

Framework for **Price Discovery** of Shares of listed Investment Companies & listed Investment Holding Companies

Consultation Paper

APRIL 26, 2024

Background Behind this Consultation Paper



Magnitude of the issue- Investment & Holding Companies



Issue



Reason



Consequences



Solution

1

Non-reflection of **Fair Market Price** as compared to the Bok Value

2

Many buyers **but no seller** since **Mkt Price too low**

3

There are **no transactions** of buying and selling and thus **Fair price not reflected**

4

SEBI come up with guidelines for **Fair price discovery**

Listed Investment Companies ("IC") & Investment Holding Companies ("IHC")

1

Total Investment & Holding Co.



70

2

Co. with 25% or more invested
in listed shares

28

3

Co. having Mkt Value lower
than Book Value

16

**Market Value means 6 Month VWAP*

Source: SEBI Consultation Paper



Corporate Professionals Analysis- **Listed Investment Companies**

Name of company	Book Value (per share)	6 Months VWAP (per share)	% of Book Value to VWAP	Promoter Holding	Business Turnover (in Cr.)	Profit After Tax (In Cr.)	Annual Trading Volume (%)
Elcid Investments Ltd.	3,89,653.10	3.37	1,15,62,306 %	75.00 %	109.00	73.00	1.5%
V B Industries Ltd	72.54	7.37	884.26 %	Nil	0.41	0.11	6.61%
Amrapali Fincap Ltd	110.69	12.72	770.20 %	NIL	116.00	1.00	0.009%
Kalyani Investment Company Ltd	12,990.82	3,775.45	244.09 %	74.97 %	56.00	58.00	3.49%
JSW Holdings Ltd	17,115.45	5,361.28	219.24 %	66.29 %	407.00	332.00	9.77%

**Book Value, PAT, Turnover has been calculated as on Mar 31, 2023. Annual Trading Vol has been reckoned for the period Apr 01 2023 to Mar 31 2024.*

Source: BSE & Capital Line





SEBI Consultation Paper
for Price Discovery of Shares of Listed
Investment Companies ("IC")
&
Investment Holding Companies ("IHC")

Background

01

ICs or IHCs are getting traded **infrequently**

02

Price is significantly **lower** than Book Value

03

No day-to-day **operations** in these companies

04

The variation between market price and book value **adversely affecting** the:

1. Liquidity
2. Fair price discovery
3. Interest of the investors of IC and IHC

Existing Provisions

SEBI has established various mechanisms to ensure fair and transparent price discovery and liquidity, including

Price bands:

Differential price bands of 5%, 10% and 20% to reduce volatility.

Call Auction:

Call auction session for IPO and relisted companies

Periodic Call Auction:

Periodic call auction for illiquid shares

Consultation and Deliberation

Discount to Standalone book value considering all investments

Total Assets of company invested in shares of other listed companies (A)	Total no. of Companies (B)	No. of companies with 6 Month VWAP at discount to their book value (C)	Out of (C), VWAP as discount to Book Value (in %) (D)		
			>25%	>50%	>75%
25% and above	28	16	15	10	3
50% and above	25	15	14	10	3
70% and above	16	11	11	9	3
90% and above	7	5	5	4	1



Existing and Proposed Changes-

1. Price Discovery Mechanisms

Existing

Differential **Price Bands** of 5%, 10% and 20% to reduce volatility

Proposed

Introduction of a **Special Call-Auction** mechanism **without price bands** for ICs and IHCs

