

**Review of requirement of Minimum Public Offer (MPO) and timelines to comply with Minimum Public Shareholding (MPS) for issuers in terms of Securities Contracts (Regulation) Rules, 1957**

**1. Objective**

1.1 This memorandum seeks to:

- i. Review the requirements of minimum offer and allotment to public (hereinafter referred to as 'Minimum Public Offer') for issuers in terms of Rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957 (SCRR);
- ii. Review the timelines prescribed to comply with Minimum Public Shareholding (MPS) of 25% for issuers in terms of proviso of Rule 19(2)(b) of SCRR;
- iii. Recommend proposal for amendment to the Rule 19(2)(b) of SCRR.

**2. Background**

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

2.2. Market participants have provided feedback that for large issuers the compliance with Minimum Public Offer (MPO) requirement i.e. at least 10% of post issue paid up capital calculated at offer price (hereinafter also referred to as 'post issue market capital' or 'post issue MCap') in terms of Rule 19(2)(b) of SCRR is cumbersome and is therefore a constraining factor for listing. Market participants have also informed that given this constraint, some of the unlisted companies may like to explore the option of listing in foreign jurisdiction only.

2.3. **Present provisions in terms of Rule 19(2)(b) of SCRR:** The following table demonstrates the current MPO requirements:

Bucket No	Post issue MCap	Minimum public Offer
1	MCap ≤ 1600	25%
2	1600 < MCap ≤ 4000	Such % equivalent to 400
3	MCap > 4000	10%

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

**2.4.** Thus, issuers, with post issue market capital of at least Rs 4000 crores or more, are required to offer to public at least 10% of its post issue market capital to public.

**2.5.** Further, as per the proviso of Rule 19(2)(b) of SCRR, in case the company, at the time of listing, does not have at least 25% of its post issue market capital with public shareholders, then it is required to bring public shareholding to at least 25% within three years from the date of listing. Relevant extract of the SCRR is placed at **Annexure A**.

**2.6.** This review intends to further facilitate capital raising for issuers that may result in enhanced wealth creation in the Indian market.

### **3. Trends of Past Public Issuances**

**3.1.** Analysis of public issuances for the period Apr 01, 2010 to Oct 16, 2020, shows that the average issue size on the main board has been increasing in the last decade. Also the number of issuers coming for IPO on the main board have declined. For example, in FY2010-11, Rs 671 crores per issuer (Avg. issue size) was raised by 53 issuers whereas in FY2019-20, Rs 1,488 crores per issuer (Avg. issue size) was raised by 14 issuers. A table indicating number of IPOs, amount raised and average issue size during this period is placed at **Annexure B**.

**3.2.** It is expected that large tech companies as well as very large government enterprises may tap the IPO market soon<sup>1</sup>. Thus, this trend as indicated in para 3.1 above is expected to continue.

#### **4. Primary Markets Advisory Committee (PMAC)**

**4.1.** The feedback received from market participants and the trends in past public issuances highlighted at para 3 above were placed before the Primary Market Advisory Committee (PMAC) of SEBI in the virtual meeting held on November 11, 2020, to inter alia deliberate on the following: -

- i. Whether there is a need to review the MPO requirements for large issuers in terms of Rule 19(2)(b) of SCRR?
- ii. If yes, proposal(s) for the same may be deliberated.
- iii. Should large issuers<sup>2</sup> be allowed 18 months' time to comply with 10% MPS? Further, should very large<sup>3</sup> issuers be granted additional time to comply with 25% MPS?

**4.2.** Upon deliberation, the PMAC recommended that SEBI may seek public comments on the following proposals: -

- i. Reduce MPO requirement for issuers where post issue market capital is at least Rs 10,000 crores to 5% from 10% of the post issue market capital, as under: -

Post issue MCap	Minimum public Offer	
	Existing Provision	Proposal
MCap ≤ 1600	25%	

<sup>1</sup> Hon'ble Finance Minister in her budget speech dated Feb 01, 2021 inter alia stated that Government of India would bring the IPO of Life Insurance Corporation in FY2021-22, which is in follow up to the announcement made in her budget speech dated Feb 01, 2020.

