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**AIBI Annual Convention  
2025-2026**

**Handbook on SME Listing for Issuers**



## Foreword

*“When the rain of opportunity comes, you don’t want to be holding a thimble – you want to be holding a bucket.”*  
– Warren Buffet

Since 2008, the Securities and Exchange Board of India (“SEBI”) has been actively supporting and promoting dedicated exchanges and platforms for listing of equity shares by the small and medium enterprises (“SME”). In the last decade, the Indian securities market has evolved into one of the most vibrant, transparent, and well-regulated markets globally. For Issuers, accessing capital markets through listing is not merely a funding exercise; it represents an opportunity to unlock growth, broaden their investor base, improve corporate credibility, and align with global standards of governance and disclosure. A well-groomed and well-governed issuer is the best positioned to maximize the benefits of listing and to sustain the confidence of investors in the long term. Over years this growth has also been witnessed in the robust operations of the SME Exchange platforms, that have evolved remarkably providing great opportunity to Issuers to list and trade their securities and unlock value through their businesses.

This manual has been prepared by the Association of Investment Bankers of India (“AIBI”) under the able leadership of Securities and Exchange Board of India (SEBI) with the objective of serving as a comprehensive reference guide for Issuers on SME platforms. It seeks to present the regulatory framework, the procedural requirements, and the obligations of stakeholders in a simple and structured manner. We would like to express our sincere gratitude and acknowledge **Securities & Exchange Board of India (SEBI)** for their invaluable guidance and support in the development of this resource. It covers the entire journey of an Issuer – from the initial preparation and filing of draft documents, through the due diligence and approval processes, to the responsibilities that arise post-listing. In addition, it highlights the common challenges and lapses observed in recent regulatory orders, thereby sensitizing Issuers to practices that must be avoided.

SEBI, as the regulator of the Indian securities market, is entrusted with the twin objectives of protecting investor interests and promoting the development and orderly functioning of the market. AIBI, as the representative body of registered merchant bankers, plays a pivotal role in bridging regulatory expectations with industry practice, ensuring that Issuers are guided effectively and responsibly through the listing process.

In the words of Mark Twain - “The secret of getting ahead is getting started.” Through this Handbook, we believe that SME issuers will be infused with the confidence to come forward and embrace their vulnerability. It is our expectation that this Handbook will support SME issuers in better understanding their roles and responsibilities, and in preparing diligently for accessing the capital markets.

This AIBI Handbook on SME Listing for Issuers has been created in collaboration with M/s. Agama Law Associates.

With Regards

Mahavir Lunawat  
Chairman

Alok Harlalka  
Director

Dr. Milind Dalvi  
CEO

*January 15, 2026*

## Disclaimer

*This manual has been prepared by AIBI as a guidance document to assist Issuers and intermediaries in understanding the broad framework, processes, and regulatory expectations relating to listing of securities on SME Platforms.*

*It is not intended to constitute legal advice and should not be regarded as a substitute for a detailed review of the applicable laws, rules, regulations, circulars, or guidelines issued from time to time. The information contained herein is illustrative and cannot cover every possible situation or scenario that may arise in practice.*

*Issuers are strongly advised to consult their Merchant Bankers, Legal advisors, and other experts and professional for specific guidance tailored to their circumstances, and to ensure full compliance with the applicable provisions under the Securities Contracts (Regulation) Act, 1956, the SEBI Act, 1992, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, stock exchange guidelines and byelaws, and any other applicable laws or regulations in preparation for an initial public offering.*

*Neither AIBI, nor any of their Directors, officers, or any other person shall be responsible for any loss or damage caused, directly or indirectly, by reliance on the contents of this manual.*

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# 1. INTRODUCTION

## 1.1 SME IPO LISTING

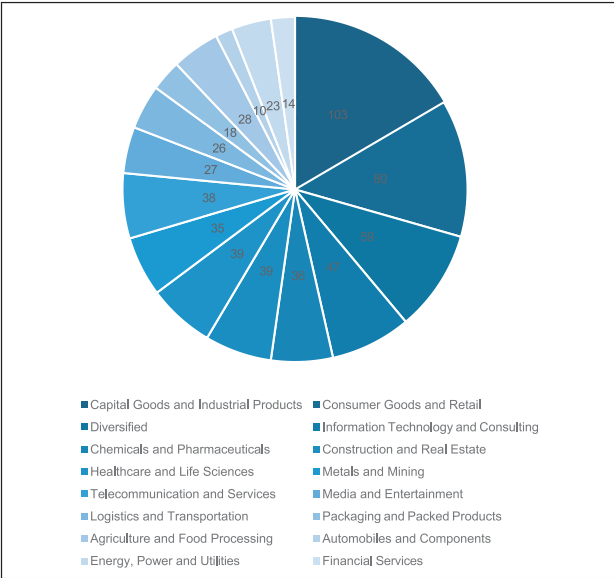
The listing of SMEs on stock exchanges in India has emerged as a significant enabler for business growth, financial transparency, and market credibility. In order to strengthen the framework for public issues by Small and Medium Enterprises (“SME”) and to facilitate that SMEs with a sound track record have an opportunity to raise funds from the public and get listed on stock exchanges, and to protect the interests of investors in the SMEs, the Securities and Exchange Board of India (“SEBI”) from time to time brought about major amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“SEBI ICDR Regulations”) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”). This Handbook serves as a comprehensive guide for issuers and stakeholders. *For details, see ‘Pre-IPO: Issuer Readiness Checklist’ provided in Annexure I.*

### 1.1.1. SME PLATFORMS

Recognizing the pivotal role SMEs play in driving economic development, employment generation, and innovation, dedicated SME platforms under both the BSE Limited (“BSE”), i.e., BSE SME and the National Stock Exchange of India Limited (“NSE”), i.e., NSE Emerge have evolved.

BSE SME and NSE Emerge are SME listing platforms established in line with SEBI’s regulatory framework, designed to support the growth and formalization of emerging Indian businesses seeking listing. The aforesaid two listing platforms provide an environment that enables SMEs across the unorganized sector to enter the regulated market and connect them with investors. Together, these platforms offer opportunities to investors for participation in businesses with strong growth potential, innovative models, and a commitment to good governance and investor protection.

From 2020–2024, SMEs from diverse sectors listed on SME Exchanges, with the industrial sector leading IPOs amid rising demand, bullish sentiment, and higher volatility.



*From the study “Indian SME IPOs: An Empirical Analysis of Market Trends” (covering 2020–2024) we have the following sector distribution.*

## **1.2. BENEFITS OF SME LISTING**

The primary purpose of SME listing is to provide these enterprises with an alternative source of capital, reducing their dependence on traditional banking and private funding channels which are often very expensive and in bad times cripple good businesses. The SME platform allows such entities to raise equity finance for expansion, working capital, debt reduction, or other business needs. Moreover, listing improves financial discipline and corporate governance, as SMEs are required to comply with disclosure and reporting standards – thereby enhancing transparency and investor confidence.

The benefits of SME listing go beyond capital infusion. It significantly intensifies the company's visibility and brand reputation, making it more attractive to customers, business partners, and institutional investors alike. It also enables price discovery, allowing promoters to unlock value and potentially use listed equity as currency for mergers, acquisitions, or strategic partnerships. Additionally, listed SMEs gain easier access to future fundraising through rights issues, preferential allotments, or migration to the main board after meeting eligibility criteria.

## **1.3. KEY CHALLENGES FOR SMES AND THE ROLE OF SME IPOS**

Despite the advantages, SMEs often face structural challenges that limit their growth trajectory. Many of these enterprises are promoter-driven or family-owned businesses with a high concentration of shareholding among a few promoter group entities. This ownership concentration sometimes results in weaker governance standards, limited accountability, and slower adoption of professional management practices. Further, the absence of a diversified shareholder base and limited participation from private equity or sophisticated institutional investors reduces external oversight and can deter larger investors from engaging with these companies.

In addition, start-ups and growth-oriented SMEs backed by venture capital (VC) or private equity (PE) investors often face pressure from investors to provide timely exit opportunities. Traditional exit routes such as trade sales or secondary deals are not always feasible or may undervalue the company's long-term growth potential. In such scenarios, SME IPOs offer a transparent and structured mechanism for investors to monetize their holdings while allowing the company to continue on its growth path.

An SME IPO, therefore, provides a dual advantage: a regulated exit for existing investors and access to a broader public investor base for the issuer, while improving governance and market positioning. Successful listings can later enable migration to the main board, ensuring sustained access to capital markets.

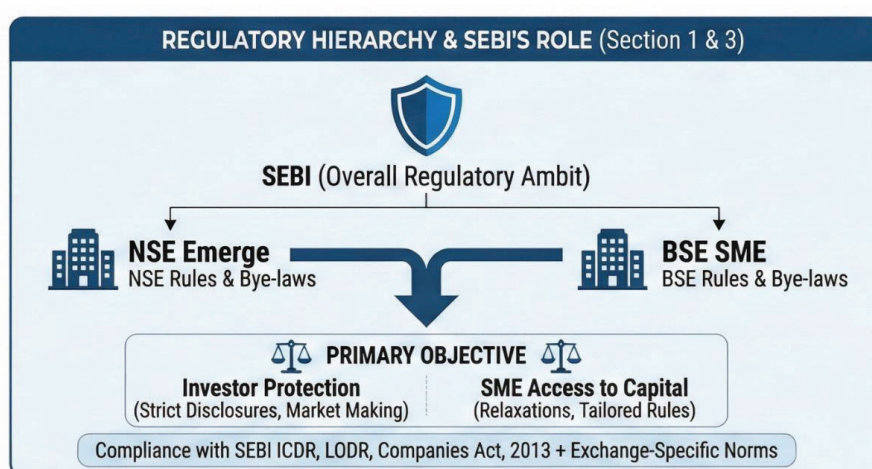
## **2. REGULATORY FRAMEWORK**

### **2.1. REGULATORY FRAMEWORK FOR SME IPOS UNDER SEBI ICDR REGULATIONS**

Unlike private fund-raising transactions or main board listings, SME IPOs, while falling under the overall ambit of SEBI's regulatory framework, are primarily governed by the rules, regulations, processes, and byelaws of the respective stock exchanges. Both the BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE") through their respective dedicated SME platforms - BSE SME and NSE Emerge, regulate this.

On these platforms, the Draft Red Herring Prospectus (“DRHP”) or Draft Prospectus (“Draft Prospectus” / “DP”) in case of book-building process or fixed price mechanism, respectively, is required to be filed for review, and the equity securities of the issuer, upon successful completion of the process, are ultimately listed and traded. Accordingly, issuers proposing to access the SME platform must ensure compliance not only with the SEBI ICDR Regulations, the SEBI LODR Regulations, and the relevant provisions of the Companies Act, 2013 (along with applicable rules), but also with the specific eligibility norms, procedural guidelines, and continuing obligations prescribed by the stock exchanges.

