

An enviable lightness of being listed

LISTING THE SECURITIES of a company is a heavy-duty task with lots of additional responsibilities. Apart from the provisions of the Companies Act, 2013, provisions of many rules and regulations would kick in immediately. Compliance with those is onerous, involving high standards of governance, enhanced, timely and continuous disclosures, fund-raising and fund-use restrictions, greater transparency in operations, and so on. Also, the company comes under the constant and unwavering watch of the market, demanding 'market discipline'. As such, decisions on listing an entity are expected to be taken by its management after seriously weighing in all the pros and cons, including the options on alternate modes of raising funds. A similar assessment is expected also when the benefits of remaining listed become doubtful.

As reported in the media on June 4, 2022, Infosys co-founder NR Narayana Murthy remarked: "IPOs have somehow been taken as a surrogate for the next round of financing. I think that not a good thing (for the ecosystem), because an IPO comes with tremendous responsibility." Though this wise comment was made during an International Conference of Start-ups while speaking on the Start-up-Venture Capital ecosystem, it is applicable to all the listed entities as well as those intending to be listed.

These days, many early-stage companies, particularly asset-light tech/networking companies, resort to IPOs as proxies for fund-raising. But that is not the full answer. It is also because of the desire of their angel/VC investors, and even some of the promoters, to exit through the offer for sale (OFS) route. The eagerness of such entities to hit the IPO route is understandable, though it may not be justifiable. Similarly, when private promoters and investors 'desert',

some loss-making companies may remain as zombies in the listed space.

An IPO has to follow the conditions and procedures in the Securities Contract (Regulation) Rules, 1957 (SCRR). A uniform minimum threshold for public holding was set in June 2010 for all entities at 25%, per the terms of Rule 19 of SCRR. It has been amended multiple times to carve out exemptions and greater flexibilities for the PSUs. An IPO

with 5% is possible if the value of the offer exceeds ₹5,000 crore. Complete exemption from the application of the public holding norms to PSUs may also be provided by the government on a case-to-case basis. Therefore, it is perfectly legal for the PSUs to list and/or remain listed with lower percentages of public holding.

In addition to the SCRR, the IPO/listing has to comply with the conditions of Sebi (Issue of Capital and Disclosure) Regulations (ICDR). Post-listing, provisions of three other regulations—Listing Obligations and Disclosure Regulations (LODR), Substantial Acquisition of Shares and Takeover Regulations (SAST), and Prohibition of Insider Trading (PIT) Regulations—would kick-in on a continuous basis. After the securities are listed, the listed entities have to make continuous disclosure of all material information to stock exchange(s) at quarterly,

half-yearly, yearly, and event-based frequencies. The onerous responsibilities of listing and remaining listed, often described as the regulatory compliance burden, is well-documented and often lamented by many. What is intriguing is why some companies resort to listing at all if they are entering the market offering a tiny percentage of equity. Equally intriguing is why some other companies continue to remain listed with a minuscule percentage of public holding.

For instance, one company went for listing with 3.5% of its equity on offer in the IPO. Another continues to remain listed with just 0.07% of public holding and a few others with less than 5% of public holding.

Some of them are well run, profit-making public-sector entities (mostly

banks) who are fully capable of understanding and navigating the markets well and take full advantage of the positives of the market. It defies logic and explanation, as they are fully aware of the benefits of having substantial share of public holding. Public sector banks have been doing great in the listed markets for the last few years. Even the most important PSB has a public holding of 42.51% as of March 2023; much above the standard minimum of 25%. Similar is the case of another well-performing (both on its tasks and in the stock mar-

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Views are personal



ket) PSU, Coal India Ltd, with public holding more than 30%.

In short, private promoters and early-stage investors have different reasons for resorting to IPOs, particularly in the young startup ecosystem. It is a proxy for additional funds as well as for enabling exit of early funders and at times for promoters. However, for many public sector entities the answer is not so obvious. It seems they are voluntarily seeking the market discipline through listing but not confident enough to take the full plunge of swimming in deeper waters that would strengthen their muscles. Therefore, they live in a protected world with exemptions from regulatory provisions. Their inability/unwillingness to take the full benefits of being in the listed space, or to simply delist, appears to be some type of 'cognitive distortion'.

However, an uneven level playing field in the tightly regulated listed space is neither sound nor legally justifiable. On the one hand, some of the listed companies missing the 25% mark of public holding or other regulatory compliance by even a whisker will be penalised by Sebi. On the other, public-sector entities can enter and remain listed with minuscule public holdings and exemptions from compliance of some regulatory provisions. Paraphrasing Milan Kundera's much acclaimed title *The Unbearable Lightness of Being*, we may envy the lightness of being listed by such entities.

Barefoot dreams for listing as proxy for fund-raising by adventurous entrepreneurs may or may not be fine, but keeping the edge of a boot at leisure is surely not the way to enter and/or to remain listed in the deep waters of the market, all the while ignoring the positives that their companion companies are enjoying from full-fledged entry into the securities market.