Business Standard

IDRs to have 30% retail quota: Sebi

Regulator also extends the concept of anchor investor to such issues

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The Securities and Exchange Board of India (Sebi) today made Indian Depository Receipts (IDRs) more attractive by extending the concept of anchor investors to IDRs and mandating a 30 per cent quota for retail investors in such issues.

The market regulator took these decisions at its board meeting here today.

The regulator had introduced the concept of anchor investors in the initial public offer (IPO) space earlier this year during the Adani Power issue. The anchor investor, who can't be a promoter of the issuer company, can be allocated as much as 30 per cent of the portion reserved for qualified institutional buyers (usually 60 per cent) in an issue through a bidding process.

Sources said Sebi decided to reserve 30 per cent for retail investors keeping in mind the amount of liquidity they generated. In case there is an absence of retail interest, institutional players will be eligible to acquire the retail portion, according to Sebi.

"The reservation for retail investors in IDRs is aimed at improving liquidity as well as increasing the number of shareholders to make such issues widely held," said Kartik Ganapathy, partner, Nishith Desai Associates.

Though the Companies Act provided for IDRs nearly a decade ago, no company had opted for an issue citing regulatory hurdles. So far, only Standard Chartered Bank has discussed the possibility of an IDR issue with Indian regulators. It has also appointed bankers to look at the possibility of a $1 billion (Rs 5,000 crore) IDR issue. "There are certain taxation issues which need to be sorted out before an IDR issue can be a reality," said a banker on condition of anonymity.

"The first issuer will have to deal with a lot of hurdles, but once an IDR is done, others would queue up," said a senior official at a regulatory agency.

Modelled on global depository receipts (GDRs), IDRs allow foreign companies with presence in India to tap the local market.

The government has in the past taken several steps to ease the norms governing IDRs, including allowing foreign institutional investors to participate in these issues.

Besides making IDRs more attractive, Sebi has also decided to crack down on companies which used loopholes in the system to avoid following accounting principles while restructuring. Now, any listed company that is being merged or demerged will have to submit an auditor's certificate to stock exchanges saying that it has follow all necessary norms. The amendments are proposed to be made applicable through changes in listing agreements.

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