SEBI- NEW YEAR, NEW CHANGES, NEW BEGINNINGS!

BY

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The Securities and Exchange Board of India (**"SEBI"**) on January 14, 2022, marked the new year by bringing in significant changes to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (*"***ICDR***"*) by way of notification ("**Amendment Notification**").

The Amendment Notification brought in a slew of changes which, amongst others, were made to address certain key issues identified in a considerable number of Initial Public Offers ("**IPO**") made by non-profit/non-revenue generating companies, in last few years.

In addition to changes to IPO requirements, the Amendment Notification also dealt with certain changes to other offerings such as further public offering, rights issue and preferential issue. However, the scope of this paper is limited to that of IPOs.

A. Offer for Sale restriction:

An IPO can be either for a fresh issue of specified securities or an offer for sale ("**OFS**") by the existing shareholders or a combined issue through the fresh issue and offer for sale. In the OFS component of an IPO, existing shareholders of a company offer to sell the shares of a company held by them to the public; and the shares eligible to form part of such OFS are required to be held by the existing selling shareholders for a period of one year prior to the filing of the IPO draft offer document with SEBI in accordance with **Regulation 8 of the SEBI ICDR.**

Traditionally, IPOs were means to companies raising funds from public for their working capital requirements, operational expenses, repayment of loans, amongst others. However, lately, the trend has shifted, and IPOs are used mostly as an exit strategy by Private Equity and Venture Capital Investor Shareholders (**"PE-VC Investors"**). These PE-VC Investors sell off their stake at huge valuations and eventually get favourable returns through the IPO exit route. The year 2021 has been a record-breaking year in terms of volume of exits, with PE-VC Investors selling shares worth $43 billion in over 280 exits through an IPO[1]. This creates an incentive for PE-VC investors to focus on greater valuations, and generally, these are received from brand-building marketing activities, customer acquisitions and business acquisitions. New Age Technology Companies ("**NATC**") whose growth potential is unquantifiable have become the first pick of PE-VC investors who focus on inflated valuations more than profits, as all they have to do is build up enough optimism as to the future prospects of the company without actually focusing on fundamentals of the company.

In pursuit of higher valuations, NATCs have diverged from profit-oriented business models and have continued to incur losses. Despite making smaller profits, or no profits at all, these companies seek significantly greater valuations than their traditional competitors (often listed). For example, in November 2021, by filing paperwork with SEBI for its public issue,

[1]https://ivca.in/wp-content/uploads/2022/01/IVCA_EY-Monthly-PEVC-Roundup_-Dec-2021_Final-for-IVCA-converted.pdf

logistics start-up Delhivery joined the IPO race. As disclosed in the offer document[2] filed with SEBI, Delhivery reported comprehensive losses of ₹17,837.63 million, ₹2,679.61 million & ₹4,155.37 million, respectively, for the financial years 2019, 2020 & 2021. However, the valuation of Delhivery stood at 5.5 billion dollars which is over 2.5 times the market price of Blue Dart, a 38-year-old established company, which in the same period (half-year point of 2021) made a net profit of Rs. 1185 million[3].

As per ICDR, there is no bar for loss-making companies to go for an IPO. The companies incurring losses or companies who do not meet the profitability threshold under regulation 6(1) can also go for an IPO through regulation 6(2). Under the 6(2) route, allocation norms are stringent, as not less than seventy-five percent has to be allocated to qualified institutional investors[4].

NATCs getting recognition and easy accessibility to capital markets in India is a positive outcome. However, the exit of PE-VC Investors holding significant shareholding in NATCs becomes problematic in case of huge valuations and inflated offer prices. Slump in shares prices after post-listing quarterly results have resulted in record low drops. One example is One97 Communications (Paytm). The shares of One97 Communications touched a record low of ₹875 in the first quarter post listing. At that level, the stock was trading at a sharp discount of 59.3% to its IPO price on BSE.

