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Big cos, NBFCs may soon get to sport QIB tag

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MUMBAI: Large corporates and non-banking financial companies (NBFCs) may soon figure in the list of qualified institutional buyer (QIB) category initial public offers (IPOs), as capital market regulator Sebi seeks to expand the universe of institutional buyers.

According to an official familiar with the development, the idea is to get more institutions to participate in public issues by also including market intermediaries like merchant bankers and broking firms. The proposals were discussed at a meeting of the Primary Market Advisory Committee recently, he said. However, some of the committee members are opposing the proposal to include brokerages and merchant bankers into the QIB list as there is a potential of conflict of interest.

“Brokers are into distribution and also do proprietary trades, so there is a conflict of interest... similar is the case with merchant bankers,” the official quoted earlier said.

Currently, 50-60% of the public issue is reserved for institutional investors like foreign institutional investors, asset management companies, insurance companies and some government institutions. Corporates and non-banking financial companies apply under the non-institutional category, which includes high net worth individuals, and accounts for of 15% of the public offer.

“QIBs play a crucial role in an IPO, as their participation is an endorsement of the credibility of the issuer and the IPO,” says Mehul Savla, director, RippleWave Equity.

For this reason, Sebi norms stipulate minimum 60% allotment to QIBs where the issuer does not meet the track record criteria or is diluting less than 25% of its equity.

Any inclusion or expansion of the QIB universe needs to be considered keeping in view the implied responsibility such investors carry when they participate in IPOs,” he added.

Sebi is also in the process of finalising a new format, wherein merchant bankers will have to list each of the expenses incurred in the issue.

The regulator has received various complaints regarding some companies not fully disclosing issue expenditures.

“Excess money is spent on various things for the issue, but are clubbed under one head. The committee has asked Sebi to make it mandatory for companies to disclose every expenditure incurred under different sub-heads,” an official familiar with the development said. “This will leave less room for manipulating the expenses,” said a senior banker.

Besides, the committee also recommended that merchant bankers to the IPO must keep a tab on the articles appearing in the print media and find out whether numbers published in the article match those in the prospectus.

“The committee has noted that some newspaper articles had frivolous numbers quoted in the article. This is misleading to the investors,” sources said.

Sebi is also looking into complaints that some companies which are filing their offer documents with it are not giving enough public notice. As a result not many are aware of the company’s plans to go public.