

Firms raising funds via IPOs under SEBI scrutiny

Ashley Coutinho
Mumbai

The Securities and Exchange Board of India (SEBI) has tightened its scrutiny on the objectives for raising fresh capital through initial public offerings (IPOs), said two people in the know.

The regulator has expressed its displeasure over companies opting to raise money largely for debt repayment and is asking for more disclosures.

NEED CLARIFICATION

"SEBI did an analysis of several IPO offer documents and found that the majority had stated repayment of debt as the primary objective for raising fresh capital. This prompted the regulator to dig deeper into the reasons why fresh capital was being raised," said an investment banker.

Companies need to clarify if



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there have been delays, defaults, and evergreening of outstanding borrowings for which a part of the net proceeds will be used for repay-

ment. Firms need to give reasons why the promoter lock-in should not be increased if the issue object is to repay loans to fund capital expenditure, and the amount to be used for repayment and capex is more than 50 per cent of the amount being raised for a fresh issue.

"The regulator has made it clear that companies cannot be vague about the objects of the issue, which I think is fair. It wants adequate details and some comfort level on how the fresh capital will be spent," said an industry official.

An email sent to SEBI did not get an immediate response.

Companies wanting to raise fresh capital for expansion need to give granular details on how the proceeds will be utilised.

"Companies need to be ready to divulge granular details. Otherwise, it is better not to raise a fresh issue, as it will lead to additional scrutiny and

delays. SEBI also has the right to ask the company to change the objects of the issue, which will require fresh shareholder approval," said the banker quoted above.

Non-manufacturing companies may find it difficult to give details on how the fresh issue proceeds would be utilised, added the industry official.

FRESH CAPITAL

The amount of fresh capital raised in IPOs in CY23 was ₹20,662 crore, or 42 per cent of the total amount raised, the highest in terms of percentage share in seven years, according to PRIME Database. A third of the fresh capital raised was for working capital needs. Retirement of debt (22 per cent), expansion or setting up of new plants and machinery (15 per cent), general corporate purposes (11 per cent) and issue expenses (9 per cent) were the other major reasons.