Our Views

Our listing regulations – flexibility required

Last month, as a part of the Atmanirbhar Bharat initiatives, the Hon. Finance Minister had announced that Indian companies will be permitted to directly list internationally without necessarily being listed in India. This has been an ask from the industry for a while. And clearly there is merit in the arguments made in favour of this change – access to a deeper pool of capital abroad, diversification of investors base, significantly better valuation for some sectors, lower currency risk and greater flexibility.

The existing legal framework in India so far did not permit a direct listing of equity shares on foreign stock exchanges by companies incorporated in India. They had to inevitably list in India, and to access the equity capital markets in foreign jurisdictions the only available route was through an ADR or a GDR program. Of course, a beginning was made for raising debt capital directly from abroad through international issuance of Masala bond by Indian companies though Masala bond is denominated in Rupee. However, direct access to equity markets remained unworkable till now - we know that some companies changed their country of jurisdiction to access the foreign equity markets.

The proposed announcement is indeed a very welcome change for corporates with requirements of large equity pool. Several Indian companies are now of globally significant size and scale. They can attract capital from global markets which have deeper pockets to provide large capital funds, and also value the equity according to global standards of scale and performance. There was definitely a need to provide such corporates with flexibility in this regard, and to help them realise their true intrinsic value and raise large capital for future growth.

At the same time, it is important that Indian capital markets continue to grow and develop into top ranking markets globally. It is crucial that we review our own domestic regulatory framework in the same light to provide more flexibility to companies that would like to access the Indian markets. The one area which requires to be addressed immediately is the minimum public offering and shareholding requirement while accessing the Indian capital market. At present, an Indian company desirous of listing on Indian stock exchanges must offer at least 10% of its capital to public if it is above a certain size, and at least upto 25% for smaller companies. And within 3 years from listing, all companies will anyhow have to have a minimum public holding of 25%. I must say, due to the pragmatic approach of the regulators, these provisions have evolved over time along with the markets. Before the advent of SEBI in 1991, the requirement of a minimum public holding was at 60%.

The rationale behind a minimum % of public offering was primarily based on risk of low liquidity if a lesser amount of equity were to be listed. It could have resulted in thin trading which in turn could have led to price manipulation. I think the reasoning for this was very sound. However, there is a need to relook at this provision in the current context. With time, our markets have evolved further, and the size of the corporates have also grown. In case of certain corporates, even 10% of their equity capital could be very very large. This leads to a couple of issues – one, the company may not need so much capital, and second, the market may not be able to absorb such a large offering and it could also impact the valuation of the company.

It is important to resolve this dilemma for corporates as a part of ease of doing business in India and to also make India and Indian companies globally competitive. For large corporates above a certain size, a provision for a minimum amount of the public offering rather than a minimum % of equity as public offering may be considered. The objective of having a strong deterrence for any possible price manipulation can be achieved with this alternative which would be workable for the corporate as well. For a large sized company, just a good quantum of public offering would ensure proper liquidity of the stock in the market and take care of any concern around price manipulations. This will be a huge positive not only for the corporates, but also for Indian markets and Indian investors. If this is addressed, corporates considering listing only abroad may consider a dual listing including in India.

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