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IPO LISTING GAINS–A CONUNDRUM

Introduction

Initial Public Offerings (IPOs) have long been a cornerstone of the financial markets from decades, offering Companies a pathway to raise capital and to investors, an opportunity to participate in the growth story of emerging businesses. One of the most talked-about aspects of IPOs is the phenomenon of "listing gains" – the profit investors make when the stock price rises significantly on its debut trading day. The quick profit on the listing day makes it more attractive.

The listing gain remained an unsolved puzzle for the retail investor basically, it offers the gains on the listing day, but it drives its value from other factors too and its conundrum for both investors and market regulators.

a successful IPO with significant listing gains can be a badge of honour, signalling strong investor confidence and market demand. It can also enhance the company's reputation, making it easier to raise additional capital in the future as well.

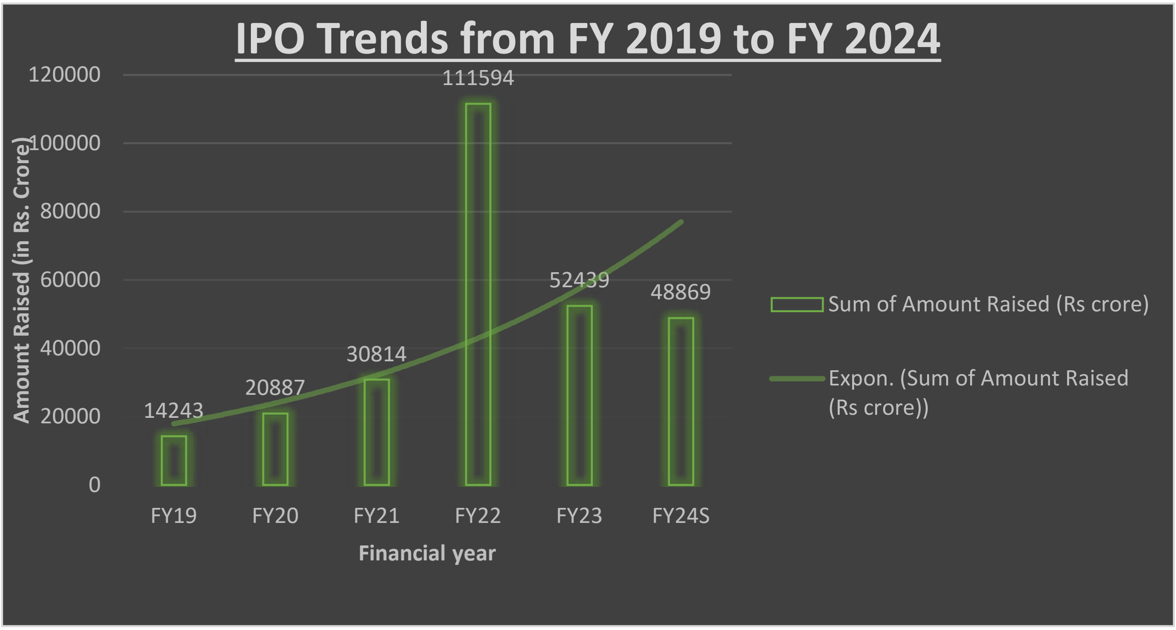
Before discussion on listing gains, it's crucial to understand the IPO process. so, companies go public for various reasons, some of them are, to raising capital for expansion, increasing visibility and credibility, providing liquidity to early investors, and attracting talent through stock options, continued business in the long run, to make brand image of the Company. The IPO process involves appointing investment banks as underwriters who manage the IPO, including valuation, regulatory filings, and distribution of shares.

Valuation is one of the factors, often employing a combination of discounted cash flow analysis, comparable company analysis, and precedent transactions.

However, IPO valuation is as an art cum science, susceptible to biases and market sentiment. Underwriters play a crucial role in this process, balancing the issuer's desire for a high valuation with the need to ensure a successful offering.

[i]As per the reports of the SEBI, Between April 2021 and December 2023, 144 IPOs were listed, with 75% (108 IPOs) delivering positive returns. In fact, 26 of these IPOs saw more than a 50% gain on their listing day. However some IPOs underperformed after listing, this didn't dampen the excitement for new IPOs. A total of 92 IPOs were oversubscribed by more than 10 times, while only 2 IPOs were undersubscribed.

[ii]In 2023-24, total 272 companies raised money through IPO as compared to the 164 companies in 2022-23, The small and medium enterprises (SME) segment recorded highest-ever resource mobilization of 6,095 crores by way of 196 initial public offers (IPOs) in 2023-24.

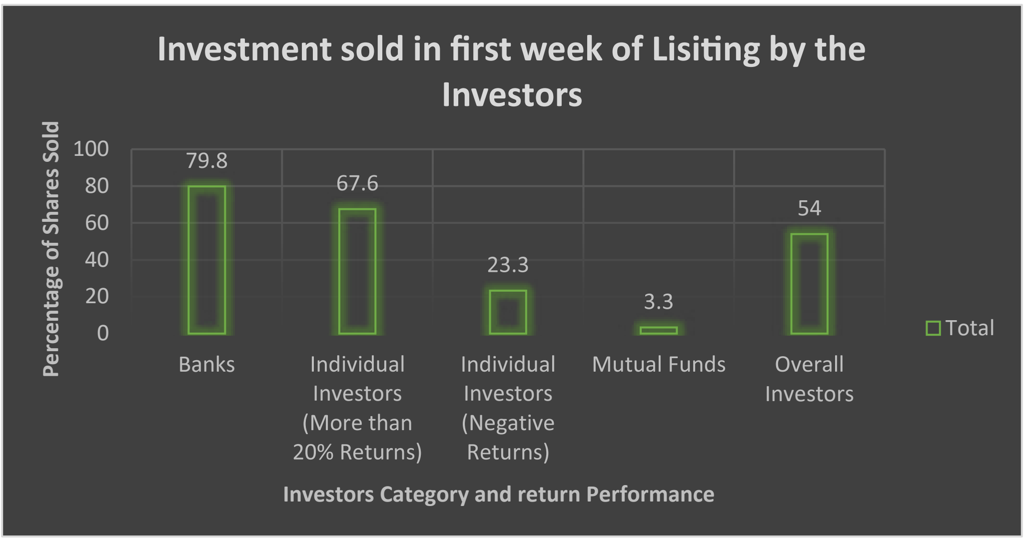


As per the reports, there was a positive correlation between the listing gains in the first week and the percentage of shares sold within that week by Retail and NII category investors.

