

# Raising of Funds from Equity and Procedural Aspects – Public Funding

## Lesson 8

### KEY CONCEPTS

■ Primary & Secondary Markets ■ Initial Public Offer ■ Further Public Offer ■ Private Placement ■ Preferential Issue ■ Rights Issue ■ Fast Track Issue ■ Warrants ■ Intermediaries ■ Lead Manager ■ Underwriting ■ Green Shoe Option ■ Social Stock Exchange ■ Social Enterprise

### Learning Objectives

#### To understand:

- Evolution of SEBI (ICDR) Regulations, 2018
- Various types of issues in capital market
- Modes of raising funds and compliance requirements
- Key Provisions for Draft offer letter, prospectus etc.
- Eligibility requirements for issuing various instruments
- Lock in period and its requirements
- Fast-track issue
- Green Shoe Option
- Social Stock Exchange

### Lesson Outline

- Introduction
- Background
- Types of Issues
- Initial Public Offering / Further Public Offering
- Eligibility Requirements to be complied with for an IPO under SEBI (ICDR) Regulations, 2018
- General Conditions
- Additional conditions for an offer for sale
- Issue of Warrants
- Eligibility Criteria for Further Public Offer
- Promoters' Contribution
- Lock in Requirements
- Filing of Offer Document
- Pricing
- Minimum Offer to Public and Reservations
- Allocation in Net Offer
- Fast Track FPO
- Exit Opportunity to Dissenting Shareholders
- Initial Public Offer by Small and Medium Enterprises
- Innovators Growth Platform
- Documentation for IPO/FPO
- Rights Issues
- General Obligations of the Issuer and the Intermediary in case of Public Issue and Rights Issue
- Documentation for Right Issue
- Preferential Issues
- Pricing
- Documentation for Preferential Issue
- Conditions for Qualified Institutions Placements (QIP)
- Qualified Institutional Buyer
- Documentations for QIP
- Social Stock Exchange
- Green Shoe Option
- Lesson Round-Up
- Test Yourself
- List of Further Readings
- Other References

## REGULATORY FRAMEWORK

- The SEBI Act, 1992
- The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018
- The Securities Contracts (Regulations) Rules, 1957

## INTRODUCTION

Securities market, including the market for public offerings, is dynamic and needs to keep pace with the evolving economic and technological environment. In order to keep pace with the change, there has been a commensurate change in the regulatory framework governing the primary market. SEBI in its endeavour to provide issuers and investors with an efficient mechanism for raising funds, has been continuously striving to streamline the process and methodologies associated with public issue fund raising process.

With more promoters looking out to raise money by divesting equities, regulations standard is becoming increasingly stringent. SEBI monitors all the dealings of companies who are planning to raise money on the stock exchanges and is quite careful about attempts which try to create artificial demands about upcoming issues. SEBI has come up with ICDR Regulations, 2018 to promote the development of a healthy capital market and to protect investors' interest while they deal with securities.

Management of a public issue involves coordination of activities and cooperation of a number of agencies such as managers to the issue, underwriters, brokers, registrar to the issue, solicitors/legal advisors, printers, publicity and advertising agents, financial institutions, auditors and other Government/Statutory agencies such as Registrar of Companies, Reserve Bank of India, Stock Exchanges, SEBI etc. The whole process of issue of shares can be divided into two parts (i) pre-issue activities and (ii) post issue activities. All activities beginning with the planning of capital issue till the opening of the subscription list are pre-issue activities while all activities subsequent to the opening of the subscription list may be called post issue activities. Since only the demat shares are being admitted for dealings on the stock exchanges, hence the securities can be issued only in Dematerialised Form.

## BACKGROUND

With the repeal of Capital Issues (Control) Act, 1947 all the guidelines, notifications, circulars etc. issued by the office of the Controller of Capital Issues became defunct. SEBI was given the mandate to regulate issuance of securities, which was earlier done by vide its order dated 11.6.1992 called the Guidelines for Disclosure and Investor Protection, 1992. Later, SEBI issued a compendium containing consolidated Guidelines, circulars, instructions relating to issue of capital effective from January 27, 2000. The compendium titled SEBI (Disclosure and Investor Protection) Guidelines, 2000 replaced the original Guidelines issued in June 1992 and clarifications thereof. On August 26, 2009 SEBI rescinded the SEBI (DIP) Guidelines, 2000 and notified SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

SEBI in order to align its provisions under ICDR Regulations with Companies Act, 2013 and allied regulations, had come with its consultation paper on May 04, 2018 detailing the suggestive changes under various fund raising options by listed issuers.

Between 2009-till date, numerous amendments have been made to the ICDR Regulations. Different types of offerings to raise funds in the primary market have been introduced. Further, there have been changes in market practices and regulatory environment over a period of time. A need was thus felt to review and realign the ICDR Regulations with these developments and to ensure that they reflect the best practices adopted globally. In view of the same, SEBI constituted the Issue of Capital & Disclosure Requirements Committee ("ICDR

Committee”) under the Chairmanship of Shri Prithvi Haldea in June, 2017, to review the ICDR Regulations with the following objectives:

- a) To simplify the language and complexities in the regulations;
- b) To incorporate changes/ new requirements which have occurred due to change in market practices and regulatory environment;
- c) To make the regulations more readable and easier to understand.

The ICDR Committee suggested certain policy changes. These suggestions were also taken to the Primary Market Advisory Committee (PMAC) of SEBI which comprises of eminent representatives from the Ministry of Finance, Industry, Market Participants, academicians, the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. The recommendations of the PMAC were incorporated in the draft of the proposed ICDR Regulations. In addition to the public consultation, the draft regulations along with the key policy changes were also forwarded to the Ministry of Finance (MoF), Ministry of Corporate Affairs (MCA) and the Reserve Bank of India (RBI) for their comments. The provisions of Companies Act, 1956 (wherever applicable), Companies Act, 2013, SEBI (Substantial Acquisition & Substantial Takeover) Regulations, 2011, SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 have been suitably incorporated.

SEBI in its Board Meeting held on 21st June, 2018 approved the proposal for replacing SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009 with new SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2018.

In continuation to the same, SEBI vide its notification dated 11th September, 2018 issued SEBI (ICDR) Regulations, 2018 ('ICDR, 2018') which is effective from 60th day of its publication in Official Gazette.

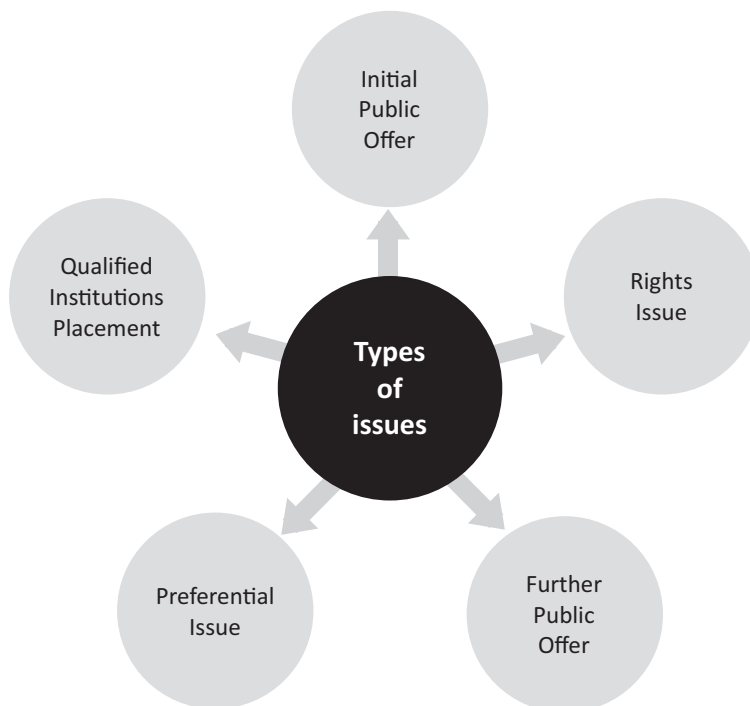
| <b>Chapter No. under ICDR Regulations, 2018</b> | <b>Particulars</b>                        |
|---|---|
| I.  | Preliminary (Definitions)                 |
| II.   | Initial Public Offer (IPO) on Main Board  |
| III.  | Rights Issue                              |
| IV.   | Further Public Offer                      |
| V.  | Preferential Issue                        |
| VI.   | Qualified Institutions Placement          |
| VII.  | IPO of Indian Depository Receipts (IDRs)  |
| VIII.   | Rights Issue of IDR                       |
| IX.   | IPO by Small and Medium Enterprises (SME) |
| X.  | Innovators Growth Platform (IGP)          |
| X-A.  | Social Stock Exchange                     |
| XI.   | Bonus Issue                               |
| XII.  | Miscellaneous                             |

**Classification of Securities Market**

|                       |   |                         |  |
|-----------------------|---|-------------------------|--|
| <b>PRIMARY MARKET</b> | <ul style="list-style-type: none"> <li>• IPOs / FPOs and Rights Issues (Main Board/SME)</li> <li>• Reverse Book Building (RBBS) — Buyback, Tender Offer, Delisting</li> <li>• Offer For Sale (OFS)</li> <li>• Mutual Funds (Open Ended)</li> <li>• Securitized Debt Instruments</li> <li>• REITs / InvITs</li> <li>• Debt Securities / NCRPS / Municipal Bonds</li> <li>• Innovators Growth Platform (IGP)</li> </ul> | <b>SECONDARY MARKET</b> | <ul style="list-style-type: none"> <li>• Trading of Equity share</li> <li>• Equity Derivatives</li> <li>• Currency Derivatives</li> <li>• Interest Rate Derivatives</li> <li>• Commodity Derivatives</li> <li>• Debt — Corporate Bond and Government Securities</li> <li>• Mutual Funds (Close Ended)</li> </ul> |
|-----------------------|---|-------------------------|--|

**TYPES OF ISSUES**

Primary Market deals with those securities which are issued to the public for the first time. Primary Market provides an opportunity to issuers of securities, Government as well as corporates, to raise financial resources to meet their requirements of investment and/or discharge their obligations.



**Initial Public Offer (IPO)** means an offer of specified securities by an unlisted issuer to the public for subscription and which includes fresh issuance of shares by the company or includes an Offer for Sale (OFS) of specified securities to the public by any existing holder of such securities in an unlisted issuer. In order to qualify as an Initial public offer, the offer of securities must be by an unlisted issuer company and such an issue shall be made to the public and not to the existing shareholders of the unlisted issuer company or to selected group of investors.

**Further Public Offer (FPO)** means an offer of specified securities by a listed issuer company to the public for subscription. In other words, another issue to the public other than its existing shareholders by the listed persons is referred to as a Further Public offer.

**Rights Issue** of Securities is an issue of specified securities by a company only to its existing shareholders as on a record date in a predetermined ratio.

**Preferential Issue** refers to an issue, where a listed issuer issues shares or convertible securities, to a select group of persons in terms of provisions of Chapter V of SEBI (ICDR) Regulations, 2018 it is called a preferential issue. The issuer is required to comply with various provisions which inter alia include pricing, disclosures in the notice, lock in etc., in addition to the requirements specified in the Companies Act.

**Qualified Institutions Placement (QIP)** is another form of Preferential issue which refers to an issue by a listed entity to only Qualified Institutional Buyers (QIBs) in accordance of Chapter VI of SEBI (ICDR) Regulations, 2018 which has relaxed compliance requirements as compared to preferential issue.

### INITIAL PUBLIC OFFERING (IPO) / FURTHER PUBLIC OFFERING (FPO)

A public issue of specified securities by an issuer can be either an Initial Public Offering (IPO) or a Further Public Offering (FPO). An IPO is done by an unlisted issuer while a FPO is done by a listed issuer. As per the ICDR Regulations, the issuer shall comply with the following conditions before making an IPO of specified securities (Specified Securities means equity shares and convertible securities). The conditions need to be satisfied both at the time of filing the draft offer document (commonly referred to as the Draft Red Herring Prospectus or DRHP) and at the time of final offer document (commonly referred to as the Prospectus) with the Registrar of Companies.

### ELIGIBILITY REQUIREMENTS TO BE COMPLIED WITH FOR AN IPO UNDER SEBI (ICDR) REGULATIONS, 2018

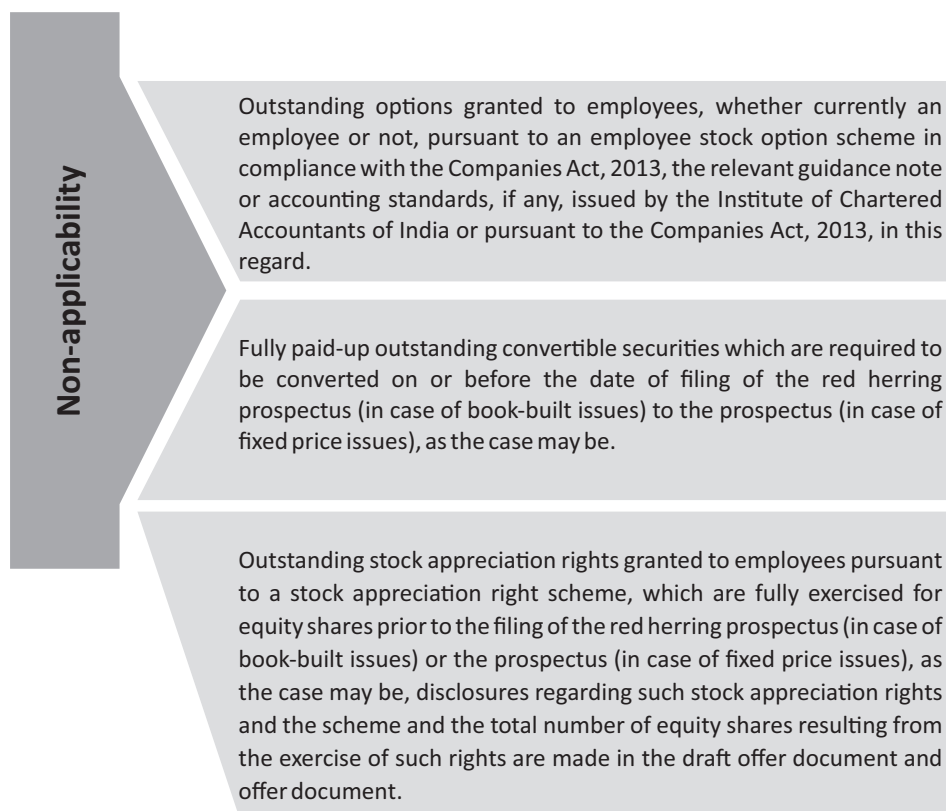
#### Entities not eligible to make an Initial Public Offer [Regulation 5]

An issuer shall not be eligible to make an initial public offer:

- a. If the issuer, any of its promoters, promoter group, directors, selling shareholders are debarred from accessing the capital market by SEBI.
- b. If any of the promoters or directors of the issuer is a promoter or a director of any other company which is debarred from accessing the capital market by SEBI.
- c. If the issuer or any of its promoters or directors is a willful defaulter or a fraudulent borrower.
- d. If any of the promoters or directors of the issuer is a fugitive offender.
- e. If there are any outstanding convertible securities or any other right which would entitle any person with any option to receive equity shares of the issuer except outstanding options granted to the employees under an employee stock option scheme and fully paid-up outstanding convertible securities which are required to be converted on or before the date of filing of the Red Herring Prospectus or the Prospectus.

*Exceptions to conditions (a) and (b)* : The restrictions under (a) and (b) above shall not apply to the persons or entities mentioned therein, who were debarred in the past by SEBI and the period of debarment is already over as on the date of filing of the draft offer document with SEBI.

An issuer shall not be eligible to make an IPO, if there are any outstanding convertible securities or any other right which would entitle any person with any option to receive equity shares of the issuer.



### Eligibility requirements for an Initial Public Offer [Regulation 6(1)]

An issuer shall be eligible to make an IPO only if:

- the issuer has net tangible assets of atleast Rs. 3 crores on a restated and consolidated basis, in each of the preceding three full years of (12 months each) of which not more than 50% is held in monetary assets;  
However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has utilized or made firm commitments to utilize such excess monetary assets in its business or project. This limit of 50% shall not apply in case of IPO is made entirely through an offer for sale.
- the issuer has an average operating profit of at least Rs. 15 crores, calculated on a restated and consolidated basis, during the three preceding years with operating profit in each of the three preceding years;
- the issuer has a networth of atleast Rs.1 crore in each of the preceding three full years, calculated on a restated and consolidated basis;
- in case the issuer has changed its name within the last one year, atleast 50% of the revenue calculated on a restated and consolidated basis, for the preceding one full year has been earned by it from the activity indicated by the new name.

#### ***In case the Eligibility condition is not met***

However, in case an issuer does not satisfy the eligibility conditions stipulated above and included in Regulation 6(1) of ICDR Regulations 2018, it may still make an Initial Public Offer but only through the book building process and further undertake to allot at least 75% of the net offer to the public to Qualified Institutional Buyers (QIBs) and to refund full subscription money if it fails to do so. [Regulation 6(2)].

In case of IPOs under Regulation 6(2), if QIBs does not subscribe to allocated 75% of the net offer to public the issue will fail and the issuer company will have to refund full subscription money even though on overall basis the issue may have been over subscribed. Therefore, in these cases, 75% subscription from QIBs is must irrespective of subscription by retail investors and non-retail investors.

### Eligibility Criteria for Main Board Listing - SEBI (ICDR) Regulations, 2018

As per SEBI (ICDR) Regulations, 2018 - Regulation 6(1) & 6(2)

|   |   |   |  |
|---|---|---|--|
| <b>Option I</b><br>Net tangible assets, profitability and net worth track record  | Net Tangible Assets of at least Rs. 3 crores (for past 3 years)<br>Not more than 50% in monetary assets | Average operating profit of Rs. 15 crores in preceding three years (of twelve months each), with operating profit in each of these preceding three years  | Net worth of at least Rs. 1 crore in each of the preceding 3 full years                          |
| <b>Option II</b><br>If any one of the conditions, i.e., net tangible assets, profitability and track reward is not there                              | Issue through book building route with at least 75% allotted to QIBs                                    | +   | If QIB part is not subscribed, the issue will fail even if it is oversubscribed on overall basis |
| <b>If Option I is met</b><br>Qualified Institutional Buyer (QIB): Max. 50%<br>Retail: At least 35%<br>Non-Institutional Investors (NII): At least 15% |   | <b>If Option I is not met</b><br>Qualified Institutional Buyer (QIB): Max. 75%<br>Retail: At least 10%<br>Non-Institutional Investors (NII): At least 15% |  |

The above eligibility conditions are explained by the following example:

#### Eligibility Condition No. 1

In case the issuer is proposing to file its draft offer document with SEBI in August 2023, then the net tangible assets for the last 3 full years of 12 months each shall be at least Rs. 3 crores and not more than 50% of the same shall be held in monetary assets. In the following table, it is seen that the net tangible assets are more than Rs. 3 crores in the year ended March 31, 2021, March 31, 2022 and March 31, 2023. Further monetary assets constitute less than 50% of the net tangible assets in each of the three previous financial years:

(Rs. in lacs)

Year Ended March 31

| Particulars  | 2019    | 2020    | 2021    | 2022    | 2023    |
|--|---------|---------|---------|---------|---------|
| Net Tangible Assets                                    | 1448.56 | 2275.53 | 2532.60 | 3510.33 | 4657.50 |
| Monetary Assets  | 292.76  | 61.97   | 108.25  | 302.33  | 288.17  |
| Monetary Assets as a percentage of Net Tangible Assets | 20.21   | 2.72    | 4.27    | 8.61    | 6.19    |

“Net Tangible Assets” mean the sum of all net assets of the issuer, excluding intangible assets as defined in Accounting Standard 26 (AS 26) or Indian Accounting Standard (Ind AS) 38, as applicable, issued by the Institute of Chartered Accountants of India.

### Eligibility Condition No. 2

In case the issuer proposes to file its draft offer document with SEBI in August 2023, then the average operating profit for three preceding years shall be atleast Rs. 15 crores. Further, the company shall have operating profit in each of the three years. The average of the profits for the 3 preceding years is Rs.15.75 crores which is more than the prescribed average of Rs.15 crores.

(Rs. in lacs)

Year Ended March 31

| Particulars      | 2021    | 2022    | 2023    |
|------------------|---------|---------|---------|
| Operating Profit | 1630.31 | 1232.65 | 1864.63 |

### Eligibility Condition No. 3

In case the issuer proposes to file its draft offer document with SEBI in August 2023 then the networth shall be atleast Rs. 1 crore in each of the last 3 financial years. In the following table, it is seen that the company has a networth of Rs. 1 crore in each of the last three financial years prior to the date of the filing of the draft offer document with SEBI.

(Rs. in lacs)

Year Ended March 31

| Particulars                         | 2019           | 2020           | 2021           | 2022           | 2023           |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Equity Share Capital                | 1448.56        | 2000.00        | 2000.00        | 2000.00        | 2022.00        |
| Share Application Money             | 0.00           | 0.00           | 0.00           | 0.00           | 165.00         |
| Reserves & Surplus                  | 0.00           | 304.52         | 590.02         | 1430.47        | 2742.71        |
| <b>Total</b>                        | <b>1448.56</b> | <b>2304.52</b> | <b>2590.02</b> | <b>3595.47</b> | <b>4764.71</b> |
| Less: Misc Expenses not written off | 0.00           | 0.00           | 0.00           | 0.00           | 0.00           |
| Less: Deferred Tax Assets           | 0.00           | 0.00           | 13.45          | 0.00           | 61.08          |
| Net worth                           | 1448.56        | 2304.52        | 2576.57        | 3595.47        | 4703.63        |

Since all the above eligibility conditions are satisfied in the example and there is no change in the name of the company, this company is eligible to make an Initial Public Offering.

### General Conditions [Regulation 7]

An issuer making an initial public offer shall ensure that:

- it has made an application to one or more stock exchanges to seek an in-principle approval for listing of

- its specified securities on such stock exchanges and has chosen one of them as the Designated stock exchange;
- b) it has entered into an agreement with a depository for dematerialisation of the specified securities already issued and proposed to be issued;
  - c) all its specified securities held by the promoters are in dematerialised form prior to filing of the offer document;
  - d) all its existing partly paid-up equity shares have either been fully paid-up or have been forfeited;
  - e) all its outstanding convertible securities have been converted into equity shares;
  - f) it has made firm arrangements of finance through verifiable means towards 75% of the stated means of finance for a specific project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

The amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed 25% of the amount being raised by the issuer.

The amount for:

- (i) general corporate purposes, and
- (ii) such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document,

shall not exceed 35% of the amount being raised by the issuer.

However, the amount raised for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer. Further provided that such limits shall not apply if the proposed acquisition or strategic investment object has been identified and suitable specific disclosures about such acquisitions or investments are made in the draft offer document and the offer document at the time of filing of offer documents.

**Explanation:**

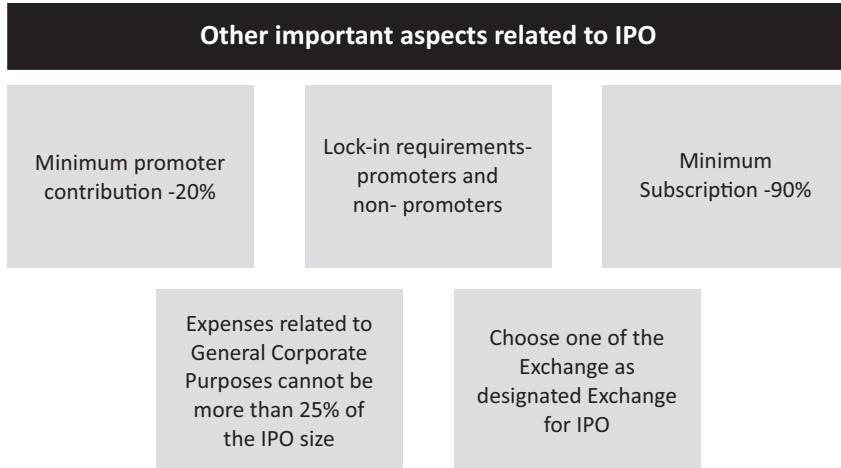
- (i) “Project” means the object for which monies are proposed to be raised to cover the objects of the issue;
- (ii) Partnership Firms or LLP

In case of an issuer which had been a partnership firm or a limited liability partnership, the track record of distributable profits of the partnership firm or the LLP shall be considered only if the financial statements of the partnership business for the period during which the issuer was a partnership firm, conform to and are revised in the format prescribed for companies under the Companies Act, 2013 and also comply with the following:

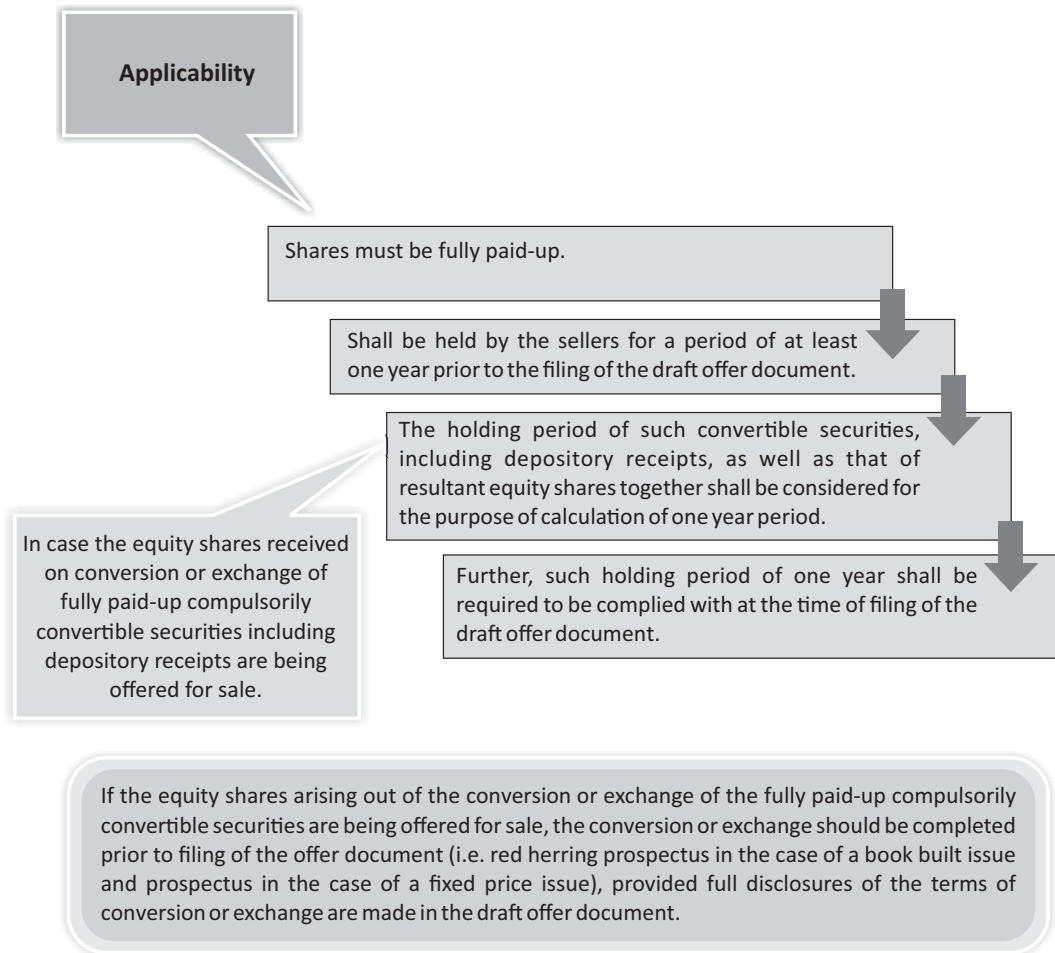
- a) adequate disclosures are made in the financial statements as required to be made in the format prescribed under the Companies Act, 2013;
- b) the financial statements are duly certified by a Chartered Accountant stating that:
  - (i) the accounts and the disclosures made are in accordance with the provisions of Schedule III of the Companies Act, 2013;
  - (ii) the accounting standards of the Institute of Chartered Accountants of India have been followed;
  - (iii) the financial statements present a true and fair view of the firm’s accounts.

