

Voluntary Delisting: A Favorable Exit Option for the Existing Ordinary Shareholders

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ABSTRACT

In a developing country like India, lakhs and lakhs of people make investment in the primary and secondary market. So it is the inherent job of the regulators to protect the interest of shareholders mainly minority shareholders. With this objective the Securities and Exchange Board of India was established in 1992 for protecting the interest of investors in the securities and to promote and develop the securities market. It acts as a regulator for the development of securities market in India. It had issued delisting guidelines in 2003, 2009 and subsequently amended in 2015. These guidelines have always been for protecting the interest of the ordinary shareholders. The present paper intends to find out whether at the time of voluntary delisting of the company's equity shares, the ordinary shareholders were benefitted as the exit offer price is more as compared to the historical prices, as in such cases the liquidity is insignificant. For this purpose the delisted companies data for the past five years were taken, with the 52 weeks high and low share price, closing day high and low share price, book value of shares and the exit offer price. Accordingly, the study has been supported using the Paired sample T-test.

Key Words: Compulsory Delisting, Stock Exchange, Voluntary Delisting

1.0 INTRODUCTION

The companies issue securities in the primary market to raise funds from the public. These securities are traded in the secondary market ie the stock exchange where these securities can be further purchased and sold. The stock exchanges provide liquidity to the investors as anyone can purchase and sell these securities. Presently around 9,000 Companies are listed in various Stock Exchanges in India, but only around 3500 companies are actively involved in the trading.

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The trading takes place only at BSE/ NSE, others are either not being traded or have become illiquid. The securities of a company can be traded in the stock exchange only when it gets itself listed. For listing of the securities, the companies have to comply certain provisions and listing conditions issued by SEBI and the concerned stock exchange. Once the company gets listed in the stock exchange its securities can also be traded and provides liquidity to the investors.

The term delisting is the opposite of listing. In listing, the company's name is registered in the stock exchange while in case of delisting the name of the company is removed from it. There are various ways by which the securities of a company can be delisted from the stock exchange. A security may be voluntary delisted by the promoters or it can compulsorily be delisted by the stock exchange due to the non-compliance of the statutory provisions. A security can be delisted on the winding up of a company or under the scheme of amalgamation. As there are certain terms and conditions that are to be followed when the company gets listed in the stock exchange, similarly some conditions are also to be followed at the time of delisting of a company.

According to Martinez and Serve (2011), the decision of delisting is made when the listing costs exceed the benefits of staying public, i.e., when one of the following occur: (i) the benefits decrease below the threshold at which the benefits of being public exceed the costs or (ii) the costs increase above the threshold at which costs exceed benefits.

Bharath and Dittmar (2010) argued that because theories related to the costs and benefits of going public are trade-off type theories, they can also be used to analyze why firms decide to delist. Thus, according to these theories, the decision to go private will depend on the market timing.

2.0 OBJECTIVE OF STUDY

- a) To identify the difference between exit price and book value in case of voluntary delisting.
- b) To identify the difference between exit price and closing value in case of voluntary delisting.
- c) To identify the difference between exit price and 52 weeks high price in case of voluntary delisting.
- d) To identify the difference between exit price and delisting day high price of share.

3.0 Hypothesis

Hypothesis 1: There is no significant difference between book value and exit price of delisting companies.

Hypothesis 2: There is no significant difference between exit offer price and closing date trading prices of the delisted companies.

Hypothesis 3: There is no significant difference between exit offer price and 52 weeks high share prices of the delisted companies.

Hypothesis 4: There is no significant difference between exit offer price and delisting day high share price.

4.0 CONDITIONS FOR DELISTING

The Securities Laws (Amendment) Act enacted in 2005, incorporated section 21(A) in the Securities Contract Regulation Act (SCRA) to allow delisting of securities necessitating the creation of a delisting Framework. In order to provide statutory backing for the delisting framework, Rules dealing primarily with the substantive aspects and Regulations dealing primarily with the procedural aspects for delisting are also being notified simultaneously by the Government and Securities & Exchange Board of India respectively.

4.1 COMPULSORY DELISTING: The delisting order can be made on the non-fulfillment of the listing regulations of the respective exchange and on any other ground prescribed in the rules made under section 21A of SCRA, 1956. The delisting of the securities can be done by the stock exchange on the following grounds:

- a) If the company has incurred losses during three consecutive preceding years and its net worth has become negative.
- b) The trading of the company securities has been suspended for a period of more than six months.
- c) The companies' securities have been infrequently traded during the past three years.
- d) The company or its director or promoters have been convicted for failure to comply with the provisions of the Act or the SEBI Act 1992 or the Depositories Act 1996 or any rules and regulations made under the above acts and had been awarded penalty of more than Rs. one crore or imprisonment of more than three years.
- e) The address of the company or its promoters or directors is not known, wrong addresses have been provided, or the company has changed its registered office without following the provisions of the companies Act, 1956.

