

Lesson 1.

Indian Equity-Public Funding

Introduction:-

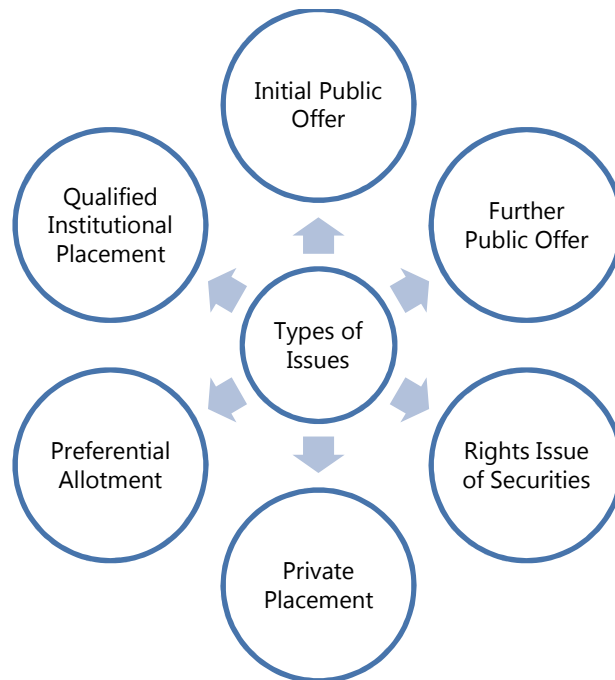
Management of a public issue involves coordination of activities and cooperation of a number of agencies such as managers to the issue, underwriters, brokers, registrar to the issue; solicitors/legal advisors, printers, publicity and advertising agents, financial institutions, auditors and other Government/Statutory agencies such as Registrar of Companies, Reserve Bank of India, SEBI etc.

On August 26, 2009 SEBI rescinded the SEBI (DIP) Guidelines, 2000 and notified SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

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.

Chapter No. under ICDR, 2018	Particulars
I.	Preliminary
II.	Initial Public Offer (IPO) on Main Board
III.	Right Issue
IV.	Further Public Offer
V.	Preferential Issue
VI.	Qualified Institutional Placement
VII.	IPO of Indian Depositary Receipts
VIII.	Rights Issue of IDR
IX.	IPO by Small and Medium Enterprises (SME)
X.	Institutional Trading Platform
XI.	Bonus Issue
XII.	Miscellaneous

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 means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale 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.

Further public offer 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 or to a select group of persons 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 to its existing shareholders as on a record date in a predetermined ratio.

Private placement refers to an issue where an issuer makes an issue of securities to a select group of persons not exceeding 200, and which is neither a rights issue nor a public issue.

Preferential allotment 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 allotment. 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 Institutional Placement refers to an issue by a listed entity to only qualified institutional buyers in accordance of Chapter VI of SEBI (ICDR) Regulations, 2018.

INITIAL PUBLIC OFFERING / FURTHER PUBLIC OFFERING

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. 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) and the time of registering or filing the final offer document (commonly referred to as the Prospectus) with the Registrar of Companies.

ELIGIBILITY REQUIREMENTS TO BE COMPLIED WITH FOR IPO

Entities not eligible to make an initial public offer [Regulation 5]

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

- a. If the issuer, any of its promoters, promoter group, 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.
- 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.

Note : 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.

Non-Applicability

Outstanding options granted to employees, whether currently an employee or not, pursuant to an employee stock option scheme in compliance with the Companies Act, 2013, the relevant Guidance Note or accounting standards, if any, issued by the Institute of Chartered Accountants of India or pursuant to the Companies Act, 2013, in this regard.

Fully paid-up outstanding convertible securities which are required to be converted on or before the date of filing of the red herring prospectus (in case of book-built issues) or the prospectus (in case of fixed price issues), as the case may be.

Eligibility requirements for an initial public offer [Regulation 6]

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

- a. 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.
- b. 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;
- c. the issuer has a **net worth** of atleast Rs. 1 crore in each of the preceding three full years, calculated on a restated and consolidated basis.
- d. 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.

GENERAL CONDITIONS

- ❖ An issuer making an initial public offer 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) 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) it has made firm arrangements of finance through verifiable means towards seventy five per cent. 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.
 - f) 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.

ADDITIONAL CONDITIONS FOR AN OFFER FOR SALE

Applicability:-

In case the equity shares received on conversion or exchange of fully paid-up compulsorily convertible securities including depository receipts are being offered for sale:-

- ⇒ Shares must be fully paid-up.
- ⇒ Shall be held by the sellers for a period of at least one year prior to the filing of the draft offer document.
- ⇒ The holding period of such convertible securities, including depository receipts, as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period.
- ⇒ Further, such holding period of one year shall be required to be complied with at the time of filing of the draft offer document.
- ⇒ If the equity shares arising out of the conversion or exchange of the fully paid-up compulsorily convertible securities are being offered for sale, the conversion or exchange should be completed prior to filing of the offer document (i.e. red herring prospectus in the case of a book built issue and prospectus in the case of a fixed price issue), provided full disclosures of the terms of conversion or exchange are made in the draft offer document.

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

Non-Applicability-

- ⇒ The offer for sale of a government company or statutory authority or corporation or any special purpose vehicle set up and controlled by any one or more of them, which is engaged in the infrastructure sector;
- ⇒ Equity shares offered for sale were acquired pursuant to any scheme approved by a High Court under the sections 391 to 394 of Companies Act, 1956, or approved by a tribunal or the Central Government under the sections 230 to 234 of Companies Act, 2013, as applicable, in lieu of business and invested capital which had been in existence for a period of more than one year prior to approval of such scheme;
- ⇒ if the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document with the Board and further subject to the following:
 - ✓ Such specified securities being issued out of free reserves and share premium existing in the books of account as at the end of the financial year preceding the financial year in which the draft offer document is filed with SEBI;
 - AND
 - ✓ Such equity shares not being issued by utilisation of revaluation reserves or unrealized profits of the issuer.

