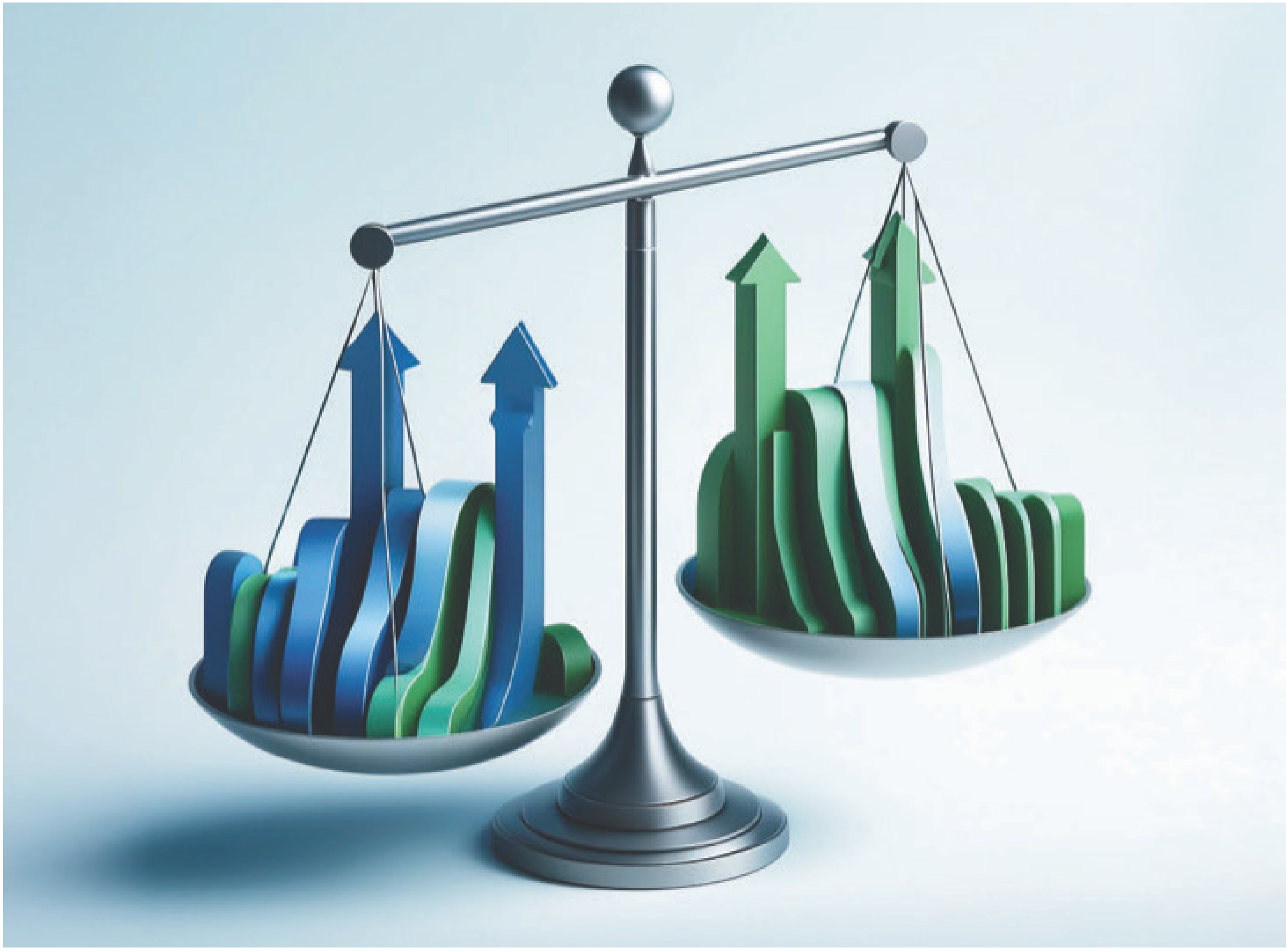
India's IPO Boom : Striking the Balance Between Growth and Regulation

Authored by:

