Consultation Paper

Review of framework of Innovators Growth platform (IGP) under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

1. **Objective**

1.1. The objective of this discussion paper is to seek comments / views from various stakeholders including start-ups in particular, market intermediaries and the public on the framework of Innovators Growth platform (IGP) under Chapter X of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (the SEBI ICDR Regulations').

2. **Background**

2.1. In 2015, a new segment named as Institutional Trading Platform (**ITP**) was introduced by SEBI, with a view to facilitate listing of new age start-ups. However, the ITP framework failed to evince interest.

2.2. In 2019, SEBI attempted to revive the platform by introducing certain amendments to the ITP framework and renamed it as the Innovators Growth Platform (**IGP**).

2.3. IGP is aimed at issuers which are intensive in use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology.

3. **Present regulatory framework**

3.1. The Chapter X of SEBI ICDR Regulations, 2018, *inter alia*, provides stipulations for issuers seeking listing of their specified securities on a stock exchange under IGP framework including eligibility conditions, listing of securities, lock in requirements, minimum trading lot etc. and conditions for migration to Main Board.

3.2. Presently the key requirements for issuer companies to list under IGP are as under:

3.2.1. 25 per cent of the pre-issue capital, of the issuer company should have been held for at least a period of two years by:

- Qualified Institutional Buyers (QIBs),
- Family Trust (with net-worth > 500 crore),
- Accredited Investors (**AI**) for the purpose of IGP (individual with net worth> 5 crore and income > 50 lakh / body corporate with net worth > 25 crore) and
- Regulated entities like Foreign portfolio Investor (FPI), Pooled investment fund (with minimum Assets under management > USD 150 million) etc.

Further, not more than 10 per cent of the pre-issue capital held by AIs is to be considered for 25% pre-issue capital eligibility requirement.

3.2.2. Minimum net offer to public should be in compliance with minimum public shareholding norms and minimum offer size to be Rs 10 crore.

3.2.3. The minimum application size and minimum trading lot to be INR two lakh and in multiples of INR two lakh thereof.

3.2.4. Minimum number of allottees to be 50 and allotment shall be on proportionate basis.

3.2.5. No requirement of minimum reservation of allocation to specific category of investors.

3.2.6. Migration allowed to main board if the company satisfies the conditions for migration.

4. **Need for review**

4.1. Despite aforesaid changes, the IGP could not get any traction and no listing by issuers have so far taken place on IGP platform.

4.2. Recently during various interactions with various start-ups and market participants, SEBI has received certain feedback and suggestions for revisiting the IGP norms.

4.3. The recommendations / suggestions received were placed before Primary Market Advisory Committee (PMAC) of SEBI.

4.4. Accordingly, the matter was deliberated by the PMAC, which apart from giving suggestions, has recommended that SEBI may seek public comments on the following proposed changes to the IGP framework.

5. Proposals:

5.1. **Eligibility Criteria:** Presently in terms of the ICDR Regulations, 25% of pre-issue capital is required to be held by eligible investors for 2 years.

Market concern/ suggestion

In start-ups which are generally high growth companies, the holding by eligible investors above 25% of pre-issue capital may not be an issue, however, there may be a lot of churn of the investors as the start-up goes through various phases. Therefore, the 2 year hold period for eligibility to list on IGP may be difficult to meet as eligible investors would want to get regular exits and may get replaced by new investors. Therefore, the holding period is suggested to be reduced to 1 year.

Recommendation

The two year hold period before listing is perceived as an onerous condition. Reducing the hold period would help start-up companies in attracting investors

who are inclined for an early listing at the time of investing. Further, this will potentially make more number of companies eligible for IGP listing. From a regulatory perspective, 25% of the pre-issue shareholding would anyway be held by the eligible Investors. Therefore, the period of holding of 25% of pre-issue capital to be held by eligible investors for 2 years, may be reduced to 1 year.

