QIP applicants may need to reveal more on use of funds

Sebi plans to reduce the broad discretion available to company boards

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Markets regulator Securities and Exchange Board of India (Sebi) is considering more exhaustive disclosure requirements for companies raising funds via the qualified institutional placement (QIP) route, three people aware of the development said.

The enhanced disclosure requirements being considered are around the use of the proceeds of the fundraising in the QIP offer documents, one of the people cited above said.

QIP is a tool used by listed companies to quickly raise capital by selling shares, fully or partly convertible debentures, to institutional investors without having to submit lengthy paperwork for approval from Sebi.

"Unlike IPOs and FPOs (follow-on public offerings), which require many disclosures in the offer documents, QIPs have always been a very flexible and quick way of raising capital for companies," the person said, requesting anonymity.

"The disclosure requirements for the use of proceeds currently don't require companies to specify amounts for the use of proceeds and detailed disclosures of how the money will be deployed. The current regime allows the board significant discretion in the use of proceeds, and this flexibility is also something that makes QIPs an attractive fundraising route."

For example, the use of proceeds of the recently concluded ₹2,000 crore QIP of AU Small Finance Bank Ltd states that the bank intends to utilize the net proceeds for (i) supporting the growth aspirations of the bank; (ii) meeting regulatory requirements by enhancing its tier-I capital base; and/or, (iii) general corporate requirements or any other purposes, as may be permissible under the applicable law and approved by the board.

The people cited above said that Sebi may require companies to provide specific reasons instead of generic statements and leave the eventual use of proceeds at the board's discretion. This, the people cited above, said will reduce the flexibility the QIP product offers to companies and may impact fundraising through QIPs.

"This will take away the flexibility in deploying money, which obviously changes in a volatile market," said the second person cited above, requesting anonymity.

It may also increase the timelines for executing a QIP, which usually takes 1-2 months or less

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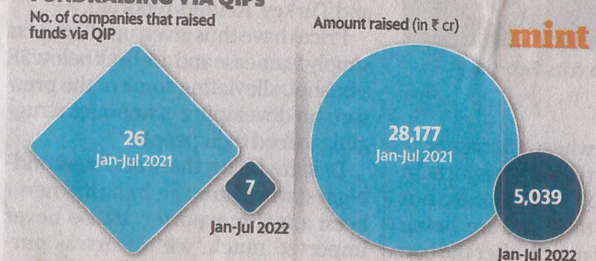
CLARITY PLEASE

Fundraising through the QIP route plunged 82% in the first seven months of the year from a year earlier.

FUNDRAISING VIA QIPs



QIP: qualified institutional placement

Source: Prime Database

TURNING THE SCREWS

LISTED companies use the QIP route to quickly raise capital

SECURITIES in QIP are issued minus the lengthy paperwork

THE enhanced rules are around the use of fundraising proceeds

SARVESH KUMAR SHARMA/MINT

Sebi may tighten QIP norms for companies

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currently, he added.

To be sure, the third person cited above said that banks had asked Sebi to ensure that even as it looks for enhanced disclosure requirements, it should leave some scope of flexibility for companies.

The new rule may reduce the flexibility the QIP product offers to firms and may impact fundraising through QIPs

An email sent to a spokesperson for Sebi did not elicit a response.

The proposed changes to the QIP regime come at a time fundraising through QIPs saw an 82% drop in the first seven months of the year, with only seven companies raising ₹5,039.5 crore. In comparison, 26 companies raised ₹28,177 crore in the first seven months of 2021, data from primary market tracker Prime Database shows.