SEBI relaxes norms for raising fresh capital by stressed companies

Policymakers and financial market regulators in India have taken a series of measures in the last three months to ease liquidity condition of small and large companies and prevent financially stressed companies from being pushed to bankruptcy.

Many listed companies have defaulted on their bank loans or debt instruments because of financial stress and these companies need fresh equity capital to strengthen their financial condition. On June 23, 2020, capital market regulator SEBI relaxed norms to improve ease of raising fresh equity capital by listed companies that defaulted on their loans or on their debt securities.

Listed companies that defaulted on their debt obligations can raise fresh equity capital through preferential allotment of shares to new investors. However, the pricing methodology, as prescribed by SEBI, for raising such fresh equity capital was not attractive for new investors to invest in stressed companies. Under the SEBI (ICDR) Regulations, 2018, the pricing of such preferential share was determined based on a formula that takes into account market price of the share in the preceding twenty-six weeks.

Therefore, in order to enable fresh investment in stressed companies attractive for new investors, SEBI relaxed this norm by introducing a new formula that covers market price in the preceding two weeks instead of twenty-six weeks.

This relaxed norm is applicable for stressed companies that satisfy any two of the following three conditions:

1. Companies that have defaulted on loans from banks or financial institutions or if they have defaulted repayment of their debt securities for a period of at least 90 days.

2. Banks and non bank lenders to such stressed companies should have signed inter-credit agreement for resolution of the debt default

3. The credit rating of the bonds or the loan facility of such listed companies should be downgraded to “D”.

SEBI also prescribed other eligibility conditions for the applicability of this relaxed pricing norms to ensure that promoters do not abuse this relaxed norms.

In another move to improve ease of raising fresh capital, the market regulator exempted such allottees of preferential shares from making an open offer. Under the existing SEBI norms, investors in the preferential allotment need to make a mandatory open offer if the acquisition is beyond the prescribed threshold or if the open offer is warranted due to change in control, in terms of Takeover Regulations. It is expected that these two measures will facilitate financially stressed listed companies to raise fresh equity capital and thereby prevent their insolvency.

Notifications

Press Information Bureau, Government of India

Minister interacts with service exporters

https://pib.gov.in/PressReleasePage.aspx?PRID=1633729

Mandatory information on country of origin on GeM

https://pib.gov.in/PressReleasePage.aspx?PRID=1633511

Emergency credit line scheme for MSMEs crosses Rs. 79,000 crore

https://pib.gov.in/PressReleasePage.aspx?PRID=1633595

Improvement in economic indicators

https://pib.gov.in/PressReleasePage.aspx?PRID=1633531

Paperless customs procedure for exports

https://pib.gov.in/PressReleasePage.aspx?PRID=1633525

Daily Bulletin on COVID 19

https://pib.gov.in/PressReleasePage.aspx?PRID=1633703

CBIC

WTO committed in-quota tariffs on specified items

https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-tarr2020/cs28-2020.pdf;jsessionid=B32747C62E08EA91B8EC6EBA41E94DAD

Anti-dumping duty on certain metal products

https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-add2020/csadd16-2020.pdf;jsessionid=CEA22E8C3C4915F3A49BE2BC709ACD31