

5. NSC/KVP (Demat form)
6. Insurance Policies

#### ◆ Key Features

- Secured loan → shares/bonds/MFs pledged.
- Tenure: ~1 year.
- Interest: ~12%-15% p.a..
- Processing Fee: ~2%.
- Loan Amt: ~50% for equity shares.
- No prepayment charges.

#### ◆ Illustration

- Zen Ltd pledges shares worth ₹10L of Ten Ltd.
- Pledge created via **Depository** → funds disbursed by bank.
- At end of 1 year → Zen Ltd repays principal + interest → shares released.

### ★ LOAN AGAINST PROPERTIES (LAP)

#### ◆ Concept

- Loan against **residential/commercial/self-occupied/rented** property.
- Loan amt = % of **property valuation** (post margin).

#### ◆ Usage

- Personal, business, or consumption purposes.

#### ◆ Key Features

- **Eligible properties:** owned land, house, rented properties, commercial use.
- Loan amt = **50%-65%** of property value.
- **Repayment:** 10-15 yrs.
- **Interest:** competitive.
- **Mortgage creation** required in favor of bank.

## CH-8 RAISING OF FUNDS FROM EQUITY AND PROCEDURAL ASPECTS – PUBLIC FUNDING

### Regulatory Framework

- SEBI Act, 1992
- SEBI (ICDR) Regulations, 2018
- Securities Contracts (Regulations) Rules, 1957

### Introduction

- Securities market must evolve with **economic & technological changes**.
- SEBI aims to streamline public issue fund-raising processes.
- **ICDR Regulations, 2018** enhance capital market development & investor protection.
- **Public Issue Management:** Coordination of multiple agencies (e.g., managers, underwriters, legal advisors, SEBI, RBI).
- **Pre-issue activities:** Planning of capital issue till subscription list opening.
- **Post-issue activities:** After subscription list opening.

### Background

- **Capital Issues (Control) Act, 1947** repealed.
- SEBI regulates issuance of securities since **1992**.
- **SEBI Guidelines 1992** → **SEBI (DIP) Guidelines 2000** → **SEBI (ICDR) Regulations 2009** → **SEBI (ICDR) Regulations 2018**.
- **ICDR Committee (2017)** suggested policy changes to simplify regulations & reflect global best practices.
- SEBI replaced **ICDR 2009** with **ICDR 2018** (effective from 60th day after publication).

### ICDR Regulations, 2018

1. **Chapter I:** Preliminary (Definitions)
2. **Chapter II:** IPO (Main Board)
3. **Chapter III:** Rights Issue
4. **Chapter IV:** Further Public Offer
5. **Chapter V:** Preferential Issue
6. **Chapter VI:** Qualified Institutions Placement

7. **Chapter VII:** IPO of Indian Depository Receipts (IDRs)
8. **Chapter VIII:** Rights Issue of IDR
9. **Chapter IX:** IPO by Small & Medium Enterprises (SME)
10. **Chapter X:** Innovators Growth Platform (IGP)
11. **Chapter X-A:** Social Stock Exchange
12. **Chapter XI:** Bonus Issue
13. **Chapter XII:** Miscellaneous

### Classification of Securities Market

- **Primary Market:** IPOs, FPOs, Rights Issues, Buyback, Offer for Sale, Mutual Funds (Open-ended), Secured Debt Instruments, REITs, Debt Securities.
- **Secondary Market:** Equity, Derivatives, Currency, Interest Rate Derivatives, Debt (Corporate Bonds, Government Securities), Mutual Funds (Closed-ended).

### Types of Issues in Primary Market

1. **IPO (Initial Public Offer):**
  - Offer of securities by **unlisted issuer** to the **public**.
  - Can include **fresh issue** or **Offer for Sale (OFS)**.
2. **FPO (Further Public Offer):**
  - Offer by a **listed issuer** to the **public**.
3. **Rights Issue:**
  - Offer of securities to **existing shareholders** only.
4. **Preferential Issue:**
  - Issue of securities to **select group of persons** under Chapter V of SEBI (ICDR) 2018.
  - Includes pricing, disclosures, lock-in requirements.
5. **QIP (Qualified Institutions Placement):**
  - Issue of securities to **Qualified Institutional Buyers (QIBs)** under Chapter VI of SEBI (ICDR) 2018.
  - Relaxed compliance compared to **Preferential Issue**.

### IPO / FPO

- **IPO:** Unlisted issuer → Public.
- **FPO:** Listed issuer → Public.
- Conditions:
  - **Draft Offer Document** → **Registrar of Companies**.
  - Compliance with **SEBI ICDR Regulations** at both draft & final offer document stages.

### Eligibility Requirements for IPO under SEBI (ICDR) Regulations, 2018

#### Entities Not Eligible for IPO [Regulation 5]

- **Issuer/Promoter/Director** debarred from capital market by SEBI.
- **Promoter/Director** of debarred company.
- **Willful defaulter** or **fraudulent borrower**.
- **Fugitive offender**.
- **Outstanding convertible securities** or rights to equity shares (except **employee stock options** and **fully paid-up convertible securities**).

#### Eligibility for IPO [Regulation 6(1)]

- **Net tangible assets:** At least ₹3 crore for last 3 years, 50% max in **monetary assets**.
  - If >50% in monetary assets, must be committed to business/project.
  - No limit for **Offer for Sale (OFS)** IPOs.
- **Average operating profit:** ₹15 crore in last 3 years.
- **Net worth:** ₹1 crore in each of last 3 years.
- **Name change:** If changed within 1 year, at least 50% revenue from new activity.

#### If Eligibility Conditions Not Met [Regulation 6(2)]

- Can still make an IPO if:
  - **Book building process** used.
  - **75%** of the net offer must be allotted to **Qualified Institutional Buyers (QIBs)**.
  - If QIBs don't subscribe to 75%, **full subscription money refunded**.

### General Conditions [Regulation 7]

- **Stock Exchange:** Application for listing & Designated Exchange.

- **Depository Agreement:** For **dematerialization** of securities.
- **Promoter securities:** Must be in **dematerialized form** before filing.
- **Partly paid-up shares:** Must be fully paid-up or forfeited.
- **Convertible securities:** Must be converted into equity shares.
- **Finance arrangement:** Must secure **75% finance** for specific project, excluding public issue proceeds.
  - **General corporate purposes:** Max 25% of raised funds.
  - **Unidentified acquisitions:** Max 35% of raised funds (only if disclosed).
  - **Project:** Defined as the purpose for which funds are raised.

#### Partnership Firms / LLP

- If issuer was a **partnership/LLP**:
  - Must comply with **Companies Act, 2013** format.
  - Financials certified by a **Chartered Accountant**.

#### Spinning off a Division

- **Track record of profits:** Only if financial statements meet the **partnership/LLP** requirements.

#### Additional Conditions for Offer for Sale (OFS) [Regulation 8]

##### Applicability:

- **Shares** must be fully paid-up.
- **Holding period:** Seller must hold shares for at least **one year** before filing draft offer document.
  - Holding period of **convertible securities** (including depository receipts) is considered.
  - For equity shares received on conversion/exchange, the **conversion/exchange** should be completed before filing the offer document (Red Herring Prospectus or Prospectus).
- Full disclosures required about terms of conversion/exchange in the draft offer document.

##### Non-Applicability (Exemptions):

- **Government company**, statutory authority, corporation, or **special purpose vehicle** controlled by them in the **infrastructure sector**.
- **Equity shares** acquired under a scheme approved by **High Court, tribunal, or Central Government** (Sections 230-234 of Companies Act, 2013) in exchange for business/investment capital held for **over 1 year**.
- **Bonus issue:**
  - Issued **out of free reserves/share premium** from financial year ending before filing the draft offer document.
  - **Not from revaluation reserves/unrealized profits.**

#### Additional Conditions for Offer for Sale through QIB Route (Option II)

- **Shareholding limits:**
  - **>20% pre-issue** shareholding: Max 50% of their pre-issue shareholding can be offered for sale.
  - **<20% pre-issue** shareholding: Max 10% of pre-issue shareholding can be offered for sale.
- **Lock-in provision:** Applicable to shareholders holding **>20% pre-issue** shareholding.

#### Issue of Warrants [Regulation 13]

##### Eligibility for Issuing Warrants:

- **Tenure:** Warrants can have a maximum tenure of **18 months** from allotment date.
- **Warrants attached:** A specified security can have **multiple** warrants attached.
- **Exercise Price:**
  - Price formula must be determined **upfront** and disclosed in the offer document.
  - **25% upfront** of the exercise price must be received at the time of allotment.
  - If exercise price is based on a formula, **25% of the cap price** (based on the price band of linked equity

shares or convertible securities) must be received upfront.

- **Non-exercise of Warrants:** If the warrant holder doesn't exercise the option within **3 months** of payment, the consideration amount for the warrants will be **forfeited** by the issuer.

##### Eligibility for FPO

- **Entities not eligible:**
  - Debarred by **SEBI**
  - **Willful defaulter/fraudulent borrower**
  - **Fugitive economic offender**
- **Exceptions:** Debarment period over by the time of filing draft offer document

##### Eligibility Requirements for FPO

- If name changed in last year: **50% revenue** from new activity
- If condition not met:
  - FPO via **book-building process**
  - **75% net offer to QIBs**
  - Full refund if **75%** to **QIBs** not allotted

##### General Conditions for FPO

- Apply for **listing** on recognized stock exchange
- Agreement with **depository** for **demat** securities
- **Partly paid-up equity shares** must be **fully paid-up** or forfeited
- **Firm arrangements** for **75% finance** (excluding public issue and internal accruals)
- **General corporate purposes:** Max **25%** of funds raised
- For **unidentified acquisitions:** Max **35%** of funds raised
  - If **identified acquisitions:** no limit if disclosed in offer documents

##### Issue of Warrants

- **Tenure:** Max **18 months**
- **Upfront price:** 25% of exercise price
- If warrant not exercised within **3 months:** **forfeiture** of consideration

##### Promoters' Contribution in IPO

- **Promoters' holding:** Min **20%** post-issue capital
- If less than 20%, others (AIFs, FVCIs, insurance cos., etc.) can contribute up to **10%**
- **Non-applicability:** No identifiable promoters
- **Promoters' contribution:**
  - **20%** via **equity shares/convertible securities**
  - If conversion price **not pre-determined:** Contribution via **convertible securities**, commitment to subscribe post-conversion
  - If convertible securities **convert at different dates:** Contribution not below weighted avg. price of converted shares
  - **Convertible debt IPO:** Promoters contribute **20%** of project cost in equity shares
- **Before IPO opens:**
  - **Full promoters' contribution** (incl. premium) one day before issue opening
  - If subscription to shares or convertible securities: Funds in **escrow account**
  - If promoters' contribution **> ₹100 crores:** At least **₹100 crores** before issue opens

##### Promoters' Contribution Calculation

- Based on **post-issue expanded capital**
- Includes full conversion of convertible securities and exercise of stock options

