

# Broadening the Capital Market



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Both CCI and SEBI deserve full kudos for deepening and broadening the Capital Market; and strengthening the Stock Exchanges – all for the development of the sources of long-term funds.

Some of the measures taken deserve recognition. Under Padma Bhushan, Mr. D R Mehta, (IAS Retired), CCI & then SEBI started liberalization. Successive Chairman took more measures.

- (A) the rigidity of having at least 60% shares held by the public was reduced to 40%, and this 40% public shareholding the latter could even be achieved in 2 stages of 20% each
- (B) Subsequently, for large infrastructure companies, even the minimum 40% was reduced to 10% public shareholding as the threshold for listing.
- (C) Pvt. companies having debentures were allowed to list debt instruments – thus, their annual data are available to many potential investors as Annual Reports have to be placed on Websites. More importantly, in due course, the promoters will master the discipline of the Stock Exchange and be incentivized to turn public and issue new shares for growth.
- (D) Social stock exchanges are another unique feature and avenue for funds
- (E) REITS & INVITS are a very promising innovation whereby Shareholding Trusts have been allowed to raise investible resources from the public.
- (F) Then came the concept of a separate Board for SME companies complying with at least 3 years profit criteria with liberalization in other criteria.

All very progressive steps which lead to greater flow of companies coming to the Market for raising debt or equity funds and hence faster growth of the economy.

It is time to develop other categories of investment vehicles to raise capital and invest for growth in businesses.

The Limited Liability Partnership Act has stimulated growth of new activity in services, trading, manufacturing, healthcare etc., by registered LLPs.

If these are allowed to be listed on the Stock Exchange, their business can grow rapidly and attract both debt and equity capital; business capacity can grow, contributing to higher employment.

For attracting outside equity in LLP some changes will be needed. These changes will evolve even more by a panel discussion if concept is accepted. Stock Exchanges could have liberal rules made as in the SME companies, e.g. to allow the LLP even to start with a 25% share offering to the public. If it is in infrastructure, 10% of capital issue to public rule could apply here also as in the main Board, if it is a large LLP.

As far as the non-Public shares are concerned in the 75% lot, they may be required to offer to sell to other promoters first in a time frame, and only thereafter to outsiders.

A framework will have to be developed for share capital for board management, for meetings for Accounts etc. once the basic proposal is accepted.

Currently, IT Act gives exemption to any Partnership Firm converting to a Pvt.Ltd.Co. from capital gains tax but on condition that the Promoters Group must continue to hold 51% of the share capital for a period of five years and all assets & liabilities be transferred to the company. In case of LLP converting to company, it needs a court process. But the biggest deterrent is the high stamp duty of 8% and above that have to be paid when a firm is converted to a company. This too is based on market value of assets and is a concurrent subject. Hence change across 27 states will be difficult.

Hence, we suggest that allow the LLP to raise capital and debentures on the stock exchange directly as it is an incorporated body. It will open up another growth investment avenue as well as a source of capital for growth.

Many procedural changes will be required.

LLPs are already playing a fast-developing role in economic growth and should be encouraged to do so by raising capital.