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Munjals may have the controlling stake in Hero SPV holding Honda's stake

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Post the announcement of split in the joint venture between Hero and Honda, there has been numerous speculations over how the deal structure will be and how the Honda's 26 percent stake in the company Hero Honda Motors Ltd (HHML) will be bought. It has been reported initially that the majority stake will be bought by PE firms in the Special Purpose Vehicle (SPV) which is to be floated for the purpose but now it has been reported that contrary to news reports, the Munjals might have the controlling stake in SPV.

According to a report in the business daily, Business Standard, 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. 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 report mentioned. The structuring and the valuation of the SPV have not yet been finalised.

The report stated that according to experts, the valuation of Honda's 26 percent will be about Rs 4,500-6,800 crore, out of which 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.

The report quoted Siddharth Shah, head of corporate & securities practice at Nishith Desai Associates, as saying "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.

It was reported that 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. 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, according to the report.