

Liberalisation of framework for fund raising by listed companies



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In the post-pandemic era in India, the primary markets have witnessed an unprecedented surge raising approximately \$ 7,000 billion through initial public offerings (“**IPOs**”), further public offerings (“**FPOs**”), offer for sale through the stock exchange mechanisms, qualified institutions placements (“**QIPs**”) and rights issues (“**Rights Issues**”) in the three financial years from Fiscal 2023 to Fiscal 2025. India has witnessed 192 main-board IPOs, 160 QIPs and 41 rights issues in this period. This period has witnessed India’s largest IPO (Hyundai India Limited’s IPO of approximately \$ 3.3 billion), the largest Rights Issue (Reliance Industries rights issue of approximately \$ 7 billion) and we have just witnessed the largest QIP in July 2025 (State Bank of India’s QIP of approximately \$ 2.9 billion).

With great power, comes great responsibility. The Securities and Exchange Board of India (“**SEBI**”), the primary securities market regulator in India, has been at the forefront of regulating this immense surge in capital markets with strict compliance, focused disclosure norms and due sanctions. While over 150 DRHPs were filed with SEBI in Fiscal 2025 alone, around 25 were returned or rejected or withdrawn due to regulatory scrutiny.

While SEBI has been extremely diligent and thorough with the IPO disclosure norms and process for companies looking to list their shares on the stock exchanges for the first time, SEBI has also recognized the need to rationalize the fund raising mechanisms for already listed companies.

Despite the buoyancy in the primary markets, listed companies in India have traditionally faced limited fund-raising avenues through equity offerings or issues (*such as FPOs, Rights Issues, preferential allotments, and QIPs*), particularly when compared to global standards. The regulatory framework, while robust, was constrained in terms of structure, extent of disclosures, timelines, and cost-efficiency. Historically, QIPs have remained the predominant route with comparatively fewer procedural complexities, reduced compliance burdens, and shorter timelines. The constraints linked with rights issues and FPOs have, in some cases, deterred companies from accessing timely and strategic capital, especially during dynamic market conditions or sector-specific growth opportunities.

Listed companies are anyway subject to extensive reporting requirements under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 including reporting of their quarterly financial results, corporate governance reports, annual reports for shareholders and event based disclosures as required under the SEBI framework. Given the universe of information about listed companies available in the public domain is rather vast, SEBI has implemented a more efficient and rationalized mechanism for Rights Issues and has proposed similar rationalized norms for QIPs as well. It may be noted that apart from being issuances by listed companies, these are also issuances to existing shareholders in case of Rights Issues and to qualified institutional buyers in case of QIPs. Accordingly, these companies are not raising funds from third party retail investors at all in any of these issuances.

In this article, we will focus on the recent amendments undertaken in Rights Issues and the proposed changes in QIPs.

Changes to the fund-raising framework

Rights Issue

In March 2025, SEBI introduced a series of significant changes to the rights issue framework, process and disclosure requirements through amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

(“**SEBI ICDR Regulations**”) read with the SEBI circular dated March 11, 2025, titled ‘Faster rights issue with a flexibility of allotment to specific investor(s)’ (“**Recent ICDR Amendments**”). The Recent ICDR Amendments reflect SEBI’s concerted effort to liberalise the fund-raising framework for listed entities, albeit only in respect of rights issues, aiming to streamline and modernise the rigid disclosure and compliance requirements, and at the same time allowing listed companies to leverage India’s deep and growing investor base. The significant changes to the rights issue framework have been set forth below:

