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IPO Compliance Architecture in India: From DRHP to Listing – A Critical Legal and Compliance Analysis of the SEBI ICDR Framework Amendment 2025

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IPO Compliance Architecture in India: From DRHP to Listing – A Critical Legal and Compliance Analysis of the SEBI ICDR Framework Amendment 2025

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Abstract

The primary capital markets of India have experienced a change in structure in the 2020s, resulting in 373 IPOs raising approximately ₹1.95 trillion in 2025 alone. This research article will provide a detailed compliance based analysis throughout the lifecycle of an Initial Public Offering (IPO) in the context of India's regulatory and legal environment. In addition to a global analysis of the SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025, this research paper will provide an in depth evaluation of all mandatory requirements at each stage of the IPO lifecycle including, (1) pre-filing eligibility and due diligence, (2) DRHP and RHP preparation, and (3) post-listing monitoring. This research will include a critical evaluation of new requirements regarding promoter lock-in, Stock Appreciation Rights (SARs), proforma financial disclosures, overhaul of rights issues and the requirement for compliance officers to be company secretary qualified. Additionally, this research will evaluate statutory overlap between the ICDR Regulations, Companies Act 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, and Securities Contracts (Regulation) Act 1956. The outcomes of the September 2025 second amendment will also be reviewed to highlight how SEBI has continuously adjusted the regulatory framework in support of founder-led, new-age companies, while preserving systemic integrity.

1: Introduction: The Compliance Imperative in A Booming IPO Market

Currently, India's capital markets are in a unique position within the global financial system. In calendar year 2025, 373 initial public offerings (IPOs) were raised through both mainboard ("regular") IPOs (103) and SME IPOs (270) and these IPOs accounted for total fundraising of about ₹1.95 trillion. In the research, India ranks as one of the world's most active primary markets by having raised approximately 49% of private capital raised as primary market fundraising compared to only 9% in US

and 13% respectively¹, as indicated by another unique data point. The three to ten-day period known as the listing window, during which an IPO is available for trading. This window of opportunity occurs after a long series of pre-trade activities that comprise part of the full IPO transaction, which build towards the very success of the listing. In addition to the excitement that accompanies listings, there are a set of institutional frameworks that should be followed in order to complete the IPO. This has been true with every IPO to date, including the typical elements of the complex legal structure of an IPO process before an issuer is able to meet its obligations associated with the registration of its securities with the Securities and Exchange Board of India (“SEBI”), such as eligibility determinations, due diligence, drafting a prospectus, filing regulatory documents with SEBI, obtaining approvals from stock exchanges, and continuing to comply with ongoing obligations after the listing. This entire framework of compliance is controlled by the SEBI (Issue of Capital and Disclosure Requirements) Regulations (2018) (the “ICDR Regulations”), the most recent amendment of which was made through the promulgation of the SEBI ICDR (Amendment) Regulations, 2025, published on March 3, 2025, and the SEBI ICDR (Second Amendment) Regulations, 2025, published on September 8, 2025².

The majority of contemporaneous academic literature and professional research on the IPO market in India has been based upon metrics of market performance, subscription rates, and grey-market premium price levels, rather than compliance. The present paper takes a compliance-first approach by laying out the lifecycle of an IPO through the lens of a legal duty and evolving legal obligations to the amendment(s) instituted in 2025³. This approach is warranted by the evolving complexities associated with the framework of the IPO market; the influx of new types of issuers (especially those related to technology start-ups and founder-driven companies) and by regulatory difficulties created by the explosive growth of the small-medium enterprise (SME) portion of the IPO market.

2: The Legal Framework: Sebi’s Statutory Mandate and the ICDR Regulations

Section 11 of the Securities and Exchange Board of India Act, 1992 (“SEBI Act”) forms the legal and normative basis for all IPO activity in India, which consists of a tripartite mandate for SEBI: to protect the interests of investors in securities⁴, facilitate the development of the securities market; and regulate the securities

¹ Business Standard, 'India's IPO fundraising up 12x, 373 issues raise ₹1.95 trillion in 2025', 29 December 2025

² SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025, published in Official Gazette, 8 March 2025; SEBI ICDR (Second Amendment) Regulations, 2025, notified 8 September 2025

³ Pantomath Capital Advisors, IPO Market Analysis 2025, as cited in Business Standard, *ibid.*

⁴ Securities and Exchange Board of India Act, 1992, Section 11

market. This mandate is non-aspirational and sets the framework through which every provision of the applicable ICDR Regulations is to be interpreted and applied. ICDR Regulations, 2018, were developed to bring together and modernise the previously disconnected framework for the regulation of public issuances.