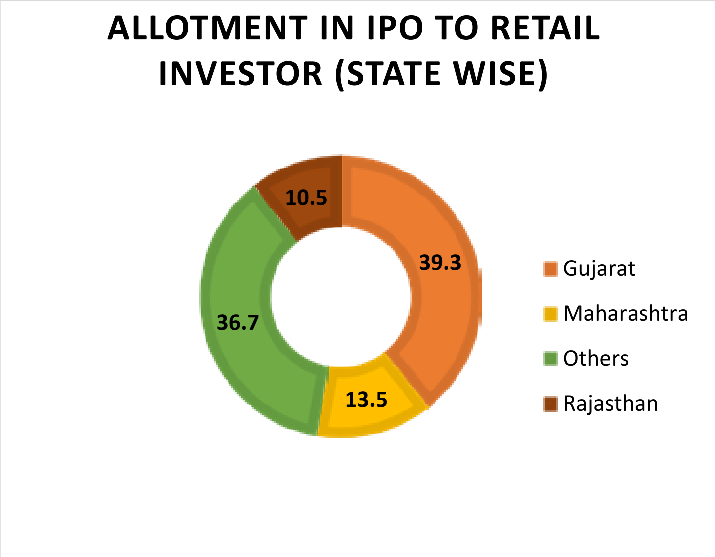
[1]It can be seen that about 54% of IPO shares (in value terms) allotted to Investors (excluding anchor investors) were sold within a week from listing.

Mutual funds typically hold IPO shares for a longer period, while banks tend to sell them quickly. Within a week, mutual funds sold only 3.3% of their allotted shares, whereas banks sold 79.8%.

Individual investors sold 67.6 per cent shares by value allotted to them within a week, when returns were more than 20 per cent and sold 23.3 per cent shares by value, when returns were negative



[1] Analysis of Investor Behavior in Initial Public Offerings (IPOs), Department of Economic and Policy Analysis



THE REPORTS OF THE REGULATORY AUTHORITIES ARE SAYING THAT THERE IS POSITIVE CORRELATION BETWEEN THE LISTING GAINS IN THE PAST YEAR BUT IS IT TRUE AS A WHOLE?

The term listing gains raised some interesting question, some of them are

1. does the listing gains is a sign of that the company is well governed by its Promoters

2. whether listing of shares on over and above reflecting a healthy market sentiment

3. does factors like market sentiments and emotional aspect also affect the price movement.

4. Why do some IPOs deliver spectacular listing gains while others flop? Is it predictable? Are they sustainable?

5. Who Benefits from listing?

6. does listing gains Distract investors from the fundamental value of the Company?

7. Listing gains Vs Long-Term Performance?

THE REASONS BEHIND LISTING GAINS ARE MULTIFACETED:

Underpricing: Underwriters deliberately underprice the IPO to ensure full subscription and create positive buzz. This leaves "money on the table" for initial investors but reduces the risk for the underwriter.

Lack of Information: Issuers and underwriters possess more information about the company's prospects than potential investors. This lack of information can lead to mispricing, with investors potentially undervaluing the company during the IPO process.

Market Sentiment and Momentum: IPOs are affected by market trends and investor interest. in a strong market, stock prices can go up quickly, leading to high listing gains. Many investors buy rising stocks, which pushes prices even higher.

Positive listing: A large listing gain can be interpreted as a positive signal about the company's future prospects, attracting more investors and further driving up the price.

Speculation: Some investors participate in IPOs solely to capitalize on listing gains, quickly selling their shares for a profit. This "flipping" behavior can contribute to the initial price surge.

Media Coverage and Hype: Media hype can inflate investor enthusiasm driving up demand for an IPO and leading to inflated listing gains, regardless of the company's true value.

Greater fool theory: as per this theory, investment can be bought at an inflated price, with the hope that there will always be someone willing to buy it at an even higher price. The theory based on the idea that prices are not always based on the intrinsic value of an asset, but rather on the belief that there will be another buyer willing to pay more.

Grey Market Premium (GMP): it is a price difference between an IPO's issue price and its expected trading price in the unofficial, pre-listing market. It indicates investor sentiment before the official debut.

THE DARK SIDE OR THE MYTH OF LISTING GAINS

Volatility and Sustainability: Listing gains are often short-lived. High initial prices can be unsustainable, leading to sharp corrections and losses for late entrants.

The Bubble Trap: Exaggerated listing gains can create a speculative bubble, detaching the stock price from fundamentals and setting the stage for a painful crash.

Limited Information: Insiders and institutional investors often have more information than retail investors, giving them an advantage and potentially leaving retail investors holding the bag

Losses for Retail Investors: Retail investors, often late to the market can be particularly vulnerable to the volatility and bubbles associated with listing gains, facing significant losses when the hype subsides.

Market manipulation: Sometimes, listing gains can be artificially inflated through manipulative practices, creating a false sense of demand and trapping unsuspecting investors.

Neglect of fundamentals: Focusing solely on listing gains can distract investors from the company's underlying fundamentals, such as its financial health, competitive landscape, and long-term growth prospects.

Disposition effect: There is a tendency among the investor that they are selling the assets that have made financial gains, while holding on to assets that are losing money.

SOME PRACTICAL EXAMPLES IN INDIAN CONTEXT:

Zomato's 2021 IPO, priced at ₹76, saw an initial 51% gain, but its stock later fell below ₹100 per share due to concerns about profitability and competition from Swiggy. Paytm's ₹18,300 crore IPO also faced a disastrous debut, with a 27% drop in share price on listing day. Despite being India's largest fintech company, Paytm's stock continued to underperform, highlighting the risks of overvaluation and speculative market behaviour.

