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## **SEBI'S ROLE IN REGULATING IPO**

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### **ABSTRACT**

By 2026, a substantial number of Indian companies continue to access the capital markets through Initial Public Offerings (IPOs), driven by a dynamic economic environment and strong investor participation, with a significant proportion comprising new-age technology enterprises. The Securities and Exchange Board of India (SEBI) plays a pivotal role in regulating IPOs by continuously updating the legal and procedural framework governing public issues, thereby impacting both investors and issuing companies.

Investor protection remains a core objective of SEBI, and in recent years, the regulator has strengthened norms relating to disclosures, pricing mechanisms, lock-in requirements, and the use of proceeds. SEBI has also refined regulations concerning preferential allotment of shares to ensure transparency and prevent misuse by promoters and insiders. This paper focuses on SEBI's role in regulating IPOs in India and examines the implications of its updated regulations on the functioning of the primary market. It further traces SEBI's regulatory evolution over the years, highlighting its efforts to maintain market integrity, enhance investor confidence, and adapt to changing market conditions. The study also explores the working mechanism of IPOs within the framework established by SEBI. The revised regulatory measures aim to safeguard investors' funds, reduce procedural delays, and ensure a fair and transparent process in the issuance and trading of securities. Additionally, the paper discusses SEBI's ongoing regulatory approach and its responsiveness to emerging challenges in the capital markets.

In conclusion, the paper provides recommendations in line with SEBI's regulatory objectives and emphasizes the need for continuous legal reforms to strengthen the IPO ecosystem in India and support sustainable market growth.

## **INTRODUCTION**

A stock market is a public platform that facilitates the purchase, sale, and issuance of shares of publicly listed companies. It enables investors to participate in financial markets while allowing companies to raise capital for growth and expansion. Shares represent fractional ownership in a company, and the stock market therefore performs a dual function acting as a mechanism for capital formation as well as a channel for investment and wealth creation. Due to this dual role, the functioning of the stock market requires a strong and efficient regulatory framework to ensure transparency, accountability, and fairness in transactions.

The challenges created a pressing need for a centralized regulatory authority to oversee and regulate market operations. Consequently, the Securities and Exchange Board of India (SEBI) was established. Since its inception, SEBI has played a pivotal role in regulating the securities market by introducing rules, ensuring compliance, protecting investor interests, and promoting the orderly development of the market. One of its most important areas of regulation is the primary market, particularly Initial Public Offerings (IPOs), through which companies raise funds from the public for the first time. IPOs serve as a crucial link between companies and investors, making it essential to ensure that the process is transparent, efficient, and fair. In recent years, and continuing into 2026, the Indian IPO market has witnessed substantial growth, with a large number of companies going public. These developments have attracted both domestic and international investors, increasing the importance of a robust regulatory mechanism to manage risks and maintain investor confidence. In this context, SEBI's role in regulating IPOs becomes highly significant. The regulator has introduced various reforms aimed at improving disclosure standards, strengthening due diligence requirements, ensuring fair pricing mechanisms, and enhancing corporate governance practices. SEBI has also revised regulations relating to preferential allotment of shares and promoter obligations to prevent misuse and ensure greater transparency in capital raising activities. Investor protection remains the cornerstone of SEBI's regulatory framework. The changes in IPO regulations are designed to safeguard investors' funds, reduce information asymmetry, minimize procedural delays, and ensure that the issuance and listing of securities are conducted in a fair and transparent manner. Additionally, SEBI plays a supervisory role by monitoring compliance and taking corrective actions in cases of violations.

This study focuses on the role of SEBI in regulating IPOs in India. It aims to analyze the

regulatory framework governing IPOs, examine the impact of recent reforms, and evaluate SEBI's effectiveness in ensuring a fair and efficient primary market. The study also highlights the need for continuous regulatory evolution in response to emerging market trends and challenges, thereby emphasizing SEBI's crucial role in strengthening the Indian capital markets.

