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Oracle won't have it easy with 'final' offer for i-flex

TNN Dec 15, 2006, 02:03am IST

MUMBAI: A \$1.3 billion tug-of-war between Indian shareholders of i-flex and US software major Oracle has started. Oracle has already thrown down the gauntlet offering to buyout Indian shareholders for Rs 2,100 a share, which if fully accepted, will be worth \$1.3 billion.

If Indian shareholders tender their shares in response to Oracle's offer they would effectively surrender control of the company to Oracle. Douglas Kehring, senior vice president, corporate development, Oracle, said, "This is the highest offer Oracle is willing to make, there will be no more open offers after this unless until i-flex price goes down significantly. There will be no delisting of the company." Though, he adds that Oracle's approach may change in the future.

Oracle has used every means possible to increase its shareholding in i-flex. After it acquired Citigroup Venture Capital stake in August 2005 it made a mandatory open offer and got less than 2% additional stake. Oracle then increased its stake through creeping acquisition, but, there is an upper limit of 5% per year. i-flex then made a preferential allotment to Oracle to fund Mantas' acquisition and this helped the company raise its stake to 55%.

Oracle has to make a mandatory open offer of 20%, but the company has decided to make a much bigger open offer of 35% to the Indian shareholders. If Oracle's open offer for i-flex is partially successful and its shareholding increases from 55% to 75%, Oracle will have complete control over the company.

According to **Rajesh N Begur**, partner at law firm **ARA Law**, "The current holding of 55% already gives Oracle the status of promoter in i-flex. If it manages to get another 20% it will be able to pass any special resolution." A special resolution needs approval from 75% of the shareholders, and can involve any fundamental changes in the business model or diversification of the company.

However, Mr Kehring, said, "Different shareholding thresholds have different regulatory requirements. We are not contemplating any changes.... at this stage." He added, "Oracle is happy with the current management of i-flex. We just want to consolidate our ownership in the company."

Oracle currently has its president Charles Philip representing the company on the i-flex board. With a 75% or higher stake it can command more board seats. Oracle is clear that it does not want to delist i-flex from Indian stock exchanges. Oracle officials said, "The current delisting norms are very complicated."

The current norms are in favour of shareholders as the price discovery is through a reverse book building route. This would mean an expensive route for Oracle. Even if Oracle gets more than 35% and its shareholding crosses 90% it will not accept the shares. Kehring says that if Oracle receives more than the 35% it would accept the shares on a pro-rata basis.

However, Mr Kehring adds there will be no de-listing unless the share price falls significantly lower. Without specifying how much lower, he reiterated again and again, "This is the highest Oracle will pay for i-flex. There will not be another open offer."

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