In its consultation paper dated November 16, 2021, SEBI showed concern regarding investor confidence in the case of non-profit companies going for an IPO. SEBI observed that there is a need to bring in some parity, to inspire confidence amongst the investors through existing shareholders who have a significant shareholding.

Post-Amendment Law

With the introduction of regulation 8A, SEBI has stipulated certain requirements with respect to the limitation on stake sale contemplated by the selling shareholders planning to do an OFS under Regulation 6(2) of the ICDR.

As per the new regulation, selling shareholders (either individually or with persons acting in concert) holding more than 20% of the pre-issue shareholding of the issuer company can only offer up to 50% of the pre-issue shareholding in the company held by such selling shareholder. Further, selling shareholders holding less than 20% of the pre-issue shareholding of the issuer company cannot sell more than 10% of the pre-issue shareholding of the issuer company.

Furthermore, shareholders holding (individually or with persons acting in concert) more than 20% of the pre-issue shareholding of the issuer have to adhere to the lock-in provisions provided under regulation 17, which basically would mean AIF, VCF or FVCI (each of them were exempted earlier from lock-in requirement post listing) would be required to lock-in their entire pre-issue shareholding (other than OFS component) in the issuer company for a period of six months post-listing. Please note that post listing lock-in of six months is

[2]https://www.sebi.gov.in/filings/public-issues/nov-2021/delhivery-limited_53741.html
[3]https://www.bluedart.com/press276
[4] Regulation 32(2), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018

applicable for AIF, VCF or FVCI, only in case of IPOs under regulation 6(2) of the ICDR and for such shareholders who are holding more than 20% of pre-issue shareholding.

As earlier discussed, prior to the Amendment Notification, venture capital funds (AIF Cat I) or private equity investors (AIF Cat II) had an option to completely exit the issuer company at the time of an IPO, which is still an option for such investors provided the issuer company is in compliance with financial threshold requirements provided under Regulation 6(1). The Amendment Notification has provided more tooth to the public investors investing in a 6(2) issuance, which is basically issuance by non-profitable companies, by requiring financial investors holding substantial stake in such loss-making companies to stay invested in the issuer company for a certain period even post IPO. This is a welcome change keeping in mind the interest of public investors. However, this may require early-stage investors or PE investors to evaluate their entry and exit options more carefully while investing in a company.

B. Lock in for Anchor Investors:

Investment by Anchor investors in an IPO serves a dual purpose **of providing cues to the retail investor whether or not to subscribe in an IPO; and it also provides protection from fluctuation or volatility in stock prices post IPO.**

Anchor Investors as the name suggests, play an 'anchoring' role by choosing to subscribe in an IPO. By the definition, an anchor investor means a qualified institutional buyer who makes an application for a value of at least ten crore rupees in an IPO made through the book building process. The quantum of investment by Anchor Investors is considerably sizeable in comparison to other categories of investors in an IPO market. Further, there is a requirement for lock-in on such shares subscribed by the Anchor Investor in an IPO process requiring such shares to be locked-in for a period of one month from the date of allotment. This means that the shares issued to the anchor investors could not be traded or dealt with for a period of 30 days. The concept of lock-in on anchor investors shares exists to provide a sense of security in terms of fluctuation in price of the security to retail investors as such sizeable investment by anchor investors could not be withdrawn immediately post listing of the issuer company.

SEBI in its consultation paper dated November 16, 2021observed that a longer lock-in period for anchor investors will provide more confidence to other categories of investors. As most of the anchor investors divest their huge stakes from the company after the termination of the lock-in requirement.[5] The departure from the company tends to affect the share price, leading to a decrease in the value of stake held by other categories of investors.

As stated above, the lock-in requirement for anchor investors was 30 days. Lately, at the end of the lock-in period for anchor investors, a huge dip in the share prices of issuers has been observed. For example, Zomato and One97 Communications, had slipped 9% and 13%, respectively, when the mandatory 30-day lock-in period for their anchor investors ended.

