Raising funds in Covid times

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Sebi's moves towards relaxing capital-raising norms will help companies stay in survival mode and should be the start of many more adjustments

SUDIPTO DEY

Several listed companies are making most of the relaxed capital raising norms by market regulator Securities and Exchange Board of India (Sebi). But concerns remain where the promoters have neither the capacity nor the liquidity to capitalise their companies.

A spate of fund-raising plans by listed companies hogged the headlines of business media in June. Among the various instruments to raise funds, Qualified Institutional Placement (QIP) is turning out to be a notable one, with around ₹35,000 crore expected to come in through this route in the July-August period this year. The first six months of the current calendar year saw around ₹28,500 crore being raised through QIPs, according to data from Prime Database. The surge in fund-raising activity follows a series of relaxations by the market regulator to help companies tide over the liquidity crunch triggered by a drop in revenue in the pandemic-induced lockdown period.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

Sebi amended the Issue of Capital and Disclosure Requirement (ICDR) regulations to relax the norms for QIP issue, which is used to raise fresh capital from institutional investors. The time period required between subsequent QIPs has been reduced to two weeks, a significant reduction from the previous mandatory six-month cooling-off period between two QIPs. This would help companies raise capital at regular intervals and time their share sale better, say experts.

As an incentive to promoters to infuse funds in their business, the market regulator amended the Takeover Code to relax norms for substantial acquisition of shares or voting rights, and for voluntary open offers.

A new provison has been introduced as an exception to the Open Offer Rule. Promoters are now allowed additional acquisition of up to 10 per cent of the voting rights (against 5 per cent earlier) for FY21. However, such an acquisition can be done only through the preferential issue of equity shares. Clearly, this move is directed to incentivise promoters to infuse fresh capital into their business.

Further, regulations around voluntary open offer have been relaxed till March 31, 2021 for preferential issue in companies with stressed assets.

This move will help settle such matters outside the National Company Law Tribunal, and also prevent steep haircuts by lenders where fund infusion is done in a timely manner, experts point out.

The market regulator has also relaxed the eligibility conditions of a fast-tracked rights issue. The minimum subscription threshold for a rights issue to be successful has been reduced from 90 to 75 per cent. Further, any listed entity with a market cap of ₹100 crore can use the fast-track route for a rights issue. Earlier, the market cap norm was set at ₹250 crore for such offerings. Also, a company could go for fast-track rights issue after being listed for 18 months. Earlier, companies had to be listed for a minimum of three years.

Experts say these changes should encourage deal flow by companies where the promoters are willing to infuse funds. It also gives promoters the incentive to substantiate their holding at a cheaper price, subject to the minimum public shareholding requirements of 26 per cent.

The temporary relaxation in pricing norms for preferential issues — applicable till December 31, 2020 — is seen as positive for promoters who want to up their stake in the company, and for investors to invest at a lower price.

However, grey areas remain. There is, for instance, a lock-in period of three years for non-promoter allottees of shares under the relaxed pricing norms. "This might be a dampener for a non-promoter investor," says Bhakta Patnaik, partner and head, capital markets at law firm Trilegal.

But the real concern, experts point out, is for businesses where promoters have neither the capacity nor the liquidity to capitalise their companies. In such cases, third-party investors need to step in and the market regulator needs to do more to enable such companies to attract capital.

Although these measures by the market regulator will go some way towards infusing confidence among investors, promoters and other stakeholders, much more needs to be done. "Some further refinements will be required to assist companies in survival mode that are in dire need of funds without compromising on the interests of the public shareholders," says Rajat Sethi, partner, S&R Associates.

For instance, the government has already indicated that it is open to direct listing of Indian companies in foreign stock exchanges. This would open the capital raising market for corporate India. However, seamless execution of the move would require amendments in several regulations, including those related to the Companies Act and taxation laws, says Bhavikaa Gohil, a specialist in capital market laws.

Clearly, the ball is in the government's — and by default the regulators' — court to build on current momentum of relaxations in fund raising norms.

TIDING OVER LIQUIDITY CRUNCH

Raising funds through QIPs

Year	No. of issues	Amount (₹crore)
2018	25	16,587
2019	11	35,238
2020*	7	28,573

*(Till June 2020)

Some key planned QIPs in the offing (₹ cr)

State Bank of India	20,000
The Federal Bank	4,000
AU Small Finance Bank	2,500
Adani Green Energy	2,500
Info Edge	1,875
Phoenix Mill	1,200
Central Bank of India	1,000

Source : PRIME Database

How the regulator chipped in

- Relaxed pricing norms for financially stressed listed companies and other listed entities
- Exemption from mandatory open offer for investors subscribing to preferential allotment of securities by stressed listed companies
- Eligibility conditions for fast-track rights issue relaxed
- Promoters allowed additional acquisition up to 10 per cent of the voting rights in the current financial year
- Three-year lock-in period for investors subscribing to preferential allotment of shares under the relaxed pricing norms
- The time period required between subsequent QIPs has been reduced to two weeks