Thus, the regulatory framework of exchange-specific rules, procedures, and byelaws, tailored to the SME platforms of BSE Limited and NSE, impose additional requirements and offer relaxations relative to main board listings, in order to draw a fine line between retail investor protection and facilitating SME access to capital markets.



## 2.2. REGULATORY FRAMEWORK FOR SME IPO UNDER SEBI LODR REGULATIONS

Few of the corporate governance requirements under SEBI LODR Regulations are not applicable to the SME listed entities:

- (a) which have paid up equity share capital not exceeding Rs. 10 crores and net worth not exceeding Rs. 25 crores as on the last day of the previous financial year;
- (b) which have listed their specified securities on the SME Exchange.

Further, some of the quarterly reporting requirements, which are applicable to main board listed entities, are applicable to SME listed entities on a half-yearly basis.

## 2.3. ROLE OF SEBI

SEBI has the primary duty of protecting and safeguarding the interests of its investors. The role of SEBI in SME IPOs is to provide a professional regulatory framework that strikes a balance between strong investor protection and ease of access to capital for SMEs. It does this by imposing strict disclosure requirements, such as 21 days public review of the Offer Document, imposing minimum operational profits and capital limits on promoters, requiring market making for liquidity and price stability after listing, and extending corporate governance and related party transaction rules specifically designed for SMEs. All of these measures together promote accountability,

transparency, and sustainable growth in the SME capital market segment. Additionally, SEBI monitors compliance with post-issue obligations to maintain transparency and investor confidence. Through these measures, SEBI ensures that the IPO process remains fair and accountable.

## 2.4. ELIGIBILITY REQUIREMENTS

The eligibility criteria laid down by each of the stock exchanges are intended to ensure that only financially sound and compliant SMEs have access to the capital markets through the designated SME platforms. Under Regulation 229 of SEBI ICDR Regulations, the issuer is eligible for an IPO only if:

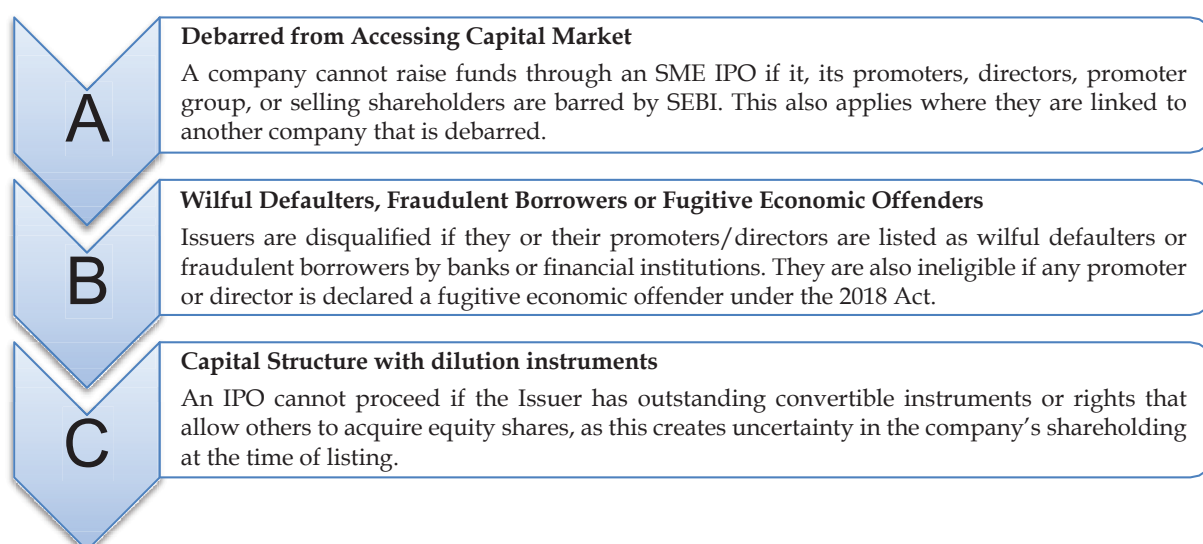
- (a) its post-issue paid-up capital is less than or equal to Rs. 25 crores; and
- (b) it satisfies track record and / or other eligibility conditions of the SME Exchange (BSE SME / NSE Emerge) where the securities are proposed to be listed.

Provided, where the issuer was previously a partnership firm or an LLP, its track record of operating profit will be considered under SEBI guidelines, where financial statements must comply with Schedule III of the Companies Act, 2013, and shall be required to be certified by ICAI peer-reviewed auditors. Further, if an SME was previously a proprietorship, partnership, or LLP before its conversion to body corporate or company, it can apply for listing only if it has been in existence for at least 1 full financial year before filing the DRHP.

Additionally, stock exchanges have their own eligibility criteria for listing on the designated BSE SME and NSE Emerge, respectively. For further details, see '*Listing Eligibility Criteria*' provided in Annexure II.

## 2.5. ENTITIES INELIGIBLE FOR SME IPO

Regulation 228 of SEBI ICDR Regulations provide for specific disqualifications due to which entities may become ineligible for listing:



However, it is important to note that these limitations do not apply in cases where the entities or individuals listed above have previously been prohibited by SEBI and the debarment time period has ended as of the DRHP filing date.

## 2.6. MAINBOARD LISTING

To understand the relaxations offered and the simplification of scale, it is important to appreciate the key distinction between initial public offering on the main board and SME exchange.

Sr. No.	Particulars	SME IPO	Mainboard IPO
1.	Typical Issuer Size	Small and medium scale	Large scale
2.	Stock Exchange	BSE SME or NSE Emerge (any one)	BSE and NSE (may opt to list on both)
3.	Post Issue Paid-Up Capital	Up to Rs. 25 crores.	No cap.
4.	Profitability	Minimum operating profits (EBITDA) $\geq$ ₹1 Cr (2 out of 3 previous financial years)	Average operating profit $\geq$ ₹15 Cr (preceding 3 years, with operating profit in each of these years)
5.	Underwriting	100% mandatory 15% - Merchant banker Underwriting Agreement is entered before filing of RHP / Prospectus with ROC.	Optional Underwriting is typically entered after closure of the IPO but before filing of Prospectus with ROC.
6.	Market Making	Mandatory for 3 years	Not Applicable
7.	Minimum Application Size	₹2 Lakhs with the lot size being 2 lots	Varies, depending on the type of Investor, i.e., Retail investor / Institutional investor / QIB / others.
8.	Minimum Investor Requirement	Minimum 200 Investors	Minimum 1000 Investors

For details of the key parameters for migrating from SME exchange to main board, see '*Migration to Main Board*' provided in Annexure III.

## 3. LISTING PROCESS

### 3.1. TYPES OF ISSUES

An initial public offering ("IPO") can be executed through two main approaches: the *fixed price issue* and the *book building issue*.

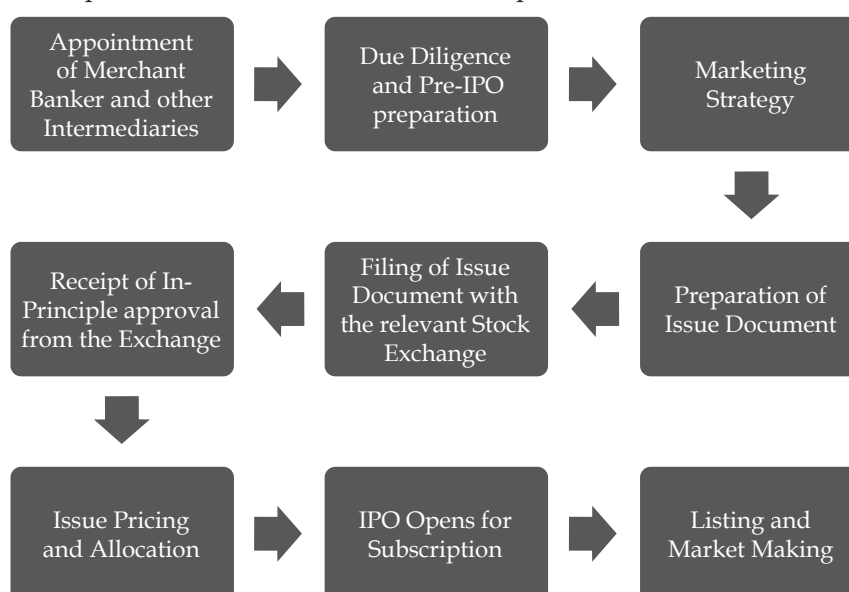
- *Fixed Price IPO*: Shares are offered at a predetermined price disclosed in the Offer Document, and all investors subscribe at this price. This simple, transparent method suits smaller SMEs with retail investors, but demand is known only after the subscription closes. However, it carries the risk in pricing – too low limits capital raised, while too high may deter buyers and lead to an unsuccessful issue.
- *Book Building IPO*: The book building method offers flexibility and market responsiveness by letting companies gauge demand and set a price that reflects market valuation. Instead of a fixed price, a price band (floor and cap) is provided, and investors bid within this range during a 3-10 working days window. The cap on the price band shall be less than or equal to 120% of the floor price. Provided that the cap of the price band shall be at least 105% of the price

band. Bids form a transparent ‘book,’ allowing price adjustments and revisions. After bidding closes, the final cut-off price is set, which is the highest price at which all shares can be sold, thus maximizing funds and ensuring full subscription.

### 3.2. IPO PROCESS

The journey of an SME IPO is structured and time-bound. It begins with the submission of the DRHP to the stock exchange. The DRHP is then made public for at least 21 days, allowing stakeholders to review and provide feedback. Once the stock exchange is satisfied, it grants in-principle approval for listing. If there are substantial updates to the DRHP, an updated version must be submitted. After resolving all regulatory comments, the company files the Red Herring Prospectus (“RHP”) with the Registrar of Companies. Further, the issuer is required to provide lock-in confirmation from the depository in accordance with Regulations 238 and 239 of the SEBI ICDR Regulations. These regulations mandate that pre-issue capital held by promoters and certain shareholders be locked in for a specified period i.e. 3 years for minimum promoter contribution and 1 year for the remaining pre-issue share capital. The IPO opens for subscription at least three working days after RHP filing and is to be kept open for at least 3 working days thereafter, not exceeding 10 working days. Following a successful subscription, the shares are listed on the stock exchange and begin trading within 3 working days from issue closing date. *For details of the tentative timelines and key roles and responsibilities of the intermediaries during the entire process, see ‘Tentative Timelines for IPO’ provided in Annexure IV.*

Following flow chart provides for an overview of the IPO process:



### 3.3. KEY IPO FILING BOTTLENECKS

Common bottlenecks in the SME IPO process include:

- (i) *Due diligence and disclosures:* incomplete records, legal/financial review concerns;
- (ii) *Compliance gaps:* pending litigations, foreign exchange management / foreign direct investment issues, outdated ROC filings, past non-compliances w.r.t. ROC or any other regulatory requirement;

- (iii) *Governance weaknesses*: board composition, committees not in place, unclear promoter structure, related-party issues;
- (iv) *Financial delays*: audits, restated accounts, Ind-AS compliance gaps, peer review auditor;
- (v) *Chief Financial Officer / Company Secretary inefficiency*: poor coordination, inaccurate inputs, lack of readiness.
- (vi) *Family conflicts*: disputes, unclear roles, governance concerns;
- (vii) *NOCs*: delays from lenders, investors, regulators; and
- (viii) *Regulatory approvals*: sector permissions, exchange consent.