[5]https://www.livemint.com/market/stock-market-news/these-stocks-will-see-anchor-investors-lock-in-period-expiring-in-december-11638877275326.html

According to Edelweiss[6], 25 of the 41 IPOs this year have ended in losses on the day of lock-in expiry.

Post Amendment Law

As per the Amendment Notification, the board has bestowed stricter lock-in requirements for the anchor investors investing in the IPOs opening on or after April 1, 2022. 50% of the specified securities allotted to the anchor investor would be locked-in for a period of 30 days and the remaining 50% would be locked in for a period of 90 days from the date of allotment.

The new lock-in requirement intends to boost the confidence of the investors and aims to reduce imminent volatility of the prices of the listed securities. Further, with the extended lock-in period, Anchor Investors will be expected to do a more careful reading of an issuer company before investing. As an anchor and the quantum of investment, one would expect such category of investors to do an in-depth reading of a stock. However, as mentioned earlier, in recent times the anchor investors have entered and exited a newly listed company with the simple aim of making returns without any intent to stay invested in a company from a long-term perspective, in particular, this has created an illusion in minds of retail investor regarding the credibility of the stock and such investors have lost a sizeable chunk of monies after the expiry of lock-in. With the proposed amendment, the Anchor Investors will be expected to tread more cautiously before investing in an IPO thereby providing more comfort to the retail or general category of public investors.

Also, the extended 90 days also would mean a release of the quarterly results of the company would be inevitable within such period and anchor investors would have to tread carefully before investing in any company expected to be reporting losses.

C. Monitoring Agency & General Corporate Purposes:

In an IPO process, any company raising money from the public is required to have defined 'objects' in the IPO document, which basically lays down the purpose and details of the targeted deployment of public money towards certain identified objects. It is also pertinent to note that the description of 'objects' is not required in case of an IPO only by way of OFS considering in such a scenario the funds are transferred to the selling shareholders' account and does not come to Company's account.

Further, in accordance with Schedule VI Part-A of the ICDR Regulations even infinitesimal details of the use of the proposed objects have to be provided to SEBI[7]. This is to ensure that the funds raised by the public will be used for specific disclosed purposes and also creates a legal obligation on the company to adhere to the stated specifics. Such requirements adhere to the full disclosure policy of SEBI.

In IPOs with a fresh issue, the issuer companies allocate up to 25% of the Issue proceeds, as allowed under the ICDR, earmarked for general corporate purposes ("**GCP**"). There is no crystallised definition of GCP other than as defined in ICDR which mentions that GCP includes such identified purposes for which no specific amount is allocated or any amount so

[6]https://www.business-standard.com/article/markets/paytm-stock-falls-8-as-anchor-investor-s-30-days-lock-in-period-ends-121121501545_1.html

[7] Schedule VI, Clause 9(A) (1) to (5), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018

specified towards general corporate purpose or any such purpose by whatever name called in the offer document. But what all activities of an issuer company would be categorised under GCP is not clearly defined anywhere. Ideally, the proceeds utilised towards GCP are expenses incurred in general and administrative expenses, daily operational or working capital requirements, amongst others. The purpose of such a GCP portion is to allow companies to manage ancillary costs that may arise in both operation and implementation of its activities. GCP portion has been limited up to 25% of the total Issue proceeds meaning in an IPO with a fresh issue component that amounts to Rs. 1000 crores, up to Rs. 250 crores can be allocated to GCP.

SEBI in its consultation paper dated November 16, 2021, noted that with larger issuances, the GCP amount, which can constitute up to 25% of the Issue, would become substantial. For example, in a ₹10,000 crore fresh issue, the Issuer company can have up to ₹2,500 crores earmarked under GCP. This would allow companies to raise huge amounts of capital that would go unchecked and leaving it ripe for misuse.