They provide complete regulation of the following:

- (i) eligibility requirements for issuers;
- (ii) disclosure obligations in the offer document;
- (iii) pricing mechanisms such as the book-building method;
- (iv) procedures and reservation policies for allotment to different investors;
- (v) restrictions on promoter behavior, including lock-in periods;
- (vi) obligations of intermediaries such as merchant bankers; and
- (vii) monitoring of the use of funds after listing. These regulations will run concurrently – and must be viewed in conjunction with – the Companies Act, 2013; the Securities Contracts (Regulation) Act, 1956 (“SCRA”); and the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 (“LODR Regulations”).⁵

The expert committee set up by SEBI to review the ICDR framework in relation to ease of doing business and harmonisation of LODR Regulations found that there was an accumulation of procedural inefficiencies in India's primary market regulatory regime over time that required surgical corrective actions without any relaxation of substantive standards.⁶ The revised ICDRs released in March 2025 are the largest implementation of the expert committee's recommendations to date.

3: The IPO Compliance Lifecycle: A Stage-By-Stage Analysis

A: Pre-Filing Stage:

The compliance process for an Initial Public Offering (IPO) starts well before any IPO documents are filed with SEBI. The first and most important step is determining whether the issuer is eligible to proceed with an IPO. An issuer must meet one of the two possible eligibility standards laid down in Regulation 6 of the ICDR Regulations⁷:

⁵ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; Companies Act, 2013; Securities Contracts (Regulation) Act, 1956 (Act 42 of 1956).

⁶ SEBI Expert Committee Report on ICDR Regulations (2024), as referenced in Mondaq, 'SEBI ICDR Amendments 2025', 24 April 2025.

⁷ SEBI ICDR Regulations, 2018, Regulation 6(1) and 6(2)

The primary eligibility standard set out in Regulation 6(1) requires that:

- (1) The issuer's net tangible assets must be no less than ₹3 crores as at the end of each of the last three full financial years;
- (2) The issuer's average operating profit over any three of the last five full financial years is no less than ₹15 crores; and
- (3) The issuer's net worth at the end of each of the last three full financial years is no less than ₹1 crore.

The alternative eligibility standard set out in Regulation 6(2) does not require any history of profitability before an IPO can be undertaken, however, the post-issue paid-up share capital of the issuer must be no greater than five times the issuer's pre-issue net worth.

Once eligibility has been checked out and confirmed by the issuer, they will then need to appoint several different registered intermediaries. The most important of these appointments is that of the Book Running Lead Manager (BRLM), which is a SEBI Registered Merchant Banker & the primary intermediary responsible for the IPO process. The main responsibility of SEBI Registered Merchant Bankers is to ensure compliance with all the necessary requirements for disclosure; this includes that the offer documents must be submitted through a SEBI Registered Merchant Banker to SEBI for approval. There are other registered intermediaries that are needed, such as the registrar, legal counsel, auditor, banker, advertising agency and a monitoring agency for IPOs with a fresh issue size greater than ₹100 Crores.⁸

The due diligence process is an important step in the compliance process prior to filing of the prospectus with the SEBI, as it requires the BRLM, along with its legal advisers and accountants, to conduct a thorough due diligence investigation into the issuer. Due diligence requires a detailed examination of the issuer's financial position by assessing its financial and operational status, identifying any outstanding litigation, evaluating the issuer's financial strength and the payment history of debtors and creditors, evaluating the relationship of the issuer with its workforce, reviewing compliance with all laws applicable to the issuer, including the Companies Act and SEBI regulations. Additionally, if there are any material issues discovered during the due diligence process, it is possible that the IPO will either not occur or will be delayed. Moreover, the BRLM is required to provide a Due Diligence Certificate in the form prescribed at the time it files the draft prospectus with the SEBI⁹.

⁸ Lexology, 'Spotlight: the IPO process in India', citing SEBI ICDR Regulations and Merchant Bankers Regulations, 1992.

⁹ SEBI ICDR Regulations, 2018, Regulation 41 (Monitoring Agency requirement for issues exceeding ₹100 crore).

B: DRHP Preparation and Filing

An Indian Initial Public Offering (IPO)'s foundational disclosure document is called a Draft Red Herring Prospectus (DRHP). A DRHP is an initial draft of a company's disclosure document filed with SEBI and includes all relevant material disclosures regarding the company except for the final issue price and the number of shares being offered¹⁰.

