Sebi may give two years for 35% public holding

Regulator, however, concerned with implications of takeover code

SHRIMI CHOUDHARY
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The Securities and Exchange Board of India (Sebi) may give listed companies two years to increase minimum public shareholding from 25 per cent to 35 per cent, a proposal floated in the Union Budget 2019-20.

"The compliance and time frame would be similar for all listed companies, including public sector undertakings," said a government official in the know, adding Sebi would come up with a detailed framework after consultation with all stakeholders.

The market regulator is examining all the modalities and will issue a discussion paper soon. A source said the regulator was concerned particularly with the implications of the takeover code regulations if promoter holding is to be limited at 35 per cent.

Finance Minister Nirmala Sitharaman in her Budget speech had said it was the right time to consider increasing minimum public shareholding in the listed companies. "I have asked Sebi to consider raising the current threshold of 25 per cent to 35 per cent," she stated.

Experts believe having a 35 per cent public float is a positive in terms of better price discovery for stocks, increasing India's weight in the global indices, and better corporate governance standards. However, it could also make acquisitions costly, as buyers who breach the 65 per cent promoter holding might be forced to again offload shares in the market.

It is learnt Sebi had received certain suggestions in this regard and had a few rounds of discussion with the finance ministry about the merits and demerits of having a higher minimum public shareholding for the capital markets.

STOCK IN TRADE

- **Over 1,300 actively traded** companies have promoter holding more than 65%
- **₹4 trillion worth of share sale** needed to meet 35% public float norms
- **Divestment worth ₹2 trillion** required in top 20 companies
- **Over 55 public sector undertakings** have promoter holding of over 65%

The government is of the view that a higher float will limit market manipulation, promote equity culture, and improve tax mobilisation through capital gains.

Sources say Sebi might set compliance rules based on market capitalisation (m-cap). For instance, it may allow two years for companies that need to divest less than ₹1,000 crore from the date of amendment of the new law. The regulator may provide an extra year for companies that require to offload shares more than ₹1,000 crore, said a source.

The 35 per cent public float norms could kick in immediately for new companies entering the market through initial public offering. However, here too, an m-cap-based approach could be followed. If the post-listing m-cap of a company is more than ₹3,000 crore, companies would require diluting minimum 10 per cent and the remaining 25 per cent over next three years. For companies with post-listing m-cap between ₹1,000 crore and ₹3,000 crore, they would require to dilute 25 per cent, while those below ₹1,000 crore would require 35 per cent public float on listing.

This, however, could discourage smaller companies from listing, especially ones that don't have capital-raising plans, as they would be forced to dilute promoter holding.

BUDGET IMPACT

Further, Sebi may also lay out some of the new routes, in addition to the existing routes available such as offer for sale, right issues, bonus issues to public shareholders, and follow-on public offer. The regulator could allow block trades by promoters where the pricing can be at a discount of up to 5 per cent to prevailing market price. An institutional placement programme route could be simplified and there could be some leeway given to companies wanting to issue shares through qualified institutional placements, said sources.

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The regulator will also firm up rules from reclassification of promoter shareholders as ordinary shareholders to ensure companies don't use this route for the sake of compliance.

Currently, there are over 1,300 actively-traded companies with promoter holding in excess of 65 per cent. At current market rate, these companies will have to dilute shares worth ₹4 trillion to comply with the proposed norms.

"Many have voiced concerns whether the market can absorb so much supply. I believe the investor appetite is literally infinite," said Prithivi Haldea, founder, PRIME Database. Haldea, a proponent of the move, says it will ensure better public ownership, reduce manipulation and volatility, and ensure better price discovery.

At present, it is mandatory for all private listed companies to have a minimum public float of 25 per cent.