Further, with regards to the objects of an issue and funds raised thereto, the public does not have the ability to closely monitor the utilization of raised funds in the objectives laid out by the company. Monitoring the use by the company would consume a huge amount of resources and would require specialization. In order to closely monitor the potential use of raised funds and deviation (if any), there are **monitoring agencies** that observe the utilization of funds raised during the IPO and report the use or any misuse or deviation from the objects post the IPO.

According to **Regulation 41(1) of the ICDR Regulations** monitoring agencies meant either a public financial institution or scheduled commercial bank.

"41. (1) If the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue ***to be monitored by a public financial institution or by a scheduled commercial bank*** *named in the offer document as bankers of the issuer: Provided that nothing contained in this clause shall apply to an issue of specified securities made by a bank or public financial institution or an insurance company."*

However, despite such precautions, the GCP amount was not monitored. This was because of exemption in **regulation 41 (2) of the ICDR Regulations which specifically provides an exception for GCP in reports of the monitoring agencies hence removing it from the scrutiny of monitoring agencies.**

"41 (2) The monitoring agency shall submit its report to the issuer in the format specified in ***Schedule XI*** *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 utilised."*

Post Amendment Law

"41. (1) If the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a ***[credit rating agency registered with the Board:]*** *Provided that nothing contained in this clause shall apply to an issue of specified securities made by a bank or public financial institution or an insurance company.*

(2) The monitoring agency shall submit its report to the issuer in the format specified in Schedule XI on a quarterly basis, ***till [hundred per cent].*** *of the proceeds of the issue* ***[***]*** *have been utilised."*

With regards to Monitoring Agencies and the GCP, SEBI brought in three major changes in regulation 41.

The first change is in regulation 41 (1) which has replaced public financial institutions and scheduled commercial banks with credit rating agencies registered with SEBI as the monitoring agencies. The implications for this is simply that in future IPOs the monitoring agency would only be limited to credit rating agencies that are registered with SEBI. Since the credit rating agencies are registered with SEBI, in accordance with SEBI norms, SEBI has more authority over such credit rating agencies, than the erstwhile public financial intuitions and scheduled commercial banks. This will eventually make disclosure and monitoring more efficient.

The changes to regulation 41(2) are more significant. With the amendment, there will be monitoring of all the proceeds raised including the GCP portion as the exception that existed prior to the amendment has been removed and now monitoring agencies will submit a report that includes GCP. This is a significant move from the perspective of monitoring of untapped portion of IPO proceeds considering mostly all the issuers used to allocate approximately 25% of the issue size towards GCP for two reasons, firstly, GCP is not a clearly defined term and secondly, utilisation of GCP proceeds was not monitored in past.

However, this brings up the question, of what will and will not constitute GCP and SEBI has still not provided any clarity on the matter, without any clarity it will become extremely difficult for credit rating agencies to monitor the money raised in the IPO diligently. Hence, we believe that even though monitoring of GCP may be a welcome move from the perspective that this may ensure proper utilisation of proceeds by the issuer company for business purposes and may also prevent misutilisation of public monies, but we also note that there is an urgent requirement for clarity on the matter as to what does and does not constitute GCP.

D. NATCs and Objects of the Offer:

In recent IPOs, there has been a trend to include an object which is termed as ‘Funding of Inorganic Growth Initiatives’. These objects include ‘future acquisitions (customer and business)’, ‘investment in new business initiatives and ‘strategic partnerships by companies. However, in these objects, there is no clear target for acquisition or any clear business initiatives outlined and defined, which makes such objects extremely vague.

Historically, SEBI has been quite persistent with detailed diligence of ‘objects of the Issue’ especially most of the IPO scams in past dealt with issues around misutilisation of IPO proceeds. In majority of such matters, the due-diligence responsibility of the Merchant Bankers has been questioned by SEBI and few of such merchant bankers were banned from accessing capital markets. Considering all the parties to the IPO, which is an issuer company, merchant bankers, counsel to the issue, amongst others, were required to attentively diligence and disclose in detail ‘objects’ in the offer document, it becomes quite relevant when new age companies opted for not providing detailed reasoning for raising monies from public.