##### Ineligible Securities for Promoters' Contribution

- **Bonus issues from revaluation reserves/unrealized profits**

- Securities acquired in last **3 years** for **non-cash** consideration
  - Securities bought at **lower price** than offer price in last **1 year**
  - Securities pledged with creditors
  - **Exemption for Promoters' Contribution in FPO**
    - **No identifiable promoter**
    - **Frequently traded equity shares** for at least **3 years**
    - **95% investor complaints redressed**
    - Compliance with **SEBI Listing Obligations** for **3 years**
    - If **non-compliance** in past 3 years, disclose in offer document
  - **Excess Subscription by Promoters in FPO**
    - Excess subscription: Price determined by **Regulation 164** or **issue price**, whichever is higher
    - **Reference date**: Date of filing draft offer document with **SEBI** or **ROC** for fast track
- Promoters' Contribution in Public Issue [Regulations 14, 112, 113, 114]**
- **Minimum Contribution:**
    - Promoters must contribute **20%** of the proposed issue size or **20%** of the post-issue capital, whichever is higher.
    - For **composite issues** (public offer + rights issue), same criteria apply excluding the rights issue component.
    - In case of **convertible securities**, promoters must contribute:
      - **20% by equity shares** or **convertible securities** subscription.
      - If conversion price is **not pre-determined**, contribution must be made via **convertible securities**.
      - If conversion is staggered, contribution should not be at a price **lower than the weighted average price** of the shares arising from the conversion.
    - For **FPO** or composite issue with higher contribution by promoters, excess will be allotted at the **higher of issue price or market price**.
  - **Lock-in:**
    - **Promoters' shares** (including those by AIFs, FVCIs, etc.) are locked-in for **18 months** from the IPO allotment date.
    - **Excess contributions** by promoters are locked-in for **6 months**.
    - **SR equity shares** locked-in until conversion to voting equity shares.
  - **Exemptions:**
    - **No identifiable promoters** or frequently traded shares for **3 years** with specific compliance can be exempted from the minimum contribution requirement.
    - For **specified securities** acquired:
      - In **3 years** if acquired through **non-cash transactions** (e.g., revaluation), they are **ineligible** for contribution.
      - **Pledged shares** or securities acquired at a **lower price** than IPO price may not be included in promoters' contribution.
  - **Escrow Requirement:**
    - **Promoters' contribution** must be kept in an **escrow account** with a commercial bank at least **one day prior to IPO opening**.
  - **Ineligible Securities:**
    - Securities **acquired in the last 3 years** through **revaluation** or **bonus issues** using unrealized profits or **non-cash transactions** are **ineligible** for computing promoters' contribution.
  - **Pledge of Locked-in Shares:**

- Locked-in shares (except **SR equity**) can be **pledged** as collateral for loans from **scheduled commercial banks** or **public financial institutions**, provided:
    - Loan is for **financing the issue's objectives**.
    - Lock-in continues post-pledge until the stipulated period ends.
  - **Transferability of Locked-in Securities:**
    - Locked-in shares can be transferred **within promoters' group** or to a new promoter, but the lock-in remains intact for the **remaining period**.
  - **Lock-in on Partly Paid-up Shares:**
    - For partly paid-up shares, lock-in ends **18 months** after shares become fully paid-up, at par with public issue securities.
- Appointment of Lead Managers, Other Intermediaries, and Compliance Officer [Regulations 23 & 121]**
- **Lead Managers:**
    - Issuer must appoint **one or more SEBI-registered merchant bankers** as lead managers.
    - If multiple lead managers, their roles and obligations (e.g., disclosures, allotment, underwriting) must be pre-defined and disclosed in the draft and final offer documents.
    - **At least one lead manager** must not be an associate of the issuer.
    - If a lead manager is an associate, it can only handle **marketing** and must disclose its associate status.
  - **Other Intermediaries:**
    - Issuer appoints **other intermediaries** after the lead managers assess their capabilities.
    - Agreements must align with **statutory requirements** (Companies Act, 2013, SEBI, etc.).
  - **Compliance Officer:**
    - Issuer must appoint a **compliance officer** responsible for monitoring compliance with securities laws and addressing investor grievances.
    - **Qualified Company Secretary** must be the compliance officer per SEBI (LODR) Regulations, 2015.

#### **Disclosures in and Filing of Offer Documents [Regulation 24 & 122]**

- **Disclosures:**
  - Draft and final offer documents must contain **material disclosures** that allow investors to make informed decisions.
  - Must comply with **Companies Act, 2013** and **Part A of Schedule VI of ICDR Regulations, 2018**.
  - Lead managers must conduct **due diligence** and ensure information in the offer document is **current** (within **six months** of the opening date).
- **Filing:**
  - Prior to **IPO/FPO**, issuer files **3 copies of the draft offer document** with SEBI through lead managers.
  - Issuer must also file the document with stock exchanges and submit promoters' **PAN, bank account number, and passport number** (for individuals), or company registration details (for corporate promoters).
  - **Lead managers** must submit:
    - Agreement confirmation with issuer.
    - Due diligence certificate.
    - **For convertible debt**, a due diligence certificate from the **debenture trustee**.
- **SEBI Review:**
  - SEBI can provide **observations/changes** on the draft offer document within **30 days**.
  - If changes are requested, issuer and lead managers must comply before filing the final offer document.

---

## Public Availability and Comments on Draft Offer Document [Regulations 26 & 124]

- **Public Availability:**
  - **Draft offer document** must be made available to the public for **21 days** for comments via **websites of issuer, SEBI, stock exchanges, and lead managers.**
- **Public Announcement:**
  - Issuer must make a **public announcement in newspapers** (English, Hindi, and regional) within **2 days** of filing with SEBI, inviting public comments.
- **Post-comment Process:**
  - After the comment period, **lead managers** must file with SEBI a report on the comments received and any required changes.
- **Hosting:**
  - The **final offer document** must be hosted on the required websites and should match the version filed with **SEBI, Registrar of Companies, and stock exchanges.**
- **Distribution:**
  - Lead managers and stock exchanges must provide copies of the offer document to the public upon request, with a reasonable charge for the copy.

## Pricing [Regulations 27 & 125]

- **Face Value of Equity Shares:**
  - **Disclosure:** Face value must be disclosed in the draft offer, offer document, ads, and application forms alongside the price band or issue price in identical font.
- **Price Determination (IPO/FPO):**
  - Issuer may set price in consultation with **lead merchant bankers** or via the **book building process.**

---

## Book-Building Process for IPO [Regulation 27]

- **Mechanism:**
  - Price discovery is done by setting a **price band** (lower and upper limits).
  - Investors bid within this range.
  - After the issue closes, the **Book Running Lead Managers (BRLMs)** finalize the cut-off price using a weighted average method.
- **Example:**
  - **Price Band:** Rs. 250 - Rs. 300.
  - **Investor Bids:**
    - 10,000 shares at Rs. 250,
    - 50,000 shares at Rs. 275,
    - 60,000 shares at Rs. 300.
  - **Cut-off Price:** Rs. 275 (shares are issued in a 10:11 ratio).
- **Refunds:**
  - Investors who bid below the cut-off price get refunds.
  - Investors can opt for the cut-off price (Rs. 300 in this example), and any difference will be refunded or adjusted.

---

## Price and Price Band [Regulations 29 & 127]

- **Price/Price Band:**
  - Issuer can specify **price or price band** in the draft or red herring prospectus.
  - **Floor Price or price band** should be disclosed at least **2 days before** the bid opens (for IPO) or **1 day before** (for FPO).
- **Price Restrictions:**
  - **Cap** of the price band: **≤ 120% of the floor price and ≥ 105% of the floor price.**
  - **Price must not be below face value.**
- **Disclosures:**

- If floor price/price band isn't disclosed in the red herring prospectus, it must be announced in newspapers before the bid opening.
- **Financial ratios** for both price extremes must be disclosed and pre-filled in application forms.

---

## Differential Pricing [Regulations 30 & 128]

- **Eligibility:**
  - Retail individual investors or employees may be offered securities at a price **≤ 10% lower** than the price offered to other investors (excluding anchor investors).
- **Anchor Investors:**
  - Price for **anchor investors** must not be lower than that offered to other applicants in a book-built issue.
- **Employee Discount:**
  - If applicable, employee pricing may be offered at a price **≤ 10% lower** than the floor price.
- **FPO:**
  - **Composite Issue:** Price may differ between public issue and rights issue, with the justification for the price difference provided in the offer document.
  - Any discount must be expressed in **rupee terms** in the offer document.

## Minimum Offer to Public [Regulation 31]

- **Rule 19(2)(b) of SCRR:**
  - **Minimum public offer** based on post-issue capital:
    1. **≤ ₹1600 Cr:** At least **25%** of equity shares or convertible debentures.
    2. **> ₹1600 Cr and ≤ ₹4000 Cr:** At least the percentage equivalent to **₹400 Cr.**
    3. **> ₹4000 Cr and ≤ ₹1 Lakh Cr:** At least **10%** of equity shares or debentures.
    4. **> ₹1 Lakh Cr:** At least **5%** and equivalent to **₹5000 Cr.**
- **Increase in Public Shareholding:**
  - **Companies with > ₹4000 Cr post-issue capital:**
    - **Increase to 10%** within 2 years.
    - **Increase to 25%** within 5 years.
  - **Other companies:** Increase to **25%** within 3 years.

---

## Allocation in Net Offer [Regulations 32 & 129]

- **Regulations 32(1) & 129(1) (Book Building Process):**
  - **Retail Individual Investors (RIIs): 35%** minimum.
  - **Non-Institutional Investors (NIIs): 15%** minimum.
  - **Qualified Institutional Buyers (QIBs): 50%** minimum.
  - **Unsubscribed portion:** May be reallocated to other categories.
- **Mutual Fund Allocation:**
  - **5%** of the portion allocated to mutual funds.
- **Regulations 32(2) & 129(2) (Alternative Book Building):**
  - **Retail Individual Investors (RIIs): ≤ 10%** maximum.
  - **Unsubscribed portion:** May be reallocated to other categories.
- **Non-Institutional Investors:**
  - Allocation:
    1. **1/3** for applications between **₹2 Lakh to ₹10 Lakh.**
    2. **2/3** for applications above **₹10 Lakh.**
  - **Unsubscribed portion:** Reallocated between the sub-categories.
- **Regulations 32(3) & 129(3) (Anchor Investors):**
  - **Up to 60%** of the QIB allocation can be for **Anchor Investors.**

- **Anchor Investor Definition:** A QIB applying for ₹10 Cr (main board) or ₹2 Cr (Chapter IX issues).

#### Other Categories in Allocation

- **Regulations 32(4) & 129(4) (Non-Book Building Process):**
  - **Retail Individual Investors (RIIs): 50% minimum.**
  - **Remaining Allocation:**
    - Individual applicants (other than RIIs).
    - Corporate bodies or institutions.
  - **Unsubscribed portion:** May be reallocated between categories.
- **Retail Individual Investor Allocation:** If > 50% entitlement, retail investors receive the **higher percentage**.

#### Other Requirements with Respect to IPO/FPO

#### Reservation on Competitive Basis [Regulations 33 & 130]

- **Eligible Categories for Reservation:**
  1. **Employees.**
  2. **Shareholders (other than promoters and promoter group)** of listed subsidiaries or promoter companies.
- **Exclusions:** No reservation for:
  - Lead managers, registrars, syndicate members, their promoters, directors, and employees, or their group/associate companies.
- **FPO:** Reservation may be made for **existing retail individual shareholders** (excluding composite issues).
- **Reservation Conditions:**
  - **Employee Reservation:**
    - Max 5% of post-issue capital.
    - Max allotment value per employee: ₹2 Lakh (in case of under-subscription, up to ₹5 Lakh allowed).
  - **Shareholder Reservation:** Max 10% of issue size.
  - No further applications in the net offer by persons with reservation, except employees and retail individual shareholders.
  - Unsubscribed portions in any reserved category can be moved to another reserved category or added to the net offer.
- **Application Limit:** An applicant in any reserved category can apply only up to the reserved portion for that category.

#### Abridged Prospectus [Regulations 34 & 131]

- **Content:**
  - Should include disclosures from **Part E of Schedule VI** of SEBI ICDR Regulations.
  - Must not contain extraneous information.
- **Accompanying Documents:** Each application form must be accompanied by the abridged prospectus.