(iii) Spinning off of a division

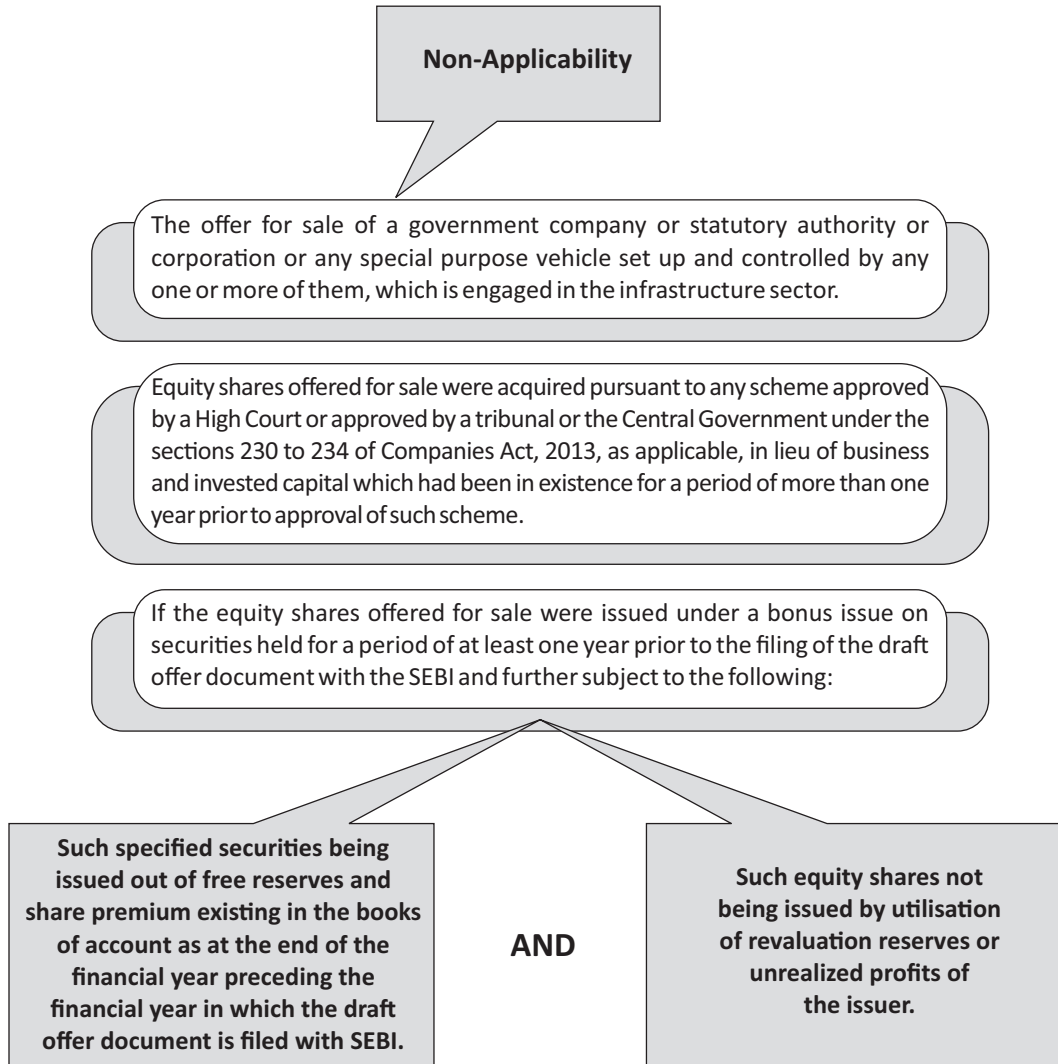
In case of an issuer formed out of a division of an existing company, the track record of distributable profits of the division spun-off shall be considered only if the requirements regarding financial statements as provided for partnership firms and LLPs are complied with.



**Additional Conditions for an Offer for Sale [Regulation 8]**



The requirement of holding equity shares for a period of one year shall not apply:



Additional condition for offer for sale through QIB route i.e. Option II of IPO as discussed earlier.

These conditions only apply for IPO through Option II i.e. QIB route.

Regulation 8A prescribed that for issues where draft offer document is filed under sub-regulation (2) of regulation 6 of these regulations:

- shares offered for sale to the public by shareholders holding, individually or with persons acting in concert, more than 20% of pre-issue shareholding of the issuer based on fully diluted basis, shall not exceed more than 50% of their pre-issue shareholding on fully diluted basis;
- shares offered for sale to the public by shareholders holding, individually or with persons acting in concert, less than 20% of pre-issue shareholding of the issuer based on fully diluted basis, shall not exceed more than 10% of pre-issue shareholding of the issuer on fully diluted basis;
- for shareholders holding, individually or with persons acting in concert, more than 20% of pre-issue shareholding of the issuer based on fully diluted basis, provisions of lock-in shall be applicable.

**Issue of Warrants [Regulation 13]**

An issuer shall be eligible to issue warrants in an initial public offer subject to the following:

- a) the tenure of such warrants shall not exceed eighteen months from the date of their allotment in the initial public offer.
- b) a specified security may have one or more warrants attached to it.
- c) the price or formula for determination of exercise price of the warrants shall be determined upfront and disclosed in the offer document and at least 25 % of the consideration amount based on the exercise price shall also be received upfront.

However, in case the exercise price of warrants is based on a formula, 25 % consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront.

- d) in case the warrant holder does not exercise the option to take equity shares against any of the warrants held by the warrant holder, within three months from the date of payment of consideration, such consideration made in respect of such warrants shall be forfeited by the issuer.

**ELIGIBILITY CRITERIA FOR FURTHER PUBLIC OFFER (FPO)****Entities not eligible to make a FPO [Regulation 102]**

An issuer shall not be eligible to make a FPO of specified securities:

(a) If the issuer, any of its promoters, promoter group or directors, selling shareholders are debarred from accessing the capital market by SEBI.

(b) If any of the promoters or directors of the issuer is a promoter or a director of any other company which is debarred from accessing the capital market by SEBI.

(c) If the issuer or any of its promoters or directors is a willful defaulter or a fraudulent borrower.

(d) if any of the promoters or directors of the issuer is a fugitive economic offender.

*Exceptions to conditions (a) and (b): The restrictions under (a) and (b) above shall not apply to the persons or entities mentioned therein, who were debarred in the past by SEBI and the period of debarment is already over as on the date of filing of the draft offer document with SEBI.*

**Eligibility requirements for FPO [Regulation 103]**

An issuer may make a FPO if it has changed its name within the last one year and atleast 50% of the revenue in the preceding one full year has been earned from the activity suggested by the new name.

If an issuer does not satisfy the above mentioned conditions, it may make a FPO only, if, the issue is made through the book-building process and the issuer undertakes to allot at least 75% of the net offer, to qualified institutional buyers (QIBs) and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

### General Conditions for FPO [Regulation 104]

An issuer making an FPO shall ensure that:

a.

An application is made for listing of the specified securities to one or more of the recognized stock exchanges and choose one of the exchanges as the designated stock exchange.

b.

An agreement is entered into with a depository for dematerialization of specified securities already issued or proposed to be issued.

c.

All its existing partly paid up equity shares have either been fully paid up or have been forfeited. In other words, if a company has partly paid up equity shares, they shall not be permitted to make a public issue.

d.

The issuer should make firm arrangements of finance through verifiable means towards 75% of the stated means of finance excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

e.

Amount for General Corporate Purposes as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed 25% of the amount being raised by the issuer.

The amount for:

- (i) general corporate purposes, and
- (ii) such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document,

shall not exceed 35% of the amount being raised by the issuer. However, the amount raised for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.

However, such limits shall not apply if the proposed acquisition or strategic investment object has been identified and suitable specific disclosures about such acquisitions or investments are made in the draft offer document and the offer document at the time of filing of offer documents.

*Explanation.* – For the purposes of this regulation “finance for the specific project” shall mean finance for capital expenditures only.

For the purposes of this regulation, “project” means the object for which monies are proposed to be raised to cover the objects of the issue.

**Issue of Warrants [Regulation 111]**

An issuer shall be eligible to issue warrants in a further public offer subject to the following conditions:

- the tenure of such warrants shall not exceed eighteen months from the date of their allotment in the public issue;
- a specified security may have one or more warrants attached to it;
- the price or formula for determination of exercise price of the warrants shall be determined upfront and at least 25% of the consideration amount based on the exercise price shall also be received upfront. However, in case the exercise price of warrants is based on a formula, 25% consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront;
- in case the warrant holder does not exercise the option to take equity shares against any of the warrants held by the warrant holder, within three months from the date of payment of consideration, such consideration made in respect of such warrants shall be forfeited by the issuer.

**PROMOTERS' CONTRIBUTION [REGULATIONS 14 & 112]****In Case of IPO**

The promoters of the issuer shall hold at least 20% of the post-issue capital.

However, in case the post-issue shareholding of the promoters is less than 20%, alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with IRDA or any non-individual public shareholder holding at least 5% of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of 10% of the post-issue capital without being identified as promoter(s).

**Non applicability**

The requirement of minimum promoters' contribution shall not apply in case an issuer does not have any identifiable promoter.

**Minimum Promoters' Contribution**

The minimum promoters' contribution shall be as follows:

- a) the promoters shall contribute 20%, as the case may be, either by way of equity shares, including SR equity shares held, if any, or by way of subscription to convertible securities.  
However, if the price of the equity shares allotted pursuant to conversion is not pre-determined and not disclosed in the offer document, the promoters shall contribute only by way of subscription to the convertible securities being issued in the public issue and shall undertake in writing to subscribe to the equity shares pursuant to conversion of such securities.
- b) in case of any issue of convertible securities which are convertible or exchangeable on different dates and if the promoters' contribution is by way of equity shares (conversion price being pre-determined), such contribution shall not be at a price lower than the weighted average price of the equity share capital arising out of conversion of such securities.
- c) in case of an initial public offer of convertible debt instruments without a prior public issue of equity shares, the promoters shall bring in a contribution of at least 20% of the project cost in the form of equity shares, subject to contributing at least 20% of the issue size from their own funds in the form of equity shares.

However, if the project is to be implemented in stages, the promoters' contribution shall be with respect to total equity participation till the respective stage vis-à-vis the debt raised or proposed to be raised through the public issue.

### Promoters' Contribution to be brought in before Public Issue Opens [Regulation 14 (3) & (4)]

The promoters shall bring full amount of the promoters' contribution including premium at least one day prior to the date of opening of the issue. In case the promoters have to subscribe to equity shares or convertible securities towards minimum promoters' contribution, the amount of promoters' shall be kept in an escrow account with a scheduled commercial bank, which shall be released to the issuer along with the release of the issue proceeds.

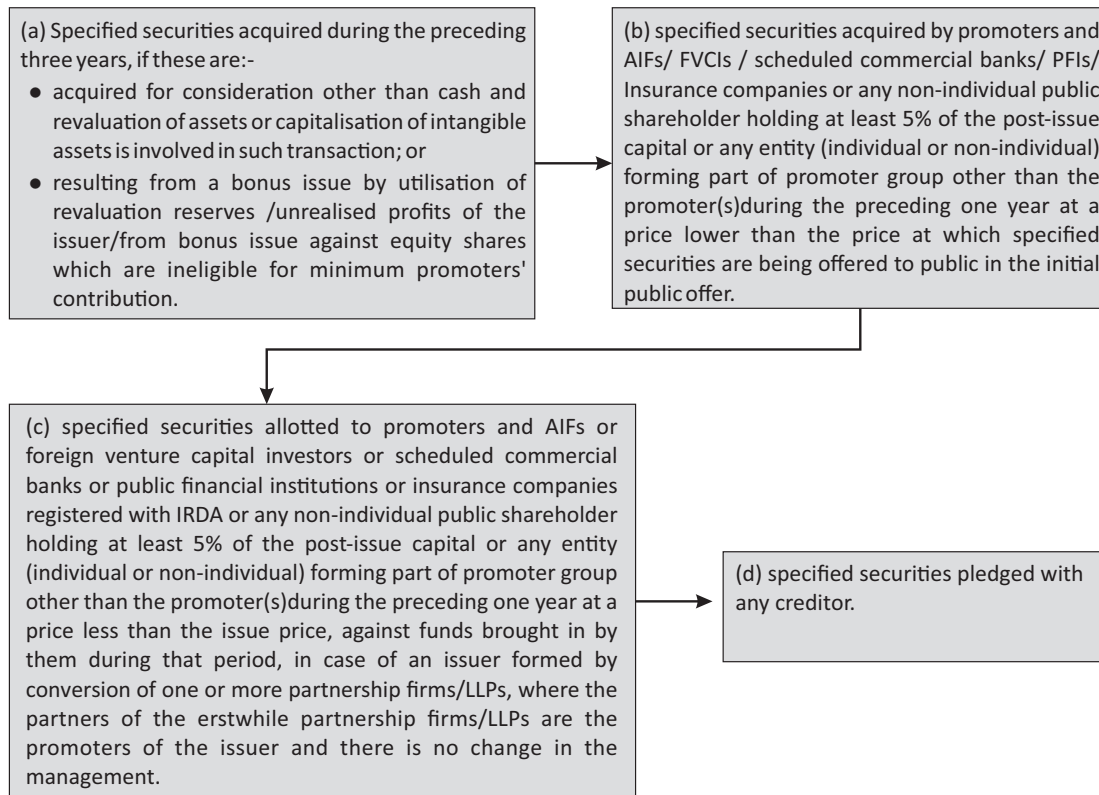
However, where the promoters' contribution has already been brought in and utilised, the issuer shall give the cash flow statement disclosing the use of such funds in the offer document. Further, where the minimum promoters' contribution is more than one hundred crore rupees and the initial public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro-rata basis before the calls are made to the public. [Regulation 14 (4)]

Promoters' contribution shall be computed on the basis of the post-issue expanded capital:

- (a) assuming full proposed conversion of convertible securities into equity shares;
- (b) assuming exercise of all vested options, where any employee stock options or stock appreciation rights are outstanding at the time of initial public offer.

### Securities Ineligible Minimum Promoters' Contribution [Regulation 15]

For the computation of minimum promoters' contribution, the following specified securities shall not be eligible:



*\*In clause (c), specified securities, allotted to promoters against capital existing in such firms for a period of more than one year on a continuous basis, shall be eligible.*

However, Clause (b) shall not apply:

- if the promoters and AIFs or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with IRDA, or any non-individual public shareholder holding at least 5% of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) as applicable pay to the issuer, the difference between the price at which specified securities are offered in the initial public offer and the price at which the specified securities had been acquired;
- if such specified securities are acquired in terms of the scheme under sections 230-240 of the Companies Act, 2013, as approved by a High Court or a tribunal or the Central Government, as applicable, by promoters in lieu of business and invested capital that had been in existence for a period of more than one year prior to such approval;
- to an initial public offer by a government company, statutory authority or corporation or any special purpose vehicle set up by any of them, which is engaged in infrastructure sector.
- to equity shares arising from the conversion or exchange of fully paid-up compulsorily convertible securities, including depository receipts, that have been held by the promoters and alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with IRDAI or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s), as applicable, for a period of at least one year prior to the filing of the draft offer document and such fully paid-up compulsorily convertible securities are converted or exchanged into equity shares prior to the filing of the offer document (i.e., red herring prospectus in case of a book built issue and prospectus in case of a fixed price issue), provided that full disclosures of the terms of conversion or exchange are made in such draft offer document.

Specified securities referred above shall be eligible for the computation of promoters' contribution, if such securities are acquired pursuant to a scheme which has been approved by a High Court or approved by Tribunal or the Central Government under sections 230-240 of the Companies Act, 2013.

### In Case of FPO

#### Exemption from Requirement of Promoters' Contribution [Regulation 112]

The requirements of minimum promoters' contribution shall not apply in case of:

- (a) An issuer which does not have any identifiable promoter;
- (b) where the equity shares of the issuer are frequently traded on a stock exchange for a period of at least three years immediately preceding the reference date, and;
  - i) the issuer has redressed at least 95% of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date, and;
  - ii) the issuer has been in compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for a minimum period of three years immediately preceding the reference date. However, if the issuer has not complied with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, relating to composition of board of directors, for any quarter during the last three years immediately preceding the date of filing of draft offer document/offer document, but is compliant with such provisions at the time of filing of draft offer document/offer document, and adequate disclosures are made in the offer document about such non-compliances during the three years immediately preceding the date

of filing the draft offer document/offer document, it shall be deemed as compliance with the condition.

Provided further that where the promoters propose to subscribe to the specified securities offered to the extent greater than higher of the two options available in clause (a) of subregulation (1) of regulation 113, the subscription in excess of such percentage shall be made at a price determined in terms of the provisions of regulation 164 or the issue price, whichever is higher.

Reference date for the purpose of computing the annualized trading turnover referred to in the said explanation shall be the date of filling the draft offer document with the SEBI and in case of fast track issue, the date of filling of offer document with ROC and before opening of the issues.

### Minimum Promoters' Contribution [Regulation 113]

The promoters shall contribute in the public issue as follows:

- a) either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital;
- b) in case of a composite issue (i.e. further public offer cum rights issue), either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital excluding the rights issue component.

In case of a public issue or composite issue of convertible securities, the minimum promoters' contribution shall be as follows:

- a) the promoters shall contribute 20%, as the case may be, either by way of equity shares or by way of subscription to the convertible securities.

However, if the price of the equity shares allotted pursuant to conversion is not pre-determined and not disclosed in the offer document, the promoters shall contribute only by way of subscription to the convertible securities being issued in the public issue and shall undertake in writing to subscribe to the equity shares pursuant to conversion of such securities.

- b) in case of any issue of convertible securities which are convertible or exchangeable on different dates and if the promoters' contribution is by way of equity shares (conversion price being pre-determined), such contribution shall not be at a price lower than the weighted average price of the equity share capital arising out of conversion of such securities.

In case of a further public offer or composite issue where the promoters contribute more than the stipulated minimum promoters' contribution, the allotment with respect to excess contribution shall be made at a price determined in terms of the provisions relating to pricing of frequently trading shares or the issue price, whichever is higher.

In case the promoters have to subscribe to equity shares or convertible securities towards promoters' contribution, the promoters shall satisfy the requirements of at least one day prior to the date of opening of the issue and the amount of promoters' contribution shall be kept in an escrow account with a scheduled commercial bank and shall be released to the issuer along with the release of the issue proceeds.

Further, where the minimum promoters' contribution is more than one hundred crore rupees and the further public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro-rata basis before the calls are made to the public.

**“Weighted average price”:**

- (a) “weight” means the number of equity shares arising out of conversion of such specified securities into equity shares at various stages;
- (b) “price” means the price of equity shares on conversion arrived at after taking into account predetermined conversion price at various stages.

**Securities ineligible for minimum promoters’ contribution [Regulation 114]**

For the computation of minimum promoters’ contribution, the following specified securities shall not be eligible:

- (a) specified securities acquired during the preceding three years, if these are:
  - i) acquired for consideration other than cash and revaluation of assets or capitalization of intangible assets is involved in such transaction; or
  - ii) resulting from a bonus issue by utilisation of revaluation reserves or unrealised profits of the issuer or from bonus issue against equity shares which are ineligible for minimum promoters’ contribution.
- (b) specified securities pledged with any creditor other than those for borrowings by the issuer or its subsidiaries.

Specified securities referred shall be eligible for the computation of promoters’ contribution, if such securities are acquired pursuant to a scheme which has been approved by the High Court or approved by a tribunal or the Central Government under section 230 to 234 of the Companies Act, 2013.

**LOCK IN REQUIREMENTS****For Securities Held, by Promoters [Regulations 16 & 115]**

In a public issue, the specified securities held by promoters shall be locked-in for the period stipulated hereunder:

|                                       |  |
|---------------------------------------|--|
| <b>Three years lock-in</b>            | The promoters’ contribution including contribution made by AIFs or FVCIS or scheduled commercial banks or PFIs or insurance companies registered with IRDA, or any non-individual public shareholder holding at least 5% of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) shall be locked-in for a period of 18 months from the date of allotment in the Initial Public Offer. |
| <b>Excess of Minimum Contribution</b> | Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of six months from the date of allotment in the initial public offer.  |
| <b>SR Equity Shares</b>               | SR equity shares shall be under lock-in until conversion into equity shares having voting rights same as that of ordinary shares or shall be locked-in for a period specified above, whichever is later. In case of FPO, the SR equity shares shall be under lock-in until their conversion to equity shares having voting rights same as that of ordinary shares, provided they are in compliance with the other provisions of these regulations.             |

**Securities Held by Persons other than Promoters [Regulation 17]**

The entire pre-issue share capital, held by persons other than the promoters, shall be locked-in for a period of six months from the date of allotment in the initial public offer.

The provisions of this regulation shall not apply, in case of:

- (i) Equity shares allotted to employees under employee stock option scheme or stock appreciation right scheme prior to initial public offer, if the issuer has made full disclosures with respect to such option;
- (ii) Equity shares held by an employee stock option trust or transferred to the employees by an employee stock option trust pursuant to exercise of options by the employees, in accordance with the employee stock option plan or employee stock purchase scheme or a stock appreciation rights scheme.

However, equity shares allotted to the employees shall be subject to the provisions of lock-in as specified under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021;

- (iii) Equity shares held by a venture capital fund or AIF of category I & II or a FVCI and such equity shares shall be locked-in for a period of at least six months from the date of purchase by the venture capital or AIF of category I & II or FVCI.

For Point No. (iii), in case such equity shares have resulted pursuant to conversion of fully paid-up compulsorily convertible securities, the holding period of such convertible securities as well as that of resultant equity shares together shall be considered for the purpose of calculation of six months period and convertible securities shall be deemed to be fully paid-up, if the entire consideration payable thereon has been paid and no further consideration is payable at the time of their conversion.

There is no such requirements as mentioned above in case of a FPO.

**Securities Lent to Stabilising Agent under Green Shoe Option [Regulations 18 & 116]**

If the shares held by promoter(s) are lent to the Stabilizing Agent (SA) as prescribed, they should be exempted from the lock-in requirements specified above, for the period starting from the date of such lending and ending on the date on which they are returned to the same lender(s). However, the securities should be locked-in for the remaining period from the date on which they are returned to the lender.

**Lock-in of partly-paid securities [Regulations 19 & 117]**

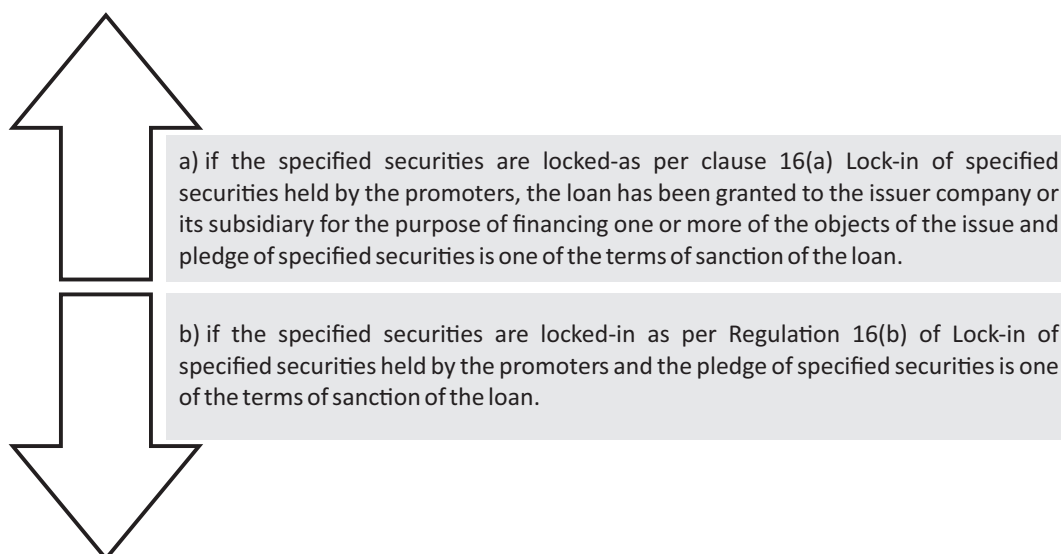
If the specified securities which are subject to lock-in are partly paid-up and the amount called-up on such specified securities is less than the amount called-up on the specified securities issued to the public, the lock-in shall end only on the expiry of 18 months after such specified securities have become pari passu with the specified securities issued to the public.

**Inscription or recording of non-transferability [Regulations 20 & 118]**

The certificates of specified securities which are subject to lock-in shall contain the inscription “non-transferable” and specify the lock-in period and in case such specified securities are dematerialised, the issuer shall ensure that the lock-in is recorded by the depository.

**Pledge of Locked in Shares [Regulations 21 & 119]**

Specified securities, except SR equity shares, held by the promoters and locked in may be pledged as collateral security for a loan granted by a scheduled commercial bank or a public financial institution or a systemically important non-banking finance company or a housing finance company, subject to the following:



However, in case of an IPO the provision as mentioned in point (ii) regarding lock-in, such lock-in shall continue pursuant to the invocation of the pledge and such transferee shall not be eligible to transfer the specified securities till the lock-in period stipulated in these regulations, has expired.

#### **Transferability of locked-in specified securities [Regulations 22 & 120]**

Subject to the provisions of SEBI (Substantial Acquisition of shares and Takeovers) Regulations, 2011, the specified securities, except SR equity shares, held by the promoters and locked-in may be transferred to another promoter or any person of the promoter group or a new promoter or a person in control of the issuer.

However, lock-in on such specified securities shall continue for the remaining period with the transferee and such transferee shall not be eligible to transfer them till the lock-in period stipulated in these regulations has expired.

#### **APPOINTMENT OF LEAD MANAGERS, OTHER INTERMEDIARIES AND COMPLIANCE OFFICER [REGULATIONS 23 & 121]**

- The issuer shall appoint one or more merchant bankers, which are registered with SEBI, as lead manager(s) to the issue.
- Where the issue is managed by more than one lead manager, the rights, obligations and responsibilities, relating *inter alia* to disclosures, allotment, refund and underwriting obligations, if any, of each lead manager shall be predetermined and be disclosed in the draft offer document and the offer document.
- At least one lead manager to the issue shall not be an associate as defined under the SEBI (Merchant Bankers) Regulations, 1992 of the issuer.
- If any of the lead manager is an associate of the issuer, it shall disclose itself as an associate of the issuer and its role shall be limited to marketing of the issue.
- The issuer shall, in consultation with the lead manager(s), appoint other intermediaries which are registered with SEBI after the lead manager(s) have independently assessed the capability of other intermediaries to carry out their obligations.
- The issuer shall enter into an agreement with the lead manager(s) and enter into agreements with other intermediaries as required under the respective regulations applicable to the intermediary concerned.

