Page 3983 - 3993 **DOI:** *https://doij.org/10.10000/IJLMH.119501*

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 8 | Issue 2

2025

SEBI IPO Regulations: Compliance Challenges and Solutions

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ABSTRACT

This paper examines the regulations by the Securities and Exchange Board of India (SEBI) that are implemented to ensure that transparency, liquidity, and stability in markets are enhanced through the implementation of Minimum Public Shareholding (MPS) regulations and security of lock-in for promoters, as envisioned. Indian initial public offerings (IPOs) are increasingly impacted by these regulations, with companies often being constrained between achieving operational flexibilities and compliance with the requirements of regulatory agencies. The research study focuses on case studies of firms such as Zomato, Paytm, and Sapphire Foods, to highlight and analyse the way these firms addressed volatility due to issues of stock brought about by SEBI's regulatory framework, liquidity restriction, and equity dilution. Therefore, the analysis reveals that lock-in and MPS requirements are important for boosting investor trust, though they increase compliance cost and even hinder the problems of capital structures. Strategic pre-IPO planning through incremental stake dilution by Offer for Sale and Qualified Institutional Placements along with Employee Stock Option Plans seem to be viable solutions. These will serve towards the promotion of an even more efficient and well-balanced IPO ecosystem, which in the long run would bring about stability and trust in the Indian financial markets.

Keywords*: IPO, SEBI Regulations, Minimum Public Shareholding, Promoter Lock-in Period, Offer for Sale, Pre-IPO Readiness, Qualified Institutional Placements, Employee Stock Option Plans.*

I. INTRODUCTION

IPOs are significant for companies in raising funds and increasing their market presence. SEBI has enacted stringent regulations as to how an IPO has to be issued, and such and these regulations need to be followed to ensure that all aspects of transparency as well as investors' interests are met. Strict regulations like these give rise to challenges in companies. Some of these provisions include Minimum Public Shareholding (MPS), which states that at least 25% of the shares ought to be held publicly and lock-in requirements imposed on promoters so they do not sell shares till a particular period, thus showing commitment. Such regulations

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would instil market confidence, though they would exert a strain on liquidity in the hands of promoters and discourage potential investors who fear being asked to show commitment and concern about stock liquidity. The paper discusses the possible impact of SEBI's MPS and lock-in regulations on IPOs, analysing recent trends for companies like Zomato, Paytm, and Sapphire Foods, and makes recommendations on pre-IPO planning strategy, gradual stake dilution through Offers for Sale and Qualified Institutional Placements and Employee Stock Option Plans. All of these are directed at practical guidance for companies, regulators, and investor promoting a balanced IPO ecosystem in India with greater compliance and trust among investors.

II. Overview of SEBI's Regulatory Framework

(A) SEBI's Role and Regulatory Framework

Before delving into the specifics of the regulations of SEBI, it is important to have an understanding of the role that SEBI plays in the context of Indian Public Listed Companies. SEBI is declared to be a statutory body incorporated under SEBI Act, 1992, and this act regulates the process of IPOs and securities in India. Shares are mainly traded on and are listed with stock exchanges: BSE and NSE, which are the primary electronic platforms. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are corporate governance guidelines applicable to all the listed companies and are often called the "Listing Regulations" (previously listing agreements with stock exchanges). The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) regulate, inter alia, listing of equity shares and convertible debt instruments and the entire process of IPOs.[2]

(B) Minimum Public Shareholding Requirements

It was enacted under the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, better known as the 'Listing Regulations', with the aim of maintaining transparency with intense and effective corporate governance in listed companies in India. Regulation 38[3] is one of the most important clauses under these regulations. It mandates all listed companies to abide by the minimum public shareholding requirements as are stipulated in Rule 19(2) and Rule 19A of the Securities Contracts (Regulation) Rules, 1957. The rules mandate maintaining a minimum public shareholding requirement of 25% from listed companies within a specific time frame in order to prevent promoters or even large

[2] 'Initial Public Offerings Laws and Regulations: India' (*GLI*, 2 October 2024) https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/india/ (last visited Oct. 10, 2024).

