

# Exchanges call for better scrutiny by merchant bankers

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Mumbai, 25 September

Amid concerns over the quality of issuances by small and medium enterprises (SMEs) and rising instances of violations, stock exchanges have urged investment bankers to enhance scrutiny and ground checks before filing documents for an initial public offering (IPO).

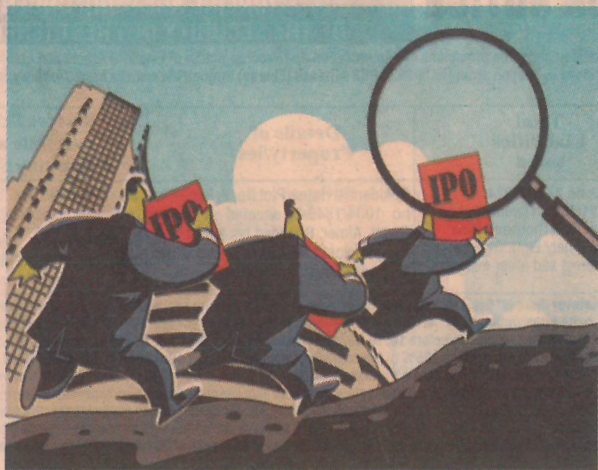
The developments come close on heels of market regulator Securities and Exchange Board of India's (Sebi's) nudge to BSE to halt the listing of a recent SME firm following complaints from industry participants. Also, according to latest reports, six merchant bankers are under the scanner of Sebi for questionable practices on fee collection.

In a meeting held on Tuesday, BSE's managing director (MD) and chief executive officer (CEO) Sundararaman Ramamurthy had apprised over 80 merchant bankers across India for more checks on IPO-bound firms.

"Exchanges are asking merchant bankers to do thorough due diligence based on the stock exchange checklist, specified under the guidelines of Sebi. They are considered to have better financial acumen and have been asked to do more site visits and ground checks of the companies," said a person familiar with the developments.

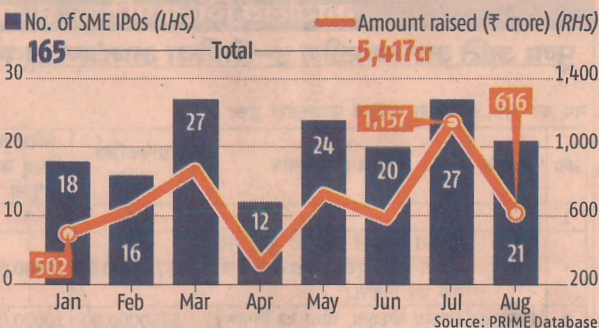
"The strictures come after several discrepancies have come to light at the stock exchange level and could have been easily detected by merchant bankers before filing IPO documents. There have been cases where companies showed a need for working capital but had sudden jumps in inventories or jacked up their financial numbers right before the issue," said sources.

Exchanges have informed bankers that they should have



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better acumen and access to details provided by the company. They have also told bankers to do on ground checks to verify claims made by IPO hopefuls. The discussions with merchant bankers follow implementation of better filters by the exchanges to curb speculation and weed out poor quality SMEs from being listed on the platforms.

The exchanges have started focussing on profitability and positive cash flow.

The National Stock Exchange (NSE), last month, changed the eligibility conditions, mandating positive free cash flow to equity for at least two of three financial years preceding the application. Additionally, the exchanges have also capped listing day gains in the SME

segment to 90 per cent.

Emailed queries to NSE on possible increase in surveillance or steps towards sensitising SME investors remained unanswered till the time of going to press.

Sebi has constantly cautioned investors of SME IPOs and called for better practices by the auditors.

It may also float a consultation paper later this year to tighten the norms around SME listings. This follows instances of fraudulent practices by promoters and gross violations of the securities norms.

The paper may include stricter norms on disclosure requirements, eligibility conditions, portions reserved for qualified institutional buyers (QIBs) and anchor investors, and audit-related scrutiny.