



# भारतीय प्रतिभूति और विनियम बोर्ड Securities and Exchange Board of India

## Consultation Paper

### Review of requirement of Minimum Public Offer for large issuers in terms of Securities Contracts (Regulation) Rules, 1957

#### 1. Objective

1.1. The objective of this consultation paper is to seek comments/ views from the public and market intermediaries on Review of requirement of Minimum Public Offer to large issuers in terms of Securities Contracts (Regulation) Rules, 1957 (SCRR)

#### 2. Background and need for review:

2.1. Securities market, including the market for Initial Public Offerings (IPOs), is dynamic and needs to keep pace with the evolving market conditions. To address concerns of various market participants especially the investing community and the issuers, the regulations governing the primary market have been amended from time to time.

2.2. Market participants have provided feedback that the compliance with minimum offer to public requirement i.e. at least 10% of post issue paid up capital calculated at offer price (also referred to as 'post issue MCap') in terms of Rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957 (SCRR) is cumbersome for large issuers.

2.3. It has been represented that such large issuers already have investments by PE / other strategic investors who are classified as *public shareholders* post-listing and therefore, mandating minimum 10% of post issue MCap at the time of IPO leads to unnecessary dilution of holding of the promoter/ existing shareholder and is therefore a constraining factor for listing.

#### 3. Present provisions in SCRR

3.1. The following table demonstrates the current minimum offer to public requirements

Post issue MCap	Minimum offer to public
MCap $\leq$ 1600	25%
1600 < MCap $\leq$ 4000	Such % equivalent to 400
4000 < MCap	10%

Note: All values except for those expressed as % are in Rs Crore



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- 3.2. Thus, for large issues (i.e. where post issue MCap  $\geq$  Rs 4000 Crores) at least 10% of the post issue MCap needs to be offered to public.
- 3.3. Further, as part of continuous listing requirement the newly listed company is required to bring **public shareholding** to at least 25% within three years from the date of listing (**Minimum Public Shareholding Norms- MPS**).
- 3.4. The minimum offer to public requirements were last revised in 2014. The relevant Rules of SCRR are placed at Annex-A.

## 4. **Trends of Past Issuances**

- 4.1. Based on analysis carried out in respect of public issuances since 2010, it has been observed that the average issue size of IPO/OFS on main board has increased in the last decade, while the number of issuers coming for IPO/OFS on the main board has declined<sup>1</sup>. This trend of larger issuances is expected to continue.
- 4.2. Analysis of past large issuances (i.e. where post-issue MCap  $\geq$  Rs 4000 Crores) (for the period Apr 01, 2014 - Oct 16, 2020)<sup>2</sup> indicates that approximately 24% of the issuers with post issue MCap of more than Rs 4000 Crores have just met the minimum offer to public rule (10%) required for listing of securities u/r 19(2)(b) of SCRR.
- 4.3. Further, in case of very large issuers (say post issue MCap of Rs 1,00,000 Crs and above), there is a possibility that they may find it difficult to comply with MPS of 25% within 3 years of listing.
- 4.4. Therefore, there is a need for the following:
- 4.4.1. To review the minimum 10% offer to public requirement in case of large IPOs (say post issue MCap of Rs. 10,000 Cr and above).
- 4.4.2. To review the time to comply with MPS of 25% in case of very large issuers (say post issue MCap of Rs 1,00,000 Crs and above)

## 5. **Proposal**

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<sup>1</sup> Table 1- Annex -B

<sup>2</sup> Data/information is available at Annex C



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The matter was deliberated at the Primary market Advisory Committee (PMAC), which has recommended that SEBI may seek public comments on the following:

- 5.1. It is proposed to reduce minimum offer to public for large issuers to 5% of post issue market capital exceeding Rs. 10,000 Crs, as under :-

Post issue market capital	Minimum offer to public	
	Existing Provision	Proposal
MCap ≤ 1600	25%	Same as existing
1600 < MCap ≤ 4000	Such % equivalent to 400	
4000 < MCap ≤ 10000	10%	
MCap > 10000	10%	1000 + 5% of MCap exceeding 10,000

Note: All values expect for those expressed as % are in Rs Crore

- 5.2. In view of proposal at 5.1 above, there could be a scenario in case of large and very large issuers that they may not be compliant with 10% MPS at the time of listing. Thus, there may arise a need to provide additional time to such issuers to first comply with 10% MPS and subsequently with 25% MPS as proposed below:-

Post issue market capital	Existing provision	Proposal
MCap ≤ 1,600	Minimum offer of 25% to public	Same as existing provision
1600 < MCap ≤ 4,000	MPS of 25% to be achieved in three years from date of listing	
4000 < MCap ≤ 10,000	MPS of 25% to be achieved in three years from date of listing	
10,000 < MCap ≤ 1,00,000	MPS of 25% to be achieved in three years from date of listing	MPS of 10% to be achieved in 18 months and 25% within 3 years from the date of listing
MCap > 1,00,000	MPS of 25% to be achieved in three years from date of listing	MPS of 10% to be achieved in 2 years and 25% within 5 years from the date of listing

