

**Review of provisions of SEBI (Issue of
Capital and Disclosure Requirements)
Regulations, 2018 related to Initial Public
Offer by Small and Medium Enterprises**

**Working Group Report
August 2026**

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ABBREVIATIONS AND ACRONYM

Abbreviations / Acronyms	Definitions
ACE	ACE Market
AIBI	Association of Investment Bankers of India
AIF	Alternative Investment Fund
BSE	BSE Limited
BSE SME	BSE SME – BSE's SME Platform
Catalist	Catalist – Singapore Exchange's sponsor-supervised growth market
DRHP	Draft Red Herring Prospectus
EBIT	Earning Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EMERGE	NSE Emerge – NSE's SME Platform
FAQs	Frequently Asked Questions
FY	Financial Year
GCP	General Corporate Purpose
GDP	Gross Domestic Product
ICAI	The Institute of Chartered Accountants of India
ICDR	Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018
ICSI	The Institute of Company Secretaries of India
IDX	Indonesia Stock Exchange
IPO	Initial Public Offer
LEAP	Leading Entrepreneur Accelerator Platform
LLP	Limited Liability Partnership
LODR	Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015
MSME	Micro, Small and Medium Enterprises
MSMED Act	Micro, Small and Medium Enterprises Development Act, 2006
NII	Non – Institutional Investor
NSE	National Stock Exchange of India Limited
OFS	Offer For Sale
PAN	Permanent Account Number
PSE	Philippine Stock Exchange
QIB	Qualified Institutional Buyer
RII	Retail Individual Investor
RM	Malaysian Ringgit
RoC	Registrar of Companies
SEBI	Securities and Exchange Board of India
SGX	Singapore Exchange
SME	Small and Medium Enterprises
SR	Superior Rights
STT	Securities Transaction Tax

SUBMISSION OF REPORT

August 19, 2026

Shri Kamlesh Chandra Varshney,
Whole Time Member
Securities and Exchange Board of India (SEBI)

Dear Sir,

We are pleased to submit the report of the “Working Group for Review of the Provisions of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 relating to Initial Public Offer by Small and Medium Enterprises”. In line with its mandate, the Working Group undertook a detailed examination of the existing regulatory framework governing SME public issues, including the eligibility requirements, issue and allocation framework, investor participation, liquidity, cost of fund raising, lock-in and migration provisions. The Working Group also examined the need to align the SME framework with the Main Board framework, wherever appropriate, while retaining such SME-specific safeguards as may be necessary having regard to the nature and risk profile of SME issuers.

We thank you for entrusting this responsibility to the Working Group. We hope that the proposals and recommendations made by the Working Group will contribute towards strengthening the SME capital market framework, facilitating access to capital for growth-oriented enterprises, rationalising the cost and compliance burden associated with raising capital, and broadening investor participation, while maintaining appropriate standards of investor protection and market integrity.

Yours Sincerely,

Sd/-
Ankit Sharma
Co-Chair

Sd/-
Geetha Gangadharan
Co-Chair

ACKNOWLEDGMENTS

The Working Group would like to convey its deep gratitude to the representatives of SEBI, Stock Exchanges, industry bodies and other stakeholders for their valuable suggestions, insights and constructive inputs during the course of the deliberations. Their contributions have been instrumental in enabling the Working Group to undertake a comprehensive review of the regulatory framework governing SME public issues and to complete the assignment in a timely manner.

The Working Group would like to place on record its appreciation for Shri Rajesh Kumar Dangeti, Chief General Manager, SEBI, Shri Narendra Rawat, General Manager, SEBI, Shri Raj Kumar Das, Deputy General Manager, SEBI and Shri Adesh Singhal, Manager, SEBI who assisted the Working Group in undertaking the detailed examination of the existing regulatory framework, analyzing the various regulatory and operational issues, formulating recommendations for its review and drafting of this report. Their dedicated efforts and substantive contributions were instrumental in enabling the Working Group to meet the timelines and prepare a comprehensive report.

The Working Group would also like to thank Smt. Yukti Sharma, Shri Lokesh Bhandari, Shri Yogesh Deshmukh and Smt. Parvati Murthy from NSE, Shri Vishal Jhaveri, Smt. Radha Kirthivasan, Shri Hardik Bhuta and Shri Anurag Jain from BSE, Shri Milind Dalvi, CEO, AIBI, Officials of ICAI and Officials of ICSI for their valuable support and practical insights on various aspects of the SME IPO framework, including eligibility, issue structure, investor participation, trading and liquidity, underwriting, market making, cost of fund raising and migration between market segments.

The Working Group places on record its gratitude to Shri Jeevan Sonparote, Executive Director, SEBI his guidance and support to the Working Group.

EXECUTIVE SUMMARY

India's journey towards Viksit Bharat @2047 will necessarily be driven by the ability of its enterprises to scale, innovate, generate employment and integrate with domestic and global value chains. In this journey, Micro, Small and Medium Enterprises (MSMEs) are not merely a segment of smaller businesses requiring regulatory support; they are an important engine of India's economic growth. The Economic Survey 2025-26 notes that MSMEs account for approximately 31.1% of India's GDP, 35.4% of manufacturing output and 48.58% of exports, while providing employment to more than 38.9 crore persons. The Government has also articulated an ambition for MSMEs to contribute 50% of India's GDP by 2030, while India pursues the broader objective of becoming a developed economy by 2047.

The scale of formalisation of the MSME sector itself demonstrates the magnitude of this opportunity. As of July 2026, the Udyam Registration Portal records over 5.15 crore Udyam registrations, in addition to registrations under the Udyam Assist Platform. This formalisation represents a vast and continuously expanding universe of enterprises at different stages of their growth journey. The capital market framework should therefore facilitate a pathway for enterprises that have demonstrated the potential and ambition to scale, rather than treating public listing merely as a compliance milestone.

The SME Platform has itself evolved significantly since its first listing in 2012. What began as a platform intended to provide access to risk capital to smaller and emerging enterprises has, over the last fourteen years, developed into an established segment of India's equity market. NSE Emerge has 743 listing, while BSE SME has also 753 listings. As on July 31, 2026, 743 SMEs were listed on NSE EMERGE and 753 SMEs were listed on BSE SME, with a combined market Capitalization of around ₹4.7 lakh crore, and 365 SME companies having migrated to the Main Board. The increasing number of migrations demonstrates that the SME Platform is increasingly functioning as a growth escalator, enabling enterprises to access equity capital, strengthen governance and eventually graduate to the Main Board.

This evolution necessitates a corresponding evolution in the regulatory framework. The SME Platform should increasingly be viewed as part of the growth journey of an enterprise, rather than simply as a lighter-compliance alternative to the Main Board. The framework should enable an enterprise to access public equity capital when it is ready to scale, while ensuring that the regulatory requirements remain proportionate to the size, stage and risks of the enterprise. In this context, cost of fund raising and compliance burden need to be recalibrated, while substantive standards of disclosure, due diligence and investor protection must remain firmly embedded in the framework.

The Working Group has accordingly proposed a review of the eligibility framework. The existing reliance on post-issue paid-up capital does not necessarily reflect the economic scale, valuation, revenues or growth potential of an enterprise. The proposed framework therefore shifts towards market Capitalization as the principal quantitative measure, with an issuer having post-issue market Capitalization up to ₹1,000 crore required to access the SME Platform and issuers with market Capitalization above ₹1,000 crore and up to ₹4,000 crore also being permitted to access the Platform. This is supplemented by a requirement of completion of four consecutive financial quarters following conversion or business reorganization and a move from a mandatory year-wise profitability test to an average operating profit of at least ₹3 crore over the preceding three financial years.

The framework for use of issue proceeds and Offer for Sale has also been recalibrated. The proposed removal of the ₹10 crore absolute ceiling on General Corporate Purpose, while retaining the 15% limit, would provide proportionate flexibility to larger SME issuers. The OFS framework would be aligned with the Main Board by introducing a one-year holding principle for securities offered for sale, while providing appropriate flexibility to genuine QIB investors and retaining safeguards against the IPO being used primarily as an exit mechanism by promoters.

The lock-in framework has similarly been recalibrated to preserve promoter commitment while providing greater certainty and liquidity to other shareholders. The three-year lock-in for Minimum Promoters' Contribution would be retained, but reckoned from the date of allotment; excess promoter holding would be subject to a one-year lock-in; non-promoter pre-issue capital would have a six-month lock-in; and specified promoter group holdings would be subject to a one-year lock-in. These changes seek to balance investor protection, promoter commitment and secondary-market liquidity.

A significant part of the proposed reform relates to investor participation and liquidity. India's securities market has undergone a fundamental transformation in recent years. The number of demat accounts has reached approximately 22.9 crore, while monthly SIP contributions have risen to ₹31,781 crore, reflecting the growing participation of domestic investors and the increasing financialization of household savings. In this environment, the continued exclusion of domestic retail investors from meaningful participation in the SME Platform is increasingly difficult to reconcile with the evolution of India's capital markets. The Working Group therefore proposes to align the SME allocation framework with the Main Board, including a 35% allocation to Retail Individual Investors, 15% to Non-Institutional Investors and up to 50% to QIBs, together with an express provision for Anchor Investors. The Working Group has further recommended rationalization of the minimum application and trading lot framework, including a minimum application of two lots subject to the application value being above ₹1 lakh, allotment of at least one lot to each Retail Individual Investor subject to availability, and, importantly, rationalization of the trading lot to one share.

The proposed one-share trading lot is intended to address a specific structural impediment to liquidity—the creation of odd-lot positions arising from large prescribed trading lots. By enabling investors to transact in individual shares, the framework would make the SME market more accessible and facilitate more efficient exit and entry by investors. This is particularly relevant in the context of the proposed wider participation of domestic retail investors.

The Working Group has also sought to rationalize the cost of fund raising. The existing SME-specific hard underwriting requirement and compulsory market-making framework can impose significant costs irrespective of actual subscription demand or liquidity conditions. It is therefore proposed to remove the requirement of 100% underwriting and the additional requirement for lead manager(s) to underwrite 15% of the issue on their own account, while retaining the underwriting requirements applicable to the Main Board. Compulsory market making would also be removed. At the same time, a minimum subscription requirement would be introduced to ensure that an issue proceeds only where there is adequate actual investor demand. The framework would accordingly move from mandatory subscription-support and liquidity-support mechanisms towards a more market-based framework, without diluting substantive investor protection.

The migration framework is proposed to reinforce the role of the SME Platform as a growth and transition platform. The option for migration from the Main Board to the SME Platform would be removed, while migration from SME to Main Board would be linked to market Capitalization, with issuers having market Capitalization of ₹1,000 crore or more but less than ₹4,000 crore being permitted to migrate subject to the Main Board conditions. This would establish a clear one-way growth pathway, under which an enterprise graduates to the Main Board as it achieves greater scale, rather than moving to a less stringent regulatory framework.

The Working Group has also proposed alignment with the Main Board wherever the underlying regulatory rationale is common, while retaining SME-specific requirements where they continue to provide meaningful investor protection or transparency. This includes strengthening lead manager responsibilities at the draft offer document stage, providing for filing of updated draft offer documents following observations or specified changes, aligning specified filing requirements, and removing SME-specific provisions which no longer serve a distinct regulatory purpose. These changes seek to simplify the regulatory architecture and reduce unnecessary compliance burden without diluting substantive safeguards.

Recognizing that regulatory reform must be accompanied by greater awareness and stronger market practices, the Working Group has also recommended that SEBI consider launching an umbrella project to enhance awareness among SME issuers and investors through focused digital content. The initiative should, inter alia, seek to improve understanding of the SME Platform, the risks associated with investing in SME securities, regulatory requirements and responsible participation in the market. The project should also focus on making Merchant Banker due diligence more robust, particularly in relation to SME public issues. A dedicated sub-group of the Working Group would continue to assist SEBI in formulating the strategy and implementation framework for the proposed project, thereby ensuring that the regulatory reforms are complemented by stronger awareness, preparedness and due-diligence standards.

The Working Group took note of the measures undertaken by SEBI in its previous review of the SME framework, pursuant to which various provisions were strengthened to address emerging concerns relating to investor protection, market integrity and the manner in which SME issues were being accessed and traded. The Working Group recognises the importance and continuing relevance of these safeguards and has not approached the present review with a presumption of dilution of the regulatory framework. At the same time, the Group considered that the SME capital market has evolved materially since the earlier review, both in terms of the size and profile of issuers and the participation of investors.

Accordingly, the Working Group has adopted a calibrated approach by retaining the core safeguards necessary for investor protection and market integrity, while examining whether certain requirements continue to be proportionate to their underlying regulatory objective. The recommendations therefore distinguish between provisions that are fundamental to investor protection and those where rationalisation, alignment with the Main Board framework or a more proportionate approach may facilitate ease of doing business and reduce the cost of compliance without compromising investor protection.

The approach of the Working Group is therefore not one of deregulation of the SME segment, but of moving towards proportionate regulation—preserving the safeguards necessary for investor protection while enabling genuine and growing enterprises to access the capital markets in a cost-effective and sustainable manner.

Taken together, the recommendations seek to reposition the SME Platform for the next phase of India's growth story. The objective is neither to make the SME Platform a replica of the Main Board nor to dilute the safeguards applicable to smaller and potentially higher-risk issuers. Rather, it is to create a framework that recognizes that today's SME can be tomorrow's significant enterprise. Listing should therefore be viewed not as the culmination of an enterprise's journey, but as a stage in its journey of growth, formalization, governance, capital formation and eventual graduation to the Main Board.

The proposed framework accordingly seeks to achieve four broad objectives: (i) facilitate access to growth capital for enterprises that have demonstrated scale and potential; (ii) make the cost of fund raising and compliance burden proportionate to the nature and size of the issuer; (iii) broaden participation of domestic investors while strengthening investor awareness and protection; and (iv) provide a clear pathway for successful SME issuers to graduate to the Main Board. In doing so, the Working Group believes that the proposed reforms can contribute to building a deeper, more inclusive and resilient SME capital market, and support the Government's broader vision of Viksit Bharat @2047.

CHAPTER 1 : INTRODUCTION

1. Need for a dedicated SME Capital Market Framework

The public capital market framework is principally designed for enterprises with an established scale of operations, relatively mature governance structures, longer operating histories and the institutional capacity to meet the extensive disclosure and compliance requirements associated with public listing. Applying the same framework without calibration to smaller and emerging enterprises could result in regulatory requirements and associated costs that are disproportionate to their size and stage of development.

At the same time, smaller enterprises can have significant growth potential and may require access to equity capital well before they reach the scale ordinarily associated with Main Board companies. A regulatory framework that requires an enterprise to first attain the scale of a mature listed company before accessing public equity would, in effect, deny the capital market precisely at the stage when growth capital may be most valuable.

The SME framework was therefore conceived as a calibrated regulatory framework, not as a framework with lower standards of investor protection, but as one that recognizes the distinctive characteristics of emerging enterprises and appropriately calibrates the regulatory requirements applicable to them.

The underlying policy rationale was to achieve a balance between two objectives: facilitating access to capital for deserving enterprises and ensuring that investors are adequately protected against the additional risks associated with investing in smaller and less mature businesses.

2. Need for a Dedicated SME Platform

A separate regulatory framework necessarily required a dedicated market infrastructure through which such securities could be listed and traded.

The SME Platform was accordingly envisaged as a specialized ecosystem where the requirements applicable to issuers, intermediaries and investors could be calibrated to the characteristics of SME securities. The Platform also enabled the development of specialized processes and market practices for smaller issuers, while providing investors with a regulated avenue to participate in the growth of such enterprises.

Importantly, the SME Platform was never intended to represent a permanent alternative to the Main Board. Its underlying conception was that an enterprise could access public capital at an earlier stage of its development, build scale and institutional capacity, and subsequently graduate to the Main Board as it grows.

The Platform therefore has a dual role: facilitating access to capital at the growth stage and providing a pathway towards participation in the broader Main Board market.

3. Evolution of the SME Platform

The SME Platform has now completed more than fifteen years of its evolution. During this period, the market has moved substantially beyond its initial stage of establishing credibility and demonstrating the viability of the SME listing model.

The increase in the number of listings, capital raised, market Capitalization and migration of successful enterprises to the Main Board demonstrates that the Platform has developed into an established segment of the Indian capital market. Over the last three years alone, 694 SMEs have accessed the capital markets

and collectively raised ₹27,483 crore, reflecting increasing acceptance of the Platform by both issuers and investors.

The experience of the Platform also demonstrates that the SME market cannot be viewed simply as a smaller version of the Main Board. It has developed its own characteristics, investor base, intermediary ecosystem and market practices. At the same time, its increasing maturity provides an opportunity to reassess whether every SME-specific requirement introduced at the inception of the framework continues to be necessary in its original form.

The evolution of the market therefore creates a case not for abandoning the calibrated approach, but for recalibrating it in light of fifteen years of market experience.

4. Evolution of the Regulatory Framework: From Facilitation to Calibrated Safeguards

The regulatory framework has itself evolved in response to the development of the market.

The original eligibility framework relied substantially on post-issue paid-up capital as an objective and easily verifiable measure for determining eligibility. This reflected the characteristics of enterprises and capital formation at the time the framework was introduced. Over time, however, the framework has been supplemented with additional qualitative requirements relating to business continuity and operating profitability, reflecting the need to strengthen the quality of issuers accessing the public market.

The evolution has therefore involved both facilitation and strengthening. Certain requirements have been relaxed or simplified where experience demonstrated that they imposed disproportionate burden, while additional safeguards have been introduced where risks warranted greater regulatory intervention.

This is the appropriate character of a dynamic securities-market framework. Regulation should neither be presumed to require perpetual tightening nor perpetual relaxation. It should respond to evidence, market experience and the changing characteristics of the participants it regulates.

5. Need for Review at this Stage

The significant evolution of the SME market raises a fundamental policy question: whether the regulatory architecture designed for an emerging market fifteen years ago remains optimally calibrated for a market that has now acquired greater depth, scale and experience.

Several aspects of the existing framework warrant reconsideration in this context.

First, certain eligibility parameters may no longer adequately capture the economic scale of an enterprise. In particular, paid-up capital may not necessarily correspond to revenues, assets, business scale, valuation or growth potential.

Second, certain SME-specific mechanisms designed to address the perceived risks of limited investor participation or liquidity such as compulsory underwriting and market making—have associated costs, and their continuing effectiveness needs to be assessed against actual market experience.

Third, the evolution of India's broader capital market has materially changed the context in which SME securities are accessed and traded. A wider domestic investor base provides an opportunity to reconsider whether participation in SME securities should continue to be structured around the assumptions prevailing when the framework was originally designed.

Fourth, several provisions have developed separately from the Main Board framework even where the underlying regulatory objective is substantially similar. Where there is no compelling SME-specific rationale

for such divergence, alignment can simplify the regulatory architecture and reduce unnecessary compliance burden.

The review is therefore not premised on the assumption that the existing framework is either excessively stringent or insufficiently stringent. Rather, it seeks to determine which requirements remain necessary, which require strengthening, which can be aligned with the Main Board and which may have become redundant with the evolution of the market.

6. Ease of Doing Business: Regulation Should Enable Growth, Not Constrain It

For an SME, the cost of accessing the capital market has to be considered in relation to the size of the issue itself. A regulatory requirement that represents a relatively modest cost for a large Main Board issuer may constitute a significant proportion of the capital raised by an SME.

The regulatory objective should therefore be to ensure that the cost of compliance does not outweigh the economic benefit of accessing the capital market.

This does not imply that compliance requirements should be diluted merely because an issuer is small. Rather, requirements should be tested against their regulatory purpose: whether the benefit in terms of investor protection, transparency or market integrity justifies the cost and operational burden imposed.

This principle is consistent with SEBI's broader approach of proportionate regulation. The objective is to enable deserving SMEs to access public markets while allowing them to devote greater resources towards building their businesses rather than navigating avoidable regulatory complexity.

Accordingly, where an SME-specific requirement does not provide a distinct regulatory benefit, its continuation should be reconsidered. Conversely, where a requirement serves a substantive investor-protection objective, its application should remain robust irrespective of the size of the issuer.

7. Investor Protection and Market Integrity: The Non-Negotiable Foundation

The case for calibrated regulation cannot be separated from the need for strong investor protection.

SME securities can involve greater business, financial and liquidity risks. The information available to investors may be comparatively limited, operating histories may be shorter and the ability to exit an investment may be affected by the depth of secondary-market liquidity.

Accordingly, facilitating access to capital cannot be pursued at the cost of investor confidence. Strong disclosure, due diligence, transparency, fair dealing and accountability of market participants must remain the foundation of the SME market.

Investor protection and market development should therefore not be regarded as competing objectives. Investor confidence is itself a prerequisite for sustainable market development. A market that attracts capital but fails to maintain investor confidence cannot provide durable access to capital for enterprises.

The Working Group has accordingly adopted the principle that regulatory simplification should be accompanied by appropriate safeguards, stronger intermediary responsibility and improved investor awareness. This is particularly relevant as the framework is proposed to facilitate wider participation by domestic investors.

8. Development of the SME Market as a Policy Objective

The objective of the regulatory framework should extend beyond enabling individual IPOs. A successful SME capital market should create a sustainable ecosystem in which:

- deserving enterprises can access growth capital;
- investors can participate with adequate information and awareness;
- intermediaries maintain high standards of due diligence;
- secondary-market liquidity develops organically;
- enterprises strengthen governance and institutional capacity; and
- successful enterprises have a credible pathway to the Main Board.

The development of the SME market should therefore be assessed not merely by the number of companies listing, but by the quality of issuers accessing the market, the capital mobilised, the ability of enterprises to grow after listing, the quality of investor participation, the integrity of the market and the number of enterprises successfully graduating to the Main Board.

In this context, the SME Platform should increasingly function as a growth ecosystem, rather than merely a separate listing venue.

9. The Policy Approach for the Next Phase

The Working Group's review is guided by a simple principle:

“The SME regulatory framework should be calibrated to facilitate growth, but uncompromising on investor protection and market integrity.”

The proposed approach therefore seeks to:

“Facilitate where regulation has become disproportionate; strengthen where risks require greater protection; align where the underlying regulatory rationale is common; and retain SME-specific requirements where the characteristics of SME securities warrant differentiated treatment.”

This approach recognises that regulation must evolve with the market. As the SME Platform matures, the objective should not be to preserve every mechanism introduced at its inception merely because it was once considered necessary. Equally, the maturity of the market should not be taken as a basis for removing safeguards that continue to serve a meaningful purpose.

The next phase of the SME framework should therefore be characterised by proportionate regulation, lower avoidable compliance costs, wider and more informed investor participation, stronger intermediary diligence, efficient market mechanisms and uncompromised investor protection.

The ultimate objective is to create an SME capital market in which regulation grows with the market, capital supports enterprise growth, and investor confidence supports sustainable market development.

CHAPTER 2: CONSTITUTION OF WORKING GROUP

1. Constitution of the Working Group

The Working Group for review of the provisions of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 relating to Initial Public Offer by Small and Medium Enterprises was constituted with representation from the regulator, recognised stock exchanges, professional institutions, market intermediaries and listed entities. The composition of the Working Group was as follows:

Sl. No.	Name / Designation	Designation and Organisation	Capacity
1.	Shri Ankit Sharma	CRO, NSE	Co-Chair
2.	Smt. Geetha Gangadharan	CRO, BSE	Co-Chair
3.	Shri Rajesh Kumar Dangeti	CGM, SEBI	Member Secretary
4.	Shri Jay Ajit Chhaira	CCM, ICAI	Member
5.	Shri Pawan G Chandak	President, ICSI	Member
6.	Shri Mahavir Lunawat	Chairman, AIBI	Member
7.	Shri Prateek Jain	Managing Director, Hem Securities Limited	Member
8.	Shri Mohit Baid	Founder, GYR Capital Advisors Private Limited	Member
9.	Shri Soumya Kanta Padhi	Managing Director, Indorient Financial Services Limited	Member
10.	Shri N. V. K. Mohan,	Managing Director and CEO, Big Share Services Private Limited	Member
11.	Shri Krishnan Sudarshan	Managing Director, EMA Partners India Limited	Member
12.	Shri Gaurav Vithalni	Managing Director, Speb Adhesives Limited	Member
13.	Shri Gaurav Lath	Promoter and Joint Managing Director, Concord Control Systems Limited	Member

The composition of the Working Group was intended to bring together regulatory, exchange, professional, intermediary and issuer perspectives, thereby enabling a comprehensive examination of the regulatory and operational issues associated with the SME IPO framework.

Shri Narendra Rawat, General Manager, SEBI, Shri Raj Kumar Das, Deputy General Manager, SEBI and Shri Adesh Singhal, Manager, SEBI and officials of NSE, BSE, ICAI, ICSI and AIBI were invited to participate in the meetings of the Working Groups.

2. Terms of Reference

The Working Group was mandated to undertake a comprehensive review of the existing regulatory framework governing SME IPOs under Chapter IX of the ICDR Regulations. The Terms of Reference of the Working Group were as follows:

1. Review of the existing eligibility framework under Chapter IX, including assessment of the eligibility criteria, classifications and thresholds prescribed under other applicable statutory, regulatory and policy frameworks.
2. Examine whether the existing distinction between SME IPO and Main Board IPO remains appropriate, having regard to the scale, maturity, governance readiness, compliance capability and other relevant parameters of the issuer.

3. Review the existing framework relating to minimum application size and trading lot.
4. Review the existing market-making framework applicable to SME IPOs.
5. Review the existing framework relating to underwriting applicable to SME IPOs.
6. Review the existing regulatory, operational and intermediary-related cost structure associated with raising capital through the SME IPO framework and recommend measures, if any.
7. Study global practices and comparable regulatory approaches relating to SME capital markets and identify suitable measures relevant to Indian market conditions.
8. Consider any other matter incidental or consequential to the review of Chapter IX of the ICDR Regulations.

The Terms of Reference thus required the Working Group to examine the SME framework from both issuer and investor perspectives, while specifically assessing the continued appropriateness of SME-specific requirements vis-à-vis the Main Board framework.

At the first meeting of the Working Group, with the permission of the Co-Chairs, the scope of the review was further expanded to include consideration of a suitable model for capacity-building initiatives to strengthen the SME ecosystem. Further, the members were requested to identify and suggest changes to any provision of Chapter IX of the ICDR Regulations, wherever considered necessary, having regard to the overall policy objectives and approach of the review.