[3] Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, § 38.

shareholders of any company from hoarding excessive shares of the same.[4]

One of the conditions under the MPS being implemented, with the objective of improving market transparency and equity within the Indian financial markets, is the minimum 25% limit on public ownership of a company's shares. The regulation aims to enhance market liquidity as well as create an equitable trading environment through the limitation imposed on how much ownership of the promoters and significant shareholders. Boosting participation in public platforms further increases investor confidence and facilitates better price discovery as one moves closer to a stable and ethical business environment.[5]

(C) Promoter Lock-in Requirements

The ICDR Regulations, 2018 SEBI, primarily aim to control procedures in respect of an issue of securities and ensure investor protection and transparency in an IPO process. Two significant elements are included in these regulations: promoter's contributions and lock-in requirements that seek to maintain stability and avoid excessive market volatility when an IPO is issued.

The terms regarding the locking in of promoter held securities post-IPO are enumerated under Regulation 16. The minimum contribution by the promotors would be at least 20% of the post-issue capital and for a period of at least 18 months from the date of issue. The lock-in period might extend up to three years in case a major portion of the IPO funds is allocated towards capital expenditures that comprise land, buildings or machinery. This guideline states that at all times, there must be a six month lock-up period for any promoter shares that exceed this minimum of six percent. The time will stretch to one year during material expenses. It also states that the SR (Superior Rights) equity shall be placed in a freeze situation throughout the said lock-up time, or when they are converted to regular shares whichever time passes first. These requirements assure that the long-term commitment is with the promoters and they do not sell out hastily, which might affect the share price.[6]

All the pre-issue capital of non-promoters is locked in for six months from the date of allotment under Regulation 17. Restrictions, however are exempted for the shares issued to employees under a stock option or purchase plan, if disclosed as required by prevailing SEBI regulations. The following are also exempt and subject to a minimum lock-in term of six months: foreign venture capital investors, alternative investment funds of Category I or II,

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[4] Securities Contracts (Regulation) Rules, 1957, § 38.

[5] (*Requirement of public holding for listing | Department of Economic Affairs | Ministry of Finance | Government of India*) https://dea.gov.in/requirement-public-holding-listing (last visited Oct. 10, 2024).

[6] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, § 16.

and venture capital funds. This clause is to prevent insider trading and early investors from making early exist that may impact investor confidence in the market.[7]

In essence, SEBI's regulations under sections 16 and 17 of the SEBI (Issue of Capital and Disclosure Requirements) establishes lock-in periods for the shareholdings of promoters subsequent to the initial public offering. This locking in is designed to prevent early exit by the promoters so that there is not some quick massive selling of shares to then precipitate market instability. The regulations aim at reducing price volatility and safeguarding institutional and retail investors through stable preservation of a market environment. Investor confidence is boosted by requiring promoters to retain a minimum percentage of shares. Thereby, it ensures that their incentives remain in step with the success of the company over the long run. Moreover, the lock-in restrictions limit the possibilities of dramatic changes in price after the IPO's issue and instead ensure that the market becomes stable and has orderly trade.[8]

III. Impact of the regulations on companies

(A) Impact on Liquidity and Capital Structure

The objective of MPS directly affects the capital raising strategies of companies since they usually have to issue more shares or restructure their equity base in order to comply with these rules. If there are cases that promoters relinquish any of their interest to the public, such action may technically dilute their ownership and alter the control dynamics. As Business Today points out in one of its reports, the strategic control abilities of the promoters may be undermined if the promoters are asked to dilute their ownership.[9] Liquidity restrictions are also compounded by the promoter lock-in period where promoters are not permitted to sell their shares during a fixed timeframe after the IPO. Because of this lock-in, much of the promoter's cash is tied to the company, thus limiting their ability to reinvest in other projects or change their approach in response to changing market conditions. Companies subject to these kinds of limitations can see how the equity capital becomes illiquid and, therefore, more difficult to raise additional funds through share issues. This would probably force the companies to raise funds through debt, hence changing their capital structure and increasing

[7] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, § 17.
[8] Dhanjal SS, 'SEBI Relaxes Post-IPO Lock-in Requirements' (*mint*, 7 August 2021) https://www.livemint.com/market/ipo/sebi-eases-post-ipo-lock-in-norms-for-promoters-financial-investors-11628259853133.html (last visited Oct. 10, 2024).
[9] 'Minimum Public Shareholding at 35%; Here's How It Will Impact Stock Market Liquidity' (*Business Today*, 5 July 2019) https://www.businesstoday.in/business/union-budget-2019/story/minimum-public-shareholding-at-35pc-here-how-it-will-impact-stock-market-liquidity-210953-2019-07-05 (last visited Oct. 10, 2024).