Addressing key issues early ensures a smoother IPO process. Major focus areas include:

- (i) *Group Structure and Governance*: Evaluate promoter group, confirm eligibility, and conduct governance health checks on board, committees, and policies.
- (ii) *Legal and Compliance*: Identify material litigations, ensure timely documentation, and disclose risks per SEBI norms.
- (iii) *Regulatory Approvals*: Validate statutory permits and licenses to avoid delays and ensure business continuity.
- (iv) *Due Diligence and Intellectual Property (IP)*: Verify ownership of websites, products, trademarks, and resolve any IP disputes.
- (v) *Business and Financial Preparedness*: Review key contracts with partners, suppliers, and clients to safeguard operational integrity.
- (vi) *Third Party Confirmation*: Simultaneously apply for all third-party confirmations *viz.* lenders, investors, regulators (if any), practicing professionals wherever deemed appropriate, etc. enabling receipt of such NOCs before filing of the draft offer document.
- (vii) *Vendor Diligence*: In case one of the objects of the issue contains capital expenditure, advance receipt of vendor quotations and completion of vendor diligence to be done before filing of draft offer document.
- (viii) *Merchant Banker and RTA to be well coordinated during post issue activities*: At the time of approving basis of allotment (post issue activities), RTAs to be sensitized well in advance to avoid last minute issues for timely completion of the post issue process as prescribed.
- (ix) *Compliance with SEBI General Order*: Merchant bankers to ensure compliance with the provisions mentioned under SEBI General Order and corresponding stock exchange circulars. Further, before filing the draft offer document with the exchanges, ensure compliance with the eligibility criteria and advisories issued by the respective exchanges from time to time.



### 3.4. KEY INTERMEDIARIES

The key intermediaries involved in a SME IPO process are:

- (i) Merchant banker
- (ii) Legal advisor
- (iii) Auditor
- (iv) Registrar
- (v) Depositories
- (vi) Monitoring agency
- (vii) Bankers to the Issue
- (viii) Bankers to the Issuer Company
- (ix) Underwriter
- (x) Market maker
- (xi) Industry analyst

*For detailed roles of each intermediary, see 'Key Intermediaries and Their Roles' provided in Annexure V.*

### 3.5. FEES AND CHARGES APPLICABLE IN THE LISTING PROCESS

The fees and charges involved in the listing process include:

(i) *Stock Exchange Listing Fees:*

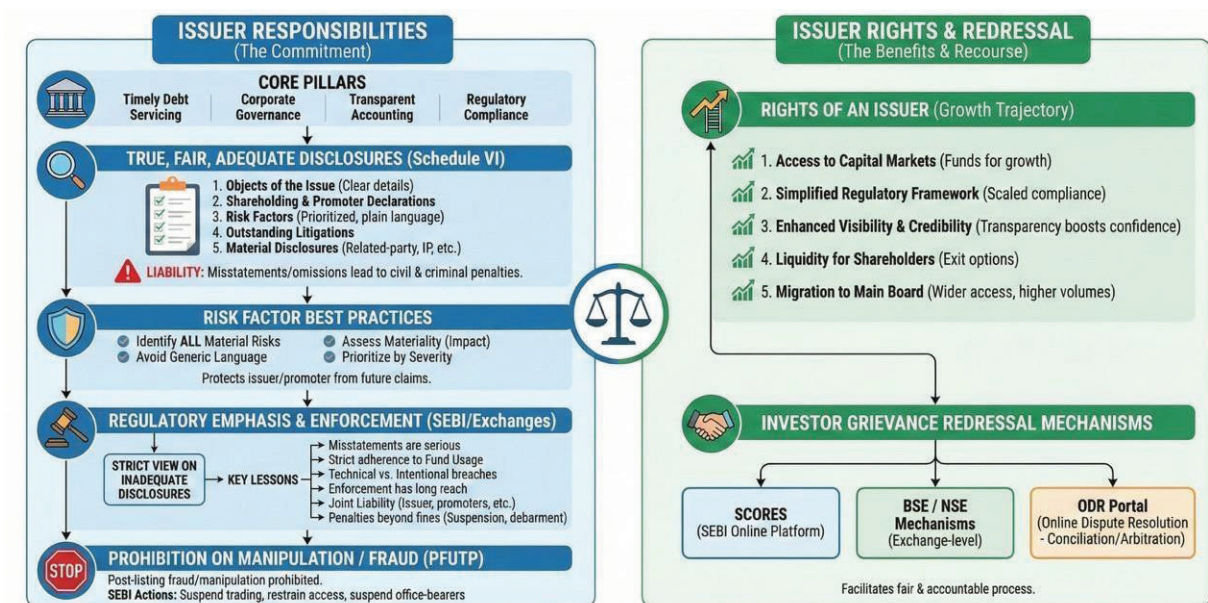
<b>Particulars</b>	<b>Fees</b>
<b>NSE Emerge</b>	
<i>Processing Fees</i>	Rs. 25,000 (one-time)
<i>Listing Application Fee</i>	Rs. 50,000 or 0.01% of issue size, whichever is higher.
<i>Annual Listing Fee</i>	0.02% of market capitalization as of March 31 each year; may be lower for smaller paid-up capital
<b>BSE SME</b>	
<i>Processing Fees</i>	One-time fee as follows: <ul style="list-style-type: none"> <li>· Issue size up to Rs. 5 crores – Fees of Rs. 1,00,000</li> <li>· Issue size of &gt; Rs. 5 crores to Rs. 25 crores – Fees of Rs. 3,00,000</li> <li>· Issue size of &gt; Rs. 25 crores to Rs. 50 crores – Fees of Rs. 5,00,000</li> <li>· Issue size of &gt; Rs. 50 crores – Fees of Rs. 5,00,000 +</li> </ul> 0.05% of the issue size exceeding Rs. 50 crores
<i>Annual Listing Fees</i>	0.01% of market capitalization or Rs. 25,000, whichever is higher.

- (ii) *Fees for Merchant Bankers:* These include fees for due diligence, offer document preparation, coordination with other intermediaries, market making and general IPO process management.
- (iii) *Costs of Underwriting:* A commission or fee is payable by the company to the underwriters.
- (iv) *Publicity and Marketing:* This includes fees for planning public relations campaigns, investor meetings, roadshows, advertising campaigns, and for promotional items like leaflets and brochures.
- (v) *Distribution and Printing:* Physical prospectuses, application forms, and other investor communication materials have printing and delivery expenses.
- (vi) *Legal, Audit and Compliance:* To comply with regulatory requirements and lend credibility to the IPO process, companies employ legal consultants, auditors, company secretaries, and valuation specialists.
- (vii) *Registrar and Transfer Agents (RTA):* Fees are paid to the RTA for services pertaining to preservation of shareholder records, share distributions, refunds, and investor application processing.

Generally, IPO expenses are initially funded by the company, often through promoter contributions. Where specified in the Offer Document, IPO proceeds can be applied to cover these costs, and in some cases, promoters may use short-term financing to manage payments, settling them after the IPO closes. Costs can be optimized by bundling services such as market-making, legal, and registrar support with the merchant banker. Since expenses vary with issue size, complexity, and prior relationships, appointing the right merchant banker is crucial. Engagement letters should explicitly state all fees, including any performance-based components, to maintain transparency and avoid disputes. Before launching an SME IPO, the company should conduct a thorough review of its legal, governance, and operational frameworks. This ensures compliance, improves documentation accuracy, identifies potential issues early, builds investor confidence, demonstrates transparency, and facilitates a smoother listing process.

## 4. ISSUER'S RIGHTS AND RESPONSIBILITIES

The SME IPO process is complex, placing significant responsibilities on issuers throughout its lifecycle. Beyond IPO preparation, issuers must ensure timely debt servicing, uphold corporate governance, maintain transparent accounting, and comply with all regulatory filings and disclosures. They are responsible for accurate offer documents, coordination with intermediaries, fair share allotment, and appointing a market maker for post-listing liquidity. Issuers must manage financial risks, maintain investor communication, and use raised funds strictly as stated in the offer document, while continuing post-listing reporting to preserve investor trust and market integrity.



### 4.1. TRUE, FAIR, ADEQUATE DISCLOSURES

Schedule VI of SEBI ICDR Regulations mandates comprehensive disclosures in DRHP, RHP, and prospectus to ensure investors receive full and fair information.

Key areas include:

- Objects of the Issue clearly articulated with supporting details;
- Shareholding pattern and promoter declarations;
- Risk factors prioritized as per materiality, in plain language;
- Outstanding litigations; and
- Other material disclosures such as contingent liabilities, related-party transactions, compliance issues, and IP matters.

Issuers are strictly liable for accuracy and any misstatement or omission, whether intentional or negligent, can lead to civil and criminal penalties under securities and company laws.

## 4.2. BEST PRACTICES FOR RISK FACTORS

While preparing the section on risk factors, legal advisors often adopt the following best practices:

- *Identify All Material Risks:* Disclose every critical risk, even if remote, from an investor's perspective.
- *Avoid Generic Language:* Make risks specific to the issuer's business, sector, and financial context.
- *Assess Materiality:* Evaluate risks based on potential impact on financials, reputation, or operations.
- *Prioritize by Severity:* Present risks in descending order of materiality and seriousness.

**The promoters need to keep in mind that disclosure of risks in the risk factors can also act as a protection to the issuer and the promoter against any losses that arise due to a specified risk which had been disclosed to the investors.**

## 4.3. REGULATORY EMPHASIS ON TRANSPARENCY

SEBI and stock exchanges have, in recent years, taken a strict view of inadequate or misleading disclosures in offer documents. In several enforcement actions, issuers and merchant bankers, in some cases, were penalized for:

- Failure to disclose ongoing tax disputes and regulatory inquiries,
- Inadequate disclosure of related party transactions and promoter group dealings,
- Downplaying of sectoral risks, and
- Misrepresentation of financial performance or projections.