- Such agreements may include such other clauses as the issuer and the intermediaries may deem fit without diminishing or limiting in any way the liabilities and obligations of the lead manager(s), other intermediaries and the issuer under the Act, the Companies Act, 2013, the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996 and the rules and regulations made thereunder or any statutory modification or statutory enactment thereof.
- In case of ASBA process, the issuer shall take cognizance of the deemed agreement of the issuer with the self-certified syndicate banks.
- The issuer shall, in case of an issue made through the book building process, appoint syndicate member(s) and in the case of any other issue, appoint bankers to issue, at centres.
- The issuer shall appoint a registrar to the issue, registered with SEBI which has connectivity with all the depositories.
- If the issuer itself is a registrar, it shall not appoint itself as registrar to the issue.
- The lead manager shall not act as a registrar to the issue in which it is also handling the post-issue responsibilities.
- The issuer shall appoint a **person qualified to be a Company Secretary as the compliance officer** who shall be responsible for monitoring the compliance of the securities laws and for redressal of investors' grievances. It may be noted here that as per Regulation 6 of SEBI (LODR) Regulations, 2015 only a qualified Company Secretary can act as compliance officer of the listed entity.

### DISCLOSURES IN AND FILING OF OFFER DOCUMENTS [REGULATION 24 & 122]

#### Disclosures in the draft offer document and offer document

- The draft offer document and the offer document shall contain all material disclosures which are true and adequate to enable the applicants to take an informed investment decision.
- The red-herring prospectus, shelf prospectus and prospectus shall contain:
  - (i) disclosures specified in the Companies Act, 2013; and
  - (ii) disclosures specified in Part A of Schedule VI of ICDR Regulations 2018. In case of FPO the disclosures are subject to the provisions of Parts C and D thereof.
- The lead manager(s) shall exercise **due diligence** and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosures made in the draft offer document and the offer document.
- The lead manager(s) shall call upon the issuer, its promoters and its directors or in case of an offer for sale, the selling shareholders, to fulfil their obligations as disclosed by them in the draft offer document and the offer document and as required in terms of ICDR Regulations 2018.
- The lead manager(s) shall ensure that the information contained in the offer document and the particulars as per audited financial statements in the offer document are not more than six months old from the issue opening date.

### FILING OF OFFER DOCUMENT [REGULATIONS 25 & 123]

Prior to making an IPO/FPO, the issuer shall file three copies of the draft offer document with SEBI, in accordance with **Schedule IV**, along with fees as specified, through the lead manager(s).

The issuer shall also file the draft offer document with the stock exchange(s) where the specified securities are proposed to be listed, and submit to the stock exchange(s), the Permanent Account Number, bank account

number and passport number of its promoters where they are individuals, and Permanent Account Number, bank account number, company registration number or equivalent and the address of the Registrar of Companies (ROC) with which the promoter is registered, where the ROC promoter is a body corporate.

The lead manager(s) shall submit the following to SEBI along with the draft offer document:

- a certificate, confirming that an agreement has been entered into between the issuer and the lead manager(s);
  - a due diligence certificate;
  - in case of an issue of convertible debt instruments, a due diligence certificate from the debenture trustee.
- SEBI may specify changes or issue observations, on the draft offer document filed with it within a period of 30 days from the later of the following dates:
- a) the date of receipt of the draft offer document filed with SEBI; or
  - b) the date of receipt of satisfactory reply from the lead merchant bankers, where SEBI has sought any clarification or additional information from them; or
  - c) the date of receipt of clarification or information from any regulator or agency, where SEBI has sought any clarification or information from such regulator or agency; or
  - d) the date of receipt of a copy of in-principle approval letter issued by the recognised stock exchanges.
- If SEBI specifies any changes or issues observations on the draft offer document filed with it, the issuer and the lead merchant banker shall carry out such changes and comply with the observations issued by SEBI before filing the offer documents with the Registrar of Companies or an appropriate authority, as applicable.
- If there are any changes in the draft offer document in relation to the matters specified in these regulations, an updated offer document or a fresh draft offer document, as the case may be, shall be filed with SEBI.
- Copy of the offer documents shall also be filed with SEBI and the stock exchanges through the lead manager(s) promptly after filing the offer document with the Registrar of Companies.
- The draft offer document and the offer document shall also be furnish to SEBI in a soft copy.

#### **Draft offer document and offer document to be available to the public [Regulations 26 & 124]**

- The draft offer document filed with SEBI shall be made public for comments, if any, for a period of at least twenty one days from the date of publication of the public announcement, by hosting it on the websites of the issuer, SEBI, stock exchanges where specific securities are proposed to be listed and lead manager(s) associated with the issue.
- The issuer shall, within two working days of filing the draft offer document with SEBI, make a public announcement in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated, disclosing the fact of filing of the draft offer document with SEBI and inviting the public to provide their comments to SEBI, the issuer or the lead manager(s) in respect of the disclosures made in the draft offer document.
- The lead manager(s) shall, after expiry of the period stipulated above, file with SEBI, details of the comments received by them or the issuer from the public, on the draft offer document, during that period

and the consequential changes, if any, that are required to be made in the draft off document.

- The issuer and the lead manager(s) shall ensure that the offer documents are hosted on the websites as required under these regulations and its contents are the same as the versions as filed with the Registrar of Companies, SEBI and the stock exchanges, as applicable.
- The lead manager(s) and the stock exchanges shall provide copies of the offer document to the public as and when requested and may charge a reasonable sum for providing a copy of the same.

## PRICING

### Face Value of Equity Shares [Regulations 27 & 125]

The disclosure about the face value of equity shares shall be made in the draft offer document, offer document, offer document, advertisements and application forms, along with price band or the issue price in identical font size.

An issuer in an IPO and FPO may determine the price of specified securities in consultation with the lead merchant banker or through the book building process.

#### Determining of Price through Book-Building Process in an IPO

The book-building process is a price discovery mechanism that's used by companies issuing their shares to the public for the first time. A company sets a price band with a lower and upper ceiling.

The investors desirous of subscribing to the public issue are encouraged to bid within this range. Once the issue closes, the company along with the Book Running Lead Managers (BRLMs) set the final cut-off price, using a weighted average method. The final cut-off price is the price at which the shares are issued to the investors.

A hypothetical example of how the book-building process works in an IPO is placed below:

Assume that a company wishes to issue 1,00,000 shares to the public via an IPO. It sets the price band for the issue as Rs. 250 to Rs. 300 per share. Interested investors can apply for the shares at any price within this Rs. 250 to Rs. 3000 range. Here's a hypothetical representation of the investors' bids.

| No. of Shares Applied | Bid Price |
|-----------------------|-----------|
| 10,000                | Rs. 250   |
| 50,000                | Rs. 275   |
| 60,000                | Rs. 300   |

After the bid window closes, the final price, also known as cut-off price, is determined based on the proportion of application received at each price.

Investors who bid on or above the final cut-off price will be allotted the company's shares. And investors who bid lower than the final cut-off price will not be allotted any shares. Any amount blocked on their account on account of the IPO will be released.

An investor can choose the cut-off price and pay the application amount based on upper cap, i.e 300. If the cut-off price is lower than the cap price, the investor gets the necessary refund or the money gets adjusted with any due payment.

In the above example, to issue all 100,000 shares, minimum price will be 275, because applications for 50,000 and 60,000 shares (a total of 110,000) were received for or above 275 and above. The company will refund money to those who applied for shares at a bid price below 275. Furthermore, against 100,000 shares, 110,000 shares were applied for at the cut-off price of 275, so, the company will issue shares in the 10:11 ratio. That means that an investor who applied for 11 shares, will get 10 shares.

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

- The issuer may mention a price or price band in the draft prospectus (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a book built issue) and determine the price at a later date before filing the prospectus with the Registrar of Companies.

However, the prospectus filed with the ROC shall contain only one price or the coupon rate, as the case may be.

- The cap on the price band, and the coupon rate in case of convertible debt instruments, shall be less than or equal to 120% of the floor price. Provided that the cap of the price band shall be at least one hundred and five percent of the floor price.
- The floor price or the final price shall not be less than the face value of the specified securities.
- The issuer shall announce the floor price or the price band at least two working days before the opening of the issue in the pre-issue and price band advertisement in the format specified under Part A of Schedule X in the same newspapers in which the public announcement was published.
- The announcement referred above shall also contain all the relevant financial ratios computed for both the upper and lower end of the price band and also a statement drawing attention of the investors to the section titled “basis of issue price” of the offer document.
- The announcement and the relevant financial ratios shall be disclosed on the websites of those stock exchanges where the securities are proposed to be listed and shall also be pre-filled in the application forms available on the websites of the stock exchanges.

### Differential Pricing [Regulations 30 & 128]

An issuer may offer specified securities at different prices, subject to the following:

- (a) retail individual investors or retail individual shareholders or employees entitled for reservation made under regulation 33 & 130 of the ICDR Regulations, may be offered specified securities at a price not lower than by more than 10% of the price at which net offer is made to other categories of applicants, other than anchor investors;
- (b) in case of a book built issue, the price of the specified securities offered to an anchor investor shall not be lower than the price offered to other applicants;
- (c) In case the issuer opts for the alternate method of book building as specified under ICDR Regulations, 2018, the issuer may offer specified securities to its employees at a price not lower by more than 10% of the floor price.

In case of FPO, an additional condition is that in case of a composite issue, the price of the specified securities

offered in the public issue may be different from the price offered in rights issue and justification for such price difference shall be given in the offer document; and discount, if any shall be expressed in rupee terms in the offer document.

## MINIMUM OFFER TO PUBLIC AND RESERVATIONS

### Minimum Offer to Public [Regulation 31]

The minimum net offer to the public shall be subject to the provision of clause (b) of sub-rule (2) of rule 19 of Securities Contracts (Regulations) Rules, 1957 (SCRR).

The provisions of Rule 19(2)(b) of SCRR related to minimum offer to public are as given hereunder:

The minimum offer and allotment to public in terms of an offer document shall be -

- (i) At least 25% of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is less than or equal to one thousand six hundred crore rupees;
- (ii) at least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of four hundred crore rupees, if the post issue capital of the company calculated at offer price is more than one thousand six hundred crore rupees but less than or equal to four thousand crore rupees;
- (iii) at least 10% of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above four thousand crore rupees but less than or equal to one lakh crore rupees;
- (iv) at least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of five thousand crore rupees and at least five per cent of each such class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above one lakh crore rupees.

Provided that the company referred to in this sub-clause (iv) shall increase its public shareholding to at least 10% within a period of 2 years and at least 25% within a period of 5 years, from the date of listing of the securities, in the manner specified by the Securities and Exchange Board of India.

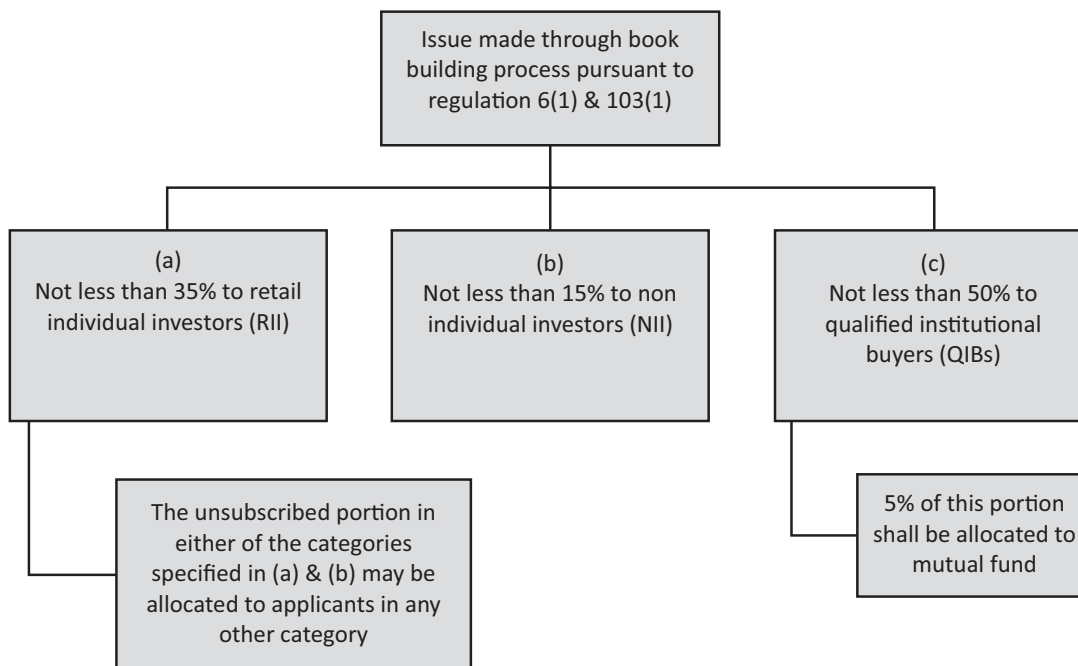
Provided further that the company, referred to in sub clause (ii) or sub-clause (iii), shall increase its public shareholding to at least 25%, **within a period of three years from the date of listing** of the securities, in the manner specified by the Securities and Exchange Board of India.

Provided further that this clause shall not apply to a company whose draft offer document is pending with the Securities and Exchange Board of India on or before the commencement of the Securities Contracts (Regulation) Third Amendment Rules, 2014, if it satisfies the conditions prescribed in clause (b) of sub-rule (2) of rule 19 of the Securities Contracts (Regulation) Rules, 1956 as existed prior to the date of such commencement.

**ALLOCATION IN NET OFFER**

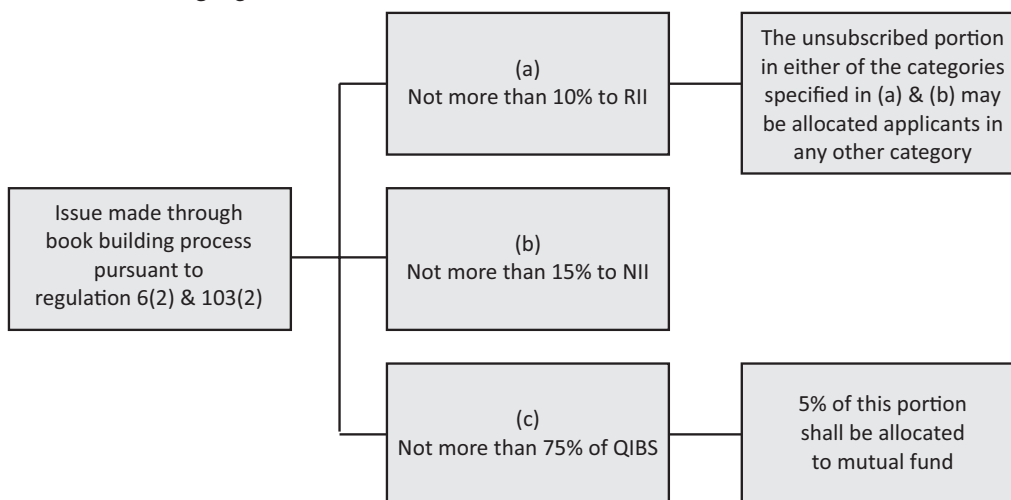
**(1) Regulations 32(1) & 129(1)**

In an issue made through the book building process pursuant to regulation 6 (1) & 103(1) the allocation in the net offer category shall be as follows:



**(2) Regulations 32(2) & 129(2)**

In an issue made through the book building process pursuant to regulation 6 (2) & 103(2) the allocation in the net offer category shall be as follows:



**(3) Regulations 32(3) & 129(3)**

In an issue made through the book building process, the issuer may allocate up to 60% of the portion available for allocation to qualified institutional buyers to Anchor Investors in accordance with the conditions specified in this regard in Schedule XIII of SEBI ICDR Regulations 2018.

Regulation 2(1)(c) of ICDR, 2018 defines Anchor Investors as - “anchor investor” means a qualified institutional buyer who makes an application for a value of at least ten crore rupees in a public issue on the main board made through the book building process in accordance with these regulations or makes an application for a value of at least two crore rupees for an issue made in accordance with Chapter IX of these regulations.

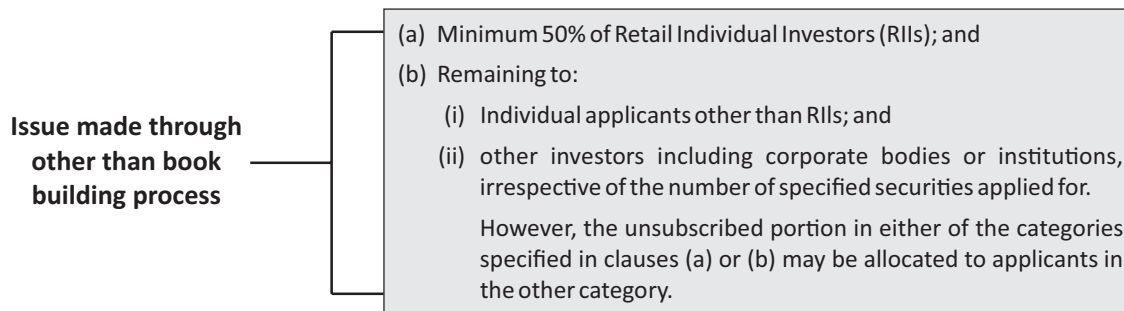
In an issue made through book building process, the allocation in the non-institutional investors’ category shall be as follows:

- (a) one third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than two lakh rupees and up to ten lakh rupees;
- (b) two third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than ten lakh rupees.

Provided that the unsubscribed portion in either of the sub-categories specified in clauses (a) or (b), may be allocated to applicants in the other sub-category of non-institutional investors.

#### (4) Regulations 32(4) & 129(4)

In an issue made other than through the book building process, the allocation in the net offer category shall be made as follows:



It may be noted that, if the retail individual investor category is entitled to more than 50% of the issue size on a proportionate basis, the retail individual investors shall be allocated that higher percentage.

## OTHER REQUIREMENTS WITH RESPECT TO IPO/FPO

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

Reservation on competitive basis means reservation wherein specified securities are allotted in portion of the number of specified securities applied for in respect of a particular reserved category to the number of specified securities reserved for that category.

According to SEBI (ICDR) Regulations, 2018, there are certain persons eligible for reservation on competitive basis.

- (1) The issuer may make reservation on a competitive basis out of the issue size excluding promoters’ contribution and net offer to public in favour of the following categories of persons:
  - Employees
  - shareholders (other than promoters and promoter group) of listed subsidiaries or listed promoter companies.

However, the issuer shall not make any reservation for the lead manager(s), registrar, syndicate member(s), their promoters, directors and employees and for the group or associate companies (as defined under the Companies Act, 2013) of the lead manager(s), registrar and syndicate member(s) and their promoters, directors and employees.

- (2) In case of an FPO, other than in a composite issue, the issuer may make a reservation on a competitive basis out of the issue size excluding promoters' contribution to the existing retail individual shareholders of the issuer.
- (3) The reservation on competitive basis shall be subject to following conditions:
  - the aggregate of reservations for employees shall not exceed 5% of the post issue capital of the issuer and the value of allotment to any employee shall not exceed two lakhs rupees;
 

However, in the event of under-subscription in the employee reservation portion, the unsubscribed portion may be allotted on proportionate basis, for a value in excess of two lakh rupees, subject to the total allotment to an employee not exceeding five lakh rupees.
  - reservation for shareholders shall not exceed 10% of the issue size;
  - no further application for subscription in the net offer can be made by persons (except an employee and retail individual shareholder of the listed issuer and retail individual shareholders of listed subsidiaries of listed promoter companies) in favour of whom reservation on a competitive basis is made;
  - any unsubscribed portion in any reserved category may be added to any other reserved category and the unsubscribed portion, if any, after such inter-se adjustments among the reserved categories shall be added to the net offer category;
  - in case of under-subscription in the net offer category, spill-over to the extent of under-subscription shall be permitted from the reserved category to the net public offer category.
- (4) An applicant in any reserved category may make an application for any member of specified securities, but not exceeding the reserved portion for that category.

#### **Abridged prospectus [Regulations 34 & 131]**

The abridged prospectus shall contain the disclosures as specified in **Part E of Schedule VI** of SEBI ICDR Regulations 2018 and shall not contain any matter extraneous to the contents of the offer document. Every application form distributed by the issuer or any other person in relation to an issue shall be accompanied by a copy of the abridged prospectus.

#### **ASBA [Regulations 35 & 132]**

The issuer shall accept bids using only the ASBA facility in the manner specified by SEBI.

UPI stands for Unified Payments Interface. It is an instant payment system on the mobile platform. It offers inter- bank transfers between any two persons' bank accounts i.e. sending or receiving money in real-time among banks in India. The National Payments Corporation of India (NPCI) developed UPI and is regulated by the RBI.

***ASBA stands for "Application supported by Blocked Amount" which means an application for subscribing to a public issue or rights issue, along with an authorization to self-certified syndicate bank to block the application money in a bank account. Under ASBA process instead of moving the application money from the bank account of applicant in an IPO to an escrow account, same is block in applicant's own bank account and if he receives shares in IPO same is released to the issuer company.***

SEBI view its circular dated November 01, 2018 has introduced UPI in a phased manner as an alternate option for retail investors (Up to Rs. 2 lacs) as a substitute of ASBA to invest in an IPO starting from January 01, 2019. The objective was to eventually cut the time consumed in listing of the company post closure of IPO (T day) from 6 working days (i.e. Listing on T+6) to 3 working days (i.e. listing on T+3).

Thereafter, w.e.f. July 01, 2019, payment through UPI mechanism was made mandatory for retail investors in an IPO. After implementation of Phase III of said SEBI Circular the listing of company will happen within three working days from the date of closure of IPO (i.e. on T+3).

SEBI has vide its circular reference number SEBI/HO/CFD/DIL2/CIR/P/2020/13 dated January 22, 2020 has made it mandatory that Application for a rights issue shall be made only through ASBA facility.

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

The lead manager(s) shall ensure availability of the offer document and other issue material including application forms to stock exchanges, syndicate members, registrar to issue, registrar and share transfer agents, depository participants, stock brokers, underwriters, bankers to the issue, and self-certified syndicate banks before the opening of the issue.

#### **Prohibition on payment of incentives [Regulations 37 & 134]**

Any person connected with the issue shall not offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application in the initial public offer, except for fees or commission for services rendered in relation to the issue.

#### **IPO Grading – Applicable to IPO only [Regulation 39]**

The issuer may obtain grading for its initial public offer from one or more credit rating agencies registered with SEBI.

#### **Underwriting [Regulations 40 & 136]**

If the issuer making an initial public offer/further public offer, other than through the book building process, desires to have the issue underwritten to cover under-subscription in the issue, it shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with SEBI to act as underwriters, indicating therein the maximum number of specified securities they shall subscribe to, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.

The issuer making an initial public offer/further public offer, other than through the book building process, shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with SEBI to act as underwriters, indicating therein the number of specified securities they shall subscribe to on account of rejection of applications, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.

If the issuer makes a public issue through the book building process:

- (a) the issue shall be underwritten by lead manager and syndicate member. However, at least 75% of the net offer proposed to be compulsorily allotted to qualified institutional buyers for the purpose of compliance of the eligibility conditions specified in regulation 6(2) shall not be underwritten.

- (b) the issuer shall, prior to the filing of the prospectus, enter into an underwriting agreement with the lead manager and syndicate member, indicating therein the number of specified securities they shall subscribe to on account of rejection of bids, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.
- (c) if the issuer desires to have the issue underwritten to cover under-subscription in the issue, it shall, prior to the filing of the red herring prospectus, enter into an underwriting agreement with the lead manager and syndicate member to act as underwriters, indicating therein the maximum number of specified securities they shall subscribe to, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the red herring prospectus.
- (d) if the syndicate member fail to fulfil their underwriting obligations, the lead managers shall fulfil the underwriting obligations.
- (e) the lead manager and syndicate member shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations.
- (f) in case of every underwritten issue, the lead manager shall undertake minimum underwriting obligations as specified in the SEBI (Merchant Bankers) Regulations, 1992.
- (g) where the issue is required to be underwritten, the underwriting obligations should be at least to the extent of minimum subscription.

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

If the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a credit rating agency registered with SEBI.

The monitoring agency shall submit its report to the issuer in the format specified in the ICDR Regulations, 2016 on a quarterly basis, till 100% of the proceeds of the issue have been utilized.

The Board of directors and the management of the issuer shall provide their comments on the findings of the monitoring agency.

The issuer shall, within forty five days from the end of each quarter, publicly disseminate the report of the monitoring agency by uploading the same on its website as well as submitting the same to the stock exchange(s) on which its equity shares are listed.

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

All public communication, publicity materials, advertisements and research reports shall comply with the provisions of Schedule IX of SEBI ICDR Regulations, 2018.

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

- Subject to the provisions of the Companies Act, 2013, the issuer shall, after filing the red herring prospectus (in case of a book built issue) or prospectus (in case of fixed price issue) with the Registrar of Companies, make a pre-issue and price band advertisement in the same newspaper in which the public announcement was published.

- The pre-issue and price band advertisement shall contain the disclosures specified in Part A of Schedule X of SEBI ICDR Regulations, 2018.
- The issuer may release advertisements for issue opening and issue closing, which shall be in the formats specified in Parts B and C of Schedule X of SEBI ICDR Regulations, 2018.
- During the period the issue is open for subscription, no advertisement shall be released giving an impression that the issue has been fully subscribed or oversubscribed or indicating investors' response to the issue.

#### INFORMAL GUIDANCE

##### Query:

Whether a book running lead manager, syndicate member, or underwriter can share the standalone or aggregate bidding data available on the website of the stock exchange for IPO, Right Issue, and FPO of specified securities and units with the investors, as and when requested by such investors, during the bidding period?

##### Reply:

SEBI stated that the standalone and aggregate bidding data is displayed on the website of the stock exchanges in the accepted/standard format specified by SEBI and is publicly available information. This data being extraneous to the information disclosed in the draft offer document or offer document is explicitly permitted to be shared for the interests of investors by the Stock Exchanges. **Further, SEBI Regulations prohibit entities associated with the public issue of units from issuing advertisements which give any impression of status of subscription/oversubscription of the issue during the issue period.** While publicly available information may not create information asymmetry among investors, any effort to selectively present the standalone or aggregate bidding data on their own or on request by investors may create information asymmetry and may cause prejudice to the mind of some investors which is not warranted and not the intent of SEBI Regulations. Hence, a book running lead manager, syndicate member, or underwriter should not share the bidding data (standalone and aggregate) with the investors or on request of investors during the bidding period.

*Reference: [https://www.sebi.gov.in/enforcement/informal-guidance/oct-2020/informal-guidance-request-of-citi-group\\_48019.html](https://www.sebi.gov.in/enforcement/informal-guidance/oct-2020/informal-guidance-request-of-citi-group_48019.html)*

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

A public issue (both IPO and FPO) may subject to compliance of Section 26(4) of the Companies Act, 2013 may be opened within 12 months from the date of issuance of the observations by SEBI.

In case of a fast track issue, the issue shall open within the period specifically stipulated under the Companies Act, 2013. In case the issuer has filed a shelf prospectus, the first issue may be opened within 3 months of the issuance of observations by SEBI.

An IPO and an FPO shall be opened **after** at least 3 working days from the date of filing the red herring prospectus in case of a book built issue or the prospectus in case of a fixed price issue with the Registrar of Companies.