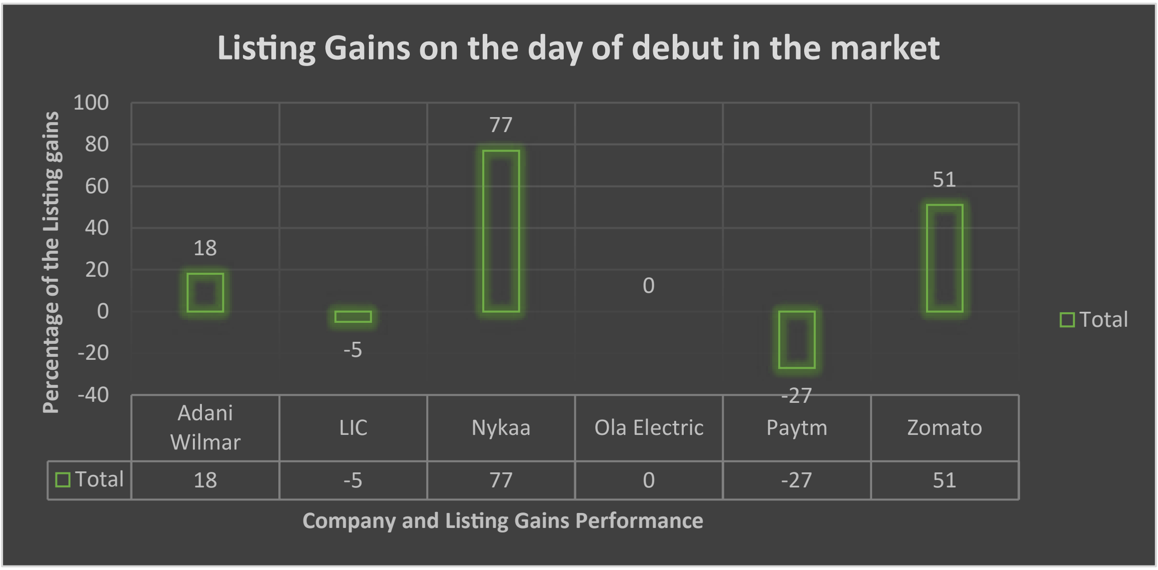
In contrast, Nykaa's IPO in 2021 proved to be a rare success, with a 77% gain on its first day and some sustained upward momentum, driven by the company's strong brand and its positioning in India's growing beauty and e-commerce markets. However, over time, the stock faced fluctuations and a general downtrend, as the broader market corrected and concerns about e-commerce valuations grew.

The LIC IPO, India's largest public offering in 2022, low investor demand with the stock opening at a discount to the issue price. It struggled to sustain its listing gains and continued to face downward pressure as concerns over its long-term growth and market competition emerged.

Adani Wilmar's stock saw a significant surge. The stock opened at ₹270 per share, marking an 18% increase from its issue price of ₹230 on listing day. This initial listing gain reflected strong investor demand, especially considering Adani Wilmar's robust market position in India's growing edible oil and packaged food sector, thereafter the stock faced a deep downtrend due to the news of Hindenburg Research, the US investment firm known for its short-selling activities.

Ola Electric IPO in 2024, even after the visibility OLA have in the market but still the IPO was listed at Rs. 76 at par and there are no listing gains and thereafter the market sentiments taken it to the next level trading at a price of more than Rs.150 but due to some realty check the price again came to its real value

These examples highlight the challenges and risks involved in IPO investments. While listing gains can be lucrative, investors need to be cautious and evaluate the fundamentals of the company, the sector, and the overall market conditions to avoid being caught in speculative hype and ensure long-term success.



	Adani Wilmar	LIC	Nykaa	Ola Electric	Paytm	Zomato
Total	18	-5	77	0	-27	51

Investing in IPOs: A Prudent Approach (For the Informed Investor)

Due Diligence is Key: To be an informed investor focus on, Scrutinizing the prospectus, Financial Statements, Business Model, Management Team, Industry Analysis rather than focusing solely on marketing materials

Not Chasing Listing Gains: Avoid Emotional Decisions, Focus on Long-Term Value

Diversification: Diversify Across Asset Classes, do not allocate a significant portion of the portfolio to a single IPO, setting a limit on the percentage of portfolio that should be allocated to IPOs

Consideration to the Valuation: Price-to-Earnings (P/E) ratio, Price-to-Sales (P/S) ratio, and Discounted Cash Flow (DCF) analysis, Comparison with the Peers, avoiding Overvaluation

Long-Term Perspective: IPO investments as long-term investments, ignore Short-Term Volatility, periodically reviewing the IPO investments to ensure risk and return ratio.

Understanding the Business and Industry: Before jumping into an IPO, it's essential to grasp the business model and long-term viability of the company going public. Evaluate the company's position within its industry, its growth potential, competitive advantages, and any emerging trends that could impact the market.

Conclusion

Listing gains remain a complex and often unpredictable phenomenon influenced by multiple factors, including market sentiment, pricing strategies, investor behaviour, and broader economic conditions. the sustainability of gains has remained questionable, as some IPOs deliver long-term value while others decline after the initial surge. A prudent approach to IPO investing demands thorough research and a long-term perspective, rather than chasing short-term gains. Investors should deeply analyse financial statements, business models, and industry trends to make more informed decisions

Over-reliance on listing gains can lead to irrational investment decisions, exposing retail investors to market volatility and potential losses.

Unless the investors need to be prudent while making the investment decision, the IPO listing gains will remain a conundrum for the investor and the regulator too.

This article is published on Taxmann. The link for the same

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000026319/ipo-listing-gains-%E2%80%93-a-conundrum-experts-opinion

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[i] Analysis of Investor Behavior in Initial Public Offerings (IPOs), Department of Economic and Policy Analysis

[ii] SEBI Annual Report 2023-24

AGM Notice and Annual Report for 2025 – Changes pursuant to LODR Amendment December 12, 2024

Introduction

The Securities and Exchange Board of India (SEBI) introduced significant amendments to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations,2015 (LODR) on December 12, 2024 ['LODR third amendment']. This article provides as to how companies should align their annual general meeting notice and annual report disclosure from April 1, 2025.

Key amendments in LODR

A. AGM Notice 2025

1. **Doing away with the requirement of sending physical copies of annual reports to shareholders:**
   Previously, companies had to send hard copies of annual report to shareholders who hadn't registered their email IDs[i]. Now, instead of sending a physical copy of annual report, companies need to send a letter (in hard copy) to the shareholder, whose email ids are not registered, with a web link to access the full annual copy of annual report of the listed company[ii]. However, shareholders can still request a printed version of annual report of the listed company. Listed companies are obligated under LODR to provide a copy of annual report if requested by shareholders[iii].

   Hence listed companies/RTA need to ensure that Know Your Customer requirement is completed for all shareholders and listed company/ RTA has updated details relating to address of shareholder, email id, photo, etc. of all shareholders of the listed company.

2. **Doing away with the requirement to send proxy forms:**
   As per reg. 44(4) of SEBI LODR listed companies were required to send proxy forms to holder of securities. With LODR third amendment, listed companies need not send proxy forms if listed company is planning to hold annual general meeting through video conferencing or audio-visual mode[iv]. This amendment is more of a clarificatory in nature as Ministry of Corporate Affairs has vide its notification[v] extended the facility for holding general meetings through VC or OAVM mode till September 30, 2025.

