

Regulator's relaxations to give OFS route a leg-up

Could gain preference over block deal mechanism, say industry players

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Markets regulator Securities and Exchange Board of India's (Sebi's) relaxations are set to give a filip to the offer for sale (OFS) mechanism, allowing promoters and other large shareholders divest their equity holdings.

Industry players say the OFS route could emerge as a strong alternative to the block deal mechanism since the former offers better flexibility in terms of pricing.

Currently, the use of OFS is limited. The present rules allow only promoters and those holding more than 10 per cent stake to avail of this mechanism. However, last week Sebi announced major modifications to the framework.

Now, shareholders can take the OFS route as long as they are selling shares worth over ₹25 crore. Furthermore, the cooling-off period required between the two offers for sale has been reduced to fewer than two weeks from 12. This will help companies sell shares in one or more tranches to ease the pressure on liquidity.

Once the markets regulator notifies the norms, many private equity (PE) players or large investors may

perhaps test the new OFS framework, observed industry players.

"The main impediment to the block deal mechanism is pricing. A seller cannot offer a huge discount to the prevailing market price. As a result, launching large share sales via this route becomes a challenge, particularly during volatile market conditions. The revised OFS framework looks promising and will gain traction," said an investment banker.

The OFS route was introduced to help companies achieve the 25 per cent minimum public shareholding norms.

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An OFS is carried out over a two-day period. On Day One, institutional investors can place their bids. Day Two is meant for retail investors, who typically have 10 per cent reservation. A seller has to decide the floor price for the OFS and bidders allowed to bid at any price above it. The bidding process for the OFS route is different from the secondary market platform.

"Sebi is trying to broaden both 'the spectrum of available instruments' and the 'participation across investors' for undertaking big-ticket transactions. This

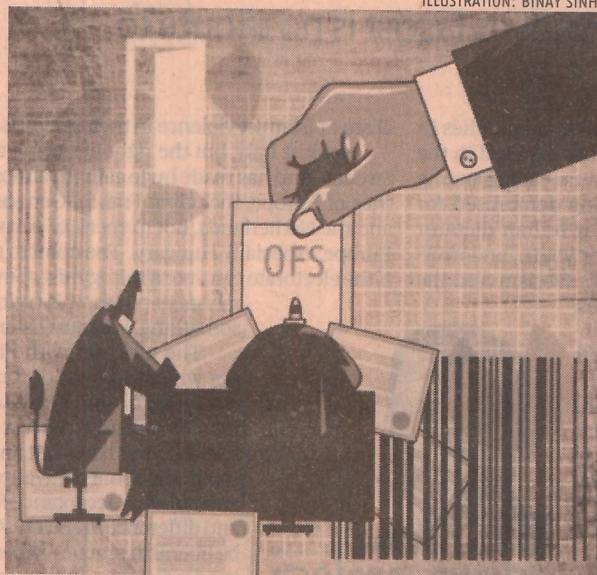


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platform, often an intended buyer ends up picking up stake, leaving the negotiated party in the lurch. This has been one of the key grievances of investment bankers and foreign portfolio investors.

Calling it a move towards greater flexibility, Sebi Chairperson Madhabi Puri Buch said, "Under the block deal mechanism, there is restriction on pricing, which is 1 per cent above and below the market price. OFS can be done at any price. It is open to the market. It has far more flexibility. If companies wish to come via this route, we are happy to welcome them. That window has a cap on pricing, this one does not."

In recent months, some of the large transactions that have got executed through the block deal route are PE major Blackstone Group's 8 per cent stake sale in Embassy Office Real Estate Investment Trust; PE major KKR's entire 27 per cent stake divestment in Max Health; Uber's entire 7.8 per cent stake sale in Zomato; and airdn pairing of 5.6 per cent stake in HDFC Mutual Fund.

Currently, the amount mobilised through OFS is a tiny fraction of that from block deals. During the first nine months of this calendar year, block deals worth over ₹2 trillion have been executed. By comparison, OFS has mobilised only ₹4,463 crore.

Industry players believe some of this deal flow for large and well-planned deals should shift from block to OFS.

OFS: SET FOR A BOOST

Year	Deals	Amount mobilised (in ₹ cr)
2012	23	23,769
2013	85	23,964
2014	33	5,011
2015	19	35,566
2016	27	13,066
2017	39	18,094
2018	23	10,672
2019	32	25,999
2020	28	20,901
2021	34	22,912
2022	12	4,463

Source: Prime Database

move allows non-promoters to participate in an OFS. This would encourage greater participation and better price discovery with relatively lower slippage versus a bulk order and block window,"

said Hemang Jani, head of equity strategy, Motilal Oswal Financial Services.

Block or bulk deals are privately negotiated before execution of trade. Since they are carried on the exchange