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

The minimum subscription to be received in an issue shall be not less than 90% of the offer through offer document except in case of an offer for sale of specified securities.

In case of an IPO, the minimum subscription to be received shall be subject to allotment of minimum number of specified securities, as prescribed in sub-clause (b) of clause (2) of rule 19 of Securities Contracts (Regulation) Rules, 1957, which stipulates that at least twenty five per cent of each class or kind of equity shares or debentures convertible into equity shares issued by the company was offered and allotted to public in terms of an offer document. In other words, the issue is said to have received minimum subscription in an IPO if it receives 90% of the offer through offer document and 25% of the post issue capital from the public.

*[Note: in terms of Rule 19 (2)(b) of SCRR, subject to certain conditions, issuers are allowed to issue less than 25% of the post issue capital to public but in this case the issuer has to raise the minimum public shareholding to 25% within a period of three years from the date of listing.]*

In the event of non-receipt of minimum subscription, all application monies received shall be refunded to the applicants forthwith, but not later than 4 days from the closure of the issue.

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

- An IPO/FPO shall be kept open for at least 3 working days and not more than 10 working days.
- In case of a revision in the price band, the issuer shall extend the bidding (issue) period disclosed in the red herring prospectus, for a minimum period of three working days.
- In case of force majeure, banking strike or similar unforeseen circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of one working day.

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

- A person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public.

However, the maximum application by non-institutional investors shall not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to QIBs.

#### Example

Altas Limited is proposing to issue a 3 crore specified securities offered @ Rs.600 per share. The total specified securities offered, also include offer made to:

- Qualified Institutional buyers - 2 crore specified securities
  - Retail individual investors' category - 35 lakh specified securities
- Considering the above facts, comment on:
- a) How many specified securities can Mr. A apply in the net offer category
  - b) What is the maximum number of specified securities which non-institutional investors can apply in the said issue.

As per Regulation 47 of SEBI ICDR, 'person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to public.' Accordingly, Mr. A cannot apply for more than 35 Lakh specified securities, the total number of securities offered to the public.

Further the maximum number of specified securities which a non-institutional investor can apply are:

| <i>Particulars</i>                                 | <i>No. of Specified Securities</i> |
|--|------------------------------------|
| Securities offered in the issue (A)                | 3 crore                            |
| Less: Securities offered to QIB (B)                | 2 crore                            |
| Net available to non-institutional investors (A-B) | 1 crore                            |

Thus, the number of specified securities which non-institutional investors can apply shall not exceed 1 crore specified securities.

- The issuer shall stipulate in the offer document the minimum application size in terms of number of specified securities which shall fall within the range of minimum application value of ten thousand rupees to fifteen thousand rupees.
- The issuer shall invite applications in multiples of the minimum application value, as per Part B of Schedule XIV of SEBI ICDR Regulation 2018.
- The minimum sum payable on application per specified security shall be at least 25% of the issue price.

However, in case of an offer for sale, the full issue price for each specified security shall be payable at the time of application.

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

If the issuer proposes to receive subscription monies in calls, it shall ensure that the outstanding subscription money is called within twelve months from the date of allotment in the issue and if any applicant fails to pay the call money within the said twelve months, the equity shares on which there are calls in arrear along with the subscription money already paid on such shares shall be forfeited. In case the issuer has appointed a monitoring agency, the issuer shall not be required to call the outstanding subscription money within twelve months.

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

The issuer shall not make any allotment in excess of the specified securities offered through the offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange.

**The issuer shall not make an allotment pursuant to a public issue if the number of prospective allottees is less than 1000.**

In case of oversubscription, an allotment of not more than one percent of the net offer to the public for the purpose of making allotment in minimum lots.

The allotment of specified securities to applicants other than to the retail individual investors, non-institutional investors and anchor investors shall be on a proportionate basis within the respective investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document.

However, the value of specified securities allotted to any person, except in case of employees, in pursuance of

reservation made under these regulations, **shall not exceed two lakhs rupees for retail investors or up to five lakhs rupees for eligible employees.**

The allotment of specified securities to each **retail individual investor shall not be less than the minimum bid lot, subject to the availability of shares in retail individual investor category**, and the remaining available shares, if any, shall be allotted on a proportionate basis.

The allotment of specified securities to each non-institutional investor shall not be less than the minimum application size, subject to the availability of shares in non-institutional investors' category, and the remaining shares, if any, shall be allotted on a proportionate basis in accordance with the conditions specified in this regard in Schedule XIII of these regulations.

The authorised employees of the designated stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the procedure as specified in Part A of Schedule XIV.

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

- The issuer and lead manager(s) shall ensure that specified securities are allotted and/or application monies are refunded or unblocked within such period as may be specified by SEBI.
- The lead manager(s) shall ensure that the allotment, credit of dematerialised securities, refunding or unblocking of application monies, as may be applicable, are done electronically.
- Where specified securities are not allotted and/or application monies are not refunded or unblocked within the period stipulated above, the issuer shall undertake to pay interest at the rate of 15% per annum to the investors and within such time as disclosed in the offer document and the lead manager(s) shall ensure the same.
- SEBI vide Circular dated November 01, 2018 has made an endeavor to reduce listing time to 3 working days from the date of closure of issue and accordingly mandated that the retail individual investors use the **Unified Payments Interface (UPI)**. However, till SEBI notifies the same, securities are listed in 6 working days.

### **Illustration explaining the procedure of allotment**

#### **Example A**

- (1) Total number of specified securities on offer@ Rs. 600 per share: 1 crore specified securities.
- (2) Specified securities on offer for retail individual investors' category: 35 lakh specified securities.
- (3) The issue is over-all subscribed by 2.5 times, whereas the retail individual investors' category is oversubscribed 4 times.
- (4) The issuer has fixed the minimum application/bid size as 20 specified securities (falling within the range of ten thousand to fifteen thousand rupees) and in multiples thereof.
- (5) A total of one lakh retail individual investors have applied in the issue, in varying number of bid lots i.e. between 1 - 16 bid lots, based on the maximum application size of up to two lakh rupees.
- (6) Out of the one lakh investors, there are five retail individual investors A, B, C, D and E who have applied as follows: A has applied for 320 specified securities. B has applied for 220 specified securities. C has applied for 120 specified securities. D has applied for 60 specified securities and E has applied for 20 specified securities.

- (7) As the allotment to a retail individual investor cannot be less than the minimum bid lot, subject to availability of shares, the remaining available shares, if any, shall be allotted on a proportionate basis.

The actual entitlement shall be as follows:

| <b>Sl. No.</b> | <b>Name of Investor</b> | <b>Total Number of specified securities applied for</b> | <b>Total number of specified securities eligible to be allotted</b>   |
|----------------|-------------------------|---|---|
| 1.             | A                       | 320   | 20 specified securities (i.e. the minimum bid lot) + 38 specified securities $[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))]$ * 300 (i.e. 320-20) |
| 2.             | B                       | 220   | 20 specified securities (i.e. the minimum bid lot) + 25 specified securities $[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))]$ * 200 (i.e. 220-20) |
| 3.             | C                       | 120   | 20 specified securities (i.e. the minimum bid lot) + 13 specified securities $[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))]$ * 100 (i.e. 120-20) |
| 4.             | D                       | 60  | 20 specified securities (i.e. the minimum bid lot) + 5 specified securities $[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))]$ * 40 (i.e. 60-20)    |
| 5.             | E                       | 20  | 20 specified securities (i.e. the minimum bid lot)  |

#### Example B

- (1) Total number of specified securities on offer @ Rs. 600 per share: 1 crore specified securities.
- (2) Specified securities on offer for retail individual investors' category: 35 lakh specified securities.
- (3) The issue is overall subscribed by 7 times, whereas the retail individual investors' category is over-subscribed 9.37 times.
- (4) The issuer has decided the minimum application/bid size as 20 specified securities (falling within the range of ten thousand to fifteen thousand rupees) and in multiples thereof.
- (5) A total of two lakh retail individual investors have applied in the issue, in varying number of bid lots i.e. between 1-16 bid lots, based on the maximum application size of up to two lakh rupees.
- (6) As per the allotment procedure, the allotment to retail individual investors shall not be less than the minimum bid lot, subject to availability of shares.
- (7) Since the total number of shares on offer to the retail individual investors is 35,00,000 and the minimum bid lot is 20 shares, the maximum number of investors who can be allotted this minimum bid lot should be 1,75,000. In other words, 1,75,000 retail applicants shall get the minimum bid lot and the remaining 25,000 retail applicants will not get any allotment.

The details of the allotment shall be as follows:

| <i>No. of lots</i> | <i>No. of shares at each lot</i> | <i>No. of retail investors applying at each lot</i> | <i>Total no. of shares applied at each lot</i> | <i>No. of investors who shall receive minimum bid-lot (to be selected by a lottery)</i> |
|--------------------|----------------------------------|---|--|---|
| A                  | B                                | C   | D=(B*C)  | E   |
| 1.                 | 20                               | 10,000  | 2,00,000                                       | $8,750=(1,75,000/2,00,000)*10,000$  |
| 2.                 | 40                               | 10,000  | 4,00,000                                       | 8,750   |
| 3.                 | 60                               | 10,000  | 6,00,000                                       | 8,750   |
| 4.                 | 80                               | 10,000  | 8,00,000                                       | 8,750   |
| 5.                 | 100                              | 20,000  | 20,00,000                                      | 17,500  |
| 6.                 | 120                              | 20,000  | 24,00,000                                      | 17,500  |
| 7.                 | 140                              | 15,000  | 21,00,000                                      | 13,125  |
| 8.                 | 160                              | 20,000  | 32,00,000                                      | 17,500  |
| 9.                 | 180                              | 10,000  | 18,00,000                                      | 8,750   |
| 10.                | 200                              | 15,000  | 30,00,000                                      | 13,125  |
| 11.                | 220                              | 10,000  | 22,00,000                                      | 8,750   |
| 12.                | 240                              | 10,000  | 24,00,000                                      | 8,750   |
| 13.                | 260                              | 10,000  | 26,00,000                                      | 8,750   |
| 14.                | 280                              | 5,000   | 14,00,000                                      | 4,375   |
| 15.                | 300                              | 15,000  | 45,00,000                                      | 13,125  |
| 16.                | 320                              | 10,000  | 32,00,000                                      | 8,750   |
| Total              |                                  | 2,00,000  | 328,00,000                                     | 1,75,000  |

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

The lead manager(s) shall ensure that an advertisement giving details relating to:

- subscription,
- basis of allotment,
- number, value and percentage of all applications including ASBA,
- number, value and percentage of successful allottees for all applications including ASBA,
- date of completion of despatch of refund orders, as applicable, or
- instructions to self-certified syndicate banks by the registrar,
- date of credit of specified securities and date of filing of listing application, etc.

is released within ten days from the date of completion of the various activities in at least one English national

daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language daily newspaper with wide circulation at the place where registered office of the issuer is situated.

The above mentioned details shall also be placed on the websites of the stock exchange(s).

#### **Post-issue responsibility of the lead manager(s) [Regulations 52 & 148]**

- The responsibility of the lead manager(s) shall continue until completion of the issue process and for any issue related matter thereafter.
- The lead manager(s) shall regularly monitor redressal of investor grievances arising from any issue related activities.
- The lead manager(s) shall continue to be responsible for post-issue activities till the applicants have received the securities certificates, credit to their demat account or refund of application monies and the listing agreement is entered into by the issuer with the stock exchange and listing or trading permission is obtained.
- The lead manager(s) shall be responsible for and co-ordinate with the registrars to the issue and with various intermediaries at regular intervals after the closure of the issue to monitor the flow of applications from syndicate member(s) or collecting bank branches and/ or self-certified syndicate banks, processing of the applications including application form for ASBA and other matters till the basis of allotment is finalised, credit of the specified securities to the demat accounts of the allottees and unblocking of ASBA accounts/ dispatch of refund orders are completed and securities are listed, as applicable.
- Any act of omission or commission on the part of any of the intermediaries noticed by the lead manager(s) shall be duly reported by them to SEBI.
- In case there is a devolvement on the underwriters, the lead manager(s) shall ensure that the notice for devolvement containing the obligation of the underwriters is issued within ten days from the date of closure of the issue.
- In the case of undersubscribed issues that are underwritten, the lead manager(s) shall furnish information in respect of underwriters who have failed to meet their underwriting devolvement to SEBI.

#### **Release of subscription money [Regulations 53 & 149]**

- The lead manager(s) shall confirm to the bankers to the issue by way of copies of listing and trading approvals that all formalities in connection with the issue have been completed and that the banker is free to release the money to the issuer or release the money for refund in case of failure of the issue.
- In case the issuer fails to obtain listing or trading permission from the stock exchanges where the specified securities were to be listed, it shall refund through verifiable means the entire monies received within 4 days of receipt of intimation from stock exchanges rejecting the application for listing of specified securities, and if any such money is not repaid within 4 days after the issuer becomes liable to repay it, the issuer and every director of the company who is an officer in default shall, on and from the expiry of the fourth day, be jointly and severally liable to repay that money with interest at the rate of fifteen per cent per annum.
- The lead manager(s) shall ensure that the monies received in respect of the issue are released to the issuer in compliance with the provisions of Section 40 (3) of the Companies Act, 2013, as applicable.

### Reporting of transactions of the promoters and promoter group and other pre-offer transaction [Regulations 54 & 150]

The issuer shall ensure that all transactions in securities by the promoters and promoter group between the date of filing of the draft offer document or offer document, as the case may be, and the date of closure of the issue shall be reported to the stock exchange(s), within twenty-four hours of such transactions. The issuer shall also ensure that any proposed pre-IPO or pre-offer placement disclosed in the draft offer document shall be reported to the stock exchange(s), within twenty-four hours of such pre-IPO transactions (in part or in entirety).

### Post-issue reports [Regulations 55 & 151]

The lead manager(s) shall submit a final post-issue report, along with a due diligence certificate as, within seven days of the date of finalization of basis of allotment or within seven days of refund of money in case of failure of issue.

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

The issuer shall not make any further issue of specified securities in any manner whether by way of a public issue, rights issue, bonus issue, preferential issue, qualified institutions placement or otherwise except pursuant to an employee stock option scheme or a stock appreciation right scheme:

- In case of a fast track issue, during the period between the date of filing the offer document (in case of a book built issue) or prospectus (in case of a fixed price issue) with the Registrar of Companies and the listing of the specified securities offered through the offer document or refund of application monies; or
- in case of other issues, during the period between the date of filing the draft offer document and the listing of the specified securities offered through the offer document or refund of application monies;

unless full disclosures regarding the total number of specified securities or amount proposed to be raised from such further issue are made in such draft offer document or offer document, as the case may be.

### FAST TRACK FPO [REGULATION 155]

#### Eligibility

An Issuer Company whose shares are already listed, need not file the draft offer document with SEBI and obtain observations from SEBI, or make a security Deposit with the Stock Exchanges for its follow-on public offer (FPO) if it satisfies the following conditions:

|     |                       |   |
|-----|-----------------------|---|
| (a) | Listing               | The equity shares of the issuer have been listed on any stock exchange for a period of at least three years immediately preceding the reference date.   |
| (b) | Demat Form            | Entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date.   |
| (c) | Market Capitalisation | The average market capitalisation of public shareholding of the issuer is at least one thousand crore rupees in case of public issue and two hundred and fifty crore rupees in case of rights issue.  |
| (d) | Trading Turnover      | The annualised trading turnover of the equity shares of the issuer during six calendar months immediately preceding the month of the reference date has been at least 2% of the weighted average number of equity shares listed during such six months' period. However if the public shareholding is less than 15% of its issued |

|     |                        |  |
|-----|------------------------|--|
|     |                        | equity capital, the annualised trading turnover of its equity shares has been at least 2% of the weighted average number of equity shares available as free float during such six months' period.  |
| (e) | Delivery based Trading | Annualized delivery-based trading turnover of the equity shares during six calendar months immediately preceding the month of the reference date has been at least 10% of the annualised trading turnover of the equity shares during such six months' period.   |
| (f) | Compliance with LODR   | <p>The issuer has been in compliance with the equity listing agreement or SEBI Listing Regulations, 2015, as applicable, for a period of at least three years immediately preceding the reference date.</p> <p>However, if the issuer has not complied with the provisions of the listing agreement or SEBI Listing Regulations, 2015, as applicable, relating to composition of board of directors, for any quarter during the last three years immediately preceding the reference date, but is compliant with such provisions at the time of filing of the red herring prospectus with the Registrar of Companies, and adequate disclosures are made in the red herring prospectus about such non-compliances during the three years immediately preceding the reference date, it shall be deemed as compliance with the condition.</p> <p>Further, imposition of monetary fines by stock exchange on the issuer shall not be a ground for ineligibility for undertaking issuances under these regulations.</p> |
| (g) | Investor Complaints    | The issuer has redressed at least 95% of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date.   |
| (h) | No show cause Notices  | That no show-cause notices, excluding proceedings for imposition of penalty, have been issued by the Board and pending against the issuer or its promoters or whole time directors as on the reference date.   |
| (i) | No alleged Violations  | If the issuer or the promoter or the promoter group or the director of the issuer has settled any alleged violations of securities laws through the settlement mechanism of the Board in the past three years immediately preceding the reference date, then the disclosure of such compliance of the settlement order, shall be made in the offer document.   |
| (j) | Disciplinary Measures  | Equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date.   |
| (k) | Conflict of Interest   | There shall be no conflict of interest between the lead merchant banker(s) and the issuer or its group or associate company in accordance with applicable regulations.   |
| (l) | Audit Qualification    | For audit qualifications, if any, in respect of any of the financial years for which accounts are disclosed in the offer document, the issuer shall provide the restated financial statements adjusting for the impact of the audit qualifications. Further, for the qualifications wherein impact on the financials cannot be ascertained, the same shall be disclosed appropriately in the offer document.   |

**“Average Market Capitalisation of Public Shareholding”** means the sum of daily market capitalisation of public shareholding for a period of one year up to the end of the quarter preceding the month in which the proposed issue was approved by the shareholders or the board of the issuer, as the case may be, divided by the number of trading days.

### POST-LISTING EXIT OPPORTUNITY FOR DISSENTING SHAREHOLDERS [REGULATIONS 59 & 157]

- In case of initial public offer or further public offers, including under the fast track route, the promoters or shareholders in control of an issuer shall provide an exit offer to dissenting shareholders as provided for in the Companies Act, 2013, in case of change in objects or variation in the terms of contract related to objects referred to in the offer document as per conditions and manner is provided in Schedule XX of SEBI ICDR Regulations, 2018;
- The exit offer shall not apply where there are neither identifiable promoters nor shareholders in control of the listed issuer.

### Exit Opportunity to Dissenting Shareholders [Scheduled XX]

The provisions of this Chapter shall apply to an exit offer made by the promoters or shareholders in control of an issuer to the dissenting shareholders in terms of section 13(8) and section 27(2) of the Companies Act, 2013, in case of change in objects or variation in the terms of contract referred to in the offer document.

However, the provisions of this Chapter shall not apply where there are neither identifiable promoters nor shareholders in control of the listed issuer.

#### What is Dissenting Shareholder?

“Dissenting Shareholder” mean those shareholders who have voted against the resolution for change in objects or variation in terms of a contract, referred to in the offer document of the issuer.

### Conditions for exit offer

The promoters or shareholders in control shall make the exit offer in accordance with the provisions as specified, to the dissenting shareholders, in cases only if a public issue has opened after April 1, 2014; if:

- the proposal for change in objects or variation in terms of a contract, referred to in the offer document is dissented by at least 10 % of the shareholders who voted in the general meeting; and
- the amount to be utilized for the objects for which the offer document was issued is less than 75 % of the amount raised (including the amount earmarked for general corporate purposes as disclosed in the offer document).

### Eligibility of Shareholders for availing the exit offer

Only those dissenting shareholders of the issuer who are holding shares as on the relevant date shall be eligible to avail the exit offer.

### Exit offer price

The ‘exit price’ payable to the dissenting shareholders shall be the highest of the following:

- a) the volume-weighted average price paid or payable for acquisitions, whether by the promoters or shareholders having control or by any person acting in concert with them, during the fifty-two weeks immediately preceding the relevant date;
- b) the highest price paid or payable for any acquisition, whether by the promoters or shareholders

- having control or by any person acting in concert with them, during the twenty-six weeks immediately preceding the relevant date;
- c) the volume-weighted average market price of such shares for a period of sixty trading days immediately preceding the relevant date as traded on the recognised stock exchange where the maximum volume of trading in the shares of the issuer are recorded during such period, provided such shares are frequently traded;
  - d) where the shares are not frequently traded, the price determined by the promoters or shareholders having control and the merchant banker taking into account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such issuers.

### **Manner of providing exit to Dissenting Shareholder**

- The notice proposing the passing of special resolution for changing the objects of the issue and varying the terms of contract, referred to in the prospectus shall also contain information about the exit offer to the dissenting shareholders.
- In addition to the disclosures required under the provisions of section 102 of the Companies Act, 2013 read with rule 32 of the Companies (Incorporation) Rules, 2014 and rule 7 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and any other applicable law, a statement to the effect that the promoters or the shareholders having control shall provide an exit opportunity to the dissenting shareholders shall also be included in the explanatory statement to the notice for passing special resolution.
- After passing of the special resolution, the issuer shall submit the voting results to the recognised stock exchange(s), in terms of the provisions of regulation 44(3) of SEBI (LODR) Regulations, 2015.
- The issuer shall also submit the list of dissenting shareholders, as certified by its compliance officer, to the recognised stock exchange(s).
- The promoters or shareholders in control, shall appoint a merchant banker registered with SEBI and finalize the exit offer price in accordance with these regulations.
- The issuer shall intimate the recognised stock exchange(s) about the exit offer to dissenting shareholders and the price at which such offer is being given.
- The recognised stock exchange(s) shall immediately on receipt of such intimation disseminate the same to public within one working day.
- To ensure security for performance of their obligations, the promoters or shareholders having control, as applicable, shall create an escrow account which may be interest bearing and deposit the aggregate consideration in the account at least two working days prior to opening of the tendering period.
- The tendering period shall start not later than seven working days from the passing of the special resolution and shall remain open for ten working days.
- The dissenting shareholders who have tendered their shares in acceptance of the exit offer shall have the option to withdraw such acceptance till the date of closure of the tendering period.
- The promoters or shareholders having control shall facilitate tendering of shares by the shareholders and settlement of the same through the recognised stock exchange mechanism as specified by SEBI for the purpose of takeover, buy-back and delisting.

- The promoters or shareholders having control shall, within a period of ten working days from the last date of the tendering period, make payment of consideration to the dissenting shareholders who have accepted the exit offer.
- Within a period of two working days from the payment of consideration, the issuer shall furnish to the recognised stock exchange(s), disclosures giving details of aggregate number of shares tendered, accepted, payment of consideration and the post-offer shareholding pattern of the issuer and a report by the merchant banker that the payment has been duly made to all the dissenting shareholders whose shares have been accepted in the exit offer.

### Maximum permissible non-public shareholding

In the event, the shares accepted in the exit offer were such that the shareholding of the promoters or shareholders in control, taken together with persons acting in concert with them pursuant to completion of the exit offer results in their shareholding exceeding the maximum permissible non-public shareholding, the promoters or shareholders in control, as applicable, shall be required to bring down the non-public shareholding to the level specified and within the time permitted under Securities Contract (Regulation) Rules, 1957.

Rule 19 A of SCRR prescribes that every listed company other than public sector company shall maintain public shareholding of at least 25%.

Where the public shareholding in a listed company falls below 25%. at any time, such company shall bring the public shareholding to 25% within a maximum period of twelve months.

### INITIAL PUBLIC OFFER BY SMALL AND MEDIUM ENTERPRISES (SME) [CHAPTER IX OF SEBI (ICDR) REGULATIONS, 2018]

If post issue paid-up capital <= Rs. 10 Crores - Listing only on SME Board

If post issue paid-up capital is > Rs. 10 crores but up to Rs. 25 crores - Option to list either on SME Board or on Main Board

SEBI does not issue any observation on the offer document

The lead manager(s) shall submit a due-diligence certificate to SME Exchange

IPO shall be 100% underwritten. The lead manager(s) shall underwrite at least 15%

Compulsory market making for a minimum period of 3 years from the date of listing

Minimum application size in IPO shall be two lakh rupees and two lots per application

May migrate to Main Board if SR is passed through postal ballot with majority of minority

**INNOVATORS GROWTH PLATFORM [CHAPTER X OF SEBI (ICDR) REGULATIONS, 2018]**

Aimed to list start-ups which are intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products, services or business platform

At least 25% of pre-issue capital is held by QIBs, Innovators Growth Platform Investors, Any other class of investors as specified by SEBI

Listing is allowed with or without IPO. SEBI will issue its observations in both the cases

The minimum offer size shall be ten crore rupees in case of IPO

Minimum application size shall be two lakh rupees and in multiples thereof

Number of allottees in the initial public offer shall at least be 50

Minimum trading lot shall be two lakh rupees and in multiples thereof.

An issuer shall be eligible for listing on the Innovators Growth Platform if none of the promoters or directors of the issuer company is a fugitive economic offender.

**Additional conditions in terms of allotment, for listing with public issue:**

- Any under-subscription in the non-institutional investor category shall be available for subscription under the institutional investors' category.
- The issuer may allocate up to sixty per cent of the issue size on a discretionary basis, prior to the issue opening, to eligible investors as identified under sub-regulation (1) of regulation 283, in accordance with the requirements with respect to anchor investors for public issue made on the SME exchange as may be specified

**DOCUMENTATION FOR IPO/FPO****Stages for Initial Public Offerings (IPOs) and Follow-on Public Offerings (FPOs)**

- In principle Approval Stage
- Issue Opening Stage
- Basis of Allotment Stage
- Listing & Trading Approval Stage

**Stage Wise Checklists for Initial Public Offerings (IPOs)****Checklist for in-principle approval**

1. Draft Offer Document (5 hard copies)
2. Certified true copy of resolution passed by Board of Directors and Shareholders authorizing the proposed issue along with the Explanatory Statement

3. Copy of Covering Letter filed with SEBI by the lead manager(s) at the time of filing / pre-filing of draft offer document (as the case may be) & acknowledgment through which Draft offer document was filed with SEBI along with following certificate to be submitted by Lead Manager Due Diligence Certificates and all Annexures. (In case of Issue of Convertible Debt Instruments, provide due diligence certificate from the debenture trustee as per Form B of Schedule V of SEBI (ICDR) Regulations 2018.)
4. On the letterhead of the Issuer Company –Permanent Account Number, Bank Account Number, Driving License Number, Aadhaar Card Number, Passport Number of the Promoter/s and in case the promoter is a body corporate, also provide company registration number or equivalent & address of the Registrar of Companies with which the promoter is registered;
5. Annual Reports of the Issuer for the last three years (including Audit Report, Board's Report, etc.) (In case five years have not elapsed, submit since inception)
6. Certificate of Incorporation, Memorandum of Association & Articles of Association of the Issuer
7. Undertaking form BRLM(s) / Lead Manager(s) confirming that the draft offer document contains all material disclosures which specified under the Companies Act, 2013; and under Part A of Schedule VI of the SEBI (ICDR) Regulations, 2018; the physical site visit of all the business premises;
8. A confirmation from lead manager w.r.t additional disclosures and confirmations to be provided by LM at the time of filing of offer document with SEBI.
9. Copies of the Following ROC Forms filed with Ministry of Corporate Affairs (MCA):
  - i. Copy of Form 32/DIR 12 filed with the ROC for appointment of directors and company secretary.
  - ii. Copy of latest Annual return of the issuer filed with ROC along-with challan.
10. Necessary Confirmations from the Issuer Company AND BRLM (s)/ Lead Manager(s) confirming the eligibility of company to issue IPO as per law.
11. Confirmation from the Issuer regarding compliance with the provisions of Regulation 17 to 27 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI (LODR) Regulations, 2015) relating to Corporate Governance
12. Confirmation from Statutory Auditor/ Practicing Chartered Accountant/ Practicing Company Secretary stating whether the issuer is compliant with Regulation 17 to 27 of SEBI (LODR) Regulations, 2015 relating to Corporate Governance.
13. The Company shall undertake to inform the Exchange forthwith of any material development which takes place after the filing of the application with the Exchange but prior to the issue of the in-principle approval that may render the information provided to the Exchange (whether in the application or otherwise) incorrect or outdated or which otherwise has a bearing on the proposed issue of securities.
14. Undertaking from MD/ CS/ Compliance Officer/Lead Manager of the company stating:
  1. "We hereby confirm that the company or its promoters or wholetime directors are not in violation of the provisions of Regulation 34 of the SEBI Delisting Regulations, 2021."
  2. "We hereby confirm that the company, its promoters, its directors are not in violation of the restrictions imposed by SEBI."
15. The dividend entitlement for the current year for all the existing shares including the shares issued in the public issue shall rank pari-passu.
16. Processing Fee

17. Certificate of Corporate Grouping be submitted by the Company Secretary on Company letterhead as per the specified Format.
18. Any other as prescribed by the respective stock exchange.