There are some inherent issues with allowing such 'vague' or 'not detailed' objects in the offer documents which are as follows:

- These objects would not allow the monitoring agencies to ascertain the exact use of the money raised and determine a deviation (as objects are inherently vague).

- The investors are kept in the dark and there is uncertainty about the potential use of their investment and

- This also defeats the purpose of reporting an object as the company may use the issue proceeds for anything they deem fit without any repercussions as to any misuse.

It should be noted that SEBI has anticipated and has provided for objects without clear acquisition targets in **Clause 5 (G)(4) of Schedule VI of the ICDR** and the clause mandates that such an object will necessitate the inclusion of a risk factor to be disclosed in relation to the object and the lack of a target company.

"5 (G) Risk factors covering the following subjects, shall necessarily be disclosed wherever applicable:

(4) Where an object of the issue is to finance acquisitions and the acquisition targets have not been identified, details of interim use of funds and the probable date of completing the acquisitions;"

Despite this requirement in recent IPOs there are vague objects and risk factors that do not comply with **Clause 5 (G)(4) of Schedule VI of the ICDR Regulations.**

This unclarity in relation to objects started with Zomato limited, which in its IPO had a fresh issue of ₹9,000 crores. In its DRHP, the objects of the offer disclosed that the company will utilize at least 40% of the net proceeds toward the development of customer and user acquisition, enhancing the delivery infrastructure and technology infrastructure. The remaining portion will be utilized towards inorganic growth through acquisition and other strategic initiatives. **Such futuristic utlisation of money towards uncertain generic object of inorganic growth without providing any details about such acquisition, in particular, was unprecedented and technically, a total of ₹9000 crores was raised without definitive objects being disclosed (including 25% of GCP).** The green signal for such an issuance by SEBI was unprecedented.

Later in One 97 Communications Limited, the company stated in their objects to utilize ₹2,000 crores of the proceeds or 24% of its ₹8300 crores fresh issue in new business initiatives, acquisitions, and strategic partnerships, whose details were not disclosed to investors. Making a streak, RateGain limited in its fresh issue of ₹375 crores and ₹80 crores, which is 25% of the fresh issue, The issue stated that it was to be utilized for strategic investment acquisition and inorganic growth.

In none of these IPOs was there a risk factor regarding the undecided target for acquisition this in a sense was **bypassing the intent of the regulation of clause 5 (G)(4) Schedule VI of the ICDR Regulations.**

SEBI then released a consultation paper on November 16, 2021, in which it observed that most of the NATCs are asset-light companies that have a focus on marketing, customer acquisition through competitor acquisition and business acquisition, Hence, such companies often do not require funds which are traditionally required by companies for objects such as,

amongst others, investment for fixed assets/capital expenditure (Capex) and repayment of loans. Growth for NATCs is dependent on expansion into new micro-markets and adding or acquiring new customers, companies and technology. Hence mandating such NATCs to only have clear acquisition targets and objects to be disclosed in a traditional sense becomes restrictive.

As stated above, despite the need of NATCs for funding inorganic growth activities, these issuances are risky and foster uncertainty amongst investors. Such ambiguity and uncertainties increase risk in cases where a major portion of the fresh issue portion is earmarked for such unidentified acquisition (as in Zomato Limited IPO). Therefore, SEBI sought to amend the ICDR by drawing a balance between the risk of such issuances and keeping in mind the needs of such NATCs.

