

Review of SME framework under SEBI (ICDR) Regulations, 2018, and applicability of corporate governance provisions under SEBI (LODR) Regulations, 2015 on SME companies.

1. Objective

1.1. This memorandum seeks approval of the Board for implementing the recommendations related to review of SME framework, by way of amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“**ICDR Regulations**” or “**ICDR**”) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**” or “**LODR**”).

2. Background

2.1. In recognition of the need for making finance available to small and medium enterprises, SEBI decided to encourage promotion of dedicated platforms of the exchanges for listing and trading of securities issued by Small and Medium Enterprises (“SME”). Accordingly, SEBI prescribed a framework for recognition and supervision of stock exchanges/ platforms of stock exchanges for small and medium enterprises in November 2008.

2.2. A model SME Equity Listing agreement for issuers seeking listing on SME Exchange, was specified through a Circular in May 2010 and a revised framework for setting up of a Stock exchange/ trading platform by a recognized stock exchange having nationwide trading terminals for SME was prescribed by SEBI in May 2010.

2.3. Since operationalization of SME Exchange on NSE and BSE, a total of 565 exclusive companies have listed on NSE and 524 exclusive companies have listed on BSE platform of which 322 SME companies have migrated to Main Board (140 from NSE SME Exchange and 182 from BSE SME Exchange, as on October 15, 2024).

2.4. SME IPOs have witnessed a surge in recent years, particularly 2022-23 onwards. Since, establishment of SME platforms, FY 2023-24 witnessed the highest number of SME public issue and highest SME fund raising with 196

IPOs tapping the market to mobilize more than Rs. 6000 crore. Also, in current FY 2024-25 already till Oct 15, 2024, more than Rs. 5700 crore has been raised through 159 SME IPOs.

2.5. Recently, SEBI observed instances where SME listed entities diverted IPO and Rights Issue proceeds to related / connected parties or to shell companies controlled by promoters. SEBI has observed that in some SME companies, company booked fraudulent sales and purchases through circular transactions amongst related parties/ connected parties. By doing so such companies try to create a positive sentiment to induce investors into purchasing such securities. SEBI, in the recent past, has passed Orders against such entities. A press release was also issued by SEBI (on August 28, 2024) urging investors to be careful and watchful of the aforesaid patterns and exercise caution while investing in such securities and also advised investors to not rely on unverified social media posts and not to invest based on tips / rumours.

2.6. In view of the above backdrop, to review of SME framework, SEBI had engaged with Stock Exchanges – NSE and BSE and few Merchant Bankers who are actively handling SME issues, to seek their comments and suggestions relating to both facilitating and regulating IPOs by SME companies, to strengthen pre-listing and post-listing provisions applicable on SME companies.

2.7. Based on the suggestions submitted by the Stock Exchanges, Merchant bankers and discussions held between SEBI, Stock Exchanges and Merchant Bankers, proposals related to SME framework were discussed in SEBI Primary Market Advisory Committee (PMAC).

2.8. Based on the PMAC recommendations and internal deliberations, it was decided to have public consultation on the proposals to amend SME provisions under ICDR and LODR. Consequently, SEBI issued a consultation paper on November 19, 2024 (“**Consultation Paper**”) seeking views / comments from the public on the proposals to amend SME provisions, which is annexed as **Annexure I**.

2.9. In response to the aforesaid Consultation Paper, more than 1800 responses were received from around 120 entities (from Merchant Bankers, Stock Brokers, Registrar and Transfer Agents, Credit Rating Agency, Financial advisory firms, private / public companies and investors). The proposal-wise compilation of public comments is placed at **Annexure II**.

2.10. It is observed that the majority of the public comments are in favour of most of the proposals.

2.11. The following paragraphs detail the existing provisions under ICDR & LODR Regulations, analysis of public comments & rationale and proposals for the consideration of the Board. The proposals with respect to ICDR Regulations and LODR Regulations are discussed below in separate paragraphs.

3. Proposals with respect to ICDR Regulations

3.1. A detailed analysis of the public comments received on the proposals relating to ICDR Regulations is placed at **Annexure III**. The commenters are broadly in agreement with the recommendations.

3.2. The proposals with respect to ICDR Regulations are given below:

3.2.1. Minimum application value and Market lot size

a) Existing provisions:

- (i) Presently, as per ICDR Regulations, requirement for minimum application size is one lakh rupees and the actual application size in IPO is kept as one lot where lot size is determined based on SEBI Circular dated February 21, 2012 – Standardized lot size for SME Exchange/ Platform (SEBI SME circular). The lot size depend on the price band decided by the issuer and the standardized lot size applicable for price band range as prescribed in SEBI SME Circular. Therefore, presently, minimum application size i.e. for one lot, in terms of rupees, ranges between Rs.1,00,100/- to 1,60,000/- depending on the price band.

b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments

(para 1 at page no. 1 of Annexure III):

- (i) There was proposal to increase minimum application size and two options were proposed in the consultation paper (i) to increase minimum application size to two lakh; or (ii) to increase minimum application size to four lakh.
- (ii) Majority commenters have agreed to the proposal and have suggested to increase application size to minimum of two lakh rupees and not to four lakh rupees.
- (iii) Therefore, considering the majority view, we agree to increase minimum application size to two lakhs and not to four lakhs.
- (iv) To have consistency in the application size and trading lot, minimum application size shall be kept as two lots per application and same shall be above two lakhs. For example – If the cap price in price band is Rs. 20/-, lot size decided as per SEBI SME circular will be 6000. Accordingly, minimum application size with two lot shall be Rs. 240,000/- (2lots * 20 i.e. 2*6000*20). Accordingly, in line with standardized lot size prescribed vide SEBI SME circular, minimum application size for 2 lots shall be in range of Rs. 200200/- to Rs. 3,20,000/-.
- (v) Since, in terms of ICDR definition, “retail individual investor” means an individual investor who applies or bids for specified securities for a value of not more than two lakhs rupees, and considering above proposal after which minimum application size shall be above two lakhs, term “retail individual investors” needs to be replaced with “individual investors who applies for minimum application size”.

c) Proposals for approval of the Board :

- (i) It is proposed that minimum application size shall be two lots per application.
- (ii) Applications shall be in multiples of the lot size i.e. above 2 lots, applicants can make application for 3 lots, 4 lots, 5 lots etc. i.e. in multiples of the lot size.
- (iii) Term “retail individual investors” to be replaced with “individual investors who applies for minimum application size” for allocation

in net offer category under Chapter IX- IPO by SME of ICDR and for other ICDR provisions applicable for SME companies.

3.2.2. Allocation methodology for non-institutional investors (“NIIs”) in SME IPOs to be aligned with methodology used for NIIs in main board IPOs

- a) Existing provisions: Presently, allotment for NII category in SME IPOs is done on proportionate basis whereas in main board IPOs allotment for NII category is based on draw of lots.
- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 2 at page no. 2 of Annexure III):
- (i) It was proposed to align allocation in NII category of SME IPO with NII category in main board IPO.
 - (ii) Majority of the commenters have agreed with the recommendation.
 - (iii) Proportionate allotment tends to encourage over-leveraging, over statement of interest and thus at times encourage mispricing. Recent SEBI study also shows that post above change in Main Board IPOs, over-leveraging and unnecessary exuberance in NII category has come down.
- c) Proposals for approval of the Board :
- (i) It is proposed that NII category may be further divided into two sub-categories:
 - a. Sub- category 1: 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 ten lakh rupees;
 - b. Sub- category 2: two third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than ten lakh rupees.
 - (ii) It is proposed that, existing methodology of proportionate allotment in case of NII category may be discontinued and “draw of lots” to

be introduced, i.e. first allotting minimum bid lot to successful applicants and balance shares, if any, on proportionate basis.

3.2.3. Allotment process and basis of allotment – Minimum number of allottees

- a) Existing provisions: 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 50.

- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 3 at page no.3 of Annexure III):
 - (i) It was proposed that minimum number of allottees in SME IPO to be increased to 200.
 - (ii) Majority commenters have agreed with the recommendation.
 - (iii) The investor base in India has grown significantly since 2010. Above requirement will ensure that companies where investors have interest shall only get listing. This increased requirement will also ensure that there are sizeable number of investors post listing and same shall help in providing liquidity in the market.

- c) Proposals for approval of the Board: Minimum allottees in SME IPO to be increased from existing 50 investors to minimum 200 investors.