This additional scope enabled the Working Group to consider the SME framework holistically, rather than limiting its deliberations only to the specific provisions expressly identified in the original Terms of Reference. It also provided the Working Group the flexibility to recommend consequential or related amendments where such changes were considered necessary to give effect to the broader policy objectives of the review.

3. Process Followed

The Working Group held **four meetings** in the course of its deliberations.

First Meeting – Meeting held on June 23, 2026

At its first meeting, the Working Group considered the overall scope of the review and the Terms of Reference. In view of the breadth of the mandate, sub-groups were constituted to undertake detailed examination of specific areas and formulate recommendations for consideration by the Working Group.

Sub-Group 1 was entrusted with the review of the eligibility framework, distinction between SME and Main Board issuers, and migration framework, including related eligibility, lock-in and OFS provisions.

Sub-Group 2 was entrusted with the review of minimum application size, trading lot, allotment, underwriting, market making and the regulatory, operational and intermediary-related cost structure associated with SME IPOs.

Sub-Group 3 was entrusted with the study of global practices and comparable regulatory approaches relating to SME capital markets and formulation of a model for capacity-building initiatives to strengthen the SME ecosystem.

Second Meeting – Meeting held on July 16, 2026

At the second meeting, the Working Group considered the work undertaken by **Sub-Group 1**. The deliberations principally covered:

- Eligibility Framework;
- Migration Framework;
- Lock-in Provisions; and
- Offer for Sale (OFS) Framework

Following detailed deliberations, the recommendations in respect of these areas were finalised by the Working Group.

Third Meeting – Meeting held on August 07, 2026

At the third meeting, the Working Group considered the work undertaken by **Sub-Groups 2 and 3**. The deliberations covered:

- Underwriting requirements;
- Market-making framework;
- Minimum application size;
- Allotment mechanism;
- Trading lot requirements;
- Study of global practices and comparable approaches relating to SME capital markets; and
- Development of a model for investor and issuer awareness.

The recommendations emerging from these areas were deliberated upon and finalised by the Working Group.

Fourth Meeting – Meeting held on August 19, 2026

The fourth meeting of the Working Group was held virtually and was devoted to consideration and finalisation of the draft report.

The Working Group considered the consolidated recommendations arising from its deliberations and the work undertaken by the respective sub-groups, reviewed the draft report and finalised the recommendations and the report for submission.

It may be noted that in addition to the specific matters assigned under the Terms of Reference, the Working Group also considered consequential and related amendments to Chapter IX wherever such changes were considered necessary to give effect to the overall policy objectives of the review.

CHAPTER 3: REVIEW OF ELIGIBILITY FRAMEWORK

1. Existing Framework under Chapter IX

The eligibility criteria governing an IPO by an SME are prescribed under Regulation 229 of the ICDR Regulations.

Regulation 229 prescribes both quantitative and qualitative eligibility requirements for issuers proposing to undertake an IPO under Chapter IX of the ICDR Regulations.

The relevant text of the existing Regulation 229 is being re-produced below –

Eligibility requirements for an initial public offer

229. (1) *An issuer shall be eligible to make an initial public offer only if its post - issue paid - up capital is less than or equal to ten crore rupees.*

(2) *An issuer, whose post issue paid-up capital is more than ten crore rupees and upto twenty five crore rupees, may also issue specified securities in accordance with provisions of this Chapter.*

(3) *An issuer may make an initial public offer, if it satisfies track record and/or other eligibility conditions of the SME Exchange(s) on which the specified securities are proposed to be listed.*

Provided that In case of an issuer which had been a partnership firm or a limited liability partnership, the track record of operating profit of the partnership firm or the limited liability partnership shall be considered only if the financial statements of the partnership business for the period during which the issuer was a partnership firm or a limited liability partnership, conform to and are revised in the format prescribed for companies under the Companies Act, 2013 and also comply with the following:

a) adequate disclosures are made in the financial statements as required to be made by the issuer as per Schedule III of the Companies Act, 2013;

b) the financial statements are duly certified by auditors, who have subjected themselves to the peer review process of the Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the Peer Review Board' of the ICAI, stating that: (i) the accounts and the disclosures made are in accordance with the provisions of Schedule III of the Companies Act, 2013; (ii) the accounting standards prescribed under the Companies Act, 2013 have been followed; (iii) the financial statements present a true and fair view of the firm's accounts;

Provided further that in case of an issuer formed out of merger or a division of an existing company, the track record of the resulting issuer shall be considered only if the requirements regarding financial statements as specified above in the first proviso are complied with.

(4) *In case of an issuer, which had been a proprietorship or a partnership firm or a limited liability partnership before conversion to a company or body corporate, such issuer may make an initial public offer only if the issuer company has been in existence for at least one full financial year before filing of draft offer document:*

Provided that the restated financial statements of the issuer company prepared post conversion shall be in accordance with Schedule III of the Companies Act, 2013.

(5) *In cases where there is a complete change of promoter of the issuer or there are new promoter(s) of the issuer who have acquired more than fifty per cent of the shareholding of the issuer, the issuer shall file draft offer document only after a period of one year from the date of such final change(s).*

(6) An issuer may make an initial public offer, only if the issuer had minimum operating profits (earnings before interest, depreciation and tax) of ₹1 crore from operations for at least two out of the three previous financial years.

2. Evolution and Regulatory Philosophy

The SME eligibility framework was introduced with the objective of providing a simple, objective and transparent basis for determining the appropriate listing platform for smaller and emerging enterprises. At the time of introduction, post-issue paid-up capital provided an easily ascertainable and verifiable parameter for distinguishing issuers accessing the SME Platform from those accessing the Main Board. The framework also provided regulatory certainty to issuers, intermediaries, stock exchanges and investors.

Over time, the framework has evolved to incorporate additional safeguards reflecting the experience of the SME market. While the paid-up-capital-based eligibility criteria have remained the principal quantitative parameter, requirements relating to continuity of business, conversion or reorganization and operating profitability have also been prescribed to ensure that enterprises accessing the public market possess an appropriate level of operational and financial maturity. Thus, the evolution of the framework has involved both facilitation and strengthening, depending upon the regulatory objective sought to be achieved.

Box 3.1: Evolution of the Eligibility Framework under Regulation 229

Year	Regulatory Development	Policy Objective
2009	Introduction of SME Framework with two-tier capital-based eligibility structure.	Facilitate capital raising by SMEs through a simple and objective eligibility criterion.
2018	Existing framework substantially retained under Regulation 229 of the ICDR Regulations, 2018.	Ensure regulatory continuity.
2025	Introduction of additional qualitative eligibility requirements under Regulations 229(4) and 229(6).	Strengthen issuer quality while retaining the existing capital-based eligibility framework.

Box 3.2 : Key Elements of Regulation 229

Element	2009	2018	2025
Post-Issue Paid-up Capital	✓	✓	✓
₹10 crore Threshold	✓	✓	✓
₹10–25 crore Category	✓	✓	✓
Exchange Eligibility Requirements	✓	✓	✓
Business Continuity Requirement	-	-	✓
Operating Profit Requirement	-	-	✓

The Working Group recognised that the original rationale for a simple and objective eligibility framework continues to remain relevant. The Working Group further considered that the evolution of the eligibility framework should not be viewed merely as a relaxation or tightening of regulatory requirements. Rather, it should be viewed as a process of recalibration, whereby the parameters used for determining eligibility remain aligned with the economic realities of enterprises and the objectives of the SME Platform.

Accordingly, while retaining the principle that access to the public market should be subject to objective and transparent eligibility criteria, the Working Group considered it appropriate to move towards a parameter

that more appropriately captures the overall scale of an enterprise, while retaining financial track-record and other safeguards necessary for investor protection and market integrity.

The proposed approach therefore seeks to strike a balance between ease of doing business and regulatory safeguards, facilitating access to the SME Platform for deserving growth-oriented enterprises without compromising the quality of issuers accessing public capital.

3. Issue for Consideration

The Working Group was accordingly of the view that the eligibility framework should be reassessed with a view to identifying a parameter that more appropriately reflects the scale of an enterprise, while retaining appropriate safeguards relating to financial performance, continuity and investor protection.

4. Review of Regulations 229(1) and 229(2): Shift from Paid-up Capital to Market Capitalization

4.1. Issue for Consideration

Since the introduction of the SME framework, it uses post-issue paid-up capital as the principal quantitative determinant of whether an issuer is required to access the SME Platform or may access the SME Platform within the prescribed capital range.

However, the Indian primary market and the profile of enterprises accessing public capital have evolved considerably. The SME Platform is increasingly being accessed by growth-oriented enterprises with diverse business models and operating characteristics.

Against this backdrop, the Working Group considered whether post-issue paid-up capital, by itself, continues to provide an appropriate basis for determining the platform on which an enterprise should access the capital market.

The Working Group noted that paid-up capital is a measure of the capital structure of an enterprise and is not necessarily a measure of its economic scale. Two enterprises having similar paid-up capital may have materially different revenues, assets, business operations, valuations and growth potential. Conversely, an enterprise with relatively low paid-up capital may have a significantly larger operating scale and market valuation.

Box 3.3 : Analysis of IPOs (Mainboard and SME), during last 3 Financial Years having post issue paid – up capital of Rs. 10 Crores or more

Paid Up Capital at the time of IPO (In Rs.)	Market Capitalization (Based on Issue Price)			
	Upto Rs. 250 Crores	More than 250 crores but less than or equal to 1000 Crores	More than 1000 crores but less than or equals to 4000 Crores	More than 4000 Crores
More than 10 crore but less than or equal to 25 Crore	378	102	34	24
More than 25 crore but less than or equal to 100 Crore	2	38	54	37
More than 100 Crore	0	0	10	56

The above analysis indicates that paid-up capital does not necessarily reflect the overall size or market value of an enterprise. Significant variations in market capitalization are observed even among issuers having broadly similar levels of paid-up capital.

The issue, therefore, is not whether paid-up capital is an objective parameter, it clearly is, but whether it remains sufficiently representative of the scale and economic value of an enterprise to determine the appropriate listing platform.

Further, the Working Group observed that the existing minimum paid-up capital requirement may result in certain Main Board issuers undertaking additional capitalization of reserves, including through issuance of bonus shares, around the time of the IPO solely to meet the prescribed minimum paid-up capital requirement. Such capitalization does not, in itself, represent any fresh infusion of capital into the enterprise or an increase in its underlying economic scale. Instead, it may entail additional corporate, accounting and compliance processes and, depending upon the manner and circumstances of such capitalization, may also have associated tax implications and costs. The Working Group therefore considered that requiring an issuer to undertake such capital restructuring merely to satisfy a prescribed paid-up capital threshold may not be aligned with the objective of facilitating ease of doing business and reducing unnecessary compliance costs, particularly where the actual size of the enterprise can be assessed through more meaningful parameters.

The Working Group considered whether the continued use of paid-up capital as the primary demarcating parameter appropriately reflects the economic scale of an enterprise in the present capital market environment.

4.2. Working Group's Deliberation

The Working Group observed that the size and value of an enterprise are influenced by several factors beyond its paid-up capital, including its business operations, earnings potential, assets, sector, growth prospects and market valuation.

In particular, paid-up capital may not necessarily increase proportionately with the growth of the underlying business. Enterprises may achieve significant operating scale without a corresponding increase in paid-up capital, while other enterprises may have relatively higher paid-up capital without a comparable level of business activity.

4.2.1. Assessment of Alternative Parameters

The Working Group considered various objective financial parameters that could potentially be used, either independently or in combination, for determining the appropriate listing platform. The parameters examined included IPO size, post-issue market Capitalization, net worth, total assets and revenue from operations.

4.2.1.1. IPO Size

IPO size was considered as a possible indicator of the scale of an enterprise. However, the Working Group noted that the size of an IPO is significantly influenced by commercial and transaction-specific considerations, including the funding requirement of the issuer, the extent of Offer for Sale, valuation expectations and prevailing market conditions. Consequently, two enterprises with broadly similar operational characteristics may undertake IPOs of substantially different sizes. IPO size was therefore not considered a reliable measure of the underlying size or maturity of an enterprise.

4.2.1.2. Net Worth

Net worth was also considered as a possible indicator of the financial scale of an enterprise. However, the Working Group noted that net worth is significantly influenced by the accumulated reserves and surplus of an enterprise and, therefore, may reflect the historical accumulation of profits and capital rather than the current scale of business operations. An enterprise that has recently commenced operations, has reinvested its earnings into the business, or has not yet generated significant retained earnings may have a relatively modest net worth despite having substantial business operations and growth potential. Accordingly, reliance on net worth as the principal parameter may not provide an appropriate or consistent basis for determining the scale of an enterprise.

4.2.1.3. Revenue from Operations

Revenue from operations was recognised as an important indicator of the operational scale of an enterprise, as it reflects the underlying business activity over a period of time and is based on audited financial information. The Working Group also noted that revenue is an established parameter for enterprise classification under other prevailing Indian legislative and policy frameworks. For instance, under the MSMED Act, 2006, the classification of a medium enterprise presently includes an annual turnover threshold of ₹500 crore, in addition to the prescribed investment criterion.

The Working Group, however, noted that while revenue provides a useful indication of the scale of business activity, it may not, by itself, adequately capture the overall economic scale or value of an enterprise. Revenue profiles can vary significantly across sectors and business models, and enterprises at different stages of development may have materially different revenue levels despite comparable economic scale. Further, revenue represents the flow of business activity, whereas the question before the Working Group is also one of determining the overall scale at which an enterprise should access a particular listing platform.

Accordingly, while revenue remains an important and recognised parameter for assessing operational scale and financial track record, the Working Group considered that it would be more appropriately used as a supplementary eligibility safeguard rather than as the sole determinant of the appropriate listing platform.

However, the Working Group did not consider revenue alone to be sufficient as the principal determinant of the appropriate listing platform. Revenue can vary substantially across sectors, while businesses at different stages of development can have significantly different revenue profiles despite comparable economic scale. Revenue was therefore considered more appropriately as a financial track-record parameter, rather than the sole measure for determining the listing platform.

4.2.1.4. Post-issue Market Capitalization

Post-issue market Capitalization was considered as an alternative measure of the overall scale and economic value of an enterprise. The Working Group noted that, unlike paid-up capital, net worth or revenue, market Capitalization captures the economic value attributed to the enterprise by the market, taking into account the collective assessment of its present business, financial position, future growth prospects and other relevant factors and is therefore more closely aligned with the question of whether an enterprise has attained a scale warranting access to the Main Board.

Market Capitalization, on the other hand, represents the value of the entire post-issue equity of the enterprise, and is therefore capable of capturing differences in scale and valuation even where enterprises may have similar paid-up capital, net worth or revenue. This is particularly relevant in the present economic environment, where enterprises may adopt capital-efficient or asset-light business models and may create substantial economic value without a corresponding increase in paid-up capital or net worth.

The Working Group also recognised that market Capitalization is influenced by market valuation and may therefore fluctuate. However, this was not considered to outweigh its relevance for determining the

appropriate listing platform, since the objective is to assess the scale at which the enterprise is entering the public capital market. Further, the proposed framework does not rely on market Capitalization in isolation and retains operating profitability and other eligibility safeguards.

Accordingly, the Working Group considered post-issue market capitalization to be the most appropriate principal parameter for determining the appropriate listing platform, with financial performance and other eligibility conditions operating as complementary safeguards.

The Working Group also analyzed the market capitalization of issuers undertaking IPOs on the SME Platform and the Main Board during the last three financial years, based on the post-issue market capitalization at the issue price.

Box 3.4 : Analysis of IPOs during last 3 Financial Years based on their Market Capitalization*

Mainboard IPO During Last 3 FYs		
Financial Year	Average Market Capitalization (In Rs. Crores)	Maximum Market Capitalization (in Rs. Crores)
2023-24	4,399	43,264
2024-25	12,367	1,59,258
2025-26	10,680	1,38,383
SME IPO During Last 3 FYs		
Financial Year	Average Market Capitalization (In Rs. Crores)	Maximum Market Capitalization (in Rs. Crores)
2023-24	144	720
2024-25	184	748
2025-26	192	643

*Market capitalization has been computed based on the post-issue number of equity shares multiplied by the issue price.

The data indicates a substantial increase in the average market capitalization of Main Board IPOs, from ₹4,399 crore in FY 2023-24 to ₹12,367 crore in FY 2024-25, before moderating to ₹10,680 crore in FY 2025-26. In contrast, the average market capitalization of SME IPOs has remained relatively stable, increasing from ₹144 crore in FY 2023-24 to ₹184 crore in FY 2024-25 and ₹192 crore in FY 2025-26.

The relatively stagnant market-capitalization profile of SME IPOs, when contrasted with the significant increase in the average market capitalization of Main Board IPOs, may also reflect the limitations of the existing SME framework in attracting issuers which, based on their size and funding requirements, could otherwise be appropriate candidates for the SME Platform.

In particular, certain features and restrictions applicable to the SME Platform may have historically resulted in issuers with relatively larger funding requirements or greater anticipated scale preferring to access the Main Board, even where their size and stage of development could otherwise have made them suitable for the SME Platform. The Working Group is of the view that, with the proposed rationalization of such restrictions and the strengthening of the SME Platform as a growth and transition platform, the SME Platform may increasingly become an attractive avenue for a wider range of growth-oriented enterprises.

Accordingly, the Working Group considered that the historical market-capitalization profile of SME IPOs should not, by itself, be treated as a ceiling for determining the future universe of SME issuers. The regulatory framework should instead be calibrated to provide an appropriate range within which genuine growth-stage enterprises can access the SME Platform, while ensuring that issuers attaining a substantially larger scale have a clear pathway to the Main Board.

The Working Group also analyzed the market capitalization of entities presently listed on the SME Platform, based on their prevailing market prices. The analysis indicates that while a substantial proportion of SME-listed entities continue to have market capitalization below ₹1,000 crore, there is also a meaningful segment of entities which have already attained a substantially higher market capitalization.

Against this background, the Working Group considered it appropriate to adopt a ₹1,000 crore post-issue market capitalization threshold as the principal benchmark for the SME framework. The proposed framework would therefore require issuers having post-issue market capitalization up to ₹1,000 crore to access the SME Platform, while issuers having post-issue market capitalization above ₹1,000 crore and up to ₹4,000 crore may also access the SME Platform.

4.3. Key Recommendation :-

The Working Group recommends that the existing paid-up-capital-based eligibility framework be replaced with a market-Capitalization-based framework.

Accordingly:

- 4.3.1. An issuer having post issue market capitalization up to ₹1,000 crore shall be required to access only SME Platform; and
- 4.3.2. An issuer having post issue market capitalization above ₹1,000 crore and up to ₹4,000 crore may also access SME Platform.
- 4.3.3. Eligibility determined at the stage of filing of the draft offer document should remain subject to the post issue market capitalization applicable at the subsequent stage of filing the Red Herring Prospectus/Prospectus. Accordingly, where an issuer has initially filed a Draft Red Herring Prospectus ("DRHP") for a Main Board IPO but, at the stage of filing the Red Herring Prospectus, its estimated post issue capital of the company calculated at offer price falls to ₹1,000 crore or below, the issuer would be required to re-file the draft offer document under the SME framework.
- 4.3.4. Conversely, where an issuer has initially filed its DRHP under the SME framework and its estimated post-issue market Capitalization subsequently exceeds ₹1,000 crore at the stage of filing the Red Herring Prospectus, the issuer may continue to proceed under the SME framework, subject to upper threshold of ₹4,000 crore.

4.4. Rationale

The proposed shift would ensure that the eligibility framework is based on a parameter that more closely reflects the economic scale and market value of an enterprise.

It would also avoid a situation where an enterprise's access to the SME or Main Board platform is determined primarily by its capital structure, notwithstanding materially different levels of business scale.

The proposal is therefore intended to provide a more objective and representative basis for determining the appropriate listing platform, while retaining a clear quantitative threshold and regulatory certainty.

5. Review of Regulation 229(4): Requirement Following Conversion or Business Reorganization

5.1. Issue for Consideration

5.1.1. Existing Seasoning Requirement: Need for Greater Uniformity and Certainty

Regulation 229(4) was introduced with the objective of ensuring that an issuer formed pursuant to the conversion of a proprietorship concern, partnership firm or limited liability partnership into a company has adequate experience of operating within the corporate regulatory framework before accessing the public capital markets. The provision seeks to ensure that such issuers have functioned as a company for a minimum period before undertaking an initial public offer, thereby enabling them to establish a track record of compliance under the Companies Act, 2013 and other applicable regulatory requirements.

The Working Group also noted that the requirement of completion of one full financial year also appears to ensure that the issuer discloses at least one complete year's audited financial statements prepared in its corporate form in the offer document, thereby enabling investors to assess the issuer's financial performance as a company.

The Working Group recognized that the underlying objective of the provision continues to be relevant from the perspective of investor protection. However, the existing formulation based on completion of one full financial year can result in materially different waiting periods depending upon the date of conversion.

Box 3.5 : Analysis of applicability of Regulation 229(4) based on different date of conversion

Date of Conversion	Completion of One Full Financial Year	Earliest DRHP Filing	Effective Period	Waiting
April 01, 2025	March 31, 2026 (FY 2025-26)	On or after April 01, 2026	~ 12 months	
April 02, 2025	March 31, 2027 (FY 2026-27)	On or after April 01, 2027	~ 24 months	

The Working Group considered that such an outcome is not necessarily aligned with the underlying objective of ensuring that the issuer has operated in corporate form for a reasonable and consistent period.

5.1.2. Potential Circumvention through Alternative Business Reorganization Structure

The existing Regulation 229(4) is principally triggered where a proprietorship concern, partnership firm or limited liability partnership is statutorily converted into a company or body corporate. The provision is intended to ensure that an issuer which has recently transitioned from a non-corporate form has an adequate period of operations in its corporate form before accessing the public capital markets.

The Working Group observed, however, that substantially similar economic outcomes may be achieved through alternative business reorganization structures which do not constitute a statutory conversion. For instance, an existing company may acquire, transfer or otherwise take over a business previously carried on by a proprietorship concern, partnership firm or LLP, and may thereafter derive a significant portion of its business from such non-corporate enterprise. Since the existing provision is linked to the legal form of the transaction rather than its economic substance, such an arrangement may presently fall outside the specific seasoning requirement under Regulation 229(4).

This creates a potential regulatory arbitrage whereby two transactions resulting in substantially similar economic outcomes may receive different regulatory treatment merely because the business is transferred through different legal mechanisms. In one case, the issuer may be required to undergo the prescribed

post-conversion seasoning period, while in the other, the issuer may potentially access the public markets without undergoing a comparable period of post-reorganization operations.

5.2. Working Group's Deliberation

The Working Group deliberated on the existing requirement of completion of one full financial year following conversion. It noted that this may result in significantly different effective waiting periods depending upon the date of conversion and may, therefore, not provide a uniform or predictable measure of the intended seasoning period. The Working Group considered that the underlying safeguard should be retained but the manner of prescribing the seasoning period should be rationalized.

At the same time, the Working Group observed that the existing provision is substantially linked to the legal form of the transaction and, therefore, may not adequately address situations where a business previously carried on by a non-corporate entity is transferred to or otherwise carried on by an existing company through an alternative business reorganization structure. The Working Group was of the view that economically similar transactions should receive similar regulatory treatment irrespective of the legal mechanism adopted. Accordingly, the applicability of the provision should be determined by the substantive outcome of the transaction rather than merely by whether the transaction constitutes a statutory conversion.

Further, the Working Group considered that completion of a seasoning period should be accompanied by availability of an annual audited financial results following the conversion or business reorganization, so that investors have access to financial information reflecting the issuer in its post-reorganization form.

5.3. Recommendations

The Working Group recommends that Regulation 229(4) be recast to establish a substance-oriented and uniform framework for issuers formed through conversion or qualifying business reorganization, while retaining the underlying investor-protection objective of the existing provision.

The revised framework should, inter alia:

- 5.3.1. Extend the applicability of the provision beyond statutory conversion to cases where, pursuant to a business reorganization, one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer, where the issuer derives more than fifty per cent of its revenue, as disclosed for the latest financial year in the Draft Offer Document, from such business or businesses.
- 5.3.2. Replace the existing requirement of completion of one full financial year with four consecutive completed quarters from the date of conversion or the latest effective date of the qualifying business reorganization, as applicable;
- 5.3.3. Require such issuer to have filed at least one annual audited financial statement or part thereof prepared after the conversion or business reorganization with the Registrar of Companies, in accordance with The Companies Act, 2013, before filing the Draft Offer Document;
- 5.3.4. Introduce an appropriate clarificatory Explanation defining "business reorganization", i.e. *"business reorganization" includes acquisition, transfer, vesting, succession, a scheme of arrangement or any other arrangement whereby one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer.*;

- 5.3.5. Permit the historical operating track record of the proprietorship concern, partnership firm or LLP to be reckoned for determining compliance with the eligibility requirements under Chapter IX in cases covered by the provision

5.4. Rationale

The proposed framework would ensure that the seasoning requirement is applied consistently to transactions having substantially similar economic substance, thereby reducing the scope for regulatory arbitrage through alternative legal structures.

At the same time, the move to four consecutive completed financial quarters would make the seasoning requirement uniform, objective and predictable, while the requirement of an annual financial statement following the conversion or reorganization would provide an additional financial reporting safeguard.

Recognizing the historical operating track record of the underlying business would also ensure that the framework appropriately reflects continuity of the underlying enterprise, rather than treating the incorporation of a corporate vehicle as the commencement of an entirely new business. Overall, the amendments would seek to balance facilitation of genuine business reorganization with adequate investor protection and regulatory certainty.

5.5. Illustrations – Existing vis a vis Proposed Framework

Scenario	Existing Framework (Regulation 229(4))	Proposed Framework
A Partnership firm converted into a company on March 31, 2026	The issuer becomes eligible to undertake an IPO upon completion of one full financial year, i.e., after 31 March 2027.	The issuer shall become eligible only after completion of all four financial quarters of FY 2026-27 (Q1 to Q4) and filing of at least one annual audited financial statement prepared after the conversion with the Registrar of Companies.
A Partnership firm converted into a company on April 02, 2026	Since the conversion takes place after commencement of FY 2026-27, the issuer becomes eligible only after completion of FY 2027-28, i.e., after 31 March 2028, resulting in an effective waiting period of almost two years despite the conversion taking place merely two days later.	Under the proposed framework, the issuer would become eligible after completion of Q2 FY 2026-27, Q3 FY 2026-27, Q4 FY 2026-27 and Q1 FY 2027-28, together with filing of at least one annual audited financial statement prepared after the conversion with the Registrar of Companies. Thus, every issuer is subject to a uniform seasoning requirement, irrespective of the date of conversion.
An existing company acquires the business of a partnership firm and derives more than 50% of its revenue from such business.	As the existing Regulation applies only to statutory conversions, the issuer may presently access the public markets without undergoing the prescribed seasoning period.	Such transaction would constitute a qualifying business reorganization. Accordingly, the issuer shall be required to comply with Regulation 229(4) before becoming eligible to undertake an IPO and the issuer shall access the public markets only after undergoing the prescribed seasoning period.