Existing and Proposed Changes-

2. Trading Sessions

Existing

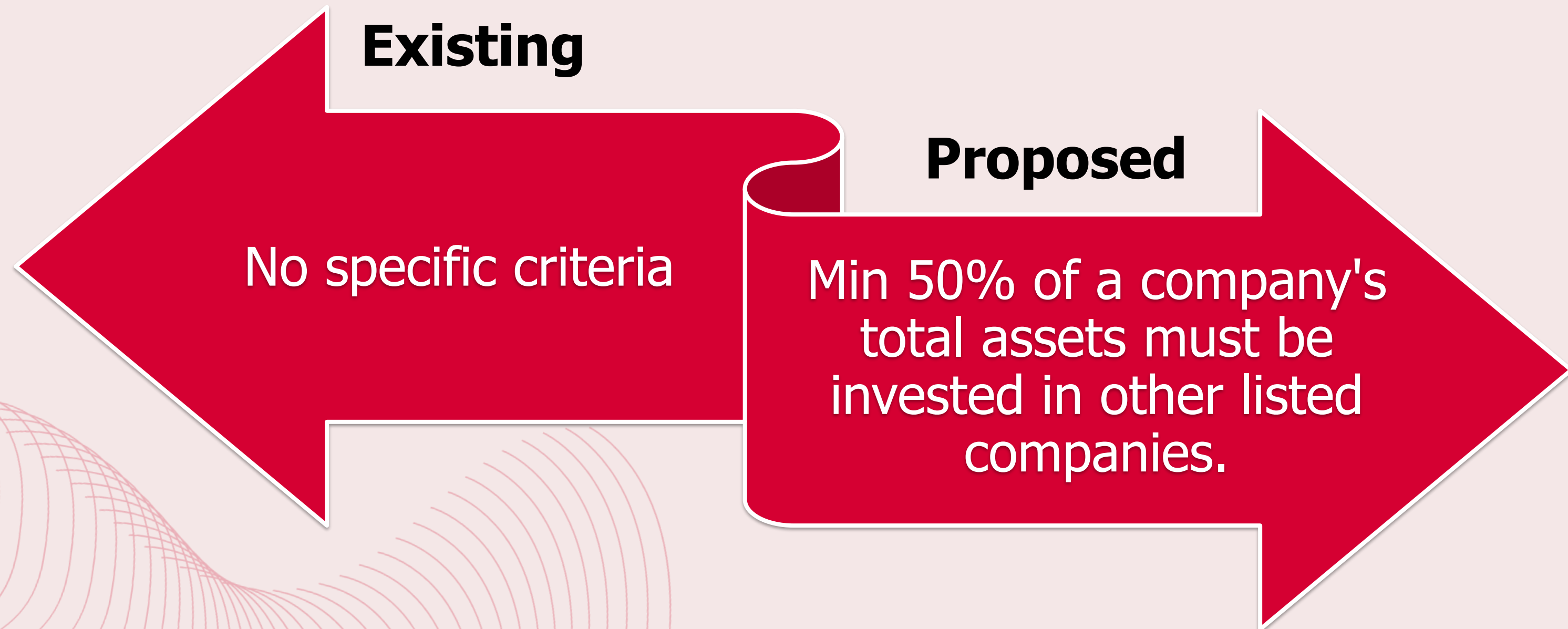
Call-auction sessions are used at specific times for price stabilization.

Proposed

Special call-auction for eligible ICs and IHCs once a year.

Existing and Proposed Changes-

3. Asset Investment Criteria



Existing and Proposed Changes-

4. Price Movement and Volatility

Existing

Price bands & other surveillance measures manage extreme price movements.

Proposed

No price bands during the special call-auction to allow a true market-driven discovery of share prices.

Existing and Proposed Changes-

5. Transparency and Disclosure

Existing

Regular financial disclosures and significant transaction disclosures required.

Proposed

Enhanced pre-auction disclosures including detailed financials, investment details, and trading data.

Existing and Proposed Changes-

6. Participation Requirements

Existing

General trading open to all market participants without specific entry requirements.

Proposed

Special call-auction to require participation from at least 5 unique buyers & sellers to validate price discovery.

Suggested Eligibility Criteria for Special Call-Auction

1

Industry Classification:
ICs or IHCs on
Stock Exchanges

2

- **Scrip Listed & Traded:** More than 1 year
- **LODR Compliant** (incl. Audited Financial Results)

3

Min 50% of a company's total assets:
Invested in other listed companies.

4

6-month VWAP:
Less than 50% of the book value

Proposed Process and Implementation

The stock exchanges will begin a special call-auction process for certain identified companies, following these guidelines:



Exchanges to publish detailed information, such as book value, investments in other listed companies, and last traded price, on their websites & **notify investors 7 days in advance**.

The auction is **deemed successful** if at least **5 unique buyers and sellers** participate, based on their PAN.

If unsuccessful on the **first day**, the auction will **continue daily** until a new price is determined.

The auction's **format & risk management** will align with those **used for IPOs and relisted shares**.





THANK YOU!