5.2. **Lock –In:** The entire pre-issue capital of the shareholders is required to be locked-in for a period of six months from the date of allotment/listing. However, equity shares held by a venture capital fund or alternative investment fund (AIF) of Category-I or a foreign venture capital investor etc. are exempted from such requirement provided that such equity shares are locked-in for a period of at least one year from the date of purchase.

Market concern/ suggestion

It has been suggested that AIF Cat –II investors may also be exempted from post issue six months lock in requirements provided shares are held for a period of 1 year from the date of purchase.

Recommendation

In the Main Board, post issue lock-in requirements are not applicable for AIF Cat-II, provided that the shares are held for a period of 1 year from date of purchase. Similar exemption may be provided in IGP framework also. Thus the provision in IGP treatment is sought to be harmonized with the Main Board requirement.

5.3. **Discretionary Allotment to Anchor Investors:** Present regulations in IGP provide for allotment to institutional as well as non-institutional investors on a proportionate basis, with no requirement of minimum reservation of allocation to specific category of investors.

There is no provision for any separate allocation for anchor investors or allocation to institutional investors on discretionary basis, whereas, in the Main Board, 60% of the QIBs portion of the issue size can be allocated to Anchor investors on a discretionary basis prior to issue opening provided that there is lock-in of 30 days on the shares allotted to the anchor investors from the date of allotment.

Market concern/ suggestion

It is suggested that Issuer Company may be allowed to allocate upto 60% portion of the issue size on a discretionary basis, prior to issue opening, to all those investors who are eligible for 25% pre-issue capital as mandated in Regulation 283 of the ICDR Regulations, provided that there will be a lock in of 30 days on the shares allotted to them on discretionary basis. It has been represented that investors may not be interested in proportionate allotment, as smaller amount may not meet the minimum investment benchmarks for such investors. Thus, discretionary allotment will help issuers to cater to such investors.

Recommendation:

On the lines of provisions in the Main Board, discretionary allotment may be allowed in the IGP framework also. At present, unlike the Main Board, under IGP, there is no reservation of shares for QIBs and retail investors as a part of the public issue. Under IGP, the issuance is open to all investors including QIBs subject to minimum application size of INR 2 lacs.

Accordingly, in light of the concern expressed above, the issuer company may be allowed to allocate upto 60% of the issue size on a discretionary basis, prior to issue opening. Further to expand the options available for the issuer, such discretionary allotment may be allowed to all eligible investors as defined under the IGP framework.

5.4. **Accredited Investors(AIs):**

Presently, the shareholding of AIs is only considered for upto 10% of pre-issue capital out of eligibility requirement of minimum 25% to be held by eligible investors as defined under Regulation 283 of ICDR Regulations. Further, the definition of AI only includes individuals and body corporate.

Market concern/ suggestion

a) AI's pre-issue shareholding may be considered for entire 25% of the pre-issue capital of the issuer company as required for eligibility under IGP framework.

b) AI definition requires clarity as to whether promoters are excluded from AI definition. Pre-issue capital held by promoters / promoter Groups even if they are registered as AIs may not be considered for 25% eligibility requirement.

c) AI definition presently covers only individuals and body corporate and does not cover Family trusts. Family trusts may be included in AI definition.

Recommendation:

a) *As far as IGP platform is considered, there is no difference between AIs and QIBs, as both are informed investors. Therefore, the said limit of 10% on AIs may be removed and AIs' pre-issue shareholding may be considered for entire 25% of the pre-issue capital required for meeting eligibility condition norms.*

b) *The said requirement of having minimum 25% pre-issue capital with institutions/eligible investors (includes AIs) has been prescribed to ensure that other than founders/promoters, informed investors also hold shares in start-ups at the time of listing under IGP. Therefore, it may be clarified that pre-issue capital held by promoters/promoters Groups, even if they are registered as AIs shall not be considered for the said minimum 25% eligibility requirements.*

c) *As indicated above, minimum 25% of pre issue capital of the issuer company is required to be held by eligible investors. The list of eligible investors, as prescribed under the regulations includes Family Trusts with net worth > INR 500 crs. and AIs as separate sub categories. To expand the universe of family trusts eligible for investing in companies aspiring to list under IGP, the net worth requirement of family trusts may be reduced from INR 500 cr. to INR 25 cr.*

Incidentally, body corporates with net worth of INR 25 cr., are considered eligible as part of accredited investors. The proposed reduction in the net worth stipulation for family trusts will align these requirements.

