QIP disclosures may expand

Sebi wants to monitor end-use of proceeds

Pausing for breath

QIP activity in Q1FY23 has been subdued

	No. of issues	Amount (₹ cr)
FY18	52	62,520
FY19	13	10,489
FY20	13	51,216
FY21	31	81,738
FY22	29	28,532
FY22-23*	2	915

Source: Prime Database *as on June 30, 2022

ASHLEY COUTINHO
Mumbai, July 26

THE SECURITIES AND Exchange Board of India (Sebi) may expand the disclosure requirements on end-use of proceeds for qualified institutional placements (QIPs), said two people familiar with the matter.

At present, issuers seeking the approval of shareholders for a QIP simply provide a broad bucket of the QIP objects when they pass a resolution for the placement.

For instance, a company could say that it intends to maintain sufficient liquidity and use the net proceeds of the QIP for general corporate purposes. This could include a wide range of activities such as capital expenditure, long-term working capital and refinancing/repayment/pre-payment of borrowings.

"The objects given by companies opting for a QIP fund-raise are often opaque. Sebi believes that additional disclosures might help bring in more transparency and help shareholders and investors know where and how the funds will be utilised," said a banker, adding that the discussions at Sebi's end are at a preliminary stage.

Earlier this year, the capital markets regulator put a cap on the usage of IPO issue proceeds for unidentified future acquisitions to 35% of the total proceeds.

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However, this limit will not apply if the proposed acquisition or strategic investment object has been identified and suitable disclosures about such acquisitions or investments are made in the offer documents.

According to the banker, the disclosure requirements for QIPs may not be as stringent as that for an IPO. This is because companies opting for a QIP are already listed and have to follow a set of listing and quarterly disclosure requirements.

"Additional disclosures may broaden the due-diligence obligations of a merchant banker or law firms. It may also impact the QIP timelines which is essentially a private placement and is usually completed within 30-45 days of appointing the relevant intermediaries," said a lawyer.

He added that akin to IPOs, Sebi may mandate the appointment of a monitoring agency to bring in more accountability towards end-use of QIP proceeds.

QIPs are typically used to raise fresh capital for expansion or to retire debt. Banks often use it to shore up the additional capital requirement.

IPO issuers often give out more granular details for utilising their proceeds under different heads such as general corporate purposes, retirement of debt, brand building, advertising, strategic investment, working capital, consultancy fees, contingencies and investment in subsidiaries and joint ventures.

An IPO-bound company, for instance, may divulge details of the loans which are to be retired from the proceeds or reveal the capex requirements by specifying the quantity and quotation details of the raw material or machinery that is sought to be funded for a particular project via the proceeds.

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