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ABOUT US



WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

“SEBI AND THE REGULATION OF NEW-AGE IPOs IN INDIA’S CAPITAL MARKET BOOM”

AUTHROEED BY - SAHIB SINGH SOHAL

Abstract:

The dynamic regulatory landscape surrounding new-age IPOs (Initial Public Offering) in India’s capital markets underscores the evolving role of the Securities and Exchange Board of India (SEBI). With a rapid increase in technology-driven companies entering public markets, SEBI faces the challenge of adapting traditional regulations to address the distinct risks and opportunities these companies present. This analysis examines SEBI’s responses, focusing on regulatory challenges, investor protection measures, and enhanced disclosure requirements that promote transparency for both retail and institutional investors. A comparative approach further highlights SEBI’s initiatives on pricing mechanisms and valuation strategies to ensure fair pricing standards for new-age IPOs. Additionally, policy considerations for promoter holding limits, the assessment of investor sentiment, and potential reforms are explored as part of future regulatory directions aimed at fortifying SEBI’s role in managing capital market growth. This study provides insights into SEBI’s evolving approach, emphasizing its efforts to balance growth with market stability, foster investor confidence, and set a benchmark for regulatory adaptations in emerging economies.

Keywords: *SEBI, New-age IPOs, Capital market regulation, Investor protection, Transparency in IPOs, Fair pricing mechanisms, Disclosure requirements, Regulatory reforms.*

1. INTRODUCTION

The stock market functions as a public marketplace that enables the buying, selling, and issuance of shares in publicly traded companies. By providing a structured platform, it simplifies trading in financial assets and actively involves investors in the process.¹ Through the stock market, individuals can acquire and trade fractional ownership in registered companies, with each stock representing a portion of ownership. This marketplace serves two

¹ Jason Fernando, ‘Initial public offering (IPO)’ (Investopedia, 2021) <<https://www.investopedia.com/terms/i/ipo.asp>> accessed on 7 November 2024.

key functions: providing a venue for investment and supporting capital formation, which are reflected in its regulatory structure.

In India, interest in the capital market surged in the late 1970s and early 1980s as trading gained momentum and employment opportunities expanded within the market. However, as interest began to wane, the need for a formal regulatory authority became evident. Recognizing the need to foster stability and trust, the government established the Securities and Exchange Board of India (SEBI)² to oversee the market's operations and address emerging challenges. SEBI plays a crucial role in creating a balanced, transparent environment that encourages effective capital mobilization among market participants and investors alike. To achieve this, SEBI sets comprehensive guidelines, regulatory frameworks, and policy infrastructures that support sustainable market growth while protecting investor interests and ensuring market efficiency.

It would be an understatement to call 2024 as the Year of Initial Public Offerings (IPOs). Since the 2020 Covid-19 lockdown, IPO activity has surged significantly, reflecting a mix of opportunity, ambition, and sometimes necessity. Since then, 215 IPOs have entered the Indian market, with over 70% trading above their issue price as of July 2024. This strong momentum is fuelled by ample liquidity, a robust economy, and heightened investor confidence.³

As of November, 2024 India has seen some of the biggest IPOs India has ever seen for example the Hyundai Motors India IPO⁴, which had an issue size of ₹25,000 Crores. Another example from the financial industry would be the IPO of Bajaj Housing Finance Ltd., with an issue size of more than ₹6,500⁵ Crores and delivered a great deal of profit to its investors, from the listing date itself. Many such other IPOs of 2024 include that of Ola Electric, Emcure Pharmaceuticals, Afcons Infrastructure etc.⁶ This wave has demonstrated that creative thinkers can launch companies, that the Indian retail investors and global private equity investors will support and

² Elearnmarkets, 'SEBI: Role, Objective, Structure and Functions of Securities and Exchange Board of India' (Elearnmarkets, May 20 2024) < blog.elearnmarkets.com/sebi-purpose-objective-functions-sebi/ > accessed on 7 November 2024.

³ Tejawsi P, 'IPO Showdown' (Tradejini, September 5 2024) < www.tradejini.com/difference-between-sme-ipo-vs-mainboard-ipo/ > accessed on 8 November 2024.