- f) The share of the company held with the public had fallen below the minimum limit applicable to the company as per the listing agreement and the company was not able to raise the public holding up to the needed level within the specified time provided by the recognized stock exchange.

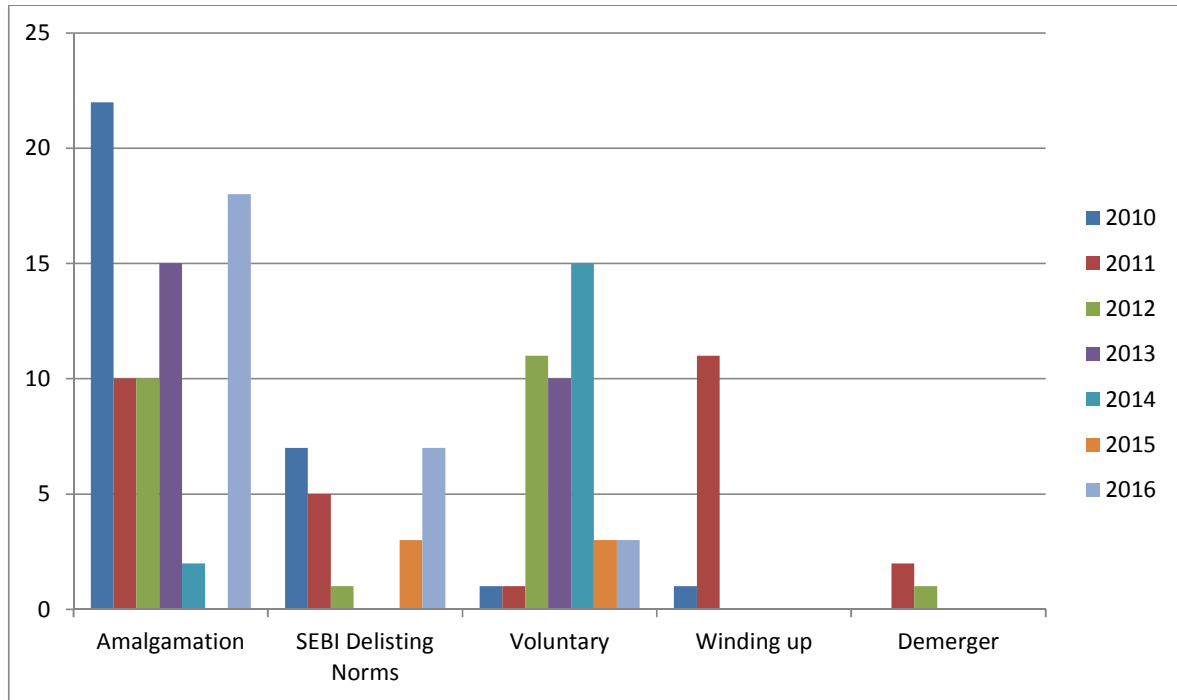
4.1.1 DELISTING DUE TO WINDING UP: A company may be delisted due to winding up of a company. If any company goes for winding up it itself gets delisted and the name of the company is removed from the list of listed companies.

4.1.2 DELISTING DUE TO AMALGAMATION: When an existing company is amalgamated or merged to form a new company or acquired by another company, the existing company loses its identity and it gets delisted from the Recognized Stock Exchange.

4.2 VOLUNTARY DELISTING: The Companies can either for cost benefit, or to comply with any of the rules and regulations etc. may seek delisting from any of or all the stock exchanges. This form of delisting is known as voluntary delisting. The companies can voluntarily opt for delisting of its securities if:

- a) The securities of the company have been listed for a period not less than three years on the Recognized Stock Exchange.
- b) The delisting of securities must have been approved by the two- third of the public shareholders.
- c) The company, promoters or the directors of the company purchase the outstanding securities from those holders who want to sell their securities at a price determined as per the Guidelines provided by the Securities Exchange Board of India.

Figure1. Delisting due to Various Reasons



(Source- Bombay Stock Exchange official website-www.bseindia.com)

The figure above shows the companies delisted since 2010 to 2016 due to amalgamation, SEBI delisting norms, voluntary delisting, winding up and demerger.

5.0 SHARE PRICES OF DELISTED COMPANIES

The table below shows the face value, book value, 52 weeks highest and lowest prices, high and low and close price on the date of delisting and the exit offer price of the companies delisted between 2013 to 2016.

