client alert

September 16, 2025

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Key recent amendments by SEBI in the IPO process

Background

In the recent past, the Securities and Exchange Board of India (**SEBI**) has introduced a slew of amendments and changes to its governing framework for initial public offerings (**IPOs**) which will be of key importance to market participants.

First, on September 8, 2025, SEBI amended the Issue of Capital and Disclosure Requirements Regulations 2018 (**ICDR** and such amendment, the **September 2025 Amendment**), for certain policy updates, specifically for IPOs. While some amendments give more flexibility to IPO-bound companies, others somewhat increase the regulatory burden. These amendments mainly deal with easing certain requirements when it comes to holding of convertible securities in the run-up to an IPO and dematerialisation requirements.

Thereafter, in its board meeting of September 12, 2025 (**SEBI Board Meeting**), SEBI has recommended the lowering of the minimum public offer (**MPO**) requirements for IPO-bound companies with a post-issue market capitalisation exceeding INR 50,000 crore. SEBI has also proposed to provide such issuers an extended timeline to achieve the minimum public shareholding (**MPS**) threshold of 25% after the completion of their IPOs. These proposals will be tabled for amendments by the Ministry of Finance, Government of India (**MOF**).

In this note, we analyse these developments and the impact they will drive on IPOs in India.

Amendments to the ICDR through the September 2025 Amendment

Dematerialisation mandate

The most operationally significant change comes through the amendment to Regulation 7(1)(c), which mandates certain categories of shareholders to dematerialise their share prior to the filing of the offer document, which earlier applied to only promoters. The expanded scope now requires dematerialisation for securities held by promoters, promoter group, selling shareholders, directors, key managerial personnel, senior management, qualified institutional buyers, employees (exclusively working in India), shareholders holding SR equity shares, entities regulated by Financial Sector Regulators (such as RBI, IRDA, PFRA etc), and any other categories as may be specified by SEBI. Similar provisions have been extended to SME IPOs under Regulation 230(1)(d), ensuring consistency across all public offering categories.

While this new requirement has the potential to delay timelines, since many times the process of opening demat accounts for shareholders and them dematerialising securities runs into operational constraints, SEBI has appreciated the challenges faced by issuers in dematerialising shares, typically held by individuals (due to their traceability or ability to cooperate in a timely manner) and have kept this category out for convenience of the issuers.

Flexibility for pre-IPO restructuring

As a general rule, SEBI regulations require a shareholder to hold equity shares for at least one year prior to the filing of the DRHP, for such shares to be eligible for being offered in the offer for sale portion in the IPO. The regulations provided an exception to this rule - in case there had been a recent scheme by way of which shareholders have acquired equity shares, such equity shares (even if held for less than one year) would still be eligible, as long as they were being issued in lieu of business and invested capital which had been in existence for more than one year prior to the approval of such scheme. Since only equity shares issued pursuant to a scheme were covered, this created a problem if other instruments, namely, compulsorily converted convertible securities (like CCPS) were issued pursuant to the scheme.

SEBI has fixed this gap now and extended the exception to cover such convertible securities also, which can be converted into equity shares prior to the RHP and form part of the OFS. This gives greater structuring flexibility, especially for companies which are looking to reverse flip into India ahead of their planned IPOs.

It is encouraging to see that SEBI is moving towards a principle-based approach when it comes to requirements regarding the capital structure of an issuer, without favouring one instrument over the other. Taking this principle-based approach further would enable many issuers, especially new age companies looking to reverse flip into India, to access Indian capital markets.

It is, however, important to note that the holding period still does not allow for any overlap. The one year holding requirement must be either satisfied before or after the approval of the scheme. For example, in a situation where the pre-scheme business and invested capital was in existence for six months and then shares or convertible securities issued pursuant to the scheme are also held for six months, (aggregating to one year in total), the requirement of minimum one year holding will not be satisfied as per the regulations. One faces the same problem when ascertaining eligibility of shares or convertible securities for minimum promoter contribution.

Amendments approved in the SEBI Board Meeting

MPO Requirements

As a general rule, the Securities Contracts Regulation Rules, 1957 (**SCRR**) requires all IPO-bound companies to offer at least 25% of their post-IPO share capital to the 'public' through the IPO. However, some companies are allowed to offer a lower percentage depending on their post-issue market capitalisation. Since the existing MPO requirements across certain valuation thresholds are less than the regulatory mandate of 25%, listed companies are required to achieve MPS of 25% in a phased manner. Through a consultation paper dated August 18, 2025 (**Consultation Paper**), SEBI had mooted rationalising the MPO thresholds and MPS-achievement timelines to facilitate larger IPOs. Through a detailed analysis of the existing MPO provisions, data on changing trends of IPO size over the last five years and details of public shareholding by large IPO companies that had recently listed, SEBI proposed that select relaxations should be granted to IPO-bound companies with INR 50,000 crore market capitalisation (across various buckets of increasing IPO size). The Consultation Paper proposed that these relaxations would balance the requirement for listed companies to have a diversified public float within a reasonable period of time, while taking into account the large size of their IPOs. The SEBI Board Meeting follows the Consultation Paper and the related public commentary, and largely mirrors the proposals suggested therein.