⁴ Hyundai India, 'Hyundai Motor India Makes History with India's Largest IPO and Plans to Expand Investment and Localize EV Supply Network' (Hyundai, October 22, 2024) < <https://shorturl.at/bxwbe> > accessed on 8 November 2024.

⁵ Bajaj Broking, 'Bajaj Housing Finance Ltd IPO' (Bajaj Broking, 2024) < <https://www.bajajbroking.in/ipo/bajaj-housing-finance-limited-ipo> > accessed on 8 November 2024

⁶ Chittorgarh, 'Mainboard IPOs in India 2024' (Chittorgarh, 2024) < <https://www.chittorgarh.com/report/mainboard-ipo-list-in-india-bse-nse/83/> > accessed on 8 November 2024

foster their expansion, and that these companies will eventually list their shares on the stock exchange, bringing wealth to their founders, employees, and early investors.

When it comes to the expansion and advancement of public markets, investor safety has consistently been at the forefront of SEBI's proposed regulation changes. The rules governing initial public offerings have been modified over the time by SEBI, impacting both investors and issuing companies. The regulator has in the process also modified the rules pertaining to preferential share allocation.

2. REGULATORY CHALLENGES AND SEBI

2.1. Categories of IPOs

In India, there are broadly two segments of IPOs, i.e.;

- i. **Mainboard** - The mainboard is a platform for large companies with a paid-up capital exceeding ₹10 crores to list their IPOs. These companies are typically well-known and operate on a substantial scale. After listing, their shares are traded on both the NSE (National Stock Exchange) and BSE (Bombay Stock Exchange).
- ii. **Small and Medium Enterprises (SMEs)** - The SME platform allows small and medium enterprises to access the market. These companies must have a post-issue paid-up capital of at least ₹1 crore, capped at ₹25 crore. Typically, these are smaller start-ups operating on a modest scale. Once listed, they are traded on platforms like 'NSE Emerge' and 'BSE SME'⁷.

The target companies on the SME platform are typically small and medium enterprises, while the mainboard caters to larger, more established firms. Companies listed on the SME platform, like those on BSE SME and NSE Emerge, face lower financial requirements in terms of revenue, profit, and net worth compared to the higher thresholds set for companies on the mainboard of the BSE and NSE. Regulatory requirements are also less stringent for SMEs, reflecting their smaller scale, while larger companies on the mainboard adhere to stricter regulations. Market liquidity tends to be lower on the SME platform, and the associated risk level is generally higher, making SME listings more appealing to retail investors who often invest smaller amounts. In contrast, mainboard listings attract a mix of institutional and retail investors with generally higher investment amounts. Additionally, post-IPO compliance is

⁷ NSE, 'About Emerge Platform' (NSE, 2024) < <https://www.nseindia.com/products-services/emerge-platform-about-sme> > accessed on 8 November 2024

simpler for SMEs, whereas mainboard companies must follow more complex compliance structures.

2.2.Regulatory Challenges

The Securities and Exchange Board of India (SEBI) plays a central role in overseeing India's capital markets, with its primary responsibility being to safeguard investor interests and ensure fair and transparent market operations. Over the years, SEBI has introduced significant reforms to fortify the regulatory framework, including stricter insider trading laws, the introduction of electronic trading platforms, and the establishment of an extensive surveillance system to monitor trading activity. These initiatives have contributed to enhancing market transparency and efficiency, making SEBI a key driver of regulatory progress in India.

The whole point of an IPO is to raise money from the public at large. This channelises the fund in an economy from the Savers (The investors) to the companies which are in need of capital. Ideally the companies are expected to utilize the new flow of capital for the purpose of expansion of business and to deliver to the expectations of the shareholders.

Despite these efforts, SEBI has faced criticism for its perceived limitations in curbing certain types of market fraud and misconduct. High-profile financial scandals, including those involving Satyam, the National Spot Exchange (NSE), and Punjab National Bank⁸, have exposed vulnerabilities within the regulatory system, raising questions about SEBI's effectiveness in preventing and addressing such fraudulent activities. These incidents have highlighted gaps in enforcement and underscored the challenges SEBI faces in keeping pace with increasingly complex financial malpractices.