### **Research Methodology**

This study adopts a doctrinal and analytical research methodology to examine the role of the Securities and Exchange Board of India (SEBI) in regulating Initial Public Offerings (IPOs) in India. The research is primarily based on secondary sources of data, including the SEBI Act, 1992, SEBI (Issue of Capital and Disclosure Requirements) Regulations, and various amendments, circulars, and guidelines issued by SEBI from time to time.

In addition, the study refers to case laws, legal commentaries, textbooks, research articles, and credible online sources to understand the interpretation and practical application of IPO regulations. An analytical approach is employed to evaluate SEBI's regulatory framework, particularly in terms of investor protection, disclosure norms, pricing mechanisms, and transparency in the IPO process.

The methodology also briefly incorporates a comparative perspective, where relevant, to understand global practices and assess India's regulatory position. The objective of this research is to critically analyze the effectiveness of SEBI's role in regulating IPOs and to highlight the need for continuous legal reforms within the framework of Investment Law.

### **Research Objectives**

The objective of this paper is to analyze the role of the Securities and Exchange Board of India (SEBI) in regulating Initial Public Offerings (IPOs) in India. It seeks to examine the evolution and functioning of SEBI in the Indian securities market over the years and how its regulatory framework has developed to address changing market conditions. The study also focuses on understanding the recent SEBI rules governing IPOs and evaluating their impact on issuers, investors, and the overall capital market. Further, it aims to analyze the need and rationale behind introducing new regulatory reforms in the IPO process, especially in light of increasing participation by new-age companies. In addition, the paper scrutinizes the working mechanism

of IPOs under SEBI regulations and assesses the effectiveness of these regulations in ensuring transparency, investor protection, and efficient market functioning.

### **History of Indian Securities Market**

The history of the Indian stock market begins in the late 18th century in Mumbai, then known as Bombay, where a small group of traders would gather informally under a banyan tree near the Town Hall to carry out transactions, mainly in cotton and other commodities. This early form of trading emerged largely because Bombay had developed into a major commercial port, attracting merchants, investors, and intermediaries. As business activity expanded, the need for a more organized system of trading became evident. A significant development occurred with the passing of the Companies Act 1850, which allowed for the creation of joint-stock companies and laid the foundation for investment in corporate securities. This legal recognition encouraged more structured participation in financial markets.

By 1875, a group of brokers formally came together to establish the “Native Share and Stock Brokers Association,” which eventually evolved into the Bombay Stock Exchange (BSE). This marked the formal beginning of organized stock trading in India and made BSE the oldest stock exchange in Asia. As industrialization progressed, especially in textiles, other regional exchanges were set up to cater to local economic needs. One prominent example is the Ahmedabad Stock Exchange, established in 1894 to facilitate trading in shares of textile mills in the region. Over time, more than twenty stock exchanges were established across India, reflecting the growing importance of capital markets in economic development.

A major step toward regulation and standardization came with the enactment of the Securities Contracts Regulation Act 1956, which provided a legal framework for the recognition and functioning of stock exchanges in India. Under this Act, the BSE became the first exchange to be officially recognized by the government, marking the transition from informal and fragmented markets to a more regulated system. In the following decades, the market continued to evolve, and in 1986, the BSE introduced the BSE SENSEX, which became the benchmark index representing the performance of leading companies listed on the exchange. This was followed by the introduction of broader indices such as the BSE National Index in 1989, further enhancing market analysis and investor awareness.

The early 1990s marked a turning point in the modernization of the Indian stock market. The

establishment of the National Stock Exchange of India in 1992 introduced a new era of electronic trading, replacing the traditional open outcry system and significantly improving transparency, efficiency, and accessibility. The NSE was recognized as a stock exchange in 1993 and began operations in 1994, initially with the wholesale debt market and soon after with the equity segment. Its nationwide electronic trading platform helped integrate markets across the country and reduced geographical barriers.