#### ASBA [Regulations 35 & 132]

- **ASBA Facility:**
  - Issuer must accept bids only through ASBA.
  - UPI is introduced as an alternative for retail investors (up to ₹2 Lakh), effective **January 1, 2019**.
  - **Objective:** Reduce listing time from T+6 days to T+3 days.
  - **Mandatory for Rights Issue:** ASBA is mandatory for rights issue applications as of **January 22, 2020**.

#### Availability of Issue Material [Regulations 36 & 133]

- **Lead Manager Responsibilities:** Ensure that offer documents and other issue materials (e.g., application forms) are available to relevant parties (stock exchanges, syndicate members, registrar, depository participants, etc.) before issue opening.

#### Prohibition on Payment of Incentives [Regulations 37 & 134]

- **Incentives Prohibited:** No incentives (cash, kind, or services) can be offered for making applications in an IPO, except for fees/commission for services rendered.

#### IPO Grading – Applicable to IPO Only [Regulation 39]

- **Grading Option:** The issuer may obtain an IPO grading from one or more SEBI-registered credit rating agencies.

#### Underwriting [Regulations 40 & 136]

- **Non-Book Building Process:** Underwriting agreement required to cover under-subscription.
  - Underwriters subscribe to securities at the predetermined price, **not below issue price**.
  - **Disclosure** of underwriting agreement in the prospectus.
- **Book Building Process:**
  - Underwriting required by **lead managers and syndicate members**.
  - **75%** of the QIB portion **not underwritten** for compliance with eligibility conditions.
  - Syndicate members must fulfill underwriting obligations if other members fail.
- **Underwriting Obligations:**
  - **Lead Managers:** Must take on **minimum underwriting obligations** as specified under SEBI Merchant Bankers Regulations.
  - **Syndicate Members:** Cannot subscribe except to fulfill their underwriting obligations.
  - **Minimum Subscription:** Underwriting obligations should cover at least the minimum subscription required.

#### Monitoring Agency [Regulations 41 & 137]

- **Applicability:** If the issue size (excluding offer for sale) exceeds ₹100 crore, the issuer must arrange for proceeds to be monitored by a **SEBI-registered credit rating agency**.
- **Reporting:** Monitoring agency reports must be submitted quarterly until **100%** of the proceeds are utilized.
- **Issuer's Responsibilities:**
  - Provide comments on the monitoring agency's findings.
  - Publicly disseminate the report within **45 days** of each quarter by uploading it to the issuer's website and submitting it to the stock exchange(s).

#### Public Communication, Publicity Materials, Advertisements, and Research Reports [Regulations 42 & 138]

- All public communications, advertisements, and research reports must comply with **Schedule IX** of SEBI ICDR Regulations.

#### Issue-related Advertisements [Regulations 43 & 139]

- **Pre-Issue Advertisement:**
  - Must be published in:
    - 1 **English** national daily with wide circulation.
    - 1 **Hindi** national daily with wide circulation.
    - 1 **regional** language newspaper with wide circulation where the issuer's registered office is located.
  - **Content:** Must contain disclosures as per **Part A of Schedule X**.
  - **Price Band Disclosure:** Price band or floor price disclosure only if not in the Red Herring Prospectus (RHP).
- **Advertisements During Subscription:**
  - No advertisements indicating the status (fully subscribed/oversubscribed) during the subscription period.

#### Informal Guidance

- **Sharing Bidding Data:**

- **Standalone/aggregate bidding data** can be shared by the issuer only if publicly available on the stock exchange website.
- **Prohibited:** Sharing of bidding data by book-running lead managers, syndicate members, or underwriters to investors during the bidding period.

#### Opening of the Issue [Regulations 44 & 140]

- **Opening Time:**
  - The issue must open within **12 months** from the date of SEBI's observations.
  - For **fast-track issues**, the opening period is specified under the Companies Act, 2013.
  - **Shelf Prospectus:** First issue within **3 months** of SEBI's observations.
  - **Minimum Opening Period:** At least **3 working days** after filing of RHP or prospectus.

#### Minimum Subscription [Regulations 45 & 141]

- **Minimum Subscription Requirement:**
  - **90%** of the offer must be subscribed (excluding offer for sale).
  - In an **IPO**, **25%** of each class of equity or convertible securities must be offered to the public (except under specific conditions allowing lower percentage, with the requirement to reach **25%** public shareholding within **3 years** of listing).
- **Refund for Non-Subscription:** If minimum subscription isn't met, all application monies must be refunded within **4 days** of issue closure.

#### Period of Subscription [Regulations 46 & 142]

- **Subscription Period:**
  - **Minimum** of **3 working days** and **maximum** of **10 working days**.
  - If **price band is revised**, the issue period must be extended for **at least 3 working days**.
  - In case of **force majeure**, the issue period may be extended by **1 working day** with written justification.

#### Application and Minimum Application Value [Regulations 47 & 143]

- **Application Limits:**
  - An applicant in the **net offer category** cannot apply for more securities than offered to the public.
  - Non-institutional investors' maximum application = **Total securities offered – Securities to QIBs**.
- **Example:**
  - **Atlas Ltd. Issue:**
    - **Total offer:** 3 crore securities.
    - **Securities to QIBs:** 2 crore.
    - **Retail Individual Investors:** 35 lakh securities.
  - **Max Application for Mr. A:**
    - Mr. A can apply for a maximum of **35 lakh securities** (net offered to the public).
  - **Max Application for Non-Institutional Investors:**
    - Maximum available to non-institutional investors = **3 crore - 2 crore = 1 crore securities**.
- **Minimum Application Size:**
  - **₹10,000 to ₹15,000** in the offer document.
  - Applications must be in multiples of the minimum application value.
- **Payment:**
  - At least **25%** of the issue price is payable on application.
  - For **offer for sale**, the full issue price is payable at application.

#### Manner of Calls [Regulations 48 & 144]

- **Subscription Calls:**
  - Subscription money may be received in **calls** within **12 months** from allotment.
  - If a subscriber doesn't pay within 12 months, the shares and paid money are **forfeited**.
  - If a **monitoring agency** is appointed, there is no requirement to call the money within 12 months.

#### Allotment Procedure and Basis of Allotment [Regulations 49 & 145]

- **Allotment Limits:**
  - No allotment beyond the total securities offered, except for **oversubscription** where rounding off may occur.
  - **Minimum Allotment:** At least **1,000 prospective allottees** required to make allotments.
- **Oversubscription:**
  - **1%** of net offer may be allotted for rounding off in **minimum lots**.
- **Allotment Criteria:**
  - **Retail Individual Investors:**
    - Minimum bid lot, then proportionate allocation.
  - **Non-Institutional Investors:**
    - Minimum application size, then proportionate allocation.
- **Maximum Allotment:**
  - Retail investors: **₹2 lakh**.
  - Eligible employees: **₹5 lakh**.
- **Basis of Allotment:**
  - Proportional within investor categories, rounded to the nearest integer.
  - **Fair process:** Final allotment procedure to be carried out with the help of designated stock exchange, lead managers, and registrars.

#### Allotment, Refund, and Payment of Interest [Regulations 50 & 146]

- **Issuer and Lead Manager Responsibilities:**
  - Ensure **allotment, refunds, or unblocking of application monies** within the period specified by SEBI.
  - The process should be **electronic** for allotment, credit, and refunds.
- **Interest on Delay:**
  - If securities are not allotted or monies refunded/unblocked within the specified period, the issuer must pay **15% interest per annum** to investors.
- **Listing Time:**
  - SEBI aims to reduce listing time to **3 working days** from issue closure. Currently, it's **6 working days** until further notification from SEBI.

#### Example: Allotment Procedure (Example A)

- **Offer:** 1 crore securities at ₹600 each.
  - **Retail Category:** 35 lakh securities.
  - **Oversubscription:** Total = **2.5x**, Retail = **4x**.
  - **Minimum Application Size:** 20 securities.
- **Investor Applications** (Example of 5 investors):
  - **A:** Applied for 320 securities.
  - **B:** Applied for 220 securities.
  - **C:** Applied for 120 securities.
  - **D:** Applied for 60 securities.
  - **E:** Applied for 20 securities.
- **Allotment Calculation** (proportionate basis):
  - **A:** Gets 20 (min bid lot) + 38 (proportional allotment).
  - **B:** Gets 20 + 25 (proportional allotment).
  - **C:** Gets 20 + 13 (proportional allotment).
  - **D:** Gets 20 + 5 (proportional allotment).
  - **E:** Gets 20 (min bid lot).

### Example: Allotment Procedure (Example B)

- **Offer:** 1 crore securities at ₹600 each.
  - **Retail Category:** 35 lakh securities.
  - **Oversubscription:** Total = 7x, Retail = 9.37x.
  - **Minimum Application Size:** 20 securities.
- **Investor Applications:**
  - **Total Retail Applicants:** 2 lakh.
  - **Max Retail Investors with Min Bid Lot:** 1.75 lakh (35 lakh / 20 shares).
- **Lottery Process:**
  - 1.75 lakh investors get a minimum bid lot (20 securities).
  - Remaining 25,000 retail investors will not receive allotment.
- **Detailed Allotment Process:**
  - **Shares per Lot:** 20 securities per lot.
  - **Total Shares Applied:** 3,28,00,000 shares (from 2 lakh investors).
  - **Total No. of Investors with Min Lot:** 1,75,000.
  - **Distribution Across Lots:**
    - **Shares Allotted:** Proportional allotments based on the number of shares available in each lot.

### Post-Issue Advertisements [Regulations 51 & 147]

- **Lead Manager Responsibilities:**
  - Release an advertisement within **10 days** of completion of activities, detailing:
    - Subscription details
    - Basis of allotment
    - Number, value, and percentage of applications, including ASBA
    - Successful allottees' information
    - Refund orders and despatch completion date
    - Credit of securities and listing application date
  - Advertisement must appear in:
    - **One** English national daily
    - **One** Hindi national daily
    - **One** regional language daily (near issuer's registered office)
  - Post details must also be published on stock exchange websites.

### Post-Issue Responsibilities of Lead Manager(s) [Regulations 52 & 148]

- **Continuing Responsibilities:**
  - Lead managers oversee post-issue process, monitoring investor grievance redressal.
  - Ensure completion of activities like:
    - Allotment of securities
    - Refund or unblocking of application monies
    - Credit of securities to demat accounts
    - Listing and trading permissions obtained
- **Coordinating with Intermediaries:**
  - Work with registrars, syndicates, and collecting banks to monitor applications, ASBA processing, and allotment.
- **Reporting:**
  - Lead managers must report any failures or issues by intermediaries to SEBI.
  - If underwriting devolvement occurs, lead managers must issue a notice within **10 days** of issue closure.

### Release of Subscription Money [Regulations 53 & 149]

- **Confirmation for Release:**
  - Lead managers confirm with bankers that all formalities are complete, allowing release of money to the issuer or refunds if the issue fails.
- **Listing/Trading Permission Failure:**

- If the issuer fails to get listing permission, refund within **4 days** from rejection notice.
- Failure to refund within this period will lead to **15% per annum interest** for both the issuer and directors in default.

### Reporting of Transactions of Promoters and Promoter Group [Regulations 54 & 150]

- **Transaction Reporting:**
  - All promoter and promoter group transactions in securities from draft offer document filing to issue closure must be reported to the stock exchange within **24 hours**.