One significant criticism levelled at SEBI is its difficulty in effectively detecting and curbing insider trading, a form of market manipulation in which individuals with non-public, material information uses it to secure an unfair market advantage. Although SEBI has established regulations, such as the SEBI (Prohibition of Insider Trading) Regulations, 2015, to address this issue, enforcement remains inconsistent, as evidenced by frequent insider trading cases. The challenge of proving insider trading, along with the sophistication of some schemes, has

⁸ Rajeev Gupta 'Has SEBI completely failed in regulating the capital market in India?' (The Times of India, March 12 2024) < <https://timesofindia.indiatimes.com/blogs/myview/has-sebi-completely-failed-in-regulating-the-capital-market-in-india/> > (accessed on 9 November 2024)

hampered SEBI's ability to clamp down decisively on this practice, leaving the perception that insider trading often goes unchecked. The main purpose of Insider Trading Regulations worldwide is to prevent insiders from using their exclusive access to unpublished, price-sensitive information to gain an advantage over others who lack such information.⁹ Insider trading often occurs at smaller scales in the market, frequently going unnoticed or unaddressed by SEBI. While the SEBI (Prohibition of Insider Trading) Regulations, 2015, provide a framework for enforcement, limited resources and complex detection challenges mean that only larger, high-profile cases receive thorough scrutiny. Smaller transactions, despite potentially impacting market integrity, often slip through the cracks, revealing a gap in SEBI's ability to monitor insider trading comprehensively across all levels.

SEBI's oversight of market intermediaries, including brokers, investment advisors, and portfolio managers, is another area of concern. While these intermediaries play a vital role in the capital market, instances of misconduct, such as fraudulent schemes that harm investors, persist. Despite the SEBI (Investment Advisers) Regulations, 2013, which set guidelines for ethical conduct, many believe SEBI's monitoring mechanisms lack the rigor necessary to prevent misconduct, leading to a trust deficit among investors. In furtherance, SEBI has faced criticism for its delayed intervention with companies violating financial regulations, exemplified by the IL&FS crisis¹⁰. Although SEBI was aware of financial irregularities under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, its response was viewed as slow, contributing to a broader financial sector disruption when IL&FS collapsed in 2018.

Another pressing issue is IPO overpricing, which has exposed retail investors to inflated offerings without adequate accountability. While SEBI sets guidelines for fair disclosure, such as the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the regulator's ability to intervene in pricing decisions has been limited. Many feel SEBI should assume a more active role in protecting retail investors from overpriced IPOs, rather than appearing passive amid these valuation concerns.

⁹ Securities And Exchange Board Of India V. Abhijit Rajan (2022) SCC OnLine SC 1241.

¹⁰ Business Today 'IL&FS crisis: SEBI expands probe in role of credit rating agencies' (Business Today, July 21 2019) < <https://www.businesstoday.in/latest/corporate/story/ilfs-crisis-sebi-expands-probe-in-role-of-credit-rating-agencies-218666-2019-07-21> > (accessed on 9 November 2024)

3. SEBI'S EVOLVING GUIDELINES FOR NEW-AGE IPOs

In recent years, SEBI has adjusted its regulatory framework to better accommodate the unique dynamics of unconventional business models, primarily in response to the increasing number of tech-driven and asset-light companies going public. These businesses, characterized by limited tangible assets and often a lack of initial profitability, challenge traditional regulatory metrics and have necessitated a re-evaluation of SEBI's IPO guidelines. By adapting disclosure requirements, listing criteria, and risk assessment norms, SEBI aims to foster a regulatory environment conducive to innovation while safeguarding investor interests.

3.1. Evolution of SEBI's Regulatory Framework for IPOs

Historically, SEBI's regulations for IPOs emphasized profitability and asset valuation, metrics that were practical for asset-heavy industries but unsuitable for new-age sectors such as technology, digital services, and e-commerce. Recognizing the need to modernize, SEBI introduced the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR)¹¹, which incorporated updated norms, especially around disclosures, promoter holdings, and corporate governance.

Under ICDR, SEBI allowed flexibility in the eligibility criteria for companies listing on the mainboard. Regulation 6 of the ICDR outlines the requirements for public issue eligibility, particularly for firms that may not meet traditional financial benchmarks but demonstrate a credible business model, revenue growth, and scalability. SEBI also made adjustments to its criteria for listing profitability, allowing companies to meet the minimum capitalization requirement through either profits or a specified threshold in net tangible assets.

