

The Road Ahead for Mid-Size IPOs. - New Amendments and Regulations for Mid-Size IPOs



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The emerging landscape of Mid-Size IPOs.

While large companies tend to dominate headlines for their IPOs, a quiet revolution is taking place in Small and Mid-Size IPOs. In the past few years, there has been a significant increase in Small and Mid-Size IPOs and SME Listings. In the last 10 years, over 1200+ SME IPOs have successfully got listed on SME platforms of NSE and BSE, raising more than Rs. 24,000+ crores with a SME market capitalization exceeding 3

Lakhs Crore. Yet this is only the beginning. With over 6.3 crore SMEs in India, the potential for future mid-size IPOs and listings is very vast. As per the government data, over 6 crore SMEs are registered in India. Assuming that only 1 Lakh SME companies are fundamentally strong and can be made IPO ready, that is an ocean of untapped potential and growth. Yet today, we have just around 1200+ listed SMEs.

Just imaging the broader view of what would happen even if just 10,000 SME companies went public. That's a 10-fold increase over current levels. That means the market cap of SME companies would be around 30 Lakh crores in the next few years. Placing this within the national context. Honourable Prime Minister Shri Narendra Modi has laid out a bold vision to make India a \$ 30 Trillion economy by 2047 when the nation celebrates 100 years of Independence. For this vision to be realized SME companies cannot remain on the sidelines. They are not just support players. They must be growth engines, job creators and capital market participants.

New Rules and Regulations and amendments by SEBI for Mid-Size IPOs.

Starting July 01, 2025, SEBI is rolling out major changes to make Small and Mid-size IPOs more transparent and credible and safe for investors. These changes aim to clean up the space, protect investors, and ensure only strong and well compliant and governed businesses get listed. Investors, Companies, Merchant Bankers, Advisors and all IPO Intermediaries must gear up for new compliance framework.

SEBI has announced new rules for Small and Mid-Size IPOs effective 1st July 2025. The key changes include new bidding limits, investor definitions and timing updates. Some of the key amendments are that the existing Retail Individual Investor category has been replaced by Individual

Investor. Individual Investor is defined as an individual who applies for minimum 2 lots with minimum application size of above Rs. 2 Lakhs. Hence from July 2025 onwards, a minimum application of Rs. 2 Lakh and above will be mandatory for applying in SME IPOs. The minimum Bid Size for Individual Investor shall be at least 2 lots with minimum application size of above Rs. 2 Lakhs. Placing Bids on cut off price shall not be applicable / available to any of the category of bidding. Downward modification and cancellation shall not be applicable to any of the category of bidding. Bidding for all categories on the last day shall close at 4 PM. UPI Mandate acceptance / confirmation shall be available up to 5 pm on the last day of bidding. In case of reserved categories like in case of employee category, minimum 2 lots (with minimum application size of above Rs. 2 Lakhs) will be applicable. In case of shareholders and policy holder's category, minimum 2 lots (with minimum application size of above Rs. 2 Lakhs) will be mandatory. Qualified Institutional Buyers (QIBs) and Non-Institutional Investors (NII) shall apply for more than 2 lots.

Key points to be considered in the IPO Journey by IPO Candidates.

The recent changes in SEBI ICDR were introduced with an aim to improve the quality and transparency of disclosures in draft offer documents, strengthen due diligence practices and enhance investors confidence and protection.

Going forward, the companies planning for IPO will have to be careful of some important points which can be critical to the approval / rejection / withdrawal of DRHP in the light of new rules and regulations introduced by SEBI in the last few months and should be taken care of for the approval of DRHP by companies, merchant bankers, advisors and all intermediaries.

In response to this ever-evolving landscape and with the objective of enhancing investor protection, SEBI has notified amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, ("SEBI ICDR") on March 08, 2025 specifically focusing on SME IPOs and Listing Framework.

As per the NSE Circular ref. no. NSE / SME / 63532 circular reference number 03/2024 dated 22nd August 2024. The company must be having positive Free cash flow to Equity (FCFE) for at least 2 out of 3 preceding financial years at the time of filing of DRHP. If the Free cash flow to equity (FCFE) is not positive for at least 2 financial years out of 3 financial years; this can become a ground for rejection/withdrawal of DRHP. This requirement is specifically for SME IPOs approval at NSE Emerge.