**List of Documents to be submitted on Issue Open Stage**

1. RHP (Soft and hard copy)
2. Track change mode of RHP (soft copy)
3. RoC Approval Letter
4. GID
5. Issue Parameter
6. R, NR forms with instruction pages. Also, Employees/Shareholder forms (if applicable), Abridged Prospectus / Form 2A and Company Logo in JPG or JPEG format only
7. Bidding Centers for R and NR forms
8. Basis of Issue Price / Price Band Advt
9. Company letters for using Book Building Software (In case of Book Building)
10. Company letters (In case of Book Building)
11. Sponsor Bank Undertaking
12. RTA Undertaking
13. Calculation Sheets / housekeeping sheets exhibiting working of maximum bid quantity
14. Format of Anchor Investor (AI) details (if applicable), as attached along with the Intimation letter formats from BRLMs (soft copy) & Company (soft copy) for AI allotment, by 6 pm of one day prior to the issue opening date.
15. BRLM Letter (If anchor to the issue is not applicable)
16. Bank Guarantee Format
17. Book Building Fees payment bifurcation and UTR No
18. 1% security deposit payment UTR No (Rs.3 crore is required to be tendered by the Issuer in cash and the balance may be provided by way of a bank guarantee)

**Documents for Basis of Allotment where BSE is the Designated Exchange (T+1)**

1. One soft Copy of final prospectus filed with ROC along with its acknowledgement copy.
2. Proceeding details / minutes of basis of allotment, verified and signed by R & T Agent, BRLM (Responsible for post issue) and the Issuer along with the reasons for exception to rejection cases. Also, incorporation of points in minutes as per “Annexure I”
3. Category wise, summary of list of “technical rejection” cases Specifying – Application No., Category, Name & Add., Pan #, DP ID CL ID, Quantity, price Amount and reason for rejection.
4. Copy of the statutory advertisement released in respect of the public issue / offer for sale, opening and closing of the issue, price revision, if any etc. up to the stage of basis of allotment
5. Confirmation from Auditor as per “Annexure II”, if applicable

**Checklist for listing of IPO****A. Documents to be submitted on T+1 days (i.e. within one working day from the closure of the issue)**

1. All due diligence certificates filed with SEBI by Merchant banker(s)
2. Observation Letter issued by SEBI pursuant to filing of draft offer document
3. List of authorized signatories along with their specimen signatures.
4. Confirmation from Lead Managers that devolvement notices have been sent to underwriters.
5. Certificate from the BRLM(s) that the issue has received minimum subscription as specified under Regulation 45 (1) of SEBI (ICDR) Regulations, 2018.
6. Confirmation from the company regarding the email ID for Investor Grievances as per Regulation 46 of SEBI (LODR), Regulations, 2015
7. Copies of all advertisements published in connection with the issue upto T+1 stage.
8. Confirmation from the company stating that they have obtained authentication for SCORES from SEBI as per Regulation 13 of LODR, Regulations, 2015.

**B. Documents to be submitted before T+1 days (i.e. within one working day from the closure of the issue in case BSE is not the 'Designated Stock Exchange')**

1. One Copy of final prospectus filed with ROC alongwith ROC filing acknowledgement copy.
2. Certified true copy of the basis of allotment approved by the Designated Stock Exchange.
3. Copy of Internal Minutes executed in between Lead Manager, Issuer and Registrar.

**C. Documents to be submitted on T+2 days (i.e. within 2 working days from the closure of the issue)**

1. Letter of Listing application
2. Listing Agreement as per SEBI (LODR), Regulations, 2015 duly executed on non judicial stamp paper along with Certified true copy of the resolution passed by the Board of Directors for authorizing officer to sign and execute the listing agreement.
3. Certified true copy of the resolution passed by the Board of Directors for allotment of securities
4. Certificate from statutory auditors/practicing chartered accountant/ practicing company secretary stating that:
  - a) Allotment has been made as per the basis of allotment approved by the Designated Stock Exchange.
  - b) The share certificates corresponding to equity Securities under lock in have been enfaced with non-transferability condition, as per prescribed format.
  - c) Allotment of shares from the employees' quota has been made to permanent/regular employees of the company and of the promoter companies, as on the date of the opening of the public issue and who are entitled to such allotment.
5. If Pre-IPO shares are held in physical form, then confirmation from RTA to the issue that the Pre-IPO shares held in physical form are locked-in in their system upto the dates mentioned as per the table shown below. Further, the RTA should confirm that as and when the physical share certificates, if received for dematerialization will be locked in upto the dates.
6. Lock-in confirmation from depositories for pre-IPO equity shares held in dematerialized form

7. In case Securities issued (including anchor investors) in dematerialized form are under lock-in, then a certificate from the depositories must be furnished stating that the Securities are under lock-in confirming the date upto which they are under lock-in (applicable only in cases where the equity Securities issued are under lock in).
8. Shareholding pattern of company (pre issue, issue and post issue) in format given as per Regulation 31 of SEBI (LODR), Regulations, 2015 with PAN. Also provide Post issue shareholding pattern (without PAN).
9. Copies of all statutory advertisements published till date
10. Certification of Compliance with Regulation 17-27 of the SEBI (LODR), Regulations, 2015 relating to Corporate Governance and if there is any change after In-Principle Approval kindly highlight the same.
11. Details of Current Issue
12. Applicable listing fees
13. Confirmation from the issuer for the following:
  - That the copies of all advertisements published as regards the present issue have been submitted to the Exchange.
  - That the issuer is compliant with the requirement of common agency as specified by SEBI.
  - That all securities required to be under lock-in are subjected to lock-in, as mentioned in Offer Document for the issue.
14. Certified true copy of the additional material contracts and documents (mentioned in the final offer document/Prospectus) which have not been submitted earlier with the Exchange including SEBI observation letter. (Kindly provide the soft copy for all the material contracts and documents).
15. Confirmation from the Lead Manager and Issuer confirming that the issue in compliance with all requirements of applicable law(s).
16. Soft copy of total securities issued by the Issuer in the specified format
17. Confirmation from the company stating that they have obtained authentication for SCORES from SEBI as per Regulation 13 of SEBI (LODR), Regulations, 2015
18. Undertaking from MD/ CS/ Compliance Officer of the company stating:
  - a) “We hereby confirm that the company or its promoters or whole time directors are not in violation of the provisions of Regulation 24 of the SEBI Delisting Regulations, 2009.”
  - b) “We hereby confirm that the company, its promoters, its directors are not in violation of the restrictions imposed by SEBI under SEBI circular dated August 01, 2017.”
19. Any other as prescribed by the respective stock exchange.

**Documents to be submitted before T+2 days (i.e. within 2 working days from the closure of the issue)**

1. Certified true copy of the letter from Registrars and lead manager regarding dispatch of share/debenture/warrant certificates, allotment advice, refund orders, underwriting commission, uploading of electronic credit of Securities, uploading of ECS/NEFT/RTGS credits and brokerage warrants.
2. Confirmation from the depositories regarding the credit of beneficiary accounts of the security holders.

3. Certificate from the Registrar reconciling the total securities allotted with the total securities credited, and securities that have failed to be credited.
4. Basis of allotment advertisement

Similarly, the documentation for FPO shall be as prescribed by the respective stock exchange on its website.

## RIGHTS ISSUE

Unless otherwise provided in Chapter III, an issuer offering specified securities through a rights issue shall satisfy the conditions of this Chapter at the time of filing the draft letter of offer with the stock exchange(s), and at the time of filing the letter of offer with the Board and the stock exchange(s).

**“Right Issue”** means an offer of specified securities by a listed issuer to the shareholders of the issuer on the record date fixed for the said purpose.

## Eligibility Conditions [Regulation 61]

An issuer shall not be eligible to make a rights issue of specified securities:

### Eligibility Conditions

- (a) if the issuer, any of its promoters, promoter group or directors of the issuer are debarred from accessing the capital market by SEBI;
- (b) if any of the promoters or directors of the issuer is a promoter or director of any other company which is debarred from accessing the capital market by SEBI;
- (c) if any of its promoters or directors is a fugitive economic offender;
- (d) if the equity shares of the issuer are suspended from trading as a disciplinary measure as on reference date.

It may be noted that the restrictions imposed under (a) & (b) will not apply to the persons or entities mentioned therein who were debarred in the past by SEBI and the period of debarment is already over as on the date of filing of the draft letter of offer with the Stock Exchange.

## Conditions [Regulation 62]

The issuer making a rights issue of specified securities shall ensure that:

- (a) it has made an application to one or more stock exchanges to seek an in-principle approval for listing of its specified securities on such stock exchanges and has chosen one of them as the designated stock exchange,
- (b) all its existing partly paid-up equity shares have either been fully paid-up or have been forfeited and
- (c) it has made firm arrangements of finance through verifiable means towards seventy five per cent of the stated means of finance for the specified project proposed to be funded from issue proceeds, excluding the amount to be raised through the proposed rights issue or through existing identifiable internal accruals.

*Explanation* - For the purpose of this regulation ‘finance for the specific project’ shall mean finance of capital expenditures only.

- The amount for general corporate purposes, as mentioned in the object of the issue in the draft letter of offer and the letter of offer, shall not exceed 25% of the amount raised by the issuer.
- Where the issuer or any of its promoters or directors is a wilful defaulter, the promoters or promoter group of the issuer shall not renounce their rights except to the extent of renunciation within the promoter group.

The amount for:

- (i) general corporate purposes, and
- (ii) such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document,

shall not exceed 35% of the amount being raised by the issuer. Provided that the amount raised for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft letter of offer and the letters of offer, shall not exceed 25% of the amount being raised by the issuer. Provided further that such limits shall not apply if the proposed acquisition or strategic investment object has been identified and suitable specific disclosures about such acquisitions / investments are made in the draft letter of offer and the letters of offer, at the time of filing of offer documents.

Where the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower, the promoters or promoter group of the issuer shall not renounce their rights except to the extent of renunciation within the promoter group or to the specific investor as disclosed by the issuer.

Where the issuer has issued SR equity shares to its promoters or founders, then such a SR shareholder shall not renounce their rights and the SR shares received in a rights issue shall remain under lock-in until conversion into equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.

### **Record Date [Regulation 68]**

- A listed issuer making a rights issue shall announce a record date for the purpose of determining the shareholders eligible to apply for specified securities in the proposed rights issue for such period as may be specified in SEBI (LODR) Regulations, 2015.
- The issuer shall not withdraw rights issue after announcement of the record date. If the issuer withdraws the rights issue after announcing the record date, it shall not make an application for listing of any of its specified securities on any recognised stock exchange for a period of twelve months from the record date already announced.
- The issuer may seek listing of its equity shares allotted pursuant to conversion or exchange of convertible securities, ESOPs or exercise of warrants issued prior to the announcement of the record date, on the stock exchange where its securities are listed.

## **OTHER REQUIREMENTS WITH RESPECT TO THE RIGHT ISSUE**

### **Appointment of Intermediaries [Regulation 69]**

The issuer shall appoint intermediaries, which are registered with the SEBI after assessing the capability of intermediaries to carry out their obligations. The issuer shall appoint a registrar to the issue registered with the SEBI, which has connectivity with all the depositories. Provided that if the issuer itself is a registrar, it shall not appoint itself as a registrar to the issue.

**Disclosures in the draft letter of offer and letter of offer [Regulation 70]**

The draft letter of offer and letter of offer shall contain all material disclosures which are true and adequate to enable the applicants to take an informed investment decision.

**Filing of the draft letter of offer and letter of offer [Regulation 71]**

The issuer shall file the draft letter of offer with the stock exchange and shall submit to such stock exchange the following:

- a. the Permanent Account Number, bank account number and passport number of its promoters where they are individuals, and Permanent Account Number, bank account number, company registration number or equivalent, and the address of the Registrar of Companies with which the promoter is registered, where the promoter is a body corporate,
- b. in case of an issue of convertible debt instruments, a due diligence certificate from the debenture trustee as per Form B of Schedule V.

The issuer shall file letter of offer with the stock exchanges/ the designated stock exchange. The issuer shall file a letter of offer with the SEBI for information and dissemination on SEBI's website along with fees specified in Schedule III.

**Draft letter of offer and letter of offer to be available to the public [Regulation 72]**

The issuer shall ensure that the draft letter of offer and letter of offer are hosted on the websites as required under these regulations and its contents are the same as the versions as filed with the SEBI and the stock exchanges, as applicable. The stock exchanges shall provide copies of the draft letter of offer to the public as and when requested and may charge a reasonable sum for providing a copy of the same.

**Pricing [Regulation 73]**

- The issuer shall decide the issue price before determining the record date, which shall be determined in accordance with the designated stock exchange.
- The issue price shall not be less than the face value of the specified securities.
- The issue shall disclose the issue price in the letter of offer filed with SEBI and the stock exchanges.

**Reservation [Regulation 74]**

- The issuer shall make a rights issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments, if any, in proportion to the convertible part thereof.
- The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments shall be issued to the holder of such convertible debt instruments at the time of conversion of such convertible debt instruments, on the same terms at which the equity shares offered in the rights issue were issued. For the purposes of offering such rights entitlements, the issuer company shall not be required to credit rights entitlements.

**Letter of Offer [Regulation 75]**

Every application form distributed by the issuer or any other person in relation to the issue shall be accompanied by a copy of the letter of offer.

**ASBA [Regulation 75]**

An applicant to the rights issue shall do so only through the ASBA facility, which facility shall be provided by the issuer in the manner specified by SEBI:

Provided that payment through any other electronic banking mode shall be permitted in respect of an application made for any reserved portion outside the issue period.

**Availability of letter of offer and other issue materials [Regulation 77]**

- The issuer shall ensure availability of the letter of offer and other issue material including application forms with stock exchanges, registrar to issue, registrar and share transfer agents, depository participants, stock brokers, and underwriters, bankers to the issue, investors' associations and self certified syndicate banks before the opening of the issue.
- The letter of offer, along with application form, shall be despatched through registered post or speed post or by courier service or by electronic transmission to all the existing shareholders at least three days before the date of opening of the issue.
- The letter of offer shall also be provided by the issuer to any existing shareholder who makes a request in this regard.

**Credit of Rights Entitlements and Allotment of Specified Securities [Regulation 77A]**

- (1) The rights entitlements shall be credited to the demat account of the shareholders before the date of opening of the issue.
- (2) Allotment of specified securities shall be made in the dematerialised form only.

**Conditions for making applications on plain paper [Regulation 78]**

- Shareholders who have not received the application form may make an application in writing on a plain paper, along with the requisite application money.
- Shareholders making an application on plain paper shall not be entitled to renounce their rights and shall not utilise the application form for any purpose including renunciation even if it is received subsequently.
- If a shareholder makes an application both in an application form as well as on a plain paper, both applications are liable to be rejected.

**Underwriting [Regulation 81]**

If the issuer desires to have the issue underwritten, it shall appoint merchant bankers or stock brokers, registered with the SEBI, to act as underwriters. However, the issue can be underwritten only to the extent of entitlement of shareholders other than the promoters and promoter group.

**Issue-related advertisements [Regulation 84]**

The issuer shall issue an advertisement in at least one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language daily newspaper with wide circulation, at the place where registered office of the issuer is situated and also give an intimation to the stock exchanges for dissemination on their websites, at least 2 days before the date of opening of the issue, disclosing the following:

- the date of completion of despatch of letter of offer and the application form;

- the centres other than registered office of the issuer where the shareholders or the persons entitled to receive the rights entitlements may obtain duplicate copies of the application forms in case they do not receive the application form within a reasonable time after opening of the rights issue;
- a statement that if the shareholders entitled to receive the rights entitlements have neither received the original application forms nor are in a position to obtain the form; they may make an application through the form available on the website of Registrar, stock exchanges or in writing on a plain paper to subscribe to the Rights Issue along with a format specifying therein the necessary particulars such as name, address, ratio of rights issue, issue price, number of equity shares held, ledger folio numbers, depository participant ID, client ID, number of equity shares entitled and applied for, additional shares if any, and the amount to be blocked with SCSB along with the application;
- a statement to the effect that if the shareholder makes an application on plain paper and also on application form both his applications shall be liable to be rejected at the option of the issuer.
- details of the specific investor(s):
  - i. name of the specific investor(s) (i.e. renounees), name of the promoter(s)/promoter group (i.e. renouncer) and number of rights entitlements renounced, where the promoter(s)/promoter group is renouncing their rights entitlements in terms of regulation regulation 62(3) and clause (b) of regulation 86(1) of these Regulations;
  - ii. name of the specific investor(s), where the issuer intends to allot any under-subscribed portion of rights issue in terms of clause (d) of regulation 90(2) of these regulations.

During the period the issue is open for subscription, no advertisement shall be released giving an impression that the issue has been fully subscribed or oversubscribed, or indicating investors' response to the issue. An announcement regarding closure of issue shall be made only after the issuer is satisfied that at least 90% of the offer through letter of offer has been subscribed and a certificate has been obtained to that effect from the registrar to the issue.

However, such an announcement shall not be made before the date on which the issue is to be closed except for issue closing advertisement made in the format prescribed in these regulations.

#### **Subscription Period [Regulation 87]**

A rights issue shall be open for subscription for such period as may be specified by SEBI and no withdrawal of application shall be permitted after the issue closing date.

#### **Payment Option [Regulation 88]**

The issuer shall give one of the following payment options to all the shareholders for each type of instrument:

- part payment on application with balance money to be paid in calls; or
- full payment on application.

However, where the issuer has given the part payment option to investors, the part payment on application shall not be less than 25% of the issue price and such issuer shall obtain the necessary regulatory approvals to facilitate the same.

Provided further that payment of balance money in calls, outside the issue period, may be through electronic banking modes.

### Procedure for making a Rights Issue

The various steps involved for issue of rights share are enumerated below:

- Check whether the rights issue is within the authorised share capital of the company. If not, steps should be taken to increase the authorised share capital.
- Issue Notice of Board Meeting to all the directors of company at least 7 days before the date of Board Meeting.
- Notify the stock exchange concerned the date of Board Meeting at which the rights issue is proposed to be considered at least 2 days in advance of the meeting.
- Convene another Board Meeting which shall decide on the following matters:
  - Quantum of issue and the proportion of rights shares.
  - Alteration of share capital, if necessary, and offering shares to persons other than existing holders of shares in terms of Section 62 of the Companies Act, 2013.
  - Fixation of record date.
  - Appointment of intermediaries.
  - Approval of draft letter of offer or authorisation of managing director/ company secretary to finalise the letter of offer.
- Immediately after the Board Meeting notify the concerned Stock Exchanges about particulars of Board of Directors decision.
- Rights issue shall be kept open for at least 7 days and not more than 30 days.
- Filing of a copy of the letter of offer with the stock exchange.
- Filing of letter of offer with SEBI for information and dissemination on its website
- Dispatch letters of offer and the Composite Application Form to shareholders by registered post.
- Check that an advertisement giving date of completion of dispatch of letter of offer has been released in at least an English National Daily, one Hindi National Paper and a Regional Language Daily where registered office of the issuer company is situated and that the shareholder can apply on plain paper if he does not receive the application form.
- The advertisement should state that applications of shareholders who apply both on plain paper and also in a composite application form are liable to be rejected.
- Make arrangement with bankers for acceptance of share application forms.
- Finalise the allotment in consultation with Stock Exchange.
- Convene Board Meeting and make allotment of shares.
- Make an application to the Stock Exchange(s) where the company's shares are listed for permission of listing of new shares.
- Release post issue advertisement within 10 days from the date of completion of the various activities.

### Introduction of dematerialized Rights Entitlements (REs)

SEBI has vide its Circular dated January 22, 2020 introduced dematerialized Rights Entitlements (REs). Salient points related to dematerialized Rights Entitlements and its trading on stock exchange platform are given hereunder:

1. In the letter of offer, the issuer shall disclose the process of credit of REs in the demat account and renunciation thereof.
2. REs shall be credited to the demat account of eligible shareholders in dematerialized form.
3. In REs process, the REs with a separate ISIN shall be credited to the demat account of the eligible shareholders before the date of opening of the issue, against the shares held by them as on the record date.
4. Physical shareholders shall be required to provide their demat account details to Issuer/Registrar to the Issue for credit of REs not later than two working days prior to the issue closing date, such that credit of REs in their demat account takes place at least one day before the issue closing date.
5. REs shall be traded on secondary market platform of Stock exchanges, with T+1 rolling settlement, similar to the equity shares. Trading in REs on the secondary market platform of stock exchanges shall commence along with the opening of the issue and shall be closed at least three working days prior to the closure of the rights issue.
6. Investors holding REs in dematerialized mode shall be able to renounce their entitlements by trading on stock exchange platform or off-market transfer. Such trades will be settled by transferring dematerialized REs through depository mechanism, in the same manner as done for all other types of securities.

#### **GENERAL OBLIGATIONS OF THE ISSUER AND THE INTERMEDIARY IN CASE OF PUBLIC ISSUE AND RIGHTS ISSUE**

- No person connected with the issue shall offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application for allotment of specified securities.
- All public communications, publicity materials, advertisements and research reports shall comply with the requirements as specified in ICDR Regulations, 2018.
- The issuer shall ensure that the draft letter of offer and letter are hosted on the websites.
- The Issuer Company shall ensure that the contents of the offer document as hosted on their web sites are the same versions filed with the SEBI and the Stock Exchange.
- The designated stock exchange shall regularly monitor redressal of investor grievances arising from any issue related activities.
- The issuer shall continue to be responsible for post-issue activities till the applicants have received, credit to their demat account or refund of application monies and listing or trading permission is obtained.

#### **DOCUMENTATION FOR RIGHTS ISSUE**

##### **Pre Issue Formalities**

The following document should be submitted to obtain in-principle approval for the proposed Rights issue:

1. Covering letter making application for In-principle approval for the proposed Rights issue of the company.
2. Certified true copy of the resolution passed by the Board of Directors for issue of securities under proposed rights issue/ approving the proposed fast track rights issue.
3. Certified true copy of the resolution passed by the Shareholders, if any;

- a. for issue of securities under proposed rights issue/ fast track rights issue.
- b. increase in the authorised share capital (if required).
4. Permanent Account Number, bank account number and passport number of its promoters where they are individuals, and Permanent Account Number, bank account number, company registration number or equivalent and the address of the Registrar of Companies with which the promoter is registered, where the promoter is a body corporate.
5. Undertaking from the Company Secretary/Compliance Officer of the issuer;
6. Certificate from all Lead Manager/Merchant Banker confirming the following:
  - a) The issuer is eligible to make a rights issue of securities under SEBI (ICDR) Regulations, 2018;
  - b) For the proposed rights issue the issuer has complied with all the statutory formalities including the requirements of Companies Act, 2013, SEBI (ICDR) Regulations, 2018 etc. and no statutory authority has restrained the company from coming up with the proposed rights issue.
  - c) Neither the issuer nor any of its promoters or directors are declared as fraudulent borrower by the lending banks or financial institution or consortium, in terms of RBI Master Circular dated July 04, 2016.
  - d) Compliance with Regulation 99 (in case of fast track rights issue).
7. 5 Copies of Draft Letter of Offer.
8. Non-Refundable Processing fees.

#### Formalities before Issue Opening - Right Issue

1. 5 Copies of Final Letter of Offer along with Composite Application Form (“CAF”) with the issue opening and closing dates
2. Software Usage Fees
3. 1% Security Deposit
4. A request letter from Company/LM for activation of Right Entitlements Renunciation Trading Facility on the Stock Exchange (if required)

#### Post Issue Formalities - Right Issue

##### Checklist of documents for Basis of allotment

Company has to finalise the basis of allotment, and submit the documents as under, within 10 days from closure of the issue:

1. Bid data of Exchanges other than the designated stock exchange.
2. All rejections application along with Summary statement ( 1 set photocopy to be submitted).
3. Certified copies of all Bank final certificates (ASBA & NON ASBA).
4. Minutes of Basis of allotment duly signed by all the Lead Manager, Registrar and the Company.
5. Basis of allotment sheet for each category.
6. Round summary in case of over subscription, in hard as well as soft format.
7. Copy of post issue initial monitoring report filed with SEBI (3 days monitoring report).

8. Undertaking from Lead Manager, Company and the Registrar.
9. Pre Allotment shareholding and Post proposed Allotment Shareholding pattern as per Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
10. The calculation of ex right price by the Statutory Auditor/ Practicing Company Secretary/ Practicing Chartered Accountant, if not available in the offer document.

### Checklist of documents for listing of securities issued pursuant to the Right Issue

The company should submit the letter of application along with the following documents / formalities:

1. Listing Application for all types of securities issued on rights basis should be submitted.
2. Certified copy of the resolution passed by the Board of Directors for allotment of securities on Right Basis.
3. Shareholding pattern for pre and post issue as per the format prescribed under Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for all types of securities issued on Rights basis.
4. A certified copy of Basis of Allotment as approved by Designated Stock Exchange should be filed.
5. Details of total Rights Entitlements Credited.
6. Auditors/Practicing CA/CS certificate that allotment has been done as per basis of allotment approved by the designated stock exchange.
7. The total number of securities allotted in Demat (CDSL & NSDL Separately) with category wise distinctive numbers should be filed.
8. An undertaking from the Managing Director/Compliance Officer certifying that all the documents filed by the Company with the Exchange are same/similar/identical in all respect with the documents filed by the Company with Register of Companies/SEBI/RBI/FIPB in respect of the allotment/enlistment of the aforesaid rights share on the Exchange, and that the company has complied with all the legal and statutory formalities and no statutory authority has restrained the company from issuing and allotting the securities on rights basis.
9. Undertaking from the Company Secretary/Compliance Officer of the issuer as per the following format:
  - “The company or its promoters or whole time directors are not in violation of the provisions of the SEBI Delisting Regulations, 2021”.
  - “We hereby confirm that the company, its promoters, its directors are not in violation of the restrictions imposed by SEBI under SEBI circular no. SEBI/HO/ MRD/DSA/CIR/P/2017/92 dated August 01, 2017.”
  - For the proposed rights issue, the issuer has complied with all the statutory formalities including the requirements of Companies Act, 2013, SEBI (ICDR) Regulations, 2018 etc. and no statutory authority has restrained the company from coming up with the proposed rights issue.
  - “Neither the issuer nor any of its promoters or directors is a wilful defaulter as defined under Regulation 2 (1) (III) of SEBI (ICDR) Regulations, 2018”;

OR

“<Name of the issuer> / <name>, the promoter(s) of the issuer / <name> the director(s) of the issuer is a wilful defaulter as defined under Regulation (1) (III) of SEBI (ICDR) Regulations, 2018 and

disclosures in this regard has been made at <place of disclosure>.as per the format given in said regulation.”

