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SEBI issues 'warrants' to rein in promoters

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MUMBAI: The Securities & Exchange Board of India, or SEBI, on Monday tightened the rules governing warrant issues, which in the past allowed promoters to enrich themselves when the markets soared, but get away lightly when they crashed.

The market regulator has promised to frame guidelines that will give holders of Indian Depository Receipts an even footing in rights share sales, after Standard Chartered Bank's rights issue disappointed investors by excluding them from it. A level playing field will be offered during rights share issues where the payment option for all classes of shareholders will be uniform.

"About two years back, when this (warrants) issue was first considered by SEBI, there was quite a bit of discomfort in the market about this entire preferential issue business," SEBI chairman CB Bhave told reporters after a board meeting. "One of the things that was suggested at that time was to enhance the margin amount from 10% to 25%. What else could be done was also in consideration... this had come in the form of a proposal, and now finally, a decision has been taken by the board."

If the promoters don't exercise warrants by the stipulated date, they won't be eligible for any share or warrant purchases for the next 12 months, said the market regulator. Convertible warrants give promoters the option to convert warrants into equity shares at a pre-determined price.

"I think it's quite fair," said Bahram Vakil, senior partner, AZB & Partners, a law firm. "Promoters can't keep changing their minds."

Retail limit in IPOs doubled

There were complaints that promoters allotted warrants to themselves and select investors at a pre-determined price, but didn't buy them when the due date came if the prevailing stock prices were lower than the decided price. If the prices were higher, they would convert those warrants and at least make a paper profit, and in some cases encash the gains.

If promoters or promoter groups sold shares in the previous six months, they would not be eligible for allotment on preferential basis either, said Mr Bhave.

Mr Vakil said, "It is to discourage promoters from trading profits."

Warrants are seen as an instrument that gives an advantage to promoters above retail investors, who have all other rights equal to company founders.

But others believe they give the company an assured capital at a future date, when it may be required for a planned investment but may not be available from other sources.

When the markets melted during 2008 and early 2009, promoters of many companies such as Hindalco Industries, Tata Power, GE Shipping and Pantaloon Retail did not convert those warrants, regulatory filings show. These companies could not be reached for comments after the SEBI board decision.

"It would significantly restrict the promoters' ability to infuse funds into the company," said Mehul Savla, director, RippleWave Equity. "The only option now would be a rights issue, which could be highly time consuming and expensive."

After similar complaints, in February 2009, the regulator had raised the up-front margin to be paid by warrant subscribers to 25% from 10% since the payment lost was insignificant compared with the losses one would have made if forced to buy.

The SEBI board also raised the retail investor limit in initial public offers to Rs 2 lakh from Rs 1 lakh, as reported by ET on Monday.

It said life insurance companies planning to list would have to disclose specific risks associated with their business since there are no peers on the stock exchanges, and various experts come up with their own way of valuing such businesses despite them making losses.

Also, to enable investors to manage their cash and securities flows efficiently, the board decided to mandate companies to have a pre-announced fixed pay date for payment of dividends and for credit of bonus shares.