Post-Amendment Law

SEBI through the Amendment Notification has added sub-regulation (3) to regulation 7 of the ICDR Regulations. As per regulation 7(3), companies can now section off up to 35% of the amount being raised by the issuer company for GCP and unidentified acquisition or investment target. As per the proviso, out of the total 35% raised, the amount set aside for unidentified acquisition or investment cannot exceed 25% of the total amount raised. This limit is not applicable where the issuer company has identified the targets and specific disclosures concerning it are made in the offer documents. This with the new requirement of monitoring agencies to monitor even GCP would allow for transparent and precise utilisation of funds raised by these NATCs which choose to increase the GCP portion to 35%.

E. Price Band:

Price bands are bands in which the price of the security is limited to exist within. The purpose of such a price band is to enable reasonable price discovery. Companies that meet the eligibility criteria provided under regulation **6(1)[8] of the ICDR**, can either offer securities through the book building method or the fixed price method[9]. However, the companies not meeting the criteria under regulation 6(1) of the ICDR have to offer securities only through the book building method[10] under regulation **6(2) of the ICDR.**

The SEBI ICDR defines Book Building[11] as **"*means a process undertaken to elicit demand and to assess the price for determination of the quantum or value or coupon of specified securities or Indian Depository Receipts, as the case may be, in accordance with these regulations*".**

In other words, book building is a process used in IPOs for efficient price discovery. It is a method to elicit demand and to assess the price of securities. In the book building method,

[8] i.e. having net tangible assets of at least 3 crores, operating profit average profit in the past 3 years of at least 15 crores and net worth of at least 1 crore
[9] Regulation 6(1), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018
[10] Regulation 6(2), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018
[11] Regulation 2(1)(g), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018

during the period for which the IPO is open, bids are collected from different investors at different prices, which should be above or equal to the floor price and less than or equal to the ceiling price. The offer price is determined after the bid closing date, depending on the demand for the offered securities.

Prior to the Amendment Notification, in case of a book-building method issue, the issuer was mandated to provide a price band wherein the ceiling price is 120% of the floor price[12]. It is pertinent to note that a minimum threshold was not specified by SEBI.

SEBI in its consultation paper dated October 04, 2021[13], stated that the price band as provided by issuer companies were extremely narrow, sometimes as small as ₹1, ₹2 or ₹3. It was further observed that in the year 2021 (till September), the average price band range of 36 issues under the book building method was just 1.53%.

With such narrow price bands in the book building method, the objective of a fair and transparent price discovery mechanism was diluted. This is because the narrow price bands are in essence, a disguised form of a fixed price issue method and such narrow issuances bypass the conditions/regulations attached to the fixed price method.

Post Amendment Law

SEBI in the Amendment Notification has added a proviso to regulation 29 of ICDR and has mandated a minimum gap of 5% cap in price, which is to be maintained between the lower end and the upper end of the price band. The effect of this amendment is that the gap between the lower end and the upper end will have to be between 5% to 20%. With this, the practice of keeping narrow price bands would be curtailed and it would ensure the objectives of the book-building method.

F. Non-Institutional Investor Allocation:

Non-Institutional Investors ("**NII**") are investors, who are not QIIs or Retail Investors and invest more than ₹2 lakhs. These are usually high net worth individuals and those institutions that do not qualify as QIIs. Prior to the amendment, NII allotment was done on a proportionate basis[14] meaning one would be prioritised over the other on the basis of the amount bid. The minimum bid size for NII application is above ₹2 lakhs.

SEBI in its said consultation paper observed that a few large NIIs have been crowding out smaller NIIs for allotment in various IPOs. It was further observed that in the NII category, the proportional allocation has incentivised NIIs to make application of higher bid amounts in this category. Consequently, applicants in NII category were reportedly leveraging for making applications of higher bid amounts which resulted in higher oversubscription in the NII category. SEBI further observed that during the period January 01, 2018, to April 30,

[12] Regulation 29 read with Schedule XIII, clause 7(b)(1), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018

[13] https://www.sebi.gov.in/reports-and-statistics/reports/oct-2021/consultation-paper-on-review-of-price-band-and-book-building-framework-for-public-issues-_53100.html

[14] Schedule XIII, clause 15(b), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018

2021, in 29 IPOs, on average around 60% of the applicants in the NII category did not get any allotment. Intriguingly, applications for allotment as large as ₹75 lakhs were still unable to get any allotment. This practice essentially made it that only a few NIIs were able to be allotted and the mechanism incentivised leveraging.