The DRHP is created in conformity with Schedule VI under the ICDR Regulations and will include an overview of the company's business and operations, audited financial statements for each of the last five fiscal years, a detailed risk factor assessment (comprising regulatory, market, litigation & operational) with respect to its business details regarding the company's promoters and promoter group; a statement of the purposes of the issue and the manner in which the proceeds will be used details of material pending litigation; and details regarding the company's corporate governance.

Once completed, the DRHP is submitted to SEBI (for mainboard IPOs) or directly to the relevant stock exchange (for SMEs). With the amendments made in 2025, there was a significant procedural change whereby the announcement of *DRHP filing must be made within 2 working days compared to the previous method of calculating by calendar days*, which resulted in challenges when an announcement was made on a weekend or holiday. After the DRHP has been publicly announced for a minimum of 21 days from the date of public announcement (not from the date of filing as stated in the 2025 amendments) it will then be available to access publicly for comments.¹¹

SEBI will assess the DRHP and will generally issue an observation within 30 to 75 days with any queries other changes needed and any comments made. The Issuer and BRLM must respond to all queries. SEBI's letter of observation will remain open for 12 months from the date of issue to allow for the completion of the IPO.

C. RHP Filing and the Marketing Window

After receiving SEBI's final remarks, the issuer develops the RHP which is the updated prospectus detailing all of the changes made, including the price band. The RHP is filed with the RoC under the Companies Act, 2013. The Companies Act provides the mandatory information that must be included within the prospectus

¹⁰ IPO Platform, 'What is Due Diligence in IPO Listing Process', June 2025; SEBI ICDR Regulations, 2018, Schedule V (Due Diligence Certificate).

¹¹ SEBI ICDR Regulations, 2018, Schedule VI; Companies Act, 2013, Section 26.

(section 26) and the contents and their line items have to be formatted in accordance with Schedule VI of the ICDR Regulations. The requirements from these two pieces of legislation are cumulative, and issuers need to be compliant with both. The IPO subscription period will have a minimum of three working days duration and maximum of ten working days duration (subject to being extended for any reasonable cause). There are limitations on advertising during this time as noted in the ICDR Regulations. In addition, issuers may not publish material that gives the impression that the issue is oversubscribed or presents a misleading view regarding how investors are responding.

In compliance with specified ICDR regulations the book-building procedure requires the issuer to obtain bids for Qualified Institutional Buyers (QIBs), Non-Institutional Investors (NIIs) and Retail Individual Investors (RIIs) within the specified price range during the bidding process. The sponsor bank mechanism which was established as a means to assist retail investors wishing to use UPI to apply is a critical part of ensuring that a process is conducted in accordance with UPI regulations.¹²

D. Allotment, Listing And Post–Issue Compliance

With continuing focus upon enhancing operational efficiencies, SEBI has progressively shortened the listing timeline from T+6 (in the case of initial public offerings (IPOs)) to T+3.¹⁶ Once allotment occurs, the Issuer is required to comply with obligations under two separate regulatory frameworks, i.e., the ICDR Regulations and the LODR Regulations.

These include:

- (i) post-issue monitoring reports on fund utilisation for issues exceeding ₹100 crore,
- (ii) continuous disclosure obligations, and
- (iii) compliance with corporate governance requirements.

One of the most commercially significant compliance obligations is the promoter lock-in regime that begins on the date of listing and terminates at different timeframes based on the type of promoter's contribution and the way in which the proceeds of the IPO were used as described in more detail below.¹³

¹² Cyril Amarchand Mangaldas, Client Alert: SEBI ICDR Amendments, 10 March 2025.

¹³ SEBI Press Release: T+1 Settlement Cycle for Equity Market (PR No. 13/2023, 27 January 2023); SEBI Circular SEBI/HO/CFD/TPD1/CIR/P/2023/140 reducing listing timeline to T+3.