Scenario	Existing Framework (Regulation 229(4))	Proposed Framework
An issuer acquires the businesses of two partnership firms, each contributing 30% of the issuer's revenue.	Since the existing Regulation does not cover such transactions, the issuer may access the public markets without any seasoning requirement.	Since the issuer derives an aggregate of more than 50% of its revenue from businesses previously carried on by partnership firms, Regulation 229(4) shall apply. The seasoning period shall be reckoned from the latest effective date of such business reorganization.
Following a qualifying business reorganization, the partners of the erstwhile partnership firm become the promoters of the issuer (Change in Promoters)	If the conditions specified under Regulation 229(5) are attracted, the issuer would be required to comply with the promoter seasoning requirement under that regulation. However, the seasoning requirement under Regulation 229(4) would not apply merely because the transaction is not effected through statutory conversion.	The issuer shall be required to comply with Regulation 229(4) by virtue of the qualifying business reorganization. Where the conditions under Regulation 229(5) are also attracted, the issuer shall be required to comply with both Regulations 229(4) and 229(5) before becoming eligible to undertake an IPO.

6. Review of Regulation 229(6): Operating Profitability

6.1. Issue for Consideration

The existing eligibility framework requires an issuer to demonstrate a minimum level of profitability from operations in at least two of the preceding three financial years, with the profitability presently being assessed with reference to Earnings Before Interest and Tax (EBIT). The requirement was intended to ensure that an issuer accessing the SME Platform has demonstrated a minimum level of financial performance and operating viability and constitutes an important investor-protection and market-development safeguard.

The Working Group considered that the continued appropriateness of the existing profitability criterion merits review in the context of the evolving profile of enterprises accessing the SME Platform.

The requirement is based on achieving an absolute minimum profit threshold in individual financial years. Such an approach may not adequately capture the financial profile of growth-oriented enterprises, which may experience variations in profitability during their expansion phase, including periods of lower profitability arising from investments in capacity, technology, market expansion, product development or other growth initiatives. An enterprise may consequently demonstrate a strong and improving underlying business trajectory without satisfying an absolute profitability threshold in each of the prescribed years.

6.2. Working Group's Deliberation

The Working Group deliberated that the existing profitability criterion warrants review to ensure consistency in the assessment of operating performance across the SME and Main Board frameworks, while recognizing that the eligibility framework for SMEs should remain appropriately calibrated to the characteristics of growth-oriented enterprises.

In this context, the Working Group considered that the profitability requirement should be assessed over a period of sustained financial performance, rather than solely on the basis of achieving an absolute

profitability threshold in individual years. Such an approach would provide a more balanced assessment of an issuer's financial performance while continuing to ensure that enterprises accessing the public market demonstrate an adequate level of operating viability.

6.3. Recommendation

The Working Group recommends retaining a financial performance requirement as an important eligibility safeguard for SME issuers, while revising the existing profitability criterion to provide a more appropriate measure of sustained operating performance.

Accordingly, the existing requirement based on achievement of a specified profit threshold in individual financial years may be replaced with a requirement that the issuer have an Average Operating Profit of not less than ₹3 crore during the preceding three financial years, calculated based on the restated and consolidated financial statements.

6.4. Rationale

The proposed approach would provide a more balanced assessment of the issuer's financial performance by considering profitability over a three-year period rather than placing disproportionate emphasis on the achievement of an absolute threshold in individual years.

It would also provide a more appropriate basis for assessing growth-oriented enterprises as this would help distinguish between temporary variations in profitability associated with the growth phase of an enterprise and an absence of sustained operating viability.

Further, the use of restated consolidated financial statements would also provide a consistent basis for assessing the issuer's financial performance.

7. Suggested text of Regulation 229 (revised) based on the recommendations

229. Eligibility for initial public offer.

(1) An issuer, whose post-issue capital calculated at the offer price does not exceed one thousand crore rupees shall undertake initial public offer of specified securities be made under this Chapter.

(2) An issuer, whose post-issue capital calculated at the offer price is more than one thousand crore rupees and up to four thousand crore rupees, may also issue specified securities in accordance with provisions of this Chapter.

(3) An issuer may make an initial public offer, if it satisfies track record and/or other eligibility conditions of the SME Exchange(s) on which the specified securities are proposed to be listed.

Provided that in case of an issuer which had been a partnership firm or a limited liability partnership, the track record of operating profit of the partnership firm or the limited liability partnership shall be considered only if the financial statements of the partnership business for the period during which the issuer was a partnership firm or a limited liability partnership, conform to and are revised in the format prescribed for companies under the Companies Act, 2013 and also comply with the following:

a) adequate disclosures are made in the financial statements as required to be made by the issuer as per Schedule III of the Companies Act, 2013;

b) the financial statements are duly certified by auditors, who have subjected themselves to the peer review process of the Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the

Peer Review Board of the ICAI, stating that: (i) the accounts and the disclosures made are in accordance with the provisions of Schedule III of the Companies Act, 2013; (ii) the accounting standards prescribed under the Companies Act, 2013 have been followed; (iii) the financial statements present a true and fair view of the firm's accounts;

Provided further that in case of an issuer formed out of merger or a division of an existing company, the track record of the resulting issuer shall be considered only if the requirements regarding financial statements as specified above in the first proviso are complied with.

(4) In case of an issuer which had been a proprietorship concern, partnership firm or limited liability partnership before conversion to a company or body corporate, or in case of an issuer which has undertaken a business reorganization pursuant to which the issuer derives more than fifty per cent of its revenue, as disclosed for the latest financial year in the Draft Offer Document, from one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership, such issuer may make an initial public offer only if:

(a) the issuer company has completed four consecutive completed financial quarters from the date of such conversion or the latest effective date of such business reorganization, as the case may be; and

(b) the issuer has filed at least one annual audited financial statement or part thereof prepared after such conversion or business reorganization with the Registrar of Companies, in accordance with The Companies Act, 2013, before filing the Draft Offer Document.

Explanation: For the purposes of this sub-regulation, "business reorganization" includes acquisition, transfer, vesting, succession, a scheme of arrangement or any other arrangement whereby one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer.

Provided that the historical operating track record of the proprietorship concern, partnership firm or limited liability partnership shall be reckoned for determining compliance with the eligibility requirements under this Chapter in cases of conversion or business reorganization covered under this sub-regulation.

(5) In cases where there is a complete change of promoter of the issuer or there are new promoter(s) of the issuer who have acquired more than fifty per cent of the shareholding of the issuer, the issuer shall file draft offer document only after a period of one year from the date of such final change(s).

(6) An issuer may make an initial public offer, only if the issuer had an average operating profit of not less than three crore rupees during the preceding three financial years, calculated based on the restated and consolidated financial statements.

Insertion of clauses in Schedule XVI

(4) Where an issuer has filed a Draft Red Herring Prospectus for an initial public offer on the Main Board and, at the stage of filing the Red Herring Prospectus, the post-issue capital calculated at the offer price is one thousand crore rupees or below, the issuer shall re-file the offer document in accordance with the provisions applicable to an initial public offer under Chapter IX of these regulations.

(5) Where an issuer has filed a Draft Red Herring Prospectus for an initial public offer on the SME Platform and, at the stage of filing the Red Herring Prospectus, the post-issue capital calculated at the offer price is more than four thousand crore rupees, the issuer shall re-file the offer document in accordance with the provisions applicable to an initial public offer under Chapter II of these regulations.

CHAPTER 4: REVIEW OF USAGE OF FUNDS TOWARDS GENERAL CORPORATE PURPOSE

1. Existing Framework under Chapter IX

The existing SME framework permits an issuer to utilize a portion of the proceeds raised through the public issue towards General Corporate Purposes ("GCP"). The amount proposed to be utilised for GCP, as disclosed in the Draft Offer Document and the Offer Document, is presently subject to a dual limitation of 15% of the amount being raised by the issuer or ₹10 crore, whichever is less.

The relevant text of the Regulation 230(2) is being re-produced below –

The amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed fifteen per cent. of the amount being raised by the issuer or ₹10 crores, whichever is less.

2. Issue for Consideration: Fixed Monetary Ceiling May Limit Proportionate Flexibility

The Working Group considered whether the existing absolute ceiling of ₹10 crore, in addition to the 15% limit, remains appropriate for the evolving SME capital market.

While the 15% ceiling ensures that only a defined portion of the issue proceeds can be utilised for unspecified general corporate purposes, the additional ₹10 crore absolute cap results in the permissible amount remaining unchanged even where the size of the public issue is substantially higher.

This may disproportionately constrain issuers undertaking relatively larger SME IPOs, notwithstanding that the underlying corporate requirements for which funds may legitimately be deployed could increase with the scale of the enterprise and the size of the issue.

The Working Group therefore considered whether the existing framework can provide greater proportionate flexibility to issuers while retaining an appropriate overall limit on the use of IPO proceeds towards GCP.

3. Working Group Deliberation

The Working Group deliberated on the appropriate balance between flexibility in utilisation of issue proceeds and investor visibility over the deployment of funds.

The Working Group recognised that GCP is inherently intended to provide issuers with a degree of flexibility to meet legitimate corporate requirements that may not be capable of being identified with precision at the time of filing the offer document. At the same time, an unrestricted ability to deploy issue proceeds towards GCP may reduce the specificity and transparency of the objects of the issue.

The Working Group therefore considered that the percentage-based ceiling itself provides an appropriate safeguard, as it limits the proportion of funds that can be deployed towards GCP irrespective of the size of the issue. In this context, the continued application of a separate fixed monetary ceiling may result in a disproportionate restriction on issuers undertaking larger SME issues.

4. Recommendation

The Working Group recommends removal of the ₹10 crore absolute ceiling prescribed for utilisation of issue proceeds towards General Corporate Purposes, while retaining the existing ceiling of 15% of the amount being raised by the issuer.

Accordingly, the amount proposed to be utilised towards GCP would be capped at 15% of the amount being raised, without an additional ₹10 crore monetary ceiling.

5. Rationale

The proposed amendment would provide proportionate flexibility based on the size of the issue, rather than applying a uniform monetary ceiling irrespective of the quantum of funds being raised.

At the same time, retaining the 15% cap would continue to ensure that only a defined portion of the issue proceeds can be utilised towards GCP, thereby preserving investor protection and transparency regarding the primary objects of the issue.

The proposal would therefore rationalise the existing restriction without diluting the underlying safeguard governing the use of issue proceeds towards unspecified corporate purposes.

6. Suggested text of Regulation 230(2) (revised) based on the recommendations

(2) The amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed fifteen per cent. of the amount being raised by the issuer.

CHAPTER 5: REVIEW OF OFFER FOR SALE FRAMEWORK

1. Existing Framework under Chapter IX

Regulation 230(1)(f) and Regulation 230(1)(g) of the ICDR Regulations prescribes specific conditions governing the OFS component of an SME IPO. In particular, the existing framework seeks to limit the extent to which selling shareholders may offer their existing holdings to the public.

These provisions are intended to ensure that an SME IPO remains predominantly a capital-raising exercise for the issuer, rather than becoming an avenue for substantial exit by existing shareholders. The restrictions also seek to ensure that selling shareholders continue to retain a meaningful stake in the issuer following the public issue.

The relevant text of the Regulation 230(1)(f) and Regulation 230(1)(g) is being re-produced below –

(f) the size of offer for sale by selling shareholders shall not exceed twenty per cent of the total issue size;

(g) the shares being offered for sale by selling shareholders shall not exceed fifty per cent of such selling shareholders' pre-issue shareholding on a fully diluted basis;

2. Issue for Consideration

2.1. Absence of a Minimum Holding Period for OFS

The existing SME framework prescribes restrictions on the quantum of shares that may be offered through an OFS, but does not contain a comprehensive framework governing the holding period and associated exemptions applicable to shares proposed to be offered for sale.

The Working Group noted that, unlike the Main Board framework, the SME framework does not presently provide for a one-year holding requirement together with the corresponding exemptions for specified categories of shares. Regulation 8 of the ICDR Regulations, applicable to Main Board issues, recognizes certain situations where the one-year holding requirement does not apply, including specified shares acquired pursuant to an approved scheme, shares arising from conversion or exchange of fully paid-up compulsorily convertible securities, and bonus shares issued on securities held for the prescribed period, subject to specified conditions.

The absence of such a requirement may permit shareholders who have acquired securities relatively close to the IPO to offer such securities to public investors, notwithstanding that they may not have remained invested through a meaningful period of the issuer's pre-listing growth journey.

2.2. Existing OFS Limitations May Restrict Legitimate Institutional Participation

The existing framework permits an Offer for Sale by selling shareholders only up to 20% of the total issue size, in addition to the requirement that the shares offered for sale should not exceed 50% of the selling shareholder's pre-issue shareholding on a fully diluted basis.

The Working Group considered that the 20% overall ceiling may unduly constrain the ability of institutional investors, particularly Qualified Institutional Buyers (QIBs), to monetize their investments through the IPO, even where such investors have acquired and held the securities as genuine financial investments. This assumes particular relevance where institutional investors have participated in the issuer's pre-IPO funding and may seek partial realization of their investment at the time of public listing.

The existing restriction may therefore limit the ability of genuine institutional investors to provide capital to growth-oriented enterprises at the pre-IPO stage, as the potential for an appropriate exit through the IPO is an important consideration in such investment decisions.

The issue for consideration is therefore whether the OFS framework can provide greater flexibility to QIBs to offer their holdings in the IPO, while continuing to ensure that the public issue remains primarily a capital-raising exercise and that promoters do not use the IPO predominantly as an exit mechanism.

3. Working Group Deliberation

The Working Group deliberated on whether the existing OFS framework appropriately balances the ability of genuine pre-IPO investors to realize their investment with the need to ensure that an SME IPO remains primarily a mechanism for raising fresh capital for the issuer.

With regard to the existing 20% ceiling on OFS, the Working Group considered that the restriction may be unduly restrictive in the case of QIBs who have invested in the issuer prior to the IPO and may require an appropriate avenue for partial exit. The Working Group recognized that the ability to obtain such an exit is also relevant to the willingness of institutional investors to provide capital to growth-oriented enterprises at the pre-IPO stage.

At the same time, the Working Group considered that greater flexibility for institutional investors should not dilute the restriction applicable to promoters or result in the IPO becoming predominantly an exit mechanism for the promoters. The OFS framework should therefore distinguish between genuine institutional participation and promoter-led exit.

The Working Group also deliberated on the absence of a minimum holding period for shares offered through OFS in the SME framework. The Working Group noted that, unlike the Main Board framework, the existing SME framework does not require the selling shareholder to have held the securities for a minimum period before offering them through an IPO.

The Working Group considered that introducing a one-year holding requirement, aligned with the Main Board framework, would ensure that the OFS route is principally available to investors who have remained invested in the issuer for a meaningful period prior to the IPO. Such a requirement would also discourage acquisition of securities shortly before the IPO with the primary objective of exiting through the public offering.

The Working Group also noted that the Main Board framework provides appropriate exemptions for specified circumstances, including securities acquired pursuant to approved schemes, securities arising from conversion or exchange of fully paid-up compulsorily convertible securities and specified bonus shares.

Accordingly, the Working Group was of the view that the OFS framework should be recalibrated to provide appropriate flexibility to genuine institutional investors, particularly QIBs, while retaining safeguards against promoter-led exit and ensuring that the OFS component continues to serve as a genuine investor exit mechanism rather than the principal purpose of the IPO.

4. Need for a Dedicated and Calibrated OFS Framework

The Working Group also deliberated on the need to provide a dedicated and comprehensive regulatory framework for Offer for Sale in SME IPOs, rather than regulating the OFS component through limited conditions embedded within the general eligibility provisions.

The Working Group noted that the Main Board framework contains a more comprehensive set of provisions governing the Offer for Sale component of an IPO, including the requirements specified under Regulation 8 of the ICDR Regulations. The Working Group considered that relevant components of the Main Board OFS framework should also be incorporated into the SME framework, suitably calibrated to the characteristics of SME issuers and their investors.

Accordingly, the Working Group considered that the SME framework should contain a separate regulation specifically governing Offer for Sale, setting out the applicable conditions and safeguards in a consolidated manner. Such a framework would provide greater regulatory clarity and consistency while enabling the specific recommendations relating to holding period, QIB participation and promoter OFS to be incorporated within a coherent OFS framework.

5. Recommendations

The Working Group recommends that the SME OFS framework be recast through a dedicated and comprehensive regulation, drawing upon the relevant components of the Main Board framework under Regulation 8 of the ICDR Regulations, while suitably calibrating the provisions to the SME ecosystem.

The Working Group recommends the following:

5.1. Dedicated OFS Regulation: Delete the existing OFS-related provisions from Regulation 230 and introduce a separate, dedicated regulation setting out the conditions and safeguards applicable to an Offer for Sale in an SME IPO.

5.2. Alignment with Main Board Framework: Align the SME OFS framework, including the one-year holding period and relevant exemptions, with the Main Board framework under Regulation 8, suitably calibrated for SME IPOs.

5.3. Flexibility for QIB Selling Shareholders: Provide flexibility to QIB selling shareholders to offer their securities through the OFS beyond the existing 20% ceiling, subject to the proposed one-year holding-period requirement, the individual ceiling of 50% of the selling shareholder's pre-issue shareholding on a fully diluted basis, and other applicable safeguards.

The proposed reforms seek to establish an OFS framework that facilitates genuine investor participation and exit while preserving the primary capital-raising character of an SME IPO. The framework would align the SME regime with the Main Board on core OFS principles, provide greater flexibility to genuine QIB investors, and retain appropriate safeguards to ensure that the flexibility does not facilitate premature or promoter-led exits. This calibrated approach would strengthen the SME capital market by improving the attractiveness of pre-IPO investment while maintaining investor protection and market integrity.

6. Rationale

The proposed framework would address the existing gaps in the SME OFS regime by providing a clear and comprehensive framework for secondary sale in SME IPOs, while maintaining the distinction between capital raising by the issuer and exit by existing shareholders.

Alignment with the Main Board framework on the holding period and relevant exemptions would provide greater consistency and prevent legitimate transactions from being subjected to restrictions that are not otherwise applicable in the Main Board framework.

At the same time, flexibility for QIB selling shareholders would recognize the role of institutional investors as providers of pre-IPO capital and provide them with a reasonable avenue for partial exit through the IPO.

Importantly, retaining the individual 50% ceiling on the selling shareholder's pre-issue shareholding would ensure that such flexibility does not translate into unrestricted exit. This would preserve the objective that an SME IPO remains primarily a fund-raising exercise for the issuer, while preventing the OFS component from becoming a disproportionate exit route, particularly for promoters.

Overall, the proposed approach seeks to strike a balance between facilitating genuine pre-IPO investment and investor exit, encouraging institutional participation, and preserving investor protection and market integrity.

6. Suggested text of proposed new Regulation 230A and deletion of Regulation 230(1)(f) and Regulation 230(1)(g) based on the recommendations

230(1)(f) omitted

230(1)(g) omitted

230A. Additional Conditions for Offer for sale

(1) Only such fully paid-up equity shares may be offered for sale to the public, which have been held by the sellers for a period of at least one year prior to the filing of the draft offer document:

Provided that in case the equity shares received on conversion or exchange of fully paid-up compulsorily convertible securities including depository receipts are being offered for sale, the holding period of such convertible securities, including depository receipts, as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period referred in this sub-regulation.

Provided further that such holding period of one year shall be required to be complied with at the time of filing of the draft offer document.

Provided further that the requirement of holding equity shares for a period of one year shall not apply:

(a) in case of an offer for sale of a government company or statutory authority or corporation or any special purpose vehicle set up and controlled by any one or more of them, which is engaged in the infrastructure sector;

(b) if the equity shares or equity shares arising out of conversion of fully paid-up compulsorily convertible securities are offered for sale where such equity shares or fully paid-up compulsorily convertible securities were acquired pursuant to any scheme approved by a High Court or approved by a Tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013, as applicable, in lieu of business and invested capital, which had been in existence for a period of more than one year prior to approval of such scheme;

(c) if the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document and further subject to the following:

(i) such specified securities being issued out of free reserves and share premium existing in the books of account as at the end of the financial year preceding the financial year in which the draft offer document is filed with the Board; and

(ii) such equity shares not being issued by utilisation of revaluation reserves or unrealized profits of the issuer.

(2) The portion of the offer for sale by the selling shareholder(s) shall not exceed twenty per cent. of the total issue size:

Provided that the limit specified in this sub-regulation shall not apply to a selling shareholder which is a Qualified Institutional Buyer and has held the specified securities for a period of at least one year prior to the filing of the draft offer document.

(3) The shares offered for sale by a selling shareholder shall not exceed fifty per cent. of the pre-issue shareholding of such selling shareholder on a fully diluted basis:

Explanation.— The limits set out in sub-regulations (2) and (3) shall be calculated with reference to the shareholding as on the date of filing of the draft offer document and shall apply cumulatively to the total number of shares offered for sale to the public and any secondary sale transactions after filing of the draft offer document but prior to the issue opening.

CHAPTER 6: REVIEW OF LOCK-IN MECHANISM

1. Existing Framework under Chapter IX

The lock-in framework under Chapter IX of ICDR Regulations seeks to ensure continued commitment of promoters and public shareholders following an SME IPO, while restricting immediate exit from the securities forming part of the pre-issue capital.

The framework is principally contained in Regulations 238 and 239, which prescribe different lock-in requirements based on the category of shareholder and the nature of the securities held.

The relevant text of the Regulation 238 and Regulation 239 are being re-produced below –

Lock - in of specified securities held by the promoters

238. The specified securities held by the promoters shall not be transferable (hereinafter referred to as 'lock -in') for the periods as stipulated hereunder:

a) minimum promoters' contribution including contribution made by 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 or any non – individual public shareholder holding at least five per cent. of the post- issue capital or any entity (individual or non - individual) forming part of promoter group other than the promoter(s), as applicable, shall be locked - in for a period of three years from the date of commencement of commercial production or date of allotment in the initial public offer, whichever is later;

b) promoters' holding in excess of minimum promoters' contribution shall be locked-in as follows:

(i) fifty percent. of promoters' holding in excess of minimum promoters' contribution shall be locked in for a period of two years from the date of allotment in the initial public offer; and

(ii) remaining fifty percent. of promoters' holding in excess of minimum promoters' contribution shall be locked in for a period of one year from the date of allotment in the initial public offer.

Explanation: For the purposes of this clause, the expression "date of commencement of commercial production" means the last date of the month in which commercial production of the project in respect of which the funds raised are proposed to be utilised as stated in the offer document, is expected to commence.

Lock – in of specified securities held by persons other than the promoters

239. The entire pre-issue capital held by persons other than the promoters shall be locked - in for a period of one year from the date of allotment in the initial public offer:

Provided that nothing contained in this regulation shall apply to:

a) equity shares allotted to employees, whether currently an employee or not, under an employee stock option or employee stock purchase scheme or a stock appreciation right scheme of the issuer prior to the initial public offer, if the issuer has made full disclosures with respect to such options or scheme in accordance with Part A of Schedule VI;

b) equity shares held by an employee stock option trust or transferred to the employees by an employee stock option trust pursuant to exercise of options by the employees, whether currently employees or not, in

accordance with the employee stock option plan or employee stock purchase scheme or a stock appreciation right scheme

Provided that the equity shares allotted to the employees shall be subject to the provisions of lock - in as specified under the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

c) equity shares held by a venture capital fund or alternative investment fund of category I or Category II or a foreign venture capital investor:

Provided that such equity shares shall be locked in for a period of at least one year from the date of purchase by the venture capital fund or alternative investment fund or foreign venture capital investor.

Explanation : For the purpose of clause (c), in case such equity shares have resulted pursuant to conversion of fully paid - up compulsorily convertible securities, the holding period of such convertible securities as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period and convertible securities shall be deemed to be fully paid - up, if the entire consideration payable thereon has been paid and no further consideration is payable at the time of their conversion.

Explanation II: For the purpose of clauses (a) and (b), equity shares shall include any equity shares allotted pursuant to a bonus issue against equity shares allotted pursuant to an employee stock option or employee stock purchase scheme or a stock appreciation right scheme.

2. Review of Lock – In of Specified Securities held by Promoters

2.1. Issue for Consideration

Regulation 238 presently provides for a three-year lock-in of the minimum promoters' contribution, commencing from the date of commencement of commercial production or the date of allotment in the initial public offer, whichever is later. It further prescribes a staggered lock-in for promoters' holding in excess of the minimum promoters' contribution, with 50% of such excess holding locked in for two years and the remaining 50% for one year.

The Working Group recognized that continued promoter commitment remains an important investor-protection safeguard for issuers accessing the SME Platform. However, the present linkage of the commencement of the lock-in to commencement of commercial production may result in uncertainty regarding the effective duration of the lock-in, as the date of commencement of commercial production may vary depending upon the nature of the issuer's business and the project for which the issue proceeds are proposed to be utilized.

Consequently, the lock-in applicable to the minimum promoters' contribution may, in certain cases, extend beyond three years from the date of allotment. The Working Group therefore considered whether the commencement of the lock-in should be linked to an objective and readily ascertainable event.

The Working Group also considered the appropriateness of the existing staggered lock-in for promoters' holding in excess of the minimum promoters' contribution. While continued promoter alignment remains relevant, the existing structure results in a prolonged restriction on the promoters' ability to access their invested capital. This assumes greater relevance for growth-oriented and capital-intensive enterprises, where promoters may require financial flexibility for further expansion, investment and capital expenditure.

The existing framework therefore warrants review to ensure that the core investor-protection safeguard relating to minimum promoters' contribution is preserved, while the duration and commencement of the

lock-in applicable to other promoters' holdings remain appropriately calibrated to the evolving nature of enterprises accessing the SME Platform.

2.2. Working Group Deliberations

The Working Group deliberated on whether the existing lock-in structure under Regulation 238 remains appropriately calibrated to balance continued promoter commitment and investor protection with the need for flexibility for promoters of growth-oriented SME issuers.

