

# Making listing norms for start-ups easier

Removing the 25% cap on capital held by a single person post listing of shares will enable smaller public issues



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Last August, Sebi came up with relaxed listing regulations for companies focusing their operations on use of technology, intellectual property and data analytics. While the move signaled a clear intent towards creating a favourable fund-raising environment for start-ups, there were certain inherent gaps due to which the concept never seemed to have taken off in full measure.

It is indeed encouraging to see that the securities regulator is open to improving liquidity in the market and has now proposed further relaxations to address some of the existing issues. However, one can only wait to see the effectiveness of these proposals.

A question that arises after reading the discussion paper is regarding qualified institutional buyers (QIB). Enlarging the definition of QIBs for the purpose of determination of eligibility of companies is a blessing for the companies as they are already reeling under the pressure of a crunch of growth capital. This move helps those compa-

nies, which have not managed to get institutional funding, but have raised funds from NBFCs or family trusts.

On the face of it, reduction in minimum holding pre-issue by institutional investors to 25% for all companies is a good proposal. But what is important to ponder on is whether a company will really need relaxations to raise public funds if it already has access to large investors who hold a sizeable part of its capital. Perhaps, Sebi should consider lowering this minimum limit further.

The paper has also suggested removal of the 25% ceiling on capital held by a single person, post listing of shares of a company. This is likely to fa-

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cilitate smaller public issues by companies. It also enables a simple listing without a public issue by companies with significant promoter holding, as such a listing may be done for various other advantages, particularly in cases involving a secondary sale of shares by one investor to the other.

The paper has further proposed that there should be a lock-in on share transfer by all categories of shareholders for six months after the shares have been listed. This restriction might be a dampener for the listing plans for companies which use the institutional trad-

ing platform as a mechanism to list for the purpose of obtaining tax benefits.

The increase in allocation for non-institutional investors in a public issue to 50% from 25% is likely to see larger participation in such issues and enlarge the investor base for companies. However, for companies to start using this platform as a capital raising medium, there are some important relaxations that the regulations and the current proposals still miss out on. One of these is the relaxation from the minimum public holding requirement of 25%, which is currently available only to companies which opt for the listing without a public issue. What needs to be

considered is that in many instances, the size of public issues may not be high enough to warrant a higher stake dilution and the mandatory 25% public holding requirement may play spoilsport in the plans of companies to use this platform for such capital raises.

Another important consideration for companies availing this platform is relaxation from various disclosure norms which can be a time consuming effort for companies of this size and nature.

The Indian government has made great strides in the recent past to im-

prove the environment for the start-ups. Achieving a pliable habitat for the start-ups should not be considered as an end in itself, but a work in progress. To that extent, we saw government come out with its Startup India policy to help incubate more start ups in our country. But the policy has its set of questions to resolve.

As per the policy, to get tax exemptions, a company has to obtain certification from the inter-ministerial board. In reality, the number of applications filed are significantly higher than the ones considered eligible for certification and, hence, at some stage, the government may need to do a rethink on the policy purely from a utility perspective. While the government does offer a tax exemption for start-ups up to five years, they are not exempt from minimum alternate tax. Due to this, the effectiveness of the tax benefits is open to debate. Further, no relaxations from service tax are currently available.

Summing up, as India experiences an unprecedented level of energy in building new and potentially disruptive business models, the government as well as Sebi are indeed alive to the need of fostering this culture of innovation and entrepreneurship and are committed to monitoring, reviewing and initiating course correction to increase the effectiveness of the policies.

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