*For details of recent non-compliances which have drawn regulatory action, see 'Illustrations of Regulatory Actions' in Annexure VI.*

Some compliance lessons for SME IPOs identified from such regulatory actions are:

- Misstatements and Omissions Are Serious:* Even minor omissions (e.g., undisclosed cases or resolutions) can attract penalties, as seen in the Presstonic case.
- Strict Adherence to Fund Usage:* IPO proceeds must be used exactly as disclosed; diversion to group entities or inter-corporate deposits can be treated as misstatement.
- Auditor Certificates:* Auditor certificates should be obtained and details of the same disclosed appropriately in the offer document.
- Appointment of Monitoring Agency:* Monitoring agency to be appointed by the issuer in consultation with the merchant banker as per the requirement under SEBI ICDR Regulations, in case the IPO size exceeds Rs. 50 crores.
- Technical vs. Intentional Breaches:* While SAT has distinguished technical lapses from deliberate concealment (e.g., P.G. Electroplast case), issuers should not rely on leniency.
- Enforcement Has Long Reach:* SEBI can review IPO compliance years later, making past lapses an ongoing risk.

(vii) *Joint Liability Across Stakeholders*: Issuers, promoters, directors, and even merchant bankers can be held liable for disclosure or diligence failures.

(viii) *Penalties Go Beyond Fines*: SEBI may impose suspension, debarment, disgorgement, and restrict market access for serious violations.

#### **4.4. PROHIBITION ON MANIPULATION / FRAUD**

Post listing, SEBI prohibits any form of fraud including price manipulation. The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (“**PFUTP Regulations**”) prohibits any manner of fraud including manipulative and unfair trade practices.

In case of any violation of the PFUTP Regulations, SEBI may take the following actions or directions under Section 11 of the PFUTP Regulations, either pending investigation or enquiry or on completion of such investigation or enquiry:

- (a) suspend the trading of the security;
- (b) restrain persons from accessing the securities market;
- (c) suspend any office-bearer of any stock exchange or self-regulatory organization from holding such position.

In case of an intermediary violating the PFUTP Regulations, SEBI may also suspend or cancel the registration.

#### **4.5. INVESTOR GRIEVANCE REDRESSAL**

SCORES is an online platform that enables investors to lodge complaints related to the securities market against listed companies, SEBI-registered intermediaries, and market infrastructure institutions. It serves as a facilitative mechanism for grievance redressal by directing complaints to the concerned entity. Investors can raise issues under laws and regulations administered by SEBI.

Both BSE and NSE have their own investor grievance mechanisms and follow their own set processes for administering investor complaints with the concerned company.

SEBI has also introduced an Online Dispute Resolution (ODR) Portal for conciliation and arbitration of securities market disputes. Investors must first approach the concerned market participant directly. If unresolved, they can escalate through SCORES Portal or initiate dispute resolution via the ODR Portal. Market participants may also initiate ODR after giving prior notice. Disputes can be referred to the ODR Portal provided they are not already under consideration in SCORES Portal, arbitration, courts, or other forums, and are legally arbitrable.

#### **4.6. RIGHTS OF AN ISSUER**

When a SME company decides to list on the SME platform of a stock exchange, it gains access to a host of benefits and rights that can significantly enhance its growth trajectory and market presence. Below are the key rights that an SME issuer enjoys upon listing:

- (i) *Access to Capital Markets*: Enables SMEs to raise funds through IPOs on SME platforms under relaxed norms, reducing dependence on debt and supporting growth.

- (ii) *Simplified Regulatory Framework*: Offers scaled compliance requirements compared to main board listings, including easier eligibility, fewer board meetings, and simplified disclosures.
- (iii) *Enhanced Visibility and Credibility*: Listing improves transparency through continuous disclosures, boosting investor confidence and facilitating better business and funding opportunities.
- (iv) *Liquidity for Shareholders*: Provides exit options for non-promoter shareholders while ensuring promoter commitment through lock-in requirements.
- (v) *Migration to Main Board*: SMEs can move to the main board after meeting prescribed criteria, gaining access to a wider investor base and higher trading volumes.

## 5. CORPORATE GOVERNANCE

Many SME's face challenges in board governance. Most of the SME's are family run entities focused on operational matter than governance and compliances. Many SME's face challenges in identifying and appointing independent directors due to a limited number of individuals keen to take up such roles and responsibilities especially due to the obligations cast on the independent directors. Many SME directors focused on operational aspects may also hold compliances and financial matters as a key focus area, which may deter any person to join as an independent director. Although listed SME's may be exempted from certain corporate governance requirements as detailed in this chapter below, the stock exchanges and SEBI may still encourage the SME's to adhere to these principles as good practice. Adhering to these requirements, *although not obligatory*, may also feel cumbersome to an SME, complying with these requirements will also be a stepping stone as the SME continues to grow.

### *Companies Act, 2013*

The Companies Act, 2013 sets out detailed requirements relating to appointment of directors, duties of the directors, statutory records and registers to be maintained, and financial statements to be filed. The Companies Act, 2013 also provides for the rights of shareholders and protection of minority shareholders. Rule 4 of the Companies (Appointment and Qualifications of Directors) Rules, 2014 also sets out the class of companies which are required to appoint independent directors.

### 5.1. PRINCIPLES UNDER SEBI LODR REGULATIONS

The SEBI LODR Regulations regulates the obligations of listed entities including disclosures and audits post-listing. A listed entity is required to follow the following principles while making any disclosures or complying with the SEBI LODR Regulations:

- (a) information should be disclosed in accordance with applicable standards of accounting and financial disclosure;
- (b) refrain from misrepresentation and ensure that information provided to stock exchanges and investors is not misleading.
- (c) provide adequate and timely information to recognized stock exchange(s) and investors; and

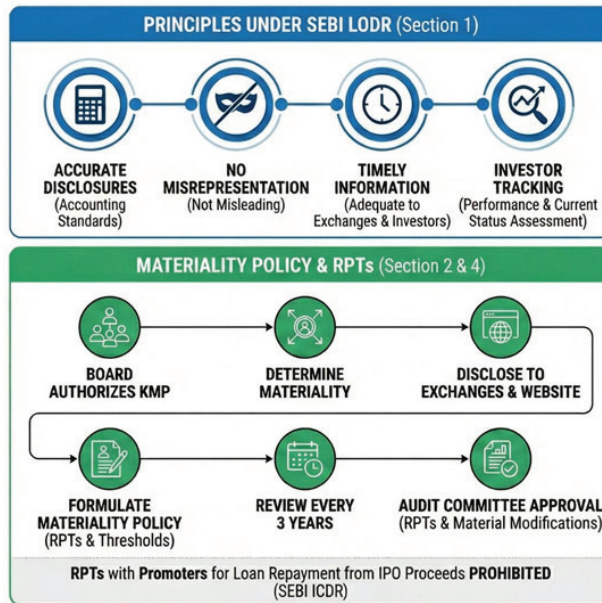
- (d) filings, reports, statements, documents and information reports shall contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity.

The key corporate governance requirements for listed SMEs are as follows:

- (i) *Equitable Treatment of Shareholders*: Ensure all shareholders of the same class are treated equally, informed about major decisions, allowed to vote, and provided with an effective grievance redressal mechanism. Record meeting minutes, including dissenting opinions.
- (ii) *Responsibilities of the Board of Directors*: The board must protect shareholder interests by monitoring governance practices, managing conflicts of interest, and ensuring transparency in decision-making.
- (iii) *Appointment of Compliance Officer*: A qualified company secretary must be appointed to coordinate with the board, stock exchanges, and regulators, and to oversee compliance and investor grievance resolution.
- (iv) *Appointment of Committees*: Appoint all the statutory committees as required under applicable law(s).
- (v) *Preservation of Documents and Records*: Classify documents for permanent or time- bound preservation (typically eight years) and maintain proper records to ensure accountability and transparency.
- (vi) *Disclosure of Material Events*: Disclose all events or information considered material by the board to keep investors informed. A materiality policy may be framed but cannot dilute mandatory disclosure requirements.

## 5.2. MATERIALITY POLICY

The board of directors of a listed entity may authorize one or more Key Managerial Personnel (KMP) to determine the materiality of events or information and to make disclosures to stock exchanges. The contact details of such authorized personnel must be disclosed to the stock exchanges and published on the company's website. The listed entity is also required to formulate a policy on materiality of related party transactions and on dealing with such transactions, including clear threshold limits approved by the board. This policy must be reviewed and updated by the board at least once every 3 years. All related party transactions and any material modifications require prior approval of the audit committee. Independent directors on the audit committee are responsible for approving these transactions, defining what constitutes "material modifications," and ensuring these definitions are included in the policy on related party transactions.



### 5.3. BOARD AND COMMITTEES

The SME exchanges also require that the composition of the board is in compliance with the requirements of Companies Act, 2013 at the time of *in-principle* approval. For listed companies the SME Exchanges focus on maintaining corporate governance standards similar to those companies listed on the main board, such as appointment of a compliance officer and a merchant banker to oversee the compliance requirements, which improves transparency, investor confidence and protection. The SME exchanges may also require the issuer to form committees such as an audit committee. The audit committee will frame the materiality policy to determine materiality of litigations to be disclosed.

### 5.4. DISCLOSURES REGARDING GROUP COMPANIES AND RELATED PARTY TRANSACTIONS



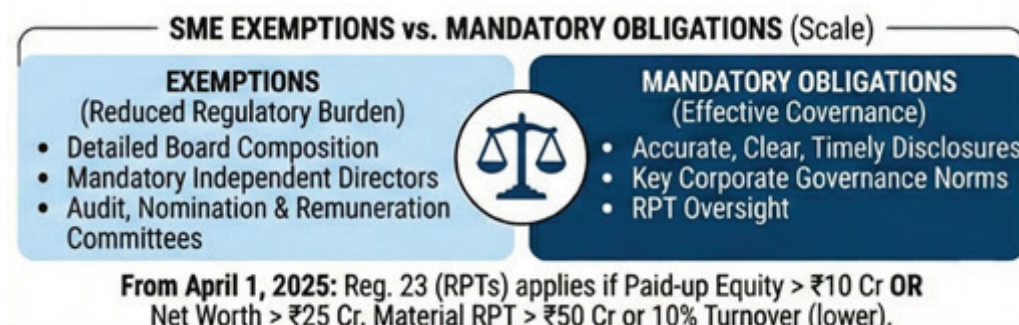
The SEBI ICDR Regulations provides for a very wide and inclusive definition of ‘group companies’ as follows: “such companies (other than promoter(s) and subsidiary/subsidiaries) with which there were related party transactions, during the period for which financial information is disclosed, as covered under the applicable accounting standards, and also other companies as considered material by the board of the issuer.” Schedule VI of the SEBI ICDR Regulations, which sets out the disclosures required to be made in the offer documents, mandates the issuer to provide the names and registered office address of all the group companies to be disclosed in the offer document. Further, following information based on the audited statements in respect of top 5 group companies (based on market capitalization for listed/ based on turnover in case of unlisted) for the preceding 3 years should be hosted on the website of the respective group company (listed/ unlisted):

- (a) reserves (excluding revaluation reserve);
- (b) sales;
- (c) profit after tax;
- (d) earnings per share;
- (e) diluted earnings per share; and
- (f) net asset value.

