CAPITAL MARKETS – FINANCIAL INNOVATION & ENGINEERING

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## Amount Raised

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Issue of Equity</th>
<th>Rights Issue of Equity</th>
<th>Private Placement</th>
<th>Privately Placed Debt</th>
<th>Public Issue of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>21</td>
<td>2,082.35</td>
<td>25</td>
<td>12,637.16</td>
<td>763</td>
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<tr>
<td>2009-10</td>
<td>44</td>
<td>46,736.51</td>
<td>29</td>
<td>8,318.62</td>
<td>330</td>
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<tr>
<td>2010-11</td>
<td>58</td>
<td>48,654</td>
<td>23</td>
<td>9503.53</td>
<td>349</td>
</tr>
</tbody>
</table>

*Issue proceeds from one of the issues yet to be finalised*
# Capital Raising

<table>
<thead>
<tr>
<th>Type of Capital Raising</th>
<th>Section in SEBI Act/ Companies Act/ SCR Rules</th>
<th>Relevant Regulatory Provisions</th>
</tr>
</thead>
</table>
| Initial/Further Public Offering/ Rights Offering | - Sections 11 (1) and 11 (2) of the SEBI Act.  
- Sections 55-84 of the Companies Act.  
| Preferential Qualified Placement | Issue/ Institutional | - Sections 11 (1) and 11 (2) of the SEBI Act.  
- Sections 55-84 of the Companies Act. | SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 & Equity Listing Agreement signed between the company and the stock exchange. |
| Issue of Indian Depository Receipt | - Sections 11 (1) and 11 (2) of the SEBI Act.  
- Section Sections 55-84 & 605A of the Companies Act. | SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 & IDR Model Listing Agreement |
| Listing of shares allotted under Section 391-394 of Companies act without issue of capital | - Sections 11 (1) and 11 (2) of the SEBI Act  
- Rule 19(2)(b) of SCR Rule | SEBI Circular dated September 3, 2009 addressed to Stock Exchanges |

Innovations in Capital Raising

• Broadly can be
  – Process Based (Fast Track Issuance, Alternate Book Building)
  – Product Based (new products QIP-NCD & warrants, IDR)
Innovations in FPO

• Fast track Issuance
  – Listed Issuers - 3 yr period
  – Avg Market Cap – `5000 crores
  – Complaint redressal is atleast 95%
  – Compliance with listing agreement – 3 yrs
  – Impact on auditors qualifications- not more than 5% of net profit/loss
  – Issuer to file Offer document with Board for record
Innovations in FPO

• Certain disclosures - not mandatory if
  – Periodical filings of financial results and shareholding pattern & RoC for 3 yrs
  – Investor grievance handling mechanism

• Alternate financial information
  – same class of securities
  – Financial reports available on stock exchange website
  – No change in management
Innovations in FPO

• Introduction of Pure Auction Method/Alternate Book Building
  – QIB bidders - bid at any price above the floor price. bidder – highest price allotted all shares then other bidders till specified securities exhausted.
  – Allotment - price priority basis & at differential prices.
  – Allotment to RII (& employees) & NII at the floor price proportionately
  – This method provides no guidance to investors & less flexibility to investors
  – Does not permit the highest bidder to piggyback on the lowest bidder.
  – Garners more money for the issuer company
• Alternate method used in FPOs of NTPC Ltd and Rural Electrification Corporation Ltd.
• Only an additional method, the innovation has commenced with FPOs
• Too early to make any sweeping generalizations on efficacy
• Depends on quality of issuer company, float, liquidity, market sentiment, whether offer for sale/fresh issue of shares etc.
• More importantly, needs a robust demand for stock and floor price at substantial discount to market price
• More likely to work for high quality issuances where investors would like do their homework before bidding and issuer more likely to get good quality investors
Innovations in Rights Issues

• Documents can be filed under reduced disclosures if
  – Issuer has been filing periodic reports, statement and information as per listing agreement for last 3 years
  – Investor grievance mechanism
Indian Depository Receipts

- India – a Buoyant & Growing economy
- Booming securities market - a great opportunity to be tapped by foreign companies
- Foreign investors’ interested in Indian securities market. e.g.– ADB bond issue
- Concept of IDR introduced by Govt. in 2004 through Companies (Issue of Indian Depository Receipts) Rules, 2004 on February 23, 2004 under Sections 605A and 642 of Companies Act
- An instrument
  - In the form of a depository receipt
  - Created by a Domestic Depository in India
  - Against the underlying equity of issuing company
  - Like ADR/GDR
- Model of Listing Agreement
- Issuers from countries whose securities market regulator are signatory to MMOU of IOSCO- follow simplified listing requirements provided equitable treatment given to IDR holders
- Standard Chartered PLC made the first IDR issue in India
Qualified Institutional Placement

Rationale for introduction

- Concern reg. export of Indian capital
- Indian companies raising money abroad rather than in India
- Need to provide an alternative issuance mode

