

Sebi board to clear proposals on IPO reforms

By Reena Zachariah, ET Bureau | Last Updated: Dec 27, 2021, 12:24 PM IST

Synopsis

The Sebi board will also discuss price bands and the allocation of shares to rich investors in IPOs. Sebi had proposed to introduce a minimum price band in all public issues, with the upper one at least 5% more than the floor price.



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Mumbai: The board of the Securities and Exchange Board ([Sebi](#)) is set to clear a set of proposals aimed at [primary market](#) reform when it meets on December 28, said people with knowledge of the matter. These include constraints on the use of funds raised in initial public offerings (IPO) for unidentified acquisitions by new-age technology companies, an increase in the lock-in period for anchor [investors](#) in IPOs and tighter rules on monitoring [IPO](#) proceeds.

Sebi is of the view that raising funds for unidentified acquisitions leads to ambiguity in IPO objectives. These uncertainties increase further in case a significant portion of the fresh issue is earmarked for such purposes. Sebi had issued consultation papers in November on these subjects, seeking responses from the public. Most offer documents filed with Sebi have cited acquisition plans without naming likely targets.

Corporate lawyers said the move could curb the flexibility of companies on utilising their funds.

“Listing is a tedious and time-consuming process that involves getting the consent of various third parties, which in turn requires companies to manage confidentiality and other concerns,” said Gaurav Mistry, associate partner, DSK Legal. Companies could be held liable for not acting on stated M&A plans.

“There is a possibility that such a requirement could potentially blow back if, post listing, the identified deals or investment opportunities fall through, and such a situation may also, possibly, expose the listed company to regulatory action (for misrepresentation, inducement, unfair practice, etc.) and litigation from various stakeholders.”

Lock-in Period?

Sebi had proposed a combined limit of up to 35% of the fresh issue for deployment in inorganic growth initiatives and general corporate purposes (GCPs), when the intended acquisition target is not identified in the objectives of the offer. However, this limit won't apply if the offer document lists specific acquisition plans.

Zomato, Nykaa and Paytm are among startups that have listed on Indian bourses in 2021. More are awaiting the regulator's approval to launch IPOs.

Out of 23 IPOs with an issue size of more than Rs 1,000 crore so far in FY22, five were by companies with non-traditional business models.

The regulator's board will also discuss increasing the lock-in for [anchor](#) investors in IPOs to 90 days from the current 30 days. The proposed move is aimed at providing more confidence to other investors. Currently, companies can allocate 69% of the portion meant for qualified institutional buyers (QIBs) to anchor investors on a discretionary basis. The allotment to anchor investors is made a day prior to the issue opening date.

Sebi may also discuss changes in rules on monitoring usage of issue proceeds under GCP. The regulator had proposed that companies may have to disclose utilisation of the GCP amount in the quarterly monitoring agency report. Currently, companies are not required to disclose any specific object regarding deployment of the GCP amount and its usage is not covered in the monitoring agency report.



Price Bands

The Sebi board will also discuss price bands and the allocation of shares to rich investors in IPOs. Sebi had proposed to introduce a minimum price band in all public issues, with the upper one at least 5% more than the floor price.

Statistical data show that the price band has been more a matter of perception in recent IPOs, than a reflection of actual value, said Mehul Savla, partner, RippleWave Equity Advisors.

"Globally, the pricing range in IPOs on the NYSE, Nasdaq is wider and the process is more dynamic and flexible with several instances of the final pricing falling within or even outside the price range depending on demand," he said. "The Sebi proposal of minimum 5% price range attempts to bring in an element of price discovery process, which till now is largely completed prior to launch of an IPO in India."

The regulator said recently it has observed that the price band provided by some issuers is narrow, perhaps as thin as Rs 1-3.

"Price bands were becoming narrower because of the institutional marketing process and price discovery based on QIB feedback," said Pranjal Srivastava, partner, investment banking (ECM), Centrum Capital. "However, minimum price band will aid in price discovery during the issue open and close period as well."

IPOs can currently be conducted through book-building or fixed-price methods. In book building, the issuer provides a price band with the upper end not more than 20% higher than the floor. In the fixed-price method, the issuer provides a single rate that should be disclosed in the offer document.

The Sebi board will also discuss a suggestion to divide the non-institutional investors' category, under which high networth investors apply for IPOs, into two.

Preferential Issues

The Sebi board will also discuss a proposal to revamp rules on preferential share offers by relaxing pricing norms and lock-in requirements for promoters, in an attempt to make it easier for companies to raise funds through this route.

Companies may also have to obtain a valuation report, whenever there is a change in control following a preferential allotment of shares to investors. This move comes in the wake of the controversy over the PNB Housing Finance-Carlyle deal.

"Sebi's proposals are a mixed bag. Some of the suggestions, such as a shorter lookback period for pricing and a shorter lock-in, will definitely have a positive impact and will encourage investors to use the preferential issue route to invest," said Manshoor Nazki, partner, IndusLaw. "Sebi has also tried to settle the ambiguity that we witnessed in the PNB Housing Finance controversy in relation to valuation reports."

The regulator has proposed shortening the lookback period for pricing of preferential shares to 60 days from the current 26 weeks. It had also suggested a reduction in the lock-in period for promoters to 18 months from the current three years and for other investors to six months against the current one-year requirement.

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