

Phoenix deal: it's advantage Suprajit, feel investors

But Shriram of InGovern believes share swap ratio is fair

TANYA THOMAS
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Certain minority shareholders of automotive lighting company Phoenix Lamps are unhappy with the terms of the company's acquisition by Suprajit Engineering.

61.93% stake buy

According to them, Phoenix has been undervalued by the proposed share swap ratio and the interests of Phoenix's minority shareholders are being compromised to benefit Suprajit. Last year, Suprajit had bought 61.93 per cent stake in Phoenix from PE investor Actis Capital as a strategic investor and management

control passed on to Suprajit. On April 18, Bengaluru-based auto component maker Suprajit Engineering announced its plans to fully take over its partly-owned subsidiary Phoenix Lamps.

"The merger ratio has been set at four shares of Suprajit (₹1 each) for every five shares of Phoenix (₹10 each). While investors in Phoenix are happy with the changes introduced by Suprajit and its pending takeover of the company, the share swap ratio is "unfairly favourable to Suprajit shareholders at the cost of Phoenix minority shareholders," according to N Arunagiri, Founder-CEO of portfolio management company TrustLine.

Fails valuation metrics test

Arunagiri is the advisor to a group of minority investors in Phoenix. The acquisition announcement by Suprajit in April had said:

"The merger price of Phoenix at ₹110, based on the closing price of Suprajit on April 13 on the NSE, represents the premium of 23.50 per cent on ₹89 that Suprajit paid to acquire Phoenix last year, and a 10 per cent premium on the six-months' average price of Phoenix."

However, Arunagiri argues that on various valuation metrics, "be it EV/EBITDA, market-cap-to-sales, or forward PE multiple, etc, Phoenix is being undersold to Suprajit vide this merger transaction.

"Based on FY17 EPS (earnings per share) estimate, Phoenix is being valued at 7 to 7.5 times PE while Suprajit is being offered over 20 times the PE (price-to-earnings) multiple for this transaction," he said. "This is an unfair transaction and all minority shareholders should join to block this."

Phoenix Lamps' FY15 perform-

ance was poor, Arunagiri admits, because of the sale of its general lighting business (Halonix) while FY16 performance was hit by the euro/rupee crash. "However, during FY14, Phoenix Lamps delivered an EPS of ₹11. The potential EPS of Phoenix Lamps could range from ₹14-16 over the next three years." With this potential EPS, Phoenix can be valued at 10 times the PE multiple at ₹140-160 and a 15-time multiple of ₹210-240.

Turnaround times

Rahul Agarwal, Research Head, Banyan Capital Advisors, argues that Phoenix is on the verge of a turnaround.

"Phoenix is a relatively thinly traded stock, with barely a percentage of free float shares traded daily. This means the share price does not fully reflect the company's true valuation. If you go by FY15 numbers, shareholders are



only getting ₹6 a share for every ₹9 a share that Phoenix contributes to Suprajit's pre-tax (EBITDA) earnings." Agarwal also has worried clients who have invested in Phoenix.

BusinessLine could not reach Suprajit Engineering's management for comment.

However, Shriram Subramanian of Bengaluru-based proxy advisory firm InGovern believes the share swap is a fair deal, since it is in line with SEBI regulations

and Suprajit is already willing to pay a premium to Phoenix's market price.

'Potential delays'

Suprajit hasn't indicated by when the acquisition will be complete; the proposal needs to be approved by the court, and no record date has been set. However, analysts have taken note of how dissatisfied Phoenix's shareholders are. A research report on April 22 by HDFC Securities said the merger will strengthen Suprajit's balance sheet, enhance the company's footprint and rationalise fixed costs. "However, with Phoenix's minority shareholders voicing displeasure with the proposed swap ratio, there may be potential delays."

On Tuesday, Phoenix Lamps closed at ₹104.95 a share on the NSE while Suprajit Engineering closed at ₹142.60.