The offer document should refer the website where the details of the group companies are available. The offer document should also provide a summary of related party transactions for last 3 years and cross-reference to related party transactions as disclosed in restated financial statements. The Exchange criteria also specifies that the SME issues shall not be permitted, where objects of the issue consist of repayment of loan from promoter, promoter group or any related party, from the issue proceeds, whether directly or indirectly. This requirement has also been set out in the SEBI ICDR Regulations.

### 5.5. EXEMPTIONS FOR SMEs

Unlike main board entities, companies listed on the SME exchange are exempt from mandatory compliance with detailed corporate governance norms such as board composition, appointment of independent directors, audit committees, and nomination and remuneration committees. This exemption significantly reduces the regulatory burden, making SME listing a more practical and cost-effective option for smaller companies.



Nevertheless, SMEs must comply with key corporate governance norms and ensure disclosures are accurate, clear, timely, and based on materiality thresholds. Despite resource constraints, these obligations remain mandatory. Effective governance should match the company's scale but include independent directors, committees, and related-party transaction (RPT) oversight. From April 1, 2025, Regulation 23 of SEBI LODR Regulations on RPTs applies to SME-listed companies with paid-up equity over ₹10 crore or net worth above ₹25 crore. For such entities, a related party transaction is considered material if it exceeds ₹50 crore or 10% of annual consolidated turnover, whichever is lower.

## 5.6. PROHIBITION OF INSIDER TRADING REGULATIONS AND SMEs

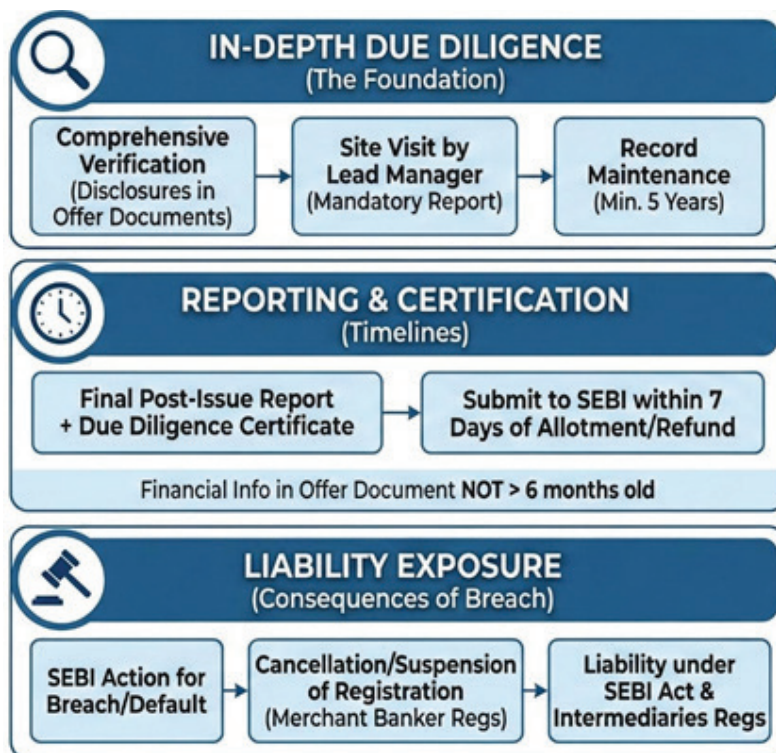
*As part of the corporate governance framework, SMEs listed on stock exchanges must comply with the SEBI (Prohibition of Insider Trading) Regulations, 2015 (“PIT Regulations”). They are required to adopt and publish a Code of Fair Disclosure and a Code of Conduct on their company website. These codes establish a clear policy for fair disclosure of events and developments that may impact the market price of securities. Key principles include ensuring equal access to information, disclosing policies on matters such as dividends, mergers and acquisitions, and interactions with analysts, as well as making transcripts of meetings and calls available. SMEs must also identify designated persons who have access to unpublished price-sensitive information. During periods when such information is likely to be possessed, the trading window must be closed, and designated persons and their immediate relatives are prohibited from trading in the company’s securities.*

*As SMEs grow, strong governance practices improve credibility and make regulatory transitions easier, helping them access capital markets and attract public investment. Being aware of compliance requirements and having a robust governance structure is essential for SMEs preparing to list their securities.*

## 6. MERCHANT BANKER RIGHTS AND OBLIGATIONS

### 6.1. MANDATE AND AGREEMENTS

The lead manager to be appointed by an issuer is a merchant banker registered with SEBI and appointed by the issuer to manage the issue. Merchant bankers are regulated under the SEBI (Merchant Bankers) Regulations, 1992 (“**Merchant Banker Regulations**”), and are entrusted with significant responsibilities during capital market transactions such as public issues, rights issues, and takeovers. If the issue is managed by more than one lead manager, the rights, obligations and responsibilities, relating *inter alia* to disclosures, allotment, refund and underwriting obligations, if any, of each lead manager should be predetermined and be disclosed in the draft offer document and the offer document as specified in the SEBI ICDR Regulations.



## 6.2. INDEPENDENCE OF THE MERCHANT BANKER

At least one lead manager to the issue cannot be an associate (*as defined under the Merchant Banker Regulations*) of the issuer and if any of the lead manager is an associate of the issuer, it is required to disclose itself as an associate of the issuer and its role would be limited to marketing of the issue. The issuer shall, in consultation with the lead manager(s), appoint other intermediaries which are registered with SEBI after the lead manager(s) have independently assessed the capability of other intermediaries to carry out their obligations.

The issuer is required to enter into an agreement with the lead manager(s) in a format prescribed under the SEBI ICDR Regulations and enter into agreements with other intermediaries as required under the respective regulations applicable to the intermediary concerned. All queries relating to the issue are generally addressed / sent to the lead manager by the Exchange, rather than directly coordinating with the issuer or Promoters. Therefore, it is important that the promoters of the company keep the lead managers aware of all developments and disclosures in the offer documents.

## 6.3. POST-ISSUE RESPONSIBILITY OF LEAD MANAGERS

The responsibility of the lead manager continues until completion of the issue process and for any issue related matter thereafter. The lead managers responsibility continues post issue till the applicants have received the securities certificates, credit to their demat account or refund of application money and also address investor grievances.

#### 6.4. DILIGENCE STANDARDS

The lead manager will exercise in-depth due diligence and satisfy themselves comprehensively on all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document. This also entails a site visit by the lead manager of the issuer, and a report prepared and made available as a material document for inspection. Merchant bankers are required to keep and maintain the records and documents pertaining to due diligence exercised in pre-issue and post-issue activities of issue management for a minimum period of 5 years.

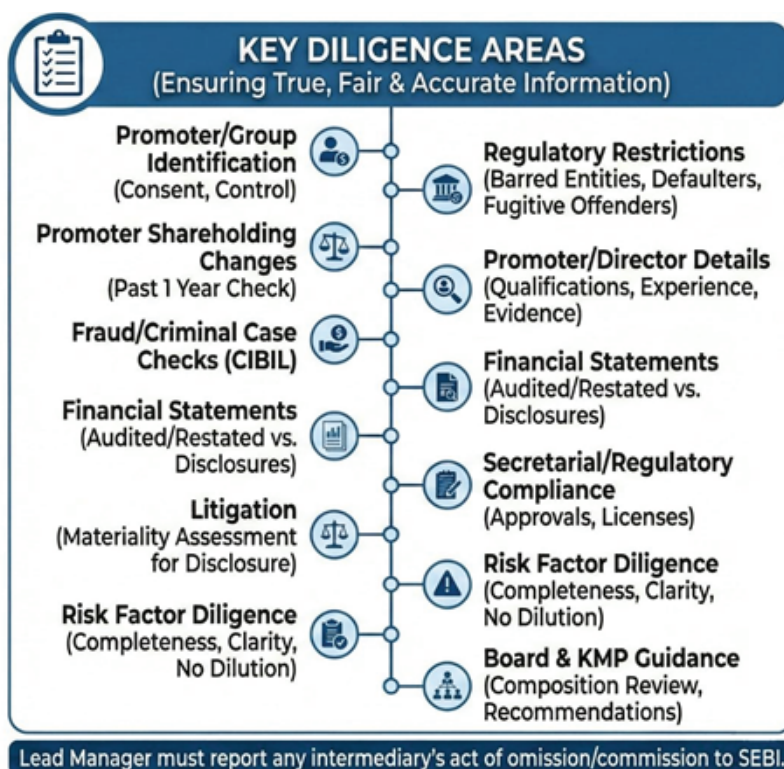
The lead manager is required to submit a final post-issue report along with a due diligence certificate in a format specified in the SEBI ICDR Regulations, within seven days of the date of finalization of basis of allotment or within seven days of refund of money in case of failure of issue. It should also be ensured that ensure that the information contained in the offer document and the particulars as per audited financial statements in the offer document are not more than 6 months old from the issue opening date of the issue.

Any act of omission or commission on the part of any of the intermediaries noticed by the lead manager(s) should be reported by the lead managers to SEBI.

