



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Consultation Paper

Disclosures for 'Basis of Issue Price' section in offer document under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

1. Objective:

The objective of this consultation paper is to seek comments from the public on Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), regarding provisions relating to disclosures for 'Basis of Issue Price' section in offer document.

2. Background and Current Regulatory Framework:

In terms of SEBI ICDR Regulations, as per para 9(K) of Schedule VI, in the chapter titled "Basis for Issue Price", issuer is required to make disclosure of critical accounting ratios viz. earnings per share (EPS), price to earnings (P/E), return on net worth (RoNW) and net asset value (NAV) of the Company, including comparison of such accounting ratios with its peers i.e. companies of comparable size in the same industry.

An illustrative format of disclosure in respect of the basis for issue price is given hereunder:

(1)	Adjusted Earnings Per Share (EPS) and Adjusted Diluted EPS	
	Past 3 Financial Year (Year wise) & Weighted Average	
(2)	Price to Earnings Ratio (P/E) in relation to Issue Price for past 3 financial year	
	Industry P/E (High/Low/Average) *	
	(*Indicate relevant source)	
(3)	Return on Net Worth	
	Past 3 Financial Year (Year wise) & Weighted Average	
(4)	Net Asset Value (pre and post issue)	



It is observed that the above parameters are typically descriptive of companies / issuers which are profit making and do not relate to a company / issuer that is loss making. Thus, these parameters may not aid investors in taking investment decision w.r.t. loss making issuers.

3. Issues and deliberations:

It is seen that lately there is an increase in filing of offer documents for IPOs under Regulation 6(2) of ICDR Regulations i.e. companies not having track record / not having operating profit in preceding three years.

Mostly such filings under Regulation 6(2) are by issuer companies which are new age technology companies (NATCs). NATCs generally remain loss making for a longer period before achieving break-even as these companies in their growth phase opt for gaining scale over profits. Investors are on boarded on these companies on the premise of future potential and accordingly the company strives for long-term market leadership rather than short-term profitability considerations. The growth in such businesses comes from expanding into new micro-markets and adding or acquiring new customers/companies/technology etc. Thus, profitability targets are longer term goals.

IPOs, globally, follow a disclosure based regime and prohibit any future projections for marketing of the issue. Thus, basis of issue price is based on following factors:

- a. Traditional parameters such as Price to Earnings ratio, Net Asset Value etc.
- b. Trends in Key Performance Indicators (KPIs) over the past years
- c. Valuations done at the earlier rounds of fund raising
- d. Market conditions

Present requirement for 'Basis of Issue Price' section in offer document covers disclosure of traditional parameters such as disclosure of key accounting ratios, it is



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

obvious that disclosures in 'Basis of Issue Price' section, particularly for a loss making company, are required to be supplemented with non-traditional parameters like key performance indicators (KPIs) and disclosure of certain additional parameters such as valuation based on past transactions / fund raising by issuer company.

The above issues and additional disclosures for "Basis of Issue Price" section were examined by a sub-group of the Primary Market Advisory Committee (PMAC) of SEBI. Recommendations of sub-group were discussed in meeting of PMAC. The PMAC proposed that following recommendations can be considered by SEBI pursuant to a public consultation.

4. Disclosures for 'Basis of Issue Price' section in offer document

4.1. Basis of Issue Price - Key Performance Indicators (KPIs):

Apart from disclosing the financial ratios as per the extant requirements, the Issuer Company shall also make the disclosures on the key performance indicators (KPIs) of the business of the Issuer Company that have been considered / have a bearing for arriving at the basis of issue price. The issuer shall provide:

- i. Disclosure of relevant KPIs including material KPIs made before the pre-IPO Investors during the three years prior to the IPO. Explanation of how these KPIs contribute to form the basis for issue price.
- ii. Issuer Company shall disclose all material KPIs that have been shared with any pre-IPO investor at any point of time during the three years prior to IPO. However, for those KPIs which the issuer company deems are not relevant for the proposed IPO, the issuer shall provide adequate explanation for considering those KPIs as not relevant with proper cross reference to a table disclosing the said KPIs.
- iii. KPIs stated by Issuer Company shall be described and defined clearly, consistently and precisely. KPIs should not be misleading.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- iv. All KPIs to be certified / audited by statutory auditors.
- v. Comparison of KPIs with Indian listed peer companies and/ or global listed peer companies (wherever available).
- vi. Comparison of KPIs over time to be explained.