1. Eliminating the lead managers from the rights issue process: The requirement to appoint lead managers (merchant bankers) for the purposes of a rights issue has been dispensed with. Any activities which were earlier undertaken by the lead managers, including coordination and compliance requirements, are to be carried out by the issuer, registrar to the issuer, stock exchanges and depositories. While certain activities, such as finalization of basis of allotment, have been expressly stated as duties of the stock exchanges and depositories along with the registrar to the issuer, the Recent ICDR Amendments has effectively shifted the complete onus of preparation of the draft letter of offer (“**DLOO**”) and letter of offer (“**LOO**”, together with DLOO “**Rights Issue Documents**”) along with the due diligence exercise.
2. Elimination of SEBI review process and alignment of timelines in rights issues: Prior to the Recent ICDR Amendments, the rights issue process required the filing of DLOO with SEBI (*and subsequent approval*) before filing the LOO with the stock exchanges. In order to expedite the process, the requirement to file a DLOO with SEBI has been done away with. It should be noted that the erstwhile framework did also allow issuer companies to directly file LOO with the stock exchanges (*under the fast-track rights issue process*) and skip the SEBI review process, however only in cases of the issuer meeting certain eligibility requirements. The Recent ICDR Amendments have not just eliminated the SEBI review process but also made the rights issue timeline uniform for all issuers, by removing the fast-track rights issue process. Under the current framework (i) the DLOO shall be filed with the stock exchanges for the purposes of seeking in-principle listing approvals (*similar to a QIP, as done for a preliminary placement document*); (ii) the stock exchanges shall provide in-principle listing approvals within two working days; and (ii) the LOO shall be filed within two to five working days of the receipt of in-principle listing approvals.
3. Common rationalized disclosure for all rights issues: Prior to the Recent ICDR Amendments, issuers meeting the requirements of public report compliance under SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (“**SEBI Listing Regulations**”) and maintaining a robust investor grievance mechanism were required to prepare their Rights Issue Documents in accordance with Part B of Schedule VI of the SEBI ICDR Regulations (*which included rationalised disclosure requirements*). However, if the conditions were not met, issuers were required to follow the detailed disclosure requirements set out in Part B-1, which was akin to the much-detailed disclosures to be made in an offer document for an IPO or public offers. Pursuant to the Recent ICDR Amendments, the requirements pertaining to the Rights Issue Documents have been further rationalized by requiring disclosure of only the relevant information regarding the rights issue such as objects of the issue, price, record date and entitlement ratio. Key changes to the disclosure requirements include (i) disclosure of business in a summary format rather than a detailed description of the business as a separate section; (ii) requirement of the section on management discussion and analysis of financial condition and results of operations (“**MD&A**”) being done away with; and (iii) disclosure of only extracts of audited consolidated financial statements (*with the comparative prior full year period*) and latest limited review financial statements, rather than inclusion of full audited consolidated financial statements for the preceding three financial years.
4. Introduction of ‘specific investors’ to subscribe to (a) rights entitlements renounced by promoters and members of promoter group and/or (b) to subscribe in case of under-subscription: The erstwhile rights issue framework did not allow any of the members of the issuer to renounce their rights entitlement in favour of a third party who was not a shareholder of the issuer. Pursuant to the Recent ICDR Amendments, promoters and members of promoter group are now be permitted to renounce their rights entitlements in favour of specific investors. This flexibility allows for more strategic capital allocation and investor participation and enables the issuer or the promoter to on-board specific investors who may not be shareholders of the company, as shareholders of the company.
5. Expedited timeline for rights issues: The rights issue may be completed within 23 working days from the date of the board of directors of the issuer approving the rights issue (*except in case of rights issue of convertible debt instruments which require prior shareholders’ approval*).

Qualified Institutions placement

While the QIP route has been a preferred choice for listed companies, due to optimized regulatory timelines, the disclosures in a preliminary placement document (“**PPD**”) or placement document (“**PPD**”, together with PPD, “**QIP Documents**”) continue to be much more detailed in comparison to the new rights issue disclosure requirements post the Recent ICDR Amendments. Realizing the need for rationalizing the disclosures in QIP Documents, SEBI had released a consultation paper dated May 2, 2025, with proposals to simplify and streamline the QIP Documents. It is pertinent to note that in the consultation paper dated May 2, 2025, SEBI had made a reference to the amendments to the rights issue process pursuant to the Recent ICDR Amendments, highlighting the intent for simplifying the disclosure in issue documents (*including rights Issue Documents and QIP Documents*) for listed companies, as such companies are already subject to comprehensive periodic disclosure obligations under the SEBI Listing Regulations. Further to the response on the consultation paper dated May 2, 2025, SEBI in its board meeting held on June 18, 2025, approved

the amendments to the SEBI ICDR Regulations for simplification and streamlining of QIP Documents. The proposed changes which may be significant to the disclosure requirements in QIP Documents have been set forth below:

1. **Rationalising of risk factors:** Only risks in relation to the issue, objects of the issue, business of the issuer and the issuer itself shall be disclosed.
2. **Financial disclosures:** It is proposed that (i) requirement of the section on MD&A be done away with; and (ii) disclosure of only extracts of audited consolidated financial statements for the preceding three years (*akin to the line-item disclosures under the new rights issue framework as described above*) be made.
3. **Business and industry sections:** The disclosure of business and industry of the issuer shall be made in a summary format rather than a detailed description of the business and industry as two separate sections.

SEBI clarified that these will serve as minimum disclosure thresholds, and issuers may voluntarily include additional details if desired.

Impact on the market – a step in the right direction

Listed companies seeking to raise capital through equity issuances are expected to continue favouring QIPs, while increasingly viewing rights issues as a viable alternative (*driven primarily by their operational efficiency and expedited timelines*). Further, one of the principal deterrents for listed companies to adopt the rights issue route was the inability of existing shareholders (*particularly promoters and promoter group members*) to renounce their rights entitlements in favour of non-shareholders. However, with the recent introduction of the 'specific investors' mechanism, rights issues seem an attractive option, especially for companies that have already identified strategic investors. Additionally, with the expedited regulatory review timelines (*and removal of the SEBI review process*), it is likely that the review by stock exchanges will be limited, similar to the review process for the PPD in a QIP.

While the practical implications of the Recent ICDR Amendments in respect of rights issues are still unfolding and the changes in the QIP disclosures are yet to be tested in practice, this shift towards harmonizing and rationalizing disclosures in issue documents and simplifying regulatory timelines is a step in the right direction.

Challenges and considerations

As much as one would like to believe that these regulatory amendments mark an unequivocal step forward, certain underlying concerns persist (*none of which may be a dealbreaker in themselves*) which carry the potential for unintended consequences.

The elimination of the requirement for lead managers and consequently for lead managers to submit a due diligence certificate for a rights issue may appear beneficial in terms of procedural simplification, it raises a critical concern: there is no longer a SEBI registered intermediary or any entity with a formal regulatory oversight vouching for the veracity or compliance of the issuer's disclosures. While the shareholders of a listed company are expected to keep track of all periodic disclosures in respect of the company's functioning, it is worth noting that the disclosures in Rights Issue Documents have typically been much more detailed in comparison to the periodic disclosures.

Similarly, the reduction in financial disclosures (*particularly the removal of section on MD&A*) implicitly assumes that all shareholders and prospective investors possess a level of financial sophistication. While this may hold true for most QIPs, it is important to recognize that potential investors often rely on detailed trend analysis and contextual insights, for which the MD&A section was included in offer documents in the first place.

To ensure that these amendments function as intended and liberalize the fund-raising mechanism while safeguarding interests of investors, SEBI may consider mandating a comprehensive annual disclosure, similar to the Form 10-K filing submitted to the U.S. SEC via EDGAR, which would enhance transparency, support informed investment decisions, and build greater confidence among institutional and retail investors alike. While SEBI had envisaged such annual disclosures (*specifically in the original text of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015*), the framework for the annual disclosures and updates to the disclosures in offer documents was never released. The rationalization and the revised mechanism for QIPs and Rights Issues is a welcome change, however, SEBI can ensure that such change is complimented by bringing in the original idea of annual disclosures akin to the Form 10-K filings.