3.2.4. Offer for sale

- a) Existing provisions: Presently, there is no restriction on offer for sale (OFS) as a percentage of issue size i.e. SME IPO can be a 100% OFS with no fund raising for the issuer company.

- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 4 at page no. 4 of Annexure III):
 - (i) It was proposed that total OFS by selling shareholders in SME IPO shall not exceed 20% of the total issue size and shares offered for

sale by selling shareholder(s) shall not exceed 20% of their pre-issue shareholding.

- (ii) Majority commenters have agreed with the recommendation.
- (iii) As the purpose of setting up of SME Exchange was to make finance available to needy small and medium enterprises for their growth and if promoters dilute too much of their stake too soon, it could undermine the company's growth potential.

c) Proposals for approval of the Board:

- (i) The total OFS by selling shareholders in SME IPO shall not exceed 20% of the total issue size.
- (ii) The shares offered for sale by selling shareholder(s) shall not exceed 20% of their pre-issue shareholding on fully diluted basis.

3.2.5. **Monitoring of Issue Proceeds**

a) Existing provisions: Presently, issuer has requirement of appointment of Monitoring Agency if fresh issue size exceeds Rs 100 crore.

b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 5 at page no. 5 and para 13 at page no. 14 of Annexure III):

- (i) It was proposed to reduce threshold for requirement of appointing monitoring agency in SME issue from Rs. 100 crore to Rs. 20 crore. Requirement of appointment of monitoring agency to be made compulsory irrespective of amount, if object of issue is to fund subsidiary or to repay loans/borrowing of the subsidiary company or investment in a joint venture / subsidiary or is acquisition.
- (ii) It was also proposed that issuer shall submit Statutory Auditor report on utilization of fund if requirement of monitoring agency is not needed and in case proceeds raised for working capital exceeds 5 crore Statutory Auditor shall certify use of funds in working capital in same format as disclosed in offer document.
- (iii) Majority of the commenters have agreed to the proposals.
- (iv) Monitoring agency acts as an independent agency who will certify on utilisation of proceeds and will ensure funds are used for the

purposes disclosed in the offer document, thus reducing the risk of misuse or diversion. This will also bring more transparency for investors and accountability for issuer.

c) Proposals for approval of the Board:

- (i) Threshold for requirement of appointment of Monitoring Agency shall be made applicable for SME Company if fresh issue size exceeds Rs 20 crore.
- (ii) It shall be mandatory to appoint monitoring agency irrespective of the issue size, if the objects of the issue are of following nature:
 - a. to fund subsidiary, and/ or
 - b. to repay loans/ borrowing partially or fully of the subsidiary company, and/or
 - c. investment in a joint venture or a subsidiary, and/or
 - d. an acquisition.
- (iii) In an issue, where issuer is not required to appoint a monitoring agency, then in such cases issuer shall submit certificate of the Statutory Auditor for utilization of money raised through the public issue (excluding offer for sale by selling shareholders), to Stock Exchange while filing the quarterly financial results, till the issue proceeds are fully utilized.
- (iv) In an issue, where working capital is one of the objects of the issue and amount raised for working capital exceeds Rupees five crore, then issuer shall submit certificate of the Statutory Auditor for use of fund in working capital in same format as disclosed in the offer document to Stock Exchange while filing the quarterly financial results.

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

- a) Existing provisions: Presently, minimum promoter contribution (MPC) which is 20% of post issue capital, is locked-in for 3 years and promoter holding in excess of MPC is locked-in for 1 year.
- b) Proposals in the Consultation Paper, Analysis of the comments

received and Rationale for acceptance or rejection of the comments

(para 6 at page no.7 of Annexure III):

- (i) It was proposed to increase MPC lock-in to 5 years and increase lock-in on promoter holding in excess of MPC to 2 years for 50% promoters' holding in excess of MPC.
- (ii) Majority of the commenters have agreed to the proposals.
- (iii) SME companies are mostly promoter driven, thus, it is necessary to ensure that promoter continues to have certain skin in the game post listing also.

c) Proposals for approval of the Board:

- (i) Lock-in period on MPC in SME IPOs to be increased to 5 years (from existing requirement of 3 years lock-in).
- (ii) Lock-in on promoters' holding held in excess of MPC to be released in phased manner i.e. lock-in for 50% promoters' holding in excess of MPC shall be released after 1 year and lock-in for remaining 50% promoters' holding in excess of MPC shall be released after 2 years.

3.2.7. **General Corporate Purpose (GCP) portion of issue size**

- a) Existing provisions: Presently, issue proceeds that can be used for GCP is capped at 25% of amount being raised by the issuer. Similarly, 25% of amount being raised by the issuer can be used for any unidentified target / acquisition.

Provided that together for GCP and unidentified target, maximum utilization of issue proceeds is capped at 35%.

b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments

(para 7 at page no. 8 of Annexure III):

- (i) It was proposed to reduce GCP usage to 10% of amount raised by issuer and disallow issue proceeds for any unidentified target / acquisition.

- (ii) Majority of the commenters have agreed to the proposals.
 - (iii) Since there is no specific monitoring of GCP and therefore, any expenses can be classified as general corporate purpose, it increases the risk of misuse of issue proceeds. Similarly, raising funds for unidentified target / acquisition also reduces transparency and increase risk of misuse of funds.
- c) Proposals for approval of the Board:
- (i) GCP amount in SME IPO shall be capped to 10% of amount being raised by the issuer or Rs. 10 crore, whichever is less.
 - (ii) The provision in ICDR, Regulation 230 (3), which allows issuer to raise funds for any unidentified target / acquisition may not be made available for SME issue.

3.2.8. Eligibility criteria for an SME IPO

A. Restriction w.r.t. Promoter Group for Eligibility

- a) Existing provisions: In terms of Regulation 228 of ICDR, following entities are not eligible to make an IPO :

“228. An issuer shall not be eligible to make an initial public offer:

- (a) if the issuer, any of its promoters, promoter group or directors or selling shareholders are debarred from accessing the capital market by the Board;
- (b) if any of the promoters or directors of the issuer is a promoter or director of any other company which is debarred from accessing the capital market by the Board;
- (c) if the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower.
- (d) if any of its promoters or directors is a fugitive economic offender.”

- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments

(para 8 at page no. 9 of Annexure III):

- (i) It was proposed to include Promoter Group in Regulation 228 (b), (c) and (d) of ICDR.
- (ii) Majority of the commenters have agreed to the proposals.
- (iii) It is observed that SME companies are closely held by Promoter &

Promoter group. The business is being handled / conducted by the Promoter as well as Promoter group. Therefore, any action against promoter group members may also have significant bearing on issuer.

- c) Proposals for approval of the Board: It is proposed to include Promoter Group in Regulation 228 (b), (c) and (d) of ICDR.

B. Converting outstanding convertible securities before IPO

- a) Existing provisions: Presently, in terms of Regulation 5(2) of ICDR, for main board IPOs there is a requirement for issuer for conversion of outstanding convertible securities before filing of draft red herring prospectus (DRHP) except for ESOPs and fully paid-up outstanding convertible securities required to be converted on or before the date of filing of the red herring prospectus (RHP).
- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 17 at page no. 17 of Annexure III):
- (i) It was proposed to have similar condition for eligibility of SME IPO as applicable for main board IPOs in respect to requirement for conversion of outstanding convertible securities before filing of DRHP.
 - (ii) Majority of the commenters have agreed to the proposals.
 - (iii) This will provide more clarity to investors on capital structure of the issuer.
- c) Proposals for approval of the Board: It is proposed to include similar condition for eligibility of SME IPO as applicable for main board IPOs in respect to requirement for conversion of outstanding convertible securities before filing of DRHP.

3.2.9. Eligibility requirements and general conditions for an initial public offer

a) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 9 at page no. 9 and para 10 page no. 11 of Annexure III):

- (i) Proposal were made to include new provisions in respect to eligibility requirements and general conditions for making an SME IPO.
- (ii) Proposals included introducing cooling-off period of 2 years where company is formed after conversion from partnership firm or a limited liability partnership, cooling-off period of 2 years after complete change of promoters or new promoter(s) acquiring more than 50%.
- (iii) It was also proposed that minimum issue size should be greater than Rs. 10 crore, issuer should have operating profit of Rs. 3 crore in any 2 out 3 preceding years and face value of the shares of issuer should be Rs. 10/-.
- (iv) Majority of the commenters have agreed to the proposals.
- (v) Commenters have suggested that along with conversion of a company form from Limited Liability Partnership or from Partnership firm, such cooling-off period should also be there for company converting from a proprietorship.
- (vi) We may accept the suggestion to include cooling off period on company formed after conversion from a proprietorship.

b) Proposals for approval of the Board: It is proposed to include following additional eligibility requirements for SME IPOs:

- (i) 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 two full financial years 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.
- (ii) In cases where there is a complete change of promoter(s) 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 make an initial public offer only after a period of two years from the date of such final change(s) have elapsed before the date of filing of draft offer document.