3. **Approval of remuneration to non-executive directors exceeding 50% of total remuneration payable to all non-executive directors:**
   A key update in Regulation 17(6) (ca)[vi] is the insertion of the term "financial year," clarifying that shareholder approval by special resolution is required each financial year if a single non-executive director's remuneration exceeds 50% of the total payout to all non-executive directors. This approval was required to be taken by every year by listed companies.

   Now this approval is required to be taken every financial year. If a listed company is proposing to take approval for payment of remuneration under regulation 17(6)(ca) of LODR at the upcoming AGM for 2025 then approval for payment of remuneration to non-executive directors exceeding 50% of total remuneration payable to all non-executive directors, will have to be taken for a particular financial year. So at that AGM for 2025 approval may be taken for payment of remuneration under regulation 17(6)(ca) for FY 25-26.

   This removes any ambiguity about whether approval is a one-time requirement or an annual process.

4. **Rationale along with recommendations of board of directors needs to be given for all special business:**
Regulation 17(11)[vii] of LODR provides for board of directors shall provide their recommendations to the shareholders of the company for special business being transacted at the general meeting. Now LODR third amendment has stated that in addition to recommendation of board of directors for special business rationale will have to be provided for recommendations provided. This means that when companies present special business items for shareholder approval, board of directors will have to specify rationale for recommending the special business for members approval. This requires deliberation by the board of directors while approving the AGM notice. This will help ensure that shareholders have clear insights into why certain decisions are being proposed, promoting informed voting.

B. Annual Report 2025

1. **Schedule V, paragraph C, sub-paragraph (9) of LODR – Reduction in disclosures in annual report.**
LODR third amendment removed three disclosure requirements from the Corporate Governance Report provided in the annual report —stock code, market price data (high/low for each month), and performance comparison with broad-based indices.

   Listed companies had to include these details in their annual reports, but now with effect from annual report for FY 2025 disclosure of these details are no longer mandatory.

   This reduces the burden of compiling market-related data, as much of this information is already available through stock exchanges and public platforms.

2. **Appointment of secretarial auditor for a period of five years**[viii] **-** As per regulation 24A(2) of LODR every listed entity has to appoint secretarial auditor for a period of one term of 5 year. In this regard listed companies will have to take appointment of secretarial auditor for a period of 5 year in the annual general meeting. This agenda for appointment of secretarial auditor would be a special business. Section 102 (2)(a)(iv) of Companies act 2013 provides for appointment of auditors at the annual general meeting. This term 'Auditors' would include statutory auditors and not secretarial auditors as appointment of secretarial auditors for a term of 5 years is not provided under Companies act 2013.

Conclusion:

Key Takeaways for Listed Companies

With SEBI's latest amendments to LODR, listed companies must adapt their AGM processes and annual reporting practices to remain compliant from April 1, 2025, onward. These steps will not only ensure seamless AGM execution.

This article is published on Taxmann. The link for the same

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000026290/agm-notice-and-annual-report-for-2025-%E2%80%93-changes-pursuant-to-lodr-amendment-december-12-2024-experts-opinion

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[i] Regulation 36 (1)(b) of LODR: Deleted by amendment dated December 12, 2024: *Hard copy of statement containing the salient features of all the documents, as prescribed in Section 136 of Companies Act, 2013 or rules made thereunder to those shareholder(s) who have not so registered;*
[ii] Regulation 36 (1)(b) of LODR: Added by amendment dated December 12, 2024: *A letter providing the web-link, including the exact path, where complete details of the Annual Report is available] to those shareholder(s) who have not so registered;*
[iii] Regulation 36(1)(c) of LODR
[iv] Regulation 44 (4) of LODR: *The listed entity shall send proxy forms to holders of securities in all cases mentioning that a holder may vote either for or against each resolution*
Provided that the requirement to send proxy forms shall not be applicable to general meetings held only through electronic mode.
[v] https://www.mca.gov.in/bin/dms/getdocument?mds=4C8ofg1qraQ0BIj5Bx1IJw%253D%253D&type=open#:~:text=2023%20after%20due%20examination%2C%20it,20%2F2020%20dated%2005.05
[vi] *The approval of shareholders by special resolution shall be obtained every financial year, in which the annual remuneration payable to a single non-executive director exceeds fifty per cent of the total annual remuneration payable to all non-executive directors, giving details of the remuneration thereof.*
[vii] *The statement to be annexed to the notice as referred to in sub-section (1) of section 102 of the Companies Act, 2013 for each item of special business to be transacted at a general meeting shall also set forth clearly the recommendation of the board to the shareholders along with the rationale on each of the specific items.*
[viii] *Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year*
Provided that the listed entity shall ensure that with effect from April 1, 2025, the Secretarial Compliance Report submitted to the stock exchange(s) on annual basis is signed only by the Secretarial Auditor or by a Peer Reviewed Company Secretary who satisfies the conditions mentioned in sub-regulations (1A) and (1B) of this regulation

Procedural and Conceptual Impact of RPT Industry Standards

Background:

The Industry Standards on "Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of a Related Party Transaction (RPT)" (**'RPT Industry Standards'**) released by SEBI vide its circular dated February 14, 2025 revamps the minimum information required to be placed before the audit committee and shareholders, wherever required, for approval of a Related Party Transaction ('**RPT**'). It has not only standardized the data requirement but has pushed the management for providing enhanced information to the Audit Committee for approval of RPT so that they can take informed decisions and record the rationale behind critical RPTs.

Introduction:

RPT provisions usually revolve around entities where Director or promoters of the Company or Company is concerned or interested viz. subsidiaries. With the advent of RPT industry standards, it has now become necessary to identify not only the related parties but also the different type of related party transactions (depending on materiality, balance sheet and profit/ loss items and interest of promoters) to be entered into with these related parties as the RPT Industry Standards. Such bifurcation navigates different disclosure requirements for different RPTs.

RPT Industry Standards are applicable for approval of all related party transactions to be entered from FY 2025-26.

In this context, following are some of the recommendatory changes in RPT approval mechanism that a listed entity may undertake to implement RPT Industry Standards.

Recommendations for upgrading RPT approval mechanism:

For better understanding, we would bifurcate the expected procedural changes in following three criteria:

a. Before approval of audit committee
b. At the time of approval of audit committee
c. Post approval of audit committee

Before approval of audit committee:

A. Improvement in data collation process:

The data collated by the listed entity from related parties till date, may not be comprehensive enough to comply with the RPT Industry Standards. Thus, the listed entity may ask for additional data from the related parties, directors, KMPs, promoter, promoter group, etc. as per the recommendations provided below:

- Data required from the directors and Key Managerial Personnel ('**KMP**'):
  The companies are required to provide the details of directors and KMP who have interest in the RPT whether directly or indirectly (i.e., either through any entity or relatives).