Parallel to these developments, the Securities and Exchange Board of India was established in 1988 as a non-statutory body and later granted statutory powers in 1992, making it the principal regulator of the securities market in India. SEBI was created with the primary objectives of protecting investor interests, promoting the development of the securities market, and regulating its functioning. It plays a crucial role by overseeing stock exchanges, brokers, and other intermediaries, ensuring fair practices, and preventing fraudulent activities. SEBI possesses wide-ranging powers, including the ability to inspect books of accounts, conduct investigations, summon individuals and records, and impose penalties depending on the severity of violations.

What makes SEBI particularly significant is that it combines quasi-legislative, quasi-executive, and quasi-judicial functions within a single body. In its legislative role, it formulates rules and regulations governing the market; in its executive capacity, it enforces these rules through inspections and investigations; and in its judicial role, it passes orders and judgments in cases of disputes or violations. Despite its extensive authority, SEBI operates within a system that allows for appeals, ensuring checks and balances and maintaining accountability. It also has the power to approve or modify the bylaws of stock exchanges, require companies to list their securities, and regulate intermediaries such as brokers and sub-brokers. Over time, SEBI has been instrumental in shaping a more transparent, efficient, and investor-friendly securities market in India.

## **Need to Introduce New laws on IPO**

### **Overview Listing Requirements**

Any issuer considering an IPO must fulfil the stock exchange's independent standards as well as the SEBI eligibility requirements contained in the ICDR Regulations and Listing Regulations. In addition, the issuer must comply with the Companies Act 2013, as amended

(the Companies Act 2013), as well as India's foreign investment legislation, as well as the Securities Contract (Regulation) Act 1956 and the Securities Contract (Regulation) Rules 1957, as amended from time to time.

The following is the minimum percentage of equity shares that the issuer must offer to the public in an IPO:

- If the issuer's post-IPO equity share capital is less than or equivalent to 16 billion rupees, the public must be provided at least 25% of each class of equity shares. If the issuer's post-IPO equity share capital is greater than 16 billion rupees but less
- than or equal to 40 billion rupees, the public must be issued a proportion of equity
- shares equal to 4 billion rupees;
- At least 10% of each class of equity shares must be offered to the public if the issuer's post-IPO equity share capital reaches 40 billion rupees.

### **Requirements for launching an initial public offering (IPO)**

To conduct an IPO, the issuer must meet specific SEBI conditions, which include the following:

- It must have net tangible assets of at least 30 million rupees computed on a restated and consolidated basis in each of the three previous full years (each of 12 months), with no more than 50 percent held in monetary assets;
- It had to have made an average operating profit of at least 150 million rupees during, the preceding three years (each of which lasted 12 months), computed on a restated and consolidated basis, with operational profit in each of these three years.
- In each of the previous three full years, it must have a restated and consolidated net worth of at least 10 million rupees (of 12 months each).
- If it changed its name within the prior year, it must have earned at least half of its revenue for the preceding full year from the activity indicated by the new name, calculated on a restated and consolidated basis.

- The issuer, its promoters, promoter group, directors, or selling shareholders shall not be barred from accessing the capital markets by SEBI; however, the limitation does not apply if the debarment term has already elapsed at the time the draught offer document is filed.
- The promoters or directors were not or are not also promoters or directors of any other business excluded from accessing the capital market under any SEBI decision or direction; however, the limitation does not apply if the term of debarment has already elapsed when the draught offer document is filed.
- The issuer, its promoters, and directors shall not be categorised as wilful defaulters by any bank, financial institution, or consortia thereof, according to RBI rules on wilful defaulters.
- All of the issuer's partially paid equity shares have been fully paid up or forfeited; and
- No promoters or directors of the issuer should be classed as fugitive economic offenders under the Fugitive Economic Offenders Act of 2018.
- If the issuer fails to meet the conditions in points (a) to (d), it may proceed with an IPO via the book-building process, in which at least 75 percent of the net offer to the public must be distributed to qualified institutional buyers, or the subscription money must be reimbursed, and the IPO will fail.
- According to the ICDR Regulations, an issuer cannot execute an IPO if there are any outstanding convertible instruments or other rights that would give anybody listing any opportunity to receive equity shares.