The Working Group considered that the three-year lock-in applicable to the minimum promoters' contribution continues to be an important safeguard for investors and should therefore be retained. The Working Group, however, considered that the commencement of this lock-in should be linked to an objective and uniformly ascertainable event. In this context, it was noted that commencement of commercial production may vary significantly across businesses and may not provide a consistent reference point for determining the duration of the lock-in.

The Working Group further deliberated on the staggered lock-in applicable to promoters' holding in excess of the minimum promoters' contribution. It considered that, while promoter commitment remains important, a prolonged restriction on such excess holding may limit the financial flexibility of promoters, particularly in the case of growth-oriented and capital-intensive enterprises.

The Working Group also considered the Main Board framework as a reference point while reviewing the SME provisions. It was considered appropriate to move towards a simpler lock-in structure, while retaining a higher level of promoter commitment for the minimum promoters' contribution in view of the characteristics of SME issuers.

Accordingly, the Working Group was of the view that the lock-in framework should adopt a clear three-year lock-in for minimum promoters' contribution and a one-year lock-in for promoters' holding in excess thereof, with both periods reckoned from the date of allotment. This would provide greater certainty and ease of administration while maintaining the underlying investor-protection objective of the lock-in framework.

2.3. Recommendation

The Working Group recommends that the lock-in framework for promoters under Regulation 238 be rationalised as follows:

- 2.3.1. The three-year lock-in applicable to the minimum promoters' contribution be retained, with the lock-in period reckoned from the date of allotment in the initial public offer, thereby removing the linkage to the date of commencement of commercial production and the condition of "whichever is later".
- 2.3.2. The promoters' holding in excess of the minimum promoters' contribution be locked in for one year from the date of allotment, replacing the existing staggered requirement under which 50% of such holding is locked in for two years and the remaining 50% for one year.

The proposed changes would retain the stronger lock-in applicable to the core promoters' contribution, while providing a simpler and more proportionate framework for promoters' holdings in excess of such contribution.

2.4. Rationale

The proposed framework seeks to align the SME lock-in structure with the underlying approach followed under the Main Board framework, while recognising the distinct characteristics of issuers accessing the SME Platform.

The Working Group also considered that commencement of commercial production is not a uniform or readily ascertainable milestone across different types of SME issuers. Its timing may vary depending upon the nature of the business, the implementation of the project and the manner in which the issuer generates revenue. Linking the commencement of the lock-in to such a business-specific milestone may therefore create uncertainty regarding the effective duration of the lock-in and, in certain cases, extend it beyond the intended three-year period. Accordingly, the reference to commencement of commercial production and the condition of “whichever is later” should be removed and the lock-in period should be reckoned from the date of allotment. This would provide an objective, certain and uniformly applicable starting point, while retaining the substantive three-year investor-protection safeguard.

Thus, the proposed three-year lock-in for minimum promoters’ contribution and one-year lock-in for promoters’ holding in excess thereof seeks to strike an appropriate balance between alignment with the Main Board framework, continued promoter commitment, investor protection and the need for greater flexibility for growth-oriented SME issuers.

2.5. Suggested text of Regulation 238 (revised) based on the recommendations

238. Lock - in of specified securities held by the promoters

The specified securities held by the promoters shall not be transferable (hereinafter referred to as ‘lock-in’) for the periods as stipulated hereunder:

a) minimum promoters’ contribution including contribution made by 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 or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s), as applicable, shall be locked-in for a period of three years from the date of allotment in the initial public offer;

b) promoters’ holding in excess of minimum promoters’ contribution shall be locked-in for a period of one year from the date of allotment in the initial public offer.

3. Review of Lock – In of Specified Securities held by persons other than Promoters

3.1. Issue for Consideration

Regulation 239 presently requires the entire pre-issue capital held by persons other than promoters to be locked in for a period of one year from the date of allotment, subject to specified exemptions.

The corresponding Main Board framework prescribes a six-month lock-in for such pre-issue capital. In view of the proposed evolution of the SME Platform, including its availability to issuers with higher post-issue market Capitalization, the Working Group considered whether continuation of the one-year lock-in is appropriately calibrated.

The Working Group also considered the treatment of specified securities held by the promoter group, as well as certain operational difficulties that may arise where securities over which lock-in is required are already pledged and the lock-in cannot be created through the depository mechanism.

The issue for consideration was therefore whether the lock-in framework for non-promoter pre-issue capital should be aligned more closely with the Main Board framework while retaining appropriate safeguards for promoter group holdings and facilitating effective implementation of the lock-in requirement.

3.2. Working Group Deliberations

The Working Group deliberated on the appropriate duration of lock-in for pre-issue capital held by persons other than promoters. It noted that the Main Board framework provides for a six-month lock-in, and considered whether the longer one-year requirement applicable to SME issuers continues to be necessary, particularly as the SME Platform evolves to accommodate larger and more established growth-oriented enterprises.

The Working Group was of the view that a six-month lock-in would provide an appropriate balance between investor protection and liquidity for genuine non-promoter shareholders. Such shareholders would continue to remain subject to a meaningful post-listing restriction, while being provided an earlier avenue for liquidity in line with the Main Board framework.

The Working Group also considered the need for a separate safeguard in respect of specified securities held by the promoter group. It was considered appropriate that such holdings should remain subject to a longer lock-in than that applicable to other pre-issue shareholders, given their association with the promoters and the need to prevent circumvention of the promoter lock-in requirements.

The Working Group further deliberated on the operational issue relating to securities which are already pledged and over which lock-in cannot be created through the depository mechanism. It noted the mechanism available under the Main Board framework whereby, upon instructions from the issuer, the depositories may record such securities as “non-transferable” for the duration of the applicable lock-in period. The Working Group considered that a similar mechanism could facilitate compliance for SME issuers without diluting the substantive lock-in requirement.

The Working Group also considered that the existing exemptions available to specified categories of shareholders should continue, so that the rationalisation of the lock-in period does not disturb the regulatory treatment presently available to such shareholders.

3.3. Recommendations

The Working Group recommends the following:

3.3.1. Reduction of lock-in for non-promoter pre-issue capital: Reduce the lock-in applicable to pre-issue capital held by persons other than promoters from one year to six months from the date of allotment, aligning it with the Main Board framework.

3.3.2. Lock-in of promoter group holdings: Provide for a one-year lock-in from the date of allotment for specified securities held by the promoter group, to ensure continued promoter alignment and prevent circumvention of promoter lock-in requirements.

3.3.3. Facilitation of lock-in of pledged securities through depositories: Extend to SME issuers the Main Board mechanism whereby, where lock-in cannot be created through the depository mechanism, the depositories may, upon instructions from the issuer, record such securities as “non-transferable” for the applicable lock-in period.

3.4. Rationale

The proposed reduction of the lock-in period for other pre-issue capital from one year to six months would align the SME framework more closely with the Main Board framework and provide greater liquidity to genuine non-promoter shareholders, while continuing to maintain a meaningful post-issue lock-in period.

A separate one-year lock-in for promoter group holdings would ensure continued alignment of persons associated with the promoters and provide an additional safeguard against circumvention of the promoter lock-in requirements through promoter group entities.

Retention of the existing exemptions would ensure that the proposed rationalisation does not disturb the treatment of shareholders and transactions for which exemption from the lock-in requirement is already recognised.

Finally, permitting the depositories to record securities as “non-transferable” where creation of lock-in is not technically feasible would address an operational difficulty in implementation rather than dilute the substantive lock-in requirement. The securities would continue to remain non-transferable for the prescribed period, thereby facilitating ease of doing business while preserving the underlying investor-protection objective.

3.5. Suggested text of Regulation 239 (revised) based on the recommendations

239. Lock-in of specified securities held by persons other than promoters

*1. The entire pre-issue capital held by persons other than promoters and promoter group shall be locked-in for a period of six months from the date of allotment in the initial public offer:
Provided that nothing contained in this regulation shall apply to:*

(a) equity shares allotted to employees, whether currently an employee or not, under an employee stock option or employee stock purchase scheme of the issuer prior to the initial public offer, if the issuer has made full disclosures with respect to such options or scheme in accordance with Part A of Schedule VI;

*(b) equity shares held by an employee stock option trust or transferred to the employees by an employee stock option trust pursuant to exercise of options by the employees, whether currently employees or not, in accordance with the employee stock option plan or employee stock purchase scheme:
Provided that the equity shares allotted to the employees shall be subject to the provisions of lock-in as specified under the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021;*

*(c) equity shares held by a venture capital fund or alternative investment fund of Category I or Category II or a foreign venture capital investor:
Provided that such equity shares shall be locked in for a period of at least one year from the date of purchase by the venture capital fund or alternative investment fund or foreign venture capital investor.*

Explanation: For the purpose of clause (c), in case such equity shares have resulted pursuant to conversion of fully paid-up compulsorily convertible securities, the holding period of such convertible securities as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period and convertible securities shall be deemed to be fully paid-up, if the entire consideration payable thereon has been paid and no further consideration is payable at the time of their conversion.

Explanation II: For the purpose of clauses (a) and (b), equity shares shall include any equity shares allotted pursuant to a bonus issue against equity shares allotted pursuant to an employee stock option or employee stock purchase scheme or a stock appreciation right scheme.

(2) The specified securities held by the promoter group shall be locked-in for a period of one year from the date of allotment in the initial public offer.

(3) Where the specified securities which are subject to lock-in cannot be locked-in through the depository mechanism, the depositories may, upon instructions from the issuer, record such specified securities as “non-transferable” for the duration of the applicable lock-in period.

CHAPTER 7: REVIEW OF APPLICATION SIZE, ALLOTMENT MECHANISM AND TRADING LOT

1. Existing Framework under Chapter IX and SEBI Circular dated February 21, 2012

The existing framework governing application size, allotment and trading lot for an SME public issue is contained principally in Regulations 267 and 268 of the SEBI (ICDR) Regulations, 2018, read with the relevant provisions of Regulation 253 relating to allocation of the net offer to the public. The framework has also been supplemented by SEBI's circular prescribing standardized lot sizes for SME issues.

The relevant text of the Regulation 253, Regulation 267, Regulation 268 and SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 are being re-produced below –

Allocation in the net offer

253. (1) The allocation in the net offer category shall be as follows:

- a) not less than thirty-five per cent. to individual investors who applies for minimum application size;*
- b) not less than fifteen per cent. to non-institutional investors;*
- c) not more than fifty per cent. to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds:*

Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in any other category:

Provided further that in addition to five per cent. allocation available in terms of clause (c), mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.

(2) In an issue made through book building process, the allocation in the non-institutional investors' category shall be as follows:

- (a) one third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than two lots and up to such lots equivalent to not more than ₹10 lakhs;*
- (b) two third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than ₹10 lakhs:*

Provided that the unsubscribed portion in either of the sub-categories specified in clauses (a) or (b), may be allocated to applicants in the other sub-category of non-institutional investors.

(3) In an issue made other than through the book building process, the allocation in the net offer category shall be made as follows:

- (a) minimum fifty per cent. to individual investors who applies for minimum application size; and*
- (b) remaining to:*
 - (i) individual applicants who applies for minimum application size; and*
 - (ii) other investors including corporate bodies or institutions, irrespective of the number of specified securities applied for;*

Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category.

Explanation. - For the purpose of sub-regulation (3), if the category of individual investors who applies for minimum application size is entitled to more than fifty per cent. of the issue size on a proportionate basis, such individual investors shall be allocated that higher percentage.

Application and minimum application value

267.(1) A person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public.

Provided that the maximum application by non-institutional investors shall not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to qualified institutional buyers.

(2) The minimum application size shall be two lots per application

Provided that the minimum application size shall be above ₹2 lakhs.

(3) The issuer shall invite applications in multiples of the lot size.

(4) The minimum sum payable on application per specified security shall at least be twenty-five per cent. of the issue price:

Provided that in case of an offer for sale, the full issue price for each specified security shall be payable on application.

Explanation: For the purpose of this regulation, "minimum application value" shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.

Allotment procedure and basis of allotment

268. (1) The issuer shall not make an allotment pursuant to a public issue if the number of allottees in an initial public offer is less than two hundred.

(2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange.

Provided that in case of oversubscription, an allotment of not more than ten per cent. of the net offer to public may be made for the purpose of making allotment in minimum lots.

(3) The allotment of specified securities to applicants other than individual investors who applies for minimum application size, non-institutional investors and anchor investors shall be on proportionate basis within the specified investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document:

Provided that the value of specified securities allotted to any person, except in case of employees, in pursuance of reservation made under clause (a) of sub-regulation (1) or clause (a) of sub-regulation (2) of regulation 254, shall not exceed two lakhs' rupees.

(3A) Subject to the availability of shares in non-institutional investors' category, the allotment of specified securities to each non-institutional investor shall not be less than the minimum application size in non-institutional investor category, and the remaining shares, if any, shall be allotted on a proportionate basis in accordance with the conditions specified in this regard in Schedule XIII of these regulations.

(4) The authorised employees of the stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the allotment procedure as specified in Parts A and A2 of Schedule XIV.

SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 titled Standardized lot size for SME Exchange / Platform

2.it has been decided to standardize the lot size for Initial Public Offer proposing to list on SME exchange/platform and for the secondary market trading on such exchange/platform, as given under:

Price Band (in Rs)	Lot Size (No of shares)
Upto 14	10000
more than 14 upto 18	8000
more than 18 upto 25	6000
more than 25 upto 35	4000
more than 35 upto 50	3000
more than 50 upto 70	2000
more than 70 upto 90	1600
more than 90 upto 120	1200
more than 120 upto 150	1000
more than 150 upto 180	800
more than 180 upto 250	600
more than 250 upto 350	400
more than 350 upto 500	300
more than 500 upto 600	240
more than 600 upto 750	200
more than 750 upto 1000	160
above 1000	100

3. At the Initial Public Offer stage the Registrar to Issue in consultation with Merchant Banker/s, Issuer and the Stock Exchange shall ensure to finalize the basis of allotment in minimum lots and in multiples of minimum lot size, as per the above given table. The secondary market trading lot size shall be the same, as shall be the IPO Lot Size at the application/allotment stage, facilitating secondary market trading.

4. At the Initial Public Offering stage if the price band decided, falls within two different price bands than the minimum application lot size shall be decided based on the price band in which the higher price falls into. For example: if the proposed price band is at 24-28 than the Lot size shall be 4000 shares.

5. The lot size shall not be reduced by the exchange to below the initial lot size if the trading price is below the IPO issue price.

6. The Stock Exchanges can review the lot size once in every 6 months / wherever warranted, by giving an advance notice of at least one month to the market. However, as far as possible the stock exchange shall ensure that odd lots are not created.

7. Further, the stock exchanges shall ensure that the lot size shall be the same for a securities traded across the Exchanges. In case of oversubscription, if the option to retain ten percent of the net offer to public for the purpose of making allotment in minimum lots is exercised, then it shall be ensured by the Issuer/Stock Exchanges/ Merchant Bankers that the post issue paid up capital of the issuer does not go beyond Rs.25 crore.

2. Review of Minimum Application Size and Allocation Framework

2.1. Issue for Consideration

Regulation 267 presently prescribes a minimum application of two lots with a minimum application value above ₹2 lakh. This creates a relatively high entry threshold for participation in SME IPOs, particularly for retail investors, and limits participation by investors who may otherwise be willing to invest smaller amounts. Further, since the minimum application is linked to the prescribed lot size, the actual entry amount can be higher than ₹2 lakh depending upon the issue price and lot size.

The allocation framework under Regulation 253 presently provides not less than 35% of the net offer to individual investors applying for the minimum application size, not less than 15% to NIIs and not more than 50% to QIBs. However, the provision does not expressly recognize Retail Individual Investors as a distinct investor category. Instead, eligibility for the 35% portion is determined by reference to the investor making an application for the minimum application size. This creates an SME-specific investor classification that is not aligned with the Main Board framework and may become particularly relevant where the minimum application threshold is revised.

While Anchor Investors are already permitted in SME issues through the definition and provisions of Schedule XIII, Regulation 253 does not expressly recognize their allocation within the QIB portion. The absence of an express provision in the principal allocation regulation, despite a corresponding provision under the Main Board framework, results in a difference in the regulatory architecture and articulation of the Anchor Investor mechanism for SME and Main Board issues.

The existing NII framework under Regulation 253(2) further provides for one-third of the NII portion for applications of more than two lots and up to ₹10 lakh and two-thirds for applications above ₹10 lakh. Thus, the NII allocation mechanism is specifically built around the SME application-size and lot framework, rather than being aligned with the Main Board framework under Regulation 32(3A). This creates a separate SME-specific allocation architecture and may result in regulatory complexity and lack of consistency between the two platforms.

2.2. Working Group Deliberations

The Working Group deliberated on whether the existing application and allocation framework continues to strike an appropriate balance between investor protection and wider participation in SME IPOs. The Group considered the distinct risk profile of SME issuers and the need to ensure that participation in such issues is by investors having adequate risk-bearing capacity, while also recognizing the importance of a sufficiently broad investor base for the development of the SME Platform.

In this context, the Group examined not only Regulation 267, which prescribes a minimum application of two lots, but also the **SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012**, which standardizes the lot size for SME IPOs and secondary market trading.

In deliberating on the minimum application size, the Group specifically took note of the decision taken in 2024 to increase the minimum application size from ₹1 lakh to above ₹2 lakh. The Group noted that the earlier decision was intended, inter alia, to restrict participation by retail individual investors in SME issues.

The Group also noted that the prescribed lot-size table under the 2012 Circular, read with the requirement that where a price band falls across two prescribed price bands the lot size is determined with reference to the higher price, effectively results in a minimum economic value of the lot of equals to or more than ₹1 lakh. Consequently, the requirement of two lots per application can result in the actual minimum application value exceeding ₹2 lakh, depending upon the issue price and applicable lot size. Thus, the effective entry

threshold for an investor is influenced not only by the minimum application requirement under Regulation 267 but also by the lot-size framework prescribed under the Circular.

However, the present exercise is being undertaken as part of a broader review of the SME framework, covering the eligibility, migration, investor participation, application and allotment and trading lot framework. In this context, while the rationale for requiring a meaningful minimum investment in SME issues was recognized, the Group considered whether the rationale underlying the ₹2 lakh threshold continues to warrant the same calibration, particularly in light of the evolution of the SME Platform and the objective of facilitating wider participation including participation by Retail Individual Investors, while retaining appropriate investor safeguards

In this context, the Group considered a calibrated reduction in the minimum economic value of a lot while retaining the requirement of two lots per application. The Group was of the view that prescribing a minimum lot value of ₹50,000 would reduce the entry threshold while continuing to ensure a meaningful minimum investment.

The Group also examined whether the SME-specific allocation architecture should continue to remain distinct from the Main Board framework. It was considered that greater consistency would be desirable where the underlying policy objective and investor category are common, while SME-specific adaptations may be retained where justified. Accordingly, the Group favoured expressly recognising Retail Individual Investors in the 35% allocation category and aligning the NII allocation framework with the Main Board framework.

With respect to Anchor Investors, the Group noted that the facility is already available to SME issuers through Schedule XIII. The deliberation was therefore not on introducing a new mechanism, but on whether the availability of such allocation should also be expressly reflected in Regulation 253, as is done for Main Board issues, to provide greater clarity and consistency in the regulatory architecture.

The Group ultimately considered that the SME framework should align with the Main Board framework where such alignment promotes consistency and facilitates investor participation, while retaining safeguards proportionate to the characteristics of SME issuers. On this basis, the Group recommended a calibrated reduction in the minimum application threshold and rationalisation of the allocation framework rather than retaining the existing SME-specific architecture in its entirety.

2.3. Recommendations

The Working Group recommends the following:

- 2.3.1. Retain existing requirement of two lots per application, while providing for the minimum value of the lots as each lot shall have a minimum value of ₹50,000 and accordingly, the minimum application value shall be reduced to ₹1 lakh from the existing requirement of ₹2 lakhs, with subsequent applications continuing to be made in multiples of the minimum lot size.
- 2.3.2. Replace the existing reference to individual investors applying for the minimum application size with "Retail Individual Investors", thereby bringing the terminology in line with the proposed RII framework and align the investor allocation framework with the Main Board framework.
- 2.3.3. **Expressly recognise Anchor Investor allocation in Regulation 253:** In a book-built issue, the issuer may allocate up to 60% of the portion available for allocation to QIBs to Anchor Investors, subject to the conditions specified in Schedule XIII.

- 2.3.4. Retain the existing one-third/two-thirds allocation framework for Non-Institutional Investors, while replacing the reference to “more than two lots” with a minimum application value of ₹2 lakh for determining the respective NII sub-categories, in alignment with the Main Board framework under Regulation 32(3A).

The proposed changes seek to recalibrate the application and allocation framework to facilitate wider investor participation while retaining a meaningful minimum investment threshold and appropriate safeguards for investors in SME issues. The framework would also seek greater consistency with the Main Board framework, wherever the underlying policy considerations are common, while retaining adaptations appropriate to the SME Platform.

2.4. Rationale

The proposed minimum lot value of ₹50,000 would lower the effective entry threshold for SME IPOs while retaining the requirement of minimum two lots per application (which results into minimum application value of Rs. 1,00,000), thereby maintaining a meaningful minimum investment. A value-based lot requirement is also consistent with the approach followed for Main Board IPOs, where the lot value is prescribed within a specified range. The proposed framework would therefore provide greater flexibility for investors while maintaining an appropriate minimum investment threshold.

The specific recognition of Retail Individual Investors would provide greater clarity in investor classification and align the SME allocation framework with the Main Board framework. This would also ensure that the proposed rationalisation of the minimum application framework is appropriately reflected in the allocation mechanism and facilitate wider participation by retail investors.

Further, the inclusion of Anchor Investor allocation in Regulation 253 would provide greater clarity in the principal allocation provision and align it with the existing mechanism available to SME issuers under Schedule XIII.

Also, retaining the existing one-third/two-thirds allocation while replacing the reference to “more than two lots” with an application-value threshold would decouple NII categorization from the lot-size framework and provide a clearer basis for determining the two NII sub-categories. This would also bring greater consistency with the Main Board framework under Regulation 32(3A), while preserving the existing allocation balance between the two NII sub-categories.

2.5. Suggested text of Regulation 253 (revised) and Regulation 267 (revised) based on the recommendations

Regulation 253 – Allocation in the net offer

253. (1) The allocation in the net offer category shall be as follows:

- (a) not less than thirty-five per cent. to Retail Individual Investors;*
- (b) not less than fifteen per cent. to non-institutional investors;*
- (c) not more than fifty per cent. to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds:*

Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in any other category:

Provided further that in addition to five per cent. allocation available in terms of clause (c), mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.

(1A) In an issue made through book building process, the issuer may allocate up to sixty per cent. of the portion available for allocation to qualified institutional buyers to Anchor Investors, subject to the conditions specified in Schedule XIII.

(2) In an issue made through book building process, the allocation in the non-institutional investors' category shall be as follows:

(a) one third of the portion available to non-institutional investors shall be reserved for applicants with application value of more than ₹2 lakhs and up to ₹10 lakhs;

(b) two third of the portion available to non-institutional investors shall be reserved for applicants with application value of more than ₹10 lakhs:

Provided that the unsubscribed portion in either of the sub-categories specified in clauses (a) or (b), may be allocated to applicants in the other sub-category of non-institutional investors.

(3) In an issue made other than through the book building process, the allocation in the net offer category shall be made as follows:

(a) minimum fifty per cent. to Retail Individual Investors; and

(b) remaining to:

(i) Retail Individual Investors; and

(ii) other investors including corporate bodies or institutions, irrespective of the number of specified securities applied for:

Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category.

Explanation. — For the purpose of sub-regulation (3), if the category of Retail Individual Investors is entitled to more than fifty per cent. of the issue size on a proportionate basis, such Retail Individual Investors shall be allocated that higher percentage.

Regulation 267 – Application and minimum application value

267. (1) A person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public.

Provided that the maximum application by non-institutional investors shall not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to qualified institutional buyers.

(2) The minimum application size shall be two lots per application, each lot having a minimum value of ₹50,000.

(3) The issuer shall invite applications in multiples of the lot size.

(4) The minimum sum payable on application per specified security shall at least be twenty-five per cent. of the issue price:

Provided that in case of an offer for sale, the full issue price for each specified security shall be payable on application.

Explanation. — For the purpose of this regulation, “minimum application value” shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.

3. Review of Allotment Mechanism

3.1. Issue for Consideration

The existing SME allotment framework is structured around the existing application and lot-size framework, with the basis of allotment being finalized in minimum lots and multiples thereof. Further, paragraph 3 of the SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 specifically requires the basis of allotment at the IPO stage to be finalized in minimum lots and multiples of the minimum lot size. This creates a linkage between the minimum application, lot size and allotment which may not be necessary where the application requirement and allotment mechanism are intended to serve different purposes. The framework may therefore be reviewed to provide greater flexibility in allotment to Retail Individual Investors, while retaining the existing minimum application requirement.

The existing requirement of minimum 200 allottees under Regulation 268(1) provides a basic threshold for distribution of shares in an SME IPO. However, in the context of the proposed framework seeking to facilitate wider investor participation and broader distribution of shareholding, the existing threshold may not adequately reflect the objective of wider dissemination of ownership in SME-listed entities.

The existing framework contains a detailed illustration in Part A2 of Schedule XIV explaining the procedure for allotment to Non-Institutional Investors in an SME IPO. With the proposed NII allocation framework being aligned with the Main Board framework, the continued presence of an SME-specific illustrative provision may result in duplication of procedural guidance where the substantive requirements are already prescribed in the Regulations, and may therefore warrant rationalization.

3.2. Working Group Deliberation

The Working Group deliberated on the allotment mechanism with a view to ensuring that the application requirements and allotment process serve distinct purposes, while facilitating wider participation and maintaining a fair and orderly basis of allotment.

With respect to Retail Individual Investors, the Group noted that the existing requirement of finalizing allotment in minimum lots and multiples thereof, as prescribed under paragraph 3 of the SEBI Circular No. CIR/MRD/DSA/06/2012, links the allotment process to the prescribed lot size. The Group considered that, while the requirement of two lots per application may continue, there need not be a corresponding requirement that the allotment itself should remain linked to multiples of the lot size. The Group therefore deliberated on providing for allotment of at least one minimum lot to each RII, subject to availability, with any remaining shares being allotted proportionately, without requiring such additional allotment to be in multiples of the lot size. This would also bring the SME allotment mechanism broadly in line with the principle followed for Retail Individual Investors in Main Board IPOs under Regulation 49(4).