4: The March 2025 ICDR Amendments Step-By-Step compliance

The SEBI ICDR (Amendment) Regulations for 2025 were first notified on March 3, 2025; they were published in the Official Gazette on March 8, 2025. These regulations introduced fundamental changes to three major areas of IPOs: (1) Mainboard IPO; (2) Rights Issue; and (3) SME IPO. This discussion will analyse the provisions of the new regulations that will have the most significant compliance impact.¹⁴

I: Promoter Lock-In: The Expanded Definition of Capital Expenditure

The major change with enormous commercial impact will be in relation to the promoter lock-in. The ICDR Regulations have provided for a 3-year lock-in period on the minimum promoters' contribution in respect of the IPO proceeds (exclusive of the offer for sale) to be used for capital expenditure prior to the 2025 Amendments. The 2025 Amendments now clarify, by way of an explicit statement, that the repayment of loans specifically used by this company to fund capital expenditure will be one of the amounts considered for capital expenditure for the purposes of the three-year lock-in.¹⁵

A change in compliance has serious implications for issuers who are capital-intensive companies (e.g., infrastructure, manufacturing, and real estate) and typically participate in IPOs with a strategy of using proceeds from the IPO to pay off long-term debt incurred to construct capital assets. The pre-amendment regime had allowed for different interpretations on whether repayment of loans constituted capital expenditures or not, and as a result, the shorter 18 month lock-in period applied. With the amendment to the Act in 2025, this will no longer be an option, as it will now require a three-year lock-in period on the capital contribution date¹⁶.

Another change to the Act is that excess promoter holdings will also have a one-year lock-in period (up from six months) that can apply where the excess promoter holdings have been used to fund capital expenditures or repay related loans. This will create a two-tier regime, with the minimum promoter contribution having a three-year lock-in period and an excess promoter contribution having a one-year lock-in period.¹⁷

¹⁴ JSA Law, 'SEBI ICDR (Amendment) Regulations, 2025: Key Changes and Implications', March 2025.

¹⁵ SEBI ICDR Regulations, 2018, Regulations governing advertisement during public issues; IPO Platform, 'Listing Process — Post DRHP Approval'.

¹⁶ SEBI ICDR Regulations, 2018, Regulations governing advertisement during public issues; IPO Platform, 'Listing Process — Post DRHP Approval'.

¹⁷ India Briefing, 'SEBI Amends ICDR Regulations 2025: Key Changes to Disclosure', April 2025

II: Stock Appreciation Rights: Resolving A Structural Compliance Ambiguity

Until the amendments made to the ICDR eligibility rules in 2025, a company was unable to submit its DRHP application if it had any outstanding convertible securities or any other type of right to the entitlement of receiving equity shares. The only exceptions to this rule are for mandatorily convertible securities and ESOP based allotments. However, SARs which create new equity shares based on an appreciation in the stock price upon their exercise were in a grey area¹⁸.

This is a major reform of the structure of compensation at high growth founder- and entrepreneur-driven companies, particularly in the technology sector, where SARs are an integral part of a complicated incentive structure. The previous ambiguity in the jurisdictional or regulatory “effect” of the exercise of SARs created two conflicting options for companies: 1) accelerate the exercise of the SAR at an uncertain valuation, often resulting in significant taxes being owed by employees; or 2) defer the exercise of SAR until after the IPO is complete. The 2025 amendment will align the regulatory structure with modern practices of compensation by removing this conflicting consideration for founder- and entrepreneur-driven companies.

III. Disclosure of Proforma Financials: A Transparency Enhancement

The recent amendments to the rules on publicly traded companies' financial disclosures give issuers the ability to include pro-forma financial statements with their draft red herrings and final red herrings in connection with acquisitions or divestitures, even when such transactions fall below the legal materiality thresholds for use of pro-forma financial statements.²¹ Pro-forma financial statements are unaudited, theory-based estimates of what a company's consolidated financial statements would look like assuming that the acquisition(s) or divestiture(s) had already been completed.¹⁹

The result is a significant compliance issue for companies that choose to make pro-forma disclosures. Although the disclosures are voluntary, a company that chooses to include a pro-forma disclosure must ensure that the pro-forma financial statements (pro-forma statements) have been independently certified by the issuer's statutory auditor or by a peer-reviewed chartered accountant. Therefore, this raises the issue of establishing credibility for pro-forma statements: a pro-forma statement that is not independently certified may subject the issuer and the BRLM to regulatory scrutiny regarding the accuracy of said disclosures. Accordingly, compliance teams will need

¹⁸ Cyril Amarchand Mangaldas Client Alert, *ibid*; ICAI Peer Review Board Guidelines.

¹⁹ India Briefing, *ibid*; SEBI Circular: Faster Rights Issue (SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/31), 11 March 2025.

to establish internal protocols for the preparation, certification and review of pro-forma statements prior to being included in offer documents.

IV. Loan Utilisation Certification: Procedural Flexibility with Substantive Safeguards

In the offer documents issued under ICDR Regulations, specific certifications are required for the purpose of using borrowed funds. Previously, only the statutory auditor of an issuer could provide these certifications, but now, due to the amendment made to the ICDR Regulations in 2025, a peer-reviewed Chartered Accountant can also issue these certifications under certain circumstances.