In furtherance, to understand the current period in detail, we need to understand the historical background of the same;

3.1.1. Evolution of Regulations

In the early years, the Indian government controlled the pricing of new public issues under the Capital Issues Act of 1947, which vested the Controller of Capital Issues (CCI) with significant authority over capital market transactions¹². However, the repeal of the Act and the

¹¹ Securities And Exchange Board Of India (Issue Of Capital And Disclosure Requirements) Regulations, 2018

¹² Trivish D 'From Paperwork To Digital, SEBI Regulations Driving India's IPO' (Good Returns March 26 2024) < www.goodreturns.in/personal-finance/from-paperwork-to-digital-sebi-regulations-driving-indias-ipo-1338391.html > (accessed on 10 November 2024).

establishment of the Securities and Exchange Board of India (SEBI) in 1992 marked a new phase of market regulation, aimed at fostering a more dynamic and investor-driven environment. This regulatory shift was instrumental in catalysing IPO growth; while the number of offerings in the early 1980s remained low, IPO activity surged to over 100 annually by the late 1980s, laying the groundwork for a robust public capital market.

The introduction of share dematerialization in 1996 represented another key regulatory advancement. Previously, investors relied on physical share certificates, which were prone to loss, damage, and delays in transfer registration. By transitioning to an electronic system, SEBI addressed these inefficiencies, significantly reducing transaction risks and accelerating share registration processes.

Further reforms included the adoption of the book-building mechanism, which revolutionized IPO pricing. Before its introduction, IPO pricing was highly uncertain, often resulting in misaligned valuations. Book building improved price discovery by gauging investor demand, enhancing the reliability and fairness of IPO pricing. This method has since been refined to create a more transparent and balanced pricing process.

To streamline IPO applications and improve investor convenience, SEBI introduced the Application Supported by Blocked Amount (ASBA) system in 2008. ASBA allows investors to apply for IPO shares by blocking a specified amount in their bank accounts, eliminating the need for fund transfers and reducing transaction complexity. Initially succeeding the physical Stock Invest system, ASBA became mandatory for all IPO applications in 2016¹³, following SEBI's directive, reflecting SEBI's commitment to leveraging technology to enhance investor accessibility.

Finally, in 2018, SEBI introduced the Issuance of Capital and Disclosure Requirements (ICDR) Regulations to further modernize the IPO process and strengthen investor safeguards. The ICDR Regulations established more stringent disclosure norms, shortened IPO timelines, and clarified the responsibilities of merchant bankers, thereby reinforcing fair practices and transparency in IPO transactions. This evolving regulatory landscape has underscored SEBI's

¹³ NSE 'Application Supported by Blocked Amount (ASBA) Procedure' (National Stock Exchange November 2023) < <https://www.nseindia.com/products-services/initial-public-offerings-asba-procedures> > (accessed on 10 November 2024)

proactive approach to ensuring a well-regulated, accessible, and investor-oriented capital market in India.

4. INVESTOR PROTECTION AND TRANSPARENCY: SEBI'S DISCLOSURE REQUIREMENTS FOR NEW-AGE COMPANIES

SEBI, as India's capital market regulator, is charged with protecting the interests of investors and ensuring the integrity of the financial markets. To this end, SEBI has implemented a range of investor protection measures designed to build confidence in the market, maintain transparency, and mitigate risks associated with investment activities.