The Group also deliberated on the minimum number of allottees. Given the broader objective of the proposed framework to facilitate wider participation and distribution of shareholding in SME-listed entities, the Group considered that the existing threshold of 200 allottees may be strengthened to provide for a wider dissemination of the issue. Based on the data provided by NSE, it is observed that Average No. of Allottees in SME IPOs on NSE EMERGE and BSE SME during Jan 2025 to March 2026 is more than 1,000 allottees. Accordingly, the Group considered increasing the minimum number of allottees to 500 at this stage.

With regard to the NII allotment procedure, the Group noted that Part A2 of Schedule XIV contains an illustration explaining the allotment procedure for NIIs in an SME public issue. Since the NII allocation

framework is proposed to be aligned with the Main Board framework, the Group considered that retaining a separate SME-specific illustration may no longer be necessary. The Group therefore considered omitting Part A2 of Schedule XIV, while retaining the substantive allotment requirements in the Regulations.

3.3. Recommendations

The Working Group recommends the following:

- 3.3.1. Provide that the allotment of specified securities to each Retail Individual Investor shall not be less than one minimum lot, subject to availability of shares in the Retail Individual Investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis without linkage to the minimum lot size.
- 3.3.2. Increase the minimum number of allottees in an SME IPO from 200 to 500, thereby facilitating wider distribution of the issue among investors.
- 3.3.3. Omit Part A2 of Schedule XIV, which provides an illustration explaining the procedure for allotment to Non-Institutional Investors in an SME public issue.

The above recommendations seek to rationalize the allotment mechanism by distinguishing the requirements applicable at the application stage from those governing allotment, thereby providing greater flexibility in allotment to Retail Individual Investors while ensuring fair and proportionate distribution of available shares. The proposed increase in the minimum number of allottees would further support wider dissemination of shareholding, while removal of the SME-specific illustration for NII allotment would simplify the regulatory framework and align it with the proposed allocation mechanism.

3.4. Rationale

The proposed mechanism would separate the application requirement from the allotment mechanism. While an RII would continue to apply for two lots, allotment of at least one minimum lot would ensure a basic allocation to a larger number of RIIs, subject to availability. Any remaining shares would be allotted proportionately, without requiring such allotment to be in multiples of the lot size. This would facilitate wider participation and is broadly consistent with the allotment principle followed for RIIs in Main Board IPOs.

Further, increasing the minimum number of allottees from 200 to 500 would promote wider distribution of the issue and broader dissemination of shareholding among investors. This would complement the proposed changes aimed at facilitating wider participation in SME public issues and reduce concentration of the post-issue shareholder base.

Also, omission of Part A2 of Schedule XIV would simplify the regulatory framework by removing an SME-specific illustration where the substantive allotment requirements are already prescribed in the Regulations. This would also be consistent with the proposed alignment of the NII allocation framework with the Main Board framework and avoid unnecessary duplication of procedural guidance.'

3.5. Suggested text of Regulation 268 (revised) based on the recommendations

268. (1) The issuer shall not make an allotment pursuant to a public issue if the number of allottees in an initial public offer is less than five hundred.

(2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange.

Provided that in case of oversubscription, an allotment of not more than ten per cent. of the net offer to public may be made for the purpose of making allotment in minimum lots.

(2A) The allotment of specified securities to each Retail Individual Investor shall not be less than the minimum lot, subject to the availability of shares in the Retail Individual Investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis, without requiring such allotment to be in multiples of the minimum lot.

(3) The allotment of specified securities to applicants other than Retail Individual Investors, non-institutional investors and anchor investors shall be on proportionate basis within the specified investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document:

Provided that the value of specified securities allotted to any person, except in case of employees, in pursuance of reservation made under clause (a) of sub-regulation (1) or clause (a) of sub-regulation (2) of regulation 254, shall not exceed two lakhs rupees.

(3A) Subject to the availability of shares in non-institutional investors' category, the allotment of specified securities to each non-institutional investor shall not be less than the minimum application size in the relevant non-institutional investor sub-category, and the remaining shares, if any, shall be allotted on a proportionate basis in accordance with the conditions specified in this regard in these regulations.

(4) The authorised employees of the stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the allotment procedure as specified in Part A of Schedule XIV.

4. Review of Trading Lot Framework

4.1. Regulatory Architecture

Unlike the minimum application size and allotment framework, which are specifically provided under Regulations 267 and 268 of the ICDR Regulations, the trading lot for securities listed on the SME Platform is primarily governed by SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 on "Standardized lot size for SME Exchange / Platform". The Circular prescribes a standardized lot size based on the price band of the security and applies the prescribed lot size both at the IPO stage and for secondary-market trading.

The Circular prescribes lot sizes ranging from 10,000 shares for securities priced up to ₹14 to 100 shares for securities priced above ₹1,000, with progressively lower lot sizes as the price increases. The prescribed lot size is linked to the price of the security and is intended to standardize the minimum quantity in which securities are traded on the SME Platform.

The Circular also provides that, at the IPO stage, the Registrar to the Issue, in consultation with the Merchant Banker(s), Issuer and Stock Exchange, shall finalize the basis of allotment in minimum lots and multiples of the minimum lot size prescribed under the Circular. It further provides that the secondary-market trading lot shall be the same as the IPO lot size, thereby creating a linkage between the lot applicable at the IPO stage and the lot applicable for secondary-market trading.

The Circular further provides that, where the IPO price band falls across two prescribed price bands, the applicable lot size is determined with reference to the higher price in the price band. For instance, where the price band is ₹24–₹28, the lot size is determined with reference to the price band above ₹25 and is

therefore 4,000 shares. The Circular also provides that the lot size shall not be reduced below the initial lot size merely because the trading price subsequently falls below the IPO issue price.

The Stock Exchanges may review the lot size once every six months or wherever warranted, subject to advance notice to the market. The Circular further states that, as far as possible, Stock Exchanges should ensure that odd lots are not created, and that the lot size should be the same for a security traded across Exchanges.

It may be noted that the Circular does not expressly prescribe a minimum monetary value of ₹1 lakh for each trading lot. Rather, the prescribed lot size is determined through the price-band-wise table and consequently results in a predetermined quantity of shares constituting one trading lot.

4.2. Issues for Consideration

The existing framework was introduced to standardize the trading lot for securities listed on the SME Platform. However, the continued requirement of trading in predetermined quantities of shares gives rise to certain considerations in the context of the evolution of the SME market and the objective of facilitating wider participation.

4.2.1. Restriction arising from Prescribed Trading Lots

The existing price-band-wise framework requires investors to transact in a predetermined number of shares rather than individual shares. Depending upon the applicable price band, the prescribed trading lot may comprise a substantial number of shares, thereby restricting investors from undertaking transactions in smaller quantities.

4.2.2. Linkage between IPO Lot and Secondary-Market Trading Lot

The Circular requires the secondary-market trading lot to be the same as the IPO lot size. While this provides consistency between the primary and secondary markets, the objectives served by the two may be different. The minimum lot applicable at the IPO stage is intended to ensure a meaningful minimum application, whereas secondary-market trading requires flexibility for investors to buy and sell their holdings. The continued linkage between the two therefore merits reconsideration.

4.2.3. Fixed Trading Lot vis-à-vis Changes in Market Price

The lot size is determined at the IPO stage with reference to the prescribed price-band framework and, under the Circular, cannot subsequently be reduced below the initial lot size merely because the market price falls below the IPO issue price. Consequently, the number of shares constituting one trading lot remains fixed even where the market price of the security changes materially. This may result in the prescribed trading unit no longer corresponding to an appropriate or meaningful transaction size in the secondary market.

4.2.4. Odd-Lot Positions

The Circular itself recognizes the need, as far as possible, to avoid creation of odd lots. However, where the prescribed trading unit consists of a fixed number of shares, investors may hold quantities that do not constitute a complete trading lot, including on account of corporate actions or other changes in shareholding. Such holdings may face constraints in secondary-market trading. Based on the analysis undertaken, it was observed that, on average, approximately 5% of the unique PAN-based shareholders held shares in quantities that resulted in an odd lot, thereby preventing them from trading the entirety of their shareholding through the regular market mechanism due to the prevailing trading lot requirement.

4.2.5. Impact on Institutional Participation

Institutional investors, including QIBs, generally seek to maintain diversified portfolios and allocate capital across a number of securities. A relatively high minimum trading lot, particularly in securities with comparatively smaller issue sizes and potentially lower liquidity, may increase the operational and economic cost of establishing and maintaining a meaningful position in an SME-listed security. This may, in turn, reduce the attractiveness of such securities for institutional investors.

4.3. Working Group Deliberation

The Working Group deliberated on the continued relevance of the prescribed trading-lot framework, particularly the requirement that SME securities be traded in predetermined quantities of shares. The Group noted that the existing framework was introduced to standardize trading lots across SME securities and to provide a structured framework for trading on the SME Platform.

The comparative analysis is relevant in this context as it considers Main Board and SME issuers, during last 3 FYs, within the same ₹500 crore market capitalization range. The relatively lower QIB participation observed in SME IPOs (35% vis a vis 50% in Mainboard IPO), despite the comparable size of the underlying issuers, raises the question whether the existing trading lot framework may be contributing to the difference in institutional participation.

The Group further considered the implications of the provision in the 2012 Circular which requires the secondary-market trading lot to be the same as the IPO lot size. It was noted that retaining this linkage would continue to carry the IPO-stage lot-size restriction into secondary-market transactions, even though the policy objectives at the two stages are different.

The Group also considered the provisions relating to determination of the lot size based on the higher end of the IPO price band, the restriction on reducing the lot size below the initial lot size where the market price declines, and the requirement to avoid creation of odd lots. In the view of the Group, these provisions are consequential to the existing price-band-based lot-size mechanism and would lose their relevance if the secondary-market trading unit were no longer prescribed in terms of a fixed number of shares.

Accordingly, the Group deliberated on rationalizing the secondary-market trading lot to one share. The proposed approach would allow investors to buy or sell individual shares in the secondary market, thereby providing greater flexibility in managing their holdings and removing the structural restriction arising from a prescribed minimum trading quantity. This will also result in increase in participation of QIB in SME issues.

Importantly, the Group clarified that rationalization of the trading lot to one share would apply only to secondary-market trading and would not alter the minimum lot applicable for making an application or for allotment in an SME IPO. Thus, the proposed minimum application and lot-size framework would continue to operate independently at the IPO stage.

4.4. Recommendations

The Working Group recommends the following:

- 4.4.1. **Rationalize the trading lot for securities listed on the SME Platform to one share**, thereby eliminating the structural restriction arising from the prescribed trading lots and facilitating greater accessibility and flexibility in secondary-market transactions.

The proposed one-share trading lot shall apply to secondary-market trading only and shall not affect the minimum lot or minimum application requirements applicable at the IPO stage.

4.5. Rationale

The proposed rationalisation of the trading lot to one share would provide investors with greater flexibility to transact in SME-listed securities in the secondary market. Investors would be able to buy or sell securities in quantities based on their individual requirements, without being required to transact in a prescribed number of shares.

The proposed framework would also delink the secondary-market trading unit from the minimum lot applicable at the IPO stage. While the IPO framework would continue to prescribe a minimum application and allotment lot to ensure a meaningful level of participation at the time of the public issue, the secondary market would permit trading in individual shares. This would provide a clear distinction between the requirements applicable at the primary and secondary-market stages.

Further, permitting trading in one share would eliminate the structural constraint associated with holding a quantity of shares that is below the prescribed trading lot. Investors would therefore be able to transact in their entire holding, including any shares received through corporate actions or otherwise, without the requirement of accumulating or disposing of securities in a prescribed lot.

The proposed framework would also provide a simpler and more flexible trading mechanism for SME-listed securities, while facilitating wider participation in the secondary market.

4.6. Consequential Review of 2012 Circular

The Working Group also examined the implications of the proposed changes for SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012. The Group noted that the Circular presently contains an integrated framework covering the standardised lot size for SME IPOs and secondary-market trading, including the price-band-wise lot-size table, IPO-stage allotment in minimum lots and multiples thereof, linkage of the secondary-market trading lot with the IPO lot, determination of lot size where the price band spans two price ranges, restriction on reduction of the lot size below the initial lot size, and the requirement to endeavour to avoid creation of odd lots.

In light of the proposed changes to the application, lot-size and allotment framework, as well as the proposed rationalisation of the secondary-market trading lot to one share, the existing provisions of the Circular would require comprehensive consequential review.

In particular, once the secondary-market trading lot is rationalised to one share, the provisions prescribing a price-band-wise trading lot and linking the trading lot with the IPO lot would no longer be necessary. Similarly, the provisions relating to determination and subsequent review of the prescribed trading lot would cease to have relevance.

Accordingly, the Working Group considered that, once the proposed amendments to the Regulations and the revised framework are made effective, SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 may be rescinded, subject to necessary consequential and legal review. The relevant provisions governing the minimum application/IPO lot, allotment and secondary-market trading may thereafter operate through the revised regulatory framework.

CHAPTER 8 : RATIONALISATION OF COST OF FUND RAISING AND SME-SPECIFIC REQUIREMENTS

1. Existing Framework under Chapter IX

The existing SME framework provided under Regulation 260 and 261 of the SEBI (ICDR) Regulations, 2018 contains certain mandatory mechanisms intended to provide subscription support and secondary-market liquidity. Further, Regulation 264(5) provides that the announcement regarding closure of the issue shall be made only after the Lead Manager(s) is satisfied that at least 90% of the offer has been subscribed and a certificate to that effect has been obtained from the Registrar to the Issue.

The relevant text of the Regulation 260, Regulation 261 and Regulation 264(5) are being re-produced below

Underwriting

260. (1) The initial public offer shall be underwritten for hundred per cent of the offer and shall not be restricted upto the minimum subscription level.

(2) The lead manager(s) shall underwrite at least fifteen per cent. of the issue size on their own account(s).

(3) The issuer, in consultation with lead manager(s), shall appoint merchant bankers or stock brokers, registered with the Board, to act as underwriters, and the lead manager(s) may enter into an agreement with the nominated investors indicating therein the number of specified securities which they agree to subscribe at the issue price in case of under-subscription.

(4) The lead manager(s) shall file an undertaking to the Board that the issue has been hundred per cent. underwritten along with the list of underwriters, nominated investors and sub-underwriters indicating the extent of underwriting or subscription commitment made by each of them, one day before the opening of issue.

(5) If any of the underwriters fail to fulfill their underwriting obligations or the nominated investors fail to subscribe to the unsubscribed portion, the lead manager(s) shall fulfill the underwriting obligations.

(6) The underwriters/ sub-underwriters, other than the lead manager(s) and the nominated investors, who have entered into an agreement for subscribing to the issue in case of under-subscription, shall not subscribe to the issue made under this Chapter in any manner except for fulfilling their obligations under their respective agreements with the lead manager(s) in this regard.

(7) All underwriting and subscription arrangements made by the lead manager(s) shall be disclosed in the offer document.

Market making

261. (1) The lead manager(s) shall ensure compulsory market making through the stock brokers of the SME exchange(s) appointed by the issuer, in the manner specified by the Board for a minimum period of three years from the date of listing of the specified securities or from the date of migration from the Main Board in terms of regulation

(2) The market maker or issuer, in consultation with the lead manager(s) may enter into agreements with the nominated investors for receiving or delivering the specified securities in market making, subject to the prior approval of the SME exchange.

(3) The issuer shall disclose the details of the market making arrangement in the offer document.

(4) The specified securities being bought or sold in the process of market making may be transferred to or from the nominated investors with whom the lead manager(s) and the issuer have entered into an agreement for market making:

Provided that the inventory of the market maker, as on the date of allotment of the specified securities, shall be at least five per cent. of the specified securities proposed to be listed on SME exchange.

(5) The market maker shall buy the entire shareholding of a shareholder of the issuer in one lot, where the value of such shareholding is less than the minimum contract size allowed for trading on the SME exchange:

Provided that market maker shall not sell in lots less than the minimum contract size allowed for trading on the SME exchange.

(6) The market maker shall not buy the shares from the promoters or persons belonging to the promoter group of the issuer or any person who has acquired shares from such promoter or person belonging to the promoter group during the compulsory market making period.

(7) The promoters' holding shall not be eligible for offering to the market maker during the compulsory market making period: Provided that the promoters' holding which is not locked-in as per these regulations can be traded with prior permission of the SME exchange, in the manner specified by the Board.

(8) The lead manager(s) may be represented on the board of directors of the issuer subject to the agreement between the issuer and the lead manager(s) who have the responsibility of market making.

Issue – related advertisements

264 (5) (An announcement regarding closure of the issue shall be made only after the lead manager(s) is satisfied that at least ninety per cent. of the offer has been subscribed and a certificate has been obtained to that effect from the registrar to the issue:

Provided that such an announcement shall not be made before the date on which the issue is to be closed except for issue closing advertisement made in the format prescribed in these regulations.

2. Review of Underwriting Framework

2.1. Issues for Consideration

The existing SME framework requires 100% underwriting of the issue, together with an additional requirement for the Lead Manager(s) to underwrite at least 15% of the issue on their own account. While the requirement is intended to provide assurance of subscription and support the successful completion of the issue, the mandatory underwriting arrangement also entails additional costs for SME issuers, including underwriting-related fees and associated intermediary costs. Given the relatively smaller size of SME issues, such costs may constitute a comparatively higher proportion of the overall issue expenses and thereby increase the cost of fund raising for SME issuers.

Box 8.1 : Fees Payable to Underwriters*

Exchange	Fees payable to Underwriter vis a vis Total Issue Expenses*	
	FY 2025-26	FY 2024-25
NSE	38.41%	49.52%
BSE	33.99%	32.20%

*On an average basis based on information disclosed in Prospectus

Further, the present framework requires the entire issue to be underwritten irrespective of the actual level of investor demand, thereby requiring the issuer to incur underwriting-related costs even where the issue ultimately receives adequate subscription from investors. The additional requirement for the Lead Manager(s) to underwrite 15% of the issue on their own account further imposes an SME-specific obligation which may have a bearing on the cost and structuring of the issue.

In comparison, the Main Board framework requires the unsubscribed portion of the issue to be fully underwritten by the underwriters. Accordingly, the continued requirement for 100% underwriting of SME issues, together with the additional 15% obligation on Lead Manager(s), may merit reconsideration from the perspective of both proportionality of investor protection and rationalization of the cost of fund raising, while ensuring that adequate protection is available against any unsubscribed portion of the issue.

2.2. Working Group Deliberation

The Working Group deliberated on whether the existing SME-specific underwriting framework continues to be necessary in its present form, particularly in the context of the objective of rationalizing the cost of fund raising for SME issuers. The Group noted that the existing requirement of underwriting the entire issue entails an underwriting arrangement irrespective of the actual level of investor demand and consequently results in an additional cost for the issuer. It is supported by the fact that during last 3 FYs, only in 4 IPOs, the allotment was made to underwriters.

The Group examined whether the objective of ensuring adequate subscription to an SME public issue could instead be achieved through a framework that places greater reliance on actual investor demand, rather than requiring the entire issue to be mandatorily underwritten upfront. In this regard, the Group considered the Main Board framework, under which the unsubscribed portion of the issue is required to be fully underwritten by the underwriters.

The Working Group further deliberated on whether, consequent to the proposed removal of the SME-specific 100% underwriting requirement, an explicit minimum subscription requirement should be introduced for SME public issues. The Group considered that such a requirement would provide an independent safeguard by ensuring that an issue proceeds only where a specified minimum level of actual investor participation has been achieved, while reducing the need to rely on mandatory underwriting as the primary mechanism for ensuring subscription. This would enable the framework to move from mandatory upfront underwriting of the entire issue towards a mechanism based on actual investor demand, minimum subscription and underwriting of the unsubscribed portion

The Group therefore considered introducing a separate minimum subscription provision for SME public issues, which may be incorporated as a new regulation in Chapter IX. Such a provision would provide a clear threshold of actual subscription that must be achieved before the issue proceeds, while the unsubscribed portion, if any, beyond the permitted minimum subscription would be addressed through the applicable underwriting framework.

The Working Group also considered the relationship between the proposed minimum subscription requirement and the existing requirement under Regulation 264(5), which requires the Lead Manager(s),

before announcing closure of the issue, to be satisfied that at least 90% of the offer has been subscribed and to obtain a certificate to that effect from the Registrar to the Issue. The Group noted that, once a specific minimum subscription requirement is incorporated in the Regulations, a separate requirement for confirming 90% subscription prior to announcement of closure would duplicate the minimum subscription framework and would no longer be necessary. Accordingly, the continued requirement under Regulation 264(5) was considered for consequential omission.

The Working Group also considered that, with the introduction of a minimum subscription requirement and alignment of the underwriting framework with the Main Board framework, the additional requirement for Lead Manager(s) to underwrite 15% of the issue on their own account would no longer be necessary.

The proposed approach would therefore seek to balance investor protection and certainty of subscription with the objective of reducing the regulatory and cost burden associated with the present SME-specific underwriting framework.

2.3. Recommendations

The Working Group recommends the following:

- 2.3.1. Remove the requirement for 100% underwriting of the issue and the additional requirement for the Lead Manager(s) to underwrite 15% of the issue on their own account. The underwriting framework applicable to Main Board issues shall continue to apply to SME public issues, under which the unsubscribed portion of the issue is required to be fully underwritten by the underwriters.
- 2.3.2. Introduce a minimum subscription requirement for SME issues through a new regulation, aligned with the minimum subscription requirement prescribed under Regulation 45, to ensure that the IPO is concluded only upon achievement of the prescribed minimum level of actual investor subscription.
- 2.3.3. Omit the requirement under Regulation 264(5) relating to obtaining confirmation from the Registrar to the Issue that at least 90% of the offer has been subscribed prior to announcement of closure of the issue, as the proposed minimum subscription requirement under Regulation 265A would provide the substantive framework governing minimum investor subscription.

The above measures would rationalize the SME-specific underwriting framework by reducing mandatory underwriting-related requirements while retaining an appropriate safeguard through a minimum subscription requirement and underwriting of the unsubscribed portion of the issue. The proposed framework would thereby seek to balance investor protection with the objective of reducing the regulatory burden and cost of fund raising for SME issuers.

2.4. Rationale

The existing requirement of 100% underwriting of the SME public issue, irrespective of the actual level of investor demand, entails an underwriting arrangement for the entire issue and consequently contributes to the overall cost of fund raising. The additional requirement for the Lead Manager(s) to underwrite 15% of the issue on their own account further imposes an SME-specific obligation and associated cost. Removal of these requirements would therefore reduce the mandatory underwriting-related burden on SME issuers and contribute to rationalization of issue expenses.

The experience of SME issues during the last three financial years also indicates that the underwriting arrangement has been operationally invoked only in a limited number of cases, where securities were required to be issued to the underwriters. Further, considering the generally high levels of subscription

observed in SME issues, the requirement of mandatory underwriting of the entire issue, irrespective of the actual level of investor demand, may no longer be commensurate with the prevailing market experience. This provides a basis for reconsidering the need for a hard underwriting requirement for the entire issue.

At the same time, the proposed removal of the SME-specific underwriting requirements is accompanied by the introduction of a minimum subscription requirement under the proposed new regulation, aligned with Regulation 45. This would ensure that an SME public issue proceeds only where the prescribed minimum level of actual investor demand is achieved, thereby providing an appropriate safeguard without requiring the entire issue to be mandatorily underwritten upfront.

Further, continuing to require the unsubscribed portion of the issue to be addressed through the applicable underwriting framework would ensure that the removal of mandatory 100% underwriting does not compromise the ability of the issue to meet its subscription requirements. The proposed framework therefore seeks to move from mandatory underwriting of the entire issue towards a more proportionate framework based on actual subscription, minimum subscription and underwriting of the unsubscribed portion.

The Working Group also considered that the cost of fund raising is an important consideration for SME issuers, particularly for genuine and viable enterprises seeking to access the capital market. Where mandatory regulatory requirements result in relatively high issue-related costs, including underwriting costs, such costs may increase the overall cost of accessing the capital market and may adversely affect genuine issuers for whom the cost of raising capital is an important consideration. Rationalisation of such requirements would therefore support the objective of facilitating efficient access to the capital market without compromising essential investor safeguards.

Overall, the proposed changes would reduce SME-specific regulatory requirements and associated costs while retaining appropriate safeguards for investors and the successful completion of the public issue.

2.5. Suggested text of Regulation 260 (revised), Regulation 265A (new insertion) and Regulation 264(5) based on the recommendations

Underwriting

260 (1) If the issuer making an initial public offer, other than through the book building process, desires to have the issue underwritten to cover under-subscription in the issue, it shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with the Board to act as underwriters, indicating therein the maximum number of specified securities they shall subscribe to, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.

(2) The issuer making an initial public offer, other than through the book building process, shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with the Board to act as underwriters, indicating therein the number of specified securities they shall subscribe to on account of rejection of applications, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.

(3) If the issuer makes a public issue through the book building process:

(a) the issue shall be underwritten by lead manager(s) and syndicate member(s):

(b) the issuer shall, prior to the filing of the red herring prospectus, enter into an underwriting agreement

with the lead manager(s) and syndicate member(s), indicating therein the number of specified securities they shall subscribe to on account of rejection of bids, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.

(c) if the issuer desires to have the issue underwritten to cover under-subscription in the issue, it shall, prior to the filing of the red herring prospectus, enter into an underwriting agreement with the lead manager(s) and syndicate member(s) to act as underwriters, indicating therein the maximum number of specified securities they shall subscribe to, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the red herring prospectus.

(d) if the syndicate member(s) fail to fulfil their underwriting obligations, the lead manager(s) shall fulfil the underwriting obligations.

(e) the lead manager(s) and syndicate member(s) shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations.

(f) in case of every underwritten issue, the lead manager(s) shall undertake minimum underwriting obligations as specified in the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992.

(g) where the issue is required to be underwritten, the underwriting obligations should be at least to the extent of minimum subscription.

Minimum Subscription

265A (1) The minimum subscription to be received in the issue shall be at least ninety per cent. of the offer through the offer document, except in case of an offer for sale of specified securities:

Provided that the minimum subscription to be received shall be subject to the allotment of minimum number of specified securities, as prescribed under the Securities Contracts (Regulation) Rules, 1957.