- (iii) An issuer may make an initial public offer, only if the issue size is more than Rupees ten crore.
- (iv) An issuer may make an initial public offer, only if the issuer has operating profit (earnings before interest, depreciation and tax) of Rupees 3 crore from operations for any 2 out of 3 preceding financial years.
- (v) An issuer may make an initial public offer, only if the face value of the shares of issuer is Rupees ten, for issued shares and proposed new shares to be issued and listed through initial public offer.

3.2.10. **Migration of SME Companies to Main Board**

- a) Existing provision: Currently, Regulation 280 (2) of ICDR requires that in cases post-issue face value capital of an issuer is likely to increase beyond twenty five crore rupees by virtue of any further issue of capital by the issuer, issuer shall migrate to Main Board.
- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 11 at page no.13 of Annexure III):
 - (i) It was proposed that where the post-issue paid-up capital pursuant to further issue of capital by way of rights issue, preferential issue, bonus issue, etc., is likely to increase beyond twenty five crore rupees, the issuer may undertake such issue without migration from SME exchange to the Main Board, subject to issuer undertaking for henceforth compliance of the provisions of LODR Regulations as applicable on the companies listed on the Main Board of the Stock Exchange(s).
 - (ii) Majority commenters have agreed with the recommendation.
 - (iii) This will allow companies not eligible to migrate to main board to raise funds for their growth, while remaining on SME platform,

subject to condition that they shall meet compliances as applicable for main board companies.

- c) Proposals for approval of the Board: It is proposed that to facilitate further issues by companies listed on SME platform, a proviso shall be inserted under Regulation 280 (2), that where the post-issue paid-up capital pursuant to further issue of capital by way of rights issue, preferential issue, bonus issue, etc., is likely to increase beyond twenty five crore rupees, the issuer may undertake such issue without migration from SME exchange to the Main Board, subject to a condition that such issuer shall comply with the provisions of SEBI (LODR) Regulations, 2015, as applicable on the companies listed on the Main Board of the Stock Exchange(s).

3.2.11. **Objects of the Issue**

- a) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 12 at page no. 13 and para 14 at page no. 14 of Annexure III):
- (i) Proposal were made to include new provisions in respect to object of the issue in a SME IPO.
 - (ii) It was proposed SME issues may not be permitted, where objects of the issue consist of Repayment of Loan taken from Promoter, Promoter Group or any related party, from the issue proceeds, whether directly or indirectly.
 - (iii) It was also proposed that in case there is a requirement of firm arrangement and the project is partially funded by the Bank / Financial Institution, then details regarding sanction letter from the Bank/ Financial Institution shall be disclosed in the draft offer document and offer document.
 - (iv) Majority commenters have agreed with the recommendation.
 - (v) This will bring more transparency and reduce risk related to misuse of funds.
- b) Proposals for approval of the Board: It is proposed to impose the

following additional conditions related to object of the issue in case of SME IPOs:

- (i) SME issues may not be permitted, where objects of the issue consist of Repayment of Loan taken from Promoter, Promoter Group or any related party, from the issue proceeds, whether directly or indirectly.
- (ii) In case there is a requirement of firm arrangement and the project is partially funded by the Bank / Financial Institution, then details regarding sanction letter from the Bank/ Financial Institution shall be disclosed in the DRHP and RHP.

3.2.12. **Additional disclosure requirements**

a) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 15 at page no. 15 of Annexure III):

- (i) Proposal were made to have additional disclosures in respect to senior level employees, details of ESIC / EPF viz. number of employees, amount paid, delay in payment of due for past three years, site visit report by Merchant Bankers, Fees of Merchant Bankers in any form / name / purpose etc. in case of SME IPOs.
- (ii) Majority commenters have agreed with the recommendation.
- (iii) Above disclosure shall provide investors with more information including employee strength of the company leading to better disclosure by the company.

b) Proposals for approval of the Board: It is proposed to mandate following additional disclosure requirements for SME IPOs :

- (i) disclosures related to details of Head of Departments and their relevant experience.
- (ii) disclosures providing details in respect of Employees' Provident Fund and Employees State Insurance Corporation (number of employees, amount paid, delay in payment of due for past three years etc.)
- (iii) report on site visit of the issuer undertaken by the Merchant Banker

shall be made available as a material document for inspection and shall also form part of Due Diligence report submitted by the Merchant Banker.

- (iv) fees of Merchant Banker(s) in any form / name / purpose shall be disclosed in the offer document.

3.2.13. Offer document to be made available to public

a) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 16 at page no. 16 of Annexure III):

- (i) In line with provisions of main board IPO, it was proposed that DRHP of SME IPO filed with the Stock Exchanges to be made available for 21 days to public for providing comments on DRHP.
- (ii) Majority commenters have agreed with the recommendation.
- (iii) Public will get information regarding filing of DRHP by the issuer company and can provide their comments, if any, in respect to the company. Presently, it is noted that investor references / complaints are mostly received at the time of issue opening and not at the time of dissemination of draft offer document.

b) Proposals for approval of the Board: In line with provisions of main board IPO, following requirements are mandated for SME IPO:

- (i) The draft offer document filed with the Stock Exchange shall be made public for comments, if any, for a period of at least 21 days from the date of filing, by hosting it on the websites of the issuer, stock exchanges where specified securities are proposed to be listed and lead manager(s) associated with the issue.
- (ii) The issuer shall, within two working days of filing the draft offer document with the Stock Exchange, make a public announcement in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated, disclosing the fact of filing of the draft offer document with the Stock Exchange

and inviting the public to provide their comments to the Stock Exchange, the issuer or the lead manager(s) in respect of the disclosures made in the draft offer document.

- (iii) The lead manager(s) shall, after expiry of 21 day period, file with the Stock Exchange, details of the comments received by them or the issuer from the public, on the draft offer document, and the consequential changes, if any, that are required to be made in the draft offer document.

3.2.14. **Due-diligence certificate by Merchant Banker**

- a) Existing provisions: Presently, lead manager is required to submit due-diligence certificate to SEBI along with the RHP.

- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 18 at page no. 17 of Annexure III):
 - (i) It was proposed that it shall be mandated for Merchant Banker to submit due-diligence certificate to Stock Exchanges at the time of filing of DRHP. Since, in SME IPOs DRHP is not filed with SEBI, due-diligence certificate at the time of DRHP can be submitted to Stock Exchanges.
 - (ii) All commenters have agreed with the recommendation.

- c) Proposals for approval of the Board: Lead manager(s) shall submit due-diligence certificate along with the DRHP to the Stock Exchange where specified securities are proposed to be listed. Requirement to submit due-diligence certificate along with the RHP to Board may be removed as the same is already submitted to the Stock Exchanges with DRHP.

3.2.15. **Uniformity in nomenclature**

- a) Existing provisions: Presently, in SME chapter of ICDR the term post-issue paid-up capital is used most regulations while term post-issue face value capital is used in Regulation 229, 276, 277, 280.

b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments

(para 19 at page no. 18 of Annexure III):

- (i) It was proposed to have uniformity in nomenclature and use term 'post-issue paid-up capital' in place of 'post-issue face value capital'.
- (ii) All commenters have agreed with the recommendation.
- (iii) Since, both terms conveys same meaning it is desired to have uniformity in nomenclature.

c) Proposals for approval of the Board: The term 'post-issue face value capital' to be replaced with term 'post-issue paid-up capital' for uniformity in nomenclature.

3.2.16. **Post-listing exit opportunity for dissenting shareholders**

a) Existing provisions: Presently, Chapter IX of ICDR – IPO by SME, does not have provision related to Post-listing exit opportunity for dissenting shareholders, as provided for main board issues.

b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments

(para 20 at page no. 18 of Annexure III):

- (i) It was proposed that provisions related Post-listing exit opportunity for dissenting shareholders may be provided for SME issues also in line with main board provisions.
- (ii) Almost all (except 1) commenters have agreed with the recommendation.

c) Proposals for approval of the Board: Post-listing exit opportunity for dissenting shareholders may be provided for SME issues in line with main board provisions.

