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Sebi sets up panel to look into issue of DVRs

BY REENA ZACHARIAH, ET BUREAU | DEC 19, 2018, 10.29 AM IST

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MUMBAI: The Securities and Exchange Board of India is reviewing norms on dual-class shares, chairman Ajay Tyagi said.

The regulator has set up a sub committee to look into the issue of differential voting rights (DVR). The panel is likely to submit its report next month.

“Such rules have worked globally. The framework would work for companies where valuations are not ready but there is faith in promoters. However, some rebalancing from corporate governance side would be required,” Tyagi said while speaking at an investment bankers’ event. “Its mostly relevant for tech companies.”

At present, companies are allowed to issue two different classes of share- ordinary shares with voting rights and second class of shares which are without voting rights.

The [Sebi](#) panel is looking at various models followed globally on different classes of share including the sunset provision. A sunset clause is available for a period of time or up to a particular event post which the DVR gets converted into shares with voting rights.

“In India, the DVR market needs to evolve. It should be allowed only in well-governed companies where founders can hold superior voting rights with adequate checks and balances,” said S Ramesh, MD & CEO of Kotak Investment Banking. “It’s a good way for Indian promoters to raise capital without diluting control.”

Amarjeet Singh, executive director, Sebi said: “We have a split house on that (DVR). We will come out with some recommendations.”

In India, companies are allowed to issue shares with differential rights, which are inferior voting rights but enjoy higher dividend compared to ordinary shareholders.

Tata Motors was the first [Indian company](#) to tap this product. In 2008, it issued shares with differential voting rights. Subsequently, couple of other companies such as Future Enterprises and [Gujarat NRE Coke](#) too issued dual class shares.

Investment bankers said globally the price differential between ordinary shares and those with DVR is in a narrow range below 20 per cent. However, in India the differential pricing is wider. For instance, in Tata Motors the price difference is nearly 81 per cent.

In 2009, Sebi tightened rules and prohibited companies from conferring superior rights as to voting rights and dividends.

“Any relaxation in issuances of DVRs would be beneficial and encourage high-quality tech companies to consider a listing in India. Investors would also be keen to participate in DVRs if some of the unicorns backed by global funds consider tapping this route,” said Mehul Savla, partner, Ripplewave Equity Advisors.

“Globally companies like [Facebook](#), Google, News Corp have dual voting shares that enable the founders to retain control, though desirability of such structures continues to be debated,” Savla said.

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