

SEBI wants auditors to certify utilisation of pre-IPO funds

TIGHTENING NOOSE. Sans auditor certificate, proceeds will be adjusted towards general corporate purposes

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The Securities and Exchange Board of India (SEBI) has asked for auditor-certified disclosures about utilisation of pre-IPO proceeds towards objects of the issue. If this is not done, the proceeds will have to be attributed or adjusted towards the portion reserved for general corporate purposes (GCP), SEBI's recent advisory said.

Since companies cannot spend more than 25 per cent of IPO proceeds under GCP, the above rule could take away the flexibility for companies to manage their pre-IPO proceeds, said experts.

So, if a company does a pre-IPO that amounts to 20 per cent of the total IPO proceeds, its GCP becomes negli-

gible. For example, for a ₹100-crore issue, if ₹20 crore is raised from pre-IPO, the GCP portion will reduce to ₹5 crore (from ₹25 crore).

"It will take away the flexibility for companies to manage their own fund proceeds to some extent," said Munish Aggarwal, Head-Equity Capital Markets, Equirus Group.

"If the company certifies its pre-IPO utilisation, will it be able to use the proceeds the way it wants to? Or can the pre-IPO money be used only towards objects that will be furnished in the offer document? There's clarity needed on this front," said an industry official. "If we leave aside the technicalities, what the regulator might be trying to do is bring some control and sanity in terms of where the money raised pre-IPO is being used."

FOR TRANSPARENCY

- Details on pre-IPO will have to form part of the price band advertisement
- Bankers have to undertake that pricing and shareholder disclosures will be made on the day of allotment
- The company has to disclose who acquired how many pre-IPO shares and at what price

Bankers have to undertake that pricing and shareholder disclosures will be made on the day of allotment through a public advertisement if any pre-IPO placement is done. A confirmation to this effect should be submitted at the time of filing the updated or red herring prospectus and form part of material documents available for inspection, according to SEBI.

"The company has to disclose who acquired how many pre-IPO shares and at what price so that there is transparency with respect to the people who are buying into the IPO. However, public dissemination of the information on the same day makes it a bit impractical," said Aggarwal.

"With effect from November 2022, SEBI had mandated



that all primary and secondary transactions in the 18 months prior to the IPO had to be disclosed in the DRHP. This includes pre-IPO transactions as well," added Pranav Haldea, Managing Director, PRIME Database Group.

The details of the pre-IPO will now also have to form part of the price band advertisement.

Pre-IPO placements have recently come under the regulatory glare after some IPO-bound companies were found to be placing shares with more than 200 investors, violating companies law.

Companies that made their debut on the bourses in 2023-24 raised over ₹1,300 crore by way of pre-IPO placements. This is three times the amount collected in the previous fiscal and the highest mop-up since FY17.