Explanation:

(i) Partnership Firms

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;

(ii) 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.

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.
- (d) If any of the promoters or directors of the issuer is a fugitive offender

Note:- 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 at least 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 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 the specified securities held by the promoters are in dematerialized form prior to the filing of the offer document
- d. 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.*
- e. 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.
- f. 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.

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 per cent 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 per cent 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.

Appointment of Lead Managers, Other Intermediaries and Compliance Officer [Regulation 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 or the Companies Act, 1956 (to the extent applicable), 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 cognisance 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 compliance officer who shall be responsible for monitoring the compliance of the securities laws and for redressal of investors' grievances.

Disclosures in and Filing of Offer Documents

Disclosures in the draft offer document and offer document [Regulation 24 & 122]

- ✓ 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]

- 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 promoter is a body corporate.
- 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 registering the prospectus, the red-herring prospectus or the shelf prospectus as the case may be 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 registry the offer document with the Registrar of Companies.
- The draft offer document and the offer document shall also be furnished to SEBI in a soft copy.

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 the concerned regional office of SEBI under the jurisdiction of which the registered office of the issuer company is located, along with fees as specified, through the lead manager(s).

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

- a) a certificate, confirming that an agreement has been entered into between the issuer and the lead manager(s);
- b) a due diligence certificate;
- c) in case of an issue of convertible debt instruments, a due diligence certificate from the debenture trustee;

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 filing, by hosting it on the websites of SEBI, stock exchanges where specified securities are proposed to be listed and lead manager(s) associated with the issue.
- The issuer shall, within two 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 offer 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.

ASBA [Regulations 35 & 132]

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

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.

Security Deposit [Regulations 38 & 135]

The issuer shall, before the opening of the subscription list, deposit with the stock exchange or stock exchanges an amount calculated at the rate of 1% of the amount of the issue size available for subscription to the public in the manner as may be specified by SEBI and the amount so deposited shall be refundable or forfeitable in the manner specified by SEBI.

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.

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 registering 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.

Underwriting [Regulations 40 & 136]

- If an issuer makes a IPO/FPO other than through the book building process, desires to have the issue underwritten, it shall appoint the underwriters in accordance with the SEBI (Underwriters) Regulations, 1993.
- If the issuer makes a public issue through a book building process,
 - a) the issue shall be underwritten by lead managers and syndicate members. However, at least 75% of the net offer to the public is proposed to be compulsorily allotted to the QIBs, and such portion cannot be underwritten.
 - b) the issuer shall, prior to filing the prospectus, enter into an underwriting agreement with the lead manager(s) and syndicate member(s) which shall indicate the number of specified securities which they shall subscribe to at the predetermined price in the event of under-subscription in the issue.
 - c) if the syndicate member(s) fail to fulfill their underwriting obligations, the lead manager(s) shall fulfill the underwriting obligations.

- d) the lead manager(s) and syndicate member(s) shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations.
- e) in case of every underwriting issue, the lead manager(s) shall undertake minimum underwriting obligation as specified in the SEBI (Merchant Bankers) Regulations, 1992.
- f) where the issue is required to be underwritten, the underwriting obligations should at least to the extent of minimum subscription.

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.

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

Period of Subscription [Regulations 46 & 142]

- An IPO/FPO shall be kept open for at least three working days and not more than ten 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 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 three working days.

Oversubscription [Proviso to Regulations 49(2) & 145(2)]

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.

Monitoring Agency [Regulations 41 & 137]

If the issue size excluding the size of offer for sale by selling shareholders, exceeds Rs.100 crores, the issuer shall ensure that the use of the proceeds of the issue is monitored by a public financial institutions or by one of the scheduled commercial banks named in the offer document as a banker to the issuer.

Note: - In case the issuer is a bank or a public financial institution or an insurance company, this provision is not applicable.

The monitoring agency shall submit its report to the issuer in the format specified in the ICDR Regulations, 2018 on a quarterly basis, till at least ninety five per cent. of the proceeds of the issue excluding the proceeds raised for general corporate purposes, 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 Communications, 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 registering 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 advertisement in one English national daily newspaper with wide circulation, 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.
- The pre-issue advertisement shall contain the disclosures specified in Part A of Schedule X of SEBI ICDR Regulations, 2018. However, the disclosures in relation to price band or floor price and financial ratios contained therein shall only be applicable where the issuer opts to announce the price band or floor price along with the pre-issue advertisement, if the issuer opts not to make disclosures of price band in the RHP.
- 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.

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.
- 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 twenty five per cent. 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.

Note: -“Minimum application value” shall be with reference to the issue price of the specified securities and not with reference to the amount payable on 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 an allotment pursuant to a public issue if the number of prospective allottees is less than one thousand.
- 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 allotment of specified securities to applicants other than to the retail individual 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 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 fifteen per cent 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).

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 responsibilities 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/ despatch 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 seven 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 eight 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 eighth 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 [Regulations 54 & 150]

The issuer shall ensure that all transactions in securities by the promoter 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.

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:

- In case of a fast track issue, during the period between the date of registering 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.

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.

PRICING

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.

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 ten per cent of the price at which net offer is made to other categories of applicants, other than anchor investors. In other words, if the issue price to the other categories of applicants is Rs.100 the price at which the securities can be offered to the reserved categories shall not be less than Rs.90.
- 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.

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 registering the prospectus with the Registrar of Companies. However, the prospectus registered 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 one hundred and twenty per cent. of the floor price.
- The floor price or the final price shall not be less than the face value of the specified securities.
- Where the issuer opt not to make disclosure of the floor price or price band in the red herring prospectus, the issuer shall be announce the floor price or price band at **least two working days before the opening of the bid (in case of an initial public offer) and at least one working day before the opening of the bid (in case of a further public offer)**, in all the newspapers in which the pre issue advertisement was released.
- 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.

