

Norms for permitting companies listed on the Innovators Growth Platform with an option to trade under regular category

1.0 Objective

This memorandum seeks to (i) lay down the norms for permitting companies listed on the Innovators Growth Platform(IGP) with an option to trade under regular category after completion of one year of listing subject to the conditions prescribed by the Board and compliance with exchange requirements; (ii) amend SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“ICDR Regulations”) in line with the approval of the Board to the proposals in this memorandum.

2.0 Background

The Board, at its meeting held on December 12, 2018, had approved the proposals for review of framework for ITP. The Board also decided that requirements of migration of trading of shares from IGP to regular category should be decided in consultation with the Stock Exchanges and specified.

3.0 Consultation with stakeholders and public comments

3.1 The norms for shifting of a Company listed on IGP to regular trade category of the main board were discussed with the Bombay Stock Exchange, the National Stock Exchange and with the Primary Market Advisory Committee (PMAC) of SEBI.

3.2 Based on the recommendations of PMAC, a discussion paper outlining the norms for allowing Companies listed on IGP to trade under regular category of the main board was placed on the SEBI website for public comments on May 20, 2019. Comments were received from various stakeholders including merchant bankers, industry bodies, stock exchanges, etc. on the discussion paper and are placed at **Annexure - I**.

4.0 Proposals

4.1 Proposals made in the discussion paper, main comments received thereon and recommendations are discussed as follows:

4.2 General conditions for Companies listed on IGP to trade under regular category of main board of Stock Exchanges

4.2.1 The following general conditions have to be fulfilled by the companies listed on IGP, desirous of trading under regular category of main board of stock exchanges:

- (a) The Company should have been listed on the Innovators Growth Platform for a minimum period of one year.
- (b) At the time of making the application for trading under regular category of main board, the number of shareholders should be minimum 200.
- (c) The company, any of its promoters, promoter group or directors are not debarred from accessing the capital market by the Board.
- (d) None of the promoters or directors of the company is a promoter or director of any other company which is debarred from accessing the capital market by the Board.
- (e) The company or any of its promoters or directors is not a wilful defaulter.
- (f) None of the promoters or directors of the Company is a fugitive economic offender.

4.2.2 Comments

Suggestions have been received that at the time of making the application for trading under regular category of main board, the number of shareholders should be minimum 50 or 100 instead of the proposed 200 in Para 4.2.1 (b), as startups do not generally have a large investor base and a lower threshold for number of shareholders in the initial phase of trading

under regular category will help the platform attract more issuers and investors.

4.2.3 **Recommendations**

The proposals as given at Para 4.2.1 are recommended for approval. While migrating to the regular trading category, companies and their promoters have to comply with certain minimum standards as enumerated in Para 4.2.1(c) to (f). To ensure liquidity in the scrip, the number of minimum shareholders may be kept at 200. Further, only companies listed on IGP through the IPO route may be permitted to shift to trade under regular category of main board of Stock Exchanges.

4.3 Other Eligibility requirements for Companies listed on IGP to trade under regular category of main board of Stock Exchanges

4.3.1 Subject to fulfillment of the general conditions, the following conditions have to be fulfilled by the companies listed on IGP desirous of shifting to trade under regular category of main board of stock exchanges, which are in line with the eligibility criteria laid down under Regulation 6(1) and 6(2) of the ICDR Regulations for main board listings:

- (a) The Company has net tangible assets of at least three crore rupees, calculated on a consolidated basis, in each of the preceding three full years (of twelve months each), of which not more than fifty per cent. are held in monetary assets.
- (b) The Company has an average operating profit of at least fifteen crore rupees, calculated on a consolidated basis, during the preceding three years (of twelve months each), with operating profit in each of these preceding three years.

- (c) The Company has a net worth of at least one crore rupees in each of the preceding three full years (of twelve months each), calculated on a consolidated basis.
- (d) If the Company has changed its name within the last one year, at least fifty per cent. of the revenue, calculated on a consolidated basis, for the preceding one full year has been earned by it from the activity indicated by its new name.
- (e) A company not fulfilling the conditions stipulated at Para 4.3.1(a)-(d) above, shall, at the time of applying to trade under the regular category, have seventy five percent of its capital, as on date of application for migration, held by Qualified Institutional Buyers.
- (f) The requirement related to restated accounts shall not apply to companies desirous of trading under regular category of main board of Stock Exchanges.