  Hence, the disclosures taken from the directors and KMP of the listed entity ***can be upgraded*** *to add the details of entities in which there is an indirect holding or control of the directors (i.e., through any other entity or relatives).*

- Data required from the promoters and promoter group members (**'P&PG'**):

  Since the RPT Industry Standards require the companies to identify those persons/ entities (i.e., related parties) in which the P&PG have concern or interest (directly or indirectly) the disclosure requirements for RPTs may differ considering the transactions with these entities. This data may not be collated till now by the listed entities as there was no such requirement under RPT earlier.

  Hence, annual disclosure and the disclosure at the time of any change, may be taken from P&PG wherein the details of entities in which they are interested or concerned, i.e., they hold 2% shareholding or voting rights of that body corporate (related party), or is a promoter, managing director, manager, Chief Executive Officer of that body corporate (related party) or is a partner, owner or member of any other firm or LLP or other entity would be required.

- Data required from the related parties (**'RP'**) other than subsidiaries:

  - *Some additional details may be taken from a new related party ('**RP**') (possibly at the time of **vendor registration** or at the time of **obtaining approval of RPT from Audit Committee)** which would include financial statements of past 3 financial years with detailed notes to accounts, any shares along with % holding directly or indirectly in the listed entity/ subsidiary company ('**Sub co.**'), latest credit rating of the RP, credibility position of the RP, Defaults in repayment if any in last 3 FYs, etc.*

  - **Annual confirmation** can also be taken from the RPs in terms of any change in the information provided earlier.

- Data required from the subsidiaries:
  If the subsidiary is a party to transaction, the listed entities would also need information from **subsidiaries and especially, foreign subsidiaries** such as financial statements, entities in which they have control, etc.

Such information as may be required from the directors, KMP, P&PG, related parties, subsidiaries, etc. can be collated in the specific formats (provided by the listed entity) for uniformity and completeness of the information required before taking approval of the audit committee.

However, it can be challenging for the listed entities to seek data/ information from KMPs, directors and P&PG as may be required for compliance with RPT Industry Standards in terms of information to be placed for approval.

Obligations to provide disclosure for compliance with RPT Industry Standards

Regulation 5 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 ('**Listing Regulations**') require the listed entity to comply with all the applicable laws.

In furtherance to the same, proviso to Regulation 5 as added in the SEBI amendment dated December 12, 2024 poses responsibility of providing the relevant information to the KMPs, directors, P&PG, or any other person dealing with the listed entity to ensure compliance with the applicable laws.

Thus entities stated above may be required to provide the data to the listed entity for complying with the RPT Industry Standards as well as Listing Regulations and any missing information can be highlighted by the listed entity to its audit committee.

Since the format for placing the RPTs for approval of audit committee has been revised, any approval or ratification required to be taken, post this circular, is required to be approved along with the information as required in RPT Industry Standards.

B. Back-ups for information provided:

Thus the listed entity, may for additional caution in terms of data provided and data validation, also collate/ prepare the following:

- Detailed justification:
  Clear and detailed justification for entering into each RPT is required to be provided by the management of the Company to the audit committee \, considering the need and benefits of the transaction, benefits of entering into such transaction with the said related party, etc.

- SWOT Analysis of the information provided & Management comments:
  Management of the listed entity can undergo SWOT analysis of information proposed to be placed before the audit committee to justify whether the RPT is favourable/ in best interest of the listed entity and the public shareholders and provide its comments for each line item.

- Documents backing the information:
  The correctness of information provided is a must. Hence, supporting documents can be asked from various departments (Finance team, business heads, etc.) backing the information provided so that the audit committee can take informed decisions basis proper backups.

- Third party reports/ Peer comparison:
  In cases where internal documents may not be commensurate, the listed entity can also opt to take third party reports for placing justification on the terms of transaction or can also place peer comparison report to justify the transaction.

At the time of approval of audit committee:

Once such data is received from the related parties and other stakeholders, the listed entity can present all the backups to the audit committee along with the information required to be placed for the RPTs which is required to be segregated into three baskets:

- Material RPT
- Other RPT, but which is with promoter or promoter group or person/ entity in which promoter or promoter group has concern or interest
- Residual RPT

to determine the disclosure requirements while placing the transaction for approval.

A. Basketing of RPT:

Till date, very few listed entities may be basketing the RPTs with P&PG, and other RPs and material RPTs separately at the time of information to be placed before the audit committee.

However, as per the RPT Industry Standards, every listed entity to whom these provisions are applicable, is expected to bifurcate the RPTs into those three baskets with further bifurcation into balance sheet and P&L items at the time of approval of audit committee.

Hence, the listed entity is required to identify the list of related parties and related party transactions with them well in advance with the budget analysis for each transaction which will enable the listed entity to bifurcate the transactions into above baskets.

The agenda shall also be placed before the audit committee for approval in this format only so that the audit committee can easily evaluate the transactions which are material or conducted with P&PG or their interested or concerned entities or other RPs for their further analysis.

Since we have referred to some additional information required from the internal/ external stakeholders for entering into RPT, let us also look into further recommendations in terms of action points which can be relevant before/ while taking approval of the audit committee.

B. Presentations during the meeting:

Various external parties, auditors, management, business or finance teams can be asked to give detailed presentation before the audit committee to clarify critical aspects of the RPT *(e.g. valuer can present the basis of valuation provided in the valuation report, etc.)* to enable the audit committee to make decisions.

C. Minutes of the meeting:

All the comments provided by the audit committee at the time of approval/ ratification of RPTs are required to be mentioned in the minutes of the audit committee meeting.

Post approval of audit committee:

Reconciliation of data:

Apart from all of the above, it is necessary that the correct and similar data is presented in various documents provided by the listed entity internally or externally to the public or regulators.

Once such reconciliation can be done with the amount related party transactions stated in details entered in the integrated governance report, disclosure made under reg 23(9) and the audit committee approval documents along with financial statements.

Basis all the information placed before the audit committee considering the above procedural changes made to ensure comprehensiveness and correctness of the data, audit committee is expected to critically review the same and give approvals on RPTs.

Conclusion

The management of the listed entity may strive to collaborate with all external and internal stakeholders including various departments to upgrade the systems and processes followed for approval of RPT as the onus will be on audit committee (specifically independent directors) to approve the transactions and critical evaluation of all transactions would be undertaken by them. These directors would ask detailed information and clarifications from the management before taking any decision and hence, arrangement of adequate information/ documents for justification of each RPT is a must!!

