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# New IPO norms to reduce risks, help investors save interest costs

## All future IPOs in the govt's disinvestment plan will have to follow the rules that come into effect this week

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Mumbai: The initial public offering (IPO) of state-owned power utility SJVN Ltd that closes on Monday will be among the last listings under current IPO rules. New norms will take effect this week that some market participants say would save interest costs for investors and reduce risk.

Under the current rules, the stipulated time to complete the listing of shares from the date of the IPO's close is 22 days. This window has now been shortened to 12 days.

The new norms will also affect qualified institutional bidders (QIBs). Until the SJVN issue, QIBs could bid for shares paying just 10% of the value of the stock they bid for upfront. Under the changed rules, institutions, which account for 50% of any issue, will have to put up the entire value of their bids for subsequent issues, increasing the upfront amount tenfold.

The Securities and Exchange Board of India's new rules will apply to all the issues lined up in the government's Rs40,000 crore disinvestment programme.

Photo: Punit Paranjpe/AFP

The follow-on offer of Engineers India Ltd in June and Coal India Ltd's IPO, expected in July, will be the first in their respective categories to test the new norms.

"It is too early to say if the large divestment issues will face any problem due to the new norms, but if there is any problem, we will look into the matter," said Sumit Bose, secretary, disinvestment ministry.

The reduced timeline is applicable to both physical applications and those supported by blocked amount, or applications made through banks where the application money is held in the investor's account until the final allotment of shares.

"At present, both issuers and investors need to worry what the market will be (like) in a month's time. The reduction in timeline will help reduce that uncertainty," said Tapasije Mishra, managing director and group chief executive officer of brokerage IDFC-SSKI Ltd.

“It may now be possible for companies to list the shares at a condensed infrastructural cost. Therefore, this amendment shall also bring cheer to the large investor community which was earlier being exposed to a greater market risk on account of the 22-day timeline,” said a partner at Mumbai-based legal and tax consulting firm **Nishith Desai Associates**, on condition of anonymity.

According to a study released last week by credit rating firm Crisil Ltd, the move will result in savings of Rs800 crore in one year in interest costs for investors who would have to block their funds for fewer days. According to Crisil, Rs40,000 crore will be raised in calendar 2010 through IPOs.

To calculate the interest cost savings, Crisil used the observed three-year average subscription level, which was eight times for the retail category and 28 times for the high networth individual (HNI) category from calendar year 2007 until now.

However, the move could put pressure on various intermediaries such as bankers, brokers and registrars. The latter, in particular, will come under severe pressure, said Sanjay Jain, executive director and head of investment banking division at JM Financial Consultants Ltd, but added that the regulatory move is in the right direction.

“The reduction in timeline could lead to a lot of pressure on registrars. This will be more so when the subscriptions are high like Reliance Power, which received some 50 lakh applications, and Mundra Port,” he told *Mint*, but added that the market would adjust to the new rules.

Hedge funds and other leveraged players who might have applied for more shares than they actually wanted, will now likely tone down their applications given the higher upfront money needed, say investment bankers.

“The froth will be out. Only genuine subscribers will subscribe to the issue,” said Mehta of IDFC-SSKI. “The subscription number itself is not that important; it doesn’t signify anything. All you need for the issue to go through is that the book needs to be subscribed once.”

However, the move will affect other classes of investors who typically use the institutional subscription number as a barometer of demand and to get an idea of sentiment. “So, when investors who wanted Rs5 crore of shares but subscribed for Rs100 crore don’t do so now and put in only Rs5 crore worth of bids, then the subscription numbers would be lesser by that extent, reducing the bids to that extent,” said Jain of JM Financial Consultants.

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