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SEBI's takeover code will raise M&A cost for companies

New Delhi, July 19 (PTI) Sebi's proposed takeover code will adversely impact M&A activity by raising the cost of acquisitions, say analysts.

According to analysts, while the recommendation to hike the open offer trigger to 25 per cent from the current 15 per cent is pro-shareholder, for companies it will make acquisitions a costlier proposition.

"Takeover financing has to be considered as acquisition cost can go up by up to three fold. There can be some negativity in the M&A market and widely-held companies will be impacted more,"BMR Advisors Partner Rohit Berry said.

The SEBI Takeover Regulatory Advisory Committee, headed by C Achutan, has also recommended that the offer price be based on the volume weighted average of 12 weeks market price of the target company, against 26 weeks at present.

Though terming the recommendations as fair and pro- investor, Ernst&Young National leader Global Financial Services Ashvin Parekh said,"M&A deals may become expensive if the proposal comes into effect due to proposed changes in the offer price calculation."

"The proposed code is very much in line with international threshold. From a shareholder perspective the 100 per cent limit is good. What is difficult is acquisition cost will rise, funding in open offer will be difficult,"PriceWaterhouseCoopers Executive Director Rekha Bagry said.

KPMG India Executive Director (M&A Tax) Manish Kapur said,"The recommendations require the acquirer to make an open offer for all the shares of the target company, as against 20 per cent under the current regulations, which could substantially increase the cost of acquiring targets."

However, some experts say that costlier M&As will bring in only serious players into the space.

"This code will bring in only serious players into the M&A space as the cost of acquisition will be higher. This would encourage PIPE (private investment in public equity) deals,"said Siddharth Shah, Principal, Nishith Desai Associates.

The panel report would now be put up on the website of the market regulator for public comments till August 31, 2010.