Further, family trusts may be included as a part of AIs and consequently deleted as a separate sub category under the list of prescribed eligible investors.

5.5. **Differential Voting Rights (DVR) / Superior Voting Right (SR) equity shares:** Present provisions under IGP framework do not allow issuer companies to issue DVR / SR equity shares to promoters/founders as allowed for Main Board companies.

Market concern/ suggestion

It is suggested that DVR / SR equity shares may also be allowed for companies listed under IGP framework.

Recommendation:

DVRs provide for special voting rights to promoters /founders. Currently, issuer companies, which have issued DVRs/SRs to promoters /founders, are allowed to do IPO of ordinary shares on main Board, subject to compliance of provisions under ICDR Regulations. DVR concept was introduced on the main Board for technology based companies where promoters/ founders do not intend to give

away their say or voting rights despite equity dilution. Therefore, on same lines, issuer companies seeking listing under IGP may also be allowed to issue DVRs/SRs to promoters / founders.

5.6. **Continuing Rights:** As per present regulatory provisions, Special Rights collapse upon a listing event and shareholder approval is required to reinstate any of these special rights.

Market concern/ suggestion

Since start-ups are young companies with relatively short operating history, the institutional /strategic investors play an important nurturing role in several areas such as capital allocation, operating frameworks, business model, and strategy. Thus, investors who have a say in these matters by virtue of a Board seat and some affirmative rights may in-fact contribute to the success of the startup and therefore the continuation of their special rights may be in the interest of larger set of minority shareholders. Special rights with existing investors also provide sense of continuity to existing investors.

It is therefore suggested that, there should be continuation of Special Rights (such as Board Seat and veto / affirmative voting rights) for existing institutional investors holding in excess of 10% of capital.

Recommendation

In the light of the aforesaid rationale, suggestion for continuation of specifically defined special rights for investors holding in excess of 10% of capital may be considered. Special rights along with thresholds may be built into the offer document prior to listing so as to ensure that all participating investors on IGP get upfront information on such rights. Further, special rights may not be open ended and be aligned with the DVR framework, with adequate checks and balances in terms of coat-tail provisions and a sunset clause.

5.7. **Takeover requirements:** SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 (SAST) stipulate a 25% threshold for triggering an open offer.

Further, any acquirer along with PACs needs to disclose their aggregate shareholding, whenever their shareholding reaches 5% and whenever there is subsequent change of ± 2% in their shareholding.

Market concern/ suggestion

Since, life cycle of start-up companies eventually lead them to get merged or acquired by a larger company, stringent takeover requirements, may become a roadblock in such scenarios. Thus the threshold trigger for open offer may be relaxed from the 25% to 50% and accordingly other disclosure requirement thresholds may also be relaxed.

Recommendation

In IGP only institutions and high net-worth investors are eligible to participate. As mentioned earlier there is also a higher degree of churn in the investors in these companies. Start-up companies also continuously seek larger quantum of funding for its capital expansion plans. Strategic investors may like to take higher shareholding in such companies. Thus a lower threshold for trigger of open offer would restrict the flexibility of the investors to move in and out of investments in start-ups. The SAST stipulation for triggering open offer may therefore be relaxed to higher threshold from existing 25% to 49%. However, it may be stipulated that any change in control irrespective of value of acquisition will trigger open offer.

This will also allow existing financial investors to invest in subsequent fund raising rounds of the Company in case they decide to invest together which may otherwise be deemed to be Persons acting in concert and triggering open offer.

