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FIIs uneasy over Sebi rule against financial forecast by IPO cos

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MUMBAI: Several foreign institutional investors (FIIs) have approached Sebi to express their unease over the clause in the recent Sebi guidelines that bans IPO-bound companies from making financial projections.

Earlier this month, the regulator overhauled the disclosure & investor protection (DIP) guidelines, replacing it with the issue of capital and disclosure requirements (ICDR) regulations.

One of the clauses in ICDR states "no selective or additional information or information extraneous to the offer document shall be made available by the issuer or any member of the issue management team/ syndicate to any particular section of the investors or to any research analyst in any manner whatsoever including at road shows, presentations, in research or sales reports or at bidding centres".

People familiar with the development told ET that several FIIs have made individual representations to Sebi on the issue, which include Deutsche Bank, Citigroup, BoA Merrill Lynch, JP Morgan, etc.

"Sebi has amended guidelines in line with what is prevalent in the US. But one needs to keep in mind that the US, unlike ours, is a developed market. India, even today, has a lot of companies where there is very little information in the public domain. Some, particularly in the infrastructure space, have no track record, no necessary history, that would help an institutional investor take a view," said a merchant banker on condition of anonymity.

Bankers maintain that while forward looking projections on a company looking to list is not allowed in the US, there is still some research done outside the US. Also being a developed market, there are other benchmarks, which help them to take a view.

"In India, we have some companies quoting at a 30% discount to NAV and some quoting at a 50% premium. As such institutional investors do require some amount of guidance in terms of forward projections, which would help value a company, to decide what price to enter and make a book. Let us not forget that in India retail follows institution and we have to market it to them," said an investment banker with a foreign brokerage.

Industry experts maintain that by taking away forward looking projections, you are denying an investor an insight into how the company is doing, what the management thought process is in terms of growth trajectory, and so on.
However, Karthik Ganapathy, partner, Nishith Desai Associates, is of the view that the rule merely calls for a level playing field and does not restrict companies from making forward projections.

"ICDR clearly states that there should be no forward looking statement in a prospectus without substantiation. ICDR also provides that no selective or additional information should be provided to any section of investors or analysts. What Sebi appears to be saying quite clearly is that information should be disseminated evenly, a level playing field of disclosure. Full and complete disclosures should be made in the prospectus, and dissemination of selective, extra or extraneous information is verboten."