Tighter disclosure norms may trigger filing rush

Industry players expect companies to advance their DRHP filings before new rules kick in

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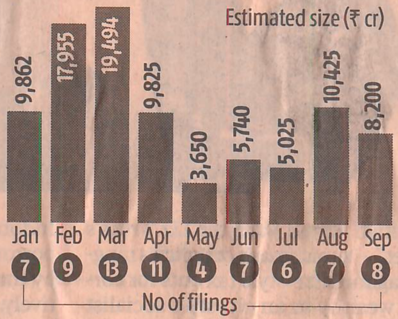
STORM COMETH

An average of eight DRHPs have got filed in each month of 2022



Source: PRIME Database

Issuers and investment bankers could speed up the draft red herring prospectus (DRHP) filing process to avoid stricter disclosure requirements. Industry players expect to see higher-than-usual filings of offer documents over the next two months before the new framework kicks in.

On Friday, the Securities and Exchange Board of India (Sebi) announced tightening of disclosure requirements for all initial public offerings (IPOs) amid criticism over pricing of share sales by loss-making companies.

Besides traditional metrics, companies will now have to disclose key performance indicators (KPIs) that are normally not covered in the financial statements. Also, issuers will have to disclose details of pricing of shares for transactions carried out ahead of IPOs.

What's more, they will have to share all information with private equity investors in the run-up to the IPO and also get the IPO price band 'justified' from a committee of independent directors.

Investment bankers say companies that were planning on filing their prospectus before the end of the year could advance their filings to avoid any possible backlash the stricter disclosures may lead to.

On average, eight DRHPs get filed every month, which could increase to about a dozen, estimate industry players.

The new rules are expected to kick in later this year after the markets regulator notifies the amendments to the issue of capital and disclosure requirements regulations.

"Pricing of shares in public issues, especially in the past few years, has been a key concern for the regulator. Further, a sharp correction of prices in some cases after listing caused a stir in the market, directly impacting retail investors. This mandatory requirement of KPI disclosures is intended to assuage some of these concerns," said Gaurav Mistry, partner, DSK Legal.

"While the action taken is in response to the listing of loss-making IPOs like Paytm and Zomato, it will apply to all IPOs. The new regulations are a step in the right direction. It will be difficult for bankers, founders, and directors to set a share price due to the quantum of information required. This difficulty will also increase because the auditor will need to evaluate the adopted changes, which, in turn, will lead to additional cost of compliance," said Sonam Chandwani, managing partner, KS Legal and Associates.

Some experts said companies may not be able to evade the new rules entirely as the IPOs that get filed now can only hit the market four to six months down the line.

"By then the new rules will become effective. While DRHPs may not be required to be re-filed, the disclosures and the way IPOs are advertised at the time of the IPO launch will be different from now," said an investment banker.

On the one hand, companies will have to follow a stricter disclosure regime. On the other, they will get the option of confidential IPO filings. Under this, an issuer will not have to put out the DRHP in the public domain until the listing plan is firmed up.

At present, the offer documents — which could contain sensitive information — have to be put out in the public domain at the time of filing with Sebi.

Under the pre-filing mechanism, DRHPs will be required to be filed with only Sebi and the stock exchanges. The document will be put out in public domain, along with Sebi observations, at least three weeks before the launch of the IPO.

"While some companies may be able to avoid a stricter disclosure regime, Sebi's intent is clear that it wants more rationality to the IPO pricing. This, along with volatility in the secondary market, will ensure greater fair pricing, compared to the heyday of 2021," said an investment banker quoted earlier.