

Key Impacts of SEBI New Norms For SME IPOs

SME Companies

A. Eligibility for IPOs-

SMEs with a min operating profit of ₹1 crore for 2 out of the last 3 financial years can now launch an IPO.

B. General Corporate Purpose (GCP) Limit

GCP utilization is restricted to 15% of the amount raised or ₹10 crore, whichever is lower.

C. Related Party Transactions (RPT) Compliance

- Listed SMEs must adhere to RPT norms.
- RPTs will be deemed material if they account for 10% of annual consolidated turnover or ₹50 crore, whichever is lower.

D. Restrictions on OFS (Offer for Sale)

- OFS portion capped at 20% of the issue size.
- Selling shareholders cannot divest more than 50% of their shareholding.

E. Promoter Lock-In Rules

- Lock-in for shares in excess of the minimum promoter contribution (MPC) will be released 50% after 1 year.
- The remaining 50% will be released after 2 years.

F. Prohibited Loan Repayment

SME IPOs aimed at repaying loans taken from promoters or promoter groups will not be allowed.

Retail Investors

A. Capping OFS ensures that most of the funds raised go towards growing the business, not cashing out promoters

B. Promoters often sell shares soon after lock-ins expire, destabilising stock prices. Extending the lock-in period ensures promoters remain invested in the company's success.

C. IPO proceeds are sometimes diverted into vague categories or related-party transactions. Stricter norms for Related Party Transactions (RPTs) ensures protection from such misuse of funds.

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