As per the new notification issued by SEBI circular PR No. 36/2024 in the 208th meeting dated December 18, 2024, the eligibility criteria of having operating profit of Rs. 1 crore and above for any 2 out of 3 previous financial years at the time of filing its draft red herring prospectus

(DRHP) has been made mandatory. This also needs to be checked thoroughly before filing of DRHP. This eligibility criteria are applicable for SME IPOs and SME Listing on both NSE as well as BSE stock exchanges.

The amount of general corporate purpose in SME IPO has been capped to 15% of the IPO Size or Rs. 10 crore whichever is lower to prevent companies from misusing the public funds and to ensure that funds raised from IPO are utilized as per the objects defined in DRHP. This will ensure that capital raised from IPO is used as per the objects of the IPO to the maximum possible extent.

The offer for sale (OFS) by selling shareholders in SME IPO shall not exceed 20% of the total issue size and selling shareholders cannot sell more than 50% of their holding.

The companies will have to make sure that money raised by SME IPOs proceeds should not be used for repayment of loans from promoter, promoter group or any related party whether directly or indirectly.

The DRHP of SME IPO filed with the stock exchange will be made available for 21 days for public to provide comments on DRHP by making public announcements in the newspaper with QR Code. Companies will need to be well prepared before filing DRHP and try to ensure that any noncompliance or complaints should not be pointed out by public comments in DRHP. Hence the drafting of the DRHP will be required to be done to ensure that all compliances and corporate governance are taken care of.

The Related Party Transactions (RPT) norms as applicable to listed entities on Main Board will be extended to SME IPO listed entities. The threshold for considering RPTs as material shall be 10% of the annual consolidated turnover or Rs. 50 crore whichever is lower.

The sudden jump in the profitability ratios and growth ratios just before IPO can become a ground for queries and for rejection of DRHP as the regulatory intent is to prevent companies from artificially building up their profits, valuations, picking up public funds and then letting everything slide.

There is an increased focus on enhanced corporate governance, especially bringing up the compliances of SME Listed entities at par with mainboard listed entities.

Looking at the recent changes in regulatory guidelines for IPOs especially SME IPOs, and with significant enhanced focus with above regulatory guidelines companies need to ensure the above-mentioned points are taken care of well before filing DRHP as there have been several instances of withdrawal of DRHPs or rejection of DRHPs due to non-compliance and/or due to whistle-blower complaints in DRHP to SEBI.

One year of cooling off period has been introduced in case of conversion from LLP, Partnerships firms or

Proprietorship firms to company. This means if a company has been made by converting from LLP or Partnership Firm or Proprietorship firm, there will be at least one year of cooling off period before filing the DRHP.

Besides the above guidelines, SEBI has issued additional set of guidelines that Merchant Bankers are required to adhere while drafting offer documents for listing on SME platforms of stock exchange. These guidelines are in addition to the existing SEBI regulations, orders, circulars, guidelines and exchange requirements.

Conclusion and Way Forward.

In the calendar year 2024, around 240+ SME IPOs and listing were successfully done and almost the same number of SME listings are expected in current calendar year 2025 as well. There has also been corresponding increase in investors participation over the past few years. The calendar year 2025 continue to be another record-breaking year for IPOs.

The DRHP document is critical component of the IPO process. It provides potential investors with comprehensive information about the issuer, including business operations, capital structure, financials, risk factors, promoter and management details and the objectives of the IPO. Ensuring the accuracy and completeness of this document is essential for informed investor decision making. While these guidelines provide a framework, merchant bankers are expected to exercise comprehensive due diligence beyond the scope of these directives guidance to ensure the completeness, integrity and reliability of disclosures.

India's next economic transformation is likely to be led and powered by Small and Mid-size companies. By embracing these great opportunities provided by accessing capital market, SME companies can raise funds, multiply growth and contribute to the national economic goals.

India's premier and prestigious stock exchange platforms NSE and BSE have created NSE Emerge and BSE SME respectively which provide a great opportunity to the mid-size companies and startups to raise equity capital for the growth and expansion.

IPO and public listing will help unleash the valuation of companies and in the process create wealth for all the stakeholders. SMEs companies have the potential to grow into big companies, provided they get adequate capital support. The mid-size companies now have the great opportunity to grow into big public listed companies by getting themselves listed on India's premier stock exchanges. We hope that this concise article will help companies to be well prepared to transform their company into a successful and wealthy public listed company that continually delivers maximum value to all its stakeholders.