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Sebi bring in price bands to check fluctuations on IPO listing day

Rajiv Bhuva January 23, 2012

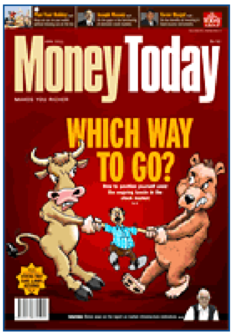
Exactly fifteen years ago, capital market regulator **Securities and Exchange Board of India**, or Sebi, prescribed no price bands for scrips on the first day of trading pursuant to Initial Public Offering, or IPO.

But that would no more be the case, with the latest Sebi circular around trade controls in normal trading session for IPO and other category of scrips. The other category includes re-listed scrips for which there were no price bands on the first day of re-commencement of trading, **effective from September 2, 2010**.

"In light of high volatility and price movement observed on the first day of trading, it has been decided to put in place a framework of trade controls," Sebi said recently in a press statement.

However, the motivation for the **move comes from Sebi's own orders**, all dated December 28, 2011, against seven companies in matter of their IPOs.

Sebi barred Bhartiya Global Infomedia, Tijaria Polypipes, Taksheel Solutions, RDB Rasayans, Onelife Capital Advisors, Brooks Laboratories and PG Electroplast from raising money from the public, citing that they **failed to make full disclosures** and misused IPO proceeds. That apart, Sebi also stopped three investment banks from managing IPOs for failing to check facts.



According to the order, stock exchanges would set price bands to help curtail sharp fluctuation in stocks on their trading debut following IPOs. Investors will be allowed to bid for the shares in the first hour before regular trading in the stocks is allowed, called the Call Auction in Pre-open session mechanism.

Viewed as part of Sebi's larger focus to raise corporate governance standards, the rules could boost the fading confidence of investors who feel being preyed to manipulation.

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"Most of the companies that came up with IPO in 2011 had absolutely amazing financials, which are just too good to be true," Sageraj Bariya, managing partner, Equitorials, a Mumbai-based equity research firm, wrote in a note dated October 31, 2011. Of the seven companies that the note captured, six were under Sebi's net.

"We believe that in almost all cases, these numbers are fudged and companies have resorted to various window dressing techniques to show a healthy financial position, to get a valuation from the market and subsequently burn investors' cash," Bariya wrote further.

"Clearly these are signs that issues are well managed by operators." Bariya added citing that a look at stock performance post listing showed huge volatility in stock prices, indicating hectic activity undertaken for speedy exists.

But the new norms now brought to replace the 15-year-old 'free market' philosophy could possibly keep stock price manipulators at bay. And for those who would still not abstain, be wary that Sebi is more vigilant than before.

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