I-banks get choosy as fundraise season reaches fever pitch

This is to avoid conflict of interest of competing firms

ILLUSTRATION: BINAY SINHA

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With the initial public offering (IPO) season in full swing, investment bankers are getting choosy on selecting deals. One reason for this is "conflict of interest" clauses, according to which an investment banker is barred from taking up mandates from competing companies to avoid sharing sensitive information and strategies.

This is seen playing out in the IPOs of digital payments company Paytm and MobiKwik. Both firms have opted for separate sets of bankers. While ICICI Securities is the common banker for both issues, the ICICI Bank arm has been tasked only with coordination for Paytm's IPO as it is the main banker for MobiKwik. BNP Paribas, Credit Suisse, IIFL Securities and Jefferies are the other investment banks appointed by MobiKwik to handle its IPO. Meanwhile, Morgan Stanley, Goldman Sachs, Axis Capital, JP Morgan, Citibank and HDFC Bank are handling Paytm's ₹16,600-crore mega offering.

Both Paytm and MobiKwik declined to comment. Typically, investment banking fees range between 1 per cent and 3 per cent of the amount mobilised. As a result, banks eye big-ticket transactions, even if they have to let a few small deals go by, said industry players.

"With the capital market wave on the rise, it is getting increasingly tough for investment bankers to cater to demands and manage expectations at the same time. Further, in situations where there are competing entities looking to list around the same time, it becomes all the more difficult, particularly on account of the inherent conflict of interest issues that prowl the minds of business owners," said Gaurav Mistry, associate partner, DSK Legal.

While the conflict of interest issue is more than a decade old, it has assumed significance during the current market boom. At present, as many as 50 companies are in various stages of launching their IPOs, and many of them operate in the same sectors such as pharmaceuticals, specialty chemicals, financial services, and real estate.

"It essentially comes down to conflicts of interest or perceived conflicts. For example, advisors often have access to confidential and sensitive information, for example, and clients might have certain sensitivities if their advisors also act for competitors. The existence of multiple interests may appear to compromise the advisor's ability to provide independent advice to its clients. Clients may also have legitimate expectations that their advisors will not act for competitors and may insist on a cooling off period, Chinese walls," said Navin Syiem, partner, L&L Partners.

TOUGH CHOICE

The digital payment firms have largely gone with different set of bankers

IPO	I-bankers
PAYTM	Morgan Stanley, Goldman Sachs, Axis Capital, ICICI Securities, JP Morgan, Citibank and HDFC Bank
MOBIKWIK	ICICI Securities, BNP Paribas, Credit Suisse, IIFL Securities and Jefferies

OVERLAP

Sectors where more than 1 firm has filed for IPO

- Pharmaceuticals,
- Specialty chemicals
- Financial services
- Real estate
- Restaurants

Source: PRIME Database

While selecting investment bankers to manage the SUUTI stake sale in 2016, the government had inserted a clause that would have prevented those selected from taking up any transaction from a competing private sector company for a period of three years. However, following concerns raised from the investment banking community the Centre diluted the clause asking bankers not to take competitive sales only during the share sale transaction.

Industry players say some companies prefer banks with a track record of successfully handling share sales of companies in the same sector. In some cases, they relax the conflict clause if they have a strong relationship with a bank. However, most don't prefer to work with the same bank if their IPO timing clashes.

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"Factors such as the relationship between the company and the investment banker, the fee being paid may weigh on critical decisions such as timing of the issue. It is the fiduciary duty of such investment banks to disclose all conflicts at the outset, and create a transparent environment," added Mistry.

Fees collected by investment bankers for handling IPOs and other equity share sales rose 25 per cent to $126 million in the first half of the year, the most since 2011, according to data compiled by Refinitiv. This amount is expected to be far higher in the second half with mega issues such as Zomato and Paytm, say industry players. The food delivery company paid ₹229 crore ($30 million) to its investment bankers, its final offer document filed last week revealed.