<sup>2</sup> Issuers with post issue MCap more than Rs. 10,000 crores and upto Rs 1,00,000 crores are considered as large issuers

<sup>3</sup> Issuer having post issue MCap more than Rs 1,00,000 crores have been considered as very large issuers

Post issue MCap	Minimum public Offer	
	Existing Provision	Proposal
1600 < MCap ≤ 4000	Such % equivalent to 400	Same as existing provision
4000 < MCap ≤ 10000	10%	
MCap >10000	10%	1000 <sup>4</sup> + 5% of MCap exceeding 10,000

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

- ii. In view of proposal at para 4.2. (i) above, PMAC observed that there could be a scenario wherein, at the time of listing, large and very large issuers may not have 10% public shareholding. Thus, there may arise a need to provide time to such issuers to firstly bring public shareholding to at least 10% and subsequently comply with 25% MPS as proposed below: -

Post issue MCap	Existing Provisions for complying with MPS of 25%	Proposal
MCap ≤ 1,600	Minimum offer of 25% to public	Same as existing provision
1,600 < MCap ≤ 4,000	MPS of 25% to be achieved in 3 years from date of listing	
4,000 < MCap ≤ 10,000		
10,000 < MCap ≤ 100,000	MPS of 25% to be achieved in 3 years from date of listing	At least 10% public shareholding to be achieved within 18 months and 25% MPS within 3 years from the date of listing

<sup>4</sup> 10% of Rs 10,000 crores is Rs 1,000 crores

Post issue MCap	Existing Provisions for complying with MPS of 25%	Proposal
MCap>100,000		At least 10% public shareholding to be achieved within 2 years and 25% MPS within 5 years from the date of listing

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

4.3. Further, PMAC desired that the matter may be placed before it again for consideration after receiving public comments.

## 5. Consultation with stakeholders and public comments

5.1. A consultation paper (**Annexure C**) was then hosted on the SEBI website for public comments on November 20, 2020. The deadline for submitting comments was till December 07, 2020, which was extended till December 24, 2020.

5.2. SEBI received 43 comments/suggestions from 18 stakeholders comprising of individuals, industry associations, law firms, merchant bankers, asset management company, stock exchange, etc. Analysis of public comments received is placed at **Annexure D**.

5.3. Upon analysis of the comments/suggestions received, following has been observed

- i. Majority of the stakeholders have stated that the requirement of 5% MPO (i.e. proposal at para 4.2. (i) above) for very large issuers may be reduced further.
- ii. Further, for large issuers, majority of the stakeholders have agreed with PMAC's proposal at para 4.2. (ii) (i.e. at least 10% public shareholding be achieved in 18 months and 25% MPS within 3 years from the date of listing)

## 6. PMAC Recommendations

6.1. The comments received on the consultation paper were placed before the PMAC in the virtual meeting held on January 11, 2021.

### MPO Requirement

6.2. Keeping in mind that the option of moderate initial issue size may encourage companies to go public and list in India, PMAC recommended the following:

- i. The minimum offer to public for issuers having post issue market capital between Rs 10,000 crores and Rs 1,00,000 crores be reduced from 10% (existing provision) to Rs 1,000 crores<sup>5</sup> + 5% of the incremental amount beyond Rs 10,000 crores up to Rs 100,000 crores.
- ii. Further, for issuers with post issue market capital exceeding Rs. 1,00,000 crores, the minimum offer to public may be reduced to Rs 5,500 crores<sup>6</sup> + 2.5% of the incremental amount beyond Rs. 100,000 crores. Same is summarised in the table below:

Post issue MCap	Minimum offer to public	
	Existing Provision	Proposal
MCap ≤ 1,600	25%	Same as existing provision
1,600 < MCap ≤ 4,000	Such % equivalent to 400	Same as existing provision
4,000 < MCap ≤ 10,000	10%	
10,000 < MCap ≤ 100,000	10%	1000 + 5% of MCap exceeding 10,000
MCap > 100,000	10%	5,500 + 2.5% of MCap exceeding 1,00,000

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

<sup>5</sup> 10% of Rs 10,000 crores is Rs 1,000 crores

<sup>6</sup> Rs 5,500 crores is sum of Rs 1,000 crores and Rs 4,500 (i.e. 5% of Rs 90,000 crores (Rs 1,00,000- Rs, 10,000 crores))

### **Analysis of proposed MPO requirements**

**6.3.** A comparative illustration of minimum IPO size and issue size as a percentage of post issue MCap at various MCap levels as per the existing provisions and recommendation at para 6.2 above is as follows:

Post issue MCap	Existing Provision		Recommendation at para 6.2 above	
	Minimum IPO Size	H%	Minimum IPO Size	H%
1,000	250	25.0%	250	25.0%
2,000	400	20.0%	400	20.0%
3,000	400	13.3%	400	13.3%
5,000	500	10.0%	500	10.0%
10,000	1,000	10.0%	1,000	10.0%
1,00,000	10,000	10.0%	5,500	5.5%
2,00,000	20,000	10.0%	8,000	4.0%
3,00,000	30,000	10.0%	10,500	3.5%
4,00,000	40,000	10.0%	13,000	3.3%
5,00,000	50,000	10.0%	15,500	3.1%
7,50,000	75,000	10.0%	21,750	2.9%
10,00,000	1,00,000	10.0%	28,000	2.8%

Note: 1: All values are in Rs crore

2: H% denotes minimum issue size required as a percentage of post issue MCap

**6.4.** It may be seen from above that there will not be any change in the MPO requirement for companies with post issue market capital upto Rs. 10,000 crores.

**6.5.** Further, it may be seen from above that an issuer having post issue market capital of Rs 100, 000 crores would need to offer at least Rs 5,500 crores, which is the sum of Rs 1,000 crores and Rs 4,500 (i.e. 5% of Rs 90,000 crores (Rs 1,00,000- Rs, 10,000 crores)), to public. Thus, in this case, effective minimum offer to public is 5.5% of post issue market capital.

**6.6.** Similarly, an issuer having post issue market capital of Rs 500,000 crores would have to offer at least Rs 15,500 crores to public. Thus, in this case, effective minimum offer to public is 3.1% of post issue market capital.

**6.7.** It is observed that, in terms of Regulation 49(1) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations), an issuer has to ensure that, pursuant to an IPO, number of prospective allottees are at least 1000. Also, Regulation 47(2) of SEBI ICDR Regulations stipulate that value of minimum application size (also referred to as 'lot size' or 'minimum bid lot') shall be within the range of Rs 10,000 to Rs 15,000.

**6.8.** These requirements seek to ensures that widespread/dispersed shareholding is achieved in the newly listed company irrespective of its issue size.

### **MPS Requirement**

**6.9.** During the deliberation on matter of MPS requirement, PMAC recommended the proposal at para 4.2. (ii) above.

<b>Post issue MCap</b>	<b>Proposal</b>
MCap ≤ 1,600	Minimum offer of 25% to public
1,600 < MCap ≤ 4,000	MPS of 25% to be achieved in three years from date of listing
4,000 < MCap ≤ 10,000	MPS of 25% to be achieved in three years from date of listing
10,000 < MCap ≤ 100,000	At least 10% public shareholding to be achieved in 18 months and 25% MPS within 3 years from the date of listing
MCap > 100,000	At least 10% public shareholding to be achieved in 2 years and 25% MPS within 5 years from the date of listing

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

### **Rationale for the proposed MPS requirement**

**6.10.** For large and very large issuers, adequate time may be provided to firstly bring public shareholding to at least 10% of the post issue market capital



and then to comply with MPS requirements of 25%. This may alleviate immediate overhang and subsequent pricing pressure on the share price of a scrip post IPO to meet the MPS requirements.

## 7. Proposal

7.1. The Board is requested to consider and recommend change in Rule 19(2)(b) of the SCRR to the Ministry of Finance, Department of Economic Affairs, as per the following: -

Post issue MCap	Proposed Minimum public Offer	Proposed MPS
MCap $\leq$ 1,600	25%	Minimum offer of 25% to public
1,600 < MCap $\leq$ 4,000	Such % equivalent to 400	MPS of 25% to be achieved in three years from date of listing
4,000 < MCap $\leq$ 10,000	10%	
10,000 < MCap $\leq$ 100,000	1000 + 5% of MCap exceeding 10,000	At least 10% public shareholding to be achieved in 18 months and 25% MPS within 3 years from the date of listing
MCap > 100,000	5,500 + 2.5% of MCap exceeding 1,00,000	At least 10% public shareholding to be achieved in 2 years and 25% MPS within 5 years from the date of listing

Note: 1. All values except for those expressed as % are in Rs crore.

2. There is no change in the regulatory requirements (both MPO and MPS) for companies with post issue market capital upto Rs. 10,000 crores.

7.2. Authorize the Chairman to take consequential and incidental steps to give effect to the decisions of the Board.

## **Annexure A: Rule 19(2)(b) of SCRR**

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

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

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

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

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

**Annexure B:** A table indicating number of IPOs, amount raised and average issue size in respect of public issuances since 2010 is as follows: -

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

Source: SEBI Annual Report

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

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

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

**Annexure C:** (Consultation Paper available on SEBI Website)

**Annexure D:** (This has been excised for reasons of confidentiality)