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Munjals vow to disclose deal price during share transfer

MUMBAI: The Hero group on Friday confirmed that it would buy out the 26% holding of its partner, Honda Motor, in their joint venture for two-wheelers at a discount to the market price, as it set about assuaging investors saying details of the transaction would be disclosed when the formal share transfer takes place.

The Munjal family had on Thursday announced that it would buy out its Japanese partner's stake in the 26-year-old joint venture without disclosing the price, raising concerns among investors over whether the company had provided adequate disclosures.

"The proposed transaction has been concluded keeping in view the paramount interest of all the shareholders. It is in line with past similar transactions of disengagement by foreign joint venture partners involving discount. The transaction will be between two qualified promoters and the details of the share transfer will be disclosed prior to the transfer as per applicable regulations," the Hero group said in a statement on Friday.

What has triggered disquiet among some investors is a statement by Hero Honda CEO and managing director Pawan Munjal and non-executive director Sunil Munjal at a press conference in Delhi on Thursday. Pressed for more details on the transaction, Pawan Munjal had said it was not required to be shared. "Deal details are not required to be shared," he had said.

To another question, Sunil Munjal had replied: "This is a qualified promoter to qualified promoter transaction which will be done in a phased manner. And at the point of acquisition is when we will share details."

Corporate lawyer HP Ranina had told ET NOW, this paper's business channel, on Thursday that securities market watchdog Sebi should take a closer look at the deal. Sebi officials were unavailable for comment though.

The stock exchanges, which are viewed as frontline regulators, are expected to first check whether there were any violations to the listing agreement, after which the regulator steps in. The transaction was carried out at a 40% discount to the market price, according to investment bankers close to the transaction.

At the last traded price of Rs 1,679, Honda Motor's 26% stake is valued at Rs 8,717 crore, or a little less than \$2 billion. While the limited disclosures have left a section of the minority investors unhappy, a few corporate and securities market lawyers said the company is not bound to disclose anything if the price is still being negotiated.

"If the exit price is still being negotiated or subject to further verification, the company doesn't have to divulge the details. Any premature disclosures could create artificial market for the shares of the company," said Siddharth Shah, who heads corporate and securities practice at Nishith Desai Associates.

"But if the price has already been agreed and is a material price-sensitive information, it should be immediately informed. If there is a prior approval needed from authorities such as the government agencies, you do not need to disclose the price," said Shailesh Haribhakti, Chairman of accounting and consultancy firm Haribhakti group.

Hero Honda clarified in an email response that there was no need to provide prior intimation of holding a board meeting, going by the listing agreement that companies sign with a stock exchange. Since there is no change in control in inter-se transfer, or what is known as transfer of shares between promoters, the company will be exempt from making an open offer to investors, in keeping with the rules on takeovers.

In the event of an open offer being mounted, the price can be up to 25% higher than the current market price. Brokerage firm SMC Capitals said in its latest report that the deal is an inter-se transfer between the promoters of the company and there is no requirement for an open offer.

The deal structure, however, is "bound to create some anxiety in the minds of minority investors", said SMC Capitals' research head Jagannadham Thunuguntla. Hero Honda posted its biggest drop in quarterly profit in three years at the end of the September quarter as rising raw material costs eroded gains from higher sales.

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