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New SEBI IPO guidelines: Impact on retail/institutional investors
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MUMBAI: The Securities and Exchange Board of India on Monday proposed changes to the way public share offerings are done, spelt out guidelines for smaller companies to raise capital through share sales, and called for more disclosures from listed companies to prevent delayed shocks in the form of holes in the books of accounts.

The regulator has introduced the pure auction method of book building in share sales, in which institutional bidders could bid at any price above the floor price instead of restricting them to bid in a band fixed by investment bankers. Allotment of shares would be done to those whose bids are at top prices, starting from the highest bidder.

“It is a win-win situation for all,” says Prithvi Haldea, MD, Prime Database, an IPO-tracking firm. “It gives the company the price it deserves, it gives the institutional investor the number of shares at the price they want and reduces the hassles of price discovery for retail investors who will now only get a fixed price option.”

This would be initially experimented with follow-on public offers by companies whose shares are already listed on the stock exchanges. Mr Haldea says this should be extended to initial public offerings as well. “Once the pure auction system is implemented, the era of oversubscription in the QIB category will end,” he adds.

This experiment may not significantly change the way fund raisings are done, some say. “In an FPO, the new mechanism will have a marginal impact as the price band will typically be narrow since the market price of the company will act like the cap price,” says Mehul Savla, director, Ripple Wave Equity. “At the same time, the book will reflect the actual demand for the shares as compared to the proportionate allotment method.” Under the auction method, retail and high net worth investors will surrender their choice to play a part in the price discovery as they would be allotted shares at the floor price discovered in the auction. However, the auction method has not been mandated by the regulator. The company could choose this, or the book-building method.

“The issuer can have a pure auction for the QIB portion and not the retail portion,” CB Bhave, SEBI chairman told reporters. “It will be permissible for the issuer to allot shares to the highest bidder.”

Although the new method sounds more democratic for institutional investors, it runs the risk of getting rigged if a few funds corner the shares. So, the regulator has left it to the companies to decide on the number of shares it wants to allot a fund. “If the issuer desires to place a cap either in terms of number of shares or percentage to issued capital of the company in order that a single bidder does not garner all shares on offer and there is wider distribution, the same may be permitted,” read a SEBI statement.

There has been a clamour for change in the way IPOs are done in India since the current book building came into being nearly a decade back, and robs the investment banks of the kind of control they get in IPOs in the developed market. But the regulator has been taking measured steps since the current structure put an end to a plethora of complaints on IPOs before it was introduced.

The regulator at its board meeting on Monday also took a decision that would help investors avoid waiting for a full year to know the correct financial health of a company as companies would have to disclose their balance sheets on a half-yearly basis. “Taking note that internationally, most jurisdictions require disclosure of balance sheet items on an interim basis whereas in India companies disclose only interim financial results, the board decided to mandate half-yearly disclosure of balance sheet items with audited figures or unaudited figures with limited review,” the SEBI release said.

This will make it difficult for companies to inflate their profit and loss statements, since the balance sheet would have the cash flow statements, and give a more realistic picture of the company’s financial health, brokers said.

Also, the regulator has attempted once again to help smaller companies help raise funds through IPOs. Any company with less than Rs 25 crore paid-up capital and listing on the SME platform, will be exempted from the IPO, takeover and some other rules, SEBI said. Among other things, it will have market makers and a minimum trading lot of Rs 1 lakh.