

ICDR Amendments



FOREWORD

India witnessed a record-breaking year for stock market listings in 2024, with over 327 companies, including Small and Medium Enterprises (SMEs), making their debut on the Indian stock exchanges. The Securities and Exchange Board of India (SEBI) has played a pivotal role in facilitating this surge by implementing proactive regulations and legislative measures to mobilize public funds. In line with its continuous efforts to strengthen capital markets and enhance investor confidence, SEBI introduced amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI ICDR Regulations") in the early part of March 2025. These amendments focus on key areas, including main board Initial Public Offerings (IPOs), SME IPOs, and rights issues.

A significant portion of these amendments aims to improve the compliance framework and transparency for investors. The changes mandate additional disclosures on litigations involving Key Managerial Personnel (KMP) and Senior Management Personnel (SMP), standardize financial statement preparation for acquisitions when presenting pro forma financials in offer documents, and require working capital calculations to be based on restated standalone financial statements rather than standalone financial statements. Additionally, SEBI has extended the holding period requirements for promoters and major shareholders, aligned regulatory requirements between the SEBI (Listing Obligations and Disclosure Requirements) Regulations and ICDR, and increased disclosure obligations related to shareholders and shareholding patterns.

Alongside enhanced regulatory compliance, SEBI has also introduced amendments aimed at streamlining the listing process for companies. Key changes include extending the timeframe for liquidating stock appreciation rights granted to employees, simplifying the certification process when issue proceeds are allocated toward loan repayment, providing greater flexibility in assigning weights for the 'basis of issue price computation,' and ensuring uniformity in issue-related advertisements by requiring their publication in the same newspaper. These measures seek to strike a balance between regulatory simplification and enhanced disclosures, ultimately equipping investors with more comprehensive and qualitative information for informed decision-making.

This Point of View (PoV) document provides an in-depth analysis of the recent amendments to the ICDR Regulations, with a particular focus on their impact on main board IPOs. We aim to offer valuable insights into the regulatory landscape, helping companies and stakeholders navigate these changes effectively. We hope this serves as a useful resource for market participants seeking to understand the evolving capital market framework in India.



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1. INCREASED HOLDING PERIOD FOR PROMOTERS & MAJOR SHAREHOLDERS

i Lock in period for minimum promoter holding and additional promoter holding:

Minimum promoter contribution:

The promoters of the issuer shall hold at least 20% of the post-issue capital. Provided that in case the post-issue shareholding of the promoters is less than 20%, alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten percentage of the post-issue capital without being identified as promoters.

ICDR Amendment:

Inclusion of repayment of loan used in relation capital expenditure for incremental lock-in period in addition to the existing capital expenditure clause.

Nature	General lock-in period	Incremental lock-in period
Minimum promoter holding	18 months	3 years where majority of the issue proceeds is for capital expenditure or repayment of loan used in relation to capital expenditure
In excess of minimum promoter holding	6 months	1 year where majority of the issue proceeds is for capital expenditure or repayment of loan used in relation to capital expenditure

More than 33% of the total primary issue proceeds (INR 64,307 crores) in the year 2024 was used towards repayment of loan of the listed entity or its subsidiaries. Considering that majority of such loans are obtained for capital expenditure in the form of purchase of land, building, plant and machinery, adding the incremental lock-in period condition for repayment of loan together with the capital expenditure condition aligns with the purpose of the existing regulation.



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ii Clarification on threshold for the maximum Offer For Sale (OFS) that can be made under Regulation 6(2)

ICDR Amendment:

Any secondary sale transaction made prior to the issue from the date of filing draft offer document should also be considered in the computation of maximum OFS that can be made by shareholder.

Existing regulation for OFS (Regulation 8A):

Shareholder	Currently holding	Maximum OFS
Shareholder A	Holds more than 20% of the total shares in Z Limited	Maximum 50% of Shareholder A's total holding in Z Limited
Shareholder B	Holds less than 20% of the total shares in Z Limited	Maximum 10% of the total shares of Z Limited

The computation of 50% and 10% should be applied cumulatively to the total number of shares offered for sale to the public and any secondary sale transactions prior to the issue from the date of filing draft offer document. This amendment is added to remove ambiguity on the period to be considered for computation of dilution percentage by the major shareholders.

