

ATTRACTING INVESTORS

Share sales to get easier for firms

Market regulator Sebi relaxes IPO and OFS norms in a bid to rejuvenate sluggish primary market

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MUMBAI

India's capital market regulator has relaxed norms for initial public offerings (IPOs) and offers for sale (OFS) to encourage more companies to sell shares and attract retail investors.

The board of the regulator, which met in Delhi on Thursday, said that companies with a post-issue capital of less than ₹4,000 crore will have to sell a 25% stake or stocks worth ₹400 crore, whichever is lower, to the public in an initial share sale.

"This will remove the anomaly that a company just short of ₹4,000 crore market capitalization was required to dilute about ₹1,000 crore while another company at ₹4,000 crore market capitalization was required to dilute only ₹400 crore," the Securities and Exchange Board of India (Sebi) said in a statement.

However, if an IPO of ₹400 crore size is not equivalent to 25% of its post-issue capital, the minimum public shareholding of 25% has to be achieved within three years of listing.

Currently, a company with a post-issue equity capital of up to ₹4,000 crore has to sell a minimum of 25%, while a company with a post-issue capital of more than ₹4,000 crore is allowed to offload a minimum of 10% in the IPO.

Sebi's latest move is likely to

encourage a number of companies to sell shares to the public, reviving the primary market. In fiscal year 2013-14, ₹1,204 crore was raised through 38 IPOs, compared with ₹6,497 crore raised via 33 issues a year ago. In the year ended 31 March, around ₹13,000 crore was raised through primary market issuances, including IPOs, rights issues and Qualified Institutional Placements (QIPs).

The latest move by Sebi "will definitely encourage unlisted companies to hit the market", since "the mandatory 25% offer to the public for IPOs of firms smaller than ₹4,000 crore (as post-issue capital) was working as a hindrance for many companies", said Prithvi Haldea, chairman and managing director, Prime Database, a New Delhi-based market tracker.

The new rules will encourage smaller unlisted companies to sell shares, said Sanjay Sharma, managing director, equity capital markets, Deutsche Equities India Pvt. Ltd.

However, "from an IPO perspective, the increase in anchor-investor tranche with a 30-day lock-in for their shares is the most important move as it will help in better price discovery and increase the chances of getting deals done", Sharma said.

Sebi has decided to increase the maximum allocation to anchor investors to 60% from the current 30% of the institutional bucket, a move that will not only attract long-term investors but also improve the prospects for an IPO to sail through in uncertain market conditions. At present, 50% of the issue size is reserved for qualified institutional buyers in public issues.

The market regulator has also approved a proposal to permit bonus shares issued in the last one year, prior to filing of the draft offer document, to be offloaded through OFS, if such bonus shares were issued out of the free reserves or share premium of a company.

Moreover, Sebi has relaxed share-sale norms under OFS and widened its scope.

To encourage retail participation in OFS, Sebi has proposed to stipulate a minimum 10% of the OFS issue size to be reserved for retail investors, those who bid for amounts less than ₹2 lakh.

In case this percentage is not fully utilized, the unutilized portion may be offered to other investors.

Sebi also allowed sellers of shares in OFS to offer a discount to retail investors.

To enable large shareholders to use the OFS mechanism to exit, the regulator has allowed non-promoter shareholders to sell shares through the OFS route. Non-promoter shareholders holding more than 10% will be eligible to use the OFS route.

The regulator has also allowed the OFS mechanism to be made available to shareholders of top 200 companies by market capitalization. It is currently limited to the top 100 listed firms.

According to Sharma of Deutsche Equities, allowing non-promoters and including top 200 companies is a positive move as far as changes in OFS rules are concerned, but the requirement of 10% holding of a non-promoter seller may restrict this to very few situations.

"A 5% holding limit may have opened it to many more investors," he said.

OFS, which involves an auction of shares on stock ex-

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- An unlisted private company will be allowed to offer the public a minimum of 25% stake or shares worth ₹400 crore, whichever is lower, in an initial public offering (IPO)
- An anchor investor can invest up to 60% from the current requirement of 30% of the total institutional bucket in IPOs
- Preferential issues will be priced with the 'volume weighted average price' replacing the 'closing price'
- Brokerage houses, merchant bankers, proxy advisors and those engaged in issuance of research reports need to be registered with Sebi
- Ten percent shares in offer for sale (OFS) issuances will be reserved for retail investors
- Stock option schemes for employees can purchase shares from secondary market, subject to certain limits and conditions
- Sharing of 'know your customer' information available on the centralized system with entities regulated by other financial sector regulators will be allowed

Source: Sebi

changes during market hours, was introduced by Sebi in February 2012, as a new share-sale avenue to help listed companies in the private sector to comply with the minimum public shareholding norm of 25% before June 2013, and state-owned firms meet the requirement of 10% public holding before August 2013.

The new OFS norms will increase liquidity in the market and introduce greater transparency, according to Gesu Kaushal, executive director of Kotak Investment Banking. "More importantly, it will enhance retail participation in the market," he said.

The regulator has also decided that all listed companies, including state-run companies will have to reduce promoter holding to 75% within three years.

"Sebi believes that rules for the market should be uniform across all the companies and should be promoter neutral," according to the Sebi release.

There are 34 state-run firms, including Coal India Ltd, in which the government holds more than 75% as a promoter, according to *Mint* research. If all these firms were to cut the promoter holding to 75%, they would have to sell shares worth ₹ 58,658 crore based on closing

share prices on Thursday.

According to Haldea, this will help the government raise money through divestment of its stakes.

Separately, Sebi chairman U. K. Sinha said that in order to protect retail investors, all individual research analysts and entities engaged in issuance of research reports on primary or secondary market, will have to register with the regulator.

In order to bring consistency between various regulations and to clarify certain regulations governing the preferential issue norms, Sebi has approved replacing 'closing price' with 'volume weighted average price' in the pricing formula for preferential issues.

The regulations concerning pricing of QIPs take into account the effect of stock split, bonus, etc. However, this was not been explicitly mentioned in the norms meant for preferential issues. Sebi has decided to extend the same treatment to preferential issues also.

"The regulations concerning preferential issues do not provide specifically for pricing of infrequently traded shares. However, Sebi regulations explicitly specify the pricing methodology in case of infrequently traded shares. It has been decided to extend similar treatment to preferential issues also," Sebi said.

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