Table 1 : Share Prices of Companies Delisted During 2013 To 2016

Scrip Name	Date	Face value	Book Value	52 weeks		Delisting date			Exit Price
				High	Low	High	Low	Close Price	
Chettinad Cement Corporation Limited	7-Jun-13	10	334.69	1088.00	670.05	715	703.20	709.55	720
Fresenius Kabi Oncology Limited	10-Jan-14	1.00	16.70	154.00	94.35	132.60	132	132.30	132
Reliance Broadcast Network Limited	28-Mar-14	5.00	-16.21	24	70.50	69.25	69.00	69.10	70.00

Novopan Industries Limited	10-Nov-14	10	0.94	48.80	29.15	39.55	39.50	39.55	40.00
Reliance Media Works Limited	6-May-14	5	1.61	60.75	36.50	60.20	59.05	59.80	61.00
JD Orgochem Limited	18-Jul-14	1	-30	7.35	2.35	4.83	4.83	5.08	5.34
Manjushree Technopack Limited	24-Mar-15	10	133.58	495	152	447.90	446.00	447.30	455
Piramal Glass Limited	28-Jul-14	10	72.95	139	67.50	138.85	138.50	138.60	140
Winsome Diamonds & Jewellery Limited	31-Mar-15	10	53.25	1.15	.30	.38	.37	0.38	0.38
GSL Nova Petrochemicals Limited	22-Apr-15	5	-16.2	2.43	.41	2.43	2.43	2.43	**
Essar Ports Limited	31-Dec-15	10	79.84	150.40	80	131.70	130.50	130.70	90.50
Essar Oil Limited	17-Feb-16	10	26.99	263.30	98.10	263.30	263.25	262.60	262.80
Zenith Computers Limited	18-Mar-16	10	-41.75	3.29	1.56	1.89	1.86	1.86	2.04
Gujarat State Financial Corporation	18-Mar-16	10	-221.36	4.41	2.38	3.56	3.39	3.39	3.69

Source: money.rediff.com & moneycontrol.com

6.0 FINDINGS AND DISCUSSION

Hypothesis 1: There is no significant difference between book value and exit price of delisting companies.

Table 2: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	BookValue	31.6331	13	123.92912	34.37175
	Exit_Price	1.5252E2	13	213.61239	59.24542

Table 3: Paired Samples Statistics

		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	BookValue - Exit_Price	-1.20886E2	130.51297	36.19779	-3.340	12	.006

The above tables show that $t_{(12)} = 3.340$, $p < .006$. Due to the means of both values and the direction of the t -value, we can conclude that there was a statistically significant improvement in exit price value ($p < 0.006$).

Hypothesis 2: There is no significant difference between exit offer price and closing date trading prices of the delisted companies.

Table 4: Paired Samples Statistics between Close and Exit Price

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Close_Price	1.5386E2	13	209.85948	58.20455
	Exit_Price	1.5252E2	13	213.61239	59.24542

Table 5: Paired Samples Differences between Close and Exit Price

		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	Close_Price - Exit_Price	1.34308	12.13059	3.36442	.399	12	.697

The above tables show that $t_{(12)} = .399$, $p > .697$. Due to the means of both values and the direction of the t -value, we can conclude that there is no statistically significant improvement in exit price value ($p > 0.697$).

Hypothesis 3: There is no significant difference between exit offer price and 52 weeks high share prices of the delisted companies.

Table 6: Paired Samples Statistics between 52 weeks High and Exit Price

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 High 52 weeks	1.8765E2	13	304.51107	84.45617
Exit_Price	1.5252E2	13	213.61239	59.24542

Table 7: Paired Differences Statistics between 52 weeks High and Exit Price

	Paired Differences			t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean			
Pair 1 High52weeks - Exit_Price	3.51308E1	102.97785	28.56092	1.230	12	.242

The above tables show that $t_{(12)} = 1.230, p > .242$. Due to the means of both values and the direction of the t -value, we can conclude that there is no statistically significant improvement in exit price value ($p > 0.242$).

Hypothesis 4: There is no significant difference between exit offer price and delisting day high share price.

Table 8: Paired Samples Statistics between Delisting Date High and Exit Price

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 Delisting_Date_High	1.5454E2	13	211.13304	58.55777
Exit_Price	1.5252E2	13	213.61239	59.24542

Table 9: Paired Differences Statistics between Delisting Date High and Exit Price

	Paired Differences			t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean			
Pair 1 Delisting_Date_High - Exit_Price	2.02000	11.98416	3.32381	.608	12	.555

The above tables show that $t_{(12)} = .608, p > .555$. Due to the means of both values and the direction of the t -value, we can conclude that there is no statistically significant improvement in exit price value ($p > 0.555$).

7.0 CONCLUSION

The voluntary delisting is the only option for the companies which are not performing well. The liquidity is wrapped as the shares of such companies are infrequently traded. So, the best option available with the ordinary shareholders is to make exit from the company. The shares of such companies do not have any market as no one is interested in purchasing the shares. The shareholders usually get the return which is more than the book value of shares (31.6331 book value & 152.52 is the exit offer price) but the difference between the closing day high and the closing date price of the ordinary shares is minimal.

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