PROMOTERS' CONTRIBUTION

In Case of IPO

The promoters of the issuer shall hold at least twenty per cent. of the post-issue capital.

However, in case the post-issue shareholding of the promoters is less than twenty per cent., alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with IRDA may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten per cent. of the post-issue capital without being identified as promoter(s).

Non applicability

Provided further that 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 twenty per cent., as the case may be, either by way of equity shares 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 twenty per cent. of the project cost in the form of equity shares, subject to contributing at least twenty per cent. 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-a-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(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.

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 are outstanding at the time of initial public offer.

Securities Ineligible for Minimum Promoters' Contribution [Regulation 15]

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:-
 - ✓ acquired for consideration other than cash and revaluation of assets or capitalisation of intangible assets is involved in such transaction; or
 - ✓ resulting from a bonus issue by utilisation of revaluation reserves /unrealised profits of the issuer/from bonus issue against equity shares which are ineligible for minimum promoters' contribution.
- (b) specified securities acquired by promoters and AIFs/ FVCIs / scheduled commercial banks/ PFIs/ insurance companies during the preceding one year at a price lower than the price at which specified securities are being offered to public in the initial public offer.
- (c) specified securities allotted to promoters and AIFs during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership firms/LLPs, where the partners of the erstwhile partnership firms/LLPs are the promoters of the issuer and there is no change in the management. *
- (d) specified securities pledged with any creditor

** 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, 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 section 391 to 394 of the Companies Act, 1956 or 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;

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 under sections 391-394 of the Companies Act, 1956 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) In case of a further public offer, where the equity shares of the issuer are frequently traded on a recognised stock exchange for a period of at least three years and the issuer has a track record of dividend payment for at least three immediately preceding years.

However, 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), the subscription in excess of such percentage shall be made at a price determined in terms of the provisions of Pricing of frequently traded shares or the issue price, whichever is higher.

Reference date for the purpose of computing the annualised trading turnover referred to in the said Explanation shall be the date of filing the draft offer document with the Board and in case of a fast track issue, the date of filing the offer document with the Registrar of Companies, and before opening of the issue.

Minimum Promoters' Contribution [Regulation 113]

- The promoters shall contribute in the public issue as follows:
 - a) either to the extent of twenty per cent. of the proposed issue size or to the extent of twenty per cent. 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 twenty per cent. of the proposed issue size or to the extent of twenty per cent. 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 twenty per cent., 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 capitalisation 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 under section 391 to 394 of the Companies Act, 1956 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:

- (a) The promoters contribution including contribution made by AIFs or FVCIs or scheduled commercial banks or PFIs or insurance companies registered with IRDA, shall be locked-in

for a period of three years from the date of commencement of commercial production or from the date of allotment in the IPO/FPO, whichever is later;

- (b) promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of one year from the date of allotment in the initial public offer.

In case of FPO, the excess promoters' contribution as provides in clause (b) shall not be subject to lock-in.

"Date of commencement of commercial production" means the last date of the month in which commercial production of the project in respect of which the funds raised are proposed to be utilised as stated in the offer document, is expected to commence.

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 one year 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 prior to initial public offer, if the issuer has made full disclosures with respect to such option and
 - 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.
 - 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 one-year from the date of purchase by the venture capital or AIF 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 one year 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 party-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 three years 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 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:

- a. if the specified securities are locked-in in terms of *clause (a) of Lock-in of specified securities held by the promoters*, the loan has been granted to the issuer company or its subsidiary/subsidiaries for the purpose of financing one or more of the objects of the issue and pledge of specified securities is one of the terms of sanction of the loan.
- b. if the specified securities are locked-in in terms of *clause (b) of Lock-in of specified securities held by the promoters* and the pledge of specified securities is one of the terms of sanction of the loan.

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 held by the promoters and locked-in as per regulation 115 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.

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.

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 five per cent 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.

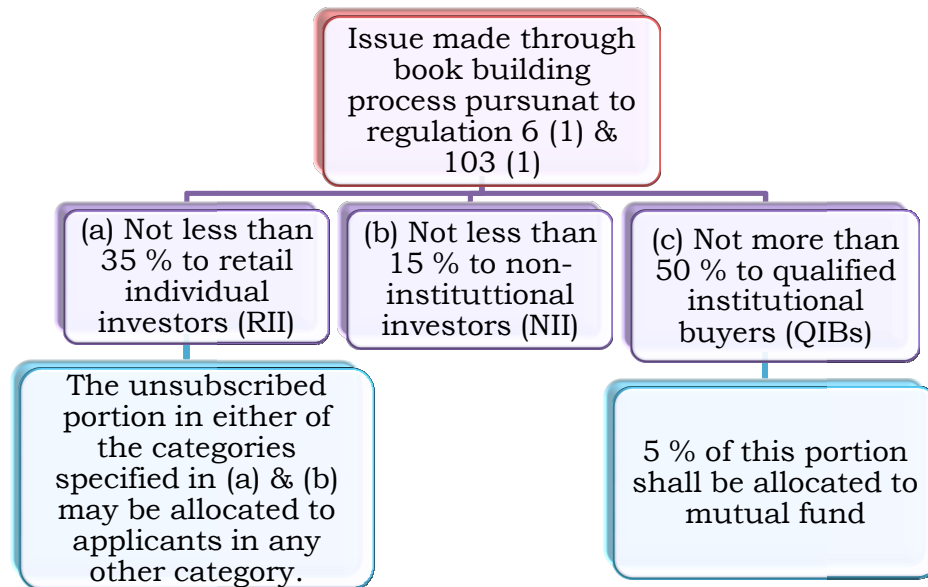
- reservation for shareholders shall not exceed ten per cent of the issue size;
- no further application for subscription in the net offer can be made by persons (except an employee and retail individual shareholder of the listed issuer and retail individual shareholders of listed subsidiaries of listed 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.