While conducting the due diligence, the lead manager should ensure that all information provided by a prospective issuer is true, fair and accurate and not misleading. In conducting the diligence, the lead manager would consider and review the following key issues amongst other things:

- (i) *Promoter and Promoter Group Identification:* The lead manager must ensure that all promoters and members of the promoter group are correctly identified in the offer documents. This includes individuals who control the issuer directly or indirectly or influence board decisions. Consent from these persons is mandatory. Failure to disclose any promoter can lead to regulatory penalties for both the issuer and the lead manager.
- (ii) *Regulatory Restrictions and Eligibility:* Thorough investigations are conducted by the lead manager to confirm that neither the issuer nor its promoters, directors, or selling shareholders are barred from accessing capital markets, declared wilful defaulters, fraudulent borrowers, or fugitive economic offenders. These checks are critical because such restrictions can disqualify the issuer from making an IPO.
- (iii) *Promoter Shareholding:* The lead manager verifies whether there has been any complete change in promoters or significant acquisition of shares (over 50%) by new promoters within the past year. If such changes exist, the issuer may not be eligible to file the draft offer document immediately.
- (iv) *Promoter and Director Information:* All personal details, qualifications, and work experience of promoters and directors must be disclosed in the offer documents in an accurate manner and supported by documentary evidence. Investors rely heavily on this information for decision-making.
- (v) *Fraud and Criminal Case Checks:* The lead manager checks for any pending fraud allegations or criminal cases against promoters or directors. Reliable sources are referred to such as compliance databases, CIBIL reports, and platforms like 'Watchout Investors' to confirm the absence of such cases.

- (vi) *Financial Statements*: The lead manager examines audited financial statements and restated accounts to ensure accuracy and consistency with disclosures in the offer documents. This step is crucial to prevent misstatements that could mislead investors.
- (vii) *Litigation*: All litigations involving the issuer, promoters, directors, or group companies are assessed. The lead manager along with the company determine which cases are material and ensure they are disclosed in the offer documents to avoid regulatory issues later.
- (viii) *Secretarial and Regulatory Compliance*: Independent secretarial and operational diligence are conducted to confirm compliance with applicable laws. All necessary approvals, licenses, and consents for business operations are verified to ensure that they are valid and up to date.
- (ix) *Business Diligence*: The accuracy of business information disclosed in the offer documents are verified by the lead manager. This includes checking that the stated objects in the Memorandum of Association align with actual business activities. Site visits are thereafter conducted by the lead manager to confirm operations and prevent misleading statements.
- (x) *Risk Factor Diligence*: The lead manager reviews the risk factors disclosed in the offer documents for completeness and clarity. Any additional material risks not mentioned are identified and included. The language should be clear and not dilute the seriousness of the risks.
- (xi) *Board and Key Managerial Personnel (KMP) Guidance*: The lead manager assists the issuer in reviewing the composition of its board and identifying qualified KMPs. Where gaps exist, the lead manager may recommend suitable candidates to strengthen governance and compliance.



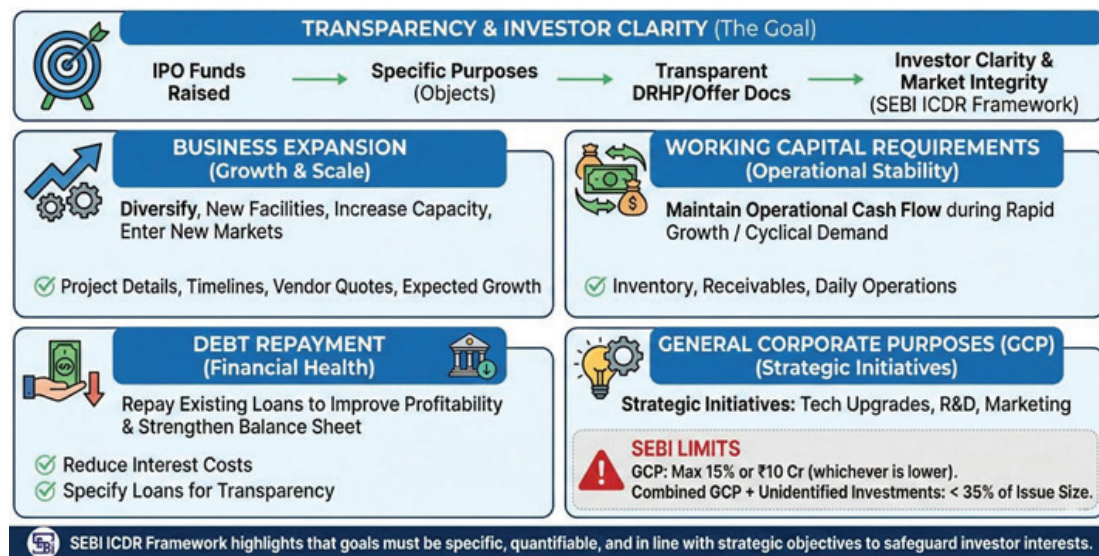
## 6.5. LIABILITY EXPOSURE

In case of any breach or default by a lead manager, being a merchant banker, of any securities laws or directions, instructions or circulars issued, SEBI may cancel or suspend the registration. Regulation 35 of the Merchant Banker Regulations states that a merchant banker who contravenes any of the provisions of the SEBI Act, 1992, rules or regulations will be held liable for one or more actions specified therein including the action under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

## 7. OBJECTS OF THE ISSUE AND UTILISATION OF ISSUE PROCEEDS

### 7.1. OBJECTS OF THE ISSUE AND UTILISATION OF ISSUE PROCEEDS

The objects of the issue represent the specific purposes for which a company intends to utilize the funds raised through an Initial Public Offering (IPO). These goals are essential to the DRHP and the offer documents that follow to list on the SME platform. Transparency is ensured and prospective investors are given a clear picture of how their contribution would support the company's expansion and operating plan when the issues are clearly stated. In order to safeguard investor interests and uphold market integrity, SEBI's ICDR Regulation framework highlights that these goals must be specific, quantifiable, and in line with the company's strategic objectives. Detail of some key objects of issue are set out below.



- (i) *Business Expansion*: Funds are often used to diversify product lines, set up new facilities, increase production capacity, or enter new markets. Objectives must include project details, timelines, vendor quotes, and expected revenue or market share growth for investor clarity.
- (ii) *Working Capital Requirements*: IPO proceeds help maintain operational cash flow during rapid growth or cyclical demand. Clear disclosure of allocation for inventory, receivables, and daily operations reassures investors about financial stability.
- (iii) *Debt Repayment*: Using funds to repay existing loans improves profitability, strengthens the balance sheet, and reduces interest costs. Issuers must specify which loans will be repaid for complete transparency.

(iv) *General Corporate Purposes (GCP)*: A small portion may be earmarked for strategic initiatives like technology upgrades, research and development, or marketing. SEBI limits GCP to 15% of total funds or ₹10 crore (whichever is lower), and combined GCP plus unidentified investments cannot exceed 35% of the issue size to prevent misuse.

## **7.2. Regulatory Safeguards and Compliance and Variations**

SEBI ICDR Regulations impose rigorous disclosure requirements to safeguard investors. Issuers must explicitly state the estimated amount of proceeds for each object and provide justification for their allocation. Post-issue, SMEs are required to report the actual utilization of funds, certified by the relevant intermediary ensuring accountability and preventing diversion of resources. Merchant bankers involved in the IPO are responsible for verifying that the disclosed objects are realistic, achievable, and aligned with the funds raised.

Furthermore, SEBI discourages vague or misleading statements in the offer documents. Broad terms like “business growth” or “corporate purposes” without quantifiable details are considered insufficient. The objects listed in the prospectus for which IPO funds were raised cannot be changed at will by a company. Any material deviation or variation from the stated objects after the IPO requires shareholder approval and detailed reporting in subsequent filings, reinforcing transparency and investor protection. According to Section 27 of the Companies Act, a special resolution of shareholders is required to approve any changes to the terms of a contract or the issue’s objects. The proposed adjustments and their justifications must be made explicit in the meeting notice. As mandated by the SEBI ICDR Regulations, shareholders who disagree with the modification are offered the opportunity to leave. Furthermore, the Directors’ Report for the end of the financial year must also include information on such variations. In the event that the initial objects of issue are changed, these protections, shareholder approval, exit opportunities for dissenting investors, and mandated disclosures guarantee that businesses stay accountable and that investor interests are safeguarded.

Vendor due diligence is a critical step in the IPO process, primarily to ensure transparency and avoid any conflicts of interest. This involves verifying that the vendors providing quotations in the DRHP are not related parties of the issuer, and that their past contracts and financial statements over the last 3 years are legitimate and consistent. The quotations provided must also be in line with prevailing industry standards to ensure fair valuation of proposed purchases. Equally important is the preparation of a project report by an independent certified engineer. This report evaluates the technical feasibility, cost estimates, project phases, and timelines, confirming that the proposed capital expenditure is necessary and aligned with the company’s operational objectives. Additionally, peer reviewed auditors provide certificates verifying both the deployment of funds and the implementation plan described in the DRHP. These certifications confirm that issue proceeds are being applied appropriately, mitigating financial and regulatory risks. Together, vendor due diligence, independent project reports, and auditor certifications provide a robust framework for transparency, regulatory compliance, and investor confidence, ensuring that the intended objectives are achieved.

Further, in case one of the objects of the Issue consists of Working Capital, the issuer should ensure that the proposed requirement and numbers are justified and in consistent with the past financial activities of the company.

### 7.3. FRAMEWORK OF ESCROW ACCOUNT

Successful capital markets are built on the trust of investors. Public offerings such as IPOs are important sources of funding for businesses, but they also provide dangers to investors. SEBI has implemented strict regulatory measures, such as the use of escrow accounts, to safeguard investors' interests and prevent these hazards. Escrow arrangements, which guarantee that funds be safely held and delivered only after fulfilling predetermined requirements, have become an essential component of capital market transactions.

Application money of the investors are initially placed in escrow accounts held with scheduled commercial banks that have been approved by SEBI when they participate in an

IPO. These funds are not immediately available to the issuer company. A minimum subscription of 90% of the fresh offer amount and compliance with applicable provisions of the Securities Contracts (Regulation) Rules, 1957 is required for the IPO to be legitimate, if not, the issue fails and investors' money is returned. The money is transferred to the business from the escrow account after the minimum subscription is fulfilled and the business obtains the required listing approvals from stock exchanges. However, in case the issue falls short to subscribe to the minimum subscription amount, the funds are returned to the investors. Where the funds are not returned within 4 days after the issuer becomes liable to repay to the investors, the issuer is mandated to pay interest at the rate of 15% per annum.

### 7.4. REQUIREMENT OF MONITORING AGENCY

Following the IPO, the issuer company must only utilize the money raised for the objects specified in its offer document. A monitoring agency (a credit rating agency registered with SEBI) shall be assigned to confirm the use of funds if the issue size exceeds Rs. 50 crores. If the issue size does not exceed Rs. 50 crores, the requirement of appointing monitoring agency is not mandated. In order to ensure investor transparency, issuers are also required to provide quarterly reports on the use of funds to their audit committees and to stock exchanges. The use of funds must be disclosed explicitly. Investor interests are safeguarded and IPO funds are handled responsibly in accordance with regulatory standards owing to the systemised process, which covers fund collecting, restricted release, monitoring, and disclosure.

