

Our Views

SEBI focuses on reducing the timeline for capital raise and make processes more efficient

At the 21st Annual Capital Markets Conference (CAPAM) of FICCI, SEBI Chairperson made two significant suggestions.

The first one was about “time to market”. As someone nicely put it the only thing predictable about the market is its unpredictability. Therefore, time to access the market becomes extremely important.

Our processes for Rights issue, QIPs and Preferential issues have become very efficient. Just that Initial Public Offering (IPOs) are still taking a lot of time though much lesser than what it used to take earlier. Filing for an IPO in India involves submitting a Draft Red Herring Prospectus (DRHP) to SEBI, meeting extensive disclosure requirements. Following this, companies must obtain in-principle approval from stock exchanges and address SEBI's observations. Once these are incorporated, the issuer can file the Red Herring Prospectus (RHP) based on market conditions and feedback. This entire process typically takes 60 to 90 days after the initial DRHP submission. The regulator has made significant strides in reducing the IPO timeline.

In an effort, to further streamline and quicken the process for an IPO, the regulator is planning to follow “demystify DRHP” by creating a template like fill in the blanks which will make the document precise, meaningful and ensure standardization across different DRHPs. This initiative will facilitate the use of technological tools like Artificial Intelligence (AI) to smoothen the processing time, reduce the approval time for listing, become cost-effective and enhance the overall efficiency of the market.

The second initiative announced by the Chairperson was with regard to follow-on fundraising exercise. Once the company is listed the follow-on capital raise can be done by way of Rights issue, QIP or Preferential Allotment. Follow on offering is more sensitive to the time to market as the stock is constantly trading and the price is continuously changing. In view of this situation, pricing of a deal is very dynamic. Timing the offering appropriately is the most important. Though our regulatory framework has improved a lot, there is still room for further improvement.

Many companies prefer raising funds through rights issues or preferential allotments. For FY24, equity issuance via rights issues was ~INR 15,110 crores, while preferential allotments amounted to ~INR 45,100 crores.

To streamline these processes further, the regulator plans to introduce a combined rights issue and preferential allotment product. This innovation requires only a simple two-page document, reducing the end-to-end timeline to 23 days from the current 42 days for preferential allotments. The focus on creating a clear and straightforward framework for follow on capital raise is extremely important for the markets.

In summary, any initiative to improve the efficiency in the market is very welcome!

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