2. STRENGTHENING THE COMPLIANCE FRAMEWORK

i Disclosure of litigations:

(a). Litigations involving Key Managerial Personnel (KMP) & Senior Management Personnel (SMP)

All criminal proceedings involving KMP and SMP of the Company and also the actions by regulatory authorities and statutory authorities against KMP and SMP shall be disclosed. Prior to the amendment, only the criminal proceedings against the Company, its promoters, directors and subsidiaries were required to be disclosed. Considering that the draft offer document briefly describes the KMP and SMP profile, disclosure of criminal proceedings and other statutory authorities aligns with the intent of this regulation and provides better insights to the stakeholders to make informed decisions.

(b). Litigation threshold for reporting in DRHP

All litigation involving the company, its directors, promoters and subsidiaries should be disclosed if it exceeds lower of the following:

- a) Litigation where the value exceeds lower of the following based on latest restated consolidated financial statements:

01 2% of turnover **02** 2% of net worth **03** 5% average profit of last 3 years

- b) As per the policy of materiality defined by the board of directors of the issuer and disclosed in the offer document.



Streamlining the financial statements preparation process

Proforma financial statement for material subsidiary:

Company shall provide Proforma financial statements, as certified by the statutory auditor or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India (ICAI), of all the subsidiaries or businesses material to the consolidated financial statements where the Company or its subsidiaries have made an acquisition or divestment including deemed disposal after the latest period for which financial information is disclosed in the offer document but before the date of filing of the offer document. For this purpose, the acquisition/divestment would be considered as material if acquired/ divested business or subsidiary in aggregate contributes 20% or more to the turnover, net worth or profit before tax in the latest annual CFS of the issuer. The Proforma financial statements shall be prepared for at least the last completed financial year and the stub period (if any). The Proforma financial statements shall be prepared in accordance with any guidance note, standard on assurance engagement or guideline issued by the ICAI from time to time and certified by the statutory auditor or chartered accountants, who holds a valid certificate issued by the Peer Review Board of the ICAI.

Proforma financial statement for non-material subsidiary

Company may voluntarily choose to provide proforma financial statements of acquisitions or divestments

- even when they are below the above materiality threshold, or
- if the acquisitions or divestments have been completed prior to the latest period for which financial information is disclosed in the draft offer document or the offer document.

Furthermore, the Proforma financial statements may be disclosed for such financial periods as determined by the company. Company may also voluntarily include financial statements of the business or subsidiary acquired or divested, provided that such financial statements are certified by the auditor (of the business or subsidiary acquired or divested) or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the ICAI. In case of one or more acquisitions or divestments, one combined set of Proforma financial statements should be presented.

Other acquisitions

Where the businesses acquired/ divested does not represent a separate entity, general purpose financial statement may not be available for such business. In such cases, combined/ carved-out financial statements for such businesses shall be prepared in accordance with any guidance note, standard on assurance engagement or guidelines issued by the ICAI from time to time. Further, in case of non-material acquisitions/divestments disclosures in relation to the fact of the acquisition/divestment, consideration paid/received, and mode of financing shall be certified by the statutory auditor of the issuer company or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the ICAI appointed by the issuer company.

The amendment has been introduced to mandate all financial statements (mandatory proforma financials or voluntary proforma financials or combined / carved-out financials) to be prepared in accordance with the guidelines prescribed by ICAI and certified by the statutory auditor or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the ICAI.

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Company proposing to get listed shall also disclose to stock exchange all the agreements entered into by the shareholders, promoters, promoter group entities, related parties, directors, key managerial personnel, employees of the listed entity or of its holding, subsidiary or associate company which impact the management or control of the listed entity or impose any restriction or create any liability upon the listed entity, including disclosure of any rescission, amendment or alteration of such agreements thereto, whether or not the listed entity is a party to such agreements. This amendment is introduced to harmonize the requirements of SEBI Listing Obligation and Disclosure Requirement (LODR) with the ICDR.

3. ENHANCING DISCLOSURES ON THE SHAREHOLDING PATTERN

i

Reporting pre-IPO transactions within 24 hours

Currently, Regulation 54 prescribes disclosing all transactions in securities by the promoters and promoter group between the date of filing of the draft offer document and the date of closure of the issue to the stock exchange within twenty-four hours of such transactions.