(2) In the event of non-receipt of minimum subscription referred to in sub-regulation (1), all application monies received shall be refunded to the applicants forthwith, but not later than four days from the closure of the issue.

Issue - related advertisements

264 (5) omitted

3. Review of Market - Making Framework

3.1. Issues for Consideration

The existing SME framework mandates compulsory market making for securities listed on the SME Platform, with the market maker required to provide two-way quotes and maintain the prescribed inventory for carrying out market-making activities. The requirement was introduced with the objective of facilitating continuous liquidity and orderly trading in SME securities, particularly given the relatively smaller investor base and lower trading volumes associated with such securities.

The continued necessity of a mandatory market-making arrangement for every SME-listed security may, however, merit reconsideration. The requirement entails an additional layer of regulatory and operational

arrangements for SME issuers and market makers, including maintenance of market-maker inventory and associated costs, which may contribute to the overall cost of accessing and remaining in the capital market.

Box 8.2 : Fees Payable to Market Makers*

Exchange	Fees payable to Underwriter vis a vis Total Issue Expenses*	
	FY 2025-26	FY 2024-25
NSE	1.58%	1.25%
BSE	2.60%	4.20%

*On an average basis based on information disclosed in Prospectus

Further, the effectiveness and proportionality of compulsory market making may be considered in light of the proposed rationalization of the trading lot to one share. A reduction in the trading lot would substantially lower the entry barrier for investors and facilitate participation in the secondary market without requiring investors to commit capital equivalent to the existing large trading lot. This may, in turn, improve the ability of investors to enter and exit SME securities through the regular market mechanism.

Accordingly, the need for compulsory market making as a regulatory requirement for all SME securities, including the associated inventory and other mandatory obligations, may be reconsidered, particularly in the context of the proposed trading-lot rationalization and the objective of reducing SME-specific regulatory requirements and the overall cost of fund raising.

3.2. Working Group Deliberations

The Working Group deliberated on the continued need for compulsory market making in SME securities, particularly from the perspective of the additional cost and operational burden that the requirement entails for SME issuers. The Group considered whether a mandatory market-making arrangement should continue to be prescribed uniformly for all SME-listed securities, irrespective of the actual level of trading activity and liquidity in the concerned scrip.

The Group noted that compulsory market making requires the issuer to make arrangements for a market maker and entails associated costs for the issuer over the prescribed market-making period. In the context of SME issuers, for whom the overall cost of accessing the capital market is an important consideration, the Group deliberated whether such recurring costs remain proportionate to the actual benefit derived from the market-making arrangement.

The Working Group also considered the actual contribution of market makers to trading activity in SME securities. The Group noted that, based on the experience of SME-listed scrips, there may be instances where the trades executed by the market maker constitute only a limited proportion of the total turnover of the concerned scrip. The Group considered that where the market maker's contribution to overall trading activity is limited, the continued imposition of a compulsory market-making arrangement, together with the associated costs to the issuer, may not necessarily result in a commensurate improvement in liquidity.

Box 8.3 : Market Maker contribution to Trading Activity in SME Securities during Aug 2025 to July 2026

Exchange	Market Maker Turnover vis a vis Total Turnover		
	0 to 10%	10% to 20%	Above 20%
NSE	361	28	7
BSE	268	42	31

The Group further deliberated on the proposed rationalisation of the trading lot to one share. The Group noted that the existing trading lot requires investors to transact in a relatively large number of shares in each transaction, thereby increasing the minimum capital required for each transaction and limiting the ability of investors to transact in smaller quantities. A trading lot of one share would enable investors to buy or sell SME securities in smaller quantities and with a lower minimum capital outlay, thereby facilitating wider investor participation and greater flexibility in secondary-market trading.

The Working Group considered that improved accessibility to secondary-market trading through a one-share trading lot could, in itself, facilitate broader participation and contribute to liquidity in SME securities. In such a framework, the need to mandate a separate market-making arrangement for every SME security may be reduced, particularly where liquidity can increasingly be determined by actual investor demand and participation.

The Group also considered that compulsory market making does not necessarily ensure sustained liquidity in a scrip where there is limited underlying investor interest. In such circumstances, the mandatory arrangement may continue to impose costs on the issuer without necessarily generating a proportionate level of trading activity. The Group therefore considered whether the objective of facilitating liquidity would be better served by reducing the regulatory prescription and allowing market forces and wider investor participation to determine the level of liquidity in individual SME securities.

In view of the above, the Working Group was of the view that, with the proposed rationalisation of the trading lot to one share and the consequent reduction in the capital required for individual transactions, the continued prescription of compulsory market making as an SME-specific requirement may no longer be necessary. The Group accordingly considered that the compulsory market-making requirement, including the associated mandatory inventory and other arrangements, may be removed, thereby reducing the cost and regulatory burden on SME issuers while allowing secondary-market liquidity to develop through broader investor participation and the regular market mechanism.

3.3. Recommendations

The Working Group recommends the following:

- 3.3.1. Remove the requirement of compulsory market making in SME securities, including the associated market-maker inventory and other mandatory arrangements.

Taken together, the proposed measure would remove the SME-specific mandatory market-making framework and the associated cost and compliance burden on issuers. This would be complemented by the proposed one-share trading lot, which is expected to facilitate wider participation and improve flexibility in secondary-market trading.

3.4. Rationale

The compulsory market-making framework was introduced with the objective of facilitating liquidity in SME securities. However, the Working Group noted that the requirement entails additional costs and operational arrangements for SME issuers, including costs associated with engaging the market maker and maintaining the prescribed market-making arrangements. Given the objective of rationalizing the cost of accessing the capital market for SME issuers, the continued imposition of such costs may not be proportionate where the actual contribution of market making to trading activity is limited.

The experience of SME-listed securities also indicates that the trading activity attributable to market makers may constitute only a limited proportion of the overall turnover in certain scrips. This suggests that compulsory market making may not, by itself, be the principal determinant of liquidity, particularly where there is limited underlying investor demand. Continuing a mandatory arrangement in such circumstances

could result in an ongoing cost to the issuer without a commensurate enhancement in secondary-market liquidity.

The proposed rationalization of the trading lot to one share provides an alternative mechanism for facilitating wider participation in SME securities. A one-share trading lot would reduce the minimum capital required for each transaction and allow investors greater flexibility to buy or sell smaller quantities of securities. This is expected to make secondary-market trading more accessible and facilitate broader investor participation.

Further, liquidity is ultimately dependent on actual investor demand and participation. A framework that enables investors to transact in smaller quantities, coupled with removal of mandatory market making, would allow liquidity to develop more organically through market participation rather than through a prescribed arrangement applicable uniformly to all SME securities.

Accordingly, removal of compulsory market making would reduce the cost and regulatory burden associated with the SME framework, while the proposed one-share trading lot would address the accessibility and participation concerns that underpin the existing market-making requirement. The proposed approach therefore seeks to achieve a more proportionate balance between facilitating secondary-market liquidity and reducing the cost of accessing the capital market for SME issuers.

3.5. Suggested text of Regulation 261 (revised) based on the recommendations

261. Omitted

CHAPTER 9 : REVIEW OF MIGRATION FRAMEWORK

1. Existing Framework under Chapter IX

The existing framework provides for migration between the SME Exchange and the Main Board based primarily on the issuer's post-issue paid-up capital and subject to fulfilment of the eligibility criteria prescribed for listing on the respective platform.

The relevant text of the Regulation 276, Regulation 277 and Regulation 280(2) are being re-produced below –

Migration to the SME Exchange

276. A listed issuer whose post-issue paid-up capital is less than twenty five crore rupees may migrate its specified securities to SME exchange if its shareholders approve such migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the SME exchange:

Provided that the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal.

Migration to the main board

277. An issuer, whose specified securities are listed on a SME Exchange and whose post-issue paid-up capital is more than ten crore rupees and up to twenty five crore rupees, may migrate its specified securities to the main board of the stock exchanges if its shareholders approve such a migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the Main Board:

Provided that the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal.

Alteration of rights of holders of specified securities

280 (2) Where the post-issue paid-up capital of an issuer listed on a SME exchange is likely to increase beyond twenty five crore rupees by virtue of any further issue of capital by the issuer by way of rights issue, preferential issue, bonus issue, etc. the issuer shall migrate its specified securities listed on a SME exchange to the Main Board and seek listing of the specified securities proposed to be issued on the Main Board subject to the fulfilment of the eligibility criteria for listing of specified securities laid down by the Main Board:

Provided that no further issue of capital by the issuer shall be made unless –

a) the shareholders of the issuer have approved the migration by passing a special resolution through postal ballot wherein the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal;

b) the issuer has obtained an in-principle approval from the Main Board for listing of its entire specified securities on it.

Provided further that where the post-issue paid-up capital pursuant to further issue of capital including by way of rights issue, preferential issue, bonus issue, is likely to increase beyond ₹25 crores, the issuer may undertake further issuance of capital without migration from SME exchange to the main board, subject to the issuer

undertaking to comply with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable to companies listed on the main board of the stock exchange(s)

2. Issues for Consideration

The existing framework permits migration from the Main Board to the SME Exchange where the post-issue paid-up capital is less than ₹25 crore, subject to shareholder approval and fulfilment of the eligibility criteria for listing on the SME Exchange. The need for retaining such reverse migration may be reconsidered, particularly in view of the SME Platform being intended as a pathway for smaller and growth-oriented enterprises to access the capital market and subsequently graduate to the Main Board.

The existing framework for migration from the SME Exchange to the Main Board permits issuers having post-issue paid-up capital of more than ₹10 crore and up to ₹25 crore to migrate, subject to shareholder approval and fulfilment of the Main Board eligibility criteria. The requirement of obtaining a special resolution through postal ballot, including the prescribed enhanced voting threshold, may be reconsidered, particularly as migration would result in the issuer becoming subject to the more stringent Main Board regulatory and compliance framework.

Further, the existing framework links mandatory migration to the Main Board with the issuer's post-issue paid-up capital exceeding ₹25 crore pursuant to a further issue of capital, including rights issue, preferential issue or bonus issue. The continued appropriateness of using paid-up capital as the trigger for migration may be reconsidered, as an increase in paid-up capital pursuant to a further issue does not necessarily reflect the overall scale or market valuation of the issuer.

The existing provisions also permit an issuer to undertake such further issue without migration, subject to an undertaking to comply with the provisions of the SEBI (LODR) Regulations applicable to Main Board listed companies. The need for retaining this separate mechanism, along with the associated conditions for undertaking further issue of capital without migration, may be reconsidered in the context of a revised migration framework.

The migration framework may accordingly be reviewed to provide a graduated and market-based approach. In particular, the appropriateness of retaining optional migration for issuers having post-issue paid-up capital of more than ₹10 crore and up to ₹25 crore, while introducing a market-Capitalization-based framework for larger SME issuers, may be considered. Such a framework may provide for migration at an appropriate market-Capitalization threshold and a higher threshold beyond which migration to the Main Board would be mandatory, subject to fulfilment of the Main Board eligibility criteria.

3. Working Group Deliberation

The Working Group deliberated on whether the existing migration framework, which is principally based on post-issue paid-up capital, continues to provide an appropriate basis for determining the stage at which an SME issuer should graduate to the Main Board. The Group considered that the framework should facilitate the growth of SME issuers while ensuring that issuers which attain a scale warranting application of the Main Board framework are brought within that framework in a clear and predictable manner.

The Group first considered the existing provision permitting migration from the Main Board to the SME Exchange. It was noted that the SME Platform is intended to provide an avenue for smaller and growth-oriented enterprises to access the capital market and, as such, migration should primarily operate as a graduation pathway from the SME Platform to the Main Board. In this context, the Group considered that retaining a reverse migration route may not be consistent with the intended positioning of the SME Platform.

With regard to migration from the SME Platform to the Main Board, the Group considered the existing provision permitting issuers with post-issue paid-up capital of more than ₹10 crore and up to ₹25 crore to migrate, subject to shareholder approval and fulfilment of the Main Board eligibility criteria. The Group deliberated on whether requiring a special resolution through postal ballot, including the prescribed voting threshold, is necessary where migration would result in the issuer becoming subject to the more stringent Main Board regulatory and compliance framework. The Group considered that the regulatory framework applicable after migration itself provides enhanced investor protection and therefore the approval mechanism for migration may be proportionately designed.

The Working Group also deliberated on the existing mandatory migration requirement linked to post-issue paid-up capital exceeding ₹25 crore pursuant to a further issue of capital. The Group considered that paid-up capital may not, by itself, adequately represent the size, scale or maturity of an issuer, particularly where an increase in paid-up capital arises pursuant to a further issue of capital. Accordingly, the Group considered whether a market-Capitalization-based approach would provide a more appropriate and market-oriented basis for determining when an SME issuer should migrate to the Main Board.

In this context, the Group deliberated on a graduated migration framework. The Group considered retaining the principle of optional migration from the SME Platform to the Main Board, without linking such migration to a specific paid-up capital threshold. The Group further considered introducing a market-Capitalization-based framework, under which an issuer having a market Capitalization of ₹1,000 crore or more but less than ₹4,000 crore may migrate to the Main Board, subject to fulfilment of the Main Board eligibility criteria.

The Group further considered that an issuer attaining a market Capitalization exceeding ₹4,000 crore represents a level of scale at which continued listing on the SME Platform may no longer be appropriate. Accordingly, the Group deliberated on prescribing ₹4,000 crore as the threshold for mandatory migration to the Main Board, subject to fulfilment of the Main Board eligibility criteria.

The Working Group also considered the existing provision which permits an SME issuer to undertake a further issue of capital resulting in paid-up capital exceeding ₹25 crore without migration, subject to undertaking compliance with the provisions of the SEBI (LODR) Regulations applicable to Main Board listed companies. In view of the proposed market-Capitalization-based migration framework, the Group considered that this separate mechanism and the associated conditions may no longer be necessary.

Overall, the Working Group was of the view that the migration framework should move towards a simpler, graduated and market-Capitalization-based framework, while retaining an opportunity for growing SME issuers to voluntarily migrate to the Main Board at an earlier stage. Such an approach would facilitate the progression of successful SME issuers to the Main Board while ensuring that issuers attaining a significant scale are brought within the Main Board framework.

4. Recommendations

The Working Group recommends the following:

- 4.1. Remove the provision for migration from the Main Board to the SME Platform, thereby retaining the SME Platform as a pathway for growth-oriented enterprises to graduate to the Main Board, rather than as a reverse migration route.
- 4.2. Retain the principle of optional migration from the SME Platform to the Main Board, without linking such migration to a specific paid-up capital threshold. An issuer may migrate to the Main Board where its market Capitalization is ₹1,000 crore or more but less than ₹4,000 crore, subject to the issuer fulfilling the criteria specified by the Main Board Exchange.

- 4.3. Considering that the issuer would, upon migration, become subject to the more stringent Main Board regulatory framework, approval of the Board of Directors may be considered sufficient for migration to the Main Board.
- 4.4. Omit the existing provision requiring mandatory migration to the Main Board where the post-issue paid-up capital is likely to exceed ₹25 crore pursuant to a further issue of capital, including through rights issue, preferential issue or bonus issue, along with the related conditions for undertaking such further issue without migration.
- 4.5. The migration framework should instead be aligned with the proposed market-Capitalization-based threshold, with migration to the Main Board being triggered where the issuer's post-issue market Capitalization, calculated at the prevalent market price, exceeds ₹4,000 crore, subject to the issuer fulfilling the criteria specified by the Main Board Exchange.

Taken together, the proposed amendments would establish a simpler and graduated migration framework, retaining the flexibility for SME issuers to voluntarily graduate to the Main Board while providing for mandatory migration once the issuer attains a significant market Capitalization. The framework would also delink migration from paid-up capital and further-issue triggers, thereby reducing regulatory complexity while ensuring that issuers of significant scale are brought within the Main Board framework.

5. Rationale

The Working Group considered that migration from the Main Board to the SME Platform should not be permitted, as an issuer that has already qualified for and is subject to the Main Board framework should not be permitted to move to a platform designed for smaller and growth-oriented enterprises. Permitting such reverse migration could result in a reduction in the level of regulatory and compliance requirements applicable to the issuer. The SME Platform should therefore continue to serve as a pathway for enterprises to grow and graduate to the Main Board, rather than as a route for larger listed entities to move to a relatively lighter regulatory framework.

At the same time, migration from the SME Platform to the Main Board should continue to be permitted. Such a framework provides a gradual pathway for an SME issuer to progress as its scale and maturity increase, without requiring it to bear the full Main Board regulatory and compliance requirements from the outset. Retaining optional migration would therefore support the growth trajectory of successful SME issuers and provide flexibility to migrate when the issuer considers it appropriate.

The Working Group also considered that mandatory migration should continue to form part of the framework once an SME issuer attains a significant scale. This would ensure that a large entity does not derive any additional advantage merely by continuing to remain listed on the SME Platform despite having attained a scale warranting application of the Main Board regulatory framework. A market-Capitalization-based mandatory threshold would provide a more appropriate and objective measure of the size of the issuer and ensure that entities of significant scale are brought within the Main Board framework.

The proposed market-Capitalization-based approach would also address the limitations of using paid-up capital as the principal trigger for migration. An increase in paid-up capital pursuant to a bonus issue, for instance, does not necessarily represent an increase in the size, scale or economic value of the underlying enterprise. An issuer may remain a relatively small enterprise even though its paid-up capital increases as a result of such corporate action. Linking migration to paid-up capital in such circumstances could consequently subject an otherwise small issuer to the more stringent Main Board compliance framework without a corresponding increase in its scale.

Accordingly, delinking migration from paid-up capital and further-issue triggers and adopting a market-Capitalization-based framework would provide a more proportionate basis for determining when an SME issuer should migrate to the Main Board. This would reduce the possibility of smaller issuers being subjected to a higher compliance burden merely on account of changes in their capital structure, while ensuring that issuers which have attained a significant market scale do not continue to benefit from the SME framework.

6. Suggested text of Regulation 276 (revised), 277 (revised) and 280(2) (revised) based on the recommendations

Migration to the SME Exchange

276 Omitted

Migration to the main board

277 An issuer whose specified securities are listed on an SME Exchange may migrate its specified securities to the Main Board of the stock exchanges, where the market Capitalization of the issuer is ₹1,000 crore or more but less than ₹4,000 crore, subject to the issuer fulfilling the eligibility criteria for listing laid down by the Main Board.

Provided that the migration shall be approved by the Board of Directors of the issuer.

Provided further that where the market Capitalization of the issuer is ₹4,000 crore or more, the issuer shall migrate its specified securities to the Main Board, subject to fulfilment of the eligibility criteria for listing laid down by the Main Board.

Provided also that until such voluntary or mandatory migration, as the case may be, is completed, the issuer shall not undertake any further issue of capital unless it undertakes to comply with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable to entities listed on the Main Board.

Alteration of rights of holders of specified securities

Regulation 280(2) – Omitted

CHAPTER 10 : ALIGNMENT WITH MAIN BOARD FRAMEWORK AND RATIONALISATION OF COMPLIANCE

1. Issues for Consideration

The SME framework contains certain provisions which are distinct from, or structured differently than, the corresponding Main Board framework in areas such as minimum promoters' contribution, lead manager responsibilities, offer document filing and updation, pricing, pre-issue advertisements and post-issue responsibilities. The need for continuing such SME-specific requirements may be considered, particularly where the underlying regulatory objective is similar to that applicable to Main Board issuers.

The framework may accordingly be reviewed to identify provisions where alignment with the Main Board framework would provide greater consistency and facilitate ease of compliance, including provisions relating to the securities eligible for computation of promoters' contribution, disclosure and due-diligence responsibilities of lead manager(s), updation of the offer document and filing thereof with the SME Exchange, and submission of specified certificates at the Draft Offer Document stage.

The review may also consider rationalisation of procedural requirements relating to price bands, differential pricing, pre-issue advertisements, post-issue responsibilities and consequential provisions, wherever the existing SME-specific treatment does not provide a distinct regulatory benefit. The objective would be to establish a proportionate and consistent framework, while retaining requirements that are necessary from an investor-protection perspective.

2. Working Group Deliberations

The Working Group deliberated on the need to align the SME framework with the corresponding Main Board framework in areas where the existing differential requirements do not serve a distinct regulatory or investor-protection objective. The Group considered that greater alignment would provide consistency in the regulatory framework and facilitate ease of compliance for issuers, while SME-specific requirements may continue to be retained wherever warranted by the nature of the SME Platform.

The Group also deliberated on rationalising procedural and compliance requirements relating to the public issue process, including promoters' contribution, lead manager responsibilities, offer document filing and updation, pricing, pre-issue advertisements and post-issue responsibilities. The Group considered that such requirements should be structured in a manner that ensures adequate disclosure, due diligence and investor protection without imposing additional procedural requirements merely on account of an issuer being listed on the SME Platform.

The Working Group was accordingly of the view that, wherever the Main Board framework adequately addresses the relevant regulatory objective, the corresponding SME provisions may be aligned with the Main Board framework. Such alignment, together with rationalisation of procedural requirements, would reduce unnecessary compliance burden and promote a simpler, consistent and proportionate regulatory framework for SME issuers, without compromising investor protection.

3. Existing Framework, Recommendations and Suggested Text of the Revised Regulation or New Regulation

S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation
1.	Minimum promoters' contribution – <i>Regulation 236(2)(a) –</i> <i>(2) The minimum promoters' contribution shall be as follows:</i> <i>a) the promoters shall contribute twenty per cent. as stipulated sub-regulation (1), as the case may be, either by way of equity shares or by way of subscription to the convertible securities:</i> <i>Regulation 236(2)(a) –</i> <i>No proviso for Initial Public Offer of Partly Paid-Up Shares</i>	Align Regulation 236 with the corresponding provisions under Regulation 14 applicable to Main Board issuers, including the provisions relating to SR equity shares in the manner of making minimum promoters' contribution and minimum promoters' contribution exceeding ₹100 crore in case of an IPO of partly paid-up shares.	Minimum promoters' contribution – <i>Regulation 236(2)(a) –</i> <i>The minimum promoters' contribution shall be as follows:</i> <i>a) the promoters shall contribute twenty per cent. as stipulated sub-regulation (1), as the case may be, either by way of equity shares, including SR equity shares held, if any or by way of subscription to the convertible securities:</i> <i>Regulation 236(2)(a) –</i> <i>Provided that....</i> <i>Provided further that where the minimum promoters' contribution is more than one hundred crore rupees and the initial public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro - rata basis before the calls are made to the public.</i>
2.	Securities ineligible for minimum promoters' contribution <i>Regulation 237(1)(c) –</i> <i>(1) For the computation of minimum promoters' contribution, the following specified securities shall not be eligible</i> <i>c) specified securities allotted to the promoters and alternative investment funds during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership</i>	Align Regulation 237(1)(c) with Regulation 15(1)(c) by incorporating the corresponding categories of persons covered under the Main Board framework.	Securities ineligible for minimum promoters' contribution <i>Regulation 237(1)(c) –</i> <i>(1) For the computation of minimum promoters' contribution, the following specified securities shall not be eligible</i> <i>(c) specified securities allotted to the promoters and 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 or any non-</i>

	firms or limited liability partnerships, where the partners of the erstwhile partnership firms or limited liability partnerships are the promoters of the issuer and there is no change in the management: Provided that specified securities, allotted to the promoters against the capital existing in such firms for a period of more than one year on a continuous basis, shall be eligible.		individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership firms or limited liability partnerships, where the partners of the erstwhile partnership firms or limited liability partnerships are the promoters of the issuer and there is no change in the management: Provided that specified securities, allotted to the promoters against the capital existing in such firms for a period of more than one year on a continuous basis, shall be eligible;
3.	Disclosures in the draft offer document and offer document <i>Regulation 245</i> (1) The offer document shall contain all material disclosures which are true and adequate so as to enable the applicants to take an informed investment decision.	Align Regulation 245(1) with Regulation 24(1) applicable to Main Board issuers, by expressly extending the requirement relating to material disclosures to both the Draft Offer Document and the Offer Document.	Disclosures in the draft offer document and offer document <i>Regulation 245</i> (1) The draft offer document and offer document shall contain all material disclosures which are true and adequate so as to enable the applicants to take an informed investment decision.
4.	Filing of the offer document 246. (1) The issuer shall file a copy of the offer document with the Board through the lead manager(s), immediately upon filing of the offer document with the Registrar of Companies: (2) The Board shall not issue any observation on the offer document. (3) The lead manager(s) shall submit a due-diligence certificate as per Form A of	Rationalise and align Regulation 246 with the corresponding regulation of Regulation 25 Main Board framework, while retaining SME-specific requirements such as the site visit report and additional confirmations under Form G. The revised provision may, inter alia, provide for the following: 1. Updated Draft Offer Document: Introduce a specific requirement for the issuer and lead manager(s) to submit an updated Draft	Filing of the offer document 246. (1) The issuer shall file a copy of the offer document with the Board through the lead manager(s), immediately upon filing of the offer document with the Registrar of Companies: (2) The Board shall not issue any observation on the offer document. (3) The lead manager(s) shall submit a due-diligence certificate as per Form A of Schedule V to which the site visit report of the issuer