3.2.17. **Clarification on provision related to Securities ineligible for minimum promoters' contribution (MPC)**

a) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 21 at page no. 19 of Annexure III):

- (i) It was proposed that a clarification needs to be provided that for determining eligibility price has to be recomputed after adjusting for corporate actions. For Example: If issue is priced at INR 60 and shares were acquired in last one at price of INR 100 and there has been a 1:1 split or bonus after such acquisition then acquisition price per share for such shares to be taken as INR 50. Accordingly, this price of INR 50 needs to be compared with issue price for determining securities eligibility for MPC.
- (ii) Almost all (except 2) commenters have agreed with the recommendation.

b) Proposals for approval of the Board: An explanation may be provided under Regulation 237(1)(b) that Price per share for determining securities ineligible for MPC, shall be adjusted for corporate actions e.g. split, bonus etc. done by the issuer company.
Similar explanation may also be provided under Regulation 15(1)(b) for consistency in provisions applicable for SME IPO and main board IPO.

4. Recommendations with respect to LODR Regulations

4.1. A detailed analysis of the public comments received on the proposals relating to LODR Regulations is placed at **Annexure IV**. The commenters are broadly in agreement with the proposals.

4.2. The proposals with respect to LODR Regulations are given below:

4.2.1. Applicability of provisions pertaining to related party transactions (“RPTs”):

a) Existing provisions:

- (i) Presently, as per Regulation 15(2)(a) of LODR Regulations, inter-alia, the RPT norms under Regulation 23 of LODR Regulations are applicable to listed entities on Main Board which have either paid up capital exceeding Rs. 10 crores or net worth exceeding Rs. 25

crores, as on the last day of the previous financial year.

- (ii) As per Regulation 23(1) of LODR, transaction(s) with a related party are considered material if the transaction(s) to be entered individually or taken together with previous transactions during a financial year, exceed Rs. 1000 crores or 10% annual consolidated turnover, whichever is lower. Such material RPTs require prior approval of the shareholders.

b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 1 at page no. 1 of Annexure IV):

- (i) It was proposed in the Consultation Paper to extend the RPT norms, other than the materiality threshold of Rs. 1000 crores, to SME listed entities in the same manner as applicable to listed entities on Main Board.
- (ii) Majority of the comments received are in agreement with the proposals. One suggestion has been received to increase the materiality threshold to 25% of annual consolidated turnover in addition to removal of the materiality threshold of Rs. 1000 crores.
- (iii) As observed from the disclosures by top 50 SME listed entities by market capitalization on NSE and BSE in their annual report for FY 2022-23, while the SMEs have not entered into high value transactions exceeding Rs. 1000 crores, 1 out of 2 SME listed entities have undertaken RPTs of more than 10% of their annual consolidated turnover. The transactions entered by entities should be commensurate to their turnover. In case the transaction is exceeding 10% of the turnover, the same should be subjected to higher scrutiny in the form of approval by shareholders. Hence, the suggestion received may not be accepted.

c) Proposals for approval of the Board:

- (i) The applicability of RPT norms under Regulation 23 of LODR may be extended to SME listed entities in the same manner as applicable to listed entities on Main Board under Regulation

15(2)(a) of LODR by inserting the same under Regulation 15(2)(b) of LODR.

- (ii) The threshold for considering RPTs as material under Regulation 23(1) of LODR may be specified as 10% of annual consolidated turnover in case of SME listed entities.

4.2.2. Disclosure of composition and meetings of the board of directors and its committees:

- a) Existing provisions: Presently, as per Regulation 15(2)(a) of LODR Regulations, listed entities on Main Board which have either paid up equity share capital exceeding Rs. 10 crores or net worth exceeding Rs. 25 crores, as on the last day of the previous financial year, are required to disclose, inter-alia, the composition and details of meetings (date of meeting, no. of directors present in the meeting, etc.) of Board of Directors and its committees as part of the quarterly compliance report on corporate governance under Regulation 27 of LODR.
- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 2 at page no. 2 of Annexure IV):
 - (i) It was proposed in the Consultation Paper to extend the requirement to disclose composition and details of meetings of Board of Directors and its committees to SME listed entities in the same manner as applicable to listed entities on Main Board.
 - (ii) Majority of the comments received are in agreement with the proposals. One suggestion has been received to keep the timeline for disclosure as half-yearly.
 - (iii) Quarterly disclosure of composition and details of meetings of board of directors and its committees would increase transparency and impel companies to follow good governance practices. It would also enable investors to assess whether the board of directors and its committees are functioning effectively and hence, take informed investment decision. Hence, the suggestion received may not be

accepted.

- c) Proposals for approval of the Board: The requirement to disclose the composition and details of meetings (date of meeting, no. of directors present in the meeting, etc.) of Board of Directors and its committees on a quarterly basis may be extended to SME listed entities in the same manner as applicable to listed entities on Main Board under Regulation 15(2)(a) of LODR by inserting the same under a new regulation 27A in LODR.

4.2.3. Periodic filings:

- a) Existing provision: While all Main Board listed entities are required to submit shareholding pattern, statement of deviation(s) or variation(s) and financial results to the stock exchange(s) on a quarterly basis, SME listed entities are required to submit such filings on a half-yearly basis.
- b) Proposals in the Consultation Paper, Analysis of the comments received and Rationale for acceptance or rejection of the comments (para 3 at page no. 4 of Annexure IV):
- (i) It was proposed in the Consultation Paper to require the SME listed entities to submit shareholding pattern, statement of deviation(s) or variation(s) and financial results to the stock exchange(s) on a quarterly basis at par with the listed entities on Main Board.
 - (ii) The commenters are majorly in agreement with the proposals. Some commenters have disagreed to increase the frequency of submission of the above mentioned filings citing additional compliance burden and increased cost of compliance for SME listed entities.
 - (iii) Quarterly financial results would help investors track the company's financial health and performance more closely, allowing for more informed decision-making and better risk assessment. Statement of deviation or variation on a quarterly

basis will enhance monitoring whether the company is adhering to the stated objectives for utilization of funds raised from public. Quarterly disclosure of shareholding pattern ensure that shareholders and potential investors are aware of any significant changes in ownership, which could impact control or governance. Hence, the suggestion may not be accepted.

- c) Proposals for approval of the Board: SME listed entities may be required to submit shareholding pattern, statement of deviation(s) or variation(s) and financial results on a quarterly basis, at par with the listed entities on Main Board.

5. Proposed amendments to the ICDR Regulations and LODR Regulations

5.1. The proposals mentioned at paragraphs 3.2 and 4.2 above require amendments to the ICDR Regulations and LODR Regulations, respectively. The proposed amendments to ICDR Regulations are placed at **Annexure V** and the proposed amendments to LODR Regulations are placed at **Annexure VI**. The amendments to ICDR Regulations may be applicable from the date of notification of the amendments, provided that amendments pertaining to SME IPO process may be applicable for draft offer documents filed by SME companies after the date of notification of the amendments whereas, the amendments to LODR Regulations may be applicable from April 1, 2025 by providing sufficient time to SME listed entities to comply with the provisions of LODR Regulations.

6. Proposal to the Board

6.1. The Board is requested to consider and approve the proposals mentioned at paragraphs 3.2 and 4.2 above and the proposed amendments to the ICDR Regulations and LODR Regulations mentioned at paragraph 5 above.

6.2. The Board is also requested to authorize the Chairperson to take consequential and incidental steps to give effect to the decisions of the Board.

Encl.:

1. Annexure I – Consultation Paper (*Available on SEBI website*)

2. Annexure II – Public Comments (*Excised for reasons of confidentiality*)
3. Annexure III – Analysis of Public Comments on recommendations with respect to ICDR Regulations
4. Annexure IV Analysis of Public Comments on recommendations with respect to LODR Regulations
5. Annexure V – Draft amendments to the ICDR Regulations (*This shall be notified at a later date*)
6. Annexure VI – Draft amendments to the LODR Regulations (*This shall be notified at a later date*)

Analysis of public comments received on the recommendations relating to the ICDR Regulations

1. Minimum application value and Market lot size

1.1. Rationale and Recommendations:

1.1.1. It is observed that the retail individual participation has increased in SME IPO over last few years. Therefore, considering that SME IPOs tend to have higher element of risks, in order to protect the interest of smaller retail investors it is proposed to increase the minimum application size from Rupees one lakh per application to Rupees two lakhs per application in SME IPO. As higher size will limit participation by smaller investors and shall attract investors with risk taking appetite, which will enhance the overall credibility of SME segment.