### **Statutory lock-in**

A minimum of 20% of the promoters' post-issue paid-up capital must be locked up for a three-year term. The promoters' and all other shareholders' remaining shareholdings are subject to a one-year lock-in period beginning on the date of allotment in the IPO. This does not apply to equity shares that were (1) allotted to current and former employees under any stock option scheme prior to the IPO; (2) held by or transferred to an employee stock option trust as a result of current and former employees exercising their options; or (3) held by a venture capital fund,

alternative investment fund, or foreign venture capital investor. If the post-issue shareholding is less than 20%, alternate investment funds, foreign venture capital investors, scheduled commercial banks, public financial institutions, or Insurance Regulatory and Development Authority of India-registered insurance companies may contribute to meet the shortfall in the minimum contribution as specified for the promoters, up to a maximum of 10% of the issuer's post-issue capital without being identified. The 20 percent lock-in requirement does not apply if the issuer has no known promoters.

### **Rejection criteria**

In accordance with the ICDR Regulations and the Securities and Exchange Board of India (Framework for Rejection of Draft Offer Documents) Order 2012, SEBI may reject the draught offer document on a variety of grounds, including:

- a. The ultimate promoters are a mystery;
- b. The monies are being raised for an ambiguous purpose;
- c. Investors may be unable to analyse risks linked with the issuer's business model because it is overstated, convoluted, or misleading;
- d. There is an unexpected surge in business prior to the submission of the draught offer document, and the responses to the clarification requests are inadequate; or
- e. outstanding litigation that is so important to the issuer's survival that the outcome of the pending litigation is critical to the issuer's survival.

### **How does an IPO work?**

An Initial Public Offering (IPO) is the process through which a private company becomes publicly owned by offering its shares to investors for the first time. In simple terms, it marks the transition of a company from private ownership to public ownership, allowing it to raise capital from a wide pool of investors without the obligation to repay the funds, unlike a loan. This process, often referred to as “going public,” enables companies to expand their operations, reduce debt, or fund new projects. In India, IPOs are regulated by the Securities and Exchange Board of India, which ensures transparency, investor protection, and fair practices throughout

the process.

The IPO process begins when a company appoints an underwriter, usually an investment bank, which acts as an intermediary between the company and potential investors. The underwriter plays a crucial role by evaluating the company's financial health, determining the potential demand for its shares, and helping decide how much capital can be raised. They also assume certain risks by guaranteeing the sale of shares through an underwriting agreement. Once this partnership is established, the company moves to the documentation stage, which involves preparing a detailed registration statement along with a Red Herring Prospectus (RHP). This document contains essential information about the company, such as its financial performance, business model, risks, and the purpose of raising funds. It must comply with the provisions of the Companies Act and SEBI regulations before being submitted for approval.

After submission, SEBI carefully reviews the application to ensure that all necessary disclosures have been made and that investors are provided with accurate and sufficient information. This verification stage is critical because it protects investors from misleading or incomplete data. Once SEBI is satisfied, it grants approval, allowing the company to proceed with announcing its IPO. The company then applies to list its shares on a recognized stock exchange such as the Bombay Stock Exchange or the National Stock Exchange of India, which will facilitate the trading of these shares once they are issued.

The next important phase is pricing the IPO. Companies can choose between a fixed price issue, where the share price is predetermined, or a book-building process, where a price range is provided and investors bid within that band. In the book-building method, there is a floor price (minimum) and a cap price (maximum), and investors place bids for a specific number of shares, known as a lot. This bidding process usually remains open for three to five working days, during which investors can revise their bids. After the bidding closes, the company, along with the underwriters, determines the cut-off price, which is the final price at which shares will be allotted based on demand.

Once the price is finalized, the allotment of shares takes place. If the IPO is oversubscribed meaning demand exceeds the number of shares available shares are distributed proportionately or through a lottery system, resulting in partial allotments for many investors. After allotment, the shares are credited to investors' accounts, and the company gets listed on the stock exchange. From that point onward, the shares are freely traded in the secondary market, where

investors can buy and sell them, potentially earning profits based on price movements.

