



Delisting of Securities -Reverse Book Building Process.

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ABSTRACT

Securities and Exchange Board of India has issued the SEBI (Delisting of Securities) Guidelines 2003' for delisting of shares from stock exchanges. National Stock Exchange now provides online reverse book building for promoter/acquirer through its trading network which spans various cities and towns across India. The Reverse Book Building is a mechanism provided for capturing the sell orders on online basis from the share holders through respective Book Running Lead Managers (BRLMs) which can be used by companies intending to delist its shares through buy back process.

It is now felt that the reverse book-building process would provide the transparent and fair mechanism to determine an exit price for de-listing of securities and would ensure investors' participation in the whole de-listing process. Main objective of the paper is to explain Reverse Book Building process in detail.

KEYWORDS : Reverse Book Building, IPO, Book Building, Delisting,etc.

Introduction:

Delisting Process:-

Process of removing securities of the listed companies from a stock exchange permanently is called as Delisting of securities. It is also known as Reverse Book Building process. The securities of particular company will no longer be traded on stock exchange after completion of Delisting Process.

Reasons or Types of Delisting Process:-

- Non-compliance with the listing Requirements of the stock exchange for a period of 6 months..
- The Company becomes a private company.
- No sufficient trading volume to justify the listing fees at the exchange..
- Liquidation of the Company.
- The Company becomes Bankrupt & unable to meet current debt obligations.
- Promoters' Directors' track record especially with regard to insider trading, manipulation of share prices, unfair market Practices, etc.

Objectives:

- To understand the concept of Delisting of securities.
- To know Reverse Book Building Process.
- To examine difference between Book Building Process & Reverse Book Building Process.
- To understand NSE & BSE Reverse Book Building system.
- To know advantages & Criticism on Reverse Book Building Process.

Concept:

The Reverse Book Building is basically a process used for efficient price discovery. It is a mechanism where, during the period for which the Reverse Book Building is open, offers are collected from the shareholders at various prices, which are above or equal to the floor price. The buyback price is determined after the offer closing date

Meaning of Reverse Book Building-

The Reverse Book Building is a mechanism provided for capturing the sell orders on online basis from the shareholders through respective Book Running Lead Managers (BRLMs) which can be used by companies intending to delist its shares through buy back process. In the Reverse Book Building scenario, the Acquirer/Company offers to buy back shares from the shareholders. The Reverse Book Building is basically a process used for efficient price discovery. It is a mechanism where, during the period for which the Reverse Book Building is open, offers are collected from the shareholders at various prices, which are above or equal.

Reverse book building gives the seller a right to decide the price at which he wishes to exit, and the buyer, the option to decide whether he wants to accept or reject the same. The acquirer would determine the average price of 26 weeks before the date of announcement of

public announcement, and the shareholders are allowed to tender at/ or above this floor price. The process of price discovery is undertaken as in normal book building process, and the cut off price /final price is the one at which maximum shares are tendered. If the acquirer accepts the price, the shares are tendered to all those who have bid lower than that, and if the acquirer rejects the price, then the shares are returned to the shareholders

Delisting of shares under SEBI (delisting of Securities) guidelines 2003

Securities and Exchange Board of India has issued the SEBI (Delisting of Securities) Guidelines 2003' for delisting of shares from stock exchanges. The guidelines inter alia provide the overall framework for voluntary delisting by a promoter. In accordance with the guidelines for the first time in India by any Exchange, National Stock Exchange now provides online reverse book building for promoter/acquirer through its trading network which spans various cities and towns across India. NSE operates a fully automated screen based bidding system that enables trading members to enter offers directly from their offices through a sophisticated telecommunication network.

Business process for delisting through book building is as follows:

- The acquirer shall appoint designated Book Running Lead Manager (BRLM) for accepting offers from the share holders.
- The company/acquirer intending to delist its shares through Book Building process is identified by way of a symbol assigned to it by BRLM.
- Orders for the offer shall be placed by the share holders only through the designated trading members, duly approved by the Exchange.
- The designated trading members shall ensure that the security / share holders deposit the securities offered with the trading members prior to placement of an order.
- The offer shall be open for 'n' number of days.
- The BRLM shall intimate the final acceptance price and provide the valid accepted order file to the National Securities Clearing Corporation Limited (A wholly owned subsidiary of NSE carrying out clearing and responsible for settlement operations.)