Manoj Saha
Managing Director, Dickenson World



India's IPO Boom : Striking the Balance Between Growth and Regulation

In 2024, India achieved a historic milestone, surpassing China to become Asia's leading destination for initial public offerings (IPOs). This achievement underscores the nation's economic optimism and the dynamism of its corporate sector. Sectors such as financial services, technology, and renewable energy have become the vanguards of this growth. However, this surge in IPO activity has come under the watchful eye of the Securities and Exchange Board of India (SEBI), which has implemented stringent regulatory measures to enhance transparency and safeguard investors. These developments highlight a central challenge for Chief Financial Officers (CFOs) and promoters: navigating the tightrope between fostering innovation and adhering to stricter compliance norms.

The Necessity and Paradox of Regulation

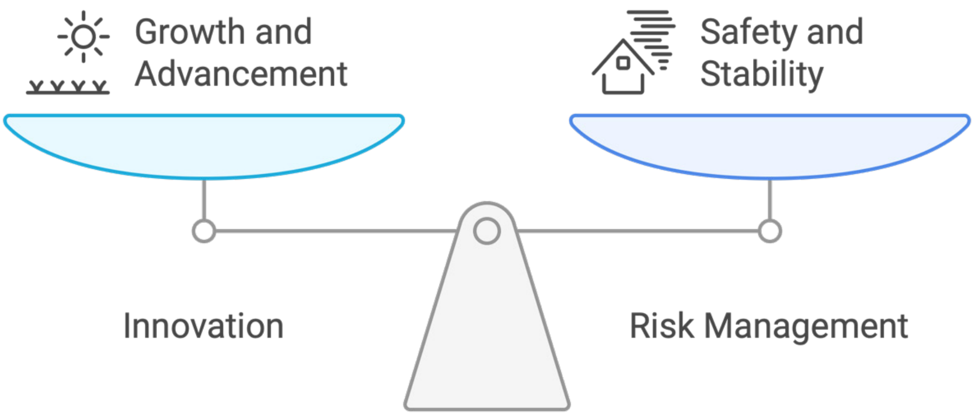
India's corporate landscape has evolved against a backdrop of several high-profile corporate failures and financial scandals. From cases like the IL&FS default in 2018 to various speculative excesses in small-cap IPOs, SEBI's heightened vigilance is both a reaction to past shortcomings and a pre-emptive measure to protect retail investors, who now account for a significant portion of the market's liquidity. SEBI's tightened controls—such as profitability requirements, enhanced governance disclosures, and restrictions on shareholder actions—are designed to prevent a repeat of these failures.

However, while necessary, these regulations present a paradox. Sectors like renewable energy and technology, which require significant upfront investments and operate on extended gestation cycles, often struggle to meet profitability norms. For instance, a leading Indian renewable energy firm recently opted for an offshore listing, citing the constraints of India's regulatory environment.

Such trends underscore the risk of stifling innovation and driving high-potential firms abroad, depriving domestic markets of transformative opportunities. SEBI's regulations, though well-intentioned, require calibration to foster an ecosystem that accommodates emerging industries without compromising investor safety.

Balancing Innovation with Risk Management

High-growth sectors such as technology and renewable energy face unique challenges under SEBI's framework. Renewable energy companies, for example, often rely on large-scale, upfront capital expenditure and delayed revenue realization. Profitability metrics, while critical for safeguarding investor interests, do not account for the operational realities of these sectors. Technology firms, particularly those developing SaaS platforms or AI tools, often prioritize market share and R&D over immediate profits. The one-size-fits-all approach risks alienating companies from public markets.



Balancing Innovation and Risk in Regulation

That said, SEBI's measures address another critical concern: protecting retail investors. Retail participation in IPOs surged in 2023, with over ₹14,000 crore invested by first-time market entrants, according to ***Mint*** (2024). These investors often lack the financial sophistication to navigate the risks associated with speculative IPOs. SEBI's regulations, particularly those focused on transparency and governance, ensure a more stable and reliable marketplace for this growing segment. For companies seeking to balance innovation with compliance, the solution lies in strategic governance practices that align with regulatory demands while promoting investor trust.

