

## **Time to let them go**

***Just one-fourth of 9,000 listed companies are traded. Encourage delisting, with safeguards for investors***

### **Prithvi Haldea**

There's no point in bragging that India has 9,000 listed companies when less than one-fourth are traded, when some have 10 or less public shareholders, when some have a capital of only Rs 10 lakh. Barring the one-fourth that are traded, the rest are a drain on the system and worse are an easy fodder for market manipulation. Why not weed them out, keeping investor interests in mind?

With delisting guidelines being reviewed yet again, here are my suggestions on how to approach it. While drafting the new guidelines, only one question should be kept in mind: does delisting a company harm its public shareholders or does keeping it listed harm the market? Then, categorise companies appropriately and use relevant parameters for each category.

#### **Listed on BSE/NSE, RSEs**

Since the NSE and the BSE have terminals across India, there is no reason for companies listed on them to stay listed on regional stock exchanges (RSEs). Despite the fact that RSEs don't see any trading, many are imposing unrealistic conditions on companies to delist, as they don't want to lose out on the annual listing fee. Such companies should be forced to delist from RSEs, within a specified time-frame.

#### **Only on RSEs**

Of the 3,200 listed companies on the Delhi Stock Exchange, 2,400 are suspended for non-compliance. But even those that are doing well financially and complying with the listing agreement are nowhere in the market. While they are not traded on RSEs, the high entry barriers on the NSE/BSE prevent them from getting listed there. Small companies need to be nurtured, as many have the potential to grow into large corporations. IndoNext, which was conceived for such companies, is yet to take off. This platform needs to be reviewed urgently.

#### **With less than 100 public shareholders**

There are, reportedly, about 1,000 companies with less than 100 shareholders. In other words, their promoters hold almost all its shares. Why should such companies remain listed? They not only violate the listing agreement, but also several Sebi regulations. Many such companies are sold for a premium to enable reverse mergers, which lets an unlisted company list without making a public issue. Worse, during bull runs, many promoters are able to manipulate share prices and dump shares on gullible investors. Such companies should be delisted, as they don't represent the public character of a publicly listed company.

Several such companies want to delist, but are averse to using the expensive reverse book-building mechanism. The price to be paid to shareholders is also an issue. Probably the "highest of any" formula should be used to arrive at a delisting price. Companies with zero public shareholders should be allowed to promptly delist after paying a one-time fee and penalties for violations of the takeover code.

#### **With more than 100 public shareholders**

The reverse book-building route should continue, but it should be fine-tuned. The number of public shareholders and public holding should be considered. In a recent case, the promoters held 97.1 per cent. To acquire the balance 2.9 per cent (17,428 shares), they did reverse book-building, but got only 0.15 per cent (900 shares). Now, for the balance 2.75 per cent, the company has to keep the exit option open for six months. What price discovery took place, and at what cost?

#### **Compulsory delisting**

Between January 2004 and July 2004, the BSE delisted 752 companies for non-compliance, after an ad in the paper. The delisting robbed thousands of shareholders of an exit route. Just an ad can't be regarded as notification to all shareholders of these 752 companies! The punishment for non-compliance shouldn't be delisting, but penalties on promoters.

Delisting should be done on a war footing to get rid of the junk. Simultaneously, active companies should be given incentives to deter them from delisting and new listings should be encouraged, as most of India's economy is still outside the listed domain.

### **Box**

#### **Wait and watch**

There is nothing you can do if you own shares of a company that has been delisted. There is, however, hope in companies that are suspended for non-compliance with the listed agreement. Wait and hope they might comply at some point in time. As for good companies listed only on regional exchanges, hope that some day they are traded on the Indonext platform.