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IPO norms eased for issuers while retail investors will hold larger PSU pie

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MUMBAI: The Securities and Exchange Board of India approved a number of measures aimed at making it easier for companies to raise money as part of a significant push to rejuvenate the country's primary market. The measures approved by the board of the capital market regulator include easing IPO restrictions for issuers, doubling the investment bucket for anchor investors, allowing non-promoters to offload their stake through offers for sale and reserving 10% of issues for retail investors.

The regulator has also asked the government to lower its stake in state-owned companies to 75% versus the current 90% cap within three years, increasing the amount of shares that need to be held by the public. It also tightened rules for employee stock option plans or ESOPs and research analysts. ET reported in detail on June 18 the proposals that the Sebi board approved at its meeting on Thursday. Experts welcomed the Sebi moves.

"The twin changes in the IPO (initial public offer) dilution norms underscore Sebi's intent and willingness to align the regulatory framework with the market dynamics without compromising on any governance or liquidity parameters," said Mehul Savla, director, **RippleWave Equity Advisors.**

"Both these issues have been key bottlenecks and with one stroke Sebi has provided a much-needed shot in the arm for the relatively moribund primary markets at a time when secondary markets are witnessing increasing levels of investor interest.

"India's primary market has dwindled over the past few years despite various measures by the regulator to encourage investor appetite in public issues.
The latest move comes as the secondary market is in the ascendant over optimism that the Narendra Modi government will implement policy measures leading to improved investor sentiment and an economic recovery after two years of below-5% growth. The Sebi board also decided on Thursday that companies will need to dilute to the public a stake of 25% or Rs 400 crore, whichever is lower, if the market value is less than Rs 4,000 crore.

Currently, companies have to sell at least 25% if the valuation is below Rs 4,000 crore, while those that exceed this need only divest a 10% stake in an IPO."This will remove the anomaly that a company just short of Rs 4,000 crore market capitalisation was required to dilute about Rs 1,000 crore while another company at Rs 4,000 crore market capitalisation was required to dilute only Rs400 crore," Sebi said in a press statement.

The regulator has also proposed "uniform" public holding norms across all companies as it believes rules for the market should be promoter neutral. Currently, private companies are required to have a minimum 25% public shareholding, while it's 10% for public sector undertakings (PSUs).Sebi has told the government this is discriminatory and inconsistent with broader market design. It should, therefore, amend the Securities Contracts (Regulation) Rules to mandate state owned companies to achieve at least 25% public shareholding within a period of three years.

That will result in a substantial amount of stock hitting the market, which will also mean a bonanza for the government as long as demand is buoyant."Over the next three years, approximately $9 billion offering will have to be done by PSUs, which would most likely be spread out in tranches and is unlikely to be crowded together," said Sanjay Sharma, head of equity capital markets, Deutsche Equities India. In an attempt to increase the share of serious, committed participants, the regulator has enhanced the ability of long-term institutional investors to participate more meaningfully as anchor investors in an IPO. It has doubled the anchor investor's bucket to 60% from the existing requirement of 30% of the institutional allocation.

"A larger anchor tranche, even though it comes with a 30-day lockup, will be helpful in allocating shares to the most appropriate investors for a particular company and also help in better price discovery," said Sharma of Deutsche Equities.

The Sebi board, which met in New Delhi, has also empowered retail investors to participate in offers for sale (OFS) by reserving 10% of the issue size for them, enabled non-promoter shareholders to leverage the OFS mechanism and also expanded the universe of companies to the top 200 companies by market capitalisation from 100 now. The regulator said sellers of shares may offer a discount to retail investors and in case the allocation is not fully subscribed the unutilized portion could be offered to other investors.

"While OFS as a product is increasingly getting popular and a reservation for retail category is good move, since retail investors can anyway buy from the market without impacting the price, it may not be very popular unless say a discount is given by the seller," Sharma said. The regulator also proposed to regulate individual research analysts and entities engaged in issuance of research reports or those that make "buy/sell/hold" recommendations on securities or public offers such as brokerage houses, merchant bankers and proxy advisors. It imposed trading restrictions on research analysts.

"Some of the activities of research analysts are even currently regulated under certain provisions of Sebi regulations dealing with investment advisers and insider trading," said Tejesh Chitlangi, partner, IC Legal. "However, regulation of research analysts by a separate set of regulations will ensure that the buy/sell recommendations in research reports, business channels and public media would no longer exist in a regulatory vacuum and various conflicts and risks are adequately curbed or mitigated."