### Post-Issue Reports [Regulations 55 & 151]

- **Final Post-Issue Report:**
  - Lead managers must submit a final post-issue report with a due diligence certificate:
    - **7 days** after finalizing basis of allotment
    - **7 days** after refunding money if the issue fails

### Restriction on Further Capital Issues [Regulations 56 & 152]

- **Restrictions on Further Issues:**
  - Issuer cannot make any further capital issues (public, rights, bonus, preferential, etc.) during:
    - **Fast track issues:** Between filing offer document and listing of securities or refund
    - **Other issues:** Between filing draft offer document and listing or refund
- **Exceptions:**
  - Further issues can only occur with full disclosure of the number of securities or amount to be raised, included in the offer document.

### Fast Track FPO [Regulation 155] - Eligibility

Issuer must meet the following conditions to be eligible for a Fast Track Follow-On Public Offer (FPO):

1. **Listing:** Shares listed on any exchange for at least **3 years** before the reference date.
2. **Demat Form:** Entire promoter group's shareholding must be in **dematerialized form** on the reference date.
3. **Market Capitalization:**
  - **Public Issue:** Minimum **₹1,000 crore** market cap of public shareholding.
  - **Rights Issue:** Minimum **₹250 crore** market cap of public shareholding.
4. **Trading Turnover:**
  - Annualized turnover during **6 months** preceding the reference date should be at least **2%** of the weighted average shares listed.
  - If public shareholding is under **15%**, turnover should be based on the **free float**.
5. **Delivery-based Trading:** Delivery-based trading turnover should be at least **10%** of the trading turnover in the **6 months** prior to reference date.
6. **Compliance with LODR:** Compliant with **SEBI Listing Regulations** for at least **3 years**.
7. **Investor Complaints:** At least **95%** of investor complaints resolved by the end of the quarter before reference date.
8. **No Pending Show-Cause Notices:** No ongoing show-cause notices, excluding penalty-related proceedings.
9. **Settlement of Violations:** If there have been settled violations of securities laws in the last **3 years**, they must be disclosed in the offer document.
10. **Disciplinary Measures:** Shares have not been suspended from trading as a disciplinary measure in the past **3 years**.
11. **Conflict of Interest:** No conflict between the lead merchant banker(s) and issuer or its affiliates.
12. **Audit Qualification:** If there are audit qualifications, restated financial statements adjusting for qualifications must be provided.

**Average Market Capitalization of Public Shareholding:** Calculated as the sum of daily market capitalization of public shareholding for **one year** preceding the reference date, divided by the number of trading days.

#### Post-Listing Exit Opportunity for Dissenting Shareholders [Regulations 59 & 157]

- **Exit Offer:** Promoters/shareholders in control must provide an exit offer to dissenting shareholders in case of:
  - Change in objects or variation in terms of the offer document.
  - If the proposal is dissented by at least **10%** of shareholders voting at the meeting.
  - If **less than 75%** of the raised amount is used for the objects as outlined in the offer document.
- **Dissenting Shareholders:** Shareholders who voted against the resolution for change in objects or variation in terms.

#### Conditions for Exit Offer

- **Eligibility:** Only shareholders holding shares on the relevant date can avail the exit offer.
- **Exit Price:** The highest of:
  - Volume-weighted average price for acquisitions in the last **52 weeks**.
  - Highest price paid for acquisitions in the last **26 weeks**.
  - Volume-weighted average price for the last **60 trading days**.
  - For non-frequently traded shares, price determined by promoters and merchant banker using valuation parameters.

#### Manner of Providing Exit to Dissenting Shareholders

1. **Notice:** The special resolution notice must include details of the exit offer to dissenting shareholders.
2. **Voting Results:** Submit voting results to stock exchange(s) under **SEBI (LODR)** regulations.
3. **Merchant Banker Appointment:** Promoters or shareholders in control appoint a registered merchant banker to finalize exit offer price.
4. **Escrow Account:** Set up an escrow account with the aggregate consideration at least **2 working days** before opening the offer.
5. **Tendering Period:**
  - Start within **7 working days** of passing the special resolution.
  - Remain open for **10 working days**.
6. **Withdrawal Option:** Dissenting shareholders can withdraw their acceptance until the closure of the tendering period.
7. **Payment to Shareholders:** Payment to dissenting shareholders must be made within **10 working days** from the tendering period closure.
8. **Post-Offer Reporting:** Issuer must submit details of shares tendered, accepted, payment made, and updated shareholding pattern to stock exchange(s) within **2 working days** after payment.

#### Maximum Permissible Non-Public Shareholding

- If post-exit offer, the **promoter/group shareholding** exceeds the permissible non-public shareholding limit, they must **reduce the shareholding** within the timeframe prescribed by the **Securities Contract (Regulation) Rules, 1957**.
- **SCRR Rule 19A:**
  - **Public shareholding** must be at least **25%** for all listed companies (except public sector companies).
  - If public shareholding falls below 25%, the company must restore it within **12 months**.

#### Initial Public Offer by Small and Medium Enterprises (SME) [Chapter IX of SEBI (ICDR) Regulations, 2018]

1. **Post-Issue Paid-Up Capital  $\leq$  ₹10 Crores:** Must list on the **SME Board** only.

2. **Post-Issue Paid-Up Capital  $>$  ₹10 Crores but  $\leq$  ₹25 Crores:** Can list on either the **SME Board** or the **Main Board**.
3. **SEBI Observations:** No observations from SEBI on the offer document.
4. **Lead Manager Responsibilities:** Must submit a **due-diligence certificate** to SEBI.
5. **Underwriting: 100%** of the IPO must be underwritten, with the lead manager(s) underwriting at least **15%**.
6. **Market Making: Compulsory market making** for a minimum of **3 years** from the listing date.
7. **Minimum Application Size & Trading Lot: ₹1 lakh.**
8. **Migration to Main Board:** Possible if **Special Resolution (SR)** passed via **postal ballot** with a **majority of minority** shareholders.

#### Innovators Growth Platform [Chapter X of SEBI (ICDR) Regulations, 2018]

- **Target Audience:** Start-ups with intensive use of **technology, IT, IP, data analytics, bio-technology, or nano-technology**.
- **Pre-Issue Shareholding:**
  - At least **25%** of pre-issue capital held by **QIBs, Innovators Growth Platform Investors**, or other SEBI-specified investors.
- **Listing:** Can list with or without an IPO. **SEBI will issue observations** in both cases.
- **Minimum Offer Size: ₹10 crore** for IPO.
- **Minimum Application Size: ₹2 lakh**, and in multiples thereof.
- **Allotment Requirements:**
  - At least **50 allottees** in the IPO.
  - **Minimum trading lot: ₹2 lakh**, and in multiples thereof.
- **Eligibility for Listing:** None of the **promoters or directors** should be a **fugitive economic offender**.
- **Under-Subscription Handling:**
  - **Non-institutional category** under-subscription can be covered by **institutional investors**.
  - Up to **60%** of the issue size can be allocated to **eligible investors** (anchor investors) on a discretionary basis before the issue opens.

#### Documentation for IPO/FPO: Stage-wise

##### 1. In-Principle Approval Stage

- **Documents to file with the Exchange:**
  - **5 copies of the draft offer document.**
  - **Board resolution** for issuing securities and **shareholder approval**.
  - **SEBI filing acknowledgement** and copy of the **letter**.
  - Latest date/period of information in the document; notify **issue opening date**.
  - **BRLM(s)/Lead Manager(s) Undertaking:** Confirmations regarding:
    - Adequate disclosures for informed investment decisions.
    - Compliance with **Companies Act, 2013** and **SEBI (ICDR) Regulations, 2018**.
  - **Promoter Details:** PAN, TAN, bank account number, passport number, etc.
  - **Financials: Balance Sheets, Profit & Loss, Cash Flow Statements** for the last 5 years.
  - **Due Diligence Certificates** from Lead Manager(s) (Form A, Form B, if applicable).
  - **Material Contracts List:** List, description, and inspection details.
  - **Lead Exchange Name** for allotment approval and security deposit.
  - **Director and Company Secretary Details** (Form 32/DIR 12).
  - **MOA & AOA.**

- **Compliance Confirmation:** Regarding eligibility under **SEBI (ICDR) Regulations, 2018**, listing requirements, statutory requirements, and **Shareholder Compliance** for offers for sale.
- **Compliance Officer Appointment** and details (Regulation 23(8)).
- **Corporate Governance Compliance Certificate** from auditor.
- **Employee Benefits/ESOP Details** and compliance with **SEBI (Share Based Employee Benefits) Regulations, 2014**.
- **Material Developments Notification** from the company after filing.
- **Past IPO Details** (if applicable) and listed group company details.
- **Processing Fees**.
- **Undertakings** from MD/CS/Compliance Officer confirming:
  - No violation of **SEBI Delisting Regulations, 2021**.
  - No restrictions under **SEBI Circular SEBI/HO/MRD/DSA/CIR/P/2017/92**.
  - **Dividend Entitlement** for all shares in the issue.

## 2. Basis of Allotment Stage

### • Documents to Submit:

- **Final Prospectus Copy** filed with ROC and **acknowledgement**.
- **Minutes of the basis of allotment** (verified by BRLM, R&T Agent, Issuer).
- **Technical Rejection List** (category-wise, with details of rejections).
- **Statutory Advertisement** for the public issue, opening/closing, price revision, etc.
- **Auditor's Certificate:**
  - Minimum promoter's contribution receipt.
  - Contributions from specified entities (e.g., AIF, VCs, banks).
- **Managing Director/Company Secretary Declaration:**
  - No injunction or prohibition on the issue.
- **Confirmation of QIB Allocations** and compliance with the **SEBI (ICDR) Regulations**.
- **Verification of Final Certificates** and electronic bid validation.
- **SEBI Approval for PAN Mismatch** (if applicable).

## 3. Listing & Trading Approval Stage

### • Documents to Submit (T+2):

- All **Due Diligence Certificates** with SEBI from Merchant Banker(s).
- **Observation Letter** from SEBI.
- **Authorized Signatories List** with signatures.
- **Devolvement Notices** to underwriters (if applicable).
- **BRLM Confirmation** that minimum subscription has been received (Regulation 45).
- **Email ID Confirmation** for Investor Grievances (Regulation 46).
- Copies of all **advertisements** published up to T+1 stage.
- **SCORES Authentication** confirmation as per **Regulation 13** of LODR Regulations, 2015.

### IPO/FPO Documentation Checklist: Post-Issue Stages T+3 Days (Within 3 Working Days from Issue Closure)

- Submit documents from the **Basis of Allotment checklist**.

### T+4 Days (Within 4 Working Days from Issue Closure)

1. **Final Prospectus** filed with ROC, along with ROC filing **acknowledgement copy**.
2. **Certified True Copy** of the basis of allotment **approved** by the Designated Stock Exchange.

3. **Internal Minutes** executed between Lead Manager, Issuer, and Registrar.