### **Impact of the New SEBI Rules**

#### **Where does the IPO money go and regulations with regard to disclosure of fundraising purpose and target.**

When a company lists its securities through an IPO, the flow of money depends on the type of shares being sold. In a primary offering, the funds paid by investors go directly to the company, since these are newly issued shares. This is how the company raises fresh capital for expansion, debt repayment, or other corporate purposes. However, IPOs can also include a secondary offering, where existing shareholders such as early private investors, promoters, or venture capitalists sell part or all of their holdings. In this case, the proceeds from those shares go to the selling shareholders, not the company. This allows early investors to “cash out” and realize gains on their investments.

Once the IPO is completed and the company is listed on stock exchanges like the Bombay Stock Exchange or the National Stock Exchange of India, the shares begin trading in the secondary market. At this stage, money no longer flows to the company; instead, it is exchanged between public investors who buy and sell shares among themselves. Prices in this phase are determined by market demand and supply, which is why stock prices can be quite volatile in the early days after listing. Early investors who did not fully exit during the IPO may gradually sell their holdings in the market, either in small portions over time or through large block deals. Since these transactions involve already issued shares, they are non-dilutive, meaning they do not increase the total number of shares or reduce existing shareholders' ownership percentages.

Regarding the use of IPO proceeds, regulatory oversight has evolved in India to ensure greater transparency. Earlier, companies had relatively more flexibility and were not strictly required to specify how much of the funds would be used for acquisitions or general corporate purposes. However, under regulations enforced by the Securities and Exchange Board of India, companies are now required to clearly disclose the intended use of funds in their offer documents. If a company does not specify a clear acquisition or investment target, the amount allocated for such unspecified purposes, along with general corporate purposes (GCP), is capped (commonly around 35% of total proceeds, with further sub-limits such as 25% in

certain cases without identified targets).

These rules were introduced to prevent companies from raising excessive funds without a clearly defined purpose, especially during periods when market conditions are favourable and investor demand is high. By enforcing stricter disclosure norms, SEBI aims to ensure that companies raise funds responsibly and that investors are fully informed about how their money will be utilized. This increased transparency not only protects investors but also encourages companies to be more disciplined and strategic in planning their capital requirements, ultimately contributing to a healthier and more efficient capital market.

### **Price Bands of IPO**

In the context of an IPO, the price band is a crucial mechanism used to determine the price at which shares will ultimately be issued to investors. Instead of fixing a single price beforehand, the company provides a range consisting of a lower limit (floor price) and an upper limit (cap price) within which investors can place their bids. This system is widely used in book-building IPOs because it allows the market to play a role in price discovery. Investors evaluate the company's fundamentals and submit bids at prices they consider appropriate within this band, helping arrive at a fair valuation based on demand and supply dynamics.

In India, the price band is decided by the company's promoters or selling shareholders in consultation with book running lead managers (BRLMs), who are typically investment banks managing the IPO. The band and the minimum bid lot are announced publicly at least two working days before the issue opens, ensuring that investors have adequate time to assess the offering. This information is published in widely circulated newspapers and also shared with stock exchanges like the Bombay Stock Exchange and the National Stock Exchange of India for broader dissemination. Working days, for this purpose, exclude weekends and public holidays when commercial banks in Mumbai are closed.

Regulations set by the Securities and Exchange Board of India govern how the price band can be structured and modified. Typically, the cap price cannot exceed 120% of the floor price (i.e., a maximum 20% band width), ensuring that the range is not excessively wide. Additionally, SEBI mandates that the upper end of the band must be at least 105% of the lower end, preventing artificially narrow bands that could distort price discovery. If the company decides to revise the price band either upward or downward the IPO bidding period must be extended

by at least three additional working days. This ensures fairness by giving investors sufficient time to reconsider their bids in light of the new pricing.

When the price band is revised downward, investors especially retail individual investors (RIIs) who may have bid at the cut-off price are given the option to revise their bids or have the excess funds unblocked. Importantly, while the price band may change, the minimum bid lot (the smallest number of shares one can apply for) remains unchanged. These procedural safeguards are designed to maintain transparency and protect investor interests during the IPO process.