- “None of the promoters or directors of the issuer is a fugitive economic offender as defined under Regulation 2(1) (p) of SEBI (ICDR) Regulations, 2018.”

10. Annual Listing fees.

### Formalities for obtaining Trading approval

1. A certified true copy of the Certificate/Letter from Registrars to Issue confirming the date of completion of posting of Refund Orders and Share certificate/Debenture Certificates in Physical form ( if any).
2. Confirmation from the depositories for crediting of securities to the beneficiary owner’s account.
3. Copies of Newspaper advertisement of Basis of Allotment.

**Reference:** <https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20230630-36>

## PREFERENTIAL ISSUE [CHAPTER V OF SEBI (ICDR) REGULATIONS, 2018]

### Applicability [Regulation 158]

“**Preferential issue**” means an issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis in accordance with Chapter V of SEBI (ICDR) Regulations, 2018 and does not include an offer of specified securities made through employee stock option scheme, employee stock purchase scheme or an issue of sweat equity shares or depository receipts issued in a country outside India or foreign securities.

### Non-applicability

- The provisions of Chapter V shall not apply where the preferential issue of equity shares is made pursuant to:
  - (a) conversion of a loan or an option attached to convertible debt instruments in terms of sections 62 (3) & (4) of the Companies Act, 2013, whichever is applicable;
  - (b) a scheme approved by a High Court under section 391 to 394 of the Companies Act, 1956 or approved by a tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013, as applicable;
 

However, the pricing provisions of preferential issue shall apply to the issuance of shares under schemes mentioned in clause (b) in case of allotment of shares only to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes.
  - (c) a qualified institutions placement in accordance with Chapter VI of these regulations.
- The provisions of this Chapter, except the lock-in provisions, shall not apply where the preferential issue of specified securities is made in terms of the rehabilitation scheme approved by the BIFR under the SICA, 1985 or the resolution plan approved under Section 31 of the IBC, 2016, whichever is applicable.
- The provisions of this Chapter relating to pricing and lock-in shall not apply to equity shares allotted to any financial institution within the meaning of sub-clauses (ia) and (ii) of clause (h) of section 2 of the Recovery of Debts due to Banks and Financial Institutions Act, 1993.

- The provisions relating to disclosure to shareholders and pricing shall not apply to a preferential issue of equity shares and compulsorily convertible debt instruments, whether fully or partly, where SEBI has granted relaxation to the issuer in terms of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, if adequate disclosures about the plan and process proposed to be followed for identifying the allottees are given in the explanatory statement to notice for the general meeting of the shareholders.
- The provisions relating to issuers ineligible to make a preferential issue and lock-in of pre-preferential allotment holding, shall not apply to a preferential issue of specified securities where the proposed allottee is a mutual fund registered with SEBI or insurance company registered with IRDA or a scheduled commercial bank or a public financial institution.
- The provisions of this Chapter shall not apply where the preferential issue of specified securities is made to the lenders pursuant to conversion of their debt, as part of a debt restructuring implemented in accordance with the guidelines specified by the Reserve Bank of India, subject to the following conditions:
  - (a) guidelines for determining the conversion price have been specified by the Reserve Bank of India in accordance with which the conversion price shall be determined and which shall be in compliance with the applicable provisions of the Companies Act, 2013;
  - (b) conversion price shall be certified by two independent valuers;
  - (c) specified securities so allotted shall be locked-in for a period of one year from the date of their allotment;
 

However, for the purpose of transferring the control, the lenders may transfer the specified securities allotted to them before completion of the lock-in period subject to continuation of the lock-in on such securities for the remaining period, with the transferee.
  - (d) the lock-in of equity shares allotted pursuant to conversion of convertible securities issued on preferential basis shall be reduced to the extent the convertible securities have already been locked-in;
  - (e) the applicable provisions of the Companies Act, 2013 are complied with, including the requirement of a special resolution.

*Explanation* - For the purpose of this sub-regulation, “lenders” shall mean all scheduled commercial banks (excluding Regional Rural Banks) and All India Financial Institutions.

### Conditions for Preferential Issue [Regulation 160]

A listed issuer may make a preferential issue of specified securities, if:

- all equity shares allotted by way of preferential issue shall be made fully paid up at the time of the allotment;
- a special resolution has been passed by its shareholders;
- all the equity shares, if any, held by the proposed allottees in the issuer are in dematerialised form before an application seeking in-principle approval is made by the issuer to the stock exchange(s) where its equity shares are listed;
- the issuer is in compliance with the conditions for continuous listing of equity shares as specified in

the listing agreement with the recognised stock exchange where the equity shares of the issuer are listed, SEBI Listing Regulations, 2015 as amended, and any circular or notifications issued by SEBI thereunder;

- the issuer has obtained the Permanent Account Number of the proposed allottees except those allottees which may be exempt from specifying their Permanent Account Number for transacting in the securities market by the SEBI before an application seeking in-principle approval is made by the issuer to the stock exchange(s) where its equity shares are listed;
- the issuer has made an application seeking in-principle approval to the stock exchange(s), where its equity shares are listed, on the same day when the notice has been sent in respect of the general meeting seeking shareholders' approval by way of special resolution.

### Issuers Ineligible to make Preferential Issue [Regulation 159]

Preferential issue of specified securities shall not be made to any person who has sold or transferred any equity shares of the issuer during the 90 trading days preceding the relevant date.

Further in respect of the preferential issue of equity shares and compulsorily convertible debt instruments, SEBI may grant relaxation from the requirements of this sub-regulation in terms of sub-regulation (2) of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 to such a preferential allotment.

It may be noted that where any person belonging to promoter(s) or the promoter group has sold/ transferred their equity shares in the issuer during the 90 trading days preceding the relevant date, the entire promoter(s) and promoter group should be ineligible for allotment of specified securities on preferential basis.

The, above restriction shall not apply to any sale of equity shares by any person belonging to promoter(s) of the promoter group which qualifies for inter-se transfer amongst qualifying persons under clause (a) of sub-regulation (1) of regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeover Regulations), 2011 or in case of transfer of shares held by the promoters or promoter group on account of invocation of pledge by a scheduled commercial bank or public financial institution or a systemically important non-banking finance company or mutual fund or insurance company registered with the IRDA.

Where any person belonging to promoter(s) or the promoter group has previously subscribed to warrants of an issuer **but failed to exercise the warrants**, the promoter(s) and promoter group shall be ineligible for issue of specified securities of such issuer on preferential basis for a period of one year from:

- (a) the date of expiry of the tenure of the warrants due to non-exercise of the option to convert; or
- (b) the date of cancellation of the warrants, as the case may be.

An issuer shall not be eligible to make a preferential issue if any of its promoters or directors is a fugitive economic offender.

An issuer shall not be eligible to make a preferential issue if it has any outstanding dues to SEBI, the stock exchanges or the depositories. However, this shall not be applicable in a case where such outstanding dues are the subject matter of a pending appeal or proceeding(s), which has been admitted by the relevant Court, Tribunal or Authority, as the case may be.

### Relevant Date [Regulation 161]

'Relevant date' means :

- (a) in case of preferential issue of equity shares, the date thirty days prior to the date on which the meeting of shareholders is held to consider the proposed preferential issue.

However, in case of a preferential issue of specified securities pursuant to any resolution of stressed assets under a framework specified by the RBI or a resolution plan approved by the NCLT under the IBC, 2016, the date of approval of the corporate debt restructuring package or resolution plan shall be the relevant date.

- (b) in case of preferential issue of convertible securities, either the relevant date referred clause (a) or a date thirty days prior to the date on which the holders of the convertible securities become entitled to apply for the equity shares. [It may be noted that the choice of relevant date shall be informed to the shareholders upfront while seeking approval for the proposed preferential issue].

*Explanation:* Where the relevant date falls on a Weekend/Holiday, the day preceding the Weekend/Holiday will be reckoned to be the relevant date.

For example, if the meeting of the shareholders is on November 13, 2018, the Relevant date shall be October 13, 2018. However, since October 13, 2018 is a Saturday, the relevant date shall be Friday October 12, 2018.

### Tenure of convertible securities [Regulation 162]

The tenure of the convertible securities of the issuer shall not exceed eighteen months from the date of their allotment. Upon exercise of the option by the allottee to convert the convertible securities within the tenure, the issuer shall ensure that the allotment of equity shares pursuant to exercise of the convertible securities is completed within 15 days from the date of such exercise by the allottee.

### Disclosures to Shareholders [Regulation 163]

- (1) The issuer shall, in addition to the disclosures required under the Companies Act, 2013 or any other applicable law, disclose the following in the explanatory statement to the notice for the general meeting proposed for passing special resolution:
- (a) the objects of the preferential issue;
  - (b) Maximum number of specified securities to be issued;
  - (c) intent of the promoters, directors or key managerial personnel or senior management of the issuer to subscribe to the offer;

“Senior Management” shall mean the officers and personnel of the issuer who are members of its core management team, excluding the Board of Directors, and shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors) and shall specifically include the functional heads, by whatever name called and the **Company Secretary** and the Chief Financial Officer.

- (d) the shareholding pattern of the issuer before and after the preferential issue;
- (e) the time within which the preferential issue shall be completed;
- (f) the identity of the natural persons who are the ultimate beneficial owners of the shares proposed to be allotted and/or who ultimately control the proposed allottees, the percentage of post preferential issue capital that may be held by them and change in control, if any, in the issuer consequent to the preferential issue.

However, if there is any listed company, mutual fund, bank or insurance company in the chain of ownership of the proposed allottee, no further disclosure will be necessary.

It may be noted that, for the purpose of identification of the ultimate beneficial owners of the allottees, where the allottees are institution/entities, the identification of such ultimate beneficial owners, shall be in accordance with the guidelines prescribed by SEBI, if any.

- (g) the percentage of post preferential issue capital that may be held by the allottee(s) and change in control, if any, in the issuer consequent to the preferential issue;
- (h) an undertaking that the issuer shall re-compute the price of the specified securities in terms of the provision of these regulations where it is required to do so;
  - (i) an undertaking that if the amount payable on account of the re-computation of price is not paid within the time stipulated in these regulations, the specified securities shall continue to be locked-in till the time such amount is paid by the allottees.
  - (j) disclosures, similar to disclosures specified in Schedule VI of the ICDR Regulations, 2018 if the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower;
  - (k) the current and proposed status of the allottee(s) post the preferential issues namely, promoter or non-promoter.
- (2) The issuer shall place a copy of the certificate of a practicing company secretary before the general meeting of the shareholders, considering the proposed preferential issue, certifying that the issue is being made in accordance with the requirements of these regulations.
 

The issuer shall also host the certificate on its website and provide a link for the same in the notice for the general meeting of the shareholders considering the proposed preferential issue.
- (3) Specified securities may be issued on a preferential basis for consideration other than cash. Provided that consideration other than cash shall comprise only swap of shares pursuant to a valuation report by an independent registered valuer, which shall be submitted to the stock exchange(s) where the equity shares of the issuer are listed.
- (4) The special resolution shall specify the relevant date on the basis of which price of the equity shares to be allotted on conversion or exchange of convertible securities shall be calculated.

## PRICING – PREFERENTIAL ISSUE

### Pricing of equity shares – Frequently traded shares [Regulation 164]

#### 1. Listed for more than 90 trading days

If the equity shares of the issuer have been listed on a recognised stock exchange **for a period of 90 trading days or more as on the relevant date**, the equity shares shall be allotted at a price not less than higher of the following:

- (a) The 90 trading days' volume weighted average price (VWAP) of the related equity shares quoted on the recognised stock exchange preceding the relevant date; or
- (b) The 10 trading days' volume weighted average prices of the related equity shares quoted on a recognised stock exchange preceding the relevant date.

However, if the Articles of Association of the issuer provide for a method of determination which results in a floor price higher than that determined under these regulations, then the same shall be considered as the floor price for equity shares to be allotted pursuant to the preferential issue.

## 2. Listed for less than 90 trading days

If the equity shares of the issuer have been listed on a recognised stock exchange for a **period of less than 90 trading days** as on the relevant date, the equity shares shall be allotted at a price not less than the higher of the following:

- (a) the price at which equity shares were issued by the issuer in its initial public offer or the value per share arrived at in a scheme of compromise, arrangement and amalgamation under sections 230 to 234 the Companies Act, 2013, as applicable, pursuant to which the equity shares of the issuer were listed, as the case may be; or
- (b) the average of the volume weighted average prices of the related equity shares quoted on the recognised stock exchange during the period shares have been listed preceding the relevant date; or
- (c) the average of the 10 trading days' volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date.

However, if the Articles of Association of the issuer provide for a method of determination which results in a floor price higher than that determined under these regulations, then the same shall be considered as the floor price for equity shares to be allotted pursuant to the preferential issue.

Where the price of the equity shares is determined in terms of point no. 2, such price shall be recomputed by the issuer on completion of 90 trading days from the date of listing on a recognised stock exchange with reference to the 90 trading days volume weighted average prices of the related equity shares quoted on the recognised stock exchange during these 90 trading days and if such recomputed price is higher than the price paid on allotment, the difference shall be paid by the allottees to the issuer.

However, if the Articles of Association of the issuer provide for a method of determination which results in a floor price higher than that determined under these regulations, then the same shall be considered as the floor price for equity shares to be allotted pursuant to the preferential issue.

- A preferential issue of specified securities to QIBs, not exceeding five in number, shall be made at a price not less than the 10 trading days' volume weighted average prices of the related equity shares quoted on a recognised stock exchange preceding the relevant date.

However, if the Articles of Association of the issuer provide for a method of determination which results in a floor price higher than that determined under these regulations, then the same shall be considered as the floor price for equity shares to be allotted pursuant to the preferential issue.

- Allotment shall not be made, either directly or indirectly, to any qualified institutional buyer who is a promoter or any person related to the promoters of the issuer. Provided that a qualified institutional buyer who does not hold any shares in the issuer and who has acquired rights in the capacity of a lender shall not be deemed to be a person related to the promoters.

*Explanation.* – For the purpose of this clause, a qualified institutional buyer who has any of the following rights shall be deemed to be a person related to the promoters of the issuer:-

- (a) rights under a shareholders' agreement or voting agreement entered into with promoters or promoter group;
- (b) veto rights; or
- (c) right to appoint any nominee director on the board of the issuer.

**Pricing of infrequently traded shares [Regulation 165]**

Where the shares are not frequently traded, the price determined by the issuer shall take into account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies. However, the issuer shall submit a certificate stating that the issuer is in compliance of this regulation, obtained from an independent merchant banker or an independent registered to the stock exchange where the equity shares of the issuer are listed.

**“Frequently traded shares”** means the shares of the issuer, in which the traded turnover on any recognised stock exchange during the 240 trading days preceding the relevant date, is at least 10% of the total number of shares of such class of shares of the issuer.

Where the share capital of a particular class of shares of the issuer is not identical throughout such period, the weighted average number of total shares of such class of the issuer shall represent the total number of shares.

**Adjustments in pricing – Frequently or Infrequently traded shares [Regulation 166]**

- (1) The price determined for preferential issue shall be subject to appropriate adjustments, if the issuer:
  - (a) makes an issue of equity shares by way of capitalization of profits or reserves, other than by way of a dividend on shares;
  - (b) makes an issue of equity shares after completion of a demerger wherein the securities of the resultant demerged entity are listed on a stock exchange;
  - (c) makes a rights issue of equity shares;
  - (d) consolidates its outstanding equity shares into a smaller number of shares;
  - (e) divides its outstanding equity shares including by way of stock split;
  - (f) re-classifies any of its equity shares into other securities of the issuer;
  - (g) is involved in such other similar events or circumstances, which in the opinion of the concerned stock exchange, requires adjustments.
- (2) The effect on the price of the equity shares of the issuer due to material price movement and confirmation of reported event or information may be excluded as per the framework specified under regulation 30 (11) of the SEBI (LODR) Regulations, 2015 for determination of the price for a preferential issue in accordance with regulations 164, 164A, 164B or 165 of these regulations.

**Special Provisions Related to Pricing in Preferential Issue of Shares of Companies having stressed Assets**

On June 22, 2020 SEBI has amended the SEBI (ICDR) Regulations, 2018 and relaxed the pricing methodology for preferential issues by listed companies having stressed assets and exempt allottees of preferential issues from open offer obligations in such cases. SEBI has inserted new Regulation 164A and 164B in SEBI (ICDR) Regulations, 2018 making provisions for companies having stressed assets and are summarized hereunder.

**Pricing in preferential issue of shares of companies having stressed assets [Regulation 164A]**

- 1) In case of frequently traded shares, the price of the equity shares to be allotted pursuant to the preferential issue shall not be less than the 10 trading days' volume weighted average price of the related equity shares quoted on a recognised stock exchange preceding the relevant date.
- 2) No allotment of equity shares shall be made unless the issuer company meets any two of the following criteria:
  - a) the issuer has disclosed all the defaults relating to the payment of interest/ repayment of principal amount on loans from banks / financial institutions/ Systemically Important Non- Deposit taking Non-banking financial companies/ Deposit taking Non-banking financial companies and /or listed or unlisted debt securities in terms of SEBI Circular dated November 21, 2019 and such payment default is continuing for a period of at least 90 calendar days after the occurrence of such default;
  - b) there is an Inter-creditor agreement in terms of Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019 dated June 07, 2019;
  - c) The credit rating of the financial instruments (listed or unlisted), credit instruments / borrowings (listed or unlisted) of the listed company has been downgraded to "D".
- 3) The issuer company making the preferential issue shall ensure compliance with the following conditions:
  - a) The preference issue shall be made to a person not part of the promoter or promoter group as on the date of the board meeting to consider the preferential issue. The preference issue shall not be made to the following entities:
    - i) undischarged insolvent in terms of the Insolvency and Bankruptcy Code, 2016;
    - ii) 'wilful defaulter or a fraudulent borrower' as per the guidelines of the Reserve Bank of India issued under the Banking Regulation Act, 1949;
    - iii) person disqualified to act as a director under the Companies Act, 2013;
    - iv) a person debarred from trading in securities or accessing the securities market by the Board;
 

*Explanation:* The restriction under (iv) shall not apply to the persons or entities mentioned therein who were debarred in the past by the Board and the period of debarment is already over as on the date of the board meeting considering the preferential issue.
    - v) a person declared as a fugitive economic offender;
    - vi) a person who has been convicted for any offence punishable with imprisonment-
      - A. For two years or more under any Act specified under the Twelfth Schedule of the Insolvency and Bankruptcy Code, 2016;
      - B. For seven years or more under any law for the time being in force:
 

Provided that such restriction shall not be applicable to a person after the expiry of a period two years from the date of his release from imprisonment.
    - vii) A person who has executed a guarantee in favour of a lender of the issuer and such guarantee has been invoked by the lender and remains unpaid in full or part.
- 4) The resolution for the preferential issue and exemption from open offer shall provide the votes cast by the shareholders in the 'public' category in favour of the proposal shall be more than the number

of votes cast against it. The proposed allottee (s) in the preferential issue that already hold specified securities shall not be included in the category of 'public' for this purpose:

Provided that where the company does not have an identifiable promoter; the resolution shall be deemed to have been passed if the votes cast in favour are not less than three times the number of the votes, if any, cast against it.

- 5) The proceeds of such preferential issue shall not be used for any repayment of loans taken from promoters/ promoter group/ group companies. The proposed use of proceeds shall be disclosed in the explanatory statement sent for the purpose of the shareholder resolution.
- 6) a) The issuer shall make arrangements for monitoring the use of proceeds of the issue by a credit rating agency registered with the SEBI:
  - (i) The monitoring agency shall submit its report to the issuer in the format specified in terms of Schedule XI (with fields as applicable) on a quarterly basis till 100% of the proceeds of the issue have been utilized.
  - (ii) The board of directors and the management of the issuer shall provide their comments on the findings of the monitoring agency as specified in Schedule XI.
  - (iii) The issuer shall, within forty five days from the end of each quarter, publicly disseminate the report of the monitoring agency by uploading the same on its website as well as submit the same to the stock exchange(s) on which the equity shares of the issuer are listed.
- b) The proceeds of the issue shall also be monitored by the Audit Committee till utilization of the proceeds.
- 7) The allotment made shall be locked-in for a period of three years from the last date of trading approval.
- 8) The statutory auditor and the audit committee shall certify that all conditions under sub- regulations (1), (2), (3), (4) and (5) of regulation 164A are met at the time of dispatch of notice for general meeting proposed for passing the special resolution and at the time of allotment.

#### **Optional Pricing in preferential issue [Regulation 164B]**

- (1) In case of frequently traded shares, the price of the equity shares to be allotted pursuant to the preferential issue shall be determined by regulation 164 or regulation 164B, as opted for.
- (2) The price of the equity shares to be allotted pursuant to the preferential issue shall not be less than the higher of the following:
  - (a) the average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twelve weeks preceding the relevant date; or
  - (b) the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date.
- (3) Specified securities allotted on a preferential basis using the pricing method determined under sub-regulation (2) shall be locked-in for a period of three years.

- (4) The pricing method determined at sub-regulation (2) shall be availed in case of allotment by preferential issue made between July 01, 2020 or from the date of notification of this regulation, whichever is later and December 31, 2020.
- (5) All allotments arising out of the same shareholders approval shall follow the same pricing method.

### Lock-in of specified securities [Regulation 167]

The specified securities allotted on preferential basis to **promoter or promoter group** and the equity shares allotted pursuant to exercise of options attached to warrants issued on preferential basis to promoter or promoter group, **shall be locked-in for a period of 18 months from date of trading approval** granted for the specified securities or equity shares allotted pursuant to exercise of the option attached to warrant, as the case may be.

However, not more than 20% of the total capital of the issuer shall be locked-in for 18 months from the date of trading approval. Further, Equity shares allotted in excess of the 20% shall be locked-in for six months from the date of trading approval pursuant to exercise of options or otherwise, as the case may be.

In case of convertible securities or warrant which are not listed on stock exchanges, such securities shall be locked in for a period of one year from the date of allotment.

- The specified securities allotted on preferential basis to persons **other than promoter and promoter group** and the equity shares allotted pursuant to exercise of options attached to warrants issued on preferential basis to such persons shall be **locked in for a period of six months from the date of trading approval**.

However, in case of convertible securities or warrants which are not listed on stock exchanges, such securities shall be locked in for a period of one year from the date of allotment.

The date of trading approval shall mean the latest date when trading approval has been granted by all the stock exchanges where the equity shares of the issuer are listed, for specified securities allotted as per the provisions of this lesson.

- Lock-in of the equity shares allotted pursuant to conversion of convertible securities other than warrants, issued on preferential basis shall be reduced to the extent the convertible securities have already been locked-in.
- The equity shares issued on a preferential basis pursuant to any resolution of stressed assets under a framework specified by the RBI or a resolution plan approved by the NCLT under the IBC 2016, shall be locked-in for a period of one year from the trading approval. However, the lock-in provision shall not be applicable to the specified securities to the extent to achieve 10% public shareholding.
- If the amount payable by the allottee, in case of re-calculation of price is not paid till the expiry of lock-in period, the equity shares shall continue to be locked-in till such amount is paid by the allottee.
- The entire pre-preferential allotment shareholding of the allottees, if any, shall be locked-in from the relevant date up to a period of 90 trading days from the date of trading approval.
- However, in case of convertible securities or warrants which are not listed on stock exchanges, the entire pre-preferential allotment shareholding of the allottees, if any, shall be locked-in from the relevant date up to a period of 90 trading days from the date of allotment of such securities.

- Lock-in requirements for an allottee who has become a promoter due to change in control consequent to the preferential issue shall be the same as those applicable to the promoters and promoter group under this regulation.

### Transferability [Regulation 168]

Subject to the provisions of SEBI (SAST) Regulations, 2011, specified securities held by promoters and locked-in, may be transferred among the promoters or the promoter group or to a new promoter or persons in control of the issuer. However, the lock-in on such specified securities shall continue for the remaining period with the transferee.

The specified securities allotted on a preferential basis shall not be transferable by the allottees till the trading approval is granted for such securities by all the recognised stock exchanges where the equity shares of the issuer are listed.

#### INFORMAL GUIDANCE

##### Query:

Whether as per Regulation 168 of the SEBI (ICDR) Regulations, 2018, the specified securities of Shri Dinesh Mills Limited (hereinafter referred as “SDM”) held by promoters / members of the promoter group of and locked-in as per Regulation 167(1) of SEBI (ICDR) Regulations, 2018 can be transferred to Acquirer Trusts through its trustees having control over the affairs of SDM?

##### Reply:

The specified securities i.e. shares of Shri Dinesh Mills Limited, held by promoters/ members of the promoter group and locked-in as per Regulation 167 (1) of SEBI (ICDR) Regulations, 2018, may be transferred to the Acquirer Trusts under Regulation 168 (1) of SEBI (ICDR) Regulations, 2018. However, the said transferability, is subject to the provisions of SEBI (SAST) Regulations, 2011. In the instant case, pursuant to the proposed transfer of shares to the Trusts, the Trusts (through its trustees) would have control over the affairs of SDM. Even otherwise, the Trusts shall fall within the definition of “promoter group” under SEBI (ICDR) Regulations, 2018, as the trustees and ultimate beneficiaries of the Trusts are promoters and members of the promoter group family of the SDM. Considering the above, the Trusts shall be considered as part of ‘new promoter’ or ‘promoter group’ or ‘persons in control of the issuer’ and consequently, there shall not be any contravention of provisions of SEBI (ICDR) Regulations, 2018, on transfer of locked -in securities to the Trusts. However, the balance lock-in period shall continue in the hands of the Trusts.

*Reference: [https://www.sebi.gov.in/enforcement/informal-guidance/feb-2020/in-the-matter-of-nimish-upen-drabhai-patel-under-sebi-substantial-acquisition-of-shares-and-takeovers-regulations-2011-sebi-prohibition-of-insider-trading-regulations-2015-and-sebi-issue-of-ca-\\_45888.html](https://www.sebi.gov.in/enforcement/informal-guidance/feb-2020/in-the-matter-of-nimish-upen-drabhai-patel-under-sebi-substantial-acquisition-of-shares-and-takeovers-regulations-2011-sebi-prohibition-of-insider-trading-regulations-2015-and-sebi-issue-of-ca-_45888.html)*

### Payment of consideration [Regulations 169]

Full consideration of specified securities other than warrants shall be paid by the allottees at the time of allotment of such specified securities except in case of shares issued for consideration other than cash.

However, in case of preferential issue of specified securities pursuant to any resolution of stressed assets under a framework specified by RBI or a resolution plan approved by NCLT under the IBC, 2016, the consideration may be in terms of such scheme.