4.2. Issue for public consultation

- 4.2.1. Is there a need for disclosure of KPIs in “Basis for Issue Price” section in offer document by the Issuer Company?
- 4.2.2. If yes, whether KPIs should be certified / audited by: (a) statutory auditors only or (b) KPIs can also be certified / audited by independent Chartered Accountant?
- 4.2.3. Whether a 3 year look back period for KPIs is adequate? Any suggestion on increasing / decreasing this look back period? Any other suggestion on this point?
- 4.2.4. Whether comparison with global peers would be appropriate as some of the KPIs would be relevant for that country/ economy they operate in. If yes, whether issuer should make comparison with global peers with appropriate notes to explain such differences?

4.3. Basis of Issue Price - Past transfer(s) / allotment(s):

Issuer companies shall make disclosure of:

- i. Valuation of Issuer Company based on secondary sale / acquisition of shares (equity/convertible securities) excluding gifts, in the 18 months prior to the date of filing of the DRHP / RHP *[where either acquisition or sale is equal to or more than 5% of the fully diluted paid-up share capital of the Issuer]*



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Company (calculated on the date of completion of the sale), in a single transaction or a group of transactions in a short period of time].

- ii. Valuation of Issuer Company based on primary / new issue of shares (equity/convertible securities) in the 18 months prior to the date of filing of the DRHP / RHP [equal to or more than 5% of the fully diluted paid-up share capital of the Issuer Company (calculated on the pre-issue capital on the date of allotment), in a single transaction or a group of transactions in a short period of time].
- iii. With reference to above two points at (i) and (ii), disclosure of floor price and cap price being [●] times the weighted average cost of acquisition (WACA) based on primary/ secondary transaction(s) may be disclosed in the following manner:

	Floor Price Rs.	Cap Price Rs.
	[●]	[●]
WACA* of Primary issuance in last 18 months#	[●] times	[●] times
WACA* of Secondary transactions in last 18 months#	[●] times	[●] times
<i>*WACA – Weighted average cost of acquisition #Equivalent or more than 5% of the fully diluted paid-up share capital [excluding employee stock options granted but not vested]</i>		

- iv. Issuer shall offer detailed explanation for offer price / cap price being [●] times of the Primary issuance price / Secondary transaction price (as stated in table above), as the case may be, along with comparison of the Issuer's KPIs and financial ratios viz. EPS, P/E Ratio, Return on net worth, Net asset value etc. for the last two full financial year and interim period (if any) included in the offer document. This will enable the investors to have a comparative view of the KPIs and other financial ratios for the same period.



4.4. Issue for public consultation

4.4.1. Whether an 18 months look back period for past transactions and disclosure of valuation based on such transactions is adequate? Any suggestion on increasing / decreasing this look back period?

5. Public Comments

Considering the implications of the said matter on issuer companies, investors, other market participants and stakeholders, public comments in respect of these proposals as made out at paras 4.2 and 4.4 above are solicited. Comments may be sent by email or through post, in the following format:

Name of entity / person :		
Contact Number & Email Address :		
Sr. No.	Reference Para of the consultation paper	Suggestion/ Comments

While sending email, kindly mention the subject as “**Disclosures for ‘Basis of Issue Price’ section in offer document**”

The comments may be sent by email to consultationcf@sebi.gov.in latest by March 05, 2022. Comments can also be sent through post (latest by March 05, 2022) to the following address:

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