ALLOCATION IN NET OFFER

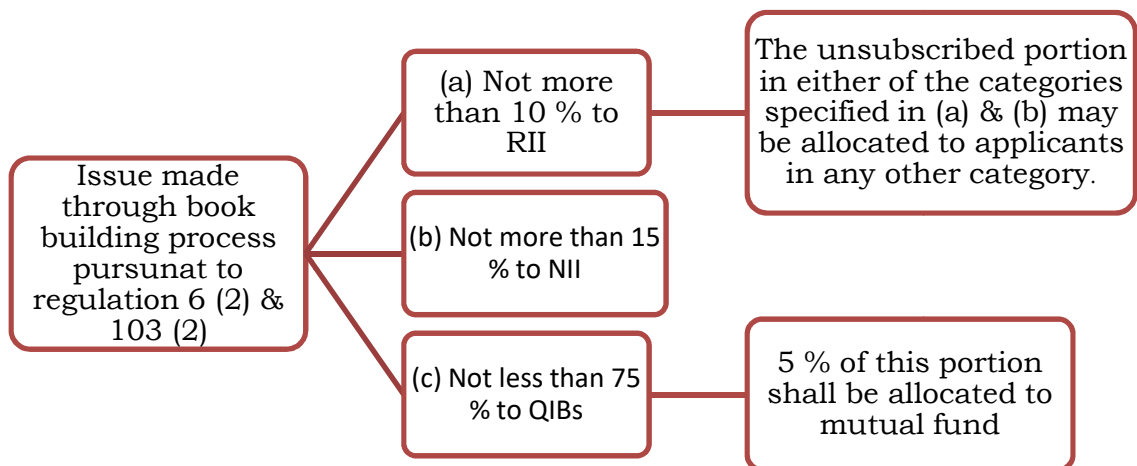
(1) Regulations 32(1) & 129(1)

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 sixty per cent. 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.

(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:

Issue made through other than book building process:-

- Minimum 15 % to RIs; and remaining to individual applicants other than RIs; and other investors including corporate bodies or institutions, irrespective of the number of specified securities applied for.
- However, the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category.

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

FAST TRACK FPO**Eligibility**

An Issuer Company need not file the draft offer document with SEBI and obtain observations from SEBI, or make a security Deposit with the Stock Exchanges if it satisfies the following conditions:

- (a) 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) entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date;
- (c) 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) 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 fifteen per cent of its issued equity capital, the annualised trading turnover of its equity shares has been at least two per cent of the weighted average number of equity shares available as free float during such six months' period;
- (e) 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 ten per cent of the annualised trading turnover of the equity shares during such six months' period;
- (f) 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.

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 letter of offer, and adequate disclosures are made in the letter of offer about such non-compliances during the three years immediately preceding the reference date, it shall be deemed as compliance with the condition;

Further, imposition of monetary fines by stock exchange on the issuer shall not be a ground for ineligibility for undertaking issuances under this regulations.

- (g) the issuer has redressed at least ninety five per cent 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 have been issued or prosecution proceedings have been initiated by the Board and pending against the issuer or its promoters or whole-time directors as on the reference date;
- (i) issuer or promoter or promoter group or director of the issuer has not settled any alleged violation of securities laws through the consent or settlement mechanism with the Board during three years immediately preceding the reference date;
- (j) 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) 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) impact of audit qualifications, if any and where quantifiable, on the audited accounts of the issuer in respect of those financial years for which such accounts are disclosed in the letter of offer does not exceed five per cent of the net profit or loss after tax of the issuer for the respective years.

“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

- In case of 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 Shareholders?

“Dissenting Shareholders” means 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 of this Chapter, 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 per cent 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 SHAREHOLDERS

- ✓ 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.

RIGHTS ISSUE

Unless otherwise provided, SEBI (ICDR) Regulations, 2018 shall apply to a rights issue by a listed issuer, where the aggregate value of the issue is ten crore rupees or more.

However, in case of rights issue of size less than ten crore rupees, the issuer shall prepare the letter of offer in accordance with requirements specified in SEBI (ICDR) Regulations, 2018 and file the same with SEBI information and dissemination on SEBI's website.

Eligibility Conditions

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

- (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.

It may be noted that the restrictions imposed under (a) & (b) will not apply to the promoters or director of the issuer 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 SEBI.

General Conditions

The issuer making a rights issue of specified securities 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,
- ✓ all its existing partly paid-up equity shares have either been fully paid-up or have been forfeited and
- ✓ it has made firm arrangements of finance through verifiable means towards seventy five per cent of the stated means of finance for the specific 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.
- ✓ 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 twenty per cent 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.

Record Date

- 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 Listing 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.

Pricing

- The issuer shall decide the issue price, in consultation with the lead manager(s), 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 issuer shall disclose the issue price in the letter of offer filed with SEBI and the stock exchanges.

Abridged letter of offer

- The abridged letter of offer shall contain the disclosures as specified by SEBI and shall not contain any matter extraneous to the contents of the letter of offer.
- Every application form distributed by the issuer or any other person in relation to the issue shall be accompanied by a copy of the abridged letter of offer.

ASBA

The issuer shall provide the ASBA facility in the manner specified by SEBI where not more than one payment option is provided.

However, the applicants in a rights issue shall be eligible to make applications through ASBA facility only if such applicant:

- i. is holding equity shares in dematerialised mode;
- ii. has not renounced entitlement in part or in full; and
- iii. is not a renouncee.

Further, the payment made for application for any reserved portion outside the issue period can be through electronic banking modes.

Availability of letter of offer and other issue materials

- The lead manager(s) 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 abridged letter of offer, along with application form, shall be dispatched 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 or lead manager(s) to any existing shareholder who makes a request in this regard.

Conditions for making applications on plain paper

- 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.

Subscription Period

A rights issue shall be open for subscription for a minimum period of fifteen days and for a maximum period of thirty days.

Payment Option

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.

