects of delisting on the dynamics and value creation of delisted companies represents a very promising research opportunity for international research scholars. The authors find that traditional classification of delisting viz. voluntary delisting and involuntary delisting considered for research may result in to conceptual fallacy and therefore there is a need to relook this traditional classification for future research purpose.

The voluntary delisting is viewed by authors from three different profiles concerning subject issuing will to proceed for delisting, strategic context in which delisting falls and the operating conditions of the delisted company.

The voluntary delisting on the basis of these profiles have been identified for the purpose of the research are further classified by the authors in to eight categories such as Pre-Sale Delisting (in balanced operating conditions), Hidden potential Delisting (in balanced operating conditions), Control strengthening Delisting (in balanced operating conditions), Takeover Delisting (in balanced operating

conditions), Pre-Sale Delisting(in presence of crisis/operating distress), Hidden potential Delisting (in presence of crisis/operating distress),Control strengthening Delisting(in presence of crisis/operating distress), Takeover Delisting (in presence of crises/ operating conditions).

3.0 Objectives of the Study

- To examine trend of promoters role in voluntary delisting for selected companies in India.
- To measure impact on financial performance of selected companies opting for voluntary delisting.

4.0 Research Plan

- Universe of the Study: 27 Companies
- Sample Size: 5 Companies
- Sampling Method: Convenience Sampling.

Table: 3: The Companies Taken up for Study

| Name of the Company | Year of Delisting | Industry Profile |
|---------------------------|-------------------|--------------------------------------------------|
| Sulzer India Limited | 2010 | Manufacturing- Machine |
| Binani Cement Limited | 2011 | Manufacturing- Cement |
| Alfa Laval(India) | 2012 | Manufacturing- Equipments |
| Nirma | 2012 | Manufacturing - Consumer and Industrial Products |
| Mangalam Ventures Limited | 2013 | Manufacturing- Textiles |

5.0 Research Methodology

5.1 Data collection

Secondary data from Published Accounts of the companies, SEBI, BSE and NSE Reports and Websites.

5.2 Research methods

Descriptive Study – Use of Tables and Ratios

5.3 Hypothesis

H_0 = There is no change in financial performance post delisting for the selected companies.

H_a = There is change in financial performance post delisting for the selected companies.

6.0 Analysis

- The reasons for delisting for selected companies for selected companies are given in tabular format below.

Table 4: Promoters Role in Delisting

| Name of Company | Reasons for Delisting |
|---------------------------|--------------------------------------------------------------------------------|
| Sulzer India Limited | Parent Company Promoters taking over balance stake of the Company from Public. |
| Binani Cement Limited | Parent Company Promoters taking over balance stake of the Company from Public |
| Alfa Laval(India) | Parent Company Promoters taking over balance stake of the Company from Public |
| Nirma | Promoters of the Company taking over balance stake of the Company from Public. |
| Mangalam Ventures Limited | Promoters of the Company taking over balance stake of the Company from Public |

Source: SEBI official Website

- The market reaction to news of Delisting for the selected Companies is brought out below:

Table 5: Market Reaction to the News of Delisting

| Name of Company | Pre Delisting Market Price Per Share | Exit Option Price offered to Public Shareholders per Share | Post delisting Announcement Market Price Per Share | Date of Announcement of Delisting |
|---------------------------|--------------------------------------|------------------------------------------------------------|----------------------------------------------------|-----------------------------------|
| Sulzer India Limited | Rs.1028.87 | Rs.1180 | RS. 1234.65 | 29 June 2010 |
| Binani Cement Limited | 82.00 | Rs.90 | Rs.95.65 | 26 November 2010 |
| Alfa Laval(India) | Rs.2821 | Rs.4000 | Rs.3385 | 1 February 2012 |
| Nirma | Rs.224 | Rs.260 | Rs.264.85 | 23 November 2011 |
| Mangalam Ventures Limited | Rs.52 | Rs.60 | Rs.55 | 19 January 2013 |

Source: BSE and NSE Reports/Websites

- The change in Earnings per Share for the selected companies where promoters of the company delisted shares is brought out in table given below:

| Name of the Company | EPS for the Year of Delisting | EPS for 2018-2019 | EPS Growth in Percentage |
|---------------------------|-------------------------------|-------------------|--------------------------|
| Nirma | 10.93 | 42.54 | 289.70% |
| Mangalam Ventures Limited | 2.43 | 84.53 | 3375% |

Source: Audited Accounts of the Companies

7.0 Findings

- The exit option offered to non-promoters including public by all sample companies is fairly representative of their market value for the relevant period.
- The market reaction to news of public announcement of delisting is found generally positive except for Mangalam Ventures Limited.
- As market quotation is not feasible for delisted companies, EPS is considered appropriate measure to evaluate financial performance of sample companies for the relevant period.
- For companies delisted where promoters of parent company purchased shares of non-promoters including public offering them exit option, the consolidated accounts of the parent companies fail to provide adequate information on EPS of their Indian Companies. As a consequence, hypothesis is not tested. These sample companies are Sulzer India Limited, Binani Cement Limited and Alfa Laval (India).
- For companies delisted where promoters of the same companies purchased shares of non-promoters including public offering them exit option, the EPS shows improvement post delisting of shares. As a consequence, H_0 is rejected for these companies. These sample companies are Nirma and Mangalam Ventures Limited.
- Nirma and Mangalam Ventures focused on business development and reduction of cost of compliances as their corporate strategy to improve financial performance for the benefit of promoter shareholders' wealth in the competitive market scenario.

8.0 Limitation of Study

Non-availability of adequate data in public domain for companies delisted where non promoters shares are taken by promoters of parent companies.

9.0 Conclusion

Delisting is a measure of corporate restructuring that can be adopted by promoters of sound financial background having confidence in their future business prospects as Delisting of shares requires promoters to acquire non-promoters stake in the company by offering them exit option from their own funds.

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