	<i>Schedule V to which the site visit report of the issuer prepared by the lead manager(s) shall also be annexed, including additional confirmations as provided in Form G of Schedule V, and the draft abridged prospectus as per Part E of Schedule VI along with the draft offer document to the SME Exchange(s), where the specified securities are proposed to be listed.</i> <i>(4) The offer document shall be displayed from the date of filing in terms of sub-regulation (1) on the websites of the issuer, the Board, the lead manager(s) and the SME exchange(s).</i> <i>(5) The offer documents and the abridged prospectus, shall also be furnished to the Board in a soft copy.</i>	Offer Document to the SME Exchange, incorporating the changes specified or observations issued by the SME Exchange, with all changes appropriately highlighted, before filing the Offer Document with the Registrar of Companies or the appropriate authority, as applicable. Where changes relate to matters specified in Schedule XVI, the updated/fresh document, as applicable, may also be required to be filed with the SME Exchange. 2. Certificates at the time of filing of Draft Offer Document: In addition to the existing due-diligence certificate, site visit report, Form G confirmations and draft abridged prospectus, require submission of: 2.1. a certificate confirming that an agreement has been entered into between the issuer and the lead manager(s); and 2.2. where applicable, a due-diligence certificate from the debenture trustee. 3. Promoters' Details: Introduce the requirement for submission of the prescribed PAN, bank account and other identification/registration details of promoters, corresponding to Regulation 25(3). 4. Offer Document-stage requirements: Extend the relevant requirements of Regulation 25(9) to SME issuers, so that the prescribed certificates and confirmations are also furnished by the lead manager(s) at the time of filing the Offer Document,	<i>prepared by the lead manager(s) shall also be annexed, including additional confirmations as provided in Form G of Schedule V, and the draft abridged prospectus as per Part E of Schedule VI along with the draft offer document to the SME Exchange(s), where the specified securities are proposed to be listed.</i> <i>(3A) The lead manager(s) shall, along with the draft offer document, submit to the SME Exchange(s)—</i> <i>(a) a certificate confirming that an agreement has been entered into between the issuer and the lead manager(s);</i> <i>(b) where applicable, a due-diligence certificate from the debenture trustee as per Form B of Schedule V; and</i> <i>(c) the following details of the promoters:</i> <i>(i) Permanent Account Number, bank account number and passport number of the promoters, where they are individuals; and</i> <i>(ii) Permanent Account Number, bank account number, company registration number or equivalent and the address of the Registrar of Companies with which the promoter is registered, where the promoter is a body corporate.</i> <i>(3B) The SME Exchange(s) may specify changes or issue observations, if any, on the draft offer document.</i> <i>(3C) The issuer and the lead manager(s) shall carry out such changes in the draft offer document as specified or incorporate such observations as issued by the SME Exchange(s) and shall submit an updated draft offer document incorporating such changes or observations and highlighting all changes made therein to the SME Exchange(s), before filing the</i>
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		with necessary modifications for the SME framework.	offer document with the Registrar of Companies or the appropriate authority, as applicable. (3D) Where there are any changes in the draft offer document in respect of matters specified in Schedule XVI, an updated offer document or a fresh draft offer document, as applicable, shall be filed with the SME Exchange(s): Provided that no additional fee shall be payable for such filing (4) The offer document shall be displayed from the date of filing in terms of sub-regulation (1) on the websites of the issuer, the Board, the lead manager(s) and the SME exchange(s). (5) The offer documents and the abridged prospectus shall also be furnished to the Board in a soft copy. (6) The lead manager(s) shall submit the following documents to the SME Exchange(s) after issuance of observations by the SME Exchange(s): a) a statement certifying that all changes, suggestions and observations made by the SME Exchange(s) have been incorporated in the offer document; b) a due diligence certificate as per Form C of Schedule V, at the time of filing of the offer document; c) a copy of the resolution passed by the board of directors of the issuer for allotting specified securities to promoter(s) towards amount received against promoters' contribution, before opening of the issue; d) a certificate from a statutory auditor, before opening of the issue, certifying that promoters'
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			contribution has been received in accordance with these regulations, accompanying therewith the names and addresses of the promoters who have contributed to the promoters' contribution and the amount paid and credited to the issuer's bank account by each of them towards such contribution; e) a due diligence certificate as per Form D of Schedule V, in the event the issuer has made a disclosure of any material development by issuing a public notice pursuant to para 4 of Schedule IX.
4.	Price and Price Band The SME framework prescribes that, in case of a book-built issue, the price band shall not exceed 120% of the floor price; however, it does not specifically prescribe a minimum cap of the price band at 105% of the floor price.	Insert a provision in Regulation 250(2) on similar lines as the corresponding Main Board framework, so as to provide that, in case of a book-built issue, the cap of the price band shall be at least 105% of the floor price, while retaining the existing upper limit of 120% of the floor price, thereby aligning the SME framework with Schedule XIII.	Price and Price Band 250 (2) <i>The cap on the price band, and the coupon rate in case of convertible debt instruments shall be less than or equal to one hundred and twenty per cent. of the floor price.</i> <i>Provided that the cap of the price band shall be at least one hundred and five percent of the floor price.</i>
5.	Differential pricing 251. (1) <i>The issuer may offer its specified securities at different prices, subject to the following:</i> a) <i>individual investors who applies for minimum application size or retail individual shareholders or employees entitled for reservation made under regulation 254 may be offered specified securities at a price not lower than by more than ten per cent. of the price at which net offer is made to other categories of applicants, excluding anchor investors.</i> b) <i>the differential pricing and the price at which net offer is proposed to be</i>	1. Delete the reference to "individual investors who applies for minimum application size", as the revised minimum application framework will no longer use this category - specific formulation. 2. Delete the SME-specific requirement mandating uniform minimum application lot size across all applicants. The minimum application / lot requirement would be governed separately under the proposed revised minimum application framework.	Differential pricing 251. (1) <i>The issuer may offer its specified securities at different prices, subject to the following:</i> a) <i>retail individual shareholders or employees entitled for reservation made under regulation 254 may be offered specified securities at a price not lower than by more than ten per cent. of the price at which net offer is made to other categories of applicants, excluding anchor investors.</i> b) <i>*omitted*</i> c) <i>in case of a book built issue, the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants.</i>

	<i>made to other categories of applicants shall be within the range such that the minimum application lot size shall remain uniform for all the applicants.</i> <i>c) in case of a book built issue, the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants.</i> <i>(2) Discount, if any, shall be expressed in rupee terms in the offer document.</i>		<i>(2) Discount, if any, shall be expressed in rupee terms in the offer document.</i>
6.	Issue - related advertisements 264. (1) Subject to the provisions of the Companies Act, 2013, the issuer shall, after filing the prospectus with the Registrar of Companies, make a pre-issue and price band advertisement in the same newspapers in which the public announcement under sub-regulation (4) of Regulation 250 was published.	Align the provision with the nature of the issue by providing that the Red Herring Prospectus shall be referred to in case of a book-built issue and the Prospectus shall be referred to in case of a fixed-price issue.	Issue - related advertisements 264. (1) Subject to the provisions of the Companies Act, 2013, the issuer shall, after filing the red herring prospectus (in case of book – built issue) and prospectus (in case of fixed-price issue) with the Registrar of Companies, make a pre-issue and price band advertisement in the same newspapers in which the public announcement under sub-regulation (4) of Regulation 250 was published.
7.	Post - issue responsibilities of the lead manager(s) 271. (1) The responsibility of the lead manager(s) shall continue until completion of the issue process and for any issue related matter thereafter.	Align the SME framework with Regulation 52(3) of the Main Board framework by extending the lead manager's post-issue responsibility until completion of the allotment, refund and dematerialisation process and receipt of listing or trading permission, as applicable.	Post - issue responsibilities of the lead manager(s) 271. (2A) The lead manager(s) shall continue to be responsible for post - issue activities till the applicants have received the securities certificates, credit to their demat account or refund of application monies and the listing agreement is entered into by the issuer with the stock exchange and listing or trading permission is obtained.
8.	<i>In the Regulation 279(7), there is a reference to Chapter VII, which appears to be a reference from the SEBI (ICDR) Regulations, 2009 and is not aligned with the chapter structure of the SEBI (ICDR) Regulations, 2018.</i>	Correct the legacy cross-reference from "Chapter VII" to "Chapter V" to align the provision with the corresponding chapter under the ICDR Regulations, 2018.	<i>In the Regulation 279(7), the words "Chapter VII" shall be substituted with "Chapter V".</i>

4. Rationale

The proposed amendments seek to align the SME framework with the corresponding Main Board framework wherever there is no specific policy rationale for maintaining a separate SME requirement, while at the same time rationalising provisions that have become restrictive or redundant and strengthening procedural clarity. The proposed changes would also ensure that the offer document and due-diligence framework applicable to SME issuers remains robust, while avoiding unnecessary compliance burden.

In particular, the proposed alignment of provisions relating to minimum promoters' contribution, lead manager responsibilities, offer document filing and due diligence would bring greater consistency across the two platforms and reduce regulatory divergence. The introduction of a structured mechanism for review, updation and filing of the Draft Offer Document with the SME Exchange, together with the prescribed certificates and confirmations, would strengthen the quality and completeness of disclosures and provide greater clarity regarding the responsibilities of the issuer, lead manager(s) and the SME Exchange.

The proposed rationalisation of provisions relating to price band, differential pricing and pre-issue advertisements would provide greater flexibility to issuers while maintaining the substantive investor protection requirements. In particular, removal of SME-specific requirements linking differential pricing with the minimum application lot would allow the differential pricing framework and the revised minimum application framework to operate independently.

The extension of post-issue responsibility of lead manager(s) until completion of the allotment, refund, dematerialisation and listing/trading permission process would strengthen accountability during the entire post-issue period and align the SME framework with the Main Board framework. Further, the correction of the legacy cross-reference in the Green Shoe Option provision would ensure that the regulatory text accurately reflects the chapter structure of the ICDR Regulations, 2018.

Overall, the proposed amendments are intended to achieve a more coherent, consistent and proportionate SME regulatory framework, balancing ease of compliance for issuers and intermediaries with the need to maintain adequate disclosure, due diligence and investor protection standards.

CHAPTER 11 : OTHER RECOMMENDATIONS

In addition to the recommendations relating to the substantive provisions of the SME framework, the Working Group considered certain consequential and broader policy measures necessary for effective implementation and further development of the framework. The following recommendations are made in this regard:

1. Review of Exchange-level Eligibility and Migration Criteria

1.1. Recommendation :- SME Exchanges may review and suitably revise their eligibility criteria for listing on the SME Platform and migration from the SME Platform to the Main Board, in light of the recommendations of the Working Group.

1.2. Objective :- To ensure alignment and consistency between the SEBI framework and Exchange-level requirements, and to facilitate effective implementation of the revised eligibility and migration framework.

2. Transition Provision

2.1. Recommendation :- SEBI may provide appropriate transition provisions for implementation of the revised SME framework, including, as may be considered appropriate, provisions relating to issuers already listed on the SME Platform, issuers in the process of making an issue, and transactions initiated under the existing framework.

2.2. Objective :- To provide regulatory certainty, avoid unintended retrospective application and facilitate an orderly transition to the revised framework.

3. Review of Nomenclature of the SME Platform

3.1. Recommendation :- SEBI may consider reviewing the nomenclature of the “Small and Medium Enterprises (SME) Platform” in light of the proposed evolution of the framework and its role as a growth and transition platform.

3.2. Objective :- To adopt a nomenclature that better reflects the broader role of the Platform in facilitating capital formation for emerging and growth-oriented enterprises and their eventual transition to the Main Board.

4. Periodic Review of the SME Framework

4.1. Recommendation :- SEBI may undertake periodic review of the SME framework to ensure that the regulatory requirements remain commensurate with the evolving size, depth and characteristics of the SME capital market.

4.2. Objective :- To ensure that the regulatory framework remains proportionate, contemporary and responsive to market developments, while maintaining an appropriate balance between ease of compliance, access to capital and investor protection.

CHAPTER 12 : A PROJECT FOR AWARENESS OF THE SME FRAMEWORK

1. Background

The Working Group noted that the development of a robust SME capital market ecosystem requires measures beyond regulatory reforms. Awareness, preparedness and capacity building among the various stakeholders are equally important for ensuring effective access to the capital market, improving the quality of issuers and disclosures, strengthening compliance and enhancing investor confidence.

The Group noted that India has a large and diverse SME sector, while only a relatively small proportion of such enterprises access the public capital markets. While SEBI, Stock Exchanges, Merchant Bankers, Government agencies and professional institutions undertake various awareness and capacity-building initiatives, such initiatives are undertaken by different stakeholders and may benefit from a more coordinated and focused approach specifically for the SME capital market.

The Group therefore considered it appropriate to develop a structured and continuing SME Capital Market Awareness and Capacity Building Project, adopting a whole-of-ecosystem approach covering prospective issuers, existing SME-listed companies, market intermediaries, professionals and investors.

2. SME Capital Market Awareness and Capacity Building Project

The proposed Project may comprise the following broad components:

2.1. SME IPO Readiness Programme

A structured **SME IPO Readiness Programme** may be developed for unlisted SMEs and emerging enterprises aspiring to access the capital markets. The programme may cover:

- the benefits and limitations of accessing the capital market through the SME Platform
- corporate governance and responsibilities of the Board;
- financial reporting and internal controls;
- IPO process and regulatory requirements with special focus on disclosure requirements and the importance of providing true, accurate and adequate information to investors;
- business valuation and fundraising strategies; and
- investor relations and responsibilities of a listed company.

The programme may also provide for appropriate **“IPO Ready” recognition** for participating enterprises, where considered appropriate, and facilitate targeted outreach to such enterprises. The database of potential SMEs may be developed with the assistance of professional institutes, industry associations and other relevant stakeholders. State Governments and industry associations may also be engaged to identify and encourage suitable SMEs to participate in such programmes.

The objective should be to ensure that an enterprise considers listing not merely as a means of raising funds, but as a **long-term transition into the listed-company regulatory environment**.

2.2. Capacity Building for Promoters and Directors of SME-listed Companies

The Project may include structured orientation and continuing education programmes for promoters and directors of SME-listed companies, with emphasis on:

- fiduciary responsibilities;
- continuous disclosure obligations;

- related party transactions;
- insider trading requirements;
- risk management; and
- corporate governance practices.

Such programmes may be undertaken in association with the Stock Exchanges, AIBI and other relevant institutions, with periodic refresher programmes for promoters, directors and other key personnel of SME-listed companies.

2.3. Capacity Building for Market Intermediaries and Professionals

The Group also considered that strengthening the capabilities of professionals involved in SME capital markets would contribute to better quality of due diligence, disclosures and governance.

Accordingly, specialised training or certification modules may be developed, as appropriate, for Merchant Bankers, Chartered Accountants, Company Secretaries, Cost Accountants, Registered Valuers, legal advisers and Independent Directors, covering areas such as SME due diligence, valuation methodologies, industry-specific risks and governance assessment.

Such initiatives may be developed in association with the relevant professional institutes, AIBI and Stock Exchanges.

2.4. SME Mentor Network

The Group considered that newly listed SMEs may benefit from access to experienced professionals during the initial years following listing. Accordingly, an SME Mentor Network may be developed comprising experienced entrepreneurs, investment bankers, Chief Financial Officers, independent directors, institutional investors, legal professionals, retired regulators and practising finance professionals.

Subject to appropriate modalities, SMEs may be provided access to such mentors during the initial years after listing for guidance relating to governance, compliance and investor engagement. The Group also noted that SME mentorship may be integrated with existing Government incubator and accelerator programmes.

2.5. Investor Awareness Programme

A dedicated investor-awareness component may be developed specifically for investment in SME securities. The programme may focus on:

- the nature and business profile of SME issuers;
- differences between SME and Main Board securities
- long-term investment principles;
- reading and understanding offer documents and financial statements;
- minimum application and trading lot requirements
- liquidity-related risks;
- availability and use of public disclosures and
- governance indicators relevant to SME issuers.

SME IPO investing may also be appropriately incorporated within broader investor-awareness programmes undertaken by relevant institutions, including through coordination with the Ministry of Corporate Affairs, wherever considered appropriate.

The objective should be to enable investors to make informed investment decisions based on an appropriate understanding of the risks and characteristics of SME securities.

2.6. Digital awareness and educational material

SEBI and Stock Exchanges may develop a centralised and user-friendly digital repository containing information relating to the SME framework. This may include:

- a simplified guide to the SME IPO process;
- FAQs for prospective issuers and investors;
- illustrative examples of the listing and migration process;
- checklists for promoters and management;
- guidance on continuing obligations after listing; and
- educational material explaining the key differences between the SME and Main Board frameworks.

The material may be presented in simple and accessible language, while retaining the regulatory provisions as the authoritative source.

3. Periodic and Continuing Initiative

The Group considered that awareness should not be limited to a one-time campaign. The proposed project may therefore be implemented as a continuing awareness initiative, with periodic programmes and updated educational material reflecting changes in the regulatory framework and emerging market practices.

The effectiveness of the initiative may also be periodically assessed based on participation, outreach and feedback from issuers, investors and intermediaries, with the programme being suitably refined over time.

4. Recommendation

The Working Group recommends the following :

- 4.1. SEBI, in association with Stock Exchanges, AIBI, professional institutes, industry associations, Government agencies and other relevant stakeholders, develop a structured and continuing SME Capital Market Awareness and Capacity Building Project covering prospective SME issuers, SME-listed companies, market intermediaries, professionals and investors.
- 4.2. A Sub-Group of the Working Group may assist SEBI in designing the Project and developing its detailed framework, including the content, target stakeholders, institutional roles, delivery mechanisms and implementation strategy

5. Expected Outcomes

The Group expects that a structured SME Capital Market Awareness and Capacity Building Project would contribute towards:

- 5.1. bridging the information gap relating to the SME capital market
- 5.2. increasing the pipeline of IPO-ready SMEs;
- 5.3. improving the quality of disclosures and corporate governance;
- 5.4. enhancing the capabilities of market intermediaries and professionals;
- 5.5. creating better-informed investors and strengthening investor protection;
- 5.6. reducing compliance gaps and instances of regulatory non-compliance;
- 5.7. strengthening of understanding of post-listing responsibilities

- 5.8.improving confidence and participation in SME securities; and
- 5.9.supporting the sustainable development of India's SME capital market ecosystem.

CHAPTER 13 : SUMMARY OF KEY RECOMMENDATIONS

The Working Group, after considering the existing regulatory framework for SME issues, developments in the SME capital market, stakeholder feedback and relevant international practices, has made the following key recommendations with a view to strengthening investor protection, facilitating access to capital, rationalising compliance requirements and positioning the SME Platform as a growth and transition platform for emerging enterprises.

1. Review of Eligibility Framework

1.1. Review of Regulations 229(1) and 229(2): Shift from Paid-up Capital to Market Capitalization

The Working Group recommends that the existing paid-up-capital-based eligibility framework be replaced with a market-Capitalization-based framework.

Accordingly:

- 1.1.1. An issuer having post issue market capitalization up to ₹1,000 crore shall be required to access only SME Platform; and
- 1.1.2. An issuer having post issue market capitalization above ₹1,000 crore and up to ₹4,000 crore may also access SME Platform.
- 1.1.3. Eligibility determined at the stage of filing of the draft offer document should remain subject to the post issue market capitalization applicable at the subsequent stage of filing the Red Herring Prospectus/Prospectus. Accordingly, where an issuer has initially filed a Draft Red Herring Prospectus ("DRHP") for a Main Board IPO but, at the stage of filing the Red Herring Prospectus, its estimated post issue capital of the company calculated at offer price falls to ₹1,000 crore or below, the issuer would be required to re-file the draft offer document under the SME framework.
- 1.1.4. Conversely, where an issuer has initially filed its DRHP under the SME framework and its estimated post-issue market Capitalization subsequently exceeds ₹1,000 crore at the stage of filing the Red Herring Prospectus, the issuer may continue to proceed under the SME framework, subject to upper threshold of ₹4,000 crore.

1.2. Review of Regulation 229(4): Requirement Following Conversion or Business Reorganization

The Working Group recommends that Regulation 229(4) be recast to establish a substance-oriented and uniform framework for issuers formed through conversion or qualifying business reorganization, while retaining the underlying investor-protection objective of the existing provision.

The revised framework should, inter alia:

- 1.2.1. Extend the applicability of the provision beyond statutory conversion to cases where, pursuant to a business reorganization, one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer, where the issuer derives more than fifty per cent of its revenue, as disclosed for the latest financial year in the Draft Offer Document, from such business or businesses.
- 1.2.2. Replace the existing requirement of completion of one full financial year with four consecutive completed quarters from the date of conversion or the latest effective date of the qualifying business reorganization, as applicable;

- 1.2.3. Require such issuer to have filed at least one annual audited financial statement or part thereof prepared after the conversion or business reorganization with the Registrar of Companies, in accordance with The Companies Act, 2013, before filing the Draft Offer Document;
- 1.2.4. Introduce an appropriate clarificatory Explanation defining “business reorganization”, i.e. *“business reorganization” includes acquisition, transfer, vesting, succession, a scheme of arrangement or any other arrangement whereby one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer.*”;
- 1.2.5. Permit the historical operating track record of the proprietorship concern, partnership firm or LLP to be reckoned for determining compliance with the eligibility requirements under Chapter IX in cases covered by the provision.

1.3. Review of Regulation 229(6): Operating Profitability

- 1.3.1. Existing requirement based on achievement of a specified profit threshold in individual financial years may be replaced with a requirement that the issuer have an Average Operating Profit of not less than ₹3 crore during the preceding three financial years, calculated based on the restated and consolidated financial statements.

2. Review of Usage of Funds Towards General Corporate Purpose

- 2.1. The Working Group recommends removal of the ₹10 crore absolute ceiling prescribed for utilisation of issue proceeds towards General Corporate Purposes, while retaining the existing ceiling of 15% of the amount being raised by the issuer.
- 2.2. Accordingly, the amount proposed to be utilised towards GCP would be capped at 15% of the amount being raised, without an additional ₹10 crore monetary ceiling.

3. Review of Offer for Sale Framework

- 3.1. **Dedicated OFS Regulation:** Delete the existing OFS-related provisions from Regulation 230 and introduce a separate, dedicated regulation setting out the conditions and safeguards applicable to an Offer for Sale in an SME IPO.
- 3.2. **Alignment with Main Board Framework:** Align the SME OFS framework, including the one-year holding period and relevant exemptions, with the Main Board framework under Regulation 8, suitably calibrated for SME IPOs.
- 3.3. **Flexibility for QIB Selling Shareholders:** Provide flexibility to QIB selling shareholders to offer their securities through the OFS beyond the existing 20% ceiling, subject to the proposed one-year holding-period requirement, the individual ceiling of 50% of the selling shareholder’s pre-issue shareholding on a fully diluted basis, and other applicable safeguards.

4. Review of Lock – In Mechanism

4.1. Review of Lock – In of Specified Securities held by Promoter

- 4.1.1. The three-year lock-in applicable to the minimum promoters’ contribution be retained, with the lock-in period reckoned from the date of allotment in the initial public offer, thereby removing the linkage to the date of commencement of commercial production and the condition of “whichever is later”.

- 4.1.2. The promoters' holding in excess of the minimum promoters' contribution be locked in for one year from the date of allotment, replacing the existing staggered requirement under which 50% of such holding is locked in for two years and the remaining 50% for one year.

4.2. Review of Lock – In of Specified Securities held by persons other than Promoters

- 4.2.1. **Reduction of lock-in for non-promoter pre-issue capital:** Reduce the lock-in applicable to pre-issue capital held by persons other than promoters from one year to six months from the date of allotment, aligning it with the Main Board framework.
- 4.2.2. **Lock-in of promoter group holdings:** Provide for a one-year lock-in from the date of allotment for specified securities held by the promoter group, to ensure continued promoter alignment and prevent circumvention of promoter lock-in requirements.
- 4.2.3. **Facilitation of lock-in of pledged securities through depositories:** Extend to SME issuers the Main Board mechanism whereby, where lock-in cannot be created through the depository mechanism, the depositories may, upon instructions from the issuer, record such securities as “non-transferable” for the applicable lock-in period.

5. Review of Application Size, Allotment Mechanism and Trading Lot

5.1. Review of Minimum Application Size and Allocation Framework

- 5.1.1. Retain the existing requirement of two lots per application, while providing for the minimum value of the lots as each lot shall have a minimum value of ₹50,000 and accordingly, the minimum application value shall be reduced to ₹1 lakh from the existing requirement of ₹2 lakhs, with subsequent applications continuing to be made in multiples of the minimum lot size.
- 5.1.2. Replace the existing reference to individual investors applying for the minimum application size with “Retail Individual Investors”, thereby bringing the terminology in line with the proposed RII framework and align the investor allocation framework with the Main Board framework.
- 5.1.3. Expressly recognise Anchor Investor allocation in Regulation 253: In a book-built issue, the issuer may allocate up to 60% of the portion available for allocation to QIBs to Anchor Investors, subject to the conditions specified in Schedule XIII.
- 5.1.4. Retain the existing one-third/two-thirds allocation framework for Non-Institutional Investors, while replacing the reference to “more than two lots” with a minimum application value of ₹2 lakh for determining the respective NII sub-categories, in alignment with the Main Board framework under Regulation 32(3A).

5.2. Review of Allotment Mechanism

- 5.2.1. Provide that the allotment of specified securities to each Retail Individual Investor shall not be less than one minimum lot, subject to availability of shares in the Retail Individual Investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis without linkage to the minimum lot size.
- 5.2.2. Increase the minimum number of allottees in an SME IPO from 200 to 500, thereby facilitating wider distribution of the issue among investors.

- 5.2.3. Omit Part A2 of Schedule XIV, which provides an illustration explaining the procedure for allotment to Non-Institutional Investors in an SME public issue.

5.3. Review of Trading Lot Framework

- 5.3.1. **Rationalize the trading lot for securities listed on the SME Platform to one share**, thereby eliminating the structural restriction arising from the prescribed trading lots and facilitating greater accessibility and flexibility in secondary-market transactions.
- 5.4. The Working Group considered that, once the proposed amendments to the Regulations and the revised framework are made effective, SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 may be rescinded, subject to necessary consequential and legal review. The relevant provisions governing the minimum application/IPO lot, allotment and secondary-market trading may thereafter operate through the revised regulatory framework.

6. Rationalization of Cost of Fund raising and SME Specific requirements

6.1. Review of Underwriting Framework

- 6.1.1 Remove the requirement for 100% underwriting of the issue and the additional requirement for the Lead Manager(s) to underwrite 15% of the issue on their own account. The underwriting framework applicable to Main Board issues shall continue to apply to SME public issues, under which the unsubscribed portion of the issue is required to be fully underwritten by the underwriters.
- 6.1.2 Introduce a minimum subscription requirement for SME issues through a new regulation, aligned with the minimum subscription requirement prescribed under Regulation 45, to ensure that the IPO is concluded only upon achievement of the prescribed minimum level of actual investor subscription.
- 6.1.3 Omit the requirement under Regulation 264(5) relating to obtaining confirmation from the Registrar to the Issue that at least 90% of the offer has been subscribed prior to announcement of closure of the issue, as the proposed minimum subscription requirement under Regulation 265A would provide the substantive framework governing minimum investor subscription.

6.2. Review of Market Making Framework

- 6.2.1. Remove the requirement of compulsory market making in SME securities, including the associated market-maker inventory and other mandatory arrangements.