the financial risk.[10]

Additionally, as the economy is experiencing lock-in period absence, the share prices may be more volatile, hence shying away investors even further. For instance, post expiry of lock-in, the share prices of the tech start-ups like Zomato, Nykaa, and Paytm simply dived to a severe depletion of the investors' value. This volatility reflects the importance of interaction between anchor and retail investors; while anchor investor support in initial stages can build the confidence of retail investors, subsequent fall may entail that trust again. SEBI further states that the very intricacies have been recognized by the regulatory framework of securities, which has proposed lock-in periods to be lengthened so that it enhances market stability as well as safeguards the retail investors.[11]

(B) Investor Perception and Market Reception

The reaction of the market immediately to IPOs and the perception of the investors are significantly dominated by SEBI rules regarding lock-in of promoters and Minimum Public Shareholding. Appreciated for stability and liquidity at the market level, generally under this rule, the MPS rule demands that at least 25% of the shares should be held by the public.[12] However, the frequent changes in compliance with such rules create apprehension among the investors regarding the stability of the respective company that may dampen the investment.[13] Lock-in arrangements for the promoters not allowing shares to be sold immediately on the listing, are a kind of guarantee to the investors and reiterate that one must have “skin in the game".[14] Having skin in the game is to be directly involved in or affected by something, especially financially.[15]

On the other hand, harsh lock-in restrictions may be inconsistent with reasonable perceptions of financial flexibility and compromise the willingness to assist when the company is facing

[10]Loth R, ‘Analyzing a Company’s Capital Structure’ (*Investopedia*) https://www.investopedia.com/articles/basics/06/capitalstructure.asp (last visited Oct. 10, 2024).

[11] PRIYA KATARIA & ANUBHAV JAISWAL, THE GREAT INDIAN IPO RUSH: CHANGES IN LOCK-IN-PERIODS AND ITS EFFECT ON RETAIL INDIVIDUAL INVESTORS, 5 J. ON GOVERNANCE 20 (January 2023).

[12] Harman Khorana and others, ‘SEBI Relaxation on Lock-in Requirements Cheers Private Equity Investors’ (*Legal News & Business Law News*, 10 September 2021) https://natlawreview.com/article/sebi-relaxation-lock-requirements-cheers-private-equity-investors (last visited Oct. 10, 2024).

[13] Cbcl, ‘An Insight into SEBI’s Consultation Paper on Minimum Public Shareholding’ (*NLIU CBCL*, 9 September 2020) https://cbcl.nliu.ac.in/capital-markets-and-securities-law/an-insight-into-sebis-consultation-paper-on-minimum-public-shareholding/ (last visited Oct. 10, 2024).

[14] *See Supra* 11.

[15] *Skin in the Game*, dictionary.cambridge.org, https://dictionary.cambridge.org/dictionary/english/have-skin-in-the-game (last visited Oct. 10, 2024).

adverse periods.[16] The reduction of lock-in periods from 3 years to 18 months in recent times is considered controversial. Although they will increase the liquidity for private equity investors, these also raise question over the long-term commitment of the promoters. However, the reason by which SEBI reduced the lock-in period amount was because it was noticed that even after the extinction of the 3 years of lock-in period, most promoters of companies still retained their shares in a company and did not look to liquidate it.[17] Hence, while SEBI's regulations are aimed at creating investor confidence, they also involve complicated relationships that would impact the market perception and success of the IPO.

(C) Regulatory Compliance Costs

The company would incur direct as well as indirect cost to comply with the regulation of SEBI lock-in and minimum public shareholding. Companies must go for follow-on public issues or restructure their equity just to maintain the minimum required percentage public shareholding. All these measures would significantly financially affect underwriting fees, administrative costs, and the under-pricing of new shares.[18] Management may get distracted from their core business activity because of the time and money spent on remaining compliant. Such distraction can cause businesses to postpone critical capital-raising initiatives or force them to seek alternative funding sources that may not be aligned with their long-term strategic objectives. Moreover, these compliance costs may be exacerbated by the restrictions that lock-in promoter regulations place. Tying up of promoter shares might render equity capital illiquid, which would make it harder to raise more funds by means of equity financing. As such, businesses may resort to more debt financing, thus altering the capital structure and raising financial risk.[19]

IV. CASE STUDIES OF RECENT EXAMPLES

The challenges aforementioned have been faced by companies like Zomato, Paytm and Sapphire Foods in the past. Let us look at how these companies navigated their way through these challenges and made the IPO process efficient.

