SEBI tweaks eligibility norms, paves way for fintech firms to set up AMCs

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The Securities and Exchange Board of India (Sebi) on Wednesday paved the way for fintech companies and other start-ups to set up asset management companies (AMCs) by tweaking the eligibility criteria. The market regulator also tightened the shareholding norms for companies relisting after undergoing the corporate insolvency resolution process (CIRP) to ensure fair price discovery.

Sebi said an entity would be allowed to sponsor a mutual fund even if it didn’t fulfil the profitability requirement. However, the entity would need to have a net worth of Rs 100 crore. At present, MF sponsors need to have a profitability track record and are required to maintain a net worth of Rs 50 crore.

Industry players said the move would encourage new-age fintech firms like Paytm, PhonePe, and MobiKwik to set up mutual fund units.

“A lot of fintech firms are far from turning profitable. Balancing the risks, Sebi is saying you bring double the net worth,” said Dhirendra Kumar, CEO, Value Research.

Sebi said the stricter net worth creteria could be eased after the AMC made profits for five straight years.

“The amendment to the eligibilty criteria for sponsoring a mutual fund is a positive for upcoming entrants like fintech platforms looking to launch a fund,” added Kaustubh Belapurkar, director (fund research), Morningstar Investment Advisers.

A lot of fintech firms have expressed their intention to foray into the domestic mutual fund space, which has seen its asset growth swell from Rs.10 trillion in 2014 to Rs.30 trillion at the end of last month. At present, the industry has more than 40 players, but the bulk of the assets are concentrated with the top five players. Also, despite the high growth, a lot of foreign players have exited the business.

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"While Sebi has been tightening the MF regulations, it realises that more players need to be encouraged to set up AMCs to ensure growth. Already, we have seen many foreign sponsors exit. The new eligibility criteria could encourage new-age, tech-oriented firms to enter the MF fray," said Joydeep Sen, consultant with PhillipCapital fixed income desk.

Meanwhile, Sebi has said companies relisting after the CIRP will need to have at least 5 per cent public shareholding, which will need to be enhanced to 10 per cent within 12 months and 25 per cent within three years.

The decision to tweak the free float norms for CIRP companies stems from the sharp spurt in shares of Ruchi Soya Industries. The company's shares had surged more than 450 times after it got relisted following the acquisition by Pantanjali Ayurved under the CIRP. The surge on the ultra-low free float of less than a per cent had sparked a debate whether Sebi and the stock exchanges should revisit rules to ensure fair price discovery.

Other decisions taken by the Sebi board at a meeting held on Wednesday included the removal of minimum promoters' contribution and lock-in norms for companies raising additional capital and changes to fee structure of investment advisers and relaxations to rules governing investment committees of alternative investment funds (AIF).

The move to do away with the need to bring in the minimum 20 per cent promoter contribution for companies launching further public offers will open up this route for fundraising, said legal experts.

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