

# Rating agencies to zoom in on IPO funds' end-use

Regulators are set to tighten oversight on how companies use money raised from IPOs. Rating agencies will soon be able to directly inform stock exchanges about companies meeting end-use norms. This move aims to prevent fund diversion. The process for monitoring issues above Rs 100 crore is also being strengthened. This will bring more transparency to corporate fundraising activities.

MUMBAI: Monitoring the end-use of IPO proceeds is set to become more stringent, with the regulator likely to allow rating agencies to directly update stock exchanges with data on compliance with end-use norms by the companies.

Currently, Sebi mandates equity issuers to appoint a credit rating agency to monitor most equity issues, excluding offer-for-sale where the company does not get any money. The CRA tracks the end-use of IPO proceeds, files quarterly reports in a prescribed format until full utilisation, and places them before the audit committee.

"There is now a proposal to strengthen the monitoring process by giving rating agencies access to the stock exchange to update the end-use report," said Manu Sehgal, CEO, [Brickworks Ratings](#). He added that there is also a move to make the objects of the issue standardised and structured for better monitoring.

Monitoring for issues above Rs 100 crore originates in the ICDR (issue of capital and disclosure requirements) framework. Sebi's Jan 14, 2022 amendment made CRAs the sole monitoring agencies; later 2022 proposals widened the coverage to preferential and QIP issues.

According to Sehgal, the end-use monitoring requirement has resulted in better behaviour among issuers. In the past, bull runs in the markets have seen issuers take advantage of strong equity conditions to raise funds that were subsequently diverted for other purposes.

Fresh equity issuances and the surge in corporates tapping the debt markets have opened new avenues for rating agencies. [Brickworks Ratings](#), which came under a Sebi ban from rating activities, repositioned itself last year after a complete restructuring and a change in its board and top management.

## Risk Of Diversion

➤ Monitoring of IPO proceeds is may get more stringent as **Sebi might allow credit rating agencies to update end-use compliance data on stock exchanges**



➤ Currently, agencies report quarterly on use of IPO proceeds until full utilisation and present them before the audit committee

➤ The proposal comes amid a surge in the IPO market, to ensure funds raised are not diverted for other purposes