The amendments will resolve a practical constraint: the parent company's statutory auditor may not have access to information regarding the use of funds at the subsidiary level for complex multi-entity transactions comprised of multiple tiers (subsidiaries) given that they would not be a direct user (or user of) the funds. Peer-reviewed chartered accountants with specific mandates can fill this role. Compliance teams need to ensure that they are using a peer-reviewed chartered accountant with a valid peer-review certificate from the Peer Review Board of the ICAI since this will be considered a minimum qualification standard.²⁰

V. Working Capital Disclosures: Consistency and Standalone Financials

The 2025 amendments clarify that the information that must be disclosed in the offer document regarding long-term working capital needs must be based on the audited stand-alone financial statements. Where the restated consolidated financial statements differ from the stand-alone audited financials for the issuer entity, the offer document must clearly state how those restatements were made.

This has been a repeated area of confusion with respect to the offer disclosing and the working capital needs of the issuer entity only to the extent that has been combined with the working capital needs of the issuer entity's non-IPO subsidiaries. This requirement to prepare these working capital needs on a stand-alone basis will provide information to the investors with respect to the financing requirements specific to the issuer entity, which will assist investors in evaluating such financing.

VI. Pre-IPO Placement Disclosures: Tackling Information Asymmetry

Regulators have historically found pre-IPO placements - transactions involving the sale of shares to select investors at an agreed upon price prior to public offering - to be an ongoing concern. The 2025 amendments have increased the disclosure obligations related to pre-IPO placements. Issuers now have 24 hours to report to the

²⁰ Companies Act, 2013, Section 26; SEBI ICDR Regulations, 2018, Schedule VI, Part A.

stock exchange any proposed or completed pre-IPO placement. This rapid reporting timing is to be included for issuers who are using the SME as defined by Regulation 274²¹. The practical difficulties faced by compliance personnel in the real-time reporting of pre-IPO placements is significant. The transactions are typically comprised of multiple tranches and prolonged negotiation periods among numerous investors. Compliance personnel will need to develop an infrastructure to capture placement data in real-time and then cause that data to be transmitted to the stock exchange within the 24-hour time requirement²². A failure to comply places the issuer at risk of having enforcement action taken against it and could lead to information disparity between the issuer and the marketplace which is contrary to the intention of this regulation.

VII. Compliance Officer Qualification: Harmonisation with LODR

The change to the qualification criteria of the compliance officer is one of the major structural changes that have occurred with the 2025 amendments. The LODR Regulations which govern listed entities clearly state that a qualified Company Secretary as defined in Section 2(24) of the Companies Act, as the compliance officer; whereas the ICDR Regulations provided no such qualification requirement; thus, it created a disconnect such that a company could have an unqualified person serve as compliance officer during the IPO process and then be required to replace that person with a qualified Company Secretary after being listed.

With these amendments, Regulation 23(8) of the ICDR Regulations now requires the issuer to appoint a competent person as the compliance officer, who is qualified to be a company secretary, thereby providing continuity regarding compliance expertise through the transition from pre-listing to post-listing, as well as strengthening corporate governance during the early stages of the business.²³

5: The Right Issue Overhaul: A Parallel Compliance Transformation

The amendments made in 2025 have also restructured the framework for how rights issues are handled. This is a major change and has implications for the way regulations will apply to rights issues. According to empirical studies conducted by SEBI, rights issues are substantially less commonly used for capital-raising than alternative methods of raising capital, in part due to the procedural hurdles that are associated with the use of rights issues.

²¹ StartupNews.fyi, 'IPO Overview 2025: Research Note', December 2025.

²² Global Legal Insights, 'Initial Public Offerings Laws & Regulations 2025: India', July 2025.

²³ Ibid; SEBI (Share Based Employee Benefits and Sweat Equity) (Amendment) Regulations, 2025, Regulation 9A.

A major change is the removal of the ₹500 million threshold of total consideration or amount involved in a rights issue, which used to provide the split between whether or not ICDR regulations apply to the rights issue. With this change, all listed issuers must comply with ICDR regulations for their rights issues, regardless of the amount of the rights issue. This creates greater uniformity among disclosure requirements across listed companies issuing rights issues.