Post Amendment Law

SEBI, with the Amendment Notification, has added a sub-regulation 3A to regulation 32, wherein they have mandated 1/3rd of the portion available to non-institutional investors to be reserved for applicants with application size of more than ₹2 lakh and up to ₹10 lakh and the rest 2/3rd of the portion to be reserved for applicants with application size of more than ₹10 lakh. Further, in Schedule XIV, illustrations explaining the procedure of allotment for non-institutional investors have been added. The procedure, in essence, is similar to that of the retail individual investor category as it provides a minimum application size and allotment to be made to all the applicants for the minimum application lot on a 'draw on lot' basis and if remaining then on a proportionate basis. The minimum application being ₹2 Lakh+ or ₹10 Lakh+ for NII and 1 lot for retail individual investors.

For example, the total number of specified securities on offer to the NII applications under 3A(a) is 5,00,000 @ ₹600 per security and the minimum application size is 340 specified securities of 20 securities as a lot. The maximum number of non-institutional investors' who can be allotted this minimum application size should be 1,471 (number of securities available divided by minimum lot size). Further in case, the number of applicants is more than 1471, then they would not get allotment.

This allocation methodology along with reservation would ensure allotment to both smaller and bigger NIIs (₹10 Lakh+) fairly and hence large NIIs will not be able to crowd out smaller NIIs for allotment.

G. Front Page:

The cover page is the first page in any IPO document, the new Amendment Notification in Schedule VI mandates that the cover page should contain the details of selling shareholders in a tabular format along with their average cost of acquisition. It is pertinent to note that 'average cost of acquisition' was already disclosed in an offer document in the chapter 'summary of the offer document'. SEBI intends to bring in transparency for the investors investing in the company, which is in line with the "full disclosure" policy of SEBI.

With the amendment, the investors would upfront know the average cost of acquisition and the prices at which shares are being offered to them. However, it is noted that even though the need to disclose the average price of acquisition is essential for a potential investor to make a wise decision before investing in a company, but the same could be counterproductive. As the potential investor, in most cases, will not be on the same footing as that of the selling shareholder, who had invested in the company at a very early/seed stage. Since the company is going for an IPO, it is apparent that the company is at a mature stage, and an upfront display of price could be a perplexing disclosure for a potential investor.

Conclusion:

With the Amendment Notification, SEBI has now carved a stricter path for loss-making companies or companies who do not meet the eligibility threshold under regulation 6(1). Further for such loss-making companies who use an IPO to provide an exit to its investors through inflated valuations, the exit has been restricted. SEBI intends that companies focus on building their core fundamentals instead of inflated valuations. No longer can investors just adopt the model of investing simply for the sake of growth without any plan for profits in mind, then afterwards just dump the non-profit generating company whose brand has been re-packaged onto the public.

SEBI seems to hope that these new amendments will incentivise investors to focus more on companies that are profit-making or seek to become profitable without having just a plan for growth in mind. The amendment also comes at a time where there has been disillusionment over IPO returns[15], therefore trying to build back trust in the IPO process for investors.

Securities and Investment laws are evolving in nature and need frequent amendments and changes in accordance with the market practices and business trends. SEBI has chosen an opportune time to regulate the market with due cause and reason. The stricter norms are welcome, as their objectives are clear and reasonable, however, only time will tell if the intended objectives of these norms are met or if they are just mere decoration.

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[15]https://indianexpress.com/article/explained/paytms-ipo-shares-bse-sensex-crash-on-debut-7630175/