SEBI on Takeovers and Equity

Why in news?

The Securities and Exchange Board of India (SEBI) released an amended set of guidelines on takeovers and equity.

What is the relaxation regarding fresh equity?

- They sought to make it easier for entrepreneurs and promoters to raise fresh equity during 2020-21.
- Promoters may acquire up to 10% of shareholding via the creeping acquisition route without triggering mandatory open offers under the Takeover Code.
- [The previous threshold for this route was up to 5% of equity annually.
- Beyond this, the process of a mandatory open offer was triggered.]

- However, the new 10% limit doesn't apply to secondary market operations.
- The acquisition must occur through a preferential offer where the promoter group issues new shares to itself.
- This relaxation will be in force only until March 31, 2021.

What is the relaxation regarding voluntary open offers?

- SEBI has also relaxed the provisions for voluntary open offers.
- Earlier, a shareholder having 25% or more of shares, or voting rights, was permitted to make a voluntary open offer.
- But this was pemitted only if he had not acquired any shares via the creeping acquisition route in the preceding 52 weeks.
- That condition has now been relaxed till March 31, 2021.
- This would enable promoters to use the creeping acquisition route and also make an open offer if they so choose.
- However, the overall limit of 75% shareholding for a listed company remains.

What is the relaxation regarding QIP funding

- Another relaxation pertains to the interval between accessing qualified institutional placement (QIP) funding for a listed company.
- Compared with an initial public offer, raising money from QIPs is a relatively

easy process in terms of compliance.

- However, prior to this, follow-on public offers (FPOs) made to institutional investors had to be staggered at an interval of at least 6 months.
- That period has now been reduced to 2 weeks, again only with respect to the 2020-21 fiscal year.

What is the conclusion?

- These measures would offer some comfort to cash-strapped companies struggling to fund operations during these difficult times.
- These relaxations remove the need to take on more debt, which is difficult due to the enormous amount of government borrowing and is crowding out private players from the bond market.
- Companies can now access funding via the equity route.
- They can tap into both promoter funding and QIP funding using the FPO route.
- Since stock-market valuations are down due to the pandemic and lockdown, committed promoters see this as a good time to increase their shareholding.
- One can make a case that SEBI could have been even more liberal with the annual thresholds while keeping the 75% limit unchanged.
- As of now, with both consumption and demand trending low, most companies may not see a great need to raise long-term capital.
- However, as and when activity picks up, these relaxations will make it easier for companies to access capital.
- India could see a spate of follow-on and preferential offers in the second half of the fiscal year if the economy does rebound.

Source: Business Standard