Accounts need to be restated when the Company is getting listed for the first time, by applying uniform accounting policies and practices for the year, relating to which the financials are presented. Restatement of accounts in case of companies already listed on IGP proposing to move to regular category of main board will not be applicable.

4.3.2 **Comments**

Suggestions have been received to remove the eligibility requirements proposed in line with Regulation 6(1) and 6(2) of the ICDR Regulations, since the Companies listed on IGP are early growth stage companies, basically Start-ups with limited track record. Such companies would in turn opt to go for private equity

and wait for the eligibility criteria to be met and then get listed on main board later on.

Suggestions have also been received to (i) remove the condition imposing the need to have 75% holding by 'QIBs' since the same may be onerous; or (ii) expanding the bucket of investors to include shares held by other entities (i.e. Family trust, Accredited Investors, Category III FPI, Pooled investment fund etc.), in addition to QIB, to be counted towards the requirement of allotting at least 75% to QIBs.

4.3.3 Recommendations

Trading on regular category of main board entails trading by retail investors in addition to other categories of investors. Further, eligibility criteria for companies desirous of listing on main board is stringent in order to ensure a certain degree of credibility. If companies listed on IGP are allowed to be traded in regular category of main board without following a stringent criteria, same may be misused to bypass the rigorous route of coming up with a main board IPO. Accordingly, the proposals as at Para 4.3.1 (a) to (f) are recommended for approval.

4.4 Minimum promoter contribution and Lock-in requirements

4.4.1 Minimum promoters' contribution shall be 20% of the total capital. In case the total capital held by the promoters is less than twenty per cent., alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten per cent. of the total capital without being identified as promoter(s).

4.4.2 Minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India, shall be locked in for a period of three years from the date on which trading approval in main board is granted, and any excess over and above the 20% of promoter's holding shall be locked-in for a period of one year.

4.4.3 At IGP, the lock-in requirement is for a period of six months. Wherever such entities have served a lock-in period of 6 months at the time of listing of shares of the Company on the IGP, and are subsequently desirous of moving to the regular trade category of the main board after completion of listing on the IGP for one year, such period of six months shall be deducted from the stipulated lock-in requirements of three years and one year, as may be applicable.

4.4.4 The condition of lock in would not apply for Companies which have been listed on the IGP for a minimum period of three years or more.

4.4.5 **Comments**

Suggestions have been received that where promoters hold less than 20% of total capital, the minimum promoters' contribution should be allowed to be contributed up to 20% of total capital (Up from current provision of maximum 10%of total capital) by AIFs, FVCIs, SCBs, PFIs, or ICs without being identified as promoters with the balance being contributed by promoters to the extent of their shareholding (which could be below 10% of total capital).

4.4.6 Recommendations

The proposals at Para 4.4.1 to 4.4.4 are recommended to be accepted. The minimum promoter contribution and lock-in provisions are in line with those prescribed for main board IPOs.

5.0 Amendment to Chapter X of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

If approved by Board, Regulation 292 of Chapter X of the ICDR Regulations may be amended in line with the recommendations at Para 4.0. Proposed amendments are placed at **Annexure II** for approval of the Board.

6.0 Proposal for consideration and approval

The Board is requested to consider and approve the proposals under paragraph 4.0 and 5.0 and authorize the Chairman to amend the Regulations and take consequential and incidental steps to give effect to the decisions of the Board.

(This has been excised for reasons of confidentiality)

**THE GAZETTE OF INDIA
EXTRAORDINARY
PART – III – SECTION 4
PUBLISHED BY AUTHORITY
NEW DELHI,, 2019**

**SECURITIES AND EXCHANGE BOARD OF INDIA
NOTIFICATION**

Mumbai, the, 2019

**SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND
DISCLOSURE REQUIREMENTS) (THIRD AMENDMENT) REGULATIONS, 2019**

No. – In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following Regulations to amend the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, namely:-

1. These regulations may be called the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2019.
2. They shall come into force on the date of their publication in the Official Gazette.
3. In the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, -
 - I. In Chapter X after Part IV, a new Part (Part V) shall be added with a side heading “Migration to the Main Board”. The existing side heading shall be deleted and Regulation 292 shall be substituted as follows:

PART V: MIGRATION TO THE MAIN BOARD

Granting companies listed on the Innovators Growth Platform pursuant to an initial public offer, an option to trade under the regular category of the main board of the stock exchange.