1.1.2. This limit of Rs. 1 lakh was prescribed in SEBI Regulations over 14 years ago. In last 14 years Nifty and Sensex have grown by around 4.5 times. Thus considering passage of time, the alternate proposal is to increase the threshold in same ratio as the markets have grown. Therefore, application size may be increased from minimum one lakh rupees per application to minimum of four lakh rupees per application.

1.2. Public comments and analysis:

1.2.1. The aforesaid recommendation was placed as proposal 1 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

1.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
99	62	12	5	5	15

1.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority of the commenters have agreed with the recommendation to increase the minimum application size for SME IPOs. Commenters have stated that though application size in SME IPO can be increased, market lot size for post listing trading may not be altered, as increasing market lot size will significantly affect the trading activity and will create illiquid secondary markets for SME companies.

- b) Majority of the commenters who have agreed for increasing minimum application size have stated that application size may be increased to minimum of two lakh rupees but should not be increased to four lakh rupees, as same will be very high for investors.
- c) Commenters who have disagreed with the proposal have provided rationale that opportunity should be there for all type of investors and this increase will restrict retail investor's participation in SME IPOs. Commenters have also mentioned that this will impact the liquidity in secondary market for SME companies.

Response: Above proposal does not have any recommendation to increase trading lot, therefore the concern that post listing trading will be hampered and there will be impact on the liquidity in secondary market for SME companies, is not correct.

Since, under present provisions of ICDR which requires that minimum application size is one lakh rupees and for IPO, the actual application size is kept as one lot where lot size is determined based on SEBI Circular dated February 21, 2012 – Standardized lot size for SME Exchange/ Platform (SEBI SME circular) – which in terms of rupees, minimum application size i.e. for one lot ranges from rupees 1,00,100/- to 1,60,000/- depending on the price band decided by the issuer.

Therefore, to have consistency in the application size and trading lot, minimum application size shall be two lots per application where the lot size is determined based on SEBI SME Circular and the minimum application size is above two lakh rupees. Also, the issuer shall be able to invite applications in multiples of the lot size i.e. for applications above minimum application size (i.e. 2 lots), applicants can make application for 3 lots, 4 lots, 5 lots etc. i.e. in multiples of the lot size. This will allow IPO allottees to seamlessly trade in multiples of lot post listing also.

2. Alignment of allocation for non-institutional investors (“NIIs”) between main board IPOs and SME IPOs

2.1. Rationale and Recommendations:

- 2.1.1. The proposed change will align allocation methodology for NII category in SME IPOs with existing allocation methodology for NII category in main board IPOs. Proportionate allotment tends to encourage over-leveraging, over statement of interest and thus at times encourage mispricing.
- 2.1.2. Recent SEBI study also shows that post above change in Main Board IPO, “Big Ticket NII Investors” (applying for more than ₹1 crore in Main Board IPOs) declined from around 626 applications per IPO in pre-period

(April 21-Mar 22) to 20 applications per IPO in the post period (April 22-Dec 23) and representation of such investors in NII category has decreased from 98% to 8%. This study shows that pro-rata allotment resulted in unnecessary exuberance in NII applicants just to get higher proportion in IPO allotment.

2.1.3. Accordingly following changes are proposed for SME IPOs:

- (1) NII category may be further divided into two sub-categories:
 - a. Sub- category 1: One-third of the allocation earmarked for NIIs shall be for application sizes of up to ₹10,00,000.
 - b. Sub- category 2: Two-third of the allocation earmarked for NIIs shall be for application sizes above ₹10,00,000.
- (2) Proportionate allotment in case of NII category may be discontinued and “draw of lots” allotment to be introduced, as is currently applicable for retail investor category (i.e., draw of lots to allot minimum bid lot to applicants, in case of oversubscription and balance allotment on proportionate basis).

2.2. Public comments and analysis:

2.2.1. The aforesaid recommendation was placed as proposal 2 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

2.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
75	35	11	5	2	22

2.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority of the commenters have agreed with the recommendation to align allocation in NII category of SME IPO with NII category in main board IPO.
- b) Commenters not agreeing with the proposal have suggested to continue with current mechanism of proportionate allotment in NII category.

Response: Aforesaid proposal is based on the changes implemented in NII category for main board IPOs and SEBI research study also shows that

policy changes have had desired effect to control over-leveraging and unnecessary exuberance in NII category. Therefore, it is felt that we may align the allocation methodology in NII category of SME IPOs with main board provisions.

3. Allotment process and basis of allotment

3.1. Rationale and Recommendations:

- 3.1.1. The investor base in India has grown significantly since 2010. Above requirement will ensure that companies where investors have interest shall only get listing. This increased requirement will also ensure that post listing also there are sizeable number of investors and same shall help in providing liquidity in the market.
- 3.1.2. It is proposed that minimum allottees in SME public issue may be increased to 200 from existing requirement of minimum 50 allottees.

3.2. Public comments and analysis:

- 3.2.1. The aforesaid recommendation was placed as proposal 3 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.
- 3.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
57	38	7	3	5	4

- 3.2.3. Analysis of the suggestions / comments relating to the proposal is given below:
- a) Majority commenters have agreed with the recommendation.
 - b) Few commenters have not agreed to the proposal and have provided different comments like no change in number, one commenter suggesting to increase the number to 100 while another have suggested to increase the number to 500.

4. Offer for sale

4.1. Rationale and Recommendations:

- 4.1.1. The purpose of setting up of SME Exchange was to make finance available to needy small and medium enterprises for their growth. From SME IPO data it is noted that there were 2 pure OFS SME IPO i.e. 100% OFS in FY 23-24 and 1 in FY 24-25 (till Oct 2024). Further, there were

total of 52 issues (in total in 23-24 and 24-25) where there was an OFS component along with fresh issue and in 30 out of 52 such issues, OFS portion was more than 20% of the total issue size. It is observed that the Promoter of the proposed IPO dilutes its stakes which was not the objective of forming the SME Platform. Hence, it is suggested to put restriction on OFS part of SME IPO as OFS proceeds are not forming capital for issuer and there may limit for OFS in terms of issue size as well as threshold may be prescribed for selling shareholders also.

4.1.2. It is proposed that OFS in SME IPO may be restricted to 20% of the issue size.

4.1.3. It is also proposed that for selling shareholders, shares offered for sale in SME IPO shall not exceed more than 20% of their pre-issue shareholding on fully diluted basis.

4.2. Public comments and analysis:

4.2.1. The aforesaid recommendations were placed as proposal 4A and 4B in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

4.2.2. The statistics on public comments received is tabulated below:

Proposal 4A:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
60	37	10	2	4	7

Proposal 4B:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
54	32	13	2	2	5

4.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with both the recommendation to restrict OFS portion in issue size and also to have restriction on individual selling shareholder(s).
- b) Few commenters have disagreed with both the proposals and have stated that there should not be any cap / restriction on OFS in SME IPOs. Some have stated that OFS may be permitted up to 40%-50% of issue size.

5. Monitoring of Issue Proceeds

5.1. Rationale and Recommendations:

- 5.1.1. Monitoring agency acts as an independent agency who will certify on utilisation of proceeds and will ensure funds are used for the purposes disclosed in the offer document, thus reducing the risk of misuse or diversion. This will also bring more transparency for investors and accountability for issuer.
- 5.1.2. Threshold for requirement of appointment of Monitoring Agency shall be made applicable for issuer company if fresh issue size is higher than Rs 20 crore (reducing from existing threshold of Rs 100 crore).
- 5.1.3. It is proposed to mandatory to appoint monitoring agency irrespective of the issue size if the objects of the issue are of following nature:
- (i) to fund subsidiary, and/ or
 - (ii) to repay loans/ borrowing partially or fully of the subsidiary company, and/or
 - (iii) investment in a joint venture or a subsidiary, and/or
 - (iv) an acquisition.
- 5.1.4. Also, it is proposed that for an issue, where issuer is not required to appoint a monitoring agency, then in such cases the issuer shall submit a certificate of Statutory Auditor for utilization of money raised through the public issue (excluding offer for sale by selling shareholders), to Stock Exchange while filing the quarterly financial results, till the issue proceeds are fully utilized.