Pre-Issue Advertisement for Rights Issue

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, at least three days before the date of opening of the issue, disclosing the following:

- the date of completion of despatch of abridged 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 they are in a position to obtain the duplicate forms, they may make application in writing on a plain paper to subscribe to the rights issue;
- a format to enable the shareholders entitled to apply against their rights entitlements, to make the application on a plain paper specifying therein 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, amount to be paid along with application, and particulars of cheque, etc. to be drawn in favour of the issuer's account;
- a statement that the applications can be directly sent by the shareholders entitled to apply against rights entitlements through registered post together with the application moneys to the issuer's designated official at the address given in the advertisement;
- 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.

- 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 lead manager(s) is satisfied that at least ninety per cent. 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.

Reservations

- 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 or warrants 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.
- Subject to other applicable provision of these regulations, the issuer may make reservation for its employees along with rights issue subject to the condition that 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 a proportionate basis, for a value in excess of two lakhs rupees, subject to the total allotment to an employee not exceeding five lakhs rupees.

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.
- 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 the Board meeting and place before it the proposal for rights issue
- Immediately after the Board Meeting notify the concerned Stock Exchanges about particulars of Board of Directors decision.
- Appoint a merchant banker and file a draft letter of Offer with SEBI
- Obtain Observations and incorporate the same in the Letter offer
- 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 merchant bankers and underwriters (if necessary).
- Approval of draft letter of offer or authorisation of managing director/ company secretary to finalise the letter of offer in consultation with the managers to the issue, the stock exchange and SEBI.
- Rights issue shall be kept open for at least 15 days and not more than 30 days.
- File a copy of the letter of offer with the stock exchange where the shares of the company are listed.
- 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.

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 lead manager and the Issuer Company shall ensure that the contents of the offer document as hosted on their web sites are the same as the printed versions filed with the Registrar of Companies and shall also ensure that the copies of the same are available to the public.
- The post-issue lead merchant banker shall actively associate himself with post-issue activities such as allotment, refund, despatch and giving instructions to syndicate members, Self Certified Syndicate Banks and other intermediaries and shall regularly monitor redressal of investor grievances arising therefrom.

- The issuer company shall appoint a Compliance Officer, who shall be responsible for monitoring the compliance of the securities laws and for redressal of investors' grievances.

PREFERENTIAL ISSUE

“Preferential issue” means an issue of specified securities by a listed issuer to any selected 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 81 (3) & (4) of the Companies Act, 1956 or section 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 scheme 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.
- The provisions of this Chapter shall not apply where the preferential issue of specified securities is made to person(s) at the time of lenders selling their holding of specified securities or enforcing change in ownership in favour of such person(s) pursuant to a debt restructuring scheme implemented in accordance with the guidelines specified by the Reserve Bank of India, subject to the following conditions:
 - (a) guidelines for determining the issue price have been specified by the Reserve Bank of India in accordance with which the issue price shall be determined and which shall be in compliance with the applicable provisions of the Companies Act, 2013;
 - (b) issue price shall be certified by two independent valuers;
 - (c) specified securities so allotted shall be locked-in for a period of at least three years from the date of their allotment;
 - (d) 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) special resolution has been passed by shareholders of the issuer before the preferential issue;

- (f) issuer shall, in addition to the disclosures required under the Companies Act, 2013 or any other applicable law, disclose the following information pertaining to the proposed allottee(s) in the explanatory statement to the notice for the general meeting proposed for passing the special resolution as stipulated above:-
- identity, including that of the natural persons, who are the ultimate beneficial owners of the shares proposed to be allotted and/ or who ultimately control the proposed allottee(s);
 - business model;
 - statement on growth of business over a period of time;
 - summary of audited financial statements of previous three financial years;
 - track record, if any, in turning around companies;
 - proposed roadmap for effecting turnaround of the issuer.
 - applicable provisions of the Companies Act, 2013 are complied with.

Conditions for Preferential Issue

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;
- ✓ 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.

Issuers Ineligible to make a Preferential Issue

- ❖ 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 six months preceding the relevant date.

Further the 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 six month preceding the relevant date, the 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.

Tenure of convertible securities

The tenure of the convertible securities of the issuer shall not exceed eighteen months from the date of their allotment.

Disclosures to Shareholders

- (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 of the issuer to subscribe to the offer;
 - (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) 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;
 - (h) 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.
 - (i) 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 willful defaulter.
- (2) The issuer shall place a copy of the certificate of its statutory auditor 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.
- (3) Where specified securities are issued on a preferential basis for consideration other than cash, the valuation of the assets in consideration for which the equity shares are issued shall be done by an independent valuer, which shall be submitted to the stock exchanges 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.

Relevant Date

'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.

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.

Allotment pursuant to special resolution

- 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.

PRICING

Pricing of equity shares - Frequently traded shares

1. Listed for more than 26 weeks

If the equity shares of the issuer have been listed on a recognised stock exchange **for a period of twenty six weeks 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 average of the weekly high and low of the volume weighted average price (VWAP) of the related equity shares quoted on the recognised stock exchange during the twenty six 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.

2. Listed for less than 26 weeks

If the equity shares of the issuer have been listed on a recognised stock exchange for **a period of less than twenty six weeks** 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 391 to 394 of the Companies Act, 1956 or 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 weekly high and low 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 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.

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 twenty six weeks from the date of listing on a recognised stock exchange with reference to the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on the recognised stock

exchange during these twenty six weeks and if such recomputed price is higher than the price paid on allotment, the difference shall be paid by the allottees to the issuer.

A preferential issue of specified securities to QIBs, not exceeding five in number, shall be made at a price not less than 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.

“Frequently traded shares” means the shares of the issuer, in which the traded turnover on any recognised stock exchange during the twelve calendar months preceding the relevant date, is at least ten per cent of the total number of shares of such class of shares of the issuer:

However, 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.

Pricing of equity shares – Infrequently traded shares

- ✓ 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 valuer to the stock exchange where the equity shares of the issuer are listed.

Adjustments in pricing - Frequently or Infrequently traded shares

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.

Payment of consideration

Full consideration of specified securities other than warrants shall be paid by the allottees at the time of allotment of such specified securities.