This article is published on Taxmann. The link for the same

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000026289/procedural-and-conceptual-impact-of-rpt-industry-standards-experts-opinion

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CHALLENGES IN DOING CSR IMPACT ASSESSMENT

What is Corporate Social Responsibility:

Corporate Social Responsibility programs aim to give structure to a Company's efforts to give back to the community and provide positive social value. Businesses increasingly turn to CSR to make a difference and build a positive brand around their Company and because social responsibility is not a mandated practice, it can function as a powerful differentiator for Companies that partake.

Corporate social responsibility (CSR) is a self-regulating business model that helps a Company be socially accountable to itself, its stakeholders, and the public.

By practicing corporate social responsibility, also called corporate citizenship, Companies are aware of how they impact aspects of society, including economic, social, and environmental. Engaging in CSR means a Company operates in ways that enhance society and the environment instead of contributing negatively to them.

Corporate social responsibility is a business model by which Companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.

CSR can help improve society and promote a positive brand image for Companies.

Types of CSR:

1. **Environmental responsibility:**

   Corporate social responsibility is rooted in preserving the environment. A Company can fulfill the responsibility by reducing pollution and emissions in manufacturing, recycling materials, replenishing natural resources like trees, or creating product lines consistent with CSR.

2. **Ethical responsibility:**

   Corporate social responsibility includes acting fairly and ethically. Instances of ethical responsibility include fair treatment of all customers regardless of age, race, culture, or sexual orientation, favorable pay and benefits for employees and transparency for investors.

3. **Philanthropic responsibility:**

   CSR requires a Company to contribute to society, whether a Company donates profit to charities, enters into transactions only with suppliers or vendors that align with the company philanthropically, supports employee philanthropic endeavors, or sponsors fundraising events.

4. **Financial responsibility:**

   A Company might make plans to be more environmentally, ethically, and philanthropically focused, however, it must back these plans through financial investments in programs, donations, or product research including research and development for products that encourage sustainability, creating a diverse workforce, social awareness, or environmental initiatives.

As a company engages in CSR, it is more likely to receive favorable brand recognition. Additionally, workers are more likely to stay with a Company they believe in. This reduces employee turnover, total cost of a new employee.

CSR practices help companies mitigate risk by avoiding troubling situations. This includes preventing adverse activities such as discrimination against employee groups, disregard for natural resources, unethical use of Company's funds, and activity that leads to lawsuits and litigation.

Applicability of CSR as per Companies Act, 2013:

As per Section 135(1) of the Companies Act, 2013 Every Company having net worth of Rupees Five Hundred Crore or more or Turnover of Rupees One Thousand Crore or more or a Net Profit of Rs. Five Crore or more during immediately preceding Financial Year shall constitute Corporate Social Responsibility Committee of the Board consisting three or more directors out of which at least one director shall be an Independent Director.

Also as per Section 135(5) Company covered under sub section (1) of Section 135 of the Companies Act, 2013 have to spent in every Financial year at least two percent of the average net profit company made during the three immediately preceding financial year, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.

Impact Assessment:

The purpose of impact assessment is to assess the social impact of a particular CSR project. The intent is to encourage companies to take decisions before deploying CSR amounts and assess the impact of their CSR spending. This not only serves as feedback for companies to plan and allocate resources better but shall also deepen the impact of CSR.

Companies are required to undertake impact assessment:

As per **Rule 8(3) of the Companies (CSR Policy) Rules, 2014** following class of Companies to conduct impact assessment:

(i) Companies with minimum average CSR obligation of Rs. 10 crore or more in the immediately preceding 3 financial years; and

(ii) Companies that have CSR projects with outlays of minimum Rs. 1 crore and which have been completed not less than 1 year before undertaking impact assessment.
Impact assessment shall be carried out project-wise only in cases where both the above conditions are fulfilled. In other cases, it can be taken up by the company on a voluntary basis.

The provisions for impact assessment have come into effect from 22nd January, 2021. Accordingly, the company is required to undertake impact assessment of the CSR projects completed on or after January 22, 2021. However, as a good practice the Board may undertake impact assessment of completed projects of previous financial years.

Rule 8(3) of the Companies (CSR Policy) Rules, 2014 requires that the impact assessment be conducted by an independent agency. The Board has the prerogative to decide on the eligibility criteria for selection of the independent agency for impact assessment.

Rule 8(3)(b) of the Companies (CSR Policy) Rules, 2014 provides that impact assessment reports shall be placed before the Board and shall be annexed to the report on CSR. It is clarified that web-link to access the complete impact assessment reports and providing executive summary of the impact assessment reports in the annual report on CSR, shall be considered as sufficient ` compliance of the said rule.

In case two or more companies choose to collaborate for the implementation of a CSR project, then the impact assessment carried out by one company for the common project may be shared with the other companies for the purpose of disclosure to the Board and in the annual report on CSR. The sharing of the cost of impact assessment may be decided by the collaborating companies subject to the limit as prescribed in rule 8(3)(c) of the Companies (CSR Policy) Rules, 2014 for each Company.

The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022 provides that permissible expenditure on social impact assessments at 2% of the total CSR expenditure for the relevant financial year or Rs. 50 lakh, whichever is higher.

Need for Impact Assessment:

There is a growing importance for companies today to accomplish CSR goals as a way to give back to society. And it has become critical as well as mandatory in India for companies to prioritize social responsibility. A Corporate Social Responsibility Impact Assessment is needed to evaluate the social impact of a CSR project. With the CSR Impact Assessment report, a company can measure the impact quantitatively to benefit society at large. It also provides a deep insight into the development of the community.

The Significance of CSR Impact Assessment:

1. Enhancing Transparency and Accountability:
Effective CSR Impact Assessment promotes transparency and accountability within organizations. By evaluating their social responsibility efforts, companies can communicate their performance to stakeholders, building trust and credibility.

2. Identifying Areas for Improvement:
Conducting a comprehensive CSR Impact Assessment allows organizations to identify areas where their initiatives can be strengthened. By recognizing shortcomings, companies can develop targeted strategies for improvement, thereby maximizing their positive impact.

3. **Mitigating Risks and Ensuring Compliance:**

CSR Impact Assessment helps companies identify potential risks and ensure compliance with relevant regulations. By proactively assessing their impact, organizations can avoid legal issues, reputational damage, and other adverse consequences.