### Documents to Submit (T+4 Days Continued)

1. **Letter of Listing Application**.
2. **Listing Agreement** as per **SEBI (LODR) Regulations, 2015** (executed on non-judicial stamp paper), along with **Board resolution** authorizing officer to sign the agreement.
3. **Board Resolution** for allotment of securities, mentioning the total number of securities allotted.
4. **Certificate from Statutory Auditors/Practicing Chartered Accountant/Company Secretary** stating:
  - Allotment per approved basis of allotment.
  - Lock-in shares **enforced** with non-transferability conditions (details with distinctive numbers and lock-in date).
  - Shares from employee quota allotted to permanent employees.
5. If **Pre-IPO Shares** are in physical form:
  - **RTA Confirmation** that pre-IPO shares are locked in.
6. **Lock-in Confirmation** from depositories for pre-IPO shares held in **dematerialized form**.
7. **Lock-in Certificate** for securities under lock-in, including anchor investors (from depositories).
8. **Shareholding Pattern** (pre-issue, issue, post-issue) with **PAN** details, and post-issue pattern (without PAN).
9. Copies of all **statutory advertisements** published until this stage.
10. **Corporate Governance Compliance Certification** as per **SEBI (LODR) Regulations, 2015**.
11. **Current Issue Details:** Category-wise, gross, valid, and allotted applications & equity shares.
12. **Listing Fees:** Initial and annual fees.
13. **Issuer Confirmation:**
  - All advertisements related to the issue submitted to the Exchange.
  - Compliance with the requirement of a common agency (as per SEBI).
  - All securities under lock-in are subject to lock-in as mentioned in the Offer Document.
14. **Certified True Copy** of additional material contracts and documents (including SEBI observation letter).
15. **Compliance Confirmation** from Lead Manager and Issuer on compliance with all statutory laws, including **Companies Act, 2013, SEBI (ICDR) Regulations, 2018**, and other applicable laws.
16. **Soft Copy** of total securities issued (in **MS-Excel & pdf** formats).
17. **List of Allottees:** Category-wise (QIB/HNI/Retail/Reserved) with details (e.g., applied shares, allotted shares, amount paid, PAN, Demat account).
18. **SCORES Authentication** confirmation from the company (as per **Regulation 13** of LODR).
19. **RTA Confirmation** on non-syndicate member (NSM) commission payable, as per **SEBI circular CIR/CFD/14/2012**.
20. **NSM Commission Payment Transfer Confirmation** from the issuer to the Exchange's bank account.
21. **Listing Date & Scrip Symbol** (max 10 alphabets).
22. **Undertaking** from MD/CS/Compliance Officer confirming:
  - No violation of **SEBI Delisting Regulations, 2021**.
  - No violation of restrictions imposed under **SEBI Circular SEBI/HO/MRD/DSA/CIR/P/2017/92**.
23. **Company Details:** CIN, PAN, TAN, GSTIN.
24. **Promoter and Director Details:** DIN & PAN.

### T+5 Days (Within 5 Working Days from Issue Closure)

1. **Letter from Registrars and Lead Manager** regarding dispatch of:
  - **Share/Debtenture/Warrant certificates**, allotment advice, refund orders, underwriting commission, and electronic credit of securities (ECS/NEFT/RTGS).

2. **Depository Confirmation** on the credit of beneficiary accounts of security holders.
3. **Registrar Certificate** reconciling total securities allotted, credited, and those that failed to credit.
4. **Basis of Allotment Advertisement.**

## Rights Issue - Key Requirements under SEBI (ICDR) Regulations, 2018

### General Overview

- **Rights Issue:** Offer of specified securities by a listed issuer to shareholders on the record date.
- **SEBI (ICDR) Regulations, 2018** apply when the issue is ₹50 crore or more.
- **Smaller issues** (< ₹50 crore): Prepare a **letter of offer**, file with SEBI for dissemination.

### Eligibility Conditions (Regulation 61)

An issuer is **ineligible** for a rights issue if:

- **Debarred by SEBI** from capital markets.
- **Promoters/Directors** are involved in any company debarred by SEBI.
- **Promoters/Directors** are **fugitive economic offenders**.

### Issuer Obligations (Regulation 62)

- **Stock Exchange Application:** Apply for **in-principle approval** for listing.
- **Paid-up Shares:** Existing partly paid-up shares must be fully paid-up or forfeited.
- **Finance Arrangements:** At least 75% of the funds for the proposed project (excluding rights issue proceeds) must be secured.
  - **General corporate purposes:** Max 25% of the raised amount.
  - **Unidentified acquisition/investment targets:** Max 35%, subject to conditions.

### Restrictions on Renunciation

- **Wilful Defaulters/Promoters:** Cannot renounce rights, except within the promoter group.
- **SR Equity Shares:** Cannot be renounced, must remain under lock-in until converted into ordinary equity shares.

### Record Date (Regulation 68)

- **Record Date Announcement:** To determine eligible shareholders.
- **Withdrawal:** Once the record date is announced, the rights issue cannot be withdrawn.
- **Listing:** Issuer may seek listing of equity shares allotted via convertible securities on the exchange.

### Other Requirements for Rights Issue

1. **Lead Managers & Intermediaries (Regulation 69)**
  - Appoint **merchant bankers** (lead managers) and **registrars**.
  - **Issuer** cannot act as its own registrar.
2. **Disclosures in Draft and Final Letter of Offer (Regulation 70-71)**
  - Must disclose all material details.
  - **Due diligence** by lead managers.
  - **SEBI Filing:** Draft letter of offer to be filed with SEBI, and revised as per SEBI's observations.
3. **Public Availability of Draft Offer (Regulation 72)**
  - **Public Disclosure:** Draft letter to be available for comments for 21 days.
  - **Public Announcement:** Made in national and regional newspapers about the draft filing.
4. **Pricing (Regulation 73)**
  - **Issue Price:** Decided before the record date, must not be below face value.
5. **Reservation (Regulation 74)**
  - **Compulsory Convertible Debt Holders:** Reserved shares proportionate to the convertible debt.
  - **Employee Reservation:** Maximum value per employee: ₹2 lakhs, may extend to ₹5 lakhs if there's under-subscription.
6. **Abridged Letter of Offer (Regulation 75)**
  - **Content:** Must adhere to SEBI's disclosures.

- **Application Form:** Distributed with the abridged letter of offer.

### 7. ASBA Facility (Regulation 75)

- **Application Mode:** Must apply via ASBA; other banking modes allowed for reserved portions outside the issue period.

### 8. Availability of Issue Materials (Regulation 77)

- **Dissemination:** Letter of offer, abridged letter, and application forms to be available at various points including stock exchanges, depositories, and registrar.
- **Despatch:** Materials must be sent to shareholders at least **3 days before** the issue opening date.

### Conclusion

- Rights issues are governed by SEBI (ICDR) 2018 regulations.
- Compliance with filing, disclosures, approvals, and deadlines is mandatory.
- Specific limitations apply to promoter involvement, use of funds, and share reservations.

### Credit of Rights Entitlements and Allotment Process (Regulation 77A & 78)

#### Credit of Rights Entitlements (Regulation 77A)

- **Rights Entitlements:** Credited to **demat accounts** of shareholders before the issue opens.
- **Allotment:** All specified securities must be allotted in **dematerialised form** only.

#### Applications on Plain Paper (Regulation 78)

- **Eligibility:** Shareholders who don't receive the application form may apply on plain paper, alongside requisite money.
- **Renunciation:** Not allowed for applications on plain paper. Subsequent receipt of an application form does not permit renunciation.
- **Double Application:** If a shareholder applies both via application form and plain paper, both are **rejected**.

#### Underwriting (Regulation 81)

- **Underwriting:** Issuer can appoint registered **merchant bankers** or **stock brokers** as underwriters.
- **Limitations:** Underwriting allowed only for **shareholders other than promoters**.
- **Minimum Obligation:** Lead managers must fulfill the minimum underwriting obligations as per SEBI regulations.

#### Issue-Related Advertisements (Regulation 84)

- **Pre-Issue Advertisement:** Issuer must publish ads in:
  - **1 English national daily**
  - **1 Hindi national daily**
  - **1 regional daily** (location of registered office)
- **Content:**
  - **Despatch Completion:** Date of despatch of abridged letter of offer and application form.
  - **Duplicate Application Forms:** Locations to obtain duplicate forms.
  - **Plain Paper Application:** Information on applying via plain paper, detailing necessary particulars.
  - **Rejection Notice:** Statement that dual applications (plain paper & application form) will be **rejected**.
- **Post-Issue Restrictions:** No ads indicating issue subscription status or investor response before issue closure.

#### Subscription Period (Regulation 87)

- **Period:** Rights issue must be open for **7 to 30 days**.
- **No Withdrawal:** Application withdrawal is **not permitted** after the issue closes.

#### Payment Options (Regulation 88)

- **Options:**
  - **Part Payment:** Minimum 25% of issue price upfront, balance in calls.
  - **Full Payment:** Complete payment on application.
- **Regulatory Approvals:** Required for part-payment arrangements.
- **Balance Payment:** Through **electronic banking** outside issue period.

## Procedure for Rights Issue

1. **Pre-Issue**
  - Ensure rights issue is within **authorised share capital**; increase if necessary.
  - **Board Meeting Notice**: Notify all directors at least **7 days** before the meeting.
  - **Stock Exchange Notification**: Inform at least **2 days** before the meeting.
2. **Board Decision**
  - **Quantum & Rights Share Proportion**.
  - **Record Date**: Fix date.
  - **Merchant Bankers/Underwriters**: Appoint and decide the **draft letter of offer**.
  - **Alteration of Share Capital**: If necessary, offer shares to non-existing holders under Section 62, Companies Act, 2013.
3. **Post-Board Meeting**
  - Notify stock exchanges about the board's decisions.
  - **File Draft Letter of Offer with SEBI** and address any **observations**.
  - Keep the rights issue open for **7-30 days**.
  - **In-Principle Approval**: Obtain approval for listing from the stock exchange.
4. **Dispatching Materials**
  - **Letters of Offer & Application Forms**: Send via **registered post**.
  - **Advertisement**: Announce despatch completion and plain paper application process in national and regional dailies.
  - **Application on Plain Paper**: Inform about application rejection if both forms are used.
5. **Post-Subscription**
  - **Bank Arrangements**: Set up for accepting applications.
  - **Final Allotment**: In consultation with the stock exchange.
  - **Listing Application**: Submit to stock exchanges for approval of new shares.

## Introduction of Dematerialized Rights Entitlements (REs)

### Salient Points on Dematerialized REs (SEBI Circular, January 22, 2020):

1. **Disclosure in Offer Documents**: Issuer must disclose the process for crediting REs to demat accounts and renunciation in the **letter of offer and abridged letter of offer**.
2. **Credit of REs**: REs will be credited to eligible shareholders' **demat accounts** before the issue opens, based on shares held as of the **record date**.
3. **Physical Shareholders**: Must provide **demat account details** to issuer/registrars 2 working days before issue closure for RE credit.
4. **Secondary Market Trading**: REs will be traded on stock exchanges with **T+2 settlement**. Trading starts with the issue opening and ends at least **4 days before closure**.
5. **Renunciation of REs**: Investors holding REs in dematerialized form can renounce by:
  - **Trading on stock exchange platform**.
  - **Off-market transfer**.
  - Settled through the **depository mechanism** like other securities.

## General Obligations of Issuer & Intermediaries for Public and Rights Issues

1. **Incentives**: No incentives (cash, kind, or services) can be offered to anyone for applying for securities.
2. **Publicity**: All communications, ads, and research must comply with **ICDR Regulations, 2018**.
3. **Offer Document Consistency**: Ensure the website version matches the filed version with the Registrar of Companies.
4. **Post-Issue Activities**: Lead managers must manage post-issue activities (allotment, refunds, investor grievance redressal).
5. **Compliance Officer**: Issuer must appoint a Compliance Officer to ensure legal compliance and handle investor grievances.

## Documentation for Rights Issue

### Pre-Issue Formalities:

1. **Covering Letter**: Request for in-principle approval.
2. **Board Resolutions**: Certified copy for approval of rights issue.
3. **Shareholder Resolution** (if applicable): Approving rights issue or capital increase.
4. **Promoter Details**: PAN, bank account, passport number for individual promoters; registration details for body corporate promoters.
5. **Undertaking from Issuer**: Confirm no wilful defaulters as per SEBI (ICDR) Regulations, 2018.
6. **Lead Manager Certificate**: Confirm issuer's eligibility, statutory compliance, and no restrictions from authorities.
7. **Compliance with Regulation 99**: For fast-track rights issue.
8. **Draft Letter of Offer**: 10 copies and a soft copy on CD.
9. **Processing Fees**: As applicable.