In the case of warrants, an amount equivalent to at least 25% of the consideration determined in terms of the ICDR Regulations, 2018 shall be paid against each warrant on the date of allotment of warrants. The balance 70% of the consideration shall be paid at the time of allotment of equity shares pursuant to exercise of option against each such warrant by the warrant holder.

However, in case the exercise price of the warrants is based on the formula, at least 25% of the consideration amount calculated as per the formula with conversion date being the relevant dates shall be paid against each warrant on the date of allotment of warrants and the balance consideration shall be paid at the time of allotment of the equity shares pursuant to exercise of options against each such warrant by the warrant holder.

In case the warrant holder does not exercise the option to take equity shares against any of the warrants held by him, the consideration paid in respect of such warrant (i.e. the 25% paid at the time of the issuance of the warrants) shall be **forfeited** by the issuer.

However, in case the exercise price of the warrants is based on the formula, at least 25% of the consideration amount calculated as per the formula with conversion date being the relevant date shall be paid against each warrant on the date of allotment of warrants and the balance consideration shall be paid at time of allotment of the equity shares pursuant to exercise of options against each such warrant by the warrant holder.

The issuer shall ensure that the consideration of specified securities, if paid in cash, shall be received from respective allottee's bank account and in the case of joint holders, shall be received from the bank account of the person whose name appears first in the application.

The issuer shall submit a certificate of the statutory auditor to the stock exchange where the equity shares of the issuer are listed stating that the issuer is in compliance of the SEBI (ICDR) Regulations, 2018 and the relevant documents thereof are maintained by the issuer as on the date of certification.

#### **Allotment pursuant to special resolution [Regulation 170]**

- Allotment pursuant to the special resolution shall be completed within a period of fifteen days from the date of passing of such resolution.
- In case of exemption from the applicability of the SEBI (SAST) Regulations, 2011 or any approval or permission by any regulatory authority or the Central Government for allotment is pending, the period of fifteen days shall be counted from the date of the order on such application or the date of approval or permission, as the case may be.
- In case of relaxation granted by SEBI in terms of the SEBI (SAST) Regulations, 2011, the preferential issue of equity shares and compulsorily convertible debt instruments, whether fully or partly, shall be made by it within such time as may be specified by the SEBI in its order granting the relaxation.
- Where a preferential allotment is made that attracts an obligation to make an open offer for shares of the issuer under the SEBI (SAST) Regulations, 2011, and there is no offer made under regulation 20 (1) of the SEBI (SAST) Regulation, 2011, the period of fifteen days shall be considered from the expiry of the period specified regulation 20 (1) or date of receipt of all statutory approvals required for the completion of an open offer under the SEBI (SAST) Regulation, 2011.

In this case, the period of fifteen days shall be counted from the expiry of the offer period as defined in the SEBI (SAST) Regulations, 2011.

However, this above-mentioned provision shall not apply to an offer made under regulation 20 (1) of the SEBI (SAST) Regulation, 2011, pursuant to a preferential allotment.

- The requirement of allotment within fifteen days shall not apply to allotment of specified securities on preferential basis pursuant to any resolution of stressed assets under a framework specified by the RBI or a resolution plan approved by the NCLT under the IBC 2016.
- If the **allotment of the specified securities is not completed within fifteen days** from the date of special resolution, **a fresh special resolution shall be passed** and the relevant date for determining the price of specified securities shall be taken with reference to the date of the latter special resolution.
- Allotment of the specified securities shall be made **only in dematerialised form**.
- The requirement of allotment in dematerialised form shall also be applicable for the equity shares to be allotted pursuant to exercise of option attached to warrant or conversion of convertible securities.

## DOCUMENTATION FOR PREFERENTIAL ISSUE

### Pre-Issue Formalities

1. Covering letter for “In-principle approval” for issue and allotment of Securities on a preferential basis under Regulation 28(1) of the SEBI (LODR), Regulations, 2015.
2. Certified copy of the resolution passed by the Board of Directors of the company for the proposed preferential issue.
3. Certified true copy of notice of AGM/EGM.
4. Where allotment is:
  - I) for consideration other than cash:
    - a) Certified copy of valuation report;
    - b) Certified copy of Shareholders Agreements;
    - c) Certified copy of approval letters from FIPB and RBI if applicable.
  - II) pursuant to a resolution plan approved by NCLT under Insolvency and Bankruptcy Code, 2016 (IBC)/ CDR Scheme/ Order of High Court/ BIFR
    - a) Certified copy of orders and resolution plan approved by NCLT under IBC (Extract of the relevant resolution) / relevant scheme/ order.
  - III) pursuant to conversion of loan of financial institutions:
    - a) Certified copy of the Loan Agreement executed by the company.
5. Brief particulars of the proposed preferential issue as given below.
6. In case if the prior holding of the allottee is under pledge with banks/ financial institution(s), company needs to provide an undertaking/ confirmations from the banks/ financial institutions, company and allottee(s).
7. Confirmation by the Managing Director/ Company Secretary.
8. Certificate from Statutory Auditors/ Practicing Chartered Accountant/ Practicing Company Secretary.
9. Pricing certificate by Statutory Auditor/ Practicing Chartered Accountant/ Practicing Company Secretary. In case the securities of the company are infrequently traded pricing certificate as prescribed under the SEBI (ICDR) Regulation, 2018.
10. Non-refundable processing fees.

Brief particular of the proposed preferential issue are:

I) Company details:

|   |  |
|---|--|
| Name of the Company   |  |
| Scrip Code  |  |
| ISIN No.  |  |
| Face Value of the equity shares of the company  |  |
| Authorized Capital of the Company (Rs.)   |  |
| Nominal value of the equity share capital (Rs.)   |  |
| Paid up equity share capital of the Company (Rs.)   |  |
| Maximum no. of shares that may be issued (inclusive of convertible instruments) pursuant to the proposed preferential issue |  |
| Paid up equity share capital of the Company post proposed issue on fully diluted basis (Rs.)                                |  |

II) Issue details:

|  |  |
|--|--|
| Date of Board Meeting wherein the proposed preferential issue was approved               |  |
| Date of General Meeting approving the issue u/s 62                                       |  |
| Date of approval by CDR/ Order passed by the Hon'ble High Court/NCLT, if applicable      |  |
| Relevant date  |  |
| Offer Price (Rs.)  |  |
| Minimum price as computed under SEBI (ICDR) Regulations, 2018 Regulations                |  |
| Consideration (cash/ other than cash/conversion of loan)                                 |  |
| Whether any other regulatory approval is required for the issue. If yes, details thereof |  |

| <i>Details of security proposed to be issued</i> |                  |                      |              |
|--|------------------|----------------------|--------------|
|  | <i>Promoters</i> | <i>Non-promoters</i> | <i>Total</i> |
| Equity (Nos.)                                    |                  |                      |              |
| Warrants (Nos.)                                  |                  |                      |              |

|   |  |  |  |
|---|--|--|--|
| Others (PCD/FCD, preference shares, etc) (Nos.)                                     |  |  |  |
| In case of convertible instrument, period when the same can be exercised/ converted |  |  |  |

## III) Allottee details:

| <b>Name of the Proposed Allottee</b> | <b>Category (Promoter / non-Promoter)</b> | <b>Permanent Account Number (PAN)</b> | <b>If allottee is not a natural person, identity of the natural person who are the ultimate beneficial owner of the shares proposed to be issued, if applicable</b> | <b>No. of securities to be allotted</b> | <b>Allottee is: *QIB/ Eton QIB</b> | <b>Post issue % of capital that allottee will hold</b> |
|--------------------------------------|---|---------------------------------------|---|---|------------------------------------|--|
|                                      |   |                                       |   |   |                                    |  |
|                                      |   |                                       |   |   |                                    |  |

(\*) QIB as defined under SEBI (ICDR) Regulations, 2018

## IV) Details of pre-preferential shareholding of the allottees:

| <b>Name of the Allottee</b> | <b>Pre-preferential shareholding (No. of shares)</b> | <b>Whether pre-preferential shareholding in physical/ demat</b> | <b>Lock in Details</b> |                | <b>Pledge Details</b> |                            |
|-----------------------------|--|---|------------------------|----------------|-----------------------|----------------------------|
|                             |  |   | <b>Date From</b>       | <b>Date To</b> | <b>No. of shares</b>  | <b>Name of institution</b> |
|                             |  |   |                        |                |                       |                            |
|                             |  |   |                        |                |                       |                            |
| TOTAL                       |  |   |                        |                |                       |                            |

In cases where the pre-preferential shareholding of the allottee(s) is in physical form, allotment to such a1lottee(s) shall be made only if such pre-preferential shareholding is dematerialised before the allotment.

## V) Shareholding pattern of the company pre and post proposed preferential issue:

| <b>Category</b>                  | <b>Pre preferential issue</b> |               | <b>Post preferential issue</b> |               |
|----------------------------------|-------------------------------|---------------|--------------------------------|---------------|
|                                  | <b>No of Shares</b>           | <b>%</b>      | <b>No of Shares</b>            | <b>%</b>      |
| Promoters and Promoter Group (A) |                               | (A) / (A)+(B) |                                | (A) / (A)+(B) |

|                             |  |               |  |               |
|-----------------------------|--|---------------|--|---------------|
| Public (B)                  |  | (B) / (A)+(B) |  | (B) / (A)+(B) |
| Total (A) + (B)             |  |               |  |               |
| Custodian (C)               |  |               |  |               |
| Grand Total (A) + (B) + (C) |  |               |  |               |

### Post Issue Formalities

Documents required for granting listing approvals, for the equity shares issued on a preferential basis:

1. Covering letter for listing approval of equity shares issued and allotted on preferential basis.
2. Letter of Application (i.e. by Listed companies applying for listing of further issue) duly completed.
3. Brief particular of the new securities issued .
4. Certified copy of the resolution passed by board of directors for allotment of equity shares along with depository confirmation for the credit of securities in dematerialized form.
5. Certified copy of the resolution passed by board of directors for allotment of convertible instrument, applicable only where the allotment of equity shares is pursuant to conversion of convertible instrument.
6. Certified copy of the resolution passed by the shareholders of the Company approving the allotment on preferential basis and the resolution passed for increasing the authorized capital wherever applicable.
7. Shareholding Pattern as per the format prescribed under Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 giving details pre and post allotment.
8. Certified copy of the compliance certificate from the Statutory Auditor placed before the shareholders in the general meeting.
9. Certificate from Statutory Auditor of the company for receipt of funds.
10. Certificate from the Statutory Auditors/ Practicing Chartered Accountant/ Practicing Company Secretary for compliance.
11. Certificate from the Managing Director/Company Secretary of the company.
12. Confirmation for authentication on SEBI for SCORES.
13. Certified copy of the order passed by Hon'ble NCLT/ Hon'ble High Court/ BIFR/ Copy of NCLT approved resolution plan/scheme approved by CDR, if applicable.
14. Details of Processing fee/ Additional listing fee, if applicable, to be paid on the enhanced capital.

### QUALIFIED INSTITUTIONS PLACEMENT [CHAPTER VI OF SEBI (ICDR) REGULATIONS, 2018]

**'Qualified Institutions Placement'** means allotment of eligible securities by a listed issuer to qualified institutional buyers (QIB's) on private placement basis and includes an offer for sale of specified securities by the promoters and/or promoters group on a private placement basis in terms of SEBI (ICDR) Regulations, 2018.

**Qualified Institutional Buyer (QIB)**

“Qualified Institutional Buyer” means:

- a mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with SEBI;
- a foreign portfolio investor other than individuals, corporate bodies and family offices;
- a public financial institution;
- a scheduled commercial bank;
- a multilateral and bilateral development financial institution;
- a state industrial development corporation;
- an insurance company registered with the Insurance Regulatory and Development Authority of India;
- a provident fund with minimum corpus of twenty five crore rupees;
- a pension fund with minimum corpus of twenty five crore rupees registered with the PFRDA established under Section 3(1) of the PFRDA Act, 2013;
- National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;
- insurance funds set up and managed by army, navy or air force of the Union of India; and
- insurance funds set up and managed by the Department of Posts, India; and
- systemically important non-banking financial companies.

**Eligible Securities for the purpose of QIP [Regulations 171]**

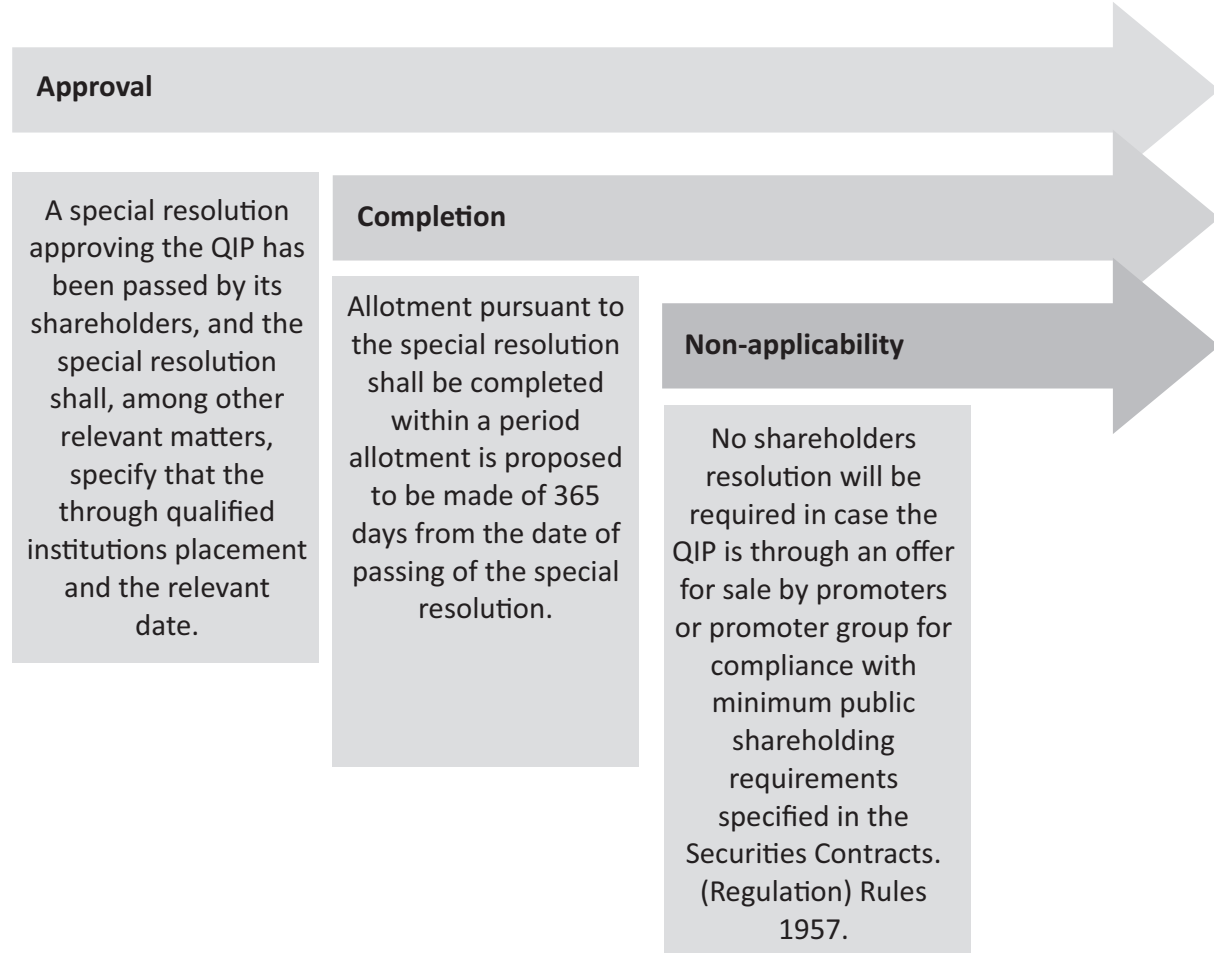
Eligible Securities include equity shares, non-convertible debt instruments along with warrants and convertible securities other than warrants.

**Conditions for QIP**

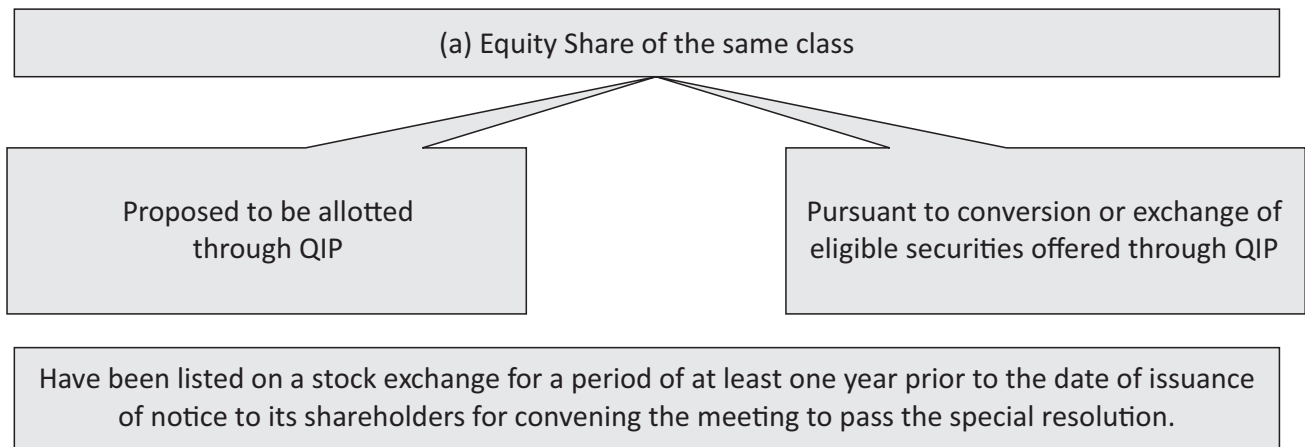
| Relevant Date   |   |
|---|---|
| <p>In case of allotment of equity shares, the date of the meeting in which the board of directors of the issuer or the committee of directors duly authorised by the board of directors of the issuer decides to open the proposed issue.</p> | <p>In case of allotment of eligible convertible securities, either the date of the meeting in which the board of directors of the issuer or the committee of directors duly authorised by the board of directors of the issuer decides to open the Issue of such convertible securities or the date on which the holders of such convertible securities become entitled to apply for the equity shares.</p> |

A listed issuer may make a qualified institutions placement of eligible securities if it satisfies the following conditions:

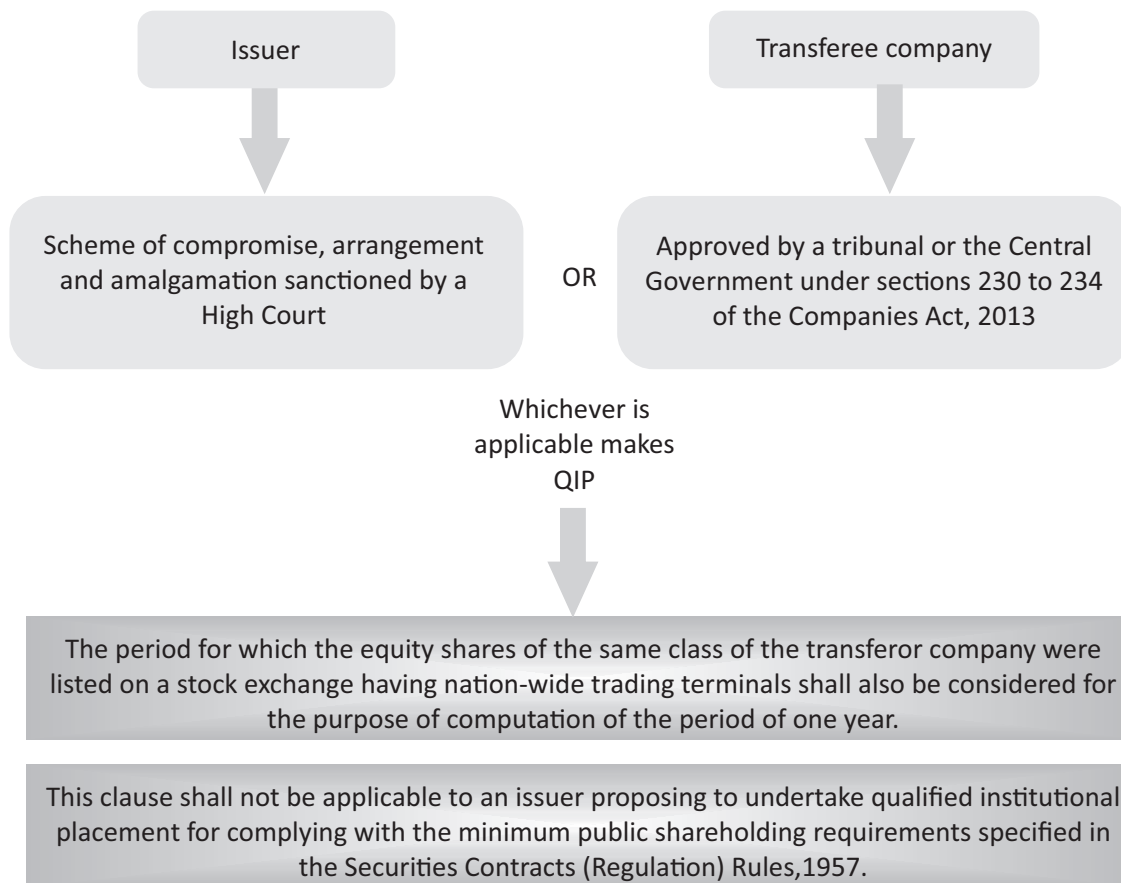
(i) Special Resolution



(ii) **Equity shares of the same class** - It shall mean equity shares which rank pari-passu in relation to rights as to dividend, voting or otherwise.



(b)



- (c) An issuer shall be eligible to make a qualified institutions placement if any of its promoters or directors is not a fugitive economic offender.

All eligible securities issued through a qualified institutions placement shall be listed on the recognized stock exchange where the equity shares of the issuer are listed. However, the issuer shall seek approval under rule 19(7) of the Securities Contracts (Regulation) Rules, 1957, if applicable.

The issuer shall not make any subsequent qualified institutions placement until the expiry of two weeks from the date of the prior qualified institutions placement made pursuant to one or more special resolutions.

**Conditions for offer for sale by promoters for compliance with minimum public shareholding requirements specified in the Securities Contracts (Regulation) Rules, 1957. [Regulation 173]**

The promoters and members of the promoter group may make an offer for sale of fully paid up equity shares, through a qualified institutions placement, for the purpose of achieving minimum public shareholding in terms of the Securities Contracts (Regulation) Rules, 1957. Provided that the promoters or members of the promoter group shall not make such offer for sale if the promoter or member of the promoter group has purchased or sold any equity shares of the issuer during twelve weeks period prior to the date of the opening of the issue and they shall not purchase or sell any equity shares of the issuer during the twelve weeks period after the date of closure of the issue:

Provided further that such promoters or members of the promoter group may, within the twelve week periods

provided above, sell equity shares of the issuer held by them through offer for sale through stock exchange mechanism specified by the Board or through an open market sale, in accordance with the conditions specified by the Board from time to time, subject to the condition that there shall be a gap of minimum two weeks between the two successive offer(s).

#### **Monitoring agency [Regulation 173A]**

If the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a credit rating agency registered with the SEBI. This clause shall not apply to an issue of specified securities made by a bank or public financial institution or an insurance company.

The monitoring agency shall submit its report to the issuer on a quarterly basis, till hundred percent of the proceeds of the issue have been utilised. The board of directors and the management of the issuer shall provide their comments on the findings of the monitoring agency. The issuer shall, within 45 days from the end of each quarter, upload the report of the monitoring agency on its website and also submit the same to the stock exchange(s) on which its equity shares are listed.

#### **Appointment of Lead Managers [Regulation 174]**

An issuer shall appoint one or more merchant bankers, which are registered with SEBI, as lead manager(s) to the issue.

At least one lead manager to the issue shall not be an associate, as defined under SEBI (Merchant Bankers) Regulations, 1992) of the issuer and if any of the lead manager is an associate of the issuer, it shall disclose itself as an associate of the issuer and its role shall be limited to marketing of the issue.

The lead manager(s) shall, while seeking in-principle listing approval of the stock exchanges for the eligible securities, furnish to each stock exchange on which the same class of equity shares of the issuer are listed, a due diligence certificate stating that the eligible securities are being issued under QIP and that the issuer complies with requirements of Chapter VI of SEBI (ICDR) Regulations, 2018, and also furnish a copy of the preliminary placement document along with any other document required by the stock exchange.

#### **Placement Document [Regulation 175]**

The lead manager(s) shall exercise due diligence and shall satisfy themselves with all aspects of the Issue including the veracity and adequacy of disclosures in the offer document.

The QIP shall be made on the basis of a preliminary placement document and placement document which shall contain all material information, including those specified in the Companies Act, 2013, if any, and disclosures as specified in SEBI (ICDR) Regulations, 2018, shall be made, including as specified therein if the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower.

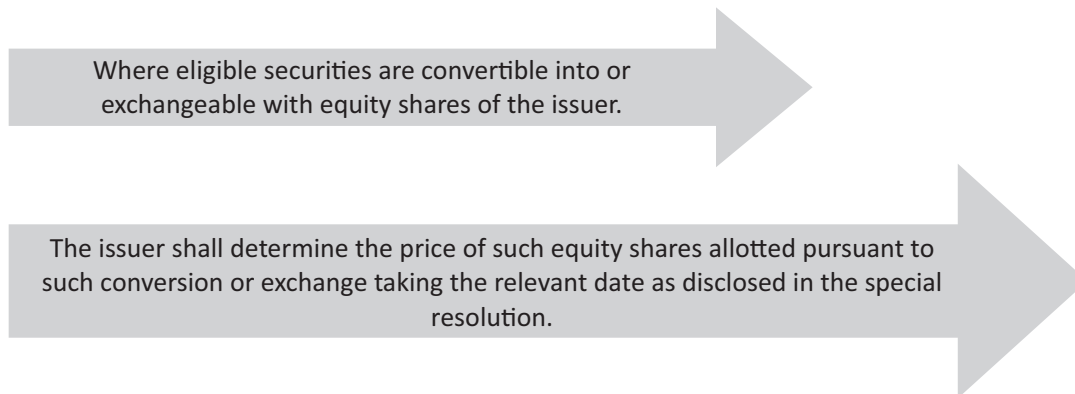
The preliminary placement document and the placement document shall be serially numbered and copies the same shall be circulated only to select investors.

The preliminary placement document and the placement document shall be placed on the websites of the relevant stock exchange(s) and of the issuer with a disclaimer to the effect that it is in connection with a QIP and that no offer is being made to the public or to any other category of investors.

**Pricing [Regulation 176]**

| Pricing of QIP  |  |   |
|---|--|---|
| At a price not less than the average of the weekly high and low of the closing prices of the equity shares of the same class quoted on the stock exchange during the two weeks preceding the relevant date. | Issuer may offer a discount of not more than five per cent. on the price so calculated, subject to approval of shareholders. | Except that no shareholders' approval will be required in case of a qualified institutions placement made through an offer for sale by promoters for compliance with minimum public shareholding requirements specified in SCR Rules, 1957. |

**Note:** The discount of upto 5% can be offered only if same has been specifically approved by the shareholders while approving QIP issue.



