

# Rating agencies raise red flag: QIP monitoring may hit disclosure wall

Disclosures around utilisation of issue proceeds not as exhaustive as initial public offerings

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Credit rating agencies (CRAs) have flagged concern that the inadequate disclosures around the use of funds raised through preferential issues and qualified institutional placements (QIPs) may possibly impede the monitoring process, said people in the know.

The capital markets regulator - Securities and Exchange Board of India (Sebi) - has mandated the monitoring of utilisation of issue proceeds for preferential issues and QIPs exceeding ₹100 crore. To do so, the company has to appoint a Sebi-registered rating agency. A similar framework is already in place for initial public offerings (IPOs) and rights issues.

However, companies are required to make an exhaustive disclosure around the utilisation of capital raised through IPOs and rights issues in their draft red herring prospectus. These include clear demarcation around the use of proceeds under various heads and a timeline for the use of capital.

While companies raising capital via QIPs, too, have to disclose the purpose, it is not as clearly stated as it is in the case of IPOs.

"When it comes to IPOs, the job of the monitoring agency is clear-cut since disclosures are very comprehensive. But when it comes to QIPs, the disclosures are relatively shallow. In order to efficiently monitor the use of QIP proceeds, more disclosures are needed by CRAs," says an industry player.

The extension of the monitoring rule

Illustration: Binay Sinha



to QIPs is aimed at preventing the misuse of issue proceeds and ensuring the capital is used for intended purposes only.

The monitoring of QIP proceeds was approved by Sebi at its board meeting on September 30. The regulator is yet to notify the rules. Legal experts say it will be interesting to see if the regulator also enhances the disclosure requirement. However, that won't be very straightforward.

"As far as IPOs are concerned, the issuer has to provide a more detailed disclosure around the use of proceeds. By comparison, the disclosures given for QIPs are very limited. This could make the job of the monitoring agency more challenging. Mandating IPO-like disclo-

sure may not be the solution as it could impact the timelines of a QIP, as well as the flexibility this route offers today. It remains to be seen how a balance is struck and the level of disclosure that will help monitoring agencies do their job better," says Thomas George, partner, Khaitan & Co.

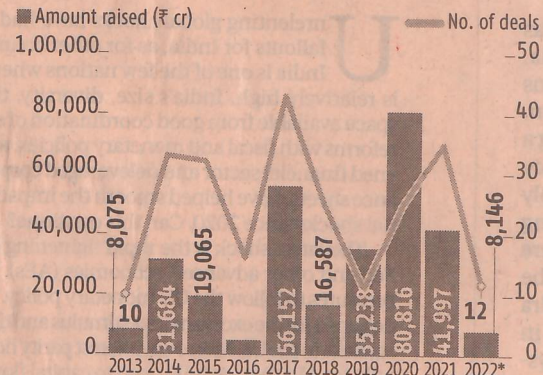
QIPs are a very popular instrument used by India Inc to raise capital. In the past decade, over ₹3 trillion has been raised via this instrument.

The flexibility and the quick turnaround time make it the preferred route over other instruments like rights issue and follow-on public offerings that entail lengthy filings and regulatory approvals.

Sebi, however, has not floated a con-

## MONITORING MATTERS

Over ₹3 trillion have been raised via QIPs in the past 10 years



\*Until October

Source: Prime Database

sultation paper around the introduction of a monitoring framework for QIPs as is the practice.

The proposal was deliberated by the primary market advisory committee (PMAC).

"During deliberations by PMAC, it was suggested that the instant matter may not require any public consultation as a proposal to modify/strengthen the monitoring framework pertaining to issue proceeds will only be procedural in nature and intended for enhancing the existing regulatory framework of supervision over the use of proceeds of preferential issue and QIP issue, primarily in the interests of investors in the securities market," said a note on Sebi website.