- I. Investor Protection and Its Significance - Investor protection is critical for a stable and robust financial ecosystem, aiming to prevent or mitigate losses that investors may incur from broker defaults, fraud, or market misconduct. U/s. Section 11(2) of the SEBI Act, 1992, empower SEBI to regulate securities markets and enforce mechanisms to protect investors from fraudulent practices. Effective investor protection measures contribute to market integrity, improve capital access, support fair pricing, and promote both domestic and foreign investment, ultimately enhancing economic growth.
- II. SEBI's Guidelines for Investor Protection - SEBI has established a robust framework to educate and safeguard investors for example the SEBI (Disclosure and Investor Protection Guidelines), 2000. This includes promoting investor literacy, imposing stringent creditworthiness assessments for firms issuing public offerings, and mandating disclosures in line with the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR). The ICDR, for instance, requires companies to present detailed financial and risk-related disclosures in their prospectuses, thereby enhancing transparency and aiding investors in making informed decisions. Through these guidelines, SEBI enforces compliance to maintain the reliability of market information and ensure that only financially sound companies access public funds.
- III. Measures Adopted by SEBI to Protect Investors - SEBI has enacted a series of operational safeguards aimed at simplifying transactions and minimizing fraud. The introduction of simplified share transfer mechanisms and unique order numbers has improved transparency, while the use of time stamps in contracts facilitates auditability, deterring malpractice. Further, SEBI regulates intermediaries, such as brokers and sub-brokers, under the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, which set forth licensing and conduct requirements. These regulations ensure that all brokers

adhere to fair trading practices and act in the best interest of investors. SEBI also maintains an Investor Protection Fund, which compensates investors in cases of broker default or insolvency, providing a critical financial safety net.

IV. SEBI's Investor Protection Policies and Public Awareness Initiatives - SEBI works to enhance investor awareness and reduce misinformation by issuing guidelines and running public awareness campaigns. It actively addresses investor grievances through the SEBI Complaints Redress System (SCORES)¹⁴, a web-based platform allowing investors to register complaints about intermediaries or listed companies. SEBI also enforces mandatory disclosure norms, requiring firms to regularly release financial statements and update material information as outlined in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR). This transparency is integral to protecting investors and ensuring fair market practices.

V. Challenges and Limitations in SEBI's Investor Protection Efforts - Despite its comprehensive framework, SEBI faces challenges in addressing certain fraudulent schemes and enforcing consistent delisting standards. Issues have emerged with “guaranteed return” schemes offered by some mutual funds, particularly those bank-sponsored, which fall into regulatory grey areas. The SEBI (Mutual Funds) Regulations, 1996 provide standards for mutual fund operations; however, SEBI has occasionally struggled to curb misleading schemes within this space. In cases like Essar Steel's delisting¹⁵, SEBI's regulatory process was criticized for not adequately safeguarding minority shareholders, underscoring the need for stronger protections in delisting scenarios.

In toto, SEBI plays a central role in protecting investor interests through a range of regulatory measures, educational initiatives, and grievance redressal mechanisms. While SEBI's regulatory framework has greatly improved market transparency and accountability, ongoing adjustments may be necessary to address emerging market risks and enhance investor confidence in India's evolving financial landscape.

¹⁴ Livemint 'SEBI launches new version of complaint redressal system SCORES 2.0' (Livemint April 1 2024) <<https://www.livemint.com/market/stock-market-news/sebi-launches-new-version-of-complaint-redressal-system-scores-20-11711975610547.html>> (accessed on November 10 2024)

¹⁵ Indo-Asian News Service 'Essar Steel Announces Cancellation Of Shareholder Holdings' (NDTV Profit January 2 2020) < <https://www.ndtvprofit.com/business/essar-steel-announces-cancellation-of-shareholder-holdings-2157834> > (accessed on 10 November 2024)

4.1. Disclosure Norms and Risk Assessment for Unconventional Business Models

As India's capital markets experience an influx of technology-driven companies with unconventional business models, SEBI has undertaken critical regulatory adaptations to balance innovation with investor protection¹⁶. SEBI's approach incorporates rigorous disclosure requirements, promoter holding restrictions, and valuation mechanisms tailored to address the unique risks associated with these companies, many of which may operate on high-growth, asset-light, and sometimes loss-making models. These measures align with SEBI's overarching mandate under the SEBI Act, 1992, which empowers the Board to protect investor interests and regulate the securities market effectively.

The cornerstone of SEBI's regulatory response to unconventional business models lies in comprehensive disclosure requirements, particularly as mandated under the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR). These provisions require companies to disclose a robust assessment of business risks, revenue drivers, market size, scalability, and key performance indicators in their draft red herring prospectus (DRHP). Unlike traditional companies, where financial consistency might indicate stability, businesses with unconventional models often prioritize growth over profitability, necessitating transparency in other areas to allow investors to evaluate future viability. For instance, in the IPO of Zomato Ltd. (2021)¹⁷, SEBI emphasized transparency around the company's user base, revenue sources, and technology dependencies, despite Zomato's lack of profitability. The DRHP disclosed extensive non-financial metrics, such as user acquisition costs and market position in the food delivery space, aligning with ICDR Regulation 6(1) on disclosure of operational and financial parameters for companies with atypical business structures. This framework equips investors to make informed decisions despite the absence of traditional profitability metrics.