Zomato (2021)

Zomato is a food delivery company that aggregates meals from various restaurants within the

[16] 'SEBI Eases Minimum Lock-in Duration for Promoters after IPO' (*Hindustan Times*, 7 August 2021) https://www.hindustantimes.com/business/sebieasesminimum-lock-in-duration-for-promoters-after-ipo-101628297730298.html (last visited Oct. 10, 2024).
[17] *See Supra* 12.
[18] *See Supra* 12.
[19] *Ibid.*

vicinity; its stocks had really become volatile on expiry of 30 days for anchor investors (promoters). Tiger Global, BlackRock, and Fidelity were the institutional investors that sold shares once the restriction ended. The selling that ensued followed the previous drop of over 10%. It closed 8.8% lower at ₹127. Investor confidence on how the company will be valued in the future was thus pointed out to be questionable. Markets went into uncertainty because of the fast sell-off. Such market reactions can be very destabilizing in the aggressively competitive rapidly scaling meal delivery industry, as they indicate uncertainty regarding Zomato's long-term growth prospects and also a lack of commitment from significant investors.[20]

Zomato had resorted to a large Offer for Sale (OFS) to alleviate the hurdle of crossing the threshold of SEBI Minimum Public Shareholding norms. This strategy helped the promoters and early investors sell their stakes gradually-including those who had entered through the OFS mechanism. A partial exit would have prevented a quicker flood into the market, which might have played havoc with the decline in stock price. By stabilizing market sentiment, ensuring a better managed transition to further liquidity and by aligning the expectations of promoters with regulatory compliance to deter further losses in the stock price, this approach allowed Zomato to fulfil the regulatory requirements.[21]

Paytm (2021)

The regulatory cause for concern for Paytm was because an issue of show-cause notice was issued by SEBI concerning Vijay Shekhar Sharma's status as a promoter. The controversy was based on SEBI's banning of promoters from acquiring Employee Stock Options after issuance of an IPO. Sharma had transferred 5 percent of his holding before the IPO into a family trust that would bring his holding below the threshold of 10 percent promoter. SEBI raised a question, though if that would be enough, considering he continued to dominate the business. After taking a 10.3% stake in 2023 from Antfin Holdings, there were further troubles in the offing for Sharma.[22]

Institutional investors purchase through the secondary market sale and targeted private placement may be the antidotes to problems facing Paytm and simultaneously comply with

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[20] Saraf Anirudh and others, 'Zomato Falls over 8% as Lock-in Period for Anchor Investors Ends' (*The Economic Times*) https://economictimes.indiatimes.com/markets/stocks/news/zomato-falls-over-8-as-lock-in-period-for-anchor-investors-ends/articleshow/85574587.cms (last visited Oct. 10, 2024).

[21] *Ibid.*

[22] Gadodia - Vivek and others, 'Paytm Issues Clarification on SEBI Show-Cause Notice, Says Not a New Development' (*The Economic Times*) https://economictimes.indiatimes.com/markets/stocks/news/paytm-issues-clarification-on-sebi-show-cause-notice-says-not-a-new-development/articleshow/112808990.cms (last visited Oct. 10, 2024).

the MPS guidelines. As stated by Paytm, the show-cause letter did not entail any negative repercussions to its financial position as all disclosures made related to compliance had been done in the past in relation to legal compliance. The group of the company thought that Sharma should not be treated as a promoter since his reduced equity and management capability. In addition, Paytm stated to SEBI that the said transactions and its shareholder list were according to the provisions of law and enhanced market liquidity by retaining the same in exchange for the same. Thus, Paytm met the requirements of SEBI by taking a diversified approach wherein it retained the stability of internal management by carrying market confidence.[23]

Sapphire Foods (2021)