The rationale behind having a price band is to ensure that IPO pricing is both realistic and aligned with market sentiment. It prevents extreme mispricing either undervaluation, which could disadvantage the company, or overvaluation, which could harm investors. Regulatory authorities, particularly SEBI, emphasize the responsibility of intermediaries like merchant bankers to strike a careful balance between the issuer's goal of raising capital and the investor's need for fair valuation. This focus on disciplined pricing helps maintain trust in the capital markets and contributes to overall.

### **Rating agencies monitoring IPOs**

Rating agencies, also known as credit rating agencies (CRAs), play an important role in financial markets by assessing the creditworthiness and financial strength of companies, governments, and financial instruments. Their primary function is to evaluate the ability of an issuer to meet its debt obligations, including repayment of principal and interest. These agencies assign ratings to various debt instruments such as government bonds, corporate bonds, certificates of deposit, municipal bonds, and structured products like mortgage-backed securities and collateralized debt obligations. However, it is important to note that traditionally, their focus has been on debt instruments, not equity shares issued through IPOs.

In the context of IPOs in India, the role of oversight has evolved with regulatory changes introduced by the Securities and Exchange Board of India. While rating agencies do not "rate" IPO shares in the same way they rate bonds, SEBI has expanded the framework of monitoring the use of IPO proceeds. Under newer regulations, monitoring agencies often credit rating agencies or financial institutions can be appointed to track how the funds raised through an IPO are actually utilized by the company. This is a significant shift from earlier practices, where companies were not strictly required to provide detailed tracking or disclosure of how IPO

funds were spent, particularly for general corporate purposes or unspecified acquisitions.

This regulatory move was driven by concerns that some companies might misuse or divert IPO proceeds for purposes other than those stated in their offer documents. By requiring monitoring of fund utilization until the proceeds are fully deployed, SEBI aims to enhance transparency and accountability in the capital markets. These monitoring agencies periodically review the company's financial activities and submit reports, ensuring that the funds are being used in line with the stated objectives disclosed in the Red Herring Prospectus.

In addition to this, SEBI has taken further steps to strengthen oversight by setting up specialized mechanisms to detect irregularities in the use of IPO funds. This includes the possibility of conducting forensic audits in cases where misuse or diversion is suspected. Such measures act as a deterrent against misappropriation and reinforce investor confidence, as they ensure that companies remain accountable even after successfully raising funds from the public.

Overall, while rating agencies primarily focus on evaluating credit risk in debt markets, their involvement in monitoring IPO proceeds under SEBI's regulatory framework adds an additional layer of scrutiny. This helps ensure that funds raised from the public are used responsibly and for the intended purposes, thereby contributing to better corporate governance and a more transparent investment environment.

### **Offer for sale**

An offer for sale (OFS) is a streamlined method of selling shares through the exchange platform for publicly traded companies. The mechanism was first established in 2012 by SEBI, India's securities market regulator, to make it easier for promoters of publicly traded companies to cut their ownership and fulfil the minimum public shareholding requirements by June 2013. This method was mostly employed by listed enterprises, both state-run and private, to comply with the SEBI rule. Later, the government began to sell its ownership in public-sector enterprises using this manner. Under the new rule, existing shareholders who control more than 20% of the pre-issue cannot sell more than 50% of their shares in an IPO. Those who own less than 20% of the pre-issue stock cannot sell more than 10% of their stock<sup>18</sup>. Previously, existing shareholders of a firm going public had no restrictions on selling shares. The reason for the new law is that many companies were issuing initial public offerings (IPOs) not because they required funding, but rather to provide an exit to current owners, particularly private equity

groups. Due to the enthusiasm surrounding the IPO market, the shares would likewise be offered at a premium. Early investors often benefited at the expense of those who bought after the IPO. As a result of the new law, early investors will be required to have some "skin in the game." It's possible that this is the case.