To mitigate risks associated with rapid promoter exit post-IPO, SEBI has strengthened promoter holding regulations under Regulation 16 of the ICDR. For loss-making or newly established companies, SEBI mandates that promoters retain a minimum of 20% of post-issue capital for at least three years. This lock-in period ensures that promoters remain invested in

¹⁶ Ashish Rukhaiyar 'Start-up IPOs: Sebi's continued efforts to empower investors' (Business Today January 16 2024) < <https://www.businesstoday.in/latest/corporate/story/start-up-ipos-sebis-continued-efforts-to-empower-investors-413468-2024-01-16> > (accessed on 11 November 2024)

¹⁷ Zomato 'Zomato-RHP' (SEBI July 8 2021) < https://www.sebi.gov.in/filings/public-issues/jul-2021/zomato-limited-rhp_50950.html > (accessed on 10 November 2024)

the long-term success of the company, aligning their interests with that of investors and reducing speculative volatility. The 2021 IPO of Paytm (One97 Communications Ltd.) illustrates the application of these principles. Paytm's significant foreign shareholding and high cash burn posed regulatory challenges due to concerns around market stability and long-term promoter commitment¹⁸. SEBI required adherence to the lock-in period, thus ensuring that major shareholders, particularly promoters, had a vested interest in Paytm's continued growth. This regulation, grounded in Section 11 of the SEBI Act, 1992, underscores SEBI's commitment to market stability and its proactive stance on maintaining investor trust in high-risk IPOs.

SEBI has further addressed the complexities of valuing unconventional companies, which often lack consistent earnings histories, through adaptive valuation frameworks. The SEBI (Merchant Bankers) Regulations, 1992 empower merchant bankers to set IPO prices based on demand and extensive due diligence, which is especially critical for high-growth companies without a track record of profitability. SEBI's guidance for valuing unconventional business models has fostered a price discovery process that more accurately reflects a company's market potential rather than just historical performance. The use of book-building methods under Regulation 8A of the ICDR has allowed for greater price discovery accuracy, where demand-based pricing helps in establishing fair valuation. This system was implemented effectively during the IPO of Nykaa (FSN E-Commerce Ventures Ltd.)¹⁹, where market demand and projected growth were the primary valuation indicators. SEBI's flexibility in allowing valuation based on future potential rather than historical profits exemplifies its adaptability in supporting innovative businesses while upholding investor interest.

SEBI's framework emphasizes post-IPO compliance to protect minority investors and ensure transparency in unconventional companies. As per ICDR Regulations, 2018 companies must disclose all significant events and submit quarterly compliance reports. This requirement is particularly relevant for tech-based companies that often pivot business models rapidly in response to market trends. For instance, SEBI's requirements ensured that new-age firms like

¹⁸ Stockgro 'Paytm case study: The dramatic downfall of a fintech pioneer' (Stockgro June 14 2024) < <https://www.stockgro.club/blogs/trending/paytm-case-study/#:~:text=Paytm's%20IPO%3A%20A%20turning%20point&text=The%20stock%20was%20offered%20at,major%20turning%20point%20for%20Paytm.> > (accessed on November 10 2024)

¹⁹ Sandeep Singh 'Nykaa IPO Analysis: Growth, Opportunities, Risks & More' (Inc42 October 27 2024) < <https://inc42.com/features/nykaa-ipo-analysis-growth-opportunities-risks-more-report-2021/> > (accessed on 10 November 2024)

'Policy Bazaar' provide timely disclosures on revenue shifts and market challenges, maintaining investor awareness of real-time business developments²⁰. Additionally, SEBI's regulatory provisions under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR) mandate disclosure of critical corporate events, financials, and any changes in shareholding patterns. LODR requirements have proven instrumental in enhancing transparency in unconventional business models, where operational shifts can significantly impact valuations.

