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Analysing developments impacting business

LISTED DEBT INSTRUMENTS - REDUCTION IN DENOMINATION PERMITTED

16 July 2024

At its board meeting dated April 30, 2024, the Securities and Exchange Board of India (SEBI) made several amendments to various SEBI regulations. The most significant change was the approval of a reduction in the face value of privately placed debt securities and non-convertible redeemable preference shares to INR 10,000. In its bid to augment market liquidity and diversify the investor base, the SEBI, by way of its circular dated 3 July 2024 (Circular) has amended Chapter V of the Master Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated 22 May 2024 (NCS Master Circular) and, amongst others, reduced the face value denomination of debt securities and non-convertible redeemable preference shares (NCRPS) from INR 1,00,000 to INR 10,000. This move is targeted at making debt securities and NCRPS more accessible to non-institutional investors (NIIs).

Applicability of the Circular

The Circular will be applicable from the date of its issuance (i.e., 3 July 2024) to all debt securities and NCRPs issued on a private placement basis and proposed to be listed.

Impact Analysis of the Circular

Following is a tabular representation of the key amendments to the NCS Master Circular and their impact analysis:

Sr. No.	Particulars	Amendment	Impact
1.	Face value reduction	Issuers can now issue debt securities and NCRPS with a face value of INR 10,000	Lower denomination of securities will make it more affordable for NIIs to participate in the corporate bond market. This will result in larger investor pool and enhanced liquidity in the market.
2.	Merchant banker appointment	At least one merchant banker to be appointed by the issuer	Merchant banker's role and responsibility will be same as in case of a public issue. This will ensure professional management and will boost investor confidence and the overall credibility of the market.
3.	Diversification of credit enhancements	Some of the forms of credit enhancement permitted are guaranteed bonds, partially guaranteed	Such credit enhancements have the potential of making the debt securities and NCRPS more attractive by reducing investor risk.

		bonds, and standby letters of credit	This will in turn add a democratic attribute to the debt market.
4.	Verification by Credit Rating Agencies (CRAs)	Unconditional, irrevocable, and legally enforceable nature of credit support to be verified by CRAs.	This aims to bring credibility to the credit enhancement provided in support of the security.

Comment

The amendment aims to broad base investor pool in the corporate bond market. With this amendment SEBI anticipates enhanced liquidity and efficient price discovery. From issuers perspective, this move has a potential of reducing their cost for raising capital. This may result in higher due diligence requirements due to the compulsory appointment of merchant banker by the issuers, however, it will ensure better disclosures and more efficient due diligence exercises. Although the adaptation to the new amendments may lead to additional compliance, all in all, these amendments can possibly bolster inclusivity and liquidity in the market. One of the crucial elements for successful implementation is investors' education of the risks and rewards associated with investing in lower denominated debt securities.

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