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 twenty five per cent 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 seventy five per cent. 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 twenty five per cent 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 twenty five per cent 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.

Lock-in of specified securities

- ▶ 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 three years 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 twenty per cent of the total capital of the issuer shall be locked-in for three years from the date of trading approval. Further, Equity shares allotted in excess of the twenty per cent shall be locked-in for one year 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 one year 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.

- ▶ 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.
- ▶ 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 six months 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 six months from the date of allotment of such securities.

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 Chapter.

Transferability

- ▶ Subject to the provisions of SEBI SAST Regulations, 2011, specified securities held by promoters and locked-in 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.

QUALIFIED INSTITUTIONS PLACEMENT

‘Qualified Institutions Placement’ means allotment of eligible securities by a listed issuer to qualified institutional buyers 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 Category III foreign portfolio investor, registered with the SEBI;
- 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;
- 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

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

“Relevant Date”

- 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.
- 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.

Conditions for QIP

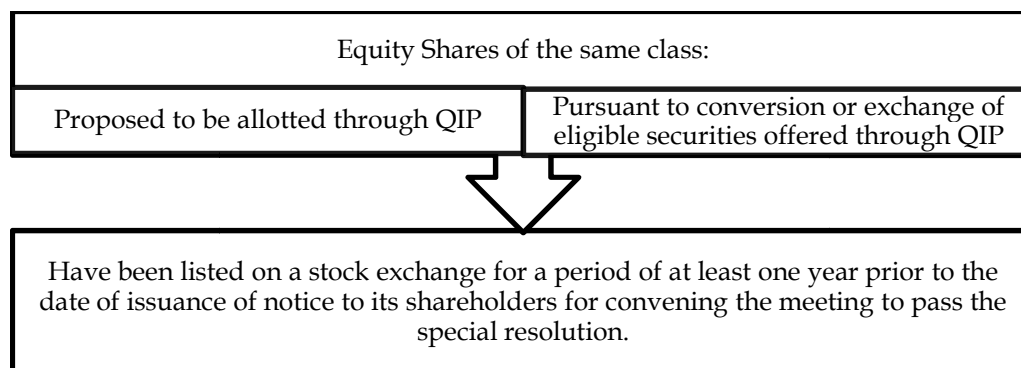
A listed issuer may make a qualified institutions placement of eligible securities if it satisfies the following conditions:

I. Special Resolution

- A special resolution approving the QIP has been passed by its shareholders, and the special resolution shall, among other relevant matters, specify that the allotment is proposed to be made through qualified institutions placement and the relevant date.
- Allotment pursuant to the special resolution shall be completed within a period of 365 days from the date of passing of the resolution.
- No shareholders’ resolution will be required in case the QIP is through an offer for sale by promoters or promoter group for compliance with minimum public shareholding requirements specified in the Securities Contracts (Regulation) Rules, 1957.

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.

a)



b)

Issuer (Transferee Company)

- Scheme of compromise, arrangement and amalgamation sanctioned by a High Court under sections 391-394 of the Companies Act, 1956; OR
- Approved by a tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013;

Whichever is applicable makes QIP

- The period for which the equity shares of the same class of the transferor company were listed on a stock exchange having nation-wide trading terminals shall also be considered for the purpose of computation of the period of one year.
- This clause shall not be applicable to an issuer proposing to undertake qualified institutional placement for complying with the minimum public shareholding requirements specified in the Securities Contracts (Regulation) 1957.

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 recognised 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 six months from the date of the prior qualified institutions placement made pursuant to one or more special resolutions.

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

1st Condition



2nd Condition

Promoters or members of the promoter group		
Shall not make OFS if it 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.

3rd Condition

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 SEBI; OR
- Through an open market sale, in accordance with the conditions specified by SEBI from time to time,
- Subject to the condition that there shall be a gap of minimum two weeks between the two successive offer(s).

APPOINTMENT OF LEAD MANAGERS

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 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

- 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 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.
- 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 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
- Where eligible securities are convertible into or exchangeable with equity shares of the issuer, the issuer shall determine the price of such equity shares allotted pursuant to such conversion or exchange taking the relevant date as disclosed in the special resolution.
- The issue price 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 a rights issue of equity shares;
 - (c) consolidates its outstanding equity shares into a smaller number of shares;
 - (d) divides its outstanding equity shares including by way of stock split;

- (e) re-classifies any of its equity shares into other securities of the issuer;
- (f) 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.

“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 two hundred and fifty crore rupees;
 - (b) five, where the issue size is greater than two hundred and fifty crore rupees.
- No single allottee shall be allotted more than fifty per cent. 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 fifteen per cent. 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 of ten 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:-

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

ISSUE OF SPECIFIED SECURITIES BY SMALL AND MEDIUM ENTERPRISES

An issuer making an initial public offer of specified securities shall satisfy the conditions of Chapter IX of SEBI (ICDR) Regulations, 2018 as on the date of filing of the draft offer document with the SME Exchange and also as on the date of registering the offer document with the ROC.

“SME exchange” means a trading platform of a recognised stock exchange having nationwide trading terminals permitted by SEBI to list the specified securities issued in accordance with Chapter IX and includes a stock exchange granted recognition for this purpose but does not include the Main Board.

Eligibility requirements for an initial public offer

ELIGIBILITY

- If the issuer's post-issue paid-up capital is less than or equal to ten crore rupees.
- If post issue face value capital is more than ten crore rupees and upto twenty five crore rupees.
- If the issuer satisfies track record and/or other eligibility conditions of the SME Exchange(s) on which the specified securities are proposed to be listed.