Equally as important is the removal of the requirement to submit a Draft Letter of Offer (DLOO) to SEBI as part of their application process. Under the new arrangement, issuers will now submit their DLOO directly to the relevant stock exchange, which will significantly reduce the amount of time required for regulatory approval. However, SEBI has taken great care to ensure this simplification is implemented correctly and all DLOO's must still be submitted to SEBI for verification and public dissemination once the final DLOO is received. Regulation 71 has had its disclosure requirements expanded to include more detailed promoter identification information (e.g., PAN Number, Name of Bank, and Passport Details for individuals and Company Registration Information for corporate promoters)

The merchant banker requirements for issuers have also changed; issuers no longer have to appoint a merchant banker for Rights Issues under Regulation 69. The responsibilities of the Merchant Banker on behalf of the Issuer - including selecting intermediaries, marketing, finalizing basis of Allotment and filing post-issue reports - have been transferred to the Issuer, Registrar, Stock Exchanges, and Depositories. As a result of these redistributed responsibilities, Issuers will need to develop greater expertise and capability internally to manage rights issues.

6. The Multi-Statute Architecture: ICDR, Companies Act, SCRA and LODR

To develop a sophisticated understanding of IPO compliance in India will require an appreciation for the four-statute architecture that governs public issuances; beyond that, these statutes do not work independently but rather interact with each other in many ways creating both reinforcing obligations and potential tensions.

Regulation	Primary IPO Relevance	Interaction With ICDR
Companies Act, 2013	Section 26: Mandatory contents of prospectus. Section 42: Private Placements, Chapter III: Allotments Rules	ICDR Schedule VI supplements and granularly specifies Section 26 requirements; ICDR Lock-in rules interact with allotment provisions

Securities Contracts (Regulation) Act, 1956	Section 21: Listing requirements; Defines 'securities'; Exchange listing Conditions	ICDR Regulations operates under SCRA's exchange framework; SCRA Provides the statutory basis for dematerialization requirements.
SEBI(LODR) Regulations, 2015	Corporate governance post-listing; Continuous disclosure obligations; related party transactions	2025 ICDR amendments explicitly harmonized compliance officer, disclosure timelines and promoter reporting with LODR standards.
SEBI(SBEB) Regulations, 2021	Employee stock options; SAR schemes; Sweat equity	September 2025 dual-amendment aligns SBEB and ICDR provisions on founder-promoter options; lock-in exemptions cross-referenced

Section 26 of the Companies Act and Schedule VI of the ICDR Regulations work together to provide guidelines for issuing companies regarding information that must be included in a prospectus. The guidance provided by these two regulatory bodies helps ensure a consistent format is used across all prospectuses. Section 26 specifies the categories of information to be provided in a prospectus, whereas Schedule VI provides detail as to how such information will appear. Courts have determined that if a prospectus contains information consistent with Schedule VI, it will usually meet the requirements of Section 26²⁴; however, if a prospectus contains information consistent with Section 26, it may not meet the more stringent requirements of the ICDR Regulations. The ICDR Regulations constitute the primary regulatory standard for market practice.

The harmonisation agenda addressing the amendments made in anticipation of 2025 to both the qualification of compliance officers and the reporting requirements for promoters to align with the LODR was an intentional regulatory strategy that requires the issuer to prepare for LODR obligations at the pre-listing period. This provides regulatory predictability and clarity. This, however, will require compliance departments familiar with all regulatory instruments related to ICDR Regulations in addition to ICDR Regulations.

²⁴ Cyril Amarchand Mangaldas, 'SEBI revisits regulations on Promoter, Promoter Group, Group Companies', June 2024.

7. SME IPO Compliance: Heightened Scrutiny and Distinct Obligations

The small and medium enterprises (SME) Initial Public Offering (IPO) segment has been one of the most rapidly changing and simultaneously, one of the most historically challenging aspects of India's capital markets. In 2024, the SME IPO market produced 243 companies, raising a combined total of ₹8,753 crores.²⁹ However, mid-April 2025 saw about 30 of the SME IPOs trading below their respective issue prices raising significant issues regarding the quality of companies going public and whether current compliance practices were adequate for smaller public companies.²⁵

In response to these concerns, the Securities & Exchange Board of India (SEBI) updated its compliance mandates for the SME IPO segment in March 2025, following its approval of several improvements to the SME IPO compliance framework during a DECEMBER 2024 board meeting. Collectively, the primary enhancements to the compliance standards for the SME IPO segment include:

- Have at least ₹1 crore in operating profit (EBITDA) for at least two out of the last three fiscal years as an obligatory eligibility requirement;
- No SME issuer may have any outstanding convertible securities (other than employee stock options) at the time it files its draft red herring prospectus (DRHP) with SEBI;
- After a shareholder change of more than 50% in the ownership interest of the promoter(s), an SME issuer is required to wait at least 1 year before it can facilitate the completion of its IPO; and
- The current 24-hour pre-IPO placement reporting compliance obligation was extended to the SME segment through SEBI's addition of Regulation 274 to the SME compliance regime.

