

## Corpsec Hotline

July 13, 2007

### GOVERNMENT INFRASTRUCTURE COMPANIES NOW ENJOY RELAXED IPO NORMS

Securities Exchange Board of India ("SEBI") has made certain amendments in the SEBI (Disclosure and Investor Protection) Guidelines, 2000 ("DIP Guidelines"), vide Circular no. SEBI/CFD/DIL/DIP/27/2007/10/7 issued by SEBI dated July 10, 2007 ("Circular"), in respect to the government companies / corporations, statutory authorities / corporations or any special purpose vehicle set by them, engaged in the infrastructure sector ("Government Companies"). The amendment has also defined the term 'infrastructure sector'. Infrastructure sector would, *inter alia*, include transportation, agriculture, water management, telecommunication, industrial, commercial and social development and maintenance, power, petroleum and natural gas, and housing.

The amendments are with respect to determining face value of shares at the time of Initial Public Offering ("IPO"), securities eligible for promoters' contribution, minimum holding for offer for sale and net offer to public.

#### Determining the face value of the shares:

SEBI has relaxed the norms of determining the face value of the shares in an IPO made by a Government Companies. Under the DIP Guidelines, the determination of the face value of the share depends upon the issue price of the share. In case of IPO by an unlisted company, the issuer company shall have the discretion to fix the face value at Rs 10 per share or any price less than that subject to the condition that the face value shall in no case be less than Rs 1 per share. In case the issue price is less than Rs 500, the face value shall be Rs. 10 per share while in case where issue price is more than Rs. 500, the face value can be between Rs. 1 and Rs.10. However, after the said amendment the Government Companies can now freely determine the face value of the shares in an IPO irrespective of the issue price.

#### Securities Eligible for Promoters Contribution:

As per the DIP Guidelines in case of a public issue by unlisted companies, the securities acquired by the promoter during the preceding one year, at a price lower than the price at which the securities are being offer to public are not eligible for the purpose of calculating promoters' contribution. The amendment relaxes the norms for the computation of the promoters' contribution in case of Government Companies. By virtue of the said Circular there has been an amendment with respect to the securities ineligible for computation of promoter's contribution. In the event that promoters of an unlisted Government Companies, have acquired securities during the preceding one year of the IPO at a price lower than that which is offered to the public, than such securities acquired by the promoters shall also be considered as a part of the promoters contribution.

#### Offer for Sale

According to the DIP Guidelines for offering securities to the public through offer for sale, there is requirement of minimum holding period of at least one year of such securities at the time of filing the draft offer document with SEBI. SEBI has relaxed the norms of minimum holding requirement for the Government Companies. The minimum holding requirement of the pre issue capital of one year shall not apply to an offer for sale of equity shares of an unlisted Government Companies.

#### Net Offer to the Public:

According to DIP Guidelines, in case of public issues, the net offer to public has to be at least 10% or 25% as the case may be, of the post capital for an unlisted company and of the issue size for a listed company. SEBI has relaxed the said norm of minimum net offer to public in case of a public issue by Government Companies. The net offer to public of a minimum of 10% or 25% as the case may be of the post issue capital is inapplicable to the Government Companies.

#### Implications:

The relaxed norms will give a fillip to the government companies / corporations, statutory authorities / corporations or any special purpose vehicle set by them, engaged in the infrastructure sector. This is will help such companies to be eligible for the public issue requirements under the DIP Guidelines and make the best of the growing India economy by raising funds in the Indian primary market through IPOs.

Sources: Circular no. SEBI/CFD/DIL/DIP/27/2007/10/7 issued by SEBI dated July 10, 2007

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You can direct your queries or comments to the authors

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