## 8. POST-LISTING REQUIREMENTS

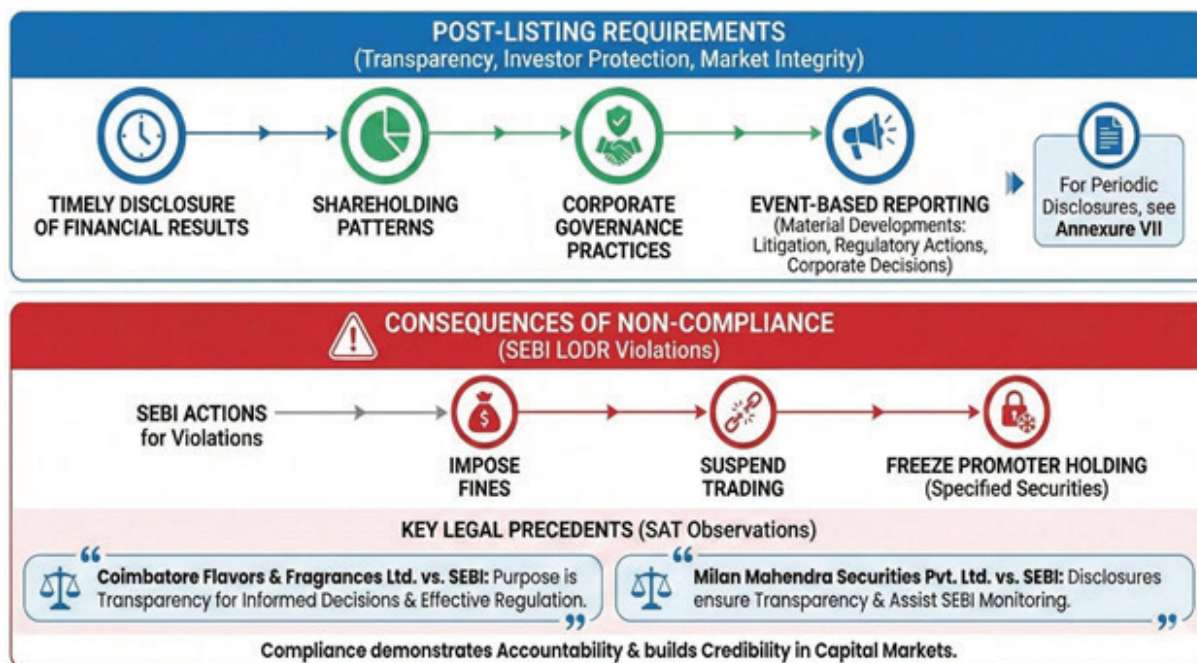
Once a company is listed on the SME Exchange, whether on BSE SME or NSE Emerge, it must follow the post-listing compliance requirements that are designed to ensure transparency, protect investors, and maintain market integrity. These norms, framed by SEBI and implemented through the SME Exchanges, cover timely disclosure of financial results, shareholding patterns, corporate governance practices, and event-based reporting of material developments such as litigation, regulatory actions, or significant corporate decisions. By complying with these obligations, SMEs demonstrate accountability to shareholders and build credibility in the capital markets.

*For details of periodic disclosures applicable post-listing, see 'Post-Listing Period Disclosures' provided in Annexure VII.*

As per the proviso to Regulation 280 of SEBI ICDR Regulations, wherein the SME company whose post-issue paid-up capital increases beyond ₹25 crores, the issuer shall undertake to comply with

the provisions of the SEBI LODR Regulations, as applicable to companies listed on the main board of the stock exchange(s) which shall be applicable w.e.f. March 8, 2025.

As per the amendments effective from April 1, 2025, Regulation 23 of the SEBI LODR Regulations relating to the related party transactions applies to SME listed entities if their paid-up equity share capital or net worth exceeds specified thresholds, i.e., paid up equity exceeding ₹10 crores or net worth exceeding ₹25 crores.



### 8.1. CONSEQUENCES OF NON-COMPLIANCE

In case of any violation of the SEBI LODR Regulations, the concerned stock exchange may impose fines, suspend trading, freeze the promoter or promoter group holding of specified securities or take any other action as specified by SEBI in the Master Circular for compliance with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 by listed entities dated November 11, 2024.

In the case of Coimbatore Flavors & Fragrances Ltd. vs. SEBI, the Hon’ble Securities Appellate Tribunal (“SAT”) observed that the purpose of disclosures is to bring about more transparency in the affairs of the companies. True and timely disclosures by a company or its promoters is very essential that investors can take a more informed decision to invest or not to invest in a particular security and that SEBI can properly monitor the transactions in the capital market to effectively regulate the same.

Further, in the matter of Milan Mahendra Securities Pvt. Ltd. vs. SEBI dated April 15, 2005 (*Appeal No. 66 of 2003*), the Hon’ble SAT, also held that the purpose of the disclosures is to bring about transparency in the transactions and assist SEBI to effectively monitor the transactions in the market.

## 9. SUPPORT AND RESOURCES FOR ISSUERS

The SME IPO ecosystem in India is supported by a comprehensive legal and regulatory framework designed to balance ease of access to capital markets with investor protection. Issuers seeking to list on SME platforms of NSE (NSE EMERGE) or BSE Limited (BSE SME) must navigate SEBI regulations, Companies Act provisions, and stock exchange requirements. This chapter compiles the key statutory, regulatory, and operational resources available to Issuers and their advisors, serving as a practical reference point during IPO planning, execution, and post-listing compliance. The framework highlights not only the primary regulations but also supplementary circulars, exchange guidelines, and evolving market practices relevant to SMEs.

SME IPOs in India are primarily governed by SEBI ICDR Regulations with specific SME provisions, and the SEBI LODR for post-listing compliance. Both the stock exchanges in India, i.e. NSE and BSE, prescribe additional SME-specific eligibility and process requirements through their circulars and listing pages. Further, exchange circulars are rolled out from time to time illustrating IPO-related activities such as market making, underwriting, lot sizes, application mechanisms, allotment procedures and disclosure standards for practical implementation.

### LEGAL FRAMEWORK

Sr. No.	Description	Reference
1.	Securities Contracts (Regulation) Act, 1956	<a href="https://www.sebi.gov.in/acts/contractact.pdf">https://www.sebi.gov.in/acts/contractact.pdf</a>
2.	Securities Contracts (Regulation) Rules, 1957	<a href="https://www.sebi.gov.in/legal/rules/jan-2023/securities-contracts-regulation-rules-1957-last-amended-on-january-2-2023-67101.html">https://www.sebi.gov.in/legal/rules/jan-2023/securities-contracts-regulation-rules-1957-last-amended-on-january-2-2023-67101.html</a>
3.	Companies Act, 2013	<a href="https://www.mca.gov.in/content/dam/mca/pdf/CompaniesAct2013.pdf">https://www.mca.gov.in/content/dam/mca/pdf/CompaniesAct2013.pdf</a>
4.	Companies (Share Capital and Debenture) Rules, 2014	<a href="https://www.sebi.gov.in/sebi_data/attachdocs/apr-2017/1492085873402.pdf">https://www.sebi.gov.in/sebi_data/attachdocs/apr-2017/1492085873402.pdf</a>
5.	SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 <ul style="list-style-type: none"> <li>- Chapter IX stipulates provisions for SME IPOs, including general IPO provisions such as DRHP/RHP, allocation, anchor investors, underwriting, market making, price band, bidding, minimum application/lot.</li> <li>- Schedule VI contains disclosures to be made in the offer document for SME IPOs.</li> <li>- Schedule X stipulates formats for issue opening and closing advertisements.</li> <li>- Schedule XIII lays down comprehensive procedures for book-built issues.</li> </ul>	<a href="https://www.sebi.gov.in/legal/regulations/sep-2025/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-september-09-2025-96753.html">https://www.sebi.gov.in/legal/regulations/sep-2025/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-september-09-2025-96753.html</a>
6.	SEBI FAQs on SEBI ICDR Regulations	<a href="https://www.sebi.gov.in/sebi_data/faqfiles/may-2025/1747290561386.pdf">https://www.sebi.gov.in/sebi_data/faqfiles/may-2025/1747290561386.pdf</a>

Sr. No.	Description	Reference
7.	SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Applicable to listed SME Issuers for ongoing disclosures and corporate governance (with certain exclusions for SME listed Issuers).	<a href="https://www.sebi.gov.in/legal/regulations/sep-2025/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-september-08-2025-96749.html">https://www.sebi.gov.in/legal/regulations/sep-2025/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-september-08-2025-96749.html</a>
8.	SEBI FAQs on SEBI LODR	<a href="https://www.sebi.gov.in/sebi_data/faqfiles/apr-2025/1745399101865.pdf">https://www.sebi.gov.in/sebi_data/faqfiles/apr-2025/1745399101865.pdf</a>
9.	SEBI (Merchant Bankers) Regulations, 1992	<a href="https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-merchant-bankers-regulations-1992-last-amended-on-february-10-2025-92447.html">https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-merchant-bankers-regulations-1992-last-amended-on-february-10-2025-92447.html</a>
10.	SEBI Master Circular for Issue of Capital and Disclosure Requirements dated November 11, 2024 (Ref. no.: SEBI/HO/CFD/PoD-1/P/CIR/2024/0154)	<a href="https://www.sebi.gov.in/legal/master-circulars/nov-2024/master-circular-for-issue-of-capital-and-disclosure-requirements-88398.html">https://www.sebi.gov.in/legal/master-circulars/nov-2024/master-circular-for-issue-of-capital-and-disclosure-requirements-88398.html</a>
11.	SEBI Circular on Industry Standards on Key Performance Indicators (“KPIs”) Disclosures in the draft Offer Document and Offer Document dated February 28, 2025 (Ref. no.: SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/28)	<a href="https://www.sebi.gov.in/legal/circulars/feb-2025/industry-standards-on-key-performance-indicators-kpis-disclosures-in-the-draft-offer-document-and-offer-document_92380.html">https://www.sebi.gov.in/legal/circulars/feb-2025/industry-standards-on-key-performance-indicators-kpis-disclosures-in-the-draft-offer-document-and-offer-document_92380.html</a>
12.	SEBI Circular on Repository of documents relied upon by Merchant Bankers during due diligence process in Public issues dated December 05, 2024 (Ref. no.: SEBI/HO/CFD/CFD-TPD-1/P/CIR/2024/170)	<a href="https://www.sebi.gov.in/legal/circulars/dec-2024/repository-of-documents-relied-upon-by-merchant-bankers-during-due-diligence-process-in-public-issues_89321.html">https://www.sebi.gov.in/legal/circulars/dec-2024/repository-of-documents-relied-upon-by-merchant-bankers-during-due-diligence-process-in-public-issues_89321.html</a>
13.	SEBI Master Circular for Registrars to an Issue and Share Transfer Agents dated June 23, 2025 (Ref. no.: SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/91)	<a href="https://www.sebi.gov.in/legal/master-circulars/jun-2025/master-circular-for-registrars-to-an-issue-and-share-transfer-agents_94735.html">https://www.sebi.gov.in/legal/master-circulars/jun-2025/master-circular-for-registrars-to-an-issue-and-share-transfer-agents_94735.html</a>
14.	SEBI Guidelines for returning of draft offer document and its resubmission dated February 06, 2024 (Ref. no.: SEBI/HO/CFD/PoD-1/P/CIR/2024/009)	<a href="https://www.sebi.gov.in/legal/circulars/feb-2024/guidelines-for-returning-of-draft-offer-document-and-its-resubmission_81146.html">https://www.sebi.gov.in/legal/circulars/feb-2024/guidelines-for-returning-of-draft-offer-document-and-its-resubmission_81146.html</a>
15.	SEBI Consultation paper on Review of SME segment framework under SEBI ICDR Regulations, and applicability of corporate governance provisions under SEBI LODR on SME companies to strengthen pre-listing and post-listing SME provisions	<a href="https://www.sebi.gov.in/reports-and-statistics/reports/nov-2024/consultation-paper-on-review-of-sme-segment-framework-under-sebi-icdr-regulations-2018-and-applicability-of-corporate-governance-provisions-under-sebi-lodr-regulations-2015-on-sme-companies-to-88627.html">https://www.sebi.gov.in/reports-and-statistics/reports/nov-2024/consultation-paper-on-review-of-sme-segment-framework-under-sebi-icdr-regulations-2018-and-applicability-of-corporate-governance-provisions-under-sebi-lodr-regulations-2015-on-sme-companies-to-88627.html</a>