This is a carefully measured approach to improve the quality of SMEs listing through a higher threshold without closing the market for true high-growth small businesses. The minimum EBITDA (earnings before interest, tax, depreciation and amortisation) requirement is focused on the exclusion of companies that have no operating history from being able to take advantage of the lower compliance costs associated with SMEs listing. The one-year waiting period after a transfer of control will also address SEBI's observation that control transfers are often followed by a quick SME IPO filing with limited disclosure regarding the restructuring rationale.

²⁵ StartupNews.fyi, 'IPO Overview 2025: Research Note', December 2025.

8. The September 2025 Second Amendment: Founder Promoters and QIP Disclosures

On September 8, 2025, the Securities and Exchange Board of India issued notices for two new amendments: SEBI ICDR (2nd amendment) into SEBI SBEB, and SEBI SBEB (2nd amendment). Using these rule changes, the SEBI has attempted to rewrite the limitations of the current Institutional Structure of new technology companies - specifically the disconnect between self-identified founder status and the designation of those individuals as promoters under SEBI regulations.

Previously, the SBEB regulations prohibited the grant of employee stock options to promoters. The regulatory constraints imposed by the SBEB regulations caused substantial compliance and economic barriers for founder-led businesses, as stock option grants are an essential and substantial component of founder compensation, prior to conducting an initial public offering and having the founder designated as a promoter required the founder to either cancel/exercise unexercised options at either cost to themselves or incur significant expenses associated with doing so.²⁶

The SBEB Regulations have been amended in September 2025 to introduce Regulation 9A, which permits employees identified as promoters or promoter group members in the DRHP to hold options, SARs or any other rights granted within a year prior to the filing of a DRHP. The ICDR Second Amendment includes changes to ensure that lock-in and other provisions comply with the revised treatment of SBEB requirements established by the September 2025 amendments.

The September 2025 amendments also change QIP disclosure requirements for listed companies and amend the eligibility requirements for shares included in the offer for sale component, in particular, with regard to shares held by private equity investors that have conversion history. These efforts are part of a greater effort to streamline the IPO and FPO frameworks.

9. Emerging Compliance Frontiers: ESG, Technology, and the next generation of IPO Regulation

A. ESG Disclosures: From Voluntary to Mandatory?

For the largest one thousand companies that are publicly traded (as determined by total market value), SEBI has required the Business Responsibility and Sustainability Report, or "BRSR Core." Among the many other

²⁶ SEBI Consultation Paper, 'Use of Artificial Intelligence/Machine Learning in the Indian Securities Market', 24 October 2023.

Environmental/Social/Governance (ESG) reporting frameworks out there, the BRSR framework is a comprehensive framework that covers a wide range of ESG indicators (including greenhouse gas emissions; energy consumption; water consumption; employee welfare; and the sustainability assessment of the company's supply chain). ESG metrics in DRHP will be an increasingly important question for companies preparing to go public via an IPO. Although there currently are no ICDR relevant to an IPO company's disclosure requirements for ESG metrics in its DRHPs, the regulatory guidance from SEBI indicates that there will be a plan to continue the trend of adding ESG metrics as part of a prospective IPO company's disclosure in the regulations.

IPO aspiring companies should take steps now to implement data collection and reporting systems that are consistent and aligned with the BRSR. Additionally, any voluntary ESG disclosures by a sponsoring company in an offer document must include disclaimers. If a company voluntarily discloses ESG information in its offer document and makes any sustainability claims associated with this information that are not correct, the company would be subject to liability exposure.

B. AI-Driven Compliance and Regulatory Technology

The Securities and Exchange Board of India (SEBI) has released consultation papers that look into how Artificial Intelligence (AI) and Machine Learning (ML) could be used by SEBI to monitor securities markets. Examples of how this could be implemented include monitoring disclosures for accuracy, detecting patterns of noncompliance, and identifying early warning signs in offer documents. While the integration of AI/ML monitoring systems into SEBI's surveillance capabilities will increase compliance expectations for the preparation of offer documents, AI pattern-recognition systems are likely to pick up instances of technically accurate but contextually misleading representation, compared to human reviewers, at a much faster rate than would occur with human reviews²⁷.