Main Features

• Issue restricted to QIBs
• Initially eligible instruments - equity shares and convertibles (except warrants), now NCD+ warrants permitted
• Vetting by SEBI not required
QIP – NCD + Warrants

- Listed companies permitted to make a combined offering of Non-Convertible Debentures (NCD) with warrants to Qualified Institutional Buyers (QIB).
- Subscribe combined offering or to individual instruments, where separate books are run for NCD/warrants.
- The company required to obtain relaxation from the applicability of the provisions of Rule 19(2)(b), read with Rule 19(4) of the SC(R)R for listing/trading of the warrants.
- Useful for capital raising in India (akin to domestic FCCB)
- Had given warrants liquidity
Type of Companies Accessing the Market

- Innovation?
- Hair Care (Javed Habib’s)
- Jewelers (Zaveri, Ratanchand Jewelers)
- Fast food (Jubilant),
- Healthcare (Talwarkars),
- Education (Career Point)
- Exchanges (MCX)
Recent Trends- Primary Markets

- Revision of Monetary Limits for Retail Individual Investors

- **Reduction in Timelines** – Time between issue closure and listing reduced to 12 working days from 22 days
  - **Looking towards further reduction to** 07 working days

- **Applications Supported by Blocked Amount (ASBA) Process** - Forms available through Exchange Websites & available to all investors including QIBs
  - **Looking towards** popularizing of ASBA and introduction of Common Application Forms for ASBA and non-ASBA investors

- **Margin Requirements for QIBs** brought on par with other categories of investors i.e. 100%

- **Change in provision for reservation, discount and allotment for employees in Public issues**

- **Steps taken for Convergence of Indian Accounting Standards with IFRS**

- **Enhancing the scope of regulatory framework for issuance of Indian Depository Receipts**
  - **Looking towards** Popularizing of IDR
  - Rights Issues procedure and processes of IDR’s
Recent Trends- Primary Markets

- IPO Norms for Insurance companies
- Amendment to Listing Agreement for better disclosures by listed companies
- Rationalisation of disclosure requirements for Rights Issues.
- **Public Shareholding/ Free Float Public holding for listed companies made at 25%**, Companies not maintaining 25% to reach this level by 3 years, PSU's to maintain public float of 10%
- Role of Merchant Bankers in pricing of issues: Practices in international jurisdictions being looked into
- Review of Corporate Governance provision being looked into
International Innovations

- Types of Pricing Internationally are BB, Fixed Price and Auction
- Auctions - investors bid at a particular price. The issue price is set at a clearing price. Not done in most countries since 1980s
- Some illustrations follow (based on net /publicly available data)
Internet based auctions

- Open IPO Dutch process developed in USA in 1998
- Complaints by retail investors that LM would allocate shares to most important clients first
- First offered in June 1999 in floatation of Salon.com – week demand
Google

• IPO of Google (2004)- Online Auction
  – The company made a filing with Securities and Exchange Commission (SEC, USA)
  – Online auction - Shares more widely available (Dutch Auction for pricing)
  – Morgan Stanley and Credit Suisse First Boston - Lead Underwriters for the deal.
  – Auction process
    • Interested investors needed to have an account with underwriters where they had to get a unique bidder ID and then they had to submit a bid with the number of shares desired and price they are willing to pay
    • Qualified investors also submitted a bid detailing how many shares they wanted and at what price.
• Google's investment bankers then gathered up the bids and entered them into a master order book, which was reviewed by the company's founders and underwriters. If a bid appears unusually large or the share price listed far exceeds the top range, then investors was to be disqualified for creating a speculative bidding environment, according to the filing.

• The highest bids that clear the number of shares being offered in total will receive an allotment of IPO shares. Once the underwriters have determined the stock's opening price, shares will be allocated.
Vonage IPO

- Founded in 2002
- Vonage – customer base of 1.7 mn (2005)
- In May 2006 sold 31.25 mn shares and raised 531 mn
- Customers offered 100 shares at IPO price
- Did not do well
  - Timing not good
  - Impression from market that things were not well & help needed from investors
Company tried to sell its IPO by placing coupons in its six-packs and establishing a toll free number to lure customers.

Boston Beer set aside 990,000 shares for such buyers in its planned offering of 4 million.

Offering at same price as in the IPO.

The six-pack buyers would get the formal prospectus for the offering in the mail before purchasing the stock.
Alternate Public Offering

- Combination – Reverse Merger + Private investment of Public Equity (PIPE).
- Reverse merger - private company becomes public by merging with or being acquired by a public “shell” company. The combined entity - trades under the previously private company’s name
- A PIPE is when a publicly traded company sells its stock to investors in a privately negotiated transaction.
- Stock -sold at a discount to current market value and investors acquire unregistered “restricted” stock.
- PIPE investor - institutional investor (hedge/mutual fund)
- Investment banks - act as “Placement Agent”
- At the closing of an APO, the public shell and private company sign merger documents to complete the reverse merger;
- Close of an APO- same SEC disclosure requirements as for an IPO.
- APO completed in 30 – 45 days