
SEBI'S

CONSULTATION PAPER FOR SME LISTING RULES. What Could Change?

SEBI's consultation paper is set to redefine SME IPO norms, ensuring simplified procedures, increased transparency, and greater opportunities for small businesses to access capital markets.

A quick glance into Key Proposals →

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SME IPO Process

- ▶ Increase in the minimum **application size to Rs. 2,00,000 / 4,00,000.**
- ▶ Allocation to **NII**s shifted to “draw of lots” like retail.
- ▶ **Minimum allottees** increased from **50 to 200.**
- ▶ Monitoring agency needed for **fresh issues > ₹20 Cr** (earlier ₹100 Cr).
- ▶ Promoter **lock-in** extended to **5 years** (from 1 year).

Eligibility Criteria

- ▶ **Promoter group must not be barred by SEBI or labeled as defaulter / offender under ICDR 228 (b)(c)(d).**
 - ▶ **LLP/Partnership firms converting to companies need a 2-year wait before filing DRHP.**
 - ▶ **A 2-year cooling-off period is required for SME IPO after promoter changes of 50%+ shareholding.**
 - ▶ **SME IPO eligibility requires a minimum issue size of ₹10 crore.**
 - ▶ **EBITDA issuer must report ₹3 Cr operating profit in at least 2 of the last 3 financial years.**
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Objects of Offer

- ▶ **No Loan Repayments:** Funds cannot be used to repay loans from promoter, promoter groups, or related parties.
- ▶ **Working Capital Limit:** Auditor certification required if working capital use exceeds ₹5 Cr (half-yearly basis).
- ▶ **Bank-Funded Projects:** Bank funding details must be disclosed in the DRHP.
- ▶ **OFS capped at 20-25%** of issue size.
- ▶ **General Corporate purposes** limited to **10% or ₹10 Cr**, whichever is lower.

Migration

- ▶ Companies with post paid-up capital exceeding ₹25 Cr **can raise funds without migrating to the Mainboard** but must follow Mainboard LODR compliances.

Merchant Bankers

- ▶ **Merchant banking fees to be displayed in the RHP** (be it in any form / name / purpose).

Due Diligence

- ▶ Merchant Bankers are mandated to **submit the due diligence certificate** to the stock exchanges at the time of DRHP.

Periodic Filings

- ▶ SMEs to **file the quarterly results** instead of the current half yearly results.

NOTE

These frameworks are a part of the consultation paper released by SEBI and are expected to be finalised/reviewed based responses in December 2024.

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