NOTE:-

In case of an issuer which had been a partnership firm or a limited liability partnership, the track record of operating profit of the partnership firm or the limited liability partnership shall be considered only if the financial statements of the partnership business for the period during which the issuer was a partnership firm or a limited liability partnership, 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 by the issuer as per Schedule III of the Companies Act, 2013;
- (b) the financial statements are duly certified by auditors, who have subjected themselves to the peer review process of the Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the Peer Review Board' of the ICAI, 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 prescribed under the Companies Act, 2013 have been followed;
 - iii. the financial statements present a true and fair view of the firm's accounts;

However, in case of an issuer formed out of merger or a division of an existing company, the track record of the resulting issuer shall be considered only if the requirements regarding financial statements as specified above in the first proviso are complied with.

Filing of the offer document

- The issuer shall file a copy of the offer document with SEBI through the lead manager(s), immediately upon registration of the offer document with the Registrar of Companies.
- SEBI shall not issue any observation on the offer document.
- The lead manager(s) shall submit a due-diligence certificate including additional confirmations as provided in Form G of Schedule V of SEBI ICDR Regulations 2018 along with the offer document to SEBI.
- The offer document shall be displayed from the date of filing on the websites of SEBI, the lead manager(s) and the SME exchange(s).

- The draft offer document and the offer documents shall also be furnished to SEBI in a soft copy.

Offer document to be made available to public

- 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 SME exchange(s).
- The lead manager(s) and the SME exchange(s) 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.

Minimum Application Value and Number of Allottees

- The minimum application size shall be one lakh rupee per application.

Here, 'minimum application value' shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.

- The minimum sum payable on application per specified securities shall at least twenty five per cent of the issue price. In case of offer for sale, the full issue price for each specified security shall be payable on application.

Migration to SME Exchange

A listed issuer whose post-issue face value capital is less than twenty five crore rupees may migrate its specified securities to SME exchange :

- ❑ if its shareholders approve such migration by passing a special resolution through postal ballot to this effect; and
- ❑ if such issuer fulfils the eligibility criteria for listing laid down by the SME exchange.

However, the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal.

Migration to Main Board

An issuer, whose specified securities are listed on a SME Exchange and whose post issue face value capital is more than ten crore rupees and upto twenty five crore rupees, may migrate its specified securities to Main Board:

- ❑ if its shareholders approve such migration by passing a special resolution through postal ballot to this effect; and
- ❑ if such issuer fulfils the eligibility criteria for listing laid down by the Main Board.

However, the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal.

Where the post issue face value capital of an issuer listed on SME exchange is likely to increase beyond twenty five crore rupees by virtue of any further issue of capital by the issuer by way of rights issue, preferential issue, bonus issue, etc. the issuer shall migrate its specified securities listed on SME exchange to Main Board and seek listing of specified securities proposed to be issued on the Main Board subject to the fulfilment of the eligibility criteria for listing of specified securities laid down by the Main Board.

However, no further issue of capital by the issuer shall be made unless:

- ❑ the shareholders of the issuer have approved the migration by passing a special resolution through postal ballot wherein the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal;
- ❑ the issuer has obtained in- principle approval from the Main Board for listing of its entire specified securities on it.

Market Making

- ❑ The lead manager shall ensure compulsory market making through the stock brokers of SME exchange appointed by the issuer, for a minimum period of three years from the date of listing of specified securities or from the date of migration from the Main Board.
- ❑ The market maker or issuer, in consultation with the lead manager may enter into agreement with nominated investors for receiving or delivering the specified securities in the market making subject to the prior approval by the SME exchange.
- ❑ The issuer shall disclose the details of arrangement of market making in the offer document.
- ❑ The specified securities being bought or sold in the process of market making may be transferred to or from the nominated investor with whom the merchant banker has entered into an agreement for the market making.

However, the inventory of the market maker, as on the date of allotment of the specified securities, shall be at least 5 % of the specified securities proposed to be listed on SME exchange.

- ❑ The market maker shall buy the entire shareholding of a shareholder of the issuer in one lot, where value of such shareholding is less than the minimum contract size allowed for trading on the SME exchange.

However, the market maker shall not sell in lots less than the minimum contract size allowed for trading on the SME exchange.

- ❑ Market maker shall not buy the shares from the promoters or persons belonging to promoter group of the issuer or any person who has acquired shares from such promoter or person belonging to promoter group, during the compulsory market making period.
- ❑ The promoters' holding shall not be eligible for offering to the market maker during the compulsory market making period. However, the promoters' holding which is not locked-in as per these regulations can be traded with prior permission of the SME exchange.

The lead manager(s) may be represented on the Board of Directors of the issuer subject to the agreement between the issuer and the lead manager(s) who have the responsibility of market making.

LISTING ON THE INSTITUTIONAL TRADING PLATFORM

Applicability

- ❑ To issuers seeking listing of their specified securities pursuant to an initial public offer or for only trading on a stock exchange of their specified securities without making a public offer.
- ❑ The provisions of these regulations, in respect of the matters not specifically dealt or excluded under this Chapter, shall apply mutatis mutandis to any listing or trading of specified securities under this Chapter.

Non-applicability

- ❑ Sub-regulation (2) of regulation 7 on restrictions on the amount of general corporate purposes; and
- ❑ Sub-regulation (1) and (2) of regulation 6 on eligibility requirements.

Note :- The institutional trading platform shall be accessible only to institutional investors and non-institutional investors and not to retail individual investors.

Eligibility for Listing

- ❑ The following issuers are eligible for listing on the Institutional Trading Platform (ITP):-
 - i. an issuer which is intensive in the use of technology, information technology, intellectual property, data analytics, bio technology or nano technology to provide products, services or business platforms with substantial value addition, and in which at least 25% of the share capital is being held by QIBs as on the date of filing of draft information document or draft offer document with SEBI, as the case may be; or
 - ii. any other issuer in which at least 50% of the share capital is being held by QIBs.
- ❑ A person, individually or collectively with persons acting in concert, shall not hold 25% or more of the post-issue share capital in an entity.

- ❑ An issuer shall be eligible for listing on the ITP, if none of the promoters or directors of the issuer company is a fugitive economic offender.

Listing without Public Issue

An entity pursuing listing of its specified securities without making a public issue shall file a draft information document along with necessary documents with the SEBI along with prescribed fees.

