Regulator meets i-bankers amid snag in IPOs

Bankers seek clarity on norms pertaining to OFS component, ask if the same can be applied retrospectively

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Mumbai, 16 January

Markets regulator Securities and Exchange Board of India (Sebi) met top investment bankers earlier this month, seeking to revive the fundraising activity through the capital markets, which has come to a standstill.

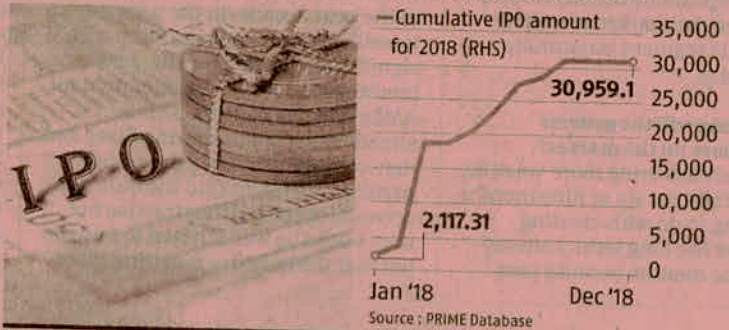
According to people in the know, the meeting was chaired by a senior Sebi official and attended by seven-eight investment bankers.

The i-bankers sought clarity from the regulator on whether the new relaxation pertaining to the 'offer for sale' component in initial public offerings (IPOs) could be applied on a retrospective basis.

According to the bankers, several of the IPOs waiting to hit capital markets have a sizeable 'offer for sale' component, and this relaxation would be of help to these IPOs.

HITTING A PLATEAU

Fundraising through initial public offering has come to a halt of late



Source: PRIME Database

According to the changes made to the Issue of Capital and Disclosure Requirements (ICDR) regulations, a company would require to make fresh filing of its offer document in case it alters its fresh issue size by more than 20 per cent, or the 'offer for sale' size by more than 50 per cent.

Earlier, both the fresh issue and the offer for sale had to adhere to the 20 per cent rule.

However, there is still ambiguity around the new rules. "Sebi may have to clarify whether companies that had filed their draft red herring prospectus (DRHP) before November 10, 2018 — when the new ICDR came into effect — can benefit from the changes. Given the volatility in the markets, the regulator should provide maximum flexibility to the issuers and sellers to benefit from these new changes," said a securities lawyer, requesting anonymity.

"Issuers and bankers plan the issue size based on an estimate of valuation at the time of filing the DRHP, without the benefit of road-shows and investor feedback. Therefore, bankers may find the current 20 per cent rule restrictive, especially in the current market environment," said one of the investment bankers.

Market volatility and the correction in mid-cap stocks have deterred promoters and PE firms from raising funds

Equity issuances have come to a grinding halt, with not a single IPO getting launched in the last three months (October-December 2018).

Volatility in the markets, coupled with correction in mid-cap stocks in 2018, has deterred promoters and private equity firms looking to raise funds. Close to 61 companies are waiting for the market regulator's approval to proceed with the IPOs, and another 17 have filed their DRHPs with the regulator.

According to the bankers, half a dozen issues with an aggregate issue size of ₹5,600 crore could be pushed through in the March quarter, before market volatility heightens in the run-up to the general elections.

Some of the companies that could hit markets with their IPOs include Chalet Hotels, IndiaMART, Polycab India, Harsha Engineers, Dodla Dairy and Muthoot Microfin.