292. (1) A company shall be eligible to trade under the regular category of the main board of the stock exchanges, subject to fulfillment of the conditions of the stock exchanges, if any, and the fulfillment of the following conditions:

- (a) It has listed its specified securities for a minimum period of one year on the Innovators Growth Platform of a recognised stock exchange;
- (b) It has minimum of two hundred shareholders, at the time of making the application for trading under the regular category;
- (c) The company, any of its promoters, promoter group or directors are not debarred from accessing the capital market by the Board;
- (d) None of the promoters or directors of the company is a promoter or director of any other company which is debarred from accessing the capital market by the Board;
- (e) The company or any of its promoters or directors is not a wilful defaulter; and
- (f) None of the promoters or directors of the Company is a fugitive economic offender.

Explanation: The restrictions under (c) and (d) above shall not apply to persons or entities mentioned therein, who were debarred in the past by the Board and the period of debarment is over as on the date of application for migration of trading to the regular category of the main board of the stock exchange.

Eligibility requirements.

(2) A company shall be eligible to trade under the regular category of the main board of the stock exchanges, only if:

- (a) it has net tangible assets of at least three crore rupees, calculated on a consolidated basis, in each of the preceding three full years (of twelve months each), of which not more than fifty per cent. are held in monetary assets;

- (b) it has an average operating profit of at least fifteen crore rupees, calculated on a consolidated basis, during the preceding three years (of twelve months each), with operating profit in each of these preceding three years;
- (c) it has a net worth of at least one crore rupees in each of the preceding three full years (of twelve months each), calculated on a consolidated basis; and
- (d) in case it has changed its name within the last one year, at least fifty per cent of the revenue, calculated on a consolidated basis, for the preceding one full year has been earned by it from the activity indicated by its new name.

(3) A company not satisfying the conditions laid down under sub-regulation (2) of regulation 292, shall, at the time of applying to trade under the regular category, have seventy five per cent. of its capital, as on date of application for migration, held by Qualified Institutional Buyers.

Minimum promoters' contribution.

(4) The promoters of the company shall hold at least twenty per cent of the total capital: Provided that in case the total capital held by the promoters is less than twenty per cent, alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India may contribute to meet the shortfall in minimum contribution as specified, subject to a maximum of ten per cent of the total capital without being identified as promoter(s).

Provided further that the requirement of minimum promoters' contribution shall not apply in case a company does not have any identifiable promoter.

Lock-in period.

(5) (a) The minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with the Insurance Regulatory and Development Authority of India, shall be locked in for a period

of three years from the date on which trading approval in regular category of main board is granted, and any excess over and above the 20% of promoter's holding shall be locked-in for a period of one year.

(b) Wherever the contributions made by such entities had been locked-in for a period of six months at the time of listing of shares of the Company on the Innovators Growth Platform, and the company is desirous of migrating to the regular trade category of the main board after completion of listing on the Innovators Growth Platform for one year, such period shall be deducted from the stipulated lock-in requirement of three years and one year, as may be applicable.

(c) The condition of lock in would not apply to a Company which has been listed on the Innovators Growth Platform for a minimum period of three years or more.

AJAY TYAGI
CHAIRMAN
SECURITIES AND EXCHANGE BOARD OF INDIA

Footnotes:

1. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 was published in the Gazette of India on September 11, 2018, vide notification No. SEBI/LAD-NRO/GN/2018/31.
2. The Principal Regulation was subsequently amended on -
 - (a) December 31, 2018 by the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2018, vide notification No. SEBI/LAD-NRO/GN/2018/57.
 - (b) March 29, 2019 by the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2019, vide notification No. SEBI/LAD-NRO/GN/2019/05.

- (c) April 5, 2019 by the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2019, vide notification No. SEBI/LAD-NRO/GN/2019/08.