Additionally, any proposed **pre-IPO transaction** disclosed in the draft offer document should also be reported to the stock exchange within 24 hours of such pre-IPO transactions.

ii

Offer document summary to include top 10 shareholders

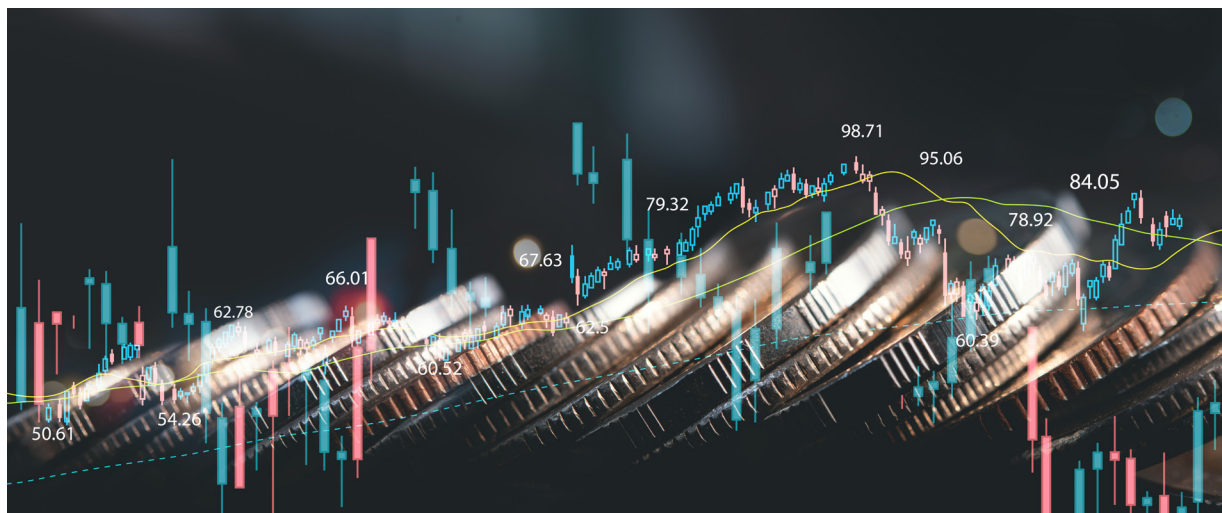
Offer document summary currently requires disclosures in relation to pre-issue shareholding of the promoter and promoter group, selling shareholder as a percentage of paid-up share capital of the issuer.

Additionally, **pre-issue and post issue shareholding pattern of the top 10 shareholders** together with promoter and promoter group is required to be disclosed in the summary.

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4. IMPROVED CLARITY ON THE CONDITIONS STIPULATED FOR OBJECTS OF THE ISSUE



Funding long-term working capital based on standalone financial statements:

Conditions currently stipulated in the ICDR when the object of the issue is utilisation of the issue proceeds for long-term working capital:

- Basis of estimation of working capital requirement along with the relevant assumptions.
- Reasons for raising additional working capital substantiating the same with relevant facts and figures.
- Details of the projected working capital requirement, including detailed assessment of working capital after implementation of the project or achievement of objects of the issue, as the case may be, capacity utilisation assumptions, break up of expected current assets into raw materials, finished goods, work in progress, sundry debtors etc., with assumption about the holding norms for each type of current asset, total current liabilities, net current assets and envisaged sources of finance for net current assets, i.e., bank finance, institutional finance, own funds, etc.
- Total envisaged working capital requirement in a tabular form, the margin money thereof and the portion to be financed by any banks or otherwise.
- Details of the existing working capital available to the issuer with a break-up for total current assets into raw materials, finished goods, work in progress, sundry debtors, etc., total current liabilities, net current assets and sources of finance for net current assets i.e. bank finance, institutional finance, own funds etc.
- If no working capital is shown as a part of project for which the issue is being made, the reasons for the same.

ICDR Amendment:

When the objects of the issue include funding long-term working capital of the Company, the computation for such working capital should be based on the **audited** standalone financial statements **after incorporating the restatements / adjustments**, if any, identified in the preparation of restated consolidated financial statements.

As a result of this amendment, Companies may be required to obtain a separate audit opinion on the restated standalone financial statements of the Company in addition to the restated consolidated financial statements which is part of draft offer document.



