



# FINANCIAL EXPRESS

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## Sebi raises the bar on listing of SMEs

**Bigger lot size,  
5-year lock-in  
for promoters**

AKSHATA GORDE  
Mumbai, November 19

**THE SECURITIES AND** Exchange Board of India (Sebi) on Tuesday proposed a slew of changes in the guidelines for listing of small and medium enterprises (SMEs), including an increase in the lot size to ₹2 lakh or ₹4 lakh, higher promoter lock-in of five years and cooling period of two years for proprietary or partnership firms after they convert to a company.

“Considering increased activity in the SME segment, instances of misconduct...risks relating to siphoning of funds, promoter/investors exiting the company after listing etc, it is felt that to protect the interest of the investors and market as a whole, there is a need to review SME IPO framework and applicability of corporate governance provisions to SME listed companies,” the regulator said in a draft paper, inviting public comments by December 4.

In the current year, 215 SMEs have raised a record ₹7,663 crore

### IN INVESTOR INTEREST

■ Sebi has proposed to increase the number of minimum investors from 50 to 200 & restricting the size of OFS to 20% of total issue size

■ In total, it has made over 27 suggestions



■ Sebi has passed several orders against SMEs listed on exchanges and even halted the listing of an SME where concerns were raised

■ The move follows several instances like diversion of issue proceeds, inflation of revenue by circular transactions to create positive sentiments among investors before the IPO

■ The markets regulator also suggested higher corporate governance norms, including applying related-party transaction norms

(till October) as per Primedata-base.com

Overall, the regulator has made over 27 suggestions.

Additionally, Sebi has proposed to increase the number of minimum investors from 50 to 200, and banning SME IPOs which plan to use the issue proceeds to repay loans availed by the promoter groups or related parties. Sebi has also suggested restricting the size of offer for sale (OFS) to 20% of the total issue size of the SME IPO.

Limited liability partnerships and partnership firms who have converted into a company, would have a 2 year-cooling period before

it could list on the SME platforms along with the existing three year track record requirement. This shall apply even in the case of change of promoter(s) or new promoter(s) after the acquisition of more than 50% shareholding prior to filing of draft offer document.

The move follows several instances of diversion of issue proceeds, booking fraudulent sales, and inflation of revenue by circular transactions through related parties or shell companies to create positive sentiments among investors before the IPO.

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# Tighter guidelines...

SEBI HAS PASSED several orders against SME listed on exchanges and even halted the listing of an SME where concerns were raised.

Another proposal is to set aside one-third of the portion reserved for large investors, for those investing up to ₹10 lakh, whereas the remaining two-thirds will be for other investors in the category, similar to mainboard allocation.

Sebi has also proposed to tighten migration rules for SMEs and allow fund-raising while

remaining on the SME platform, subject to higher disclosure requirements such as quarterly results—similar to those mandated for mainboard companies.

The markets regulator also suggested higher corporate governance norms, including applying related-party transaction norms for SMEs, similar to those for companies listed on the mainboard and mandating the disclosure of board meetings and other governance details.