5.2. Public comments and analysis:

5.2.1. The aforesaid recommendations were placed as proposal 5A, 5B and 5C in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

5.2.2. The statistics on public comments received is tabulated below:

Proposal 5A:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
63	35	15	4	2	7

Proposal 5B:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
51	33	11	2	0	5

Proposal 5C:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
52	31	14	3	1	3

5.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with all three recommendation.
- b) W.r.t. proposal 5A which recommends appointment of Monitoring agency if issue size > Rs. 20 crore, commenters have suggested that this requirement may be mandated for issue size > Rs. 50 crore and have also suggested that for issue size < Rs. 50 crore, a certificate from statutory auditor shall suffice.

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

6.1. Rationale and Recommendations:

- 6.1.1. It is observed that Promoter holding drops immediately after one year of listing excluding the mandatory minimum promoter contribution (MPC) of 20% which is locked-in for longer period. The suggestion will ensure that the Promoter does not liquidate their entire holdings post release of lock in period thereby ensure sustainability and stability of company's operations. Since, SME companies are mostly promoter driven, it is necessary to ensure that promoter continues to have certain skin in the game until the company is on the SME Exchange, there is no need to align lock-in requirements of SME company with Main Board
- 6.1.2. It is proposed that lock-in on minimum promoter contribution (MPC) in SME IPO shall be increased to 5 years.
- 6.1.3. Additionally, lock-in on promoters' holding held in excess of MPC shall be released in phased manner i.e. lock-in for 50% promoters' holding in excess of MPC shall be released after 1 year and lock-in for remaining 50% promoters' holding in excess of MPC shall be released after 2 year.

6.2. Public comments and analysis:

6.2.1. The aforesaid recommendations were placed as proposal 6A and 6B in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

6.2.2. The statistics on public comments received is tabulated below:

Proposal 6A:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
59	37	9	6	3	4

Proposal 6B:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
54	31	16	3	0	4

6.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with both the recommendation.
- b) Few commenters have disagreed to the proposal 6A and have stated that 5 year lock-in on MPC is too onerous for promoters. They have suggested that current requirement of 3 year lock-in on MPC to be continued.
- c) Majority commenters have agreed with the proposal 6 B to release lock-in of promoter shares in excess of MPC in phased manner.

7. General Corporate Purpose (GCP) portion of issue size

7.1. Rationale and Recommendations:

7.1.1. Since there is no specific monitoring of GCP and therefore, any expenses can be classified as general corporate purpose, it increases the risk of misuse of issue proceeds. For example if the issue size is 100 crores, GCP amount becomes 25 crores, which is very high amount to be used by SME company without any specific information to investors on usage of such amount.

7.1.2. It is proposed that GCP amount in SME IPO may be restricted to 10% of issue size or Rs. 10 crore (whichever is lower).

7.1.3. Further, Regulation 230(3) may be deleted which permits raising funds for unidentified target / acquisition.

7.2. Public comments and analysis:

7.2.1. The aforesaid recommendations were placed as proposal 7A and 7B in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

7.2.2. The statistics on public comments received is tabulated below:

Proposal 7A:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
58	34	11	4	4	5

Proposal 7B:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
57	32	14	4	1	6

7.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with both the recommendation.
- b) Commenters disagreeing with the proposals have stated that current provision of 25 percent of the issue size provisions can be utilized as GCP and w.r.t. acquisition of unidentified target should remain intact.

8. Restriction w.r.t. Promoter Group for Eligibility

8.1. Rationale and Recommendations:

8.1.1. It is observed that in Issuer Company proposed to be listed on SME IPO are closely held by Promoter & Promoter group. The business being handled / conducted by the Promoter as well as Promoter group. Therefore, any action against promoter group members may also have significant bearing on issuer.

8.1.2. It is proposed to add Promoter Group in Regulation 228 (b), (c) and (d).

8.2. Public comments and analysis:

8.2.1. The aforesaid recommendations were placed as proposal 8 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

8.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
52	30	12	5	2	3

8.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation.
- b) Few commenters have not agreed to the proposal and have stated that promoter group with no shareholding shall not be added to Regulation 228.

9. Eligibility requirements for an initial public offer

9.1. Rationale and Recommendations:

9.1.1. It is proposed that in case of conversion of Company from Limited Liability Partnership or from Partnership firm, the Company shall be in existence for at least period of 2 full Financial Year before filing of DRHP. Further the restated financial statements of the issuer company prepared post conversion should be in accordance with Schedule III of the Companies Act 2013. Since, partnership / LLP are non-regulated entities generally there is no information or details filed with RoC. Also, prior to conversion such entities i.e. partnership / LLP have very less experience of MCA compliances, therefore, there is a need for such entities to have some maturity of regulatory provision and compliances post conversion.

9.1.2. A new set of promoters would not be fully aware of the history of the company and so a cooling off period before going public is proposed to ensure a steadiness before listing.

9.2. Public comments and analysis:

9.2.1. The aforesaid recommendations were placed as proposal 9A and 9B in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

9.2.2. The statistics on public comments received is tabulated below:

Proposal 9A:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
60	29	9	1	9	12

Proposal 9B:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
53	29	12	3	5	4

9.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with both the recommendation.
- b) Commenters not agreeing to the proposal 9A have stated 2 year cooling off is too restrictive. Commenters have mentioned that there are a lot of good and eligible businesses in India with a proven track record and strong legacy operating as a partnership sole proprietorships or an LLP. Not only them but the capital markets will also miss out on such opportunities of listing. Some commenters have suggested 1 year cooling-off while 1 commenter though disagreeing have suggested 3 year cooling-off period.
- c) Commenters in agreement have suggested that along with conversion of a company form from Limited Liability Partnership or from Partnership firm, such cooling-off period should also be there for company converting from a proprietorship.

Response: Based on the suggestion, proposal is revised to include cooling –off period in case of conversion to a company from proprietorship, similarly as proposed in case of conversion of a company form from Limited Liability Partnership or from Partnership firm.

10. Additional eligibility and general conditions for an issuer making SME IPO

10.1. Rationale and Recommendations:

10.1.1. It is proposed that an issuer should be eligible to make an initial public offer only if the issue size is more than Rs. 10 crore. Normally loans and alternative source of funding are available for amount smaller than Rs. 10 crore. A requirement of minimum 10 crore issue size will ensure that companies which have potential to grow will tap the market.

10.1.2. A minimum operating profit threshold indicates that the company has achieved certain level of profitability and is financially viable. It is proposed that an issuer should be eligible to make an initial public offer only if the issuer have operating profit (earnings before interest, depreciation and tax) of Rs. 3 crore from operations for any 2 out of 3 financial years preceding the application.

10.1.3. It is proposed to mandate SME issuers to have shares having face value of Rs. 10/- for its issued capital and for proposed new shares to be issued and listed through IPO. This proposal shall be prospective and applicable only for the new companies coming for listing through SME IPO.

10.2. Public comments and analysis:

10.2.1. The aforesaid recommendations were placed as proposal 10, proposal 11 and proposal 12 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

10.2.2. The statistics on public comments received is tabulated below:

Proposal 10:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
56	17	13	2	20	4

Proposal 11:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
61	24	7	3	11	16

Proposal 12:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
50	30	14	1	2	3

10.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Commenters in agreement slightly outnumber the commenters in disagreement to recommendation made in proposal 10 which recommends that an issuer should be eligible to make an initial public offer only if the issue size is more than Rs. 10 crore.

Commenters not in agreement have stated this proposal to not allow issues of size less than Rs. 10 crore is too restrictive for smaller companies.

Response: From SME IPO data it is noted that in FY 24-25 (till Oct 31st) out of 167 SME issues only 16 issues were of size less than Rs. 10 crore. So already majority of the issues are above Rs. 10 crore.

Further, in view of proposal number 1 and 3, where majority commenters have agreed to increase the minimum application size to 2 lakhs and increase the requirement of minimum number of allottees in SME IPOs to 200, it may be noted that it will be very difficult for an issuer with smaller issue size to meet such requirements.

Therefore, based on above explanations there is no change made in the proposal.

- b) Commenters in agreement slightly outnumber the commenters in disagreement to recommendation made in proposal 11, requiring issuer company to have operating profit (earnings before interest, depreciation and tax) of Rs. 3 crore from operations for any 2 out of 3 financial years preceding the application.

