

## Corpsec Hotline

August 14, 2008

### QIPS: FREEDOM AT LAST FROM PRICING CONSTRAINTS

In keeping with the slew of reforms being introduced, the capital markets regulator Securities and Exchange Board of India (“SEBI”) has, in a [press release](#) dated August 13, 2008 introduced new pricing norms governing Qualified Institutional Placements (“QIP”). The nature and impact of this change is analyzed in the paragraphs below.

#### Background

SEBI introduced the regime of private placements of certain specified securities by Indian listed companies by way of QIP in 2006 by adding Chapter XIII A to the SEBI (Disclosures and Investor Protection) Guidelines, 2000 (“DIP Guidelines”). QIPs are placements as made to Qualified Institutional Buyers.

The pricing norms as prescribed for QIPs under Chapter XIII A of the DIP Guidelines prior to the amendment stated that the price of the specified securities should be the **higher of** the following:

1. The average of the weekly high and low of the closing prices of the related shares as quoted on the stock exchange in the six (6) months preceding the relevant date; or
2. The average of the weekly high and low of the closing prices of the related shares as quoted on the stock exchange in the two (2) weeks preceding the relevant date.

The ‘relevant date’ in this context was a date thirty (30) days prior to the date on which the special resolution authorizing such issuance is passed at a meeting of the shareholders of the issuing company under Section 81(1A) of the Companies Act, 1956.

#### Amendment

- Period of reckoning of the price now stands reduced to the average price of two weeks prior to the relevant date, against the earlier requirement of taking the higher of the previous six months’ or 15 days’ average price.
- The term “relevant date” now stands amended to the date on which the board of the company, or the committee of directors duly authorised by the board of the company, meets to take the decision to open a QIP.

#### Implications

- The revision in the pricing norms is seen as a welcome change intended to ‘align’ the pricing of the specified securities with the prevailing market price. The volatility displayed by the capital market over the recent months, coupled with the glaring disparity between the price calculated in accordance with the erstwhile pricing formula may have contributed to the slowdown in investments into Indian companies who were looking to raise the funds. Siddharth Shah, Head of Funds Practice Group, opined in a recent [interview](#) as conducted by CNBC-TV18 that “*There is going to be some benefit for the private equity investors and we might see some increased activity on the pipes because this would definitely facilitate those transactions*”.
- The amendment would also afford a chance to the Indian company to optimally price the QIP since the price of the same is to be determined in accordance with the date of the board meeting (i.e. the relevant date). On the other hand, there could be room for price manipulation as well.

#### Conclusion

The reforms being introduced by the regulator will give an impetus to potential investors. It is also a boon to Indian companies which wish to raise capital from the market, by being able to offer a more competitive price to investors. The Ministry of Finance has also proposed certain changes in the pricing mechanism of [ADRs and GDRs](#), although the amendment is awaited. While it is expected that the reforms introduced will bring in a rush of investments, the reaction of investors is something to look out for.

- Rohini Agarwal, Diptee Deshpande & Amrita Singh  
You can direct your queries or comments to the authors

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