Primary Market

IPO Norms

4.8 A number of initiatives were taken to further rationalise the Initial Public Offer (IPO) norms. These are set out in Box 4.1.

The Companies (Amendment) Act, 2000

4.9 The Companies (Amendment Act), 2000 contains provisions which have considerable bearing on capital market. The major thrust of the provisions (Box 4.2) is to facilitate better corporate governance and increased protection of the interest of the small investors.

Collective Investment Schemes

4.10 SEBI has continued with its efforts aimed at protecting investors in Collective Investment Schemes by asking individual entities, which had failed to apply for grant of registration, to wind up their schemes and repay investors, and by issuing public notices in newspapers cautioning investors about risks associated with CIS. As on March 31, 2000, 36 applications for grant of registration were received from existing entities which reportedly mobilised about Rs. 295 crore. Further, 60 entities which reportedly collected about Rs. 426 crore intimated SEBI about their intention to repay the investors and wind up their schemes in terms of the provisions of SEBI (Collective Investment Schemes) Regulations, 1999. Also, in some cases where the proceedings are in various Courts, the entities, which had launched CIS, agreed to make repayments to the investors.

Resource Mobilisation

4.11 During April-December, 2000, resource mobilization through public and rights issues registered a significant decline by 25.9 per cent to Rs. 4,240 crore through 124 issues from Rs. 5,723 crore through 60 issues during the corresponding period of 1999-2000. The amount raised per issue declined to Rs. 34.20 crore in April-December, 2000 from Rs.95.38 crore in the corresponding previous period (Table 4.1). The amount raised per public issue declined steeply from Rs. 114.21 crore to Rs. 35.41 crore during this period. This reflected the significant decline in the share of banks and financial institutions in total resource mobilisation to 39.2 per cent in April-December, 2000 from 53.1 per cent in the corresponding previous period.

BOX 4.1

IPO Norms

- SEBI (Disclosure and Investor Protection) Guidelines require a minimum offering of 25 percent of post issue capital to public. This requirement was relaxed to 10 percent, first for companies in the Information Technology sector, and then in the entertainment, media and telecom sectors.
- In December 2000, this relaxation was extended to companies in all sectors. SEBI also kept the minimum offering size at Rs.100 crore and retained the existing limit of minimum public offer of 20 lakh shares. Companies not meeting the prescribed conditions need to make a minimum public offering of 25 percent.
- With a view to enhancing the quality of issues in the primary market, SEBI tightened the entry norms for IPOs. Accordingly, IPOs of issue size upto 5 times the pre-issue networth shall be allowed only if the company has track record of profitability and networth as specified in the Guidelines.
- The book building route has been made compulsory for companies, which do not have such track record. Further, 60 percent of the offer made by them should be allotted to Qualified Institutional Buyers (QIBs) comprising financial institutions, banks, mutual funds, FIIs and VCFs registered with SEBI. Inability to meet this condition would mean failure of the issue.
- The book- building route has also been made compulsory for IPOs with issue size more than 5 times the pre-issue networth and for public issues by listed companies worth more than 5 times the pre-issue networth. In these cases also, success of the issue requires allocation of 60 percent of the offer to QIBs.
- The lock-in provisions applicable to IPOs have been rationalised. While the lock-in period for minimum promoters' contribution of 20 percent shall continue to be 3 years, the balance of the entire pre- IPO capital held by promoters or others shall be locked in for 1 year from the date of allotment of the IPO.
- It has also been decided to lock in the shares issued on preferential basis by a listed company to any person for one year from the date of their allotment except in respect of issues involving share swap for acquisition.
- The procedures for allotment of shares and refunds were streamlined. The time for finalising the allotment has been reduced from 30 to 15 days in book-built issues so as to minimise the risk arising from volatility.

BOX 4.2

Companies (Amendment) Act, 2000

The Companies (Amendment) Bill has been passed by both the Houses of Parliament in the current financial year. It has also received Presidential Assent .The salient features of the Act with special reference to the capital market are given below:

- All provisions concerning issue and transfer of securities and non-payment of dividends in case of listed public companies/ public companies to be listed shall be administered by SEBI.
- The share capital of a company limited by shares shall be of two kinds only: (i) equity share capital with voting rights or with differential rights as to dividend, voting or otherwise and (ii) preference share capital.
- Dematerialised form will be compulsory for listed companies making IPO of any security for a sum of Rs. ten crore or more.
- Specific provisions for appointment of Debenture Trustees and creation of debenture redemption reserve have been made.
- Voting through postal ballot for important items has been prescribed.
- The Report of Board of Directors should include a statement on Directors' responsibility.
- A holder of security with voting rights in a company is not eligible for appointment as its auditor
- A public company having a paid-up capital of Rs. 5 crore or more and one thousand or more small shareholders may appoint at least one director elected by small shareholders.(holding shares of nominal value of Rs. 20,000 or less) on its Board.
- Confirmation by the Regional Director is compulsory for changing a Company's Registered Office from the jurisdiction of one Registrar of Companies to that of another.
- Provisions have been made to ensure the protection of small investors; a small depositor is defined as one who has deposited in a financial year a sum not exceeding Rs. 20,000 in a company, and includes his successors, nominees and legal representatives.

4.12 Resource mobilisation from public issues accounted for 91.0 per cent of the total resource mobilisation from primary market in April-December, 2000 as against 75.8 per cent last year. The amount raised through equity during this period constituted 64.5 per cent compared with 61.2 per cent in the corresponding previous period. Though the amount raised through debt registered a greater decline by 32.3 per cent, the amount raised through the equity route also registered a significant decline by 21.9 per cent during this period. This may be seen in the backdrop of the relatively weaker investor sentiment in the current financial year vis-à-vis the previous financial year.

TABLE 4.1

Resource Mobilisation from Primary Market^{P}

(Rs. Crore)

Type of Issue	1999-2000		April-December 1999-2000		April-December 2000-2001	
	No.	Amount	No.	Amount	No.	Amount
Public	65	6257	38	4340	109	3860
Rights	28	1560	22	1383	15	380
Total	93	7817	60	5723	124	4240
(Equity)	(82)	(4566)	(52)	(3502)	(117)	(2736)
(Debt)	(11)	(3251)	(8)	(2221)	(7)	(1504)

Source : SEBI. P= Provisional