

L&T - Mindtree Deal: No White Knight To The Rescue Of Mindtree

Apr 16 2019 10:49 AM

The end of working hours on April 16 also marked the end of one big potential threat to Larsen & Toubro Ltd.'s Rs 10,700-crore acquisition of Mindtree Ltd.

A competing offer.

As per India's takeover regulations, a competing bidder had to announce its offer within 15 working days of the detailed public statement made by L&T. That time limit expired today and no offer has been made or published by the stock exchanges, making it clear that no other acquirer wants to throw its hat in the fray.

"No person shall be permitted to trigger such acquisition which would require public announcement of an open offer for acquiring shares after the period of 15 days lapses until the expiry of the offer period," explained Sanjay Asher, senior partner at law firm Crawford Bayley & Co.

This puts to bed any conversation around a white knight rescue for Mindtree's promoters — who are opposed to L&T's offer.

Now L&T has mostly procedural boxes to tick to complete its acquisition of the IT company. The timeline looks something like this...

Competition Commission of India's approval as also from U.S. and German anti-trust authorities. **DONE**

Wait for 15 working days to see if competing open offer is made. **DONE**

Wait for 21 working days before

- transfer of shares from exiting shareholder VG Siddhartha and related entities
- making any open market purchases

By then L&T should have heard from the Securities and Exchange Board of India regarding its offer document. Unless the market regulator seeks clarifications before that.

So the next date to watch for is April 25 when L&T will own just over 20 percent of Mindtree. It intends to acquire another 15 percent via open market purchases that could very well commence that day. Another 31 percent is sought to be acquired via the open offer to Mindtree's shareholders. All these purchases will be done at Rs 980 per share, or less in the case of open market transactions.

As things stand now, the open offer to Mindtree's shareholders is slated to commence on May 14 and end on May 27.

Mindtree Rallies To 980



But...

There's one more potential hurdle L&T may run into. On April 17, Mindtree's board of directors will meet to consider financial earnings as well as decide on the declaration of an interim and or special dividend.

A large dividend may render L&T's acquisition more expensive. That's because it will deplete Mindtree's cash and hence may impact L&T's assessment of the company's value, currently at Rs 980 per share.

Over the last 10 years, Mindtree has announced interim dividends ranging between 10 percent and 50 percent (Rs 1-5 per share) and often paid final dividends higher than that – such as 100 percent in 2015. In this period it has also announced a special dividend twice—50 percent in April 2014 and 20 percent in October 2017.

With approximately Rs 970 crore in cash and cash equivalents, the IT company can pay as high a dividend as it paid in the past, or even higher. If in the highly unlikely situation that it wanted to give away all the cash, it could pay a 590 percent dividend or Rs 59 per share.

But the takeover code will be watching. Mindtree's board will have to be mindful of two provisions in the regulations.

1. That, when such an open offer has been announced, the board of the target company shall ensure business "is conducted in the ordinary course consistent with past practice". This suggests the regulations would frown at any out-of-the-ordinary dividend payments.

The point of contention here would be whether 'interim and or special dividend' can be considered an act in ordinary course of business, said Asher of Crawford Bayley & Co.

One may argue it is a corporate action which can be taken at the discretion of the board. Mindtree is celebrating its 20th year, previously on such occasions such as 10th year anniversary, 10th year of IPO they have given a special dividend, however, this may result in increase of open offer price.

Sanjay Asher, Senior Partner, Crawford Bayley & Co.

2. As Asher pointed out, L&T, can adjust the open offer price if Mindtree's dividend per share is more than 50 percent higher than the average of the dividend per share paid during the three financial years preceding the date of the public announcement.

There is no bar on interim dividend, confirmed Vyapak Desai, partner at law firm Nishith Desai Associates. "In fact the offeror can adjust price based on this."

Just days before L&T made its interest public, Mindtree's board said it would consider a buyback of shares. That, too, was viewed as a defence to the hostile bid. That plan was later called off.

TENTATIVE SCHEDULE OF ACTIVITY

Name of Activity	Day and Date#
Issue of Public Announcement	Monday, March 18, 2019
Publication of this DPS in newspapers	Tuesday, March 26, 2019
Filing of the draft Letter of Offer with SEBI	Tuesday, April 2, 2019
Last date for public announcement for competing offer(s)	Tuesday, April 16, 2019
Last date for receipt of comments from SEBI on the draft Letter of Offer (in the event SEBI has not sought clarification or additional information from the Managers to the Offer)	Thursday, April 25, 2019
Identified Date*	Monday, April 29, 2019
Last date for dispatch of the Letter of Offer to the Shareholders of the Target Company	Tuesday, May 7, 2019
Last date by which a committee of independent directors of the Target Company is required to give its recommendation to the Shareholders of the Target Company for this Offer	Friday, May 10, 2019
Last date for upward revision of the Offer Price and/or the Offer Size	Monday, May 13, 2019
Date of publication of Offer opening public announcement, in the newspapers in which this DPS has been published	Monday, May 13, 2019
Date of commencement of the Tendering Period (" Offer Opening Date ")	Tuesday, May 14, 2019
Date of closure of the Tendering Period (" Offer Closing Date ")	Monday, May 27, 2019
Last date of communicating the rejection/ acceptance and completion of payment of consideration or refund of Equity Shares to the Shareholders of the Target Company	Tuesday, June 11, 2019

Schedule from the detailed public statement made by L&T.