Commenters not in agreement have stated that condition of positive operating profit is alright but there should not be a specific number. Few have stated that threshold of 3 crore is on a higher side and it should be reduced to 2 crore / 1 crore / 50 lakhs.

Response: Since above requirement is to ensure that only good and profit making companies list on SME platform, in the interest of the investors we may continue with the proposal without any modification.

- c) Majority of commenters have agreed to proposal 12 to mandate SME issuers to have shares having face value of Rs. 10/- for its issued capital and for proposed new shares.

11. Requirement of compulsory migration linked with fund raising post listing

11.1. Rationale and Recommendations:

- 11.1.1. It is proposed that in cases where the company is still not eligible to migrate (i.e. does not meet Exchange criteria for migration), allow them to raise fund without migrating to Main Board, however such Company shall be subjected to Main Board compliances of corporate governance and disclosures under LODR including quarterly results, when its post issue paid-up capital increases beyond 25 crore.

11.2. Public comments and analysis:

11.2.1. The aforesaid recommendations were placed as proposal 13 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

11.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
50	29	16	2	2	1

11.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation.

12. Object of the issue is repayment of loan from promoter / promoter group

12.1. Rationale and Recommendations:

12.1.1. The purpose of setting up of SME Exchange was to make finance available to needy small and medium enterprises for growth. Repayment of loan, especially from Promoters or related parties, from issue proceeds does not serve the said purpose. Hence, repayment of loan taken from the promoter should not be one of the object of the issue.

12.1.2. It is proposed that SME issues may not be permitted, where objects of the issue consists of Repayment of Loan from Promoter, Promoter Group or any related party, from the issue proceeds, whether directly or indirectly

12.2. Public comments and analysis:

12.2.1. The aforesaid recommendations were placed as proposal 14 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

12.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
56	34	16	1	2	3

12.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation.

13. Object of the issue is to fund working capital

13.1. Rationale and Recommendations:

13.1.1. It is proposed that for an issue, where working capital is one of the objects of the issue and amount raised for working capital exceeds Rupees five crore, then Statutory Auditor of the issuer shall submit a certificate to Stock Exchange while filing the quarterly financial results, for use of fund in working capital in same format as disclosed in the offer document.

13.2. Public comments and analysis:

13.2.1. The aforesaid recommendations were placed as proposal 15 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

13.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
54	32	15	4	1	2

13.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation.

14. Disclosure of firm arrangement of finance up to seventy- five % of issue proceeds

14.1. Rationale and Recommendations:

14.1.1. Additional diligence and disclosure for investors that project for which funds are raised for partial funding is appraised by Bank/ financial institution if such project is partially funded by them.

14.1.2. It is proposed that in case if there is a requirement of firm arrangement of finance for a project funded by IPO, and if such projects are partially funded by the Bank/ financial institution, then details regarding sanction letter from the Bank/ financial institution shall be disclosed in the draft offer document and offer document.

14.2. Public comments and analysis:

14.2.1. The aforesaid recommendations were placed as proposal 16 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

14.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
51	34	14	1	2	0

14.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Almost all (except 2) commenters have agreed with the recommendation.

15. Additional disclosure specific to the company

15.1. Rationale and Recommendations:

15.1.1. SME companies may be mandated to disclose Senior Level Employees in various departments (For e.g. Head of Sales, Purchase, Plant head, Finance, IT head or any other heads of various departments as per company) along with their relevant experiences. Separate disclosure along with additional details of ESIC / EPF viz. number of employees registered on the said portal, amount paid, delay in payment of due for past three years.

15.1.2. Site visit report by Merchant Banker to form part of Due Diligence report submitted by the Merchant Banker and shall be included in material document for inspection in offer document.

15.1.3. Fees of Merchant Bankers in any form / name / purpose may be disclosed in the RHP.

15.2. Public comments and analysis:

15.2.1. The aforesaid recommendations were placed as proposal 17 and proposal 18 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

15.2.2. The statistics on public comments received is tabulated below:

Proposal 17:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
53	34	12	1	5	1

Proposal 18:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
53	38	13	1	0	1

15.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation at proposal 17 to have disclosure of details related to senior level employees, employee details w.r.t. EPF/ESIC etc. Commenters not agreeing with the proposal have stated that this will increase compliance , cost and SME company may start recruiting people only for name sake.
- b) Almost all (except 1) commenters have agreed with the recommendation at proposal 18 to make disclosure w.r.t. fees paid to the Merchant Banker(s).

16. Offer document to be made available to public

16.1. Rationale and Recommendations:

16.1.1. It is proposed that DRHP of SME IPO filed with the Stock Exchanges shall be made available to public for comments, if any, for a period of at least 21 days from the date of public announcement, by hosting it on the websites of the stock exchanges and websites of lead manager(s) associated with the issue and making a public announcement in one English, Hindi and regional language newspaper, regarding filing of DRHP and inviting the public to provide their comments.

16.1.2. Public will get information regarding filing of DRHP by the issuer company and can provide their comments, if any, in respect to the company. Presently, it is noted that investor references / complaints are mostly received at the time of issue opening and not at the time of dissemination of draft offer document.

16.2. Public comments and analysis:

16.2.1. The aforesaid recommendations were placed as proposal 19 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

16.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
51	26	8	9	3	5

16.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation.

- b) Commenters not agreeing to the proposal have stated that calling views from public on DRHP is not needed and term “red herring” means that prospective investors beware before investing.

17. Converting outstanding convertible securities before IPO

17.1. Rationale and Recommendations:

17.1.1. It is suggested that capital structure of the issuer should be frozen in terms of number of shares before IPO, as same provides a clear picture to the investors as regards to underlying capital of issuer before applying in the IPO. This will provide more clarity to investors on capital structure of the issuer.

17.1.2. In line with Regulation 5(2) for Main Board IPO, similar eligibility condition may be introduced for SME IPOs requiring conversion of outstanding convertible securities before IPO.

17.2. Public comments and analysis:

17.2.1. The aforesaid recommendations were placed as proposal 20 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

17.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
44	31	9	1	2	1

17.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Majority commenters have agreed with the recommendation.

18. Due-diligence certificate by Merchant Banker

18.1. Rationale and Recommendations:

18.1.1. It shall be mandated for Merchant Banker to submit due-diligence certificate to Stock Exchanges at the time of filing of draft offer document. Since, in SME IPOs DRHP is not filed with SEBI, due-diligence certificate at the time of DRHP can be submitted to Stock Exchanges.

18.2. Public comments and analysis:

18.2.1. The aforesaid recommendations were placed as proposal 21 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

18.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
50	38	11	1	0	0

18.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) All commenters have agreed with the recommendation.

19. Non-uniformity in nomenclature

19.1. Rationale and Recommendations:

19.1.1. In Chapter IX – IPO by SME, of ICDR the term post-issue paid-up capital is used mostly while at some places term post-issue face value capital is used (like Regulation 229 (2) of ICDR).

19.1.2. It is suggested that nomenclature should be uniform and at all places term post-issue paid-up capital may be used. This removes ambiguity and aligns terminology used across regulation. Nomenclature should be uniform and at all places term post-issue paid-up capital may be used.

19.2. Public comments and analysis:

19.2.1. The aforesaid recommendations were placed as proposal 22 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

19.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
45	31	14	0	0	0

19.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) All commenters have agreed with the recommendation.

20. New Regulation in line with regulation 59 of SEBI ICDR Regulation - Post-listing exit opportunity for dissenting shareholders

20.1. Rationale and Recommendations:

20.1.1. It is suggested that provisions related Post-listing exit opportunity for dissenting shareholders may be provided in SME chapter in line with main board provisions.

20.2. Public comments and analysis:

20.2.1. The aforesaid recommendations were placed as proposal 23 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

20.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
44	29	12	2	1	0

20.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Almost all (except 1) commenters have agreed with the recommendation.

21. Clarification w.r.t. Securities ineligible for minimum promoters' contribution (MPC)

21.1. Rationale and Recommendations:

21.1.1. A clarification needs to be provided that for determining eligibility price has to be recomputed after adjusting for corporate actions. For Example: If issue is priced at INR 60 and shares were acquired in last one at price of INR 100 and there has been a 1:1 split or bonus after such acquisition then acquisition price per share for such shares to be taken as INR 50. Accordingly, this price of INR 50 needs to be compared with issue price for determining securities eligibility for MPC.