7. Review of Migration Framework

- 7.1. Remove the provision for migration from the Main Board to the SME Platform, thereby retaining the SME Platform as a pathway for growth-oriented enterprises to graduate to the Main Board, rather than as a reverse migration route.
- 7.2. Retain the principle of optional migration from the SME Platform to the Main Board, without linking such migration to a specific paid-up capital threshold. An issuer may migrate to the Main Board where its market Capitalization is ₹1,000 crore or more but less than ₹4,000 crore, subject to the issuer fulfilling the criteria specified by the Main Board Exchange.

- 7.3. Considering that the issuer would, upon migration, become subject to the more stringent Main Board regulatory framework, approval of the Board of Directors may be considered sufficient for migration to the Main Board.
- 7.4. Omit the existing provision requiring mandatory migration to the Main Board where the post-issue paid-up capital is likely to exceed ₹25 crore pursuant to a further issue of capital, including through rights issue, preferential issue or bonus issue, along with the related conditions for undertaking such further issue without migration.
- 7.5. The migration framework should instead be aligned with the proposed market-Capitalization-based threshold, with migration to the Main Board being triggered where the issuer's post-issue market Capitalization, calculated at the prevalent market price, exceeds ₹4,000 crore, subject to the issuer fulfilling the criteria specified by the Main Board Exchange.

8. Alignment with Main Board Framework and Rationalization of Compliance

- 8.1. Align Regulation 236 with the corresponding provisions under Regulation 14 applicable to Main Board issuers, including the provisions relating to SR equity shares in the manner of making minimum promoters' contribution and minimum promoters' contribution exceeding ₹100 crore in case of an IPO of partly paid-up shares.
- 8.2. Align Regulation 237(1)(c) with Regulation 15(1)(c) by incorporating the corresponding categories of persons covered under the Main Board framework.
- 8.3. Align Regulation 245(1) with Regulation 24(1) applicable to Main Board issuers, by expressly extending the requirement relating to material disclosures to both the Draft Offer Document and the Offer Document.
- 8.4. Rationalise and align Regulation 246 with the corresponding regulation of Regulation 25 Main Board framework, while retaining SME-specific requirements such as the site visit report and additional confirmations under Form G. The revised provision may, inter alia, provide for the following:
- 8.4.1. **Updated Draft Offer Document:** Introduce a specific requirement for the issuer and lead manager(s) to submit an updated Draft Offer Document to the SME Exchange, incorporating the changes specified or observations issued by the SME Exchange, with all changes appropriately highlighted, before filing the Offer Document with the Registrar of Companies or the appropriate authority, as applicable. Where changes relate to matters specified in Schedule XVI, the updated/fresh document, as applicable, may also be required to be filed with the SME Exchange.
- 8.4.2. **Certificates at the time of filing of Draft Offer Document:** In addition to the existing due-diligence certificate, site visit report, Form G confirmations and draft abridged prospectus, require submission of:
- 8.4.2.1. a certificate confirming that an agreement has been entered into between the issuer and the lead manager(s); and
- 8.4.2.2. where applicable, a due-diligence certificate from the debenture trustee.
- 8.4.3. **Promoters' Details:** Introduce the requirement for submission of the prescribed PAN, bank account and other identification/registration details of promoters, corresponding to Regulation 25(3).
- 8.4.4. **Offer Document-stage requirements:** Extend the relevant requirements of Regulation 25(9) to SME issuers, so that the prescribed certificates and confirmations are also furnished by the lead

manager(s) at the time of filing the Offer Document, with necessary modifications for the SME framework.

- 8.5. Insert a provision in Regulation 250(2) on similar lines as the corresponding Main Board framework, so as to provide that, in case of a book-built issue, the cap of the price band shall be at least 105% of the floor price, while retaining the existing upper limit of 120% of the floor price, thereby aligning the SME framework with Schedule XIII.

8.6. Differential Pricing

- 8.6.1. **Delete the reference to “individual investors who applies for minimum application size”**, as the revised minimum application framework will no longer use this category - specific formulation.
- 8.6.2. **Delete the SME-specific requirement** mandating uniform minimum application lot size across all applicants. The minimum application / lot requirement would be governed separately under the proposed revised minimum application framework.
- 8.7. Align the provision related to Pre – Issue Advertisement with the nature of the issue by providing that the Red Herring Prospectus shall be referred to in case of a book-built issue and the Prospectus shall be referred to in case of a fixed-price issue.
- 8.8. Align the SME framework with Regulation 52(3) of the Main Board framework by extending the lead manager’s post-issue responsibility until completion of the allotment, refund and dematerialization process and receipt of listing or trading permission, as applicable.
- 8.9. Correct the legacy cross-reference from “Chapter VII” to “Chapter V” to align the provision with the corresponding chapter under the ICDR Regulations, 2018.

8.10. Other Recommendations

- 9.1. **Review of Exchange-level Eligibility and Migration Criteria :-** SME Exchanges may review and suitably revise their eligibility criteria for listing on the SME Platform and migration from the SME Platform to the Main Board, in light of the recommendations of the Working Group.
- 9.2. **Transition Provision :-** SEBI may provide appropriate transition provisions for implementation of the revised SME framework, including, as may be considered appropriate, provisions relating to issuers already listed on the SME Platform, issuers in the process of making an issue, and transactions initiated under the existing framework.
- 9.3. **Review of nomenclature of SME Platform :-** SEBI may consider reviewing the nomenclature of the “Small and Medium Enterprises (SME) Platform” in light of the proposed evolution of the framework and its role as a growth and transition platform.
- 9.4. **Periodic Review of SME Framework :-** SEBI may undertake periodic review of the SME framework to ensure that the regulatory requirements remain commensurate with the evolving size, depth and characteristics of the SME capital market.

8.11. A project for Awareness of the SME Framework

- 10.1. SEBI, in association with Stock Exchanges, AIBI, professional institutes, industry associations, Government agencies and other relevant stakeholders, develop a structured and continuing SME

Capital Market Awareness and Capacity Building Project covering prospective SME issuers, SME-listed companies, market intermediaries, professionals and investors.

- 10.2. A Sub-Group of the Working Group may assist SEBI in designing the Project and developing its detailed framework, including the content, target stakeholders, institutional roles, delivery mechanisms and implementation strategy

Annexure 1 :- Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018

The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended from time to time, may be accessed on the SEBI website at the link provided below:

<https://www.sebi.gov.in/legal/regulations/mar-2026/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-march-21-2026-100581.html>

Annexure 2 : Agenda and Decision of the SEBI Board Meeting dated December 18, 2024

The Agenda and decisions of the SEBI Board Meeting held on December 18, 2024 may be accessed on the SEBI website at the link provided below:

<https://www.sebi.gov.in/sebiweb/about/AboutAction.do?doBoardMeeting=yes&year=2024>

Annexure 3 : Study of Global SME and Growth Company Capital Market Framework

1. Background and Objective

The Working Group undertook a comparative study of SME and growth company capital market frameworks adopted in various jurisdictions, with a view to examining how different markets facilitate access to public equity capital for smaller and emerging enterprises while maintaining appropriate standards of investor protection. The study covered selected jurisdictions with established SME, alternative or growth-company markets, including Singapore, Malaysia, Indonesia, and Philippines.

The comparative exercise focused on key elements of the respective frameworks, including eligibility and listing requirements, financial and track-record criteria, minimum public participation, role of sponsors/advisers, disclosure and continuing obligations, mechanisms for enhancing liquidity, investor participation, and migration or graduation to the Main Board. The Group also considered whether the approaches adopted in such jurisdictions could provide useful inputs for the further development of the Indian SME capital market, taking into account the specific characteristics of the Indian market.

The comparative exercise focused on key elements of the respective frameworks, including eligibility and listing requirements, financial and track-record criteria, minimum public participation, role of sponsors/advisers, disclosure and continuing obligations, mechanisms for enhancing liquidity, investor participation, and migration or graduation to the Main Board. The Group also considered whether the approaches adopted in such jurisdictions could provide useful inputs for the further development of the Indian SME capital market, taking into account the specific characteristics of the Indian market.

2. Jurisdiction wise Observations

2.1. Singapore – Catalyst

2.1.1. Prevailing Framework

The Singapore Exchange's Catalyst is a sponsor-led market intended to provide access to the public capital market for companies that may not satisfy the conventional financial eligibility requirements applicable to the Mainboard. A listing applicant seeking admission to Catalyst is not required to meet a minimum operating track record, profit or share-capital requirement. However, the applicant is required to obtain the confirmation of a full Sponsor, which is responsible for assessing the applicant's suitability for listing and undertaking the prescribed due diligence. An issuer listed on Catalyst is required to retain a Sponsor on an ongoing basis and seek its advice regarding compliance with the Catalyst Rules where appropriate.

Under the Catalyst framework, while there is no minimum market Capitalization requirement for admission, the framework requires that the subscription and allocation value of shares at the IPO for each investor be at least S\$200 and be based on an integral multiple of a board lot. This requirement operates alongside requirements of at least 15% public shareholding, at least 200 public shareholders and an expectation that the overall distribution would provide an orderly secondary market. The framework also recognises that companies listed on Catalyst may carry higher investment risk than larger or more established companies listed on the Mainboard, particularly as companies may be admitted without a track record of profitability.

An important feature of the Catalyst framework is the graduation mechanism to the SGX Mainboard. A Catalyst issuer may apply for transfer to the Mainboard after being listed on Catalyst for at least two years, subject to meeting the applicable Mainboard quantitative and other listing requirements. In determining

compliance with market-Capitalization requirements, the Exchange takes into account the issuer's average daily market Capitalization for the one month preceding the application date.

The Catalist framework also permits transfer from the Mainboard to Catalist, subject to specified conditions, including shareholder approval and compliance with the relevant Catalist requirements.

2.1.2. Comments from Indian Capital Market Perspective

The Group noted that the Catalist framework is supported by a Sponsor-led regulatory architecture, which is materially different from the Indian primary market framework. While the absence of minimum profitability, operating track record or share-capital requirements provides greater flexibility to growth companies, this flexibility is accompanied by the mandatory appointment and continuing involvement of a Sponsor. A separate Sponsor requirement in India would entail additional professional fees and compliance costs for SME issuers, and therefore may not be consistent with the objective of Ease of Doing Business and reducing the cost of accessing the capital market.

The Group further noted that the Indian primary market framework is substantially disclosure-driven. The lead manager(s) already undertake extensive due diligence and are responsible for ensuring that the offer document contains true, correct, adequate and material information enabling investors to make an informed investment decision. Accordingly, the investor-protection objective served through the Sponsor-led suitability model in Catalist is substantially addressed in India through the existing lead manager framework, disclosure requirements and regulatory oversight. The Group therefore did not consider that the Catalist Sponsor model should be replicated in India, particularly where it could result in duplication of intermediary responsibilities and additional costs without commensurate incremental investor protection.

The Group noted that the Indian SME market has a substantially different investor profile and market structure from Singapore. Accordingly, the S\$200 threshold cannot be directly compared or transplanted into the Indian framework. The proposed ₹50,000 lot value and minimum two-lot application requirement have been considered in the context of Indian investor participation, affordability, trading behaviour and the objective of improving liquidity in SME securities.

At the same time, the Group considered the graduation principle embedded in Catalist to be relevant to India. The Catalist framework recognises that an alternative/growth market should provide a pathway for successful companies to progress to the Mainboard once they attain the requisite scale and satisfy the higher-board requirements. The Group considered that this principle supports the proposed SME-to-Main Board migration framework, including the move towards a market-Capitalization-based trigger rather than continuing to rely exclusively on paid-up capital. The use of market Capitalization in determining compliance with the Mainboard transfer requirements in Singapore also provides a relevant international reference point for the Group's deliberations.

However, the Group did not consider the provision permitting Mainboard-to-Catalist migration to be appropriate for the Indian market. The Group's view was that migration should represent a graduation path towards a higher level of regulatory and market maturity, rather than provide an avenue for an issuer that has attained Main Board status to subsequently move to a platform having relatively lower compliance requirements. Accordingly, the Group's proposed approach of permitting SME-to-Main Board migration while not permitting Main Board-to-SME migration is considered more appropriate from the perspective of maintaining investor protection and avoiding regulatory arbitrage.

The Group also considered that the Catalist experience demonstrates the importance of providing a clear and credible transition mechanism for successful SME/growth companies, while the precise regulatory instruments used to achieve that objective should be calibrated to Indian market conditions. Accordingly, the Group has proposed an India-specific framework based on market Capitalization, fulfilment of Main

Board eligibility criteria and appropriate investor-protection safeguards, rather than replicating the Sponsor-led Catalist model.

2.2. Malaysia – ACE Market and LEAP Market

2.2.1. Prevailing Framework

Malaysia has adopted a segmented equity-market structure comprising the Main Market, ACE Market and LEAP Market, with the ACE Market positioned as a market for small and mid-sized companies and as a stepping stone towards the Main Market. The Securities Commission Malaysia has recently reiterated this distinction, describing the Main Market as the premier market for larger and more established corporations and the ACE Market as a market for small and mid-sized corporations serving as a stepping stone to the Main Market.

The ACE Market is a sponsor-driven market and does not apply the same conventional profitability-based entry framework as the Main Market. The Sponsor plays an important role in assessing the suitability of an applicant and continues to have responsibilities after listing. The framework also provides for transfer of eligible companies from the ACE Market to the Main Market. In particular, Malaysia introduced an accelerated transfer mechanism under which an ACE Market company meeting specified requirements, including a daily market Capitalization of at least RM 1 billion for the preceding six months and the applicable Main Market profit requirements, may benefit from an accelerated transfer process. The stated objective is to facilitate the progression of sizeable and qualified ACE Market companies to the Main Market.

Malaysia also operates the LEAP Market, which is intended for SMEs and other growth-oriented companies. The LEAP framework provides a more flexible entry route and places significant reliance on an Approved Adviser. A company listed on LEAP may subsequently transfer its listing to the ACE Market, subject to specified conditions. The transfer framework requires, inter alia, that the company has been listed on LEAP for at least two years and is considered suitable for transfer following assessment by a Sponsor or, in specified cases, jointly by a Sponsor and Recognised Approved Adviser. The transfer applicant is also required to undertake an issue of shares to the general public as part of the transfer.

The Malaysian framework thus provides a tiered progression model, under which companies can potentially move from a relatively flexible SME/growth-oriented market to the ACE Market and thereafter to the Main Market, subject to satisfaction of progressively higher requirements. The framework also places substantial reliance on Sponsors/Advisers as an additional layer of suitability assessment and regulatory oversight.

2.2.2. Comments from Indian Capital Market Perspective

The Group noted that the Malaysian framework demonstrates the usefulness of having differentiated market segments for companies at different stages of maturity. In particular, the concept of the ACE Market as a stepping stone to the Main Market is consistent with the Group's view that the SME Platform should function as a growth and transition platform, rather than merely as an alternative permanent listing venue.

The Group, however, did not consider it appropriate to replicate the Sponsor/Approved Adviser architecture in the Indian SME framework. The Malaysian model places significant reliance on such intermediaries for suitability assessment and continuing oversight. In the Indian context, introduction of a separate Sponsor/Adviser layer would entail additional professional fees and compliance costs for SME issuers, which would be contrary to the objective of Ease of Doing Business and rationalisation of compliance burden. Further, the Indian primary-market framework is already substantially disclosure-driven, with the lead manager undertaking due diligence and being responsible for ensuring that the offer document contains adequate, accurate and material information necessary for investors to take an informed

investment decision. Accordingly, the Group considered that importing a separate Sponsor model may result in duplication of responsibilities without commensurate incremental investor protection.

The Group considered the Malaysian graduation framework more directly relevant. The ACE-to-Main Market accelerated transfer mechanism, which uses a market-Capitalization-based threshold in addition to Main Market eligibility requirements, supports the principle that the size and maturity of a listed company may be assessed by reference to its market value rather than solely by its paid-up capital. The Group considered this approach relevant to its proposal to introduce a market-Capitalization-based trigger for mandatory migration to the Main Board, while retaining the requirement that the issuer should satisfy the applicable Main Board eligibility criteria.

At the same time, the Group considered that the Malaysian framework should not be mechanically replicated. The proposed Indian framework is intended to provide a simpler and more objective progression mechanism, without creating multiple layers of intermediary oversight or additional procedural requirements merely because an issuer has reached a particular stage of growth. The Group's proposal of allowing SME-to-Main Board migration while not permitting Main Board-to-SME migration is also consistent with the principle that graduation should represent progression towards a higher level of market maturity and regulatory compliance.

The Group further noted that the LEAP-to-ACE framework requires a minimum two-year listing period before transfer. While such a period may serve a useful purpose in Malaysia by allowing the issuer to demonstrate its ability to operate within a regulated listed environment, the Group considered that the Indian migration framework should primarily be linked to objective indicators of scale and fulfilment of Main Board eligibility requirements, rather than prescribing an additional waiting period where the issuer has already demonstrably attained the requisite scale.

Accordingly, the Malaysian experience supports the Group's broad policy objective of treating the SME Platform as a stepping stone to the Main Board, but the Group considered that the mechanism adopted in India should be simpler, market-Capitalization based and consistent with the existing disclosure-driven lead-manager framework, without introducing additional Sponsor/Adviser costs.

2.3. Indonesia – Acceleration Board

2.3.1. Prevailing Framework

Indonesia has established an **Acceleration Board (Papan Akselerasi)** on the Indonesia Stock Exchange (IDX) to provide a listing avenue for smaller and emerging companies that may not satisfy the requirements applicable to the Main Board or Development Board. The framework provides differentiated admission requirements, recognising the relatively smaller scale and growth stage of companies seeking access to the market.

The Acceleration Board is intended to facilitate access to public capital for companies at an earlier stage of development. The framework permits certain companies that do not satisfy the conventional requirements applicable to the higher boards to access the public market, subject to specified conditions relating to, inter alia, financial position, public ownership and other listing requirements.

An important feature of the Indonesian framework is the **movement of companies between market segments**. An issuer listed on the Acceleration Board may move to a higher board when it satisfies the applicable requirements and no longer falls within the characteristics for which the Acceleration Board is intended. Thus, the framework recognises that an alternative market can serve as a **transitional platform in the development of an enterprise**.

2.3.2. Comments from Indian Capital Market Perspective

The Group considered that the Indonesian framework provides support for the proposition that SME and growth-company markets should not necessarily be treated as permanent destinations for issuers. An enterprise that successfully grows beyond the characteristics of the smaller-company segment should have a clearly identifiable route towards the higher market segment.

This principle is consistent with the Group's proposal to strengthen the SME-to-Main Board migration framework. The Group considered that migration should be triggered by the issuer attaining a level of scale and maturity at which continued access to the relatively proportionate SME regulatory framework may no longer be appropriate. In this context, the Group's proposed use of market Capitalization provides a more meaningful indicator of the size and market standing of a listed company than paid-up capital alone.

The Group also considered that the Indonesian experience supports the proposition that eligibility criteria for an SME platform may appropriately be differentiated from those applicable to the Main Board, particularly where the objective is to provide capital-market access to emerging businesses. However, such differentiation should not result in dilution of disclosure standards or investor protection. In the Indian context, the Group therefore considered it appropriate to retain the fundamental disclosure and due-diligence architecture applicable to SME IPOs while rationalising requirements that do not have a commensurate investor-protection rationale.

The Group further noted that the Indonesian approach does not imply that every company should remain indefinitely within the lower-tier market. Rather, the graduation concept itself acts as an important regulatory safeguard. This is particularly relevant for India, where the Group is proposing that relatively larger SME issuers should transition to the Main Board and that the SME Platform should not become a mechanism for larger entities to access a comparatively lighter compliance regime indefinitely.

At the same time, the Group considered that Main Board-to-SME migration should not be introduced merely to replicate a flexible board structure. Once an issuer has accessed the Main Board and is subject to the higher level of disclosure, governance and investor-protection requirements applicable to that segment, permitting it to subsequently move to a lower-tier platform could result in a reduction in regulatory standards applicable to an issuer with an established investor base. The Indian framework should therefore retain the principle of upward graduation rather than two-way migration.

Accordingly, the Indonesian experience reinforces the Group's proposed approach of treating the SME Platform as a development and transition stage, while the specific eligibility and migration triggers should remain calibrated to the Indian market and should be based on objective indicators of scale and investor protection.

2.4. Philippines - SME Board

2.4.1. Prevailing Framework

Philippines has a separate SME Board of the Philippine Stock Exchange (PSE), with listing requirements differentiated from those applicable to the Main Board. The SME Board requires an operating history of at least two years, compared with three years for the Main Board. The SME Board also provides alternative financial eligibility tests, including either cumulative EBITDA of at least PHP 15 million for the preceding three fiscal years or cumulative operating revenue/sales of at least PHP 150 million over the relevant period together with an average net sales or operating revenue growth rate of at least 20% for the preceding two years. The minimum stockholders' equity requirement is PHP 25 million, compared with PHP 500 million for the Main Board. The SME Board also requires at least 200 shareholders and a minimum public offering of 20%.

The Philippines also provides a Sponsor Model for companies seeking admission to the SME Board that are unable to satisfy the profitability and/or stockholders' equity requirements. The stated objective of this route is to provide high-growth and start-up companies access to the capital market while receiving guidance from a Sponsor throughout the pre-IPO and post-IPO process. The applicant's suitability is evaluated by a PSE-accredited listing Sponsor.

Under the Sponsor Model, the Sponsor undertakes extensive due diligence and provides a sponsor assessment report covering, among other matters, the applicant's business plan, future prospects, financial performance and risks. The Sponsor is also required to certify that it has undertaken due diligence, is satisfied with the company's suitability for listing and has reviewed the offer and listing documents. The Sponsor assumes responsibility, together with the applicant, for false, inaccurate or misleading information relating to material facts, subject to the prescribed qualifications.

The Philippine framework therefore represents a model in which relaxation of conventional financial eligibility requirements is accompanied by enhanced intermediary responsibility, particularly for high-growth or start-up companies.

2.4.2. Comments from Indian Capital Market Perspective

The Group considered the Philippine framework particularly relevant to the discussion on whether an SME framework should accommodate growth-oriented companies that may not satisfy conventional profitability criteria. The existence of alternative financial tests based on EBITDA or revenue growth demonstrates that a company's potential may be assessed through metrics other than conventional profitability alone. This provides a useful international reference in considering the evolution of the Indian SME framework.

However, the Group did not consider the Sponsor Model appropriate for direct adoption in India. Under the Philippine model, the Sponsor undertakes a suitability assessment and assumes significant additional responsibility in relation to the applicant and the offer documents. While this may provide an additional investor-protection layer, it would also result in additional intermediary involvement, professional fees and compliance costs for the issuer.

The Group noted that the Indian framework already places substantial responsibility on the lead manager(s) for due diligence and disclosure. The lead manager is required to ensure that the offer document provides investors with the information necessary to make an informed investment decision and is subject to regulatory and exchange-level oversight. Therefore, the Group considered that the investor-protection objective sought to be achieved through the additional Sponsor layer in the Philippines can, in the Indian framework, be addressed through strengthening and rationalising the existing lead-manager-led disclosure and due-diligence framework, rather than creating a separate intermediary category.

The Group also noted that the Philippines requires a minimum of 200 shareholders on the SME Board and a minimum public offering of 20%. The Group considered that this illustrates the importance attached internationally to ensuring adequate public distribution and investor participation in SME securities. In the Indian context, however, the appropriate level of public participation and the minimum application/trading lot should be determined having regard to the much larger and more retail-oriented Indian securities market. Accordingly, the Group's proposed minimum application and lot framework is calibrated to Indian market conditions rather than being benchmarked mechanically against the Philippine threshold.

The Group further considered the Philippine framework relevant to the broader principle of proportionate regulation. The SME Board does not simply replicate the Main Board requirements at a lower numerical threshold; instead, it provides alternative eligibility pathways for companies at different stages of development. The Group considered that a similar principle is appropriate in India, provided that any

relaxation is accompanied by adequate disclosure and does not compromise core investor-protection requirements.

In this regard, the Group's approach is to rationalise provisions that impose compliance burdens without a corresponding investor-protection benefit, while retaining the essential disclosure, due-diligence and governance requirements. The objective is therefore not deregulation of the SME segment, but proportionate regulation calibrated to the size and stage of the issuer.

The Philippine framework also supports the proposition that a separate SME market can serve as an entry point for high-growth companies, including companies that may not yet have a conventional profitability track record. However, the Group considered that the Indian framework should achieve this objective through an appropriate combination of eligibility criteria, disclosure requirements and intermediary due diligence, rather than through a costly additional Sponsor structure.

Accordingly, the Philippines provides useful support for the Group's approach of differentiated and proportionate eligibility requirements, particularly for growth-oriented enterprises, while the Group considered that the Sponsor-led mechanism should not be imported into India given the existing lead-manager-led, disclosure-driven regulatory architecture and the objective of reducing the cost of compliance.

3. Overall Observations from International Benchmarking

The Group's comparative assessment of Singapore, Malaysia, Indonesia and the Philippines indicates that SME and growth-company markets internationally are generally designed as differentiated platforms that provide proportionate access to public capital while maintaining safeguards appropriate to the characteristics of the issuers and investors. A common feature across the jurisdictions is the recognition that smaller and emerging companies may require a regulatory framework that is different from that applicable to larger and more established Main Board companies.

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A further common feature observed was the importance attached to graduation or progression from an SME/growth market to a higher market segment. Malaysia's accelerated ACE-to-Main Market transfer mechanism, Singapore's Catalist-to-Mainboard pathway and Indonesia's board progression framework demonstrate that successful growth companies are expected to move towards the higher market segment upon attaining the requisite scale and maturity. The Group considered this principle particularly relevant for India and accordingly proposed a clear and objective SME-to-Main Board migration framework, including the use of market Capitalization as an indicator of the issuer's scale, while retaining the requirement to satisfy the applicable Main Board eligibility criteria.

The Group also observed that international frameworks generally seek to balance ease of access to capital with investor protection, rather than treating these objectives as mutually exclusive. The Group's recommendations similarly seek to rationalise compliance requirements and reduce unnecessary burden on SME issuers while ensuring that core disclosure, due-diligence, governance and investor-protection requirements remain intact.

Overall, the Group considered that international practices provide useful policy reference points but do not warrant direct transplantation into the Indian regulatory framework. The Group has therefore sought to

adopt the underlying principles that are relevant to the Indian market i.e. proportionate regulation, differentiated eligibility, orderly graduation to the Main Board and facilitation of growth, while retaining the strengths of India's disclosure-driven framework and avoiding regulatory mechanisms that would unnecessarily increase the cost and complexity of accessing the capital market.