The issue price shall be subject to appropriate adjustments, if the issuer:

- makes an issue of equity shares by way of capitalization of profits or reserves, other than by way of a dividend on shares;
- makes a rights issue of equity shares;
- consolidates its outstanding equity shares into a smaller number of shares;
- divides its outstanding equity shares including by way of stock split;
- re-classifies any of its equity shares into other securities of the issuer;
- is involved in such other similar events or circumstances, which in the opinion of the concerned stock exchange, requires adjustments.

**Partly Paid-up Eligible Securities**

- The issuer shall not issue or allot partly paid-up eligible securities.
- In case of allotment of non-convertible debt instruments along with warrants, the allottees may pay the full consideration or part thereof payable with respect to warrants, at the time of allotment of such warrants.

- However, on allotment of equity shares on exercise of options attached to warrants, such equity shares shall be fully paid-up.
- The effect on the price of the equity shares of the issuer due to material price movement and confirmation of reported event or information may be excluded as per the framework specified under regulation 30 (11) of the SEBI (LODR) Regulations, 2015 for calculation of the issue price.

“Stock Exchange” means any of the recognised stock exchanges in which the equity shares of the same class of the issuer are listed and in which the highest trading volume in such equity shares has been recorded during the two weeks immediately preceding the relevant date.

### Tenure of Convertible Securities

The tenure of the convertible or exchangeable eligible securities issued through qualified institutions placement shall not exceed sixty months from the date of allotment.

### Transferability

The eligible securities allotted under the qualified institutions placement shall not be sold by the allottee for a period of one year from the date of allotment, except on a recognised stock exchange.

### Minimum Number of Allottees

The minimum number of allottees for each placement of eligible securities shall at least be:

- a) two, where the issue size is less than or equal to Rs. 200 and Rs. 50 crore;
- b) five, where the issue size is greater than Rs. 200 and Rs. 50 crore.

No single allottee shall be allotted more than 50% of the issue size. Qualified institutional buyers belonging to the same group or who are under same control shall be deemed to be a single allottee.

“Qualified institutional buyers belonging to the same group” shall mean entities where, - (i) any of them controls directly or indirectly, through its subsidiary or holding company, not less than 15% of the voting rights in the other; or (ii) any of them directly or indirectly, by itself, or in combination with other persons exercise control over the others; or (iii) there is a common director, excluding nominee and independent directors amongst the investor, its subsidiary or holding company and any other investor.

## APPLICATION AND ALLOTMENT

- The applicants in QIP shall not withdraw or revise downwards their bids after the closure of the issue.
- Allotment of specified securities shall be made subject to the following conditions:
  - (a) minimum often per cent. of eligible securities shall be allotted to mutual funds. However, any unsubscribed portion of the said minimum percentage or any part thereof may be allotted to other qualified institutional buyers;
  - (b) no allotment shall be made, either directly or indirectly, to any qualified institutional buyer who is a promoter or any person related to the promoters of the issuer.

However, a qualified institutional buyer who does not hold any shares in the issuer and who has acquired the said rights in the capacity of a lender shall not be deemed to be a person related to the promoters.

A qualified institutional buyer who has any of the following rights shall be deemed to be a person related to the promoters of the issuer:-



## DOCUMENTATION FOR QUALIFIED INSTITUTIONAL PLACEMENT

### QIPs - Pre Issue

Documents required for granting approvals under Regulation 28(1) of SEBI (LODR), 2015, for the companies coming out with Qualified Institutions Placement (QIPs) - Prior Approval:

1. Covering letter making application for prior In-principle approval for the proposed QIP issue of the company inter alia including the following points:
  - a) Whether the proposed QIP issue is for the fresh issue of shares / securities OR an offer for sale of equity shares by the promoter of the company to comply with minimum public shareholding requirement specified under Securities Contracts (Regulation) Rules, 1957 with required details;
  - b) whether Company intends to give discount to the investors as per SEBI (ICDR) Regulation, 2018.
2. Copy of the two days prior intimation given by the company to the Exchange about the proposed meeting of the Board of Directors in which fund raising by way of QIP issue is specifically mentioned as required under Regulations 29(1) and (2) of Listing Regulations.
3. Certified true copy of the resolution passed by the Board of Directors of the Company approving the

placement of securities with Qualified Institutional Buyers (QIBs) under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

4. Copy of the notice sent to the shareholders of the company inter alia seeking approval for the proposed QIP issue, if applicable.
5. Certified true copy of a special resolution approving the qualified institutions placement has been passed by its shareholders, if applicable.

The special resolution shall specifically include the following points:

- a) The allotment is proposed to be made to QIBs through Qualified Institutions Placement in accordance with Chapter VI of SEBI (ICDR) Regulations, 2018.
  - b) Discount is proposed to be given to the QIBs in terms of Chapter VI of SEBI (ICDR) Regulations, 2018, if company is opting for the same.
  - c) Relevant date referred to in Regulation 171 (b)(ii) of SEBI (ICDR) Regulations, 2018.
6. Draft placement document for issue of specified securities to QIBs. The placement document required to be prepared in accordance with SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, shall contain disclaimer in bold capital letters to the effect that **“the placement is meant only for QIBs on a private placement basis and is not an offer to the public or to any other class of investors.”**
  7. Abridged shareholding pattern of the Company without Annexures.
  8. Due diligence certificate from the Merchant Bankers to the issue inter alia stating that the proposed issue of (Name of the Company) \_\_\_\_, is being made in compliance with Chapter VI of SEBI (ICDR) Regulations, 2018 and the \_\_\_\_\_ (Name of the Company)\_\_\_ complies with the requirements of Chapter VI of SEBI (ICDR) Regulations, 2018.
  9. Confirmation by the Managing Director/ Company Secretary stating:
    - The Company complies with the provision of Regulation 29(1) and (2) of the SEBI (LODR) Regulations, 2015.
    - The placement of specified securities to the Qualified Institutional Buyers has been made in accordance with Chapter VI of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
    - The equity shares arising pursuant to the Qualified Institutions Placement shall rank pari passu in all respects including dividend entitlement with the existing equity shares of the Company.
    - The Company shall upload the placement document on its website with appropriate disclaimer to the effect that the placement is meant only for QIBs on private placement basis and is not an offer to the public or to any other class of investors.
    - For the proposed QIP issue, the company has complied with all the statutory requirement including requirements of the Companies Act, 2013, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, RBI etc. and no statutory authority has restrained the company from issuing said securities.
    - The company or its promoters or whole time directors are not in violation of the provisions of the SEBI Delisting Regulations, 2021.

- The company, its promoters, its directors are not in violation of the restrictions imposed by SEBI under SEBI circular no. SEBI/HO/ MRD/DSA/CIR/P/2017/92 dated August 01, 2017.”
  - None of the promoters or directors of an issuer are fugitive economic offender as defined under Regulation 2(1) (p) of SEBI (ICDR) Regulations, 2018.
10. The particulars of other issues (in sequential order) in respect of which approvals are pending with the Exchange.
  11. Non-Refundable Processing Fee.

### Documents required for hosting of Preliminary Placement Document on the Website of the Exchange

After the company decides to open the issue, the company is required to submit the Preliminary Placement Document for uploading on the website of the Stock Exchange before the same is circulated to the QIBs and displayed on the website of the Company.

1. Certified true copy of the resolution in which the Board of the company or the Committee of Directors of the company decided to open the proposed issue.
2. Soft copy of Preliminary Placement document (Not applicable if no changes have been made therein after submission of the same at the time of obtaining prior in-principle approval).
3. Soft copy of the Preliminary Placement Document in pdf format.

### QIP - Post Issue

Documents required for granting listing approvals, for the securities issued by the companies under Qualified Institutions Placement (QIPs) - Post Allotment:

1. Letter of Application (i.e. by Listed companies applying for listing of further issue) duly completed along with Distribution Schedule pre and post allotment.
2. Certified true copy of the Board resolution in which the securities were allotted.
3. List of allottees and the number of equity shares allotted to them should be filed with the Stock Exchange.
4. List of allottees who have been allotted more than 5% of the securities offered in the issue giving details such as name of the allottees, nos. of equity shares allotted, % of the issue size, etc. and the number of equity shares.
5. Shareholding Pattern Form duly completed with relevant enclosures giving details before and after the issue.
6. Additional listing fee, if applicable, to be paid on the enhanced capital as per the enclosed schedule of listing fee.
7. Confirmation by the Managing Director/ Company Secretary.
8. PCA/PCS Certificate confirming the floor price and receipt of funds against the placement pursuant to QIP issue.
9. Due diligence certificate from the Merchant Bankers that the placement of securities issued to QIBs

by (Name of the Company) has been made in compliance with Chapter VIII of SEBI (ICDR) Regulations, 2009 and the (Name of the Company) complies with the requirements of SEBI (ICDR) Regulations, 2018.

10. Confirmation from the post-issue Merchant Banker giving summary of bids received and details of allocations made to QIBs.
11. Certified true copy of the final Placement Document along with soft copy in pdf format.
12. Detail terms and conditions of the NCDs/ securities which are convertible into or exchangeable with equity shares, as may be applicable. Also provide the reconciliation of such outstanding securities.
13. List of allottees in excel in following format (Clubbing multiple allottees as single allottee if they are under same control or group as per SEBI (ICDR) Regulations, 2018:

| <b>S. No.</b> | <b>Name of the allottee</b> | <b>PAN</b> | <b>Category</b> | <b>Shares allotted to total issue size</b> | <b>% of shares allotted to total issue size</b> |
|---------------|-----------------------------|------------|-----------------|--|---|
|               |                             |            |                 |  |   |
|               |                             |            |                 |  |   |
|               |                             |            |                 |  |   |
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|               |                             |            |                 |  |   |

The detailed provisions pertaining to Bonus Issue as covered in Chapter XI of the SEBI (ICDR) Regulations, 2018 including conditions, restrictions and completion of a bonus issue, are covered in Lesson 12 of this study. Students are advised to refer Lesson No. 12 for the same.

## **SOCIAL STOCK EXCHANGE**

Social Stock Exchange means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not for Profit Organizations in accordance with provisions of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

In terms of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, Not for Profit Organization means a Social Enterprise which is any of the following entities:

- (i) a charitable trust registered under the Indian Trusts Act, 1882;
- (ii) a charitable trust registered under the public trust statute of the relevant state;
- (iii) a charitable society registered under the Societies Registration Act, 1860;
- (iv) a company incorporated under section 8 of the Companies Act, 2013;
- (v) any other entity as may be specified by SEBI.

### Access to Social Stock Exchange

A Social Stock Exchange shall be accessible to institutional investors, non-institutional investors and retail investors.

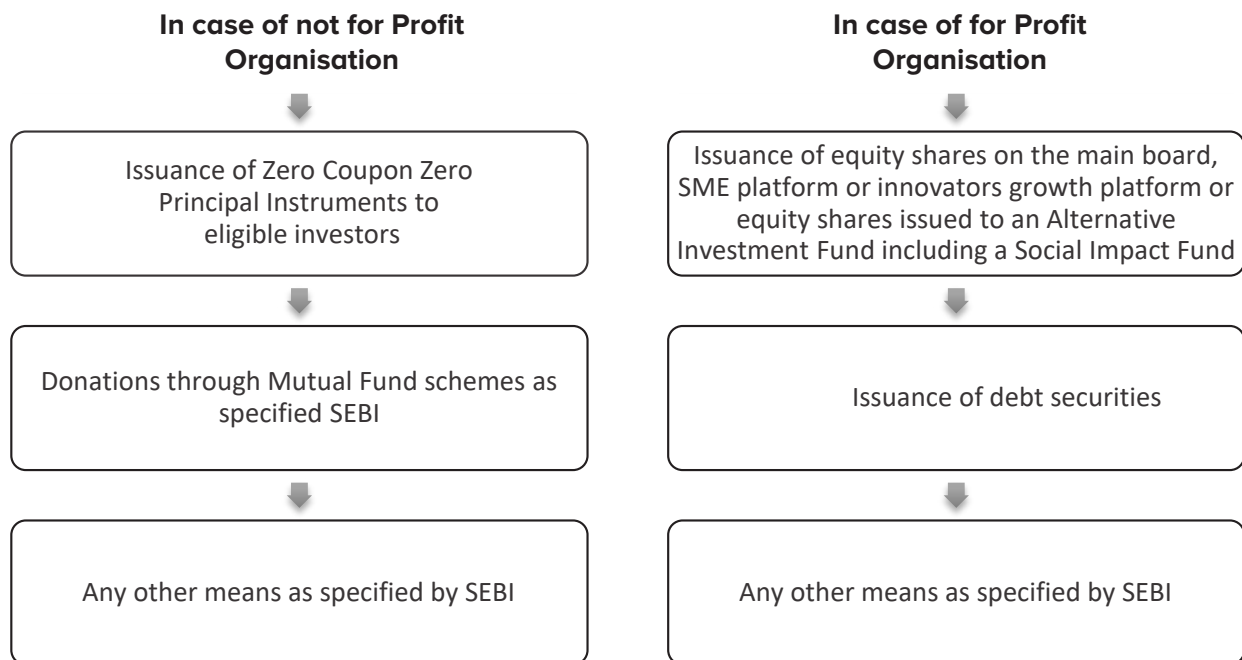
### Eligibility conditions for being identified as a Social Enterprise

A Not for Profit Organization or a For Profit Social Enterprise, to be identified as a Social Enterprise, shall establish primacy of its **social intent** by indulging in the activities such as eradicating hunger, poverty, malnutrition and inequality; promoting health care including mental healthcare, sanitation and making available safe drinking water; promoting education, employability and livelihoods; promoting gender equality, empowerment of women and LGBTQIA+ communities; ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation; protection of national heritage, art and culture etc.

### Requirements relating to registration for a Not for Profit Organization

The minimum requirements or eligibility requirements for registration of a Not for Profit Organization on a Social Stock Exchange shall be specified by SEBI from time to time.

### Fund raising by Social Enterprises



### Ineligibility for raising of funds

A Social Enterprise shall not be eligible to register or raise funds through a Social Stock Exchange or Stock Exchange, as the case may be:

- (a) if the Social Enterprise, any of its promoters, promoter group or directors or selling shareholders or trustees are debarred from accessing the securities market by the Board;

- (b) if any of the promoters or directors or trustees of the Social Enterprise is a promoter or director of any other company or Social Enterprise which has been debarred from accessing the securities market by the Board;
- (c) if the Social Enterprise or any of its promoters or directors or trustees is a wilful defaulter or a fraudulent borrower;
- (d) if any of its promoters or directors or trustees is a fugitive economic offender;
- (e) if the Social Enterprise or any of its promoters or directors or trustees has been debarred from carrying out its activities or raising funds by the Ministry of Home Affairs or any other ministry of the Central Government or State Government or Charitable Commissioner or any other statutory body.

### Contents of the fund raising document

The contents of the fund raising document shall be specified by SEBI.

***For more details about Social Stock Exchange, the students may refer Lesson 9 of 'CSR and Social Governance', Elective Paper 4.1 of Professional Programme.***

### GREEN SHOE OPTION

A company desirous of availing green shoe option, should in the resolution of the general meeting authorising the public issue, seek authorization also for the possibility of allotment of further shares to the 'Stabilizing Agent' (SA) at the end of the stabilization period.

Green Shoe Option (GSO) means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the provisions of Regulations 57 of the SEBI (ICDR) Regulations, 2018.

GSO in the system of IPO using book-building method was recognised by SEBI in India through its new guidelines on 14th August 2003. ICICI bank was the first to use Green Shoe Option in its public issue through book building mechanism in India.

#### ILLUSTRATION

Consider a company planning an IPO of say, 100,000 shares, at a book-built price of Rs. 100/-, resulting in an IPO size of Rs. 100,00,000. As per the ICDR Regulations, the over-allotment component under the Green Shoe mechanism could be up to 15% of the IPO, i.e. up to 15,000 shares, i.e. Green Shoe shares. Prior to the IPO, the stabilising agent would borrow such number of shares to the extent of the proposed Green Shoe shares from the pre- issue shareholders. These shares are then allotted to investors along with the IPO shares. The total shares issued in the IPO therefore stands at 115,000 shares. IPO proceeds received from the investors for the IPO shares, i.e. Rs.100,00,000–100,000 shares at the rate of Rs.100 each, are remitted to the Issuer Company, while the proceeds from the Green Shoe Shares (Rs.15,00,000/-, being 15,000 shares x Rs.100/-) are parked in a special escrow bank account, i.e. Green Shoe Escrow Account. During the price stabilisation period, if the share price drops below Rs.100, the stabilising agent would utilise the funds lying in the Green Shoe Escrow Account to buy these back shares from the open market. This gives rise to the following three situations:

- **Situation #1** - where the stabilising agent manages to buyback all of the Green Shoe Shares, i.e.,15,000 shares;
- **Situation #2** - where the stabilising agent manages to buyback none of the Green Shoe Shares;
- **Situation #3** - where the stabilising agent manages to buy-back some of the Green Shoe Shares, say 10,000 shares.

Let us examine each of these situations separately:

**Situation #1** – Where all Green Shoe Shares are bought back: In this situation, funds in the Green Shoe Escrow Account (Rs.15,00,000, in this case) would be deployed by the stabilising agent towards buying up shares from the open market. Given that the prices prevalent in the market would be less than the issue price of Rs. 100, the stabilising agent would have sufficient funds lying at his disposal to complete this operation. Having bought back all of the 15,000 shares, these shares would be temporarily held in a special depository account with the depository participant (Green Shoe Demat Account), and would then be returned back to the lender shareholders, within a maximum period of two days after the stabilisation period.

**Situation #2** – Where none of the Green Shoe Shares are bought back: This situation would arise in the (very unlikely) event that the share prices have fallen below the Issue Price, but the stabilising agent is unable to find any sellers in the open market, or in an event where the share prices continue to trade above the listing price, and therefore there is no need for the stabilising agent to indulge in price stabilisation activities.

In either of the above-said situations, the stabilising agent is under a contractual obligation to return the 15,000 shares that had initially been borrowed from the lending shareholder(s). Towards meeting this obligation, the issuer company would allot 15,000 shares to the stabilising agent into the Green Shoe Demat Account (the consideration being the funds lying the Green Shoe Escrow Account), and these shares would then be returned by the stabilising agent to the lending shareholder(s), thereby squaring off his responsibilities.

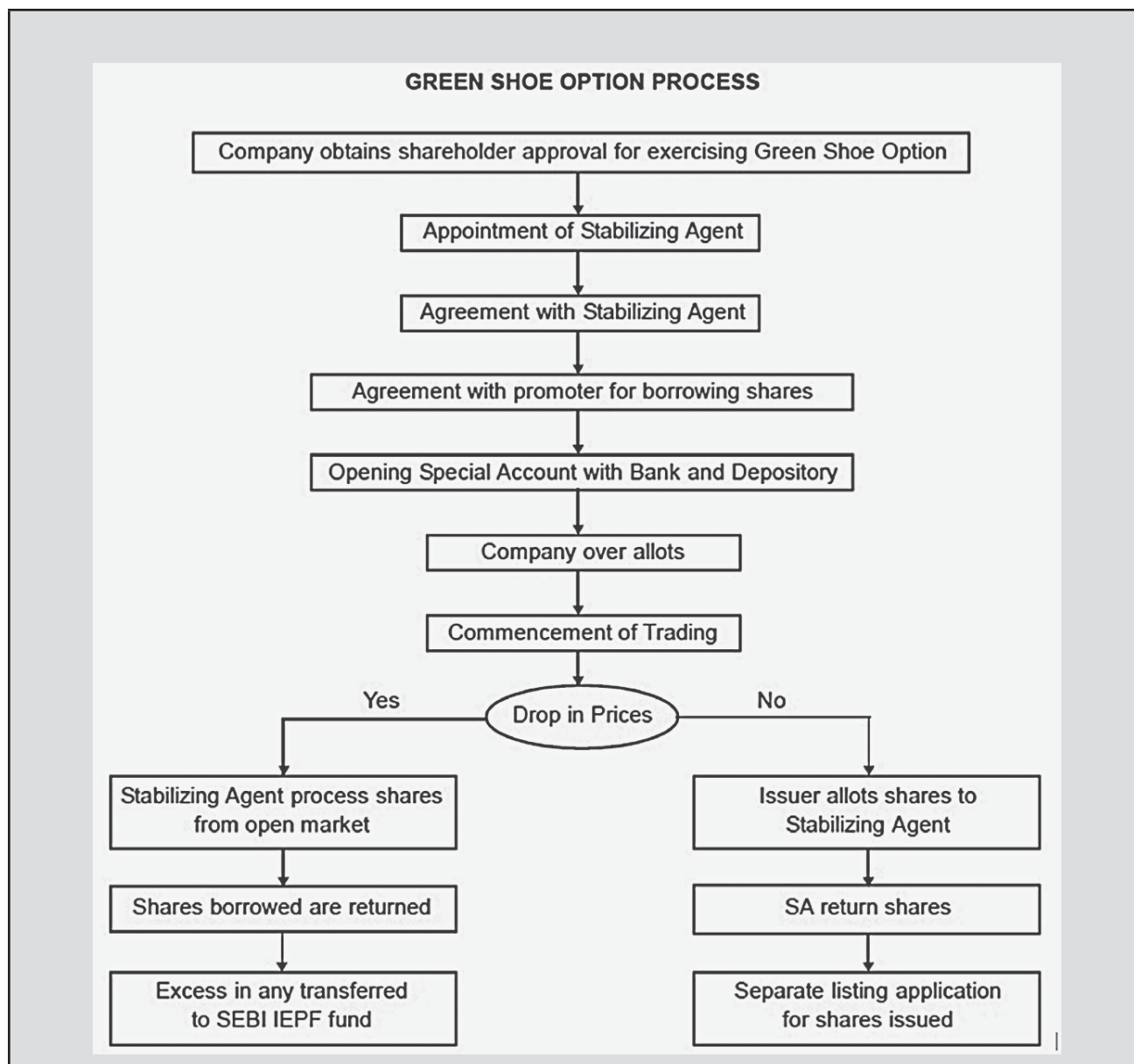
**Situation #3** – Where some of the Green Shoe Shares are bought back, say 10,000 shares: This situation could arise in an event where the share prices witness a drop in the initial stages of the price stabilisation period, but recover towards the latter stages.

In this situation, the stabilising agent has a responsibility to return 15,000 shares to the lending shareholder(s), whereas the stabilising activities have yielded only 10,000 shares.

Similar to the instance mentioned in Situation #2 above, the issuer company would allot the differential 5,000 shares into the Green Shoe Demat Account to cover up the shortfall, and the stabilising agent would discharge his obligation to the lending shareholder(s) by returning the 15,000 shares that had been borrowed from them.

Both in Situation #2 and #3, the issuer company would need to apply to the exchanges for obtaining listing/ trading permissions for the incremental shares allotted by them, pursuant to the Green Shoe mechanism.

Any surplus lying in the Green Shoe Escrow Account would then be transferred to the Investor Protection and Education Fund established by SEBI, as required under ICDR Regulations and the account shall be closed thereafter.



#### LESSON ROUND-UP

- Management of a public issue involves coordination of activities and cooperation of a number of agencies such as managers to the issue, underwriters, brokers, registrar to the issue, solicitors/legal advisors, printers, publicity and advertising agents, financial institutions, auditors and other Government/Statutory agencies such as Registrar of Companies, Reserve Bank of India, SEBI etc.
- SEBI vide its notification dated 11th September, 2018 issued SEBI (ICDR) Regulations, 2018 ('ICDR, 2018') which is effective from 60th day of its publication in Official Gazette. On August 26, 2009 SEBI rescinded the SEBI (DIP) Guidelines, 2000 and notified SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

- Primary Market deals with those securities which are issued to the public for the first time.
- A public issue of specified securities by an issuer can be either an Initial Public Offering (IPO) or a Further Public Offering (FPO). An IPO is done by an unlisted issuer while a FPO is done by a listed issuer.
- The minimum net offer to the public shall be subject to the provision of clause (b) of sub-rule (2) of rule 19 of Securities Contracts (Regulations) Rules, 1957 (SCRR).
- The minimum subscription to be received in an issue shall be not less than 90% of the offer through offer document except in case of an offer for sale of specified securities.
- The promoters should contribute not less than 20% of post-issue capital, in case of a public issue by an unlisted company.
- The promoters shall bring full amount of the promoters' contribution including premium at least one day prior to the date of opening of the issue, which shall be kept in an escrow account with a scheduled commercial bank, which shall be released to the issuer along with the release of the issue proceeds.
- The issuer may mention a price or price band in the draft prospectus (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a book built issue) and determine the price at a later date before filing the prospectus with the Registrar of Companies.
- Rights Issue, Preferential allotment and Qualified Institutions Placement are also governed by ICDR Regulations.
- Unless otherwise provided in this Chapter III, an issuer offering specified securities through a rights issue shall satisfy the conditions of this Chapter at the time of filing the draft letter of offer with the stock exchange(s), and at the time of filing the letter of offer with the Board and the stock exchange(s).
- A rights issue shall be open for subscription for a such period as may be specified by SEBI.
- Qualified Institutions Placement means allotment of eligible securities by a listed issuer to qualified institutional buyers on private placement basis in terms of these regulations. Eligible Securities include equity shares, non-convertible debt instruments along with warrants and convertible securities other than warrants.
- Preferential issue means an issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis in accordance with Chapter V of SEBI (ICDR) Regulations, 2018 and does not include an offer of specified securities made through employee stock option scheme, employee stock purchase scheme or an issue of sweat equity shares or depository receipts issued in a country outside India or foreign securities.
- SEBI has stipulated conditions and manner for providing exit opportunity to dissenting shareholders as per Schedule XX of the SEBI (ICDR) Regulations, 2018.
- Green Shoe Option (GSO) means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the provisions of Regulations 57 of the SEBI (ICDR) Regulations, 2018.

**TEST YOURSELF**

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

1. Discuss briefly the eligibility criteria for making an IPO under SEBI (ICDR), Regulations, 2018?
2. Elucidate the entities not eligible for making an FPO of securities under SEBI (ICDR), Regulations, 2018.
3. Briefly explain the Promoter's Contribution in Public Issue of Securities under SEBI (ICDR) Regulations, 2018.
4. What are the provisions required to be complied with by a company for issue shares on a rights basis under SEBI (ICDR), 2018?
5. Who is dissenting shareholders? Explain the manner of providing exit to dissenting shareholders under the SEBI (ICDR) Regulations, 2018.
6. Define and discuss the conditions for Preferential Issue. When an issuer becomes ineligible to make a such issue ?
7. Write short notes on -
  - (a) Minimum subscription
  - (b) Minimum promoters' contribution
  - (c) Offer Document
  - (d) Red-herring Prospectus.
8. Subham Ltd. issued 50 Lakh equity shares at a price of Rs. 200 per share. The company provided Green Shoe Option for stabilizing the post listing price of the shares. The issue was oversubscribed and it was decided that stabilizing agent would borrow maximum number of shares permitted by SEBI (ICDR) regulations.

Due to rise in price during Green Shoe Option period, only 5 Lakh shares could be bought back at the price of Rs. 180.

You are required to:

- i. Calculate the number of shares that the stabilizing agent needs to borrow in this case at the time of allotment and explain the same with relevant provisions.
- ii. Explain the responsibility of Issuer Company in the above case with respect to shortfall while exercising Green Shoe Option.
- iii. Calculate the amount if any, to be transferred to Investor Protection and Education Fund.

**LIST OF FURTHER READINGS**

- SEBI Manual
- Premier on Companies Act, 2013
- Regulations/Rules/Guidelines/Circulars issued by SEBI, RBI, MCA etc. from time to time