CSR Impact Assessment plays a vital role in evaluating the social responsibility performance of organizations. By assessing the impacts of their activities and initiatives, companies can enhance transparency, identify areas for improvement, mitigate risks, and foster long-term sustainability. Through the use of quantitative and qualitative methods, engaging stakeholders, and considering key aspects, organizations can unlock the true potential of CSR and make a meaningful impact on society and the environment.

Challenges in doing CSR impact assessment:

Conducting CSR assessments is now crucial for large corporations. Beyond compliance, assessing CSR projects helps companies understand the real impact of their social initiatives and build transparency. A strong assessment brings accountability, and strategic insights, and boosts stakeholder credibility.

However, this process isn't without challenges. Companies face challenges like gathering reliable data, managing budgets, and aligning CSR efforts with community needs.

1. **Measurement in Quantitative Terms:**

Measuring the impact of CSR activities which includes community, social and environmental benefits are difficult. Because assessing the impact in this areas is difficult to measure as it cannot be measurable in specific and quantitative terms and which cannot be visible immediately.

2. **Changes in Regulations:**

India is a dynamic country were governing bodies and rules and regulations are changing according to which policies are changing, hence it is difficult for corporations to cope up with changing needs which will impact the CSR initiative of the Company. Companies have to adopt strategies to stay compliant with changing needs.

3. **Accurate Data:**

Companies involved in doing CSR expenditures in various areas such as remote areas were it is difficult to gather the actual and true data which often leads to lack of measuring the CSR impact assessment which unable to give the clear and fair view of the impact of CSR initiative of the Company.

4. **Long Term Impact:**

For clear view of Long Term impact it requires continues monitoring and evaluation which is challenging due to changes in business priorities, team change, other disruptions.

Also CSR impact is steady process which means assessing the long term impact is difficult and to evaluate the social and environmental changes is hard to evaluate.

5. **Company Goals and Community Needs:**

   CSR projects should benefit the Company and community both, but the alignment is not easy as the plans of the Company may differ from what the community actually wants and what are the expectations of the community. Hence it is difficult to assess the impact what Company has spent for community.

6. **Constraint of Resources:**

   Sometimes due to lack of Resources Company cannot effectively monitor the CSR Impact. Such as human resources, financial resources which important for evaluation and monitoring.

7. **Standard for Impact Assessment:**

   Different Companies adopt different strategies and different methods for measuring the CSR Impact which leads to challenging in assessing the overall impact industry wise.

8. **Stakeholder Engagement:**

   For the impact assessment engagement of all stakeholders is crucial but it is challenging due to different perspectives of stakeholders alongwith efficiency and readiness and different interests for overall assessment program.

9. **Reporting:**

   Due to there is no standards for impact assessment Companies may not report the activities due to some circumstances which can be challenge in assessing true impact of the CSR activities.

Overcoming the challenges in the impact assessment of CSR projects is essential for both business success and social progress. Addressing these hurdles ensures the CSR initiatives are impactful and compliant.

This article is published on Taxmann. The link for the same

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000026309/challenges-in-doing-csr-impact-assessment-experts-opinion

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Modes available to Liquidate the Company

What is the Winding Up of a Company?

Winding up is the formal process of closing a company, as defined in Section 2(94A) of the Companies Act, 2013. This involves stopping business activities, selling assets, paying off debts, and ultimately dissolving the company. During this process, the company remains a legal entity and can participate in legal proceedings.

Key Aspects of Winding Up of Company

- **Cessation of Business Activities**: The company stops conducting its usual business operations.
- **Appointment of Liquidator**: A liquidator is appointed to oversee the process.
- **Asset Liquidation**: The company's assets are collected and sold.
- **Debt Settlement**: The proceeds from the asset liquidation are used to pay off creditors.
- **Distribution of Remaining Assets**: Any surplus is distributed among the shareholders.
- **Legal Entity Status**: The company retains its legal entity status during the winding-up process and can engage in legal proceedings.
- **Dissolution**: The final step is when the company is officially dissolved and ceases to exist.

The primary goal of winding up is to ensure that the closure of the company is conducted in an orderly manner, with due regard to the interests of all stakeholders, including creditors, employees, and shareholders.

Modes of Winding Up of a Company

Under Section 293 of the Companies Act 2013, there are three primary ways to wind up a company:

- Compulsory Winding Up (By the Court)
- Voluntary Winding Up
- Winding Up Subject to the Supervision of the Court

Compulsory Winding Up of Company

Compulsory winding up is one of the modes of winding up a company; it is initiated by a court order, usually upon the petition of a creditor, the company itself, or the Registrar of Companies. The conditions under which a court can order the winding up of a company include:

- **Inability to Pay Debts**: If a company is unable to pay its debts and a creditor has demanded payment and not received it within three weeks, the creditor can petition for winding up.
- **Special Resolution**: If the company has resolved by a special resolution that it should be wound up by the court.
- **Default in Holding Statutory Meeting**: If the company has not held its statutory meeting or filed its statutory report.
- **Acts Against Sovereignty and Integrity**: If the company is found to be acting against the sovereignty and integrity of India or public order.

- **Fraudulent Conduct**: If the business of the company is being conducted fraudulently or for an unlawful purpose.

Once a winding-up order is made, an official liquidator is appointed by the court to take control of the company's assets and liabilities.

Voluntary Winding Up of Company

Voluntary winding up can be initiated by the members of the company without court intervention. There are two types of voluntary winding up:

- **Members' Voluntary Winding Up**: This occurs when the company is solvent and able to pay its debts in full within a specified period. The directors must make a declaration of solvency, followed by a resolution passed by the members in a general meeting. An official liquidator is then appointed to wind up the company's affairs.

- **Creditors' Voluntary Winding Up**: This occurs when the company is insolvent and unable to pay its debts. The process begins with a resolution by the members, followed by a meeting of the creditors. The creditors have a significant role in appointing the liquidator and overseeing the winding-up process.

In both types of voluntary winding up, the liquidator is responsible for collecting the company's assets, paying off its liabilities, and distributing any remaining assets to the members.

Strike off: Removal of Company Name from Register of Companies by Registrar

The MCA is December, 2016 brought to force Section 248 to 252 of the Companies Act, 2013 to lay the foundation for removal of company name from Register of Companies. As per Section 248 to 252, the Registrar of Companies has the following powers to remove name of company from the register of companies, if the Registrar has reasonable cause to believe that:

- The company has failed to commence its business within one year of its incorporation;

- The company is not carrying on any business or operation for a period of two immediately preceding financial years and has not made any application for obtaining the status of a dormant company.