Anchor investors are a special category of institutional investors who are allotted shares in an IPO just before it opens for subscription to the general public. Their primary role is to create confidence in the market by signaling

that credible, large investors are willing to commit substantial capital to the offering. Because of this signaling effect, anchor investors often help generate demand among retail and other institutional investors, improving the overall success of the IPO. In India, this process is regulated by the Securities and Exchange Board of India, which lays down clear rules regarding eligibility, allocation, and lock-in requirements.

### **Anchor Investor**

Anchor investors are typically large entities such as mutual funds, insurance companies, foreign institutional investors, and sovereign funds, and they must invest a significant minimum amount generally at least ₹10 crore in a single IPO. Unlike retail investors who bid within a price band, anchor investors are allotted shares at a fixed price, usually at or near the upper end of the IPO price band. This fixed-price allocation ensures certainty for the issuer and helps build early momentum for the issue before it opens to the wider market.

A key feature of anchor investment is the lock-in period, which restricts investors from immediately selling their shares after listing. Earlier, anchor investors were subject to a 30-day lock-in period from the date of allotment. However, regulatory changes introduced by SEBI modified this structure to prevent short-term opportunistic behaviour. Under the revised rules, only up to 50% of the allotted shares can be sold after the initial 30-day lock-in period, while the remaining 50% is locked in for a longer duration of 90 days from the date of allotment. This staggered lock-in mechanism ensures that anchor investors maintain a longer-term commitment to the company rather than exiting entirely as soon as the initial lock-in expires.

The need for this reform arose because, in the past, some companies would allocate shares to prominent anchor investors mainly to create a positive perception and attract other investors.

These anchor investors, in turn, would sometimes exit their positions immediately after the 30-day lock-in period, which could lead to a sudden increase in selling pressure and a decline in stock prices. This practice negatively impacted retail and non-institutional investors who continued to hold the shares, often suffering losses due to post-listing price drops.

By extending and splitting the lock-in period, SEBI aimed to discourage non-genuine participation by anchor investors who were only interested in short-term gains or in lending credibility to an issue without long-term commitment. The revised framework ensures that anchor investors have “skin in the game” for a longer period, aligning their interests more closely with those of other investors. As a result, this regulation enhances market stability, reduces volatility after listing, and strengthens investor confidence in the IPO process overall.

### **Non-institutional bidders**

Non-institutional bidders include individuals, NRIs, corporations, trusts, and other entities that bid for more than Rs 2 lakh. They are not required to register with SEBI in the same way that RIIs are. In Book Build IPOs, non-institutional bidders are allocated 15% of the overall offering size. The prior regulation for non-institutional bidders was that they would get 35 percent of the proceeds from the IPO. However, under the new regulation, applicants with applications worth more than Rs 2 lakh and up to Rs 10 lakh rupees would receive one-third of the part allocated to NIIs.<sup>20</sup> The goal is to develop a sub-category for individual investors who aren't quiet. High Net-worth Individuals, but aren't quite little investors either. High Net-worth Individuals who bid with their own money were historically at a disadvantage to HN (High Net) worth Individuals who borrowed significantly and placed high bids. When an issue was heavily subscribed, individuals who placed the most bids had a higher chance of receiving it. As a result, the advantage that the huge High Net-worth Individuals now have due to their capacity to borrow substantially and bid will be reduced.

### **Settlement proceedings**

A settlement application can now be submitted within 60 days after receiving the show cause notice. However, if the applicants pay an extra 25% over the settlement charges, they will be given an additional 120 days. According to a notice, the regulator has eliminated the 120-day additional time provision.<sup>21</sup> The measure is intended to harmonize settlement procedure rules. In addition, after the internal committee (IC), the time limit for submitting updated settlement

conditions form has been reduced to 15 days. From the date of the IC meeting onwards, this will be the case. After years of litigation, many entities, particularly major corporations and affluent people, would seek a settlement. This was a sly technique of wearing down the regulator, who would be dealing with a slew of similar situations. This might save SEBI time and money in the long run by avoiding costly legal fights.