Sr. No.	Description	Reference
16.	SEBI 208 <sup>th</sup> Board Meeting dated December 18, 2024 (PR No. 36/2024) approving the review of SME framework under SEBI ICDR Regulations and applicability of corporate governance provisions under SEBI LODR on SME companies	<a href="https://www.sebi.gov.in/media-and-notifications/press-releases/dec-2024/sebi-board-meeting_90042.html">https://www.sebi.gov.in/media-and-notifications/press-releases/dec-2024/sebi-board-meeting_90042.html</a>

## EXCHANGE FRAMEWORK

### 9.1. National Stock Exchange of India Limited

Sr. No.	Description	Reference
1.	Readiness assessment	<a href="https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-assess-your-readiness">https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-assess-your-readiness</a>
2.	Eligibility criteria	<a href="https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-eligibility-criteria">https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-eligibility-criteria</a>
3.	Listing requirements and process - SME procedure	<a href="https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-requirements-and-process">https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-requirements-and-process</a>
4.	Migration to main board	<a href="https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-selecting-a-migration-to-main-board">https://www.nseindia.com/companies-listing/raising-capital-public-issues-emerge-selecting-a-migration-to-main-board</a>
5.	Listing fees	<a href="https://www.nseindia.com/companies-listing/raising-capital-sme-itp-public-issues-listing-fees">https://www.nseindia.com/companies-listing/raising-capital-sme-itp-public-issues-listing-fees</a>
6.	Merchant Banker - Roles and Responsibilities	<a href="https://www.nseindia.com/products-services/emerge-sme-merchant-bankers-roles-responsibilities">https://www.nseindia.com/products-services/emerge-sme-merchant-bankers-roles-responsibilities</a>
7.	NSE Circular on Additional Eligibility Criteria for listing on NSE EMERGE dated August 22, 2024 (Ref. no.: 03/2024)	<a href="https://nsearchives.nseindia.com/content/circulars/SME63532.pdf">https://nsearchives.nseindia.com/content/circulars/SME63532.pdf</a>
8.	NSE Circular on Revision in Eligibility Criteria for Migration from NSE SME Platform to NSE Main Board dated April 24, 2025 (Ref. no.: 0680/2025)	<a href="https://nsearchives.nseindia.com/content/circulars/CML67671.pdf">https://nsearchives.nseindia.com/content/circulars/CML67671.pdf</a>
9.	NSE Circular in respect of the SEBI Circular on the Industry Standards Note on KPIs Disclosures in the draft Offer Document and Offer Document dated February 28, 2025 (Ref. no.: NSE/CML/2025/08)	<a href="https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Circular.pdf">https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Circular.pdf</a>
10.	NSE Checklist for In-Principle Approval of Initial Public Offer (NSE Emerge)	<a href="https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Checklist_for_in-principle_approval_NSE_Emerge_Platform_17.zip">https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Checklist_for_in-principle_approval_NSE_Emerge_Platform_17.zip</a>

Sr. No.	Description	Reference
11.	Exchange's Guidelines for returning of draft offer documents filed with the Exchange for listing on NSE Emerge Platform	<a href="https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Return_Policy_NSE_Emerge_Platform_1.zip">https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Return_Policy_NSE_Emerge_Platform_1.zip</a>
12.	NSE Circular on the changes in the bidding process (New Process) for SME IPOs pursuant to the amendments to SEBI (ICDR) (Amendment) Regulations, 2025 dated June 18, 2025 (Ref. no.: NSE/IPO/68604)	<a href="https://nsearchives.nseindia.com/content/circulars/IPO68604.pdf">https://nsearchives.nseindia.com/content/circulars/IPO68604.pdf</a>
13.	Circulars issued to Listed Companies - Equity	<a href="https://www.nseindia.com/companies-listing/circular-for-listed-companies-equity-market">https://www.nseindia.com/companies-listing/circular-for-listed-companies-equity-market</a>

## 9.2. BSE Limited

Sr. No.	Description	Reference
1.	Criteria for new listing	<a href="https://www.bsesme.com/static/getlisted/criteriaisting.aspx?expandable=0">https://www.bsesme.com/static/getlisted/criteriaisting.aspx?expandable=0</a>
2.	Guidelines for listing	<a href="https://www.bsesme.com/static/getlisted/guidelineslisting.aspx?expandable=0">https://www.bsesme.com/static/getlisted/guidelineslisting.aspx?expandable=0</a>
3.	Checklist for Initial Public Offer	<a href="https://www.bsesme.com/downloads/Checklist_for_Initial_Public_offer.pdf">https://www.bsesme.com/downloads/Checklist_for_Initial_Public_offer.pdf</a>
4.	Listing procedure	<a href="https://www.bsesme.com/static/getlisted/listingprocedure.aspx?expandable=0">https://www.bsesme.com/static/getlisted/listingprocedure.aspx?expandable=0</a>
5.	Migration from SME exchange to main board	<a href="https://www.bsesme.com/static/getlisted/Migration_from_SME_Exchange_to_Main_Board.aspx">https://www.bsesme.com/static/getlisted/Migration_from_SME_Exchange_to_Main_Board.aspx</a>
6.	BSE Circular on Introduction of AI Based Assistance for DRHPs filed on the BSE SME Platform	<a href="https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20250617-3">https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20250617-3</a>

For SME Issuers, careful adherence to the regulatory framework is crucial for a smooth and compliant IPO journey. This chapter, while not exhaustive, captures the principal legal and regulatory sources that shape the SME IPO process in India. Issuers are encouraged to monitor SEBI circulars, stock exchange updates, and industry advisories for changes that may impact their IPO planning. When read in conjunction with merchant bankers' guidance and professional legal advice, these resources provide a strong foundation for Issuers aspiring to tap India's capital markets successfully.

## FREQUENTLY ASKED QUESTIONS

### 1. What is SME IPO Listing?

*Just like main board Initial public offering, now Small and Medium Enterprises (SMEs) can also raise money from general public by listing their shares in BSE or NSE. This is called as SME IPO listing. For the same, they need to fulfill some criteria and convert their companies/firms into Public limited company.*

**2. What is the relaxation provided by SEBI for SME IPO?**

Following SEBI ICDR Regulations are not applicable to SME IPO:- 6(1), 6(2), 6(3), 7, 8, 9, 10, 25, 26, 27, 49(1).

**3. Whether Grading of IPO is compulsory for listing on SME Exchange?**

Regulation 26 is not applicable to SME IPO. Hence, IPO grading is not compulsory for listing on SME Exchange.

**4. What are the capital gain tax benefits by listing on BSE SME?**

The tax benefits are immense. The unlisted shares will attract short term capital gains (STCG) tax upto 30% and long term capital gains tax (LTCG) of 20%. Whereas in listed securities, the STCG tax is 15% and LTCG tax is nil respectively, provided an investor has paid Securities transaction Tax.

**5. What are the provisions for publishing unaudited/ audited financials?**

Submission of half yearly results instead of quarterly results to the exchange where the shares are listed and no requirement of publishing of financial results and notices of Board Meetings to adopt audited / unaudited results.

**6. Who is a lead manager?**

A lead manager (LM), i.e., merchant banker, who manages the entire IPO exercise and acts as the guide to the Issuer in all matters relating to the public issue. The LM should be a SEBI- registered Category-I and is responsible for preparing and filing the Offer Document of Issue with SEBI & Registrar of Companies (ROC). The LM ensures that all information presented before the investing public is proper. The LM advises the company on the price band, the timing of the issue etc. LM is required to market the issue. The LM also co- ordinates between the company and other intermediaries like registrars, legal advisors, bankers etc.

**7. What is Price Discovery?**

Based on demand at various prices, Issuer, in consultation with LMs decides the final price of the offer. The price thus finalized is called discovered price.

**8. Who is a registrar to the Issue?**

A Registrar to an Issue is a SEBI-registered intermediary, qualified to act as such, and who electronically processes all the applications and carries out the allotment process, as per the rules/prospectus. The Registrar is responsible for complying with the time deadlines of updating the electronic credit of shares to the successful applicants, dispatching/uploading of refunds and attending to all investor related queries after the issue is completed. Usually, the Registrar continues to work with the company, even after the IPO, as its Registrar and Transfer Agent.

**9. Is SEBI approval needed for SME IPO?**

No, approval is granted by the stock exchange, not SEBI, though SEBI guidelines for SME IPO must be followed.

**10. Can SMEs list directly on the mainboard?**

Only if they meet the mainboard eligibility norms; otherwise, they must start with the SME platform of the Stock Exchanges and comply with the SEBI ICDR Regulations.





**Registered Office**

A/302, Kanakia Zillion LBS Marg, Kurla (W), Mumbai - 400 070

Tel.: 91 22 4778 7991 | 91 22 4824 8928

Website : [www.aibi.org.in](http://www.aibi.org.in)