### Formalities Before Issue Opening:

1. **Final Letter of Offer & Composite Application Form (CAF)**: 10 copies.
2. **ASBA Fees and 1% Security Deposit**.
3. **Renunciation Facility Request**: If required, for activation on stock exchange.

### Post-Issue Formalities:

1. **Basis of Allotment Documents**: Submit within 10 days of issue closure.
  - Bid data, rejections, bank certificates, allotment minutes.
  - Pre & Post allotment shareholding patterns.
  - Statutory auditor's calculation of ex-rights price.
2. **Listing Documents**:
  - Listing application for securities issued on rights basis.
  - Shareholding patterns (pre & post issue).
  - Certification of basis of allotment by stock exchange.
3. **Undertaking from Issuer**: Confirm no violation of SEBI Delisting Regulations or Circulars.
4. **Annual Listing Fees**: Payment.

### Formalities for Obtaining Trading Approval:

1. **Refund and Certificate Posting Confirmation**: From registrars.
2. **Depository Confirmation**: For crediting securities to beneficiaries.
3. **Advertisement**: Of basis of allotment in newspapers.

### Preferential Issue – SEBI (ICDR) Regulations, 2018: Key Points

1. **Definition & Applicability (Regulation 158)**:
  - **Preferential issue**: Issue of specified securities to select persons or group (private placement).
  - **Non-applicability**:
    - Conversion of loans or options attached to convertible debt.
    - Schemes approved by High Court or Tribunal.
    - Qualified institutions placement (QIP).
    - Debt restructuring under RBI guidelines.
2. **Conditions for Preferential Issue (Regulation 160)**:
  - **Fully paid shares** at the time of allotment.
  - **Special resolution** passed by shareholders.
  - **Shares in dematerialized form** before application.
  - **Compliance with continuous listing requirements** (SEBI Listing Regulations).
  - **PAN of proposed allottees** (except exempted).
  - **In-principle approval** sought from the stock exchange simultaneously with sending notice for special resolution meeting.
3. **Issuers Ineligible for Preferential Issue (Regulation 159)**:
  - **Selling/transferring shares** in the 90 trading days preceding the relevant date.
  - **Promoter group** ineligible if shares are sold/transferred in the last 90 days.
  - **Failure to exercise warrants** by promoters; ineligible for 1 year.

- **Fugitive economic offender** promoters/directors are ineligible.
- **Outstanding dues** to SEBI/stock exchanges/depositories (unless appeal is pending).
- 4. **Relevant Date (Regulation 161):**
  - **Preferential issue of equity shares:** 30 days prior to shareholder meeting.
  - **Convertible securities:** 30 days before the holders can apply for shares, or 30 days before the resolution of stressed assets or NCLT approval under IBC.
  - If the **relevant date** falls on a weekend/holiday, it shifts to the previous working day.

This summary covers the essential points for preferential issues under SEBI's guidelines, ensuring compliance with regulations on eligibility, procedures, and timelines.

#### Convertible Securities & Preferential Issue – Key Points

1. **Tenure of Convertible Securities (Regulation 162):**
  - **Maximum tenure:** 18 months from allotment date.
  - **Completion of allotment:** Within 15 days from exercise of conversion option by the allottee.
2. **Disclosures to Shareholders (Regulation 163):**
  - **Explanatory statement** for special resolution:
    - **Objects** of the preferential issue.
    - **Maximum number of securities** to be issued.
    - **Intent** of promoters, directors, KMPs, or senior management to subscribe.
    - **Shareholding pattern** before and after issue.
    - **Timeframe** for issue completion.
    - **Ultimate beneficial owners** of the securities.
    - **Post-issue capital** held by the allottees.
    - **Undertakings:** Re-computation of price, lock-in for unpaid amounts.
    - **Disclosure if issuer/promoters** are wilful defaulters or fraudulent borrowers.
    - **Status post-issue:** Promoter or non-promoter.
  - **Certificate by company secretary:** Confirming compliance with regulations.
  - **Consideration:** Non-cash (only share swap with independent valuation report).
3. **Allotment Pursuant to Special Resolution (Regulation 170):**
  - **Allotment timeline:** Within 15 days from passing the resolution.
  - **Pending approvals:** 15 days counted from the date of approval (if regulatory approvals are pending).
  - **SEBI (SAST) Regulations:** If preferential issue triggers open offer obligation, the 15-day period begins after the open offer period ends.
  - **Non-application of 15-day rule:** For stressed assets under RBI framework or NCLT-approved resolution plans.
  - **Re-passing of resolution:** If allotment is not completed in 15 days, a new special resolution is needed.
  - **Allotment in dematerialised form:** Required for specified securities.

These provisions focus on the completion timelines, shareholder disclosures, and formalities related to the preferential issue of convertible securities.

#### Pricing of Equity Shares – Key Provisions

1. **Frequently Traded Shares (Regulation 164):**
  - **Listed for 90+ days:**
    - Price = **Higher of:**
      - 90-day VWAP of shares.
      - 10-day VWAP of shares.
    - **Articles of Association:** Higher floor price applies.
  - **Listed for <90 days:**

- Price = **Higher of:**
  - IPO price or value from scheme of compromise/arrangement.
  - **VWAP** during listing period.
  - **10-day VWAP** during the 2 weeks prior to relevant date.
- **Recomputation:** After 90 days, recompute price using 90-day VWAP; if higher, difference paid by allottees.
- **QIBs:** Price = **10-day VWAP.**
- **Allotment restrictions:** No allotment to promoters or related parties of promoters, except if QIB is lender without promoter-related rights.
- 2. **Infrequently Traded Shares (Regulation 165):**
  - **Price determination:** Based on **book value, comparable trading multiples**, and other customary parameters.
  - **Certificate:** Issuer needs a certificate from an independent merchant banker for compliance.
  - **Frequently traded shares:** Defined as shares with at least **10% turnover** in the last 240 trading days.
- 3. **Adjustments in Pricing:**
  - **Events requiring adjustment:**
    - **Capitalization of profits.**
    - **Demerger.**
    - **Rights issue.**
    - **Share consolidation/split.**
    - **Reclassification of shares.**
    - Other similar events as determined by the stock exchange.
  - **Material price movement:** Adjusted as per SEBI (LODR) framework.
- 4. **Special Provisions for Stressed Asset Companies:**
  - **Relaxed pricing:** For companies with stressed assets, **pricing methodology** is relaxed.
  - **Exemption:** Allottees are exempt from open offer obligations in such cases.

These regulations ensure that the pricing for preferential issues reflects market conditions and the issuer's share performance, with specific adjustments in cases of corporate actions.

#### Pricing in Preferential Issue of Shares of Companies with Stressed Assets (Regulation 164A)

1. **Pricing for Frequently Traded Shares:**
  - **Price:** Not less than the **10-day VWAP** of the equity shares preceding the relevant date.
2. **Criteria for Allotment:**
  - **Issuer must meet two of the following:**
    - **Default in loan payments:** Default on loans from banks/financial institutions/others for at least 90 days.
    - **Inter-creditor agreement:** As per RBI's Prudential Framework for Stressed Assets (2019).
    - **Credit rating:** Downgraded to "D" for financial instruments.
3. **Conditions for Preferential Issue:**
  - **Recipient restrictions:** Cannot be allotted to promoters or their group.
  - **Excluded Entities:**
    - **Undischarged insolvent** (IBC, 2016).
    - **Wilful defaulters/fraudulent borrowers** (RBI guidelines).
    - **Director disqualification** (under the Companies Act, 2013).
    - **Debarred from trading** (SEBI).
    - **Fugitive economic offenders.**
    - **Convicted for serious offences.**
    - **Unpaid guarantees invoked.**
4. **Shareholder Resolution Voting:**
  - **Votes for > Votes against** in the public category.
  - **If no identifiable promoter:** Resolution passed if votes for  $\geq 3x$  votes against.

5. **Use of Proceeds:**
  - **No repayment to promoters/group companies.**
  - **Disclose use of proceeds** in the explanatory statement.
6. **Proceeds Monitoring:**
  - **Monitoring by Credit Rating Agency:**
    - **Quarterly report** to issuer, then published on the issuer's website and stock exchange.
  - **Audit Committee oversight** until full utilization of proceeds.
7. **Lock-in Period:**
  - **3 years** from the last date of trading approval.
8. **Certification:**
  - **Statutory auditor and Audit Committee** must certify compliance with regulations before the meeting notice and allotment.

---

#### Optional Pricing for Preferential Issue (Regulation 164B)

1. **Pricing Method:**
  - **Price:** Not less than the **higher of:**
    - **12-week average VWAP.**
    - **2-week average VWAP.**
2. **Lock-in Period:**
  - **3 years** for securities allotted under this pricing method.
3. **Timeline for Application:**
  - Applicable for allotments between **July 01, 2020** and **December 31, 2020** (or the later date of notification).
4. **Uniform Pricing:**
  - All allotments under the same approval must follow the same pricing method.

This set of regulations ensures proper pricing, compliance, and monitoring for preferential issues, especially for companies with stressed assets, and limits potential risks from improper allocation or misuse of funds.

#### Lock-in of Specified Securities (Regulation 167)

1. **Lock-in Period for Promoters & Promoter Group:**
  - **18 months** from trading approval for preferential allotment and equity shares from warrant exercises.
  - **20% limit:** No more than 20% of total capital locked-in for 18 months. Shares exceeding this limit locked-in for **6 months**.
2. **Convertible Securities/Warrants Not Listed on Stock Exchanges:**
  - Locked-in for **1 year** from date of allotment.
3. **Lock-in Period for Non-Promoter Allottees:**
  - **6 months** from trading approval for specified securities allotted preferentially to non-promoters.
  - For unlisted convertible securities/warrants, **1 year** lock-in from allotment.
4. **Conversion of Convertible Securities:**
  - Lock-in period reduced for equity shares, to the extent the convertible securities were already locked-in.
5. **Stressed Assets Resolution:**
  - Equity shares allotted under **RBI framework/NCLT resolution: 1-year** lock-in from trading approval.
  - **No lock-in** for securities required to achieve **10% public shareholding**.
6. **Pre-preferential Allotment Shareholding:**
  - Lock-in for **90 trading days** from trading approval.
7. **Promoter Due to Change in Control:**
  - Same lock-in conditions as promoters for any new promoter post-preferential issue.

---

#### Transferability of Locked-in Securities (Regulation 168)

1. **Transfer Among Promoters:**
  - Locked-in securities may be transferred among promoters or promoter group, or to a new promoter/person in control.

- **Lock-in continues** for the remaining period with the transferee.
2. **Restrictions on Transfer:**
    - Specified securities **cannot be transferred** until trading approval is granted by all stock exchanges.

---

#### Payment of Consideration (Regulation 169)

1. **Full Payment for Specified Securities:**
  - Paid **at the time of allotment** (except in case of non-cash consideration).
2. **Warrants:**
  - **25%** of the consideration paid at allotment.
  - **Balance 70%** paid at the time of conversion into equity shares.
  - **If not exercised:** 25% consideration forfeited.
3. **Payment Method:**
  - Consideration must be paid from the allottee's bank account (first applicant in case of joint holders).
  - Statutory auditor must certify compliance with SEBI (ICDR) Regulations.

---

#### Allotment of Securities (Regulation 170)

1. **Completion of Allotment:**
  - Must be completed within **15 days** of passing the special resolution.
  - If pending approvals or applications, count starts from the approval date.
2. **Fresh Resolution for Delayed Allotment:**
  - If not completed within 15 days, a **new special resolution** must be passed, and price determination date reset.
3. **Dematerialisation:**
  - Allotment must be in **dematerialised form**.