Similarly, the threshold for disclosure of the aggregate shareholding can be increased from the present 5% to 10% and whenever there is subsequent change of ± 5% (instead of present ± 2%) in the shareholding.

5.8. **Voluntary Delisting:** Under the ICDR Regulations, any company intending to delist its shares from IGP platform is required to comply with the SEBI (Delisting) Regulations, which would involve among others process of reverse book building including exit price as determined through such process, bidding of minimum 90 percent shareholding / voting rights etc.

Market concern/ suggestion

Relaxation of Delisting norms may be considered as current requirement of reverse book building process (RBB) for delisting is too daunting and onerous. Further it is felt that delisting may be considered at 75% of the total shareholding / voting rights. The resolution may be passed by majority of minority (non-promoters) shareholders and the delisting price may be based on a floor price plus an additional delisting premium.

Recommendations

The investors in IGP are envisaged to be high net worth informed investors having a risk appetite for investments in start-ups. Thus, it may be considered that while delisting the floor price may be determined by delisting regulations along with a new mandatory provision for premium for delisting which the acquirer will have to justify. These conditions for delisting may be part of the offer document at the time of the public issue.

The condition that the delisting resolution would have to be passed by non-promoter shareholders may continue to safeguard the minority interests.

The success of the shareholder resolution while delisting currently stipulated at 2/3rd of minority holding may be changed to majority of minority which would

provide sufficient protection to the non-promoter shareholders, especially as they are all sophisticated investors in IGP.

Further, given that the IGP caters only to sophisticated investors, it is suggested that delisting may be considered if 75% of the total shareholding / voting rights are acquired.

5.9. **Migration to Main Board:** In terms of the ICDR Regulations, IGP company shall be eligible to trade on the main board of the stock exchange provided it fulfills conditions of the exchange, viz., during the last three years, it has profits of at least fifteen crores, net tangible asset of at least INR three crores & net worth of at least one crore, listing on IGP for minimum period of one year, has minimum two hundred shareholders etc. Further in case the IGP company does not satisfy the requirements of profitability, net worth, net assets etc. as required under Regulation 292 (2) of ICDR, 2018, then such IGP company can migrate to the main board provided seventy five percent (75%) of its total capital as on the date of application of migration to the main board is held by QIBs.

Market concern/ suggestion

The said stipulation of QIBs to hold at least 75% of the total issued capital may be reduced to a lesser threshold such as 40%, as it is very stringent requirement to ensure that post listing on IGP platform 75% of the capital is held with QIBs.

Recommendations

For any company proposing to directly list on the main board but not meeting the profitability criteria prescribed for listing on the main board, it needs to issue at least 75% of its public issue to the QIBs, whereas for IGP companies the aforesaid 75% stipulation is for the total issued capital. Thus, this stipulation for IGP company to have 75% of the total issued capital with QIBs is more stringent than the requirement for companies directly listed on the main board. Further, as shares are freely traded in the market it would be practically difficult

for the company to ensure 75% QIB holding post listing on IGP. Therefore, it is suggested that given the nature of IGP platform and that there are sophisticated investors eligibility requirements to have 75% of its capital to be held by QIBs, as on date of application for migration, be reduced from 75% to 40%.

6. **Public comments**

6.1. Considering the implications of the said matter on the market participants including issuer companies and investors, public comments are invited on the proposal at para 5 above. Comments may be sent by email or through post , in the following format:

Name of entity / person : Contact Number & Email Address :			
Sr. No.	**Reference Para of the consultation paper**	**Suggestion/ Comments**	**Rationale**

6.2. While sending email, kindly mention the subject as **"Review of IGP framework under ICDR, 2018"**.

6.3. The comments may be sent by email to Shri Rajesh Kumar D, GM at rajeshkd@sebi.gov.in and Shri Ankur Bishnoi, AGM at ankurb@sebi.gov.in or sent by post at the following address latest by January 11, 2021:

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