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‘USE OF IPO FUNDS TO BECOME TRANSPARENT WITH NEW RULES’

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Tighter norms approved earlier this week by the Securities and Exchange Board of India (SEBI) for Initial Public Offerings (IPOs) will bring in transparency and discipline to the process, said analysts.

Several new-age tech firms have in recent months raised significant sums for purposes of acquisitions without having identified target firms. Tweaked norms capped the amount that can be raised in this way. The regulator also put in place a mechanism to monitor the deployment of proceeds.

“To stitch together a higher valuation, several new-age tech companies mentioned vague ‘objectives’ in the offer documents without making it clear,” said Geetanjali Kedia, primary markets head, SP Tulsian Investment Advisers.

‘First-time risk’

“Investors are not used to valuing such companies and are exposed to such risk for the first time. These are very pragmatic norms,” she added.

The new norms mandate that the amount — meant for acquisition targets that have not been identified at the time of IPO — ‘shall not exceed 25% of the amount being raised’.

The rules also state that in combination, the amount for such unidentified acquisition objects and ‘the amount for general corporate purpose (GCP) shall not exceed 35% of the total amount being raised’.

Currently, the portion for GCP is capped at 25%.

Independent analyst Ambareesh Baliga pointed out that companies raising funds would need to display genuine intent by showing clarity on the use funds. “What do you mean by ‘future acquisitions’? Investors should know what the acquisition is and where the money will be deployed,” he said.

Also at stake is the nature of the business that one is investing in. “If an issuer does not specify the acquisition, the entire nature of the company may change with an unrelated large acquisition,” said J.N. Gupta, MD, Stakeholders Empowerment Services and former wholetime director of SEBI.

“A new-age tech company may acquire a pharma or a shoe company if the ‘future acquisition’ is not specified. SEBI is now giving some lever in the hands of investors,” he added.

Advisory firm Kejriwal Research founder Arun Kejriwal said Zomato — which raised Rs. 9,375 crore in its IPO earlier this year, including primary issue and offer-for-sale, of which approximately Rs. 4,200 crore came from anchor investors — is a case in point. “Zomato raised about Rs. 9,000 crore as part of the primary issue. Thirty-five per cent of that amount would have been about Rs. 3,150 crore, whereas they had indicated, without specifying portions, that Rs. 6,750 crore would be used for funding inorganic and organic growth initiatives. A company raising funds today would need to specify funds utilisation under the inorganic head."

Additionally, he pointed out that the new norms may well have been the result of firms not being accommodative when the regulator informally flags concerns.

"There are instances when SEBI, rather than issuing an order, informally tells issuers and merchant bankers to take corrective measures [at] the application stage, and if [they don't comply], then it cracks the whip with its order to discipline the process," he said.

He also highlighted that the change in norms was necessary as some firms that raised funds from the market about 5-6 months earlier were still to deploy them for the intended purpose.

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J.N. Gupta

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