### **Preferential Allotment**

Preferential allotment refers to the process by which a company issues shares to a select group of investors such as promoters, institutional investors, or strategic partners rather than offering them to the general public. Because this route can potentially be misused to favour certain investors, the Securities and Exchange Board of India has introduced strict pricing guidelines to ensure fairness and transparency. One of the key elements of this framework is the pricing formula based on VWAP (Volume Weighted Average Price), which ensures that shares are not issued at arbitrarily low prices.

Under the revised regulations, the issue price for preferential allotment must be determined based on the higher of the VWAP of the preceding two weeks or the preceding 26 weeks. This approach ensures that the price reflects both short-term market trends and longer-term price stability, preventing companies from timing the market to issue shares at artificially low valuations. In addition to this, SEBI has further strengthened the pricing mechanism by requiring that the floor price must be higher than the VWAP calculated over the previous 90 days or 10 days, whichever is applicable. These layered benchmarks create a more robust pricing structure and reduce the scope for manipulation.

Another important safeguard introduced is the requirement of a valuation report from a registered valuer in cases where the preferential allotment leads to a change in control or involves more than a 5% stake. This ensures that an independent expert evaluates the fair value of the shares, adding another layer of credibility and protecting minority shareholders from dilution at unfair prices.

The rationale behind these stricter norms lies in past concerns that some companies were issuing shares at discounted prices to select investors, often raising suspicions of undisclosed arrangements or “pay-for-play” deals. Such practices could harm existing shareholders by diluting their holdings at unjustified valuations and undermining trust in the market. By

enforcing a transparent and formula-driven pricing mechanism, SEBI aims to ensure that preferential allotments are conducted at fair market value, thereby safeguarding investor interests and promoting better corporate governance.

Overall, these regulations compel companies to adopt a more disciplined and transparent approach when issuing shares through preferential allotment, ensuring that pricing is aligned with market realities and that all shareholders are treated equitably.

### **Companies will have to price their preferred issues closer to market values in the future.**

Previously, no valuation report from a registered independent valuer was required. A valuation report from a registered independent valuer is now required under the new rule. To guarantee that minority stockholders are not shortchanged, this rule is changing. PNB Housing Finance recently attempted to sell a majority position to Carlyle, a private equity firm, at a price that was considered as unfair to PNB Housing Finance's minority stockholders. Companies will be required to price preferential allotments fairly as a result of the impact.

### **Conclusion**

The surge in IPO activity in recent years, particularly in 2021, marked a significant phase in the evolution of India's capital markets, with numerous companies tapping public markets and many more planning to follow. In response to this rapid growth and the emerging challenges associated with it, the Securities and Exchange Board of India introduced a series of regulatory reforms aimed at strengthening the IPO framework. These changes were designed not only to streamline the IPO process and reduce inefficiencies but also to enhance transparency, ensure fair pricing, and most importantly, safeguard investor interests.

A key concern that prompted these reforms was the behaviour of certain market participants, particularly in high-demand or "hot" IPO markets. Instances were observed where significant shareholders or early investors would exit their holdings soon after listing, which sometimes led to volatility and a decline in investor confidence especially in new-age companies that may not yet have a strong profitability track record or an established promoter base. While the presence of institutional and anchor investors generally helps build credibility and trust in an IPO, premature exits especially under earlier, shorter lock-in requirements could destabilize stock prices and negatively impact retail investors. To address such issues, SEBI introduced

tighter norms around anchor investor lock-in periods, pricing disclosures, and utilization of IPO proceeds. These measures aim to ensure that key investors maintain a longer-term commitment, that companies clearly define and adhere to their stated use of funds, and that pricing mechanisms reflect fair market value. Collectively, these reforms reduce the chances of speculative behaviour and improve overall market discipline.

In conclusion, the new regulatory framework is expected to make the IPO process more robust, transparent, and investor-friendly. While it may impose stricter compliance requirements on companies and intermediaries, it ultimately strengthens confidence in the market by ensuring fairness and accountability. These reforms represent an important step toward the long-term sustainability and credibility of India's growing capital markets.

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