SARTHI

Bridging the Gap

Info Byte

SEBI Infuses Life in Capital Market

Securities Exchange Board of India (SEBI) vide its meeting dated June 19, 2014 has announced multi-fold steps to put life into the Capital Markets which at present seems to be in deep slumber.

In a move that will level the playing field between private and state-owned companies and bring in paper supply of nearly $10 billion over the next three years, SEBI has proposed even public-sector undertakings would need to have at least 25 per cent public float, compared with the current cap of 10 per cent. The regulator said the government would be given three years to meet the holding requirement.

Under the current rule, while non-PSUs are required to have a minimum 25 per cent public shareholding, state-run firms are required to have only 10 per cent. Top PSUs like Coal India, NMDC, MMTC and Hindustan Copper, which had recently achieved the earlier limit, will now have to issue more stakes to the public to comply with the new norms. According to estimates, the government will have to dilute Rs 60,000 crore worth of its stake in 36 PSUs.

In a move that will encourage more companies to launch initial public offerings, SEBI relaxed the minimum dilution criteria for smaller companies against the earlier norms that forced companies with valuations of less than Rs 4,000 crore to sell a minimum of 25 per cent stake in IPOs, the regulator introduced a new threshold of Rs 400 crore.

Going ahead, a company will have to divest at least Rs 400 crore or 25 per cent, whichever is lower, through an IPO.

The regulator also doubled the portion meant for anchor investors in IPOs — the limit for these investors has been increased from 15 per cent to 30 per cent of the issue size. The shares, however, will be given from the institutional investor bucket, which is 50 per cent of the overall IPO size. Anchor investors are those institutions that invest in IPOs days before opening dates and whose investments are locked in for a period of 30 days from the date of allotment. By committing capital to an IPO even before the opening of the issue, these investors send a positive signal to others.

SEBI also approved a major overhaul of the offer-for-sale route for secondary-market share sale. The regulator allowed the top-200 companies by market capitalisation and non-promoter entities holding more than 10 per cent stakes to dilute their holdings through this route. Further, for the first time, SEBI made it compulsory for companies to reserve 10 per cent shares in the OFS for retail investors and paved the way for offering discounts to smaller investors, similar to IPOs.

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SEBI provided more flexibility to India Inc in rewarding their staff by again allowing companies to issue employee stock ownership plans (ESOPs) through secondary-market purchases. The move is aimed at helping promoters issue stock options without having to dilute their holdings but with this the regulator has however put in place strict caveats to curb manipulation. To ensure a smooth transition for complying with the new regulatory framework, the existing employee benefit schemes have been provided with a time period of one year from the date of notification.

Further, a longer transition period of five years has been provided for the following:

I. Re-classifying shareholding of existing employee benefit schemes separately from 'promoter' and 'public' category.
II. Bringing down the level of shares acquired from secondary market within the permissible limits.
III. Reducing own share component to 10% of the total assets of general employee benefit schemes.

In another significant change, the regulator wants the pricing of shares for preferential issues and qualified institutional placements (QIPs) to be based on 'Volume-Weighted Average Price' (VWAP), instead of closing prices. Market participants say closing prices of shares might not be the best representative price at which shares could be transferred for it to be used as a benchmark in the pricing formula. VWAP is seen as better metric as it eliminates the outlier effects and is a more accurate determinant of prices at which transactions took place.

The SEBI Board also considered and approved the draft SEBI (Research Analyst) Regulations, 2014. These Regulations, 2014 have been framed based on consultation with market participants and comments received from the public on the consultation paper and draft regulations for research analysts disseminated for this purpose.

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