

Sebi may make it lot easier to take startups public

Synopsis

The regulator has proposed that the compulsory shareholding period before listing for investors owning 25 per cent or higher in start-ups be halved to one year. It has also suggested raising the open offer trigger for investment deals, and recommended allocation of a higher percentage of shares to anchor investors during public issues and special rights to promoters and existing institutional investors.



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Mumbai: India is set to ease rules to encourage **start-ups** to go public and list on the so-called **Innovators' Growth Platform** (IGP), providing a structured exit route for early-stage **investors** in new enterprises. Its capital-markets **regulator** will also likely alter delisting rules for existing companies to bolster corporate governance.

In its board meeting on Thursday, the Securities and Exchange Board of India (**Sebi**) might endorse a bigger role for independent directors in the delisting of companies, seeking to reduce the timeline and improving disclosure standards. The board is also likely to amend its LODR (Listing Obligations and Disclosure Requirements) to strengthen corporate governance and ease the compliance burden on listed entities, a top official close to the development told ET.

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The regulator has proposed allowing issuer companies seeking a listing on the IGP to issue differential voting rights (DVR), or superior voting rights, to promoters. It had earlier said special rights such as board seats and affirmative voting rights for existing institutional investors holding in excess of 10 per cent of capital should continue.

“The proposal to allow shareholders' rights after listing and allowing DVR shares for promoters or founders is a very progressive step being contemplated by Sebi. DVR will allow a founder to have significant influence even if s/he has diluted shareholding over a period of time,” said Sudhir Bassi, executive director, Khaitan & Co.

“Many of these companies will still be in the growth phase and, hence, institutional investors would like to have veto rights after listing. This will differentiate this platform from main board listing and will make the product more acceptable to institutional investors,” Bassi said.

Sebi in a discussion paper had also recommended allowing companies to allocate up to 60 per cent of the issue size on a discretionary basis to anchor investors before subscriptions begin on an issuance. It also sought to increase the threshold for triggering open offers to 49 per cent from 25 per cent.

At present, takeover rules mandate an investor buying a 25 per cent or higher stake in a listed company to also make an open offer to the public shareholders to buy at least another 26 per cent.

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Sebi may allow promoters to provide an indicative price. The regulator believes that an indicative price may help existing investors to gauge the inclination of the promoters and his willingness to pay such a price.

“The requirement for promoters to provide an indicative price will formalise the market practice that has been followed in several delisting offers. It’s an effective way to convey the promoters’ intent to all public shareholders instead of leaving them second guessing,” said Mehul Savla, partner, RippleWave Equity Advisors. “The reverse book building mechanism available to shareholders and the counter-offer option available to promoters balances this public negotiation process in a transparent manner.”

The regulator may also ask independent directors to give their views on a delisting plan. Companies will also have to disclose their voting patterns in the delisting decision.

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