---

#### Documentation for Preferential Issue

##### Pre-Issue Formalities

1. **Covering Letter:** For "In-principle approval" under **Regulation 28(1)** of SEBI (LODR) Regulations, 2015.
2. **Board Resolution:** Certified copy of the resolution passed by the **Board of Directors** for the proposed preferential issue.
3. **Notice of AGM/EGM:** Printed copy of the notice for the General Meeting.
4. **Allotment Details:**
  - **Consideration other than cash:**
    - Certified copy of **valuation report**.
    - Certified copy of **Shareholders' Agreement**.
    - Approval letters from **FIPB and RBI**, if applicable.
  - **Under Resolution Plan (IBC/ NCLT/ CDR):**
    - Certified copy of the **resolution plan approved by NCLT** (Extract or scheme/order).
  - **Conversion of Loan (Financial Institutions):**
    - Certified copy of the **Loan Agreement**.
5. **Preferential Issue Details:** Brief particulars of the proposed issue.
6. **Pledge Confirmation:** Undertaking/confirmation from **banks/financial institutions**, company, and allottee(s) if the pre-issue shares are pledged.
7. **Confirmation by MD/CS:** Confirmation from **Managing Director** or **Company Secretary**.
8. **Statutory Certification:** Certificate from **Statutory Auditors/ Practicing CA/ PCS**.
9. **Pricing Certificate:** By **Statutory Auditors/ Practicing CA/ PCS**. If shares are infrequently traded, pricing certificate under **SEBI (ICDR) Regulations, 2018**.
10. **Non-refundable Processing Fees:** Submission of fees.

---

#### Brief Particulars of the Proposed Preferential Issue

##### I) Company Details:

- Name of the Company
- Scrip Code
- ISIN No.
- Face Value of Equity Shares
- Authorized Capital (in ₹)
- Nominal Value of Equity Capital (in ₹)
- Paid-Up Equity Share Capital (in ₹)
- Max. No. of Shares to be Issued (incl. convertible instruments)
- Paid-Up Capital Post-Issue (on fully diluted basis)

#### II) Issue Details:

- Date of Board Approval
- Date of General Meeting Approval (Section 62)
- Date of CDR/NCLT Approval, if applicable
- Relevant Date
- Offer Price (₹)
- Minimum Price as per SEBI (ICDR) Regulations, 2018
- Consideration (cash/other than cash/loan conversion)
- Regulatory Approvals (if required)
- Details of Securities to be Issued:
  - Promoters: Equity, Warrants, Others (PCD/FCD, etc.)
  - Non-Promoters: Equity, Warrants, Others
  - Convertible Instruments: Exercise/Conversion Period

#### III) Allottee Details:

- Name of Proposed Allottee
- Category (Promoter/Non-Promoter)
- PAN
- Ultimate Beneficial Owners (if allottee is not a natural person)
- No. of Securities to be Allotted
- Allottee's Category (QIB/Eton QIB)
- Post-Issue Shareholding Percentage

#### IV) Pre-Preferential Shareholding of Allottees:

- Name of Allottee
- Pre-Preferential Shareholding (No. of shares)
- Pre-Preferential Holding Form (Physical/Demat)
- Lock-in Details: Date from/to, No. of shares
- Pledge Details: Name of institution

**Note:** Pre-preferential shares in physical form must be dematerialised before allotment.

#### V) Shareholding Pattern:

- Pre-Issue Shareholding:
  - Promoters & Promoter Group
  - Public
- Post-Issue Shareholding:
  - Promoters & Promoter Group
  - Public
- Custodian (if applicable)

This checklist summarizes the key documents and details required for a preferential issue under SEBI regulations.

#### Post-Issue Formalities for Granting Listing Approvals (Preferential Issue)

1. **Covering Letter:** For listing approval of equity shares issued and allotted on preferential basis.
2. **Letter of Application:** By listed companies applying for listing of the further issue (duly completed).
3. **Brief Particulars:** Details of new securities issued.
4. **Board Resolution:** Certified copy for allotment of equity shares, along with **depository confirmation** for credit of securities in **dematerialized form**.
5. **Board Resolution for Convertible Instrument:** Certified copy for allotment of equity shares pursuant to the conversion of convertible instruments (if applicable).
6. **Shareholder Resolution:** Certified copy of the shareholders' resolution approving the preferential allotment, and increasing the authorized capital (if applicable).

7. **Shareholding Pattern:** Pre and post allotment as per **Regulation 31 of SEBI (LODR) Regulations, 2015**.
8. **Compliance Certificate:** Certified copy from **Statutory Auditor**, placed before the shareholders.
9. **Funds Receipt Certificate:** From the **Statutory Auditor** of the company.
10. **Compliance Certificate:** From **Statutory Auditors/Practicing CA/Practicing Company Secretary**.
11. **Certificate from MD/CS:** From **Managing Director or Company Secretary** of the company.
12. **SEBI SCORES Authentication:** Confirmation for authentication on **SEBI SCORES** platform.
13. **Court Orders/Approvals:** Certified copy of the **order passed by NCLT/ High Court/ BIFR**, or approved **NCLT resolution plan/scheme** by **CDR** (if applicable).
14. **Processing Fee/Additional Listing Fee:** Details of any fee to be paid for the enhanced capital.

#### Qualified Institutions Placement (QIP) – SEBI (ICDR) Regulations, 2018

##### Definition:

- **QIP:** Allotment of eligible securities by a listed issuer to **qualified institutional buyers (QIBs)** on a private placement basis.

##### Eligible Securities for QIP:

- Equity shares
- Non-convertible debt instruments
- Warrants & Convertible Securities (other than warrants)

##### Qualified Institutional Buyer (QIB):

- Mutual funds, venture capital funds, alternative investment funds, foreign venture capital investors (registered with SEBI).
- Foreign portfolio investors (other than individuals, corporate bodies, and family offices).
- Public financial institutions, scheduled commercial banks.
- Multilateral/bilateral development financial institutions.
- Insurance companies registered with **IRDAI**.
- Provident/pension funds with a minimum corpus of ₹25 crores.
- National Investment Fund (Govt. of India).
- Insurance funds managed by the Army, Navy, Air Force, or Department of Posts, India.
- Systemically important non-banking financial companies (NBFCs).

##### Conditions for QIP:

1. **Relevant Date:**
  - For equity shares: Date when **Board of Directors** decides to open the issue.
  - For convertible securities: Date when the Board decides or when holders of such securities become entitled to apply for equity shares.
2. **Special Resolution:**
  - A **special resolution** must be passed by the shareholders approving the QIP.
  - The resolution must specify details of the QIP and relevant date.
  - The allotment must be completed within **365 days** from the date of passing the special resolution.
3. **Equity Shares of the Same Class:**
  - The equity shares must **rank pari passu** in relation to rights like **dividend, voting, or otherwise**.
  - Shares must have been listed for at least **one year** before issuance.
4. **Eligibility Criteria:**
  - The issuer and its promoters or directors must not be **fugitive economic offenders**.
  - All securities issued through QIP must be listed on a recognized stock exchange where the issuer's shares are listed.
5. **Subsequent QIP:**
  - An issuer cannot undertake another **QIP** until **two weeks** have passed since the prior **QIP**.

6. **Listing on Stock Exchange:**
  - Securities issued under QIP must be listed on the stock exchange where the issuer's shares are already listed.

These formalities and conditions ensure compliance with SEBI guidelines for a **preferential issue** and **QIP**, ensuring transparency, fair allotment, and regulatory adherence.

#### Conditions for Offer for Sale by Promoters for Compliance with Minimum Public Shareholding (SEBI Regulation 173)

1. **Eligible Sellers:** Promoters and members of the promoter group may offer for sale **fully paid-up equity shares** to achieve minimum public shareholding as per **Securities Contracts (Regulation) Rules, 1957**.
2. **Trading Restrictions:**
  - Promoters or members of the promoter group **cannot** buy or sell equity shares in the **12 weeks** prior to the offer.
  - They also **cannot** buy or sell equity shares in the **12 weeks** after the offer.
3. **Exceptions:**
  - Promoters or members of the promoter group can sell shares within the **12-week** period via an **offer for sale** through a stock exchange mechanism or an open market sale (under Board conditions).
  - A **minimum gap of 2 weeks** must be maintained between successive offers for sale.

#### Monitoring Agency (Regulation 173A)

1. **Criteria:** If the issue size (excluding the offer for sale by selling shareholders) exceeds ₹100 crore, the issuer must arrange for a **credit rating agency** (registered with SEBI) to monitor the use of proceeds.
2. **Report Submission:**
  - The monitoring agency will submit a quarterly report to the issuer until **100% of the proceeds** are utilized.
  - The issuer must upload the report on its website and submit it to the stock exchange within **45 days** from the end of each quarter.
3. **Exceptions:** The monitoring requirement does not apply to issues by **banks, public financial institutions, or insurance companies**.

#### Appointment of Lead Managers (Regulation 174)

1. **Lead Manager Appointment:** The issuer must appoint **SEBI-registered merchant bankers** as lead managers to the issue.
2. **Independence Requirement:** At least **one lead manager** should not be an associate of the issuer. If any lead manager is an associate, it must disclose this and limit its role to marketing.
3. **Due Diligence and Documentation:**
  - Lead managers must submit a **due diligence certificate** confirming compliance with QIP regulations.
  - They must also submit a **preliminary placement document** and any other required documentation to the stock exchange.

#### Placement Document (Regulation 175)

1. **Due Diligence:** Lead managers must ensure that all aspects of the issue are accurate, including disclosures.
2. **Documents:**
  - The issue will be made based on a **preliminary placement document** and a **placement document** containing all material information.
  - The documents must be **serially numbered** and circulated to **select investors** only.
  - The **preliminary and placement documents** will be available on the issuer's and stock exchange's websites with a disclaimer that no public offer is being made.

#### Pricing (Regulation 176)

1. **Pricing Formula:**
  - The issue price must be **at least the average of the weekly high and low closing prices** of the equity shares during the two weeks preceding the **relevant date**.
2. **Discount:**
  - A **maximum 5% discount** can be offered, subject to **shareholder approval**.
  - **No shareholder approval** is required for offers made by promoters for **compliance with minimum public shareholding** requirements.
3. **Convertible Securities:** The price for equity shares upon conversion of securities will be determined as per the special resolution.
4. **Price Adjustments:** Adjustments may be required in case of:
  - Issuance of equity shares through capitalization of profits.
  - Rights issue, stock splits, or reclassification of shares.
  - Other similar events as decided by the stock exchange.

#### Partly Paid-up Eligible Securities

1. **Restriction:** Issuers **cannot** issue or allot partly paid-up eligible securities, except for non-convertible debt instruments with warrants where the payment may be partly made.
2. **Full Payment on Conversion:** Upon conversion or exercise of options attached to warrants, the equity shares must be **fully paid-up**.
3. **Material Price Movements:** The impact of material price movements due to external events may be excluded in the issue price calculation.

#### Tenure of Convertible Securities

1. The **tenure** of convertible or exchangeable eligible securities under QIP cannot exceed **60 months** from the allotment date.

#### Transferability

1. Securities allotted through QIP cannot be sold by the allottee for **one year** from the allotment date, except on a recognized stock exchange.

#### Minimum Number of Allottees

1. **Allottee Requirements:**
  - **Minimum two allottees** for an issue size ≤ ₹200 crore or ₹50 crore.
  - **Minimum five allottees** for an issue size > ₹200 crore or ₹50 crore.
2. **Limit on Allotment:** No single allottee can receive more than **50% of the issue size**. Allottees from the same group or under the same control will be treated as a single allottee.

