IPO the Zing Thing Coming to Markets

On cards: tax breaks, bigger retail quota in IPOs & share sale of PSUs

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The finance ministry has drawn up a strategy to revive the dormant primary markets through a plan to encourage greater retail participation.

This entails some tax breaks, a bigger share for retail investors in initial public offerings (IPOs) and moving quickly to sell shares at attractive prices in three-four large public sector companies to get the scheme rolling amid a stock market boom that stems from investor optimism that the Narendra Modi government's policies will be good for business and growth.

The primary market plan is part of the comprehensive agenda drawn up the ministry to revive the economy that includes major financial sector reforms and a targeted approach to tackle non-performing assets of banks to get them to start lending to companies again.

"We feel a revival of the primary market is necessary for companies to raise capital to expand and deleverage and start investing," a senior ministry official told ET.

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Firing up the Bulls on D-Street

Since January, there have been just 2 public offers. In 2011, there were over 40 IPOs

A small tax sop could help revive retail participation, but finmin isn't too keen on it

Retail portion of IPO could be increased from 35% now to 60%

There could be a sale of stock in unlisted PSUs or offers for sale in already listed ones

Sebi Cracks the Whip on Errant MFs

Sebi has stopped clearing applications for new fund offers (NFOs) – both equity & debt schemes – from mutual funds whose net worth is below required levels. ▸▸ 9

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The finance ministry official said it was the need to allow companies to raise money that forced the plan to be included in the agenda though it, strictly speaking, lies in the domain of the Securities & Exchange Board of India.

The slump in India's growth to decade-low levels of less than 5% in the past two years, is largely blamed on investment coming to a grinding halt, triggered in turn by indecision on the part of the scam-hit United Progressive Alliance government that lost the recent election, besides corporate and banking stress and lacklustre capital markets.

Since January there have been just two public offers, one of which was the sale of government stock in Engineers India. That compares with over 40 IPOs that took place in 2011.

There are tentative signs of a pickup in the primary markets with some rights issues and the Wonderla Holiday IPO seeing a good response, but the finance ministry is keen to put this revival on a firmer footing and ensure far greater retail interest.

While a small tax concession could be an element in this effort, the finance ministry isn't too keen about such a measure and would rather ensure a more rooted retail interest, such as setting aside a higher portion of stock in an IPO for retail participants.

Under the current rule, 35% of an IPO has to be reserved for retail investors, defined as those with total subscriptions of less than Rs 2 lakh, including Hindu Undivided Families and non-resident Indians.

This portion could be increased to as high as 60% to ensure that retail investors do not lose out in a heavily subscribed public offer such as that of Wonderla Holidays recently. The retail portion of the issue that closed on April 23 was oversubscribed more than seven times, as a result of which many investors did not receive any allotment. The stock is up 73% from the issue price of Rs 125 a share.

The third element of the strategy would be to spark retail demand through attractively priced offers by state-run companies. This could be through the sale of stock in unlisted companies or offers for sale in already listed ones.

Market experts agree that the government has the tools to trigger retail interest in the market.

Prithvi Haldea, a leading market expert, strongly advocated a rejig of the norms for greater retail participation in markets. He suggested a three-pronged strategy. "Entire quota in listed PSU follow-on offers or offers for sale (OFS) should be allocated to retail at a reasonable discount to market price. In unlisted PSUs, where price discovery has not happened, 25% should be allocated for institutions and rest 75% to retail after price discovery. In the case of private companies, the current formulation can continue but if the retail portion is oversubscribed then the institutional (quota) should be offered to retail investors," Haldea said, adding that the Rajiv Gandhi Equity Savings Scheme should be scrapped to make way for a new one that would be open to all small investors.