Relaxed listing norms to give a leg up to CPSE privatisation

Buyer to get more time to meet public float norm

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WOOING INVESTORS

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■ Market regulator likely to take a pragmatic view of the minimum public shareholding (MPS) norm

■ According to Sebi norms, a firm is required to have a minimum **public holding of 25% within one year** of the merger with/ acquisition of a private company or three years after listing

THE RECENT RELAXATIONS to listing regulations by the Securities and Exchange Board of India (Sebi) have paved the way for greater investor interest for IDBI Bank and the several CPSEs being privatised. This is because of an enabling provision in the new regulations which will make it much more certain the market regulator will take a pragmatic view of the minimum public shareholding (MPS) norm. Potential buyers of these entities have been looking for leeway in terms of a longer timeline to comply with the public float condition.

The regulator and the finance ministry have been in dialogue for the easing of these norms, to which the the latter feels would fast-track privatisation.

The revised public sector enterprises policy seeks to limit the number of CPSEs to a minimum in strategic sectors while the government will fully exit the non-strategic sector businesses. With dozens of CPSEs to be privatised in the coming years including public sector banks, the changes in listing regulations were necessary to give a reasonable transition period for the firms post-privatisation.

On December 5, the Sebi amended listing and disclosure requirements regulations by inserting a new clause that read, "The (Sebi) Board may after due consideration of the interest of the investors and the securities market and for the development of the securities market, relax the strict enforcement of any of the requirements of these regulations, if an application is made by the Central Government in relation to its strategic disinvestment in a listed entity."

Accordingly, the Sebi is likely to relax rules to facilitate the proposed sale of IDBI Bank to a strategic buyer, by counting the government's residual shareholding in the bank after the transaction as part of the public float. The government is also reasonably assured that the regulator would give five years or more against the norm of one year to the potential buyer to comply with the MPS norm of 25% in the lender given its long history of public sector or deemed public sector status.

"There is significant interest from domestic investors and foreign investors in IDBI Bank," an official said. The department of investment and public asset management has received as many as 167 queries from domestic and foreign investors ahead of the revised expression of interest (EoI) submission deadline of January 7. Responding to these, it has assured to help in securing necessary regulatory relaxations for the deal.

According to the Sebi norms, a company is required to have a minimum public holding of 25% within one year of the merger with/acquisition of a private company or three years after listing.

The public holding in the bank is just 5.28%, which is majority-owned by LIC and the government. On October 7, the Centre invited EoIs for IDBI Bank and offered to sell a total of 60.72% stake in the bank, including 30.48% from the government and 30.24% from LIC, along with the transfer of management control in IDBI Bank. Yet, both the government and LIC together will have a 34% residual stake in the lender (19% by LIC and 15% by the government).

The potential buyer can increase its stake further to about 63 or 66% by acquiring half or the entire 5.28% held by the public via an open offer.

Sebi's likely categorisation of the Centre's residual stake of 15% in the lender would mean that the new promoters of the bank would have to just offload another 7 to 10% to meet the public float norm of 25%.

Sebi had done it in the case of erstwhile state-run Hindustan Zinc, which was privatised in 2002-2003 and the Centre's 29.54% was categorised as the public float.

Now, such relaxation has been institutionalised by the Sebi. A strategic investor may not like to offload a stake in the initial years, a period when it will likely be setting up a new management team, restructuring the business and attempting a rebranding of a company.