

# **Business Standard**

## **Controlling stake in Hero SPV may be with Munjals**

Reghu Balakrishnan / Mumbai December 21, 2010, 1:42 IST

The Munjal family, promoters of the Hero Group, is likely to have over 50 per cent stake in a special purpose vehicle to hold Honda's 26 per cent share in Hero Honda, following termination of the joint venture. This is contrary to speculation that private equity (PE) players would have a majority stake in the SPV.



Though the PE players may pump more money into the SPV, possession of a controlling stake by any party other than the Munjals will trigger an open offer under the Takeover Code, say experts. The structuring and the valuation of the SPV have not yet been finalised.

According to experts, of the Rs 4,500-6,800 crore (valuation of Honda's 26 per cent) stake, the Hero Group is likely to pay around Rs 1,000-1,400 crore, while the rest will be funded through PE firms and banks. PE investors in the race reportedly include Apollo, Bain Capital, Carlyle, KKR, TPG and Warburg Pincus. The Hero Group has so far declined to specify the price at which Honda's shares are changing hands.

Siddharth Shah, head of corporate & securities practice at Nishith Desai Associates, said: "Irrespective of the level of ownership by PE firms, if the SPV does not form part of the promoter group or qualifying promoter — wherein inter se transfers are exempt — it should trigger an open offer."

For exemption, the SPV needs to be part of the Munjals' group and so disclosed prior to the acquisition, which may not be possible. Therefore, it seems very unlikely that the SPV would get any exemption from the Takeover Code, he added.

Emails sent to Hero Group, Carlyle and Bain Capital did not elicit any response.

Though the shareholding pattern of the SPV remains a matter of discord, a buyout by a JV partner will not trigger the Takeover Code for a mandatory 20 per cent open offer.

Rohit Berry, partner & head of M&A practice at BMR Advisors, said, "In any case, under the Takeover Code, a new person should not acquire — directly or indirectly — more than 15 per cent shareholding or voting rights, or it will trigger an open offer. Irrespective of the shareholding in the SPV, the new person should not exercise control, since that may mean a change in control of the company as it presently exists."

According to investment bankers, PE players are likely to buy the shares of Hero Honda at a premium. "All the big daddies in PE wait for such a big-ticket deal, which may happen every one or two years. PE players are hungry for such a deal, where they can be part of a globally renowned automobile company. Also, such a bulk deal will drive up the share price quickly," said one analyst.