At the same time, AI tools are being used on the issuer side to automate the preparation of draft red herring prospectuses (DRHP), check for consistency in financial statements, and map disclosures to regulatory requirements in real time. These advancements will fundamentally change the due diligence and compliance process in India's capital markets.

²⁷ SEBI Consultation Paper, 'Use of Artificial Intelligence/Machine Learning in the Indian Securities Market', 24 October 2023.

C. Accredited Investors and the Evolving QIB Definition

In September 2025, during the ICDR Second Amendment, the definition of a Qualified Institutional Buyer (QIB) has expanded by changing the definition so that all accredited investors as defined by the SEBI AIF regulations will be considered QIBs only for purposes of investing in angel funds. This expanded definition of QIB indicates that SEBI intends to expand the number of institutional investors that will be allocated in the primary market on a continuing basis. Therefore, issuers and BRLMs should include this expanded definition in their due diligence procedures for confirming due diligence on all QIB anchor allocations²⁸.

10. Critical Analysis: Unresolved Tensions and Areas Requiring Regulatory Clarity

In addition to making significant advances through the amendments made in 2025, many areas still have unresolved ambiguities regarding compliance and structural discrepancies. The "promoter" definition is not yet well-matched to the realities of this new age of technology companies. Founders who actually have some amount of control over the company will not always be considered 'promoters' according to the formal definition. This creates an asymmetry in that people who have equivalent power to that of the promoter do not have to fulfil their equal obligations as promoters. Consequently, this means that there exists a systemic gap in compliance.

Secondly, The ICDR Regulations do not adequately define the limits of acceptable forms of pre-marketing Communication. There has been a significant increase in the use of financial influencers on social media and other digital channels to promote future IPO's. Financial Influencers Conventionally do not engage with issuers formally through an agency agreement; therefore, enforcing conformances within the current framework, which was designed for traditional marketing methods, has been complicated. The SEBI consultation paper on Financial Influencer Ethical Conduct states that there is knowledge of the above-discussed gaps within the existing framework; however, there have been no definitive regulatory actions taken to date.

Thirdly, in this new approach there will be an increase in accountability due to the removal of regulatory friction associated with compliance issues with respect to merchant bank obligations related to rights issues. Those companies will lose the exclusive regulatory obligation as issuer, registrar and exchange share an obligation which creates a more diluted chain of regulatory accountability than

²⁸ SEBI Consultation Paper on Regulation of Financial Influencers (SEBI/HO/MRD/MRD-POD-2/P/CIR/2023/120), 22 August 2023.

under the prior model. There must be a defined manner in which liability for the failure to disclose under this new structure can be allocated.

Lastly, whilst the requirement for reporting pre-IPO placements within 24 hours is reasonable, how it will actually be implemented is unclear for firms going through complex multiple rounds of pre-IPO fundraising unless further guidance from SEBI is provided. Relationships between the reporting requirement and the confidentiality clauses that are typically included in pre-IPO investor agreements are likely to present compliance practitioners with difficult issues to navigate.

11. Conclusion

The IPO Compliance Infrastructure for India in 2025 is indicative of a maturing marketplace that has transitioned from a loosely regulated environment for primary market issuance in the 1990s to a more sophisticated primary market regulatory framework with several layers implementing compliance measures in support of the hundreds of public issuers annually from a diverse range of issuers. The regulations that govern issues of equity from the I.C.D.R., amended March and September 2025, will provide for a simplified process of procedural compliance while also providing for a substantive disclosure standard that is consistent with international best practices.

The compliance community will benefit significantly from these changes. Specifically, the broader framework of lock-in requires considerable foresight regarding how to strategically plan for financing of capital expenditures. Coordinating through Human Resources and Legal departments with regard to compensation design and expected IPO closing date under the SAR and ESOP provisions will create challenges for managing these processes simultaneously. Systems for capturing real-time data related to the 24-hour pre-IPO placement reporting requirement will need to be in place. Compliance officers must build institutional capacity under the new Company Secretary qualification requirements. Finally, the expected trajectory of ESG will require that sustainability governance frameworks are developed well before the commencement of the DRHP preparation process.

SEBI's decision to make targeted amendments based on regulatory experience and without making sweeping changes indicates a regulatory body with expertise in the operation of capital markets. In order for this mode of operation to remain applicable in the future, particularly as the primary market grows and is expected to reach ₹4 lakh crore by 2026, regulators must ensure that compliance burdens also remain sustainable for the expanding number of small, first-time issuers who will be needed to achieve India's goal of developing an inclusive capital market.

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