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Sebi Makes it Simpler for Promoters to Dilute Stake

Regulator announces new share auction mechanism

OUR BUREAU MUMBAI

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The Securities and Exchange Board of India, or Sebi, has made it easier for promoters of listed companies to dilute their stake and comply with public holding rules by next year. Private sector companies as well as state-owned corporations must have a minimum public holding of 25% by August 2013. Till now, this could have been achieved through follow-on public offerings and institutional placement of stocks. The Sebi board, which met on Tuesday, announced a simpler share auction mechanism that would help listed companies to attract investors. The regulator has provided institutional investors with the option of applying for shares either with 100% margin or with a lesser margin to be fixed by stock exchanges. But in the latter case, the bids cannot be changed.

“The change in the margin norms will give more flexibility to institutional investors in bidding and cash management,” said Mehul Savla, director, Ripple-Wave Equity Advisors.

The regulator also said it would set up a committee to scrutinise the qualified audit reports of listed companies and cases where accounting irregularities were pointed out by the Financial Reporting Review Board of the Institute of Chartered Accountants of India (ICAI). As reported by ET in its edition dated June 21, this is aimed at improving the quality of financial reporting of listed companies.

The committee, with members from stock exchanges and ICAI, will guide the markets regulator in processing qualified audit reports.

It would be mandatory, the board decided, for top 500 listed companies to provide electronic voting, or e-voting, facility for shareholders to participate in key business resolutions. “E-voting will enable greater participation from public shareholders and more importantly create an audit trail of the voting participation,” said a fund manager. There has been an increasing trend among public shareholders to vote against resolutions that are perceived to be anti-minority investors.

While structural changes like scrutiny of audit reports and e-voting will benefit the capital market in the medium term, the decisions of Tuesday’s board meeting will give corporates some breathing space. Companies have been postponing dilutions due to dismal market conditions. There are 181 non-PSUs that are not compliant of these regulations. More than Rs 35,000 crore of securities will have to be sold by various companies to fall in line with the Sebi rule.
On the issue of fulfilling public holding norms, the board decided that issuers could disclose the floor price a day before the share auction, but after the close of business hours. Sebi said the floor price should not be a part of the notice given by companies on the offer.

The regulator also said investors will not be allowed to modify or cancel bids during the last 60 minutes from the close of the bidding session in the auction. Besides, exchanges will display the indicative price during the last 60 minutes of the close of bidding session irrespective of the book being built. The regulator also said promoters can offer their shares through offer for sale or institutional placement programme (IPP) within the cooling off period of 12 weeks, provided they maintain a gap of two weeks between two successive offers. “Many of the changes in the share auction mechanism seem to address the systemic and operation issues encountered in previous transactions,” said a senior merchant banker.

Earlier this year, Sebi introduced two new fund-raising routes — offer for sale and IPP — to help promoters of companies to dilute their holdings. Since then, only ONGC and Wipro have used the auction method while Godrej Properties tapped the markets with an IPP.

The regulator has also changed the minimum subscription requirements for companies in the infrastructure sector coming out with initial public offerings. “The minimum subscription shall not be less than 90% of the offer, subject to allotment of minimum 25% or 10%, as the case may be of the securities offered to the public,” said the Sebi release.

But there was mixed response from investment bankers on the rules for infrastructure companies. While some said the new rules will allow companies to go ahead with their initial public offer even if the issue is subscribed 90%, provided the company fulfils the minimum public holding norms, others felt the amendment will not have much impact in the short term given the subdued status of the primary markets. But two investment bankers said the new rule will take away some of the flexibility that infrastructure companies so far enjoyed.