The Proposed Amendments

Pursuant to the SEBI Board Meeting, SEBI has proposed amendments in the SCRR to the MOF that will result in the following stipulations on MPO in an IPO, and the subsequent timelines for achievement of MPS.

IPO size (post-IPO market capitalization)	Existing MPO Requirements	Proposed MPO requirements	Timelines for achievement of MPS
Less than INR 1,600 crore	25%	25% *(Same as existing provision)*	NA, since MPS already achieved through the IPO
Between INR 1,600 crore to INR 4,000 crore	MPO amounting to INR 400 crore	MPO amounting to INR 400 crore *(Same as existing provision)*	MPS of 25% to be achieved 3 years from listing *(Same as existing provision)*
Between INR 4,000 crore to INR 50,000 crore	10%	10% *(Same as existing provision)*	MPS of 25% to be achieved 3 years from listing *(Same as existing provision)*
Between INR 50,000 crore to INR 1,00,000 crore	MPO amounting to INR 5,000 crore + 5% of post issue market capitalization; MPS of 25% to be achieved 3 years from listing	MPO amounting to INR 1,000 crore + 8% of post issue market capitalization	MPS of 25% to be achieved 5 years from listing
Between INR 1,00,000 crore to INR 5,00,000 crore	MPO amounting to INR 5,000 crore + 5% of post issue market capitalization; MPS of 10% to be achieved 2 years from listing; MPS of 25% to be achieved 5 years from listing	MPO amounting to INR 6,250 crore + 2.75% of post issue market capitalization	***If public shareholding is less than 15% at IPO:*** 15% MPS within 5 years, and 25% MPS within 10 years. ***If public shareholding is 15% or more than 15% but less than 25% at IPO:*** 25% MPS within 5 years.
Above INR 5,00,000 crore	MPO amounting to INR 5,000 crore + 5% of post issue market capitalization; MPS of 10% to be achieved 2 years from listing; MPS of 25% to be achieved 5 years from listing	MPO amounting to INR 15,000 crore + 1% of post issue market capitalization, ***subject to*** a minimum dilution of 2.5%	***If public shareholding is less than 15% at IPO:*** 15% MPS within 5 years, and 25% MPS within 10 years. ***If public shareholding is 15% or more than 15% but less than 25% at IPO:*** 25% MPS within 5 years.

The proposed new provisions in terms of base-line IPO sizing and MPO for IPOs of INR 50,000 crore and above are illustrated below:

Issuer size (post-IPO market capitalization in INR crore)	MPO requirements (in INR crore)	MPO as a % of post-IPO market capitalization
50,000	5,000	10%
1,00,000	9,000	9%
1,50,000	10,375	6.9%
2,00,000	11,750	5.9%
3,00,000	14,500	4.8%
4,00,000	17,250	4.3%
5,00,000	20,000	4%

As is evident and in line with the principles behind the Consultation Paper, the revised MPO requirements allow large issuers to dilute less with increasing IPO size. Further, in the baseline scenarios, most INR 1,00,000 crore+ post-IPO companies would need to achieve at least 15% public shareholding within 5 years of listing, and the balance within 10 years of listing.

Effect on large issuers

As a result of the proposed amendments, issuers between INR 1,00,000 crore and INR 5,00,000 crore market capitalization can therefore dilute a minimum of between **4%** and **9%** through their IPOs, thereby ensuring optimum market absorption and diversifying the risk of large IPOs cannibalizing other offerings.

The proposal comes close at the heels of certain other favourable IPO-related changes, such as rationalizing the reservation for anchor investor allocation bucket to accommodate large categories of domestic investors, i.e. life insurance companies and pension funds as well as to uniformly reflect allocations up to INR 250 crore and above. These changes are a welcome move and enable ease of doing business for large issuers.

While the rationalised MPO and MPS requirements are favourable, allocation for retail investors for profitable issuers for IPOs under Regulation 6(1) of the ICDR continues to remain at 35% of the overall size. SEBI had, through a separate consultation paper proposed lowering of the retail investor portion from 35% to 25% in a phased manner for IPOs above INR 5,000 crore. This proposal has been withdrawn by SEBI. In the absence of this, large IPOs will continue to have a sizeable tranche for subscription by retail investors, which, if undersubscribed, can lead to negative market sentiments.

Conclusion

In summary, SEBI's latest changes to the ICDR and the SCRR mark a welcome step towards modernising and streamlining the capital raising process for Indian IPO companies. By introducing greater flexibility for pre-IPO restructuring, these amendments should result in a more inclusive and efficient market environment. Furthermore, by rationalising the requirement for minimum offer size, and increasing the timelines for MPS compliance, the regulator appears well geared to enable India Inc. achieve large and successful IPOs. However, while these regulatory updates offer notable advantages, they also bring operational challenges and increased compliance obligations that companies must navigate carefully.

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