government, it was driven by the Planning Commission and the Prime Minister’s Office, and overseen by Rahul Gandhi’s team in the Congress party.

**Sebi throws a lifeline to primary market**

Top PSUs like Coal India, NMDC, MMTC and Hindustan Copper, which had recently achieved the earlier limit, will now have to issue more stakes to the public to comply with the new norms. According to estimates, the government will have to dilute ₹60,000 crore worth of its stake in 36 PSUs.

Market players said the move would help attract new investors to the equity market.

“Government issuances are always welcomed by investors. This will also help bring back retail investors in a big way. Both in terms of volume and quality of issuances, I see this as a big positive for the market,” said Kotak Investment Banking Executive Director Gesu Kaushal.

In a move that will encourage more companies to launch initial public offerings (IPOs), Sebi relaxed the minimum dilution criteria for smaller companies. Against the earlier norms, unlisted companies with valuations of less than ₹4,000 crore to sell a minimum of 25 per cent stake in IPOs, the regulator introduced a new threshold of ₹400 crore.

Going ahead, a company will have to diversify at least ₹400 crore or 25 per cent, whichever is lower, through an IPO.

The regulator also doubled the portion meant for anchor investors in IPOs — the limit for these investors has been increased from 15 per cent to 30 per cent of the issue size. The shares, however, will be given from the institutional investor bucket, which is 50 per cent of the overall IPO size.

Anchor Investors are those institutions that invest in IPOs days before opening dates and whose investments are locked in for a period of 30 days from the date of allotment. By committing capital to an IPO even before the opening of the issue, these investors send a positive signal to others.

“The proposed changes in the IPO norms are welcome. The anchor-investor limit increase will result in a larger book available for the anchor investors and will also lead to a greater certainty for the issuer in terms of issue closure,” said Motilal Oswal Investment Banking Managing Director Girish Nadkarni.

The Indian IPO market is going through one of its worst lulls. In 2013-14, only one company — JustDial — came out with an IPO on the main bourse.

Sebi also approved a major overhaul of the offer-for-sale (OFS) route for secondary market share sale. The regulator allowed the top-200 companies by market capitalisation and non-promoter entities holding more than 10 per cent stakes to dilute their holdings through this route. Further, for the first time, Sebi made it compulsory for companies to reserve 10 per cent shares in the OFS for retail investors and paved the way for offering discounts to smaller investors, similar to IPOs.

Experts believe the relaxation of OFS norms will help boost equity issuances in the country but say the non-promoter cut-off should have been lower. “The OFS route being expanded to non-promoters and to top-200 companies is a positive move. However, the cut-off of 10 per cent holding of non-promoter sellers would restrict this option to very few investors,” said Sanjay Sharma, MD & head of equity capital markets at Deutsche Equities.

Sebi provided more flexibility to India Inc in rewarding their staff by again allowing companies to issue employee stock ownership plans (ESOPs) through secondary-market purchases. The move is aimed at helping promoters issue stock options without having to dilute their holdings. The regulator, however, has put in place strict covenants to curb manipulation.

In another significant change, the regulator wants the pricing of shares for preferential issues and qualified institutional placements (QIPs) to be based on ‘volume-weighted average price’ (VWAP), instead of closing prices. Market participants say closing prices of shares might not be the best representative price at which shares could be transferred for it to be used as a benchmark in the pricing formula. VWAP is seen as better metric as it eliminates the outlier effects and is a more accurate determinant of price at which transactions took place.