21.2. Public comments and analysis:

21.2.1. The aforesaid recommendations were placed as proposal 24 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

21.2.2. The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
44	29	12	1	1	1

21.2.3. Analysis of the suggestions / comments relating to the proposal is given below:

- a) Almost all (except 2) commenters have agreed with the recommendation.

Analysis of public comments received on the proposals relating to LODR Regulations

1. Applicability of provisions pertaining to related party transactions (“RPTs”)

1.1. **Proposals in the consultation paper:** Applicability of RPT norms under LODR Regulations should be extended to SME listed entities other than those which have paid up capital not exceeding Rs. 10 crores and net worth not exceeding Rs. 25 crores. This will harmonize the applicability of RPT norms between SME listed entities and Main Board listed entities. However, materiality threshold under Regulation 23(1) of LODR Regulations for approval by shareholders for RPT shall be only for transactions exceeding 10% of annual consolidated turnover, and not lower of Rs. 1000 crore or 10% annual consolidated turnover since SMEs may not enter into high value transactions exceeding Rs 1000 crores.

1.2. **Rationale:** The approval and disclosure requirements for RPTs under LODR Regulations are stricter than those under Companies Act, 2013. Further, certain transactions are also not included in the ambit of RPT for SME listed entities such as transactions between listed entity or any of its subsidiaries on one hand and any other entity on the other hand the purpose and effect of which is to benefit a related part of the listed entity or any of its subsidiaries. Applying the RPT norms under LODR Regulations to SME listed entities would contain the risks of siphoning of funds through related parties as observed in some of the recent instances.

1.3. Public comments and analysis:

1.3.1. The aforesaid proposal was placed as proposal 25 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

1.3.2. **Proposal 25** - Do you agree with the proposal that RPT norms under LODR Regulations, except that materiality threshold under Regulation 23(1) of LODR Regulations shall be only for transactions exceeding 10% of annual consolidated turnover, should be extended to SME listed entities other than those which have paid up capital not exceeding Rs. 10 crores and net worth not exceeding Rs. 25 crores?

(i) The statistics on public comments received is tabulated below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
43	31	9	1	2	0

(ii) Suggestions / comments received relating to the proposal are briefed below:

- a) The materiality threshold under Regulation 23(1) of LODR Regulations should be increased to transactions exceeding 25% of annual consolidated turnover, since SMEs may not enter into high value transactions exceeding Rs 1000 crores.
- b) The current requirements are sufficient enough to disclose RPTs. The proposals will lead to unnecessary compliance cost for SMEs and also will defeat the purpose of easing out SME IPO process.
- c) The proposals will improve transparency and accountability in related party dealings, safeguarding investor interests and preventing conflicts of interest.

(iii) Analysis of the suggestions / comments received is given below:

- a) As per analysis of amount of RPTs undertaken by SME listed entities¹, it was observed that 1 out of 2 SME listed entities have undertaken RPTs of more than 10% of their annual consolidated turnover. While SMEs may not enter into high value transactions, amount of the transactions entered into by SME listed entities should be commensurate to the turnover of the entity. In case the transaction is exceeding 10% of the turnover, the same should be subjected to higher scrutiny in the form of approval by shareholders.
- b) Currently, SME listed entities are required to disclose RPTs in the annual report as per the applicable accounting standards. However, only significant RPTs are required to be disclosed separately as per IndAS 24 on "Related Party Disclosures". On the other hand, disclosure under Regulation 23(9) of LODR requires half-yearly disclosure of all RPTs. Extending this requirement to SME listed entities would provide necessary information related to RPTs to stakeholders, enable monitoring of the RPTs entered into by such entities and contain the risks relating to siphoning of funds through RPTs.
- c) The comments are in agreement with the proposals.

¹ Based upon disclosure by top 50 SME listed entities by market capitalization on NSE and BSE in their annual report for FY 2022-23.

2. Disclosure of composition and meetings of the board of directors and its committees

2.1. **Proposals in the consultation paper:** Requirement to disclose the composition and details of meetings (date, no. of directors present, etc.) of Board of Directors and its committees may be extended to SME listed entities other than those which have paid up capital not exceeding Rs. 10 crores and net worth not exceeding Rs. 25 crores. The disclosure may be required on a quarterly basis to the stock exchanges in XBRL format. This will harmonize these disclosure requirements between SME listed entities and Main Board listed entities.

2.2. **Rationale:** Board of directors and its committees fulfil a vital role in ensuring effectiveness of the company's governance practices and integrity of the company's accounting and financial reporting systems. Proper composition and frequent meetings of the board of directors and its committees are paramount for effective functioning of the board. Extending disclosure requirements to SME listed entities would increase transparency on the functioning of the board of directors and its committees. It would also enable monitoring of the composition and meetings by the stock exchanges, analysts and investors.

2.3. Public comments and analysis:

2.3.1. The aforesaid proposal was placed as proposal 26 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

2.3.2. **Proposal 26** - Do you agree with the proposal that the requirement to disclose the composition and details of meetings (date, no. of directors present, etc.) of Board of Directors and its committees, should be extended to SME listed entities other than those which have paid up capital not exceeding Rs. 10 crores and net worth not exceeding Rs. 25 crores?

(i) A summary of the public comments relating to the proposal is given below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
44	31	8	2	2	1

(ii) Suggestions / comments received relating to the proposal are briefed below:

a) The timeline for disclosure should be kept on a half-yearly basis so that the objective of lesser regulatory compliance and lower compliance cost is not defeated.

- b) The proposed requirement helps improve corporate governance by holding directors accountable for their attendance and participation in board meetings, thus reinforcing the importance of decision-making processes.

(iii) Analysis of the suggestions / comments received is given below:

- a) Quarterly disclosure of composition and details of meetings of board of directors and its committees would increase transparency and impel companies to follow good governance practices. It would also enable investors to assess whether the board of directors and its committees are functioning effectively and hence, take informed investment decision.

- b) The comments are in agreement with the proposals.

3. Periodic filings

3.1. **Proposals in the consultation paper:** SME listed entities may be required to submit Shareholding pattern, Statement of deviation(s) or variation(s) and financial results on a quarterly basis, instead of the existing requirement of half-yearly basis, at par with the Main Board listed entities.

3.2. **Rationale:** Financial results and statement of deviation(s) or variation(s) are important filings which reflect the financial health and fund utilization by companies. Hence, such filings should be made on a quarterly basis by SME listed entities as well. Further, filing of shareholding pattern by SME listed entities should also be brought at par with Main Board listed entities, i.e. quarterly, at present.

3.3. Public comments and analysis:

3.3.1. The aforesaid proposal was placed as proposal 27 in the public consultation. Analysis of comments / suggestions received on the said proposals is discussed in the following paragraphs.

3.3.2. **Proposal 27** - Do you agree with the proposal that the SME listed entities should be required to submit Shareholding pattern, Statement of deviation(s) / variation(s) and financial results on a quarterly basis?

- (i) A summary of the public comments relating to the proposal is given below:

Total comments	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree
61	39	8	5	3	6

(ii) Suggestions / comments received relating to the proposal are briefed below:

- a) The timeline for financial results should be kept on a half-yearly basis so that the objective of lesser regulatory compliance burden and lower compliance cost is not defeated. It will also ensure that companies have adequate time to prepare accurate, high-quality financial statements, which ultimately benefits investors and regulators.
- b) Threshold of INR 15 crores of paid up capital should be kept for quarterly filings. This is to ensure sizeable companies which are closer to mainboard threshold to start complying with main board quarterly compliances. For below 15 crores companies they are still small and half yearly compliances will help these companies to streamline their corporate governance.
- c) Periodic filings by SME companies are critical for enhancing transparency and ensuring regular business updates. These filings help investors gauge the company's actual performance and make informed decisions, mitigating speculative activity.

(iii) Analysis of the suggestions / comments received is given below:

- a) Quarterly financial results would help investors track the company's financial health and performance more closely, allowing for more informed decision-making and better risk assessment. Statement of deviation or variation on a quarterly basis will enhance monitoring whether the company is adhering to the stated objectives for utilization of funds raised from public. Quarterly disclosure of shareholding pattern ensure that shareholders and potential investors are aware of any significant changes in ownership, which could impact control or governance.
- b) The quarterly disclosure requirements are applicable to all Main Board listed entities including those which have paid-up capital less than Rs. 10 crores. Hence, the proposals would bring parity between Main Board and SME listed entities.
- c) The comments are in agreement with the proposal.