Sector-Specific Strategies for Promoters and CFOs

Promoters and CFOs can play a pivotal role in bridging this gap. Instead of viewing compliance as an obstacle, they must approach it as a foundation for sustainable growth. For instance:

- **Renewable Energy Companies:** These firms can advocate for phased compliance frameworks, allowing profitability thresholds to be adjusted based on sector-specific characteristics. Collaborating with regulators to create specialized norms can foster a more inclusive market environment.

- **Technology Startups:** SaaS and AI companies should focus on transparency when presenting their business models. Detailed disclosures on revenue streams, R&D expenditures, and market potential can provide clarity to retail investors and regulators alike.

Promoters, in particular, must embrace a cultural shift from opaque practices to transparency-driven governance. Historically, many Indian promoters have treated public markets as fundraising avenues rather than as platforms for stakeholder engagement. To sustain investor confidence, they must prioritize disclosures around related-party transactions, divestment plans, and fund usage. This approach not only satisfies regulatory norms but also positions the company as a credible player in a highly competitive market.

Retail Investors: The Forgotten Stakeholders

While SEBI's regulations aim to protect retail investors, companies have an equally critical role in educating and engaging this segment. Retail investors, who contributed nearly 24% of total IPO subscription volume in 2023 (***Economic Times***, 2024), are often swayed by market sentiment rather than fundamental analysis. Clear and consistent communication about governance practices, growth strategies, and risk factors is essential.

Integrated reporting offers an excellent tool to address this need. By linking financial performance to sustainability and governance metrics, companies can provide retail investors with a holistic view of their business. For instance, a mid-sized Indian tech firm recently used integrated reporting to explain its heavy R&D investments as a strategy for long-term profitability. This transparency not only attracted ESG-conscious institutional investors but also improved retail investor perception.

Lessons from Global Benchmarks

India's regulatory tightening must also be examined in the context of global practices. The U.S. Jumpstart Our Business Startups (JOBS) Act offers a valuable benchmark. Enacted in 2012, it allowed Emerging Growth Companies (EGCs) to confidentially file IPO registration documents, reduce compliance costs, and delay certain reporting obligations. These measures rejuvenated the U.S. IPO market, particularly benefiting small-cap companies, according to the ***Harvard Law School Forum on Corporate Governance*** (2017).

However, replicating such a framework in India would require careful tailoring. India's retail-heavy market demands stricter norms to protect unsophisticated investors. A hybrid approach—combining tiered compliance requirements for high-growth sectors with robust governance norms—could address the unique challenges of the Indian market.

The Path Forward

India's IPO boom is a testament to its economic potential, but regulatory tightening has added complexity to an already dynamic landscape. For CFOs and promoters, the challenge lies in navigating this duality. By fostering a culture of transparency, embracing integrated reporting, and advocating for sector-specific regulatory reforms, they can turn compliance into a competitive advantage.

At the same time, SEBI must engage with industry leaders to refine its regulatory framework. A calibrated approach—one that accommodates the growth needs of emerging sectors while protecting investors—will be key to sustaining India's IPO momentum. As India's capital markets mature, the ability to balance innovation with governance will determine not just the success of individual companies but the resilience of the broader market. For those willing to adapt, the future offers unparalleled opportunities to shape the narrative of India's economic transformation.

About the Author

With over 25 years of experience in corporate finance and a deep-rooted understanding of ESG imperatives, **Manoj Saha** *brings a wealth of knowledge to the discourse on corporate governance. Educated in the UK in Accountancy & Finance, he has dedicated his career to guiding organizations through the intricacies of financial management and stakeholder engagement across global markets, including India, the USA, the UK, and the Middle East and North Africa (MENA) region.*

Authored by:

Manoj Saha
Managing Director

manoj.saha@dickensonworld.com

Contact Us:
Email: enquiry@dickensonworld.com
Website: www.dickensonworld.com

DICKENSON

Our Offices

London
UK Bureau
Ms. Kinneri Saha
+44 748 723 4770 (UK)
+91 99877 23160 (India)

Mumbai
India Operations
Ms. Shankhini Saha
+91 73044 81351 (M)
+91 22 6627 6509 (L)