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Government bid to align Takeover Code, FDI cap

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NEW DELHI: With the Securities & Exchange Board of India (Sebi) refusing to provide a special dispensation for foreign investors, the government has been forced to find a solution for companies to deal with the new Takeover Code while staying on the right side of the FDI cap for sever

The new rules mandate an open offer for an additional 26% stake by an entity buying more than 25% stake in a listed company. As such as civil aviation, where up to 49% FDI is permitted, will be affected by the move.

Government officials told TOI that overseas investors looking to acquire stakes in listed Indian companies operating in sectors where restricted at 26% or 49% will be advised to first acquire shares from the public through an open offer and then tap promoters to buy stakes.

So, a foreign investor who wants to buy 26% stake in, say, a DTH (direct-to-home) or private security company, will first have to offer. If the investor manages to acquire say 20% from the public, it will have to buy the rest from the promoter, explained an official who was taken during a recent meeting between officials from the finance and commerce and industry ministries as Sebi had refused to make changes to the new Takeover Code.

While the finance ministry had first demanded that Sebi amend the Takeover Code to allow foreign airlines to acquire up to 26% in the industry department pointed that the market regulator's new rules will affect all sectors where foreign players are not allowed to have control in an Indian company.

On its part, Sebi said it could not change the rules to benefit just the promoter group, while other shareholders do earn the same price for shares sold to a foreign investor. Besides, it does not want the rules to be pro-foreign investor and is keen that they should be the same for overseas players.

In recent weeks, however, there have been suggestions that some elements of the Takeover Code will be reviewed with Sebi chairmen indicating this at an event last week. Several companies are complaining that the new rules are not to their advantage and are putting pressure on them.

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