Important hurdles had to be crossed by Sapphire Foods both in the run-up and post its IPO. No new equity was raised since the IPO was fully an OFS. Because of divestment by present promoters and shareholders, potential investors might have had apprehensions over the long-term trust of important stakeholders. Moreover, at the time of the issue, Sapphire Foods had not reported consistent profitability despite being one of the Yum! Brands' largest franchisees in India, running many prominent restaurants, such as KFC and Pizza Hut. Concerns among investors regarding profitability and sustainability in the highly competitive Quick Service Restaurant (QSR) market were compounded by such factors as rising input costs, increasing competition from other food chains, and having to improve their digital and delivery capacities amid the pandemic.[24]

Sapphire Foods' IPO strategy focused on expanding in under-penetrated regions and increasing digital and delivery options to satisfy changing consumer demands. The company had a large presence in India and planned to use the digital shift in consumer behavior to improve delivery. Furthermore, early promoters were able to partially exit the company while giving new investors a chance to invest in the company's future by organizing the IPO as an OFS. Sapphire Foods was able to comply with regulations and try to calm market sentiment with this approach. The business also highlighted its long-term growth goals and cost-management techniques, emphasizing how it intends to increase its presence in the QSR industry.[25]

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[23] *Ibid.*

[24] 'Sapphire Foods IPO Details - Ipo Date, Price, GMP, Analysis & Review' (*Sapphire Foods IPO Date, Price, GMP, Review, Details*, 28 October 2021) https://www.chittorgarh.com/ipo/sapphire-foods-ipo/1177/ (last visited Oct. 10, 2024).

[25] 'Sapphire Foods IPO Opens for Subscription: Five Things to Know' (*The News Minute*) https://www.thenewsminute.com/money/sapphire-foods-ipo-opens-subscription-five-things-know-157397 (last visited Oct. 10, 2024).

V. PROPOSED SOLUTIONS

(A) Strategic Pre-IPO Readiness

Companies must strategically prepare their capital structure in light of the Minimum Public Shareholding (MPS) and the promoter lock-in while conducting Strategic Pre-IPO Planning. For compliance, companies have to pre-fix, during the pre-IPO stage, how shares are going to be allotted to institutional investors, promoters, and the general public. This stage is critical for achieving the balance between the control dynamics of the promoters and the need for high public shareholding. The structuring of early distributions of shares helps to avoid compliance-related problems in the subsequent stages of the IPO procedure, financial techniques have indicated.[26]

In addition, lock-in periods during which promoters are prevented from selling their shares usually give rise to liquidity issues for the promoters. The impact can be mitigated through financing arrangements including share-backed loans that give promoters access to cash regardless of the freeze in their shares. Other latest changes to the SEBI rules and regulations also empowered for example a reduced lock-in period for institutional investors which can facilitate the benefit of improving financial management on the part of the promoters.[27]

(B) Gradual Stake Dilution Methods

<u>Offer for Sale</u>

OFS is a simplified method was introduced by SEBI in the year 2012, facilitating the lowering of holding percentages by listed companies to meet the minimum public shareholding norms. This method has been quite popularized by private firms as well as the government wherein the former uses this very method to divest stakes in public sector enterprises.[28] In the case of companies like Zomato and Sapphire Foods, OFS can be a potential critical tool for fulfilling all SEBI's Minimum Public Shareholding (MPS) requirements without even remotely causing any kind of market disruption. In this manner, companies might reduce holdings of the promoter and early investors with little volatility to become compliant with the regulations without flooding the market.

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[26] Tamplin T, 'Pre-Initial Public Offering (Pre-IPO): Definition & Overview' (*Finance Strategists*, 25 January 2024) https://www.financestrategists.com/wealth-management/stocks/ipo/pre-initial-public-offering-pre-ipo/ (last visited Oct. 10, 2024).

[27] 'SEBI Tweaks the Regulatory Framework for Initial Public Offerings' (*SEBI Tweaks The Regulatory Framework For Initial Public Offerings - Shareholders - Corporate/Commercial Law - India*, 31 January 2022) https://mondaq.com/india/shareholders/1155722/sebi-tweaks-the-regulatory-framework-for-initial-public-offerings (last visited Oct. 10, 2024).

[28] 'What Is Offer for Sale (OFS)? Definition of Offer for Sale (OFS), Offer for Sale (OFS) Meaning' (*The Economic Times*) https://economictimes.indiatimes.com/definition/offer-for-sale-ofs (last visited Oct. 10, 2024).