The draft information document shall contain disclosures as specified for the draft offer documents in these regulations.

Procedure of listing without public issue

1. The issuer shall obtain in-principle approval from the recognised stock exchanges on which it proposes to get its specified securities listed.
2. The provisions relating to minimum public shareholding shall not apply to entities listed on institutional trading platform without making a public issue.
3. The entity shall list its securities within 30 days from the date of issuance of observations by SEBI; or from the expiry of the period stipulated in sub-regulation (4) of regulation 25, if SEBI has not issued any such observations.
4. The issuer which has received in-principle approval discussed above, shall be deemed to have been waived by SEBI under sub-rule (7) of rule 19 from the requirement of clause (b) of sub-rule (2) of rule 19 of Securities Contracts (Regulation) Rules, 1957 for the limited purpose of listing on the institutional trading platform.
5. The draft and final information document shall be approved by the Board Of Directors of the issuer and shall be signed by all directors, the Chief Executive Officer i.e. the Managing Director or Manager as per Companies Act, 2013 and the Chief Financial Officer i.e. the Whole-Time Finance Director or any other person heading the finance function and discharging that function.
6. The signatories shall also certify that all disclosures made in the information document are true and correct.
7. In case of mis-statement in the information document or any omission therein, any person who has authorized the issue of information document shall be liable in accordance with the provisions of the SEBI Act, 1992 and regulations made thereunder.

Exemptions for an entity listing without a Public Issue

The provisions relating to the following shall not be applicable in case of listing without public issue:

- Allotment;
- Issue opening/closing;
- Advertisement;
- Underwriting;

- Sub-regulation (2) of regulation 5 of the SEBI (ICDR) Regulations, 2018;
- Pricing;
- Dispatch of issue material; and
- Other such provisions related to offer of specified securities to public.

Regulations 5(2)

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 share of the issuer.

Listing pursuant to initial public issue

An entity seeking issue and listing of its specified securities shall file a draft offer document along with necessary documents with SEBI along with prescribed fees.

The offer document shall disclose the broad objects of the issue.

The basis of issue price may include disclosures, except projections, as deemed fit by the issuers in order to enable investors to take informed decisions and the disclosures shall suitably caution the investors about basis of valuation.

Procedure of listing pursuant to public issue

1. The minimum application size shall be 10 lakh rupees.
2. The number of allottees shall be atleast 200.
3. The allocation in the net offer to public category shall be as follows:
 - ❑ 75% to institutional investors; However, there shall be no separate allocation for Anchor Investors;
 - ❑ 25% to non-institutional investors;
4. Any under-subscription in the non-institutional investor category shall be available for subscription under the institutional investors' category.
5. The allotment to institutional investors may be on a discretionary basis whereas the allotment to non-institutional investors shall be on a proportionate basis.
6. The mode of allotment to institutional investors, i.e., whether discretionary or proportionate, shall be disclosed prior to or at the time of filing of the Red Herring Prospectus.
7. In case of discretionary allotment to institutional investors, no institutional investor shall be allotted more than 10% of the issue size.

Lock-in

The entire pre-issue capital of the shareholders shall be locked-in for a period of six months from the date of allotment in case of listing pursuant to public issue or date of listing in case of listing without public issue.

Exempted from lock-in

- i. Equity shares allotted to employees of the issuer under an employee stock option or employee stock purchase scheme of the issuer prior to the initial public offer, if the issuer has made full disclosures with respect to such options or schemes in accordance with Part A of Schedule VI of the SEBI ICDR Regulations, 2018.
- 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, whether currently employees or not, in accordance with the employee stock option plan or employee stock purchase scheme.
However, the equity shares allotted to the employees shall be subject to the provisions of lock-in as specified under the SEBI (SBEB) Regulations, 2014.
- iii. Equity shares held by a venture capital fund or alternative investment fund of Category I or a foreign venture capital investor. However, such shares will be locked in for a period of at least one year from the date of purchase by such investor.
- iv. Equity shares held by persons other than promoters, which have been held for a continuous period of at least one year prior to the date of listing in case of listing without a public issue.

For the purpose of **point no. iii & iv**, 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 one year period and the convertible securities shall be deemed to be fully paid-up, if the entire consideration payable thereon has been paid at the time of their conversion.

Note:-

- ❑ The specified securities held by the promoters and locked-in may be pledged with any scheduled commercial bank or public financial institution or systemically important non-banking finance company as a collateral security for a loan granted by such bank or institution or systemically important non-banking finance company if the pledge of specified securities is one of the terms of sanction of the loan.
- ❑ The specified securities that are locked-in may be transferable.
- ❑ All specified securities allotted on a discretionary basis shall be locked-in in accordance with the requirements for lock-in for the anchor investors on the main board of the stock exchange.

Trading lot

- ❑ The minimum trading lot on the stock exchange shall be ten lakh rupees.

Exit of issuer whose securities are trading without making a public offer

An entity which has list its specified securities on the institutional trading platform without making a public issue may exit from that platform, if-

- ❑ Its shareholders approve such exit by passing a special resolution through postal ballot where ninety per cent of the total votes and the majority of non-promoter votes have been cast in favor of such proposal; and
- ❑ The recognised stock exchange where its shares are listed approve of such an exit.

Withdrawal of approval by the stock exchange

The recognised stock exchange may delist the specified securities of an entity listed without making a public issue upon non-compliance of the conditions of listing and in the manner as specified by the stock exchange.

The issuer promoted by promoters and directors of an entity delisted, shall not be permitted to list on institutional trading platform for a period of 5 years from the date of such delisting. However, the provisions of this regulation shall not apply to another entity promoted by the independent directors of such a delisted issuer.

Migration to the Main Board

An issuer that has listed its specified securities on a recognised stock exchange may at its option migrate to the main board of that recognised stock exchange after expiry of three years from the date of listing subject to compliance with the eligibility requirements of the stock exchange.