Our Views

Transforming the follow on capital raising process: SEBI's latest thoughtful consultative paper

Recently, SEBI has issued a consultative paper proposing faster rights issue with a flexibility of allotment to selective investors. It is indeed remarkable to see the regulator walking the talk. At the 21st Annual Capital Markets Conference of FICCI, the regulator had indicated to streamline the follow on fundraising exercise for listed entities. This paper, is surely keeping up with the words.

Rights issue, qualified institutional placement, and preferential allotment are some of the means for a listed entity to raise further capital by way of issue of shares. For FY24, equity issuance via rights issue was ~INR 15,110 crores, while preferential allotments amounted to ~INR 45,155 crores. Despite the benefits of rights issue that includes tradability of rights entitlement, proportional treatment for existing shareholders, rights issue has not been a preferred mode of fund raise. Therefore, to make it easier, SEBI has suggested various measures such as significant reduction in the time for completion of a rights issue, removal of requirement of various intermediaries including merchant banker, reduction in the requirement of due diligence and SEBI vetting of the document, and most importantly allowing selective investors' particpation.

The elimination of requirement of Merchant Bankers for the activities undertaken by them such as due diligence and filing of the offer document with the regulator, and permission of allocation to selective investors, now makes a rights issue like a preferential issue.

Some of the measures proposed are truly path breaking and can have very significant impact on the follow on fund raising. First, this will reduce the end to end timeline for rights issue from the current 60-90 days to approximately 20 days. Second, it will enable allocation to a select few investors which is only possible either in QIPs or Preferential issue. Third, with removal of requirements of due diligence, merchant bankers certificate, and filing with the regulators, this will become as easy as Preferential issue.

With these changes, I expect the new methodology to become a new norm for any follow on fund raising exercise by a listed corporate. These reforms highlight SEBI's proactive approach in fostering a dynamic financial market, ultimately benefiting both issuers and investors. In summary, this new construct is a master stroke of SEBI to make the follow on offering much easier, transparent and more democratic. Am sure the market is going to welcome this!

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