TO EXAMINE IF INVESTORS EXITED VIA CONNECTED NBFCs

RBI, Sebi to widen probe into debt issue managers

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THE RESERVE BANK of India (RBI) and the Securities and Exchange Board of India (Sebi) are widening an investigation into how merchant banks manage retail subscriptions in public debt issues, two sources with direct knowledge of the matter said.

Apart from JM Financial, several other cases are under investigation to see if merchant banks provided investors with an exit through connected non-banking financial firms, said sources, who declined to be named as they are not authorised to speak to the media.

Sebi barred JM Financial from taking new mandates this week, saying it had found that funds from connected entities were used to inflate subscriptions and provide an assured exit to investors. JM Financial said in a stock exchange filing on Thursday that it will fully cooperate with Sebi in its investigations.

The RBI, meanwhile, has told JM Financial's non-banking unit to stop any form of financing against shares and debentures, including loans to customers to subscribe to initial public offerings (IPOs).

Investigators are also studying if disproportionate loans were given to subscribes and whether customer identification processes were not adequately followed, sources added.

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CRACKDOWNS TO DEEPEN

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- Several other cases are under scanner to see if disproportionate loans were given to subscribers
- NBFCs, which are looking to diversify their source of funds, may be hardest hit
- Sebi probe could push NBFCs back to fundraising through private debt placements

- Sebi barred JM Financial from acting as lead manager of any public debt issue
- RBI banned JM Financial's non-banking unit to stop any form of financing against shares and debentures

RBI, Sebi to widen probe into debt issue managers

SEBI AND RBI did not respond to requests for comment. Regulations do not bar investors from taking on credit to subscribe to debt securities in public issues.

However, assuring investors of a profitable exit would break the code of conduct for merchant banks which bars them from creating an artificial market.

Domestic companies have raised more than ₹20,000 crore via public issues of bonds so far this financial year, more than double last year, data from Prime Database showed. This is also the highest in last five years.

Five merchant bankers told Reuters that the regulatory scrutiny of processes followed in the public debt market could cut subscriptions for such issues and raise the cost of funds.

"This will now lead to a slowdown in retail subscriptions, as an artificial demand for the product was created, which actually did not exist," said one banker, declining to be identified as they are not authorised to speak to the media.

NBFCs, which are looking to diversify their source of funds after the central bank raised capital requirements for banks to lend to them, may be hardest hit.

Bank lending to NBFCs has slowed in the past few months and Sebi's investigation could push them back to fundraising through private debt placements, said Vinay Pai, head of fixed income at Equirus.

— REUTERS