These provisions ensure a **transparent process** for **public shareholding compliance** and **QIP issuance** with **rigorous checks, disclosure requirements, and investor protection mechanisms**.

#### Application and Allotment (QIP)

1. **No Withdrawal or Revision:** Applicants in a QIP cannot withdraw or revise downward their bids after the closure of the issue.
2. **Allotment Conditions:**
  - **Minimum 10%** of eligible securities must be allotted to **mutual funds**. Any unsubscribed portion may be allotted to other **Qualified Institutional Buyers (QIBs)**.
  - **No allotment** to a QIB who is a **promoter** or related to the promoters.
    - **Exceptions:** A QIB holding no shares in the issuer and acquiring rights as a **lender** is not considered related to promoters.
    - A QIB with rights such as:

- Voting agreement with promoters or the promoter group.
- Nominee director on the board.
- Veto rights.
- Rights under a shareholders' agreement.
- These rights make the QIB **related to promoters**.

---

#### Documentation for Qualified Institutions Placement (QIPs) Pre-Issue Documentation for Granting Approvals

1. **Covering Letter:**
  - Application for **prior in-principle approval** for the proposed QIP issue, including whether the issue involves **fresh issue** or **offer for sale** to comply with minimum public shareholding.
  - Whether a **discount** is being offered to investors, as per SEBI (ICDR) Regulations, 2018.
2. **Board Meeting Intimation:**
  - A copy of the **two-day prior intimation** to the Exchange about the proposed **Board meeting** discussing QIP, as per Regulations 29(1) and (2) of SEBI (LODR) Regulations, 2015.
3. **Board Resolution:**
  - Certified copy of the **Board resolution** approving the placement of securities with **Qualified Institutional Buyers (QIBs)** as per SEBI (ICDR) Regulations, 2018.
4. **Shareholder Notice:**
  - Copy of the **notice sent to shareholders**, if applicable, seeking approval for the QIP issue.
5. **Special Resolution:**
  - Certified copy of a **special resolution** passed by shareholders approving the QIP issue, with specific points:
    - Allotment to QIBs through **Qualified Institutions Placement** under Chapter VI of SEBI (ICDR) Regulations, 2018.
    - Any proposed **discount** to QIBs, if applicable.
    - The **relevant date** as referred to in Regulation 171(b)(ii) of SEBI (ICDR) Regulations, 2018.
6. **Draft Placement Document:**
  - A **draft placement document** for the issue, containing a disclaimer stating it is **for QIBs** only and **not** a public offer.
7. **Shareholding Pattern:**
  - Abridged **shareholding pattern** of the company, excluding annexures.
8. **Due Diligence Certificate:**
  - **Merchant bankers' due diligence certificate** confirming the company complies with SEBI (ICDR) Regulations, 2018.
9. **Confirmation by MD/Company Secretary:**
  - Confirmation that the company complies with **Regulation 29(1) and (2)** of SEBI (LODR) Regulations, 2015.
  - Confirmation of compliance with **SEBI (ICDR) Regulations, 2018** for the QIP.
  - Declaration that equity shares arising from the QIP will **rank pari passu** with existing shares in terms of rights and dividends.
  - Confirmation that the **placement document** will be uploaded with the disclaimer on the company's website.
  - Declaration that the company complies with **statutory requirements** (Companies Act, SEBI, RBI, etc.) and is not restrained from issuing securities.
10. **Details of Pending Approvals:**

- Information about **pending approvals** for other issues with the stock exchange.
11. **Processing Fee:**
    - **Processing fee** required for the application.

---

These **pre-issue requirements** ensure a **structured and compliant QIP process**, providing transparency, investor protection, and adherence to regulatory norms.

#### Documents for Hosting Preliminary Placement Document on Stock Exchange Website

1. **Board Resolution:**
  - Certified true copy of the **Board resolution** authorizing the opening of the proposed issue.
2. **Preliminary Placement Document:**
  - **Soft copy** of the **Preliminary Placement Document** (only if there are **changes** from the version submitted during prior in-principle approval).
  - **PDF copy** of the **Preliminary Placement Document**.

---

#### Post-Issue Documents for Listing Approvals (QIP)

1. **Letter of Application:**
  - Completed **Letter of Application** for listing further issue, including **distribution schedule** pre- and post-allotment.
2. **Board Resolution:**
  - Certified true copy of the **Board resolution** authorizing the allotment of securities.
3. **List of Allottees:**
  - **List of allottees** and the number of **equity shares allotted** to them.
4. **Large Allottees:**
  - List of allottees who have been allotted more than **5%** of the securities, with details like **name, shares allotted, and percentage of the issue size**.
5. **Shareholding Pattern:**
  - **Completed shareholding pattern form** showing details before and after the issue.
6. **Additional Listing Fee:**
  - Payment of **additional listing fee** (if applicable) based on enhanced capital.
7. **Confirmation by MD/Company Secretary:**
  - Confirmation statement on compliance with regulations.
8. **PCA/PCS Certificate:**
  - **PCA/PCS certificate** confirming the **floor price** and receipt of funds for the placement.
9. **Merchant Bankers' Due Diligence Certificate:**
  - **Due diligence certificate** confirming compliance with **SEBI (ICDR) Regulations, 2009 and 2018**.
10. **Post-Issue Confirmation:**
  - **Post-issue merchant banker confirmation** summarizing **bids received** and **allocations made** to QIBs.
11. **Final Placement Document:**
  - Certified true copy and **soft copy in PDF format** of the **final Placement Document**.
12. **Terms & Conditions of Convertible Securities:**
  - Detailed terms for **NCDs** or securities convertible into or exchangeable with equity shares, including **reconciliation** of outstanding securities.
13. **List of Allottees in Excel Format:**
  - List of allottees in an **Excel format** (including details such as **PAN, category, shares allotted, and percentage of total issue size**).

---

#### Social Stock Exchange (SSE)

- **Social Stock Exchange:** A segment of a recognized stock exchange that registers **Not for Profit Organizations (NPOs)** and lists securities issued by them under **SEBI (ICDR) Regulations, 2018**.

- **Not for Profit Organizations (NPOs)** can be:
  1. **Charitable trust** under the **Indian Trusts Act, 1882**.
  2. **Charitable trust** under the **public trust statute** of the relevant state.
  3. **Charitable society** under the **Societies Registration Act, 1860**.
  4. **Section 8 company** under **Companies Act, 2013**.
  5. Any other entity as specified by **SEBI**.

#### Eligibility Conditions for Social Enterprises

- Social intent should focus on:
  - **Eradicating hunger, poverty, and inequality.**
  - **Promoting healthcare, including mental health and safe drinking water.**
  - **Education, employability, and livelihoods.**
  - **Gender equality, empowerment** of women and LGBTQIA+ communities.
  - **Environmental sustainability, climate change, forest and wildlife conservation.**
  - **Protection of national heritage, art, and culture.**

#### Registration Requirements for NPOs on SSE

- SEBI specifies the **minimum eligibility requirements** for **Not for Profit Organizations** to register on the **Social Stock Exchange**.

#### Fundraising by Social Enterprises

##### For Not-for-Profit Organizations (NPOs)

- **Issuance of Zero Coupon Zero Principal Instruments** to eligible investors.
- **Donations through Mutual Fund schemes**, as specified by **SEBI**.
- **Other means** as specified by **SEBI**.

##### For For-Profit Organizations

- **Issuance of equity shares** on the **main board, SME platform, or Innovators Growth Platform**, or to **Alternative Investment Funds (AIFs)** including **Social Impact Funds**.
- **Issuance of debt securities.**
- **Other means** as specified by **SEBI**.

#### Ineligibility for Raising Funds

A **Social Enterprise** is ineligible if:

1. **Debarred from securities market** by **SEBI**.
2. **Promoter/director of a company or Social Enterprise** debarred by **SEBI**.
3. **Wilful defaulter or fraudulent borrower.**
4. **Fugitive economic offender.**
5. **Debarred from raising funds** by the **Ministry of Home Affairs**, other ministries, or statutory bodies.

#### Contents of Fundraising Document

- The **contents** will be specified by **SEBI**.

#### Green Shoe Option (GSO)

##### What is GSO?

- An option allowing the allocation of **extra shares** (over the issue size) to a **Stabilizing Agent (SA)** post-listing, to stabilize the price.
- **Introduced in India by SEBI** on 14th August 2003.

##### Illustration (IPO Example):

- **IPO size:** 100,000 shares at **₹100/share** (total: **₹10,000,000**).
- **Green Shoe:** Option to allot **15% extra shares** (i.e., **15,000 shares**).
- **Total IPO:** **115,000 shares** (including Green Shoe shares).

##### Green Shoe Escrow Mechanism:

- IPO funds (**₹10,000,000**) go to the issuer.
- **Proceeds of Green Shoe shares (₹1,500,000)** are held in a **Green Shoe Escrow Account**.

#### Situations in the Price Stabilization Period

1. **Situation #1 - All Green Shoe Shares Bought Back:**
  - Stabilizing agent uses funds from the **Escrow Account** to buy back shares from the market.
  - Shares are **returned** to the lenders within **2 days**.
2. **Situation #2 - None of the Green Shoe Shares Bought Back:**
  - No price stabilization required, or no sellers found.
  - **Issuer company** must allot **15,000 shares** to the stabilizing agent, using funds in the Escrow Account.
3. **Situation #3 - Some Green Shoe Shares Bought Back** (e.g., 10,000 shares):
  - Stabilizing agent returns **10,000 shares**.
  - **Issuer company** must allot the **remaining 5,000 shares** to the stabilizing agent to meet the total of **15,000 shares**.

#### Listing Permissions:

- The issuer must apply for **listing/trading permissions** for additional shares issued under the Green Shoe option.

#### Green Shoe Escrow Account Surplus

- Any **surplus** in the Escrow Account is transferred to the **Investor Protection and Education Fund** established by **SEBI**.
- The **Escrow Account** is closed thereafter.

## CH-9 REAL ESTAE INVESTMENT TRUSTS

#### Regulatory Framework for REITs

- **SEBI (Real Estate Investment Trusts) Regulations, 2014**
- **Guidelines for Public Issue of Units of REITs**
- **SEBI (Listing Obligation and Disclosures Requirements) Regulations, 2015**
- **The Trust Act, 1882**
- **The Registration Act, 1908**
- **The FEMA, 1999**
- **The Income Tax Act, 1961**

#### Introduction to REITs

- **REIT:** Investment vehicle for investing in **rent-yielding, completed real estate properties**.
- Attracts long-term **financing** from **domestic & foreign sources**.
- Provides a **new investment vehicle** for investors with **ongoing returns, transparency, and governance**.
- **REIT markets:** Originated in **US** (1960s) and expanded to **Australia** (1970s) and **Asia** (late 1990s-2000s).

#### Genesis of REITs in India

- REITs started as **real estate mutual funds** in India, with **draft regulations** in 2008.
- SEBI introduced **REIT regulations** in 2014, enabling their establishment and listing.
- **Embassy Office Parks REIT:** First REIT in India, listed in 2019, raising **INR 47.5 billion**.
- **Mindspace Business Parks REIT:** Second REIT, raised **INR 4500 crore** in 2020.
- **Registered REITs (2024):**
  - **Embassy Office Parks REIT**
  - **Mindspace Business Parks REIT**
  - **Brookfield India Real Estate Trust**
  - **360 One Real Estate Investment Trust**
  - **Nexus Select Trust**

India became the **31st** country to enact **REIT legislation**.

#### Difference Between REITs and Mutual Funds

Basis	REITs	Mutual Funds
-------	-------	--------------