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# Sebi rejects proposal on easing QIP pricing norms

BY REENA ZACHARIAH, ET BUREAU | MAY 06, 2020, 08.26 AM IST

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Mumbai: The Securities and Exchange Board of India (Sebi) has shot down a proposal seeking relaxation of pricing norms for Qualified Institutional Placements (QIPs), a preferred route for equity [fund-raising](#).

Investment bankers, on behalf of companies, had asked the capital markets regulator to allow companies to offer a 10 per cent [discount](#) on the floor price as cash-strapped firms are struggling to raise money due to earnings uncertainty.

Rules now mandate that the issue price in a QIP to be not less than the average of weekly high and low for two weeks preceding the relevant date. A further discount of up to 5 per cent on the floor price can be offered to investors.

## 'Lower Floor Prices Critical'

Investment bankers felt in the current downturn this rule was deterring institutional investors from committing money. But Sebi felt share prices were already trading at lower levels. "Pricing is possible at 5 per cent discount. Demand for more discounts is not justified. Market is already trading at a steep discount compared to earlier levels," said a person close to the development. An email query sent to Sebi on the matter went unanswered.

Since February 19—when the stock market sell-off started sparked by the spreading of Covid-19, the Nifty has fallen 24 per cent, the mid-cap index has declined 27 per cent and the small-cap index has dropped 26 per cent. But for the recovery in the past month or so, the losses would have been deeper.

QIP is one of the most preferred fund-raising routes for companies because of the easy process. Companies raised about Rs 51,216 crore through QIPs in FY20, according to Delhi-based Prime Database.

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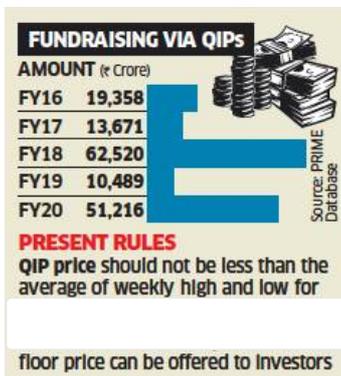
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The markets regulator has already relaxed some rules on fundraising. In March, it proposed to relax the requirement of the mandatory six-month gap between two successive QIP issues, following requests from companies seeking a waiver on the requirement of a cooling off period between two successive issues. "Wherever possible Sebi has been giving relaxations and is looking at ways to make it easier for companies to raise funds from the market," said another person familiar with the development.

Investment bankers said lower floor prices in QIP issues will be critical for companies to raise money faster as share prices have gyrated since February 19. "It is worth considering changes in QIP norms to improve access to [equity](#) capital. Raising the discount on floor price from 5 per cent to 10 per cent would provide more flexibility to companies to raise risk capital in an increasingly volatile and risk averse



market environment. While this may lead to higher dilution, the capital may be crucial for survival and sustaining business operations,” said Mehul Savla, partner, Ripplewave Equity Advisors.

Sebi could have rejected the plan also on concerns over misuse, but bankers said there is little scope for wrongdoing. “Promoters are not allowed to participate in QIPs, so the dilution impacts all shareholders including promoters and public shareholders, thereby creating a natural check on the size and pricing of a QIP. Retail participation in QIPs comes indirectly as mutual funds, insurance companies are playing a bigger role in such transactions,” Savla said.

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floor price can be offered to Investors