Inox Wind Lesson: Spin off Less Profitable Biz

Listing turned-around subsidiaries can create value for shareholders of the newly-separated entity and for those of the parent co as well

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The strong listing gain of Inox Wind on Thursday shows that companies that have smaller and less profitable businesses — to which Street may not be giving higher valuation -- can unlock value by listing them separately. Inox Wind's IPO was oversubscribed 35 times. It closed at ₹438 — 35% higher than its offer price on Thursday.

Another example is of Marico Kaya, a subsidiary of Marico which was listed in July 2014. The stock has so far gained 750%. Intellect design, a subsidiary of Polaris Consulting Services, has gained 70% since its listing in December 2014.

Spinning off the less profitable business once it turns around and becomes self-sustainable not only creates value for the shareholders of the new listed entity but also for the shareholders of the parent company. ETIG has identified some of the companies that may see a potential separate listing of the smaller or less profitable businesses.

Eicher Motors

For Eicher Motors, separate listing of its commercial vehicle business could be a game changer. The bike business may be around one-third of the top-line, but contributed 90% to the entire profit in CY14. According to analysts, the bike business will grow at least 60% for the next two years (it grew by 100% in CY14) and should get a P/E multiple of 25 on FY17 earnings. This means, the bike business on a standalone basis is valued at Rs 36,000 crore. Considering this, the commercial vehicle business is valued at only Rs 6,500 crore (the current market capitalisation of Rs 42,500 crore less Rs 36,000 crore of bike business valuation). The commercial vehicle business, which is a joint venture with Swedish auto giant Volvo, gives two-thirds of Eicher's total sales and has already started to show a turnaround.

HSIL

HSIL is the biggest player in the sanitary ware business with close to 60% market share and the highest margin in the industry. But, it has a market capitalisation less than its peer – Cera Sanitaryware. This is because HSIL also has a glass business which was loss-making till a few quarters ago with a debt of close to Rs 800 crore. In the glass packaging business it is one of the top two players in the country. It became loss-making two years ago after the industry capacity increased amid the demand slowdown.

However, now the glass industry has consolidated with only few players and the demand is improving. HSIL's glass business has shown a strong turnaround. The recent institutional placement will bring down the debt significantly. In the past, the management has mentioned about demerging the two businesses.

Tata Global Beverages

Since the time Tata Global Beverages and Starbucks signed the joint venture in India, Tata Global Beverages' market capitalisation has remained almost stagnant. Analysts are not giving the full valuation to the Starbucks business, which has already opened close to 70 stores and 70% of that in the last one year.

The company is expected to have 400 Starbucks outlets by FY18 and achieve breakeven. Once that happens, there could be a separate listing of Starbucks. Jubilant FoodWorks with close to 800 stores is valued at over Rs 10,000 crore and Tata Global Beverages together with its tea, coffee and Starbucks businesses is valued at Rs 9,300 crore.