Furthermore, despite SEBI's evolving framework, challenges persist in accommodating the unique demands of new-age companies while ensuring investor protection. Unconventional models, such as those driven by technology and intellectual property rather than tangible assets, challenge traditional approaches to valuation and financial reporting. While SEBI's regulations have addressed many of these complexities, emerging risks, such as regulatory arbitrage and complex ownership structures, require continuous monitoring and adaptation.

Henceforth, SEBI's ongoing regulatory adaptations underscore its commitment to creating a balanced framework that aligns investor protection with innovation. Future regulatory directions may include refinements to disclosure requirements for intellectual property valuations, oversight of shareholder voting rights in companies with differential ownership structures, and enhanced compliance protocols for continuous public disclosures. By proactively addressing these areas, SEBI positions itself as a forward-looking regulator adept at managing the complexities of India's evolving capital markets

5. COMPARATIVE ANALYSIS AND FAIR PRICING MECHANISMS **IN SEBI'S REGULATORY FRAMEWORK**

SEBI's regulatory approach to fair pricing and market stability in IPOs has increasingly aligned with international standards, particularly those set by the U.S. Securities and Exchange Commission (SEC)²¹ and the European Securities and Markets Authority (ESMA). As high-growth, technology-driven companies continue to reshape IPO markets globally, SEBI's

²⁰ TNN 'Sebi notice to PolicyBazaar over Dubai buy' (The Times of India June 7 2024) < <https://timesofindia.indiatimes.com/business/india-business/sebi-notice-to-policybazaar-over-dubai-buy/articleshow/110780237.cms> > (accessed on November 11 2024)

²¹ SEC 'Listing Standards' (U.S. Securities and Exchange Commission June 2 2024) < <https://www.sec.gov/resources-small-businesses/going-public/listing-standards> > (accessed on November 11 2024)

regulatory measures seek to incorporate best practices from these international frameworks while adapting them to India's unique market dynamics.

One of the most notable areas of convergence is SEBI's adoption of the book-building process, which aligns closely with methods used by both the SEC and ESMA to establish fair market prices. The book-building method, mandated under S.6(2) of SEBI's ICDR Regulations, 2018 allows companies to determine IPO pricing based on investor demand rather than fixed pricing²². This mechanism mirrors the SEC's approach, where companies typically set a price range and adjust it based on demand to capture a more accurate reflection of investor interest. Similarly, ESMA encourages the use of price discovery mechanisms that consider both institutional and retail investor's perspectives. By adopting this system, SEBI has aligned with global standards to facilitate a balanced and transparent price discovery process, especially for companies in emerging sectors where traditional valuation metrics may not apply.

SEBI's emphasis on comprehensive disclosure norms also reflects a commitment to transparency comparable to that of international regulators. For instance, the SEC mandates thorough disclosures in the prospectus, requiring companies to clarify operational risks, market position, and growth potential. In the same vein, SEBI's ICDR Regulations, 2018 requires that companies provide detailed disclosures on financial and non-financial performance indicators, market size, and risk factors, particularly for IPOs involving asset-light or technology-driven companies. This approach is similar to ESMA's guidelines, which require companies to disclose material risks and financial outlooks to ensure that investors have a full understanding of the potential risks associated with unconventional business models. As discussed earlier, The IPO of Zomato Ltd. in 2021 is a notable example of SEBI's rigorous disclosure requirements, as SEBI mandated the company to disclose key details about user acquisition costs, technological dependencies, and operational scalability disclosures that were critical for investor awareness, given Zomato's unconventional and asset-light model²³.

In furtherance, SEBI's adaptation of promoter lock-in requirements also resonates with practices in the U.S. and EU. Regulation 16 of the ICDR mandates a lock-in period for

²² MOFSL 'What Is book-building Process In IPO' (Motilal Oswal March 6 2023) < <https://www.motilaloswal.com/blog-details/what-is-book-building-process-in-ipo/21019> > (accessed on November 11 2024)

²³ Zomato 'Zomato-RHP' (SEBI July 8 2021) < https://www.sebi.gov.in/filings/public-issues/jul-2021/zomato-limited-rhp_50950.html > (accessed on 10 November 2024)

promoters in companies lacking profitability, ensuring that key shareholders retain their stake for at least three years post-listing. This requirement parallels the SEC's policies on insider lock-ups in the U.S., where company insiders are often restricted from selling their shares for a designated period to maintain stability in the early stages of trading. ESMA, too, has frameworks encouraging similar lock-in arrangements to prevent market volatility and speculative trading. SEBI's regulation aims to protect retail investors by ensuring that promoters and major stakeholders remain committed to the company's long-term growth rather than engaging in speculative sales immediately after the IPO.