Note: All values expect for those expressed as % are in Rs Crore



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6. Considering the implications of the said matter on the market participants including issuer companies and investors, public comments are invited on the proposal at para 5 above. Comments may be sent by email or through post, in the following format:

Name of entity/ person:			
Contact Number & Email Address:			
Sr. No.	Reference Para of the consultation paper	Suggestions/ Comments	Rationale

**While sending email, kindly mention the subject as “Review of requirement of Minimum Public Offer for large issuers in terms of SCRR”**

**The comments may be sent by email to Smt. Yogita Jadhav, GM at [yogitag@sebi.gov.in](mailto:yogitag@sebi.gov.in), Shri Abhishek Rozatkar, AGM at [abhishekr@sebi.gov.in](mailto:abhishekr@sebi.gov.in) and Shri Rajesh Kumar Meena, Manager at [rajeshm@sebi.gov.in](mailto:rajeshm@sebi.gov.in) latest by December 07, 2020.**

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**Annex A: Rule 19(2)(b) of SCRR**

19(2)(b). The minimum offer and allotment to public in terms of an offer document shall be-

- i. at least twenty-five per cent of each class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is less than or equal to one thousand six hundred crore rupees;
- ii. at least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of four hundred crore rupees, if the post issue capital of the company calculated at offer price is more than one thousand six hundred crore rupees but less than or equal to four thousand crore rupees;
- iii. at least ten per cent of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above four thousand crore rupees:

Provided that the company referred to in sub-clause (ii) or sub-clause (iii), shall increase its public shareholding to at least twenty-five per cent within a period of three years from the date of listing of the securities, in the manner specified by the Securities and Exchange Board of India:

Provided further that this clause shall not apply to a company whose draft offer document is pending with the Securities and Exchange Board of India on or before the commencement of the Securities Contracts (Regulation) Third Amendment Rules, 2014, if it satisfies the conditions prescribed in clause (b) of sub-rule (2) of rule 19 of the Securities Contracts (Regulation) Rules, 1956 as existed prior to the date of such commencement.

Provided also that the applicant company, who has issued equity shares having superior voting rights to its promoters or founders and is seeking listing of its ordinary shares for offering to the public under this rule and the regulations made by the Securities and Exchange Board of India in this regard, shall mandatorily list its equity shares having superior voting rights at the same recognized stock exchange along with the ordinary shares being offered to the public;



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Annex B: Table 1- A table indicating number of IPOs, amount raised and average issue size is as follows:

Year	No of IPOs (Equity)	Amount (In Rs Crores)	Avg. Issue Size (In Rs Crores)
FY2010-11	53	35,559	671
FY2011-12	34	5,904	174
FY2012-13	9	6,289	699
FY2013-14	1	919	919
FY2014-15	7	2,761	394
FY2015-16	24	14,436	602
FY2016-17	25	28,225	1,129
FY2017-18	45	81,434	1,810
FY2018-19	13	14,243	1,096
FY2019-20	14	20,828	1,488
FY2020-21 (Till Oct 16, 2020)	8	7,182	898

Source: SEBI Annual Report

Note: 1: The data does not include money raised by IPOs on SME platform

2: FY 2019-20 and FY 2020-21 data is not from SEBI Annual Report; it has been collated from information submitted by Stock Exchanges

3: Information in respect of exclusive listing on one stock exchange have not been considered



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Annex C: Table 1- A table indicating *issue size as percentage of post issue MCap vs post issue MCap* is as follows:

Issue size as %age of post issue market capital (In %)	Post Issue Market Capital (MCap) (In Rs Crores)						Cumulative
	1600 < M Cap ≤ 4000	4000 < M Cap < 10000	10000 ≤ M Cap ≤ 15000	15000 < M Cap ≤ 30000	30000 < M Cap	Total	
10 < %age < 11	1	5	3	3	2	14	14
11 ≤ %age ≤ 12	0	3	0	0	1	4	18
12 < %age ≤ 13	3	2	0	1	1	7	25
13 < %age ≤ 14	1	4	0	0	1	6	31
14 < %age ≤ 15	1	2	0	0	3	6	37
15 < %age ≤ 20	5	6	2	0	1	14	51
20 < %age ≤ 25	14	5	2	1	0	22	73
25 < %age ≤ 30	11	5	0	0	0	16	89
30 < %age ≤ 35	4	0	0	0	0	4	93
35 < %age	5	1	0	0	0	6	99
Total	45	33	7	5	9		99
Cumulative	45	78	85	90	99		