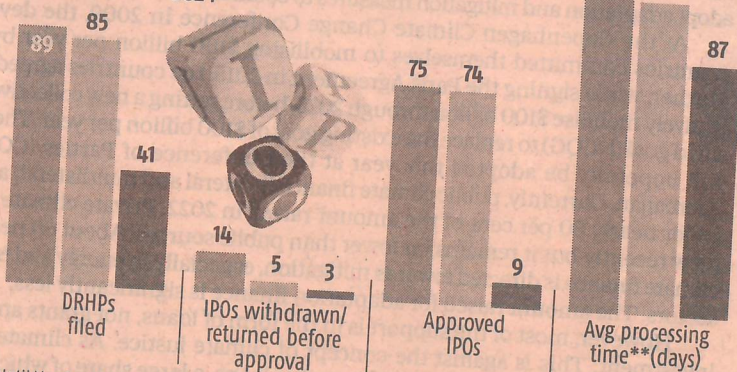


Sebi seeks greater IPO disclosures for faster clearance

SPEEDING THE PROCESS

Stricter disclosures aimed at further reducing the clearance time

■ 2022 ■ 2023 ■ 2024*



*Until May 31; **number of days between DRHP filing and Sebi approval

Source: primedatabase.com

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In a bid to expedite the processing of initial public offerings (IPOs), the markets regulator will now seek additional information from lead managers (LMs) when they file draft documents.

Last week, the Securities and Exchange Board of India (Sebi) sent a letter to bankers, listing over two dozens of new disclosure requirements.

The average time Sebi takes to clear the draft red herring prospectus (DRHP) — a document companies must file before accessing public funds — has dropped to less than three months in 2024 (until May 31). This is a significant decrease compared to the average of 126 days in 2022 and 108 days in 2023, according to data from PRIME Database, a primary market tracking firm.

Since the start of this year, over 40 IPO applications have been filed, with only nine approved. The average approval time was 87 days, according to PRIME Database. However, nearly half a dozen of these applications were either withdrawn or rejected.

Sebi's additional disclosure requirements include details about pre-IPO placements, shareholders, previous agreements, and ESOP (employee stock ownership plan) allottees.

"With these additional disclosures, the time taken to process IPO applications may decrease but the level to which these granular details have been sought may increase the prepar-

atory work needed by merchant bankers before filing the DRHP," said a legal expert.

Under the new guidelines, lead managers must confirm that ESOP allottees are only employees, disclose the price and the name of the shareholder on the day of allotment if any pre-IPO placement is done, disclose the names of suppliers or customers if more than 50 per cent of supplies or revenue originates from the top 10 suppliers or customers, and provide details of arrangements like acquisitions, mergers, and slump sales, including information on valuation and any relationship with the promoters or directors.

Furthermore, LMs are directed to ensure no conflict of interest between suppliers, third-party service providers, and the company or promoters. An expert added that if a company raises funds between the DRHP and RHP, such funds must be used for general corporate purposes as disclosed in the DRHP. "If the company wants to use the money for another purpose, it needs an auditor to certify how it will deploy this money."

After a company files for an IPO, Sebi may seek additional details from merchant bankers, and companies can also file addenda to their draft documents based on clarifications sought by the markets regulator. This approach from the regulator is expected to reduce the time required for clarifications with the issuer and speed up the processing of documents.