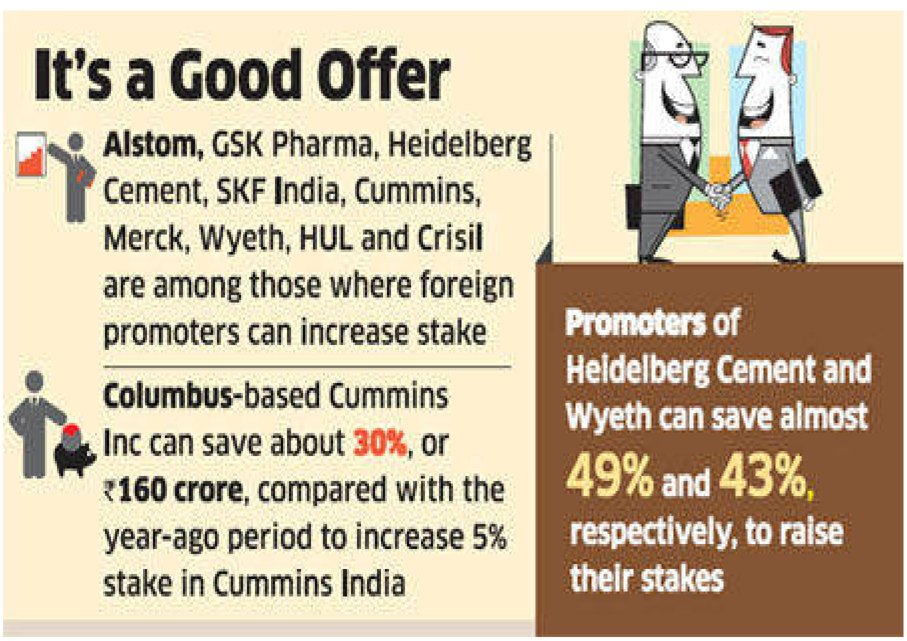
RBI allows foreign promoters to raise stake in domestic companies

The Reserve Bank of India (RBI) has made it easier for foreign and non-resident Indian promoters to increase their stake in domestic companies through the foreign direct investment (FDI) route, a move that can bolster the stocks of companies where foreign promoters have a stake.

Almost four-fifths of nearly 400 such stocks are trading at three-year lows in dollar terms. While the stock markets fell, the rupee also took a knock, losing 18 per cent against the dollar, 22 per cent against the euro, and 16 per cent against the pound in the past 12 months. "The central bank's new circular gives more parity to overseas promoters to increase their stake in Indian subsidiaries under FDI norms," said Ravi Sardana, EVP investment banking, ICICI Securities. "The sharp fall in the rupee and share prices provide a good opportunity for foreign promoters, especially MNCs, to consolidate their stake at a reasonable price," he added.

Alstom, GSK Pharma, Heidelberg Cement, SKF India, Cummins India, Merck, Wyeth, HUL and Crisil are some of the companies where foreign promoters can increase their stake in the coming months, said investment bankers. "The RBI move not only brings more foreign funds to India, but allows foreign promoters to use the amount received from its Indian arm through dividend to buy stocks. This will discourage dollar outflow," said G Chokkalingam, executive director and CIO, Centum Wealth Management. "The current situation makes these potential transactions cheaper by almost 30 per cent than a few years ago," he added.

For instance, Columbus-based Cummins Inc can save about 30 per cent, or Rs 160 crore, compared with the year-ago period to increase 5 per cent stake in its subsidiary Cummins India. Shares of Cummins India fell 17 per cent and the rupee dropped 18 per cent in the past year. Similarly, promoters of Heidelberg Cement and Wyeth can save almost 49 per cent and 43 per cent, respectively, to raise their stake.



Promoters can increase their stake to a maximum of 75 per cent either though open offer or open market purchase. However, in the open market promoters are allowed to buy a maximum 5 per cent of the total equity in a year. "For overseas promoters, increasing stake through the FDI route is much easier and cheaper over other methods including open offer," said H Jayesh, founder partner at law firm Juris Corp.

In the past, despite offering huge premiums, overseas promoters of many companies such as Hindustan Unilever and Crisil were unable to buy out minority investors through voluntary open offers. While open offer could be a costly affair for overseas promoters, because of the premium investors demand over the prevailing stock price and other expenses, tax could be one of the major reasons for domestic investors to avoid tendering their shares in an open offer.

"If you tender your shares in an open offer, which are more than a year old, they will attract 20 per cent tax," said Pranay Bhatia, partner at Economic Laws Practice. "If you tender shares within a year of buying, you will have to pay income tax according to your tax slab."

McGraw Hill Financial was able to increase its stake in Crisil to 68 per cent last month against the proposed 75 per cent. In fact, Roopa Kudva, CEO & MD of Crisil, sold 1.6 lakh shares worth nearly Rs 19 crore in the open market on the first day of the offer instead of tendering them to the promoters, saying shares in the open market do not attract capital gains tax while doing so through open offer will be subject to tax.

(Economic Times)