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Certification in cases where portion of IPO proceeds are to be used for repayment of loan:

The current regulation stipulates certification from the statutory auditor for utilization of the loan amount for the purpose for which it was availed when one of the objects of the IPO proceeds is repayment of loan. In order to provide more flexibility to the company for such certification, amendment states that the said certification can also be obtained from any Chartered Accountant, holding a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India (ICAI) when:

- Such periods when the loan was utilized was not audited by the current statutory auditor
- the loan which is proposed to be repaid was availed by a subsidiary and the current statutory auditor of the issuer is not the statutory auditor of the subsidiary

Earlier, Companies faced challenges to obtain the repayment of loan certification from the statutory auditor in case of appointment of new auditor or where the subsidiaries of the Company proposed to get listed were audited by other auditors. In order to simplify the certification process, the amendment specifies that such certification can be obtained from any peer reviewed auditor.

5. RELAXATION ON STOCK APPRECIATION RIGHTS GRANTED TO EMPLOYEES

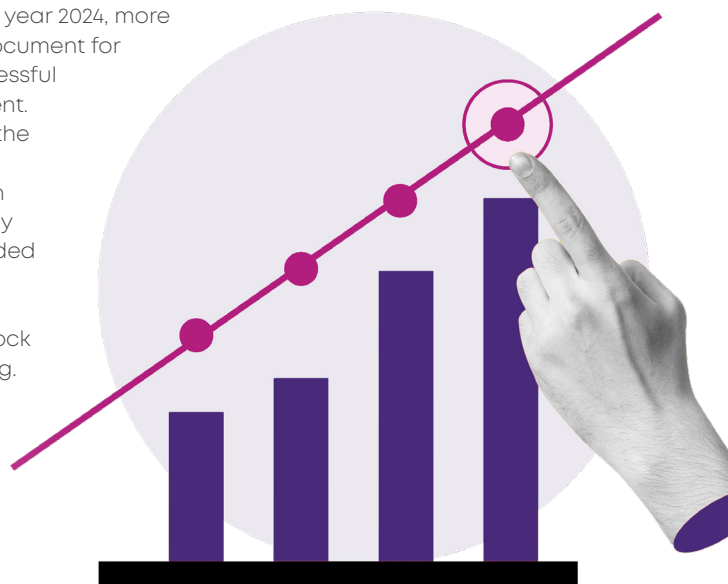
Existing regulation prevents a Company from having any outstanding convertible securities or rights that would entitle any person with option to receive the equity shares of the Company except for:

- the outstanding options granted to employees pursuant to an employee stock option scheme (ESOP) in compliance with the Companies Act, 2013 and
- fully paid-up outstanding convertible securities which are required to be converted before the date of filing offer document

ICDR Amendment:

Outstanding stock appreciation rights granted to employees pursuant to a stock appreciation right scheme has also been added to the exemption list, which can be continued as outstanding till the date of filing offer document by including a disclosure in the draft offer document.

Out of the 90 companies that got listed in the year 2024, more than 25% of the companies filed draft offer document for the second time to get listed after an unsuccessful attempt in the earlier filed draft offer document. However, these companies would have paid the outstanding stock appreciation rights before filing the first draft offer document resulting in outflow for the company despite the company not getting listed. The amendment has extended the period to settle such stock appreciation rights till the time of filing offer document and thereby companies may continue with the stock appreciation rights till the actual time of listing.



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Some of the other important amendments in main board IPO include:

- ➡ Only a person **qualified to be a company secretary** can be appointed as the Compliance Officer.
- ➡ Securities ineligible for minimum promoters' contribution to be determined **after adjusting the same for corporate actions** such as share split, bonus issue, etc. undertaken by the Company.
- ➡ For determining the basis for computation of the issue price, lead banker can **assign weights** to return on net worth, PE ratio, EPS and various other quantitative factors based on their own due diligence.
- ➡ Advertisements:
 - Alignment of advertisements related to various activities conducted from the date of filing the draft offer document to the date of listing in the same newspaper
 - Public announcement upon filing the draft offer document to be made within 2 working days
 - Requirement to keep the draft offer document public for 21 days from the date of its filing has been amended to 21 days from the date of publication of the public announcement upon filing the draft offer document
 - Advertisement of price band can be clubbed with the pre-issue advertisement. New format for such combined advertisement is included in the ICDR amendment document.

Furthermore, the threshold for the applicability of rights issues has been removed (previously applicable only to rights issues exceeding INR 50 crores), thereby encompassing all companies undertaking rights issues under the scope of ICDR.

CONCLUSION

Given India's booming IPO activity in 2024, these regulatory updates seem well-timed. SEBI has been active on streamlining the process and these amendments help in bringing more transparency, strengthening governance and boost investor confidence in the capital market regulatory framework of the country.



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