The international comparison extends to SEBI's efforts to mitigate post-IPO market volatility through regulations on anchor investors. Like the SEC's restrictions on large shareholder's sale of shares after IPOs, SEBI has imposed exit timing restrictions for anchor investors, who are generally institutional investors, to limit excessive selling pressure immediately following an IPO. SEBI's mandatory 30-day lock-in period for anchor investors, implemented under the ICDR guidelines, serves a similar function to international practices by stabilizing share prices and reducing post-IPO fluctuations. ESMA's approach also reflects this intention by encouraging gradual exits for institutional investors in order to prevent price destabilization in newly listed companies.

SEBI's regulatory adjustments have also sought to integrate international insights on valuation standards, especially as Indian markets have witnessed a surge in high-growth, technology-driven IPOs. In the U.S., the SEC requires in-depth scrutiny of IPO valuations for such companies, emphasizing transparency and a clear articulation of business potential to avoid misleading investors. Similarly, SEBI has instituted valuation checks through its guidelines for merchant bankers, ensuring that pricing aligns with the company's market position and growth prospects. These measures underscore SEBI's commitment to preventing overvaluation by ensuring that merchant bankers conduct rigorous due diligence, similar to the practices of the SEC and ESMA, which also emphasize the role of financial intermediaries in safeguarding against inflated valuations.

Henceforth, SEBI's framework for regulating IPOs aligns closely with the global regulatory landscape, particularly in areas like price discovery, disclosure norms, promoter lock-ins, and post-IPO stability mechanisms. By drawing from international regulatory practices, SEBI has crafted a balanced approach that accommodates high-growth, unconventional business models

while maintaining the integrity and transparency essential to capital market stability. This comparative approach positions SEBI as a proactive regulator attuned to the evolving demands of India's capital markets while fostering investor confidence through alignment with globally recognized standards.

6. CONCLUSION

India's corporate sphere is undoubtedly evolving at an exponential rate. With the advent of technology-based start-ups, traditional IPO methods can no longer be uniformly applied. Appropriately, the apex regulator of the capital market, SEBI, has been regularly adopting new and modern regulatory methods. Law must cater to society's changing needs, and this principle equally applies to the regulation of capital markets.

Henceforth, SEBI's regulatory framework exemplifies a proactive and adaptive response to the rapidly evolving dynamics of India's capital market. By implementing initiatives such as dematerialization, the book-building process, and the ASBA system, SEBI has fundamentally transformed the structure and accessibility of IPOs, addressed inefficiencies and meeting the needs of a fast-paced financial environment. Its updated ICDR Regulations and tailored norms for unconventional business models underscore a commitment to balancing innovation with investor protection, an essential approach as technology-driven, asset-light companies increasingly pursue public funding.

SEBI's framework has strengthened transparency, accountability, and investor protection through stringent disclosure norms, adaptive valuation methods, and post-IPO stability measures. This alignment with global best practices—such as the book-building mechanism, promoter lock-in requirements, and post-IPO stability provisions—reinforces SEBI's role in fostering a stable, transparent market that inspires investor confidence. Despite challenges in enforcement and oversight, particularly concerning insider trading and IPO pricing, SEBI's reforms signify considerable progress in promoting resilience and transparency.

As SEBI continues to address the unique demands of new-age companies, further regulatory refinements may be needed to address areas like intellectual property valuation, differential voting rights, and enhanced investor education initiatives. In this way, SEBI's role as a vigilant, adaptable regulator strengthens investor trust and supports sustainable growth within India's

capital markets. This adaptability positions SEBI as a cornerstone of market stability, ensuring a robust, accessible capital market capable of accommodating diverse business models and contributing to India's broader economic development.