NSE Reverse Book Building System

NSE uses the reverse book building system; a fully automated screen based bidding system that allows offers to run in several issues concurrently. The system has the facility of defining a hierarchy amongst the users of the system. The Book Running Lead Manager can define who will be the Syndicate member and who will be the other members participating in the issue. The Syndicate Member and other Members also have a facility of defining a hierarchy among the users of the system as Corporate Manager, Branch Manager and Dealer.

List of Approved Trading Members:

- ICICI Brokerage Services Limited.

- Karvy Stock Broking Limited.
- Master Capital Services Limited.

Reverse Book Building through the NSE system offers several advantages:

- The NSE system offers a nationwide bidding facility in securities.
- It provides a fair, efficient & transparent method for collecting offers using latest electronic trading systems.

Difference between Book Building and Reverse Book Building

SEBI guidelines, 1995 defines Book building as "a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built-up and the price for such securities is assessed for the determination Of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document. "Book building process is common practice used in most Developed countries for marketing public offer of equity shares of a company. However, Book building acts as scientific as well as flexible price discovery method through which consensus price of IPOs May be determined by the issuer company along with the Book Running Lead Manager (i.e. merchant banker) on the basis of feedback received from individual investors as well as most informed investors (UTI, LIC, GICI, FII, and Society) The method helps to make a correct evaluation of company's potential and the price of its shares.

De-listing process through 'Reverse Book Building'

The main parties who are directly associated with de-listing of securities through reverse book building method are the acquirer/promoter of company, the BRLM, the trading members and existing shareholders of the company. The style of process, which is usually followed in the reverse book building mechanism in accordance with the SEBI (De-listing of Securities) Guidelines, 2003 can be summarized below:

- (i) the book building processes to be made through an electronically linked transparent facility.
- (ii) The number of bidding centers should not be less than thirty, including all stock exchange centers and there must be at least one electronically linked computer terminal at all bidding centers.
- (iii) 100 per cent of the estimated amount of consideration calculated on the basis of the floor price indicated and the number of securities required to be acquired should be deposited by the promoter in an escrow account.

Criticism on Reverse BookBuilding Method

It should not be acceptable blindly with the SEBI's guidelines relating to offer price /floor price (which is calculated on the basis of the average of 26 weeks traded price quoted on the stock exchange) for an open offer for de-listing incise of frequently traded securities while the reverse book building method adopted for determination of an

exit price for de-listing of securities also suffers from certain limitations. Therefore, the objections and criticisms against-listing procedure can be summed up as under: 3 under depressed market conditions, the floor price arrived on the basis of SEBI prescribed principle does not adequately compensate the shareholder for the permanent loss of investment opportunity, especially in a company whose shares are regarded as value investment.³ Though the investors would not have reason to complain that the exit price is unfair to them as they themselves arrived at the price through a participative process, unlike in an IPO which is open to the general public, reverse book building process operating in a restricted audience, raises doubts about the efficacy of the concept in a limited universe; and hence makes the process prone to manipulation. 3 Any open offer for delisting should indicate the price that the buyer is willing to pay. The requirement in case of reverse book building requires generating offers from the sellers (existing shareholders) who have no indication of the buyer's intention, or the price that the buyer is willing to pay for the strategic value of the company. The only indication is the floor price.³ this asymmetry of information places the shareholders at a distinct disadvantage, which may cause them to peg their offer at low price, particularly in weak markets? If the price quoted by the shareholders is low, then the offer would go through, but there is a distinct possibility that the investor would not have got as high a price as the buyer was willing to pay, which works against the shareholders' interest.³ A few shareholders who do not have the motivation to offer their shares can derail the process through manipulative bidding at unrealistically high prices.³ Further, threes builds in conditionality as regards the price as well as the occurrence of the transaction itself. There is no guarantee that the buyer/ acquire will accept the book built price, in which case the deal falls through, thus depriving shareholders who would have otherwise exited at reasonable offer price. Therefore, it is questionable that whether a reverse book building process will bring about a more efficient price discovery to ensure the investors in having a fair exit price. It is fact that listing and de-listing are commercial decisions and should be based on business considerations. So long as de-listing has the approval of the shareholders and the minority shareholders are adequately compensated; there cannot be any objection to de-listing. Investors' interest would therefore be better served if the available safeguards in the case of de-listing are further strengthened and the exit pricing is fair, transparent and not detrimental to the investors' interest

Conclusion

It is now felt that the reverse book-building process would provide the transparent and fair mechanism to determine an exit price for de-listing of securities and would ensure investors' participation in the whole de-listing process. Rational investors are supposed to quote the reasonable premium in the book building

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