For instance, Zomato used OFS to avert sharp in-flow of shares; therefore it cushioned the liquidity and reduced moving averages thus stabilizing its stock price at the time when the lock-in period of anchor investor was getting over. By providing early investors an opportunity to exit through controlled means, Zomato had managed to achieve the MPS criteria in this manner by preventing significant dips in the value of its own stock. Similarly, Sapphire Foods used OFS for the compliance of public shareholding with caution by gradual shares issuance over time to ensure investor's confidence and balance the market performance. This, aside from attracting institutional investors, also helped the company reduce the promoter's stakes step by step and ensure a stable trading environment. Businesses like Zomato and Sapphire Foods manage the IPO compliance issue quite efficiently by stabilizing the stock prices, reducing market volatility, and ensuring a smooth transition to regulatory norms through the OFS.

Qualified Institutional Placement

Qualified Institutional Placement (QIP) is one more capital raising tool for listed entities that allow raising funds from institutional investors without undergoing a more cumbersome set of filings under regulators. This is the procedure applied in India and Southeast Asia; SEBI brought it about to reduce corporate dependency on foreign capital.[29] QIP allows the quoted firms to raise funds quickly and without prolonged regulatory clearances of regular public offerings because they are issuing shares directly to qualified institutional buyers, such as banks and mutual funds. It is particularly crucial for the enterprises that are required to comply with SEBI's MPS rules. Companies can pledge away promoter holdings easily without leading to a flood of excess supply by issuing shares to institutional investors.[30] Furthermore, QIP's will gain market confidence by including some well-known institutional investors. This will help the company achieve compliance with regulations, enhance its image in the market place, and attract more capital. Therefore, QIP is worth a crossing strategy of regulatory hurdles without losing liquidation and raising investor confidence.[31]

(C) Leveraging Employee Stock Option Plans

Employee stock option is a specific type of equity compensation given by companies to their employees and executives. Rather than providing shares of stock directly, the company gives options on the stock. ESOs allow employees to buy shares within a provided time frame at a

[29] Hayes A, 'Qualified Institutional Placement (QIP): Definition and Rules' (*Investopedia*) https://www.investopedia.com/terms/q/qip.asp (last visited Oct. 10, 2024).
[30] *Ibid.*
[31] *Ibid.*

specific price and are quite an excellent incentive for businesses like Paytm. When the interests align, it increases the loyalty and motivation of employees. However, post-IPO SEBI regulations must be adhered to.[32]

About its ESOs, Paytm came under severe criticism, particularly based on the fact that CEO Vijay Shekhar Sharma was treated as a promoter. This is so because SEBI does not permit promoters to receive ESOs in the event of an IPO. When Paytm gifted such an enormous amount of ESOs to Sharma, it turned into a gigantic controversy as there were probable breaches on the regulatory side. The Reserve Bank of India is said to have initiated this probe that only made the regulatory scenario murkier. However, ESOs do improve employees' performance that companies still need to deal with policies on regulatory compliances in order not to cause a ruckus. The Paytm incident is a reflection on how highly compliances are valued whenever ESOs are incorporated into their pay structure.

VI. Conclusion

To conclude, SEBI's laws on Minimum Public Shareholding and lock-in of promoter shares are aimed at promoting greater transparency, liquidity, and long-term stability to Indian capital markets. Though these laws boost the confidence of an investor and check market manipulations to a considerable extent, they also pose some challenges to the companies, in particular, those related to liquidity constraint, compliance cost, and equity dilution. For instance, the impact can even be quite different as demonstrated in the cases of Zomato, Paytm, and Sapphire Foods. Companies usually face stock price volatility after the expiry of the lock-in period, as has happened in the case of Zomato. In the case of Paytm, it was facing the hassle of complying with the rules because of the problems of promoters' compliance. In contrast, Sapphire Foods had followed the route of public offerings and reduced the promoter stakes gradually in such a manner that it complied with the MPS norms without unravelling the market. The following steps can be followed to tackle such challenges: address these challenges by adopting pre-IPO readiness, gradual stake dilution through Offer for Sale and Qualified Institutional Placement, using Employee Stock Option Plans to meet the compliance requirements as well as to motivate employees to a certain extent. Such measures help companies make an efficacious exit into the regulatory climate, striking a balance between liquidity and control.

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[32] *Ibid.*