If such is the case, the Registrar can remove the name of the company from the register of companies by sending a notice to the company and all the directors of the company. The notice from ROC would present the ROC's intention to remove the name of the company from the register of companies and request the company to send representations along with copies of the relevant documents, if any, within a period of thirty days from the date of the notice.

Voluntarily Removing Company Name using Form Form STK-2

This process for removing a company name from the register of companies can also be initiated by the company by filing Form STK-2. To file Form STK-2, the company should have extinguished all its liabilities and execute a special resolution for removal of company name from register of companies with the consent of 75% of members in terms of paid-up share capital. In case the company is regulated under a special Act, approval of the regulatory body constituted or established under that Act should also be obtained and enclosed with the application.

Closing of Company by Filing Form STK-2

After filing of Form STK-2 by the company, the Registrar has the powers and duty to satisfy him/herself that sufficient provision has been made for the realisation of all amount due to the company and for the payment or discharge of its liabilities and obligations by the company within a reasonable time. If necessary, the ROC can also obtain necessary undertakings from the managing director, director or other persons in charge of the management of the company. On completion of the above formalities, the ROC would cause a public notice to be issued regarding the intended closure of the company. After expiry of the time mentioned in the notice, the Registrar can, strike off its name from the register of companies, and publish notice of striking-off of name of company in the Official Gazette. On publication in the Official Gazette of this notice, the company is held to be dissolved.

Winding Up under the Supervision of the Court

In certain situations, even if a company is undergoing voluntary winding up, the court may intervene and place the winding up under its supervision. This usually happens if the court believes that the process is not being conducted properly or if it is in the interest of justice to do so. The process then continues under the oversight of the court, which can make orders and directions as necessary.

Procedure for Winding Up a Company in India

Winding up a company is a structured process involving several key steps to ensure an orderly closure of the company's operations, settlement of liabilities, and distribution of assets. Here is a detailed procedure for different modes of Winding up of a Company in India:

Resolution or Petition

- **Voluntary Winding Up**: Initiated by passing a resolution in the general meeting of the company. In the case of a Members' Voluntary Winding Up, a declaration of solvency must also be made by the directors.
- **Compulsory Winding Up**: Initiated by filing a petition in the court, usually by a creditor, the company itself, or the Registrar of Companies.

Appointment of Liquidator

- A liquidator is appointed to manage the winding-up process.
  - **Voluntary Winding Up**: The members or creditors appoint the liquidator.
  - **Compulsory Winding Up**: The court appoints the official liquidator.

Notice of Resolution or Petition

- The winding-up resolution or court order must be published in the Official Gazette and a local newspaper to inform the public and stakeholders.

Collection and Realization of Assets

- The liquidator takes control of the company's assets, books, and records.
- The liquidator collects and sells the company's assets to generate funds.

Settlement of Liabilities

- The proceeds from the sale of assets are used to pay off the company's debts and liabilities.
- The liquidator prioritizes the payment of secured creditors, followed by unsecured creditors, employees, and other claimants.

Distribution of Remaining Assets

- After settling all liabilities, any remaining assets are distributed among the members or shareholders according to their shareholding or claims.

Final Meeting and Dissolution

- **Voluntary Winding Up**: A final meeting of the members or creditors is held to present the liquidator's report on the winding-up process.
- **Compulsory Winding Up**: The liquidator submits a final report to the court.
- After the final meeting or report, the company is formally dissolved, and its name is struck off the register of companies.

Filing of Final Documents

- The liquidator files the final accounts and returns with the Registrar of Companies, including a statement of accounts, the liquidator's report, and a return of the final meeting.

Official Dissolution

- Upon satisfaction that the winding up has been properly conducted and all procedures have been followed, the Registrar of Companies issues a certificate of dissolution.
- The company is officially dissolved, ceasing to exist as a legal entity.

Conclusion

Winding up a company in India is a structured process governed by legal frameworks to ensure fair treatment of creditors, members, and other stakeholders. Whether through court intervention, voluntary action by members, or under court supervision, each winding up of a company aims to systematically close down the company's operations, settle debts, and distribute any remaining assets. Understanding the modes of winding up a company and their specific requirements is crucial for company directors, creditors, and stakeholders to navigate the winding-up process efficiently and in compliance with the law.

This article is published on Taxmann. The link for the same

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000026302/modes%C2%A0available-to-liquidate-the-company-experts-opinion

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NEWS UPDATES AND AMENDMENTS FOR THE MONTH OF MARCH 2025

Sr. No.	News Updates	Link
	TOPIC	
1	**CSR**	Rework the CSR framework to incorporate a sliding scale of contributions and tax breaks **https://economictimes.indiatimes.com/opinion/et-commentary/rework-the-csr-framework-to-incorporate-a-sliding-scale-of-contributions-and-tax-breaks/articleshow/119222050.cms** **https://indiacsr.in/india-plans-major-update-to-companies-act-with-focus-on-csr-and-compliance/**
2	**SEBI**	Disclosure dilemma: Why SEBI's new rules on related-party transactions are under fire **https://www.livemint.com/companies/related party-transactions-sebi-guidelines-disclosure-rules-additional-compliance-burden-operational-delays-11741776057291.html**
3	**IPO**	NSE IPO Countdown: SEBI Chairman's views, expected timeline & 3 things investors must know **https://www.financialexpress.com/market/nse-ipo-countdown-sebi-chairmans-views-expected-timeline-amp-3-things-investors-must-know-3787560/**
4	**SEBI**	SEBI doubles FPI disclosure limit to Rs 50,000 crore, to set up committee to review conflict of interest **https://economictimes.indiatimes.com/markets/stocks/news/sebi-doubles-fpi-disclosure-limit-to-rs-50000-crore-to-set-up-committee-to-review-conflict-of-interest/articleshow/119425741.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst**
	Amendments, Notifications and Circulars	**Particulars**
1.	**Online Filing System for reports filed under Regulation 10(7) of SEBI (Substantial Acquisition of**	SEBI mandates filing of application of exemption under regulation 10(7) of SAST in online form. Application is filed under regulation 10(7) giving details of acquisition of voting rights for which

	Shares and Takeovers) Regulations, 2011	exemption is claimed under reg. 10 of SAST from making open offer **https://www.sebi.gov.in/legal/circulars/mar-2025/online-filing-system-for-reports-filed-under-regulation-10-7-of-sebi-substantial-acquisition-of-shares-and-takeovers-regulations-2011_92791.html**
2.	**Industry Standards on "Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction"**	ISF RPT standards due date extended July 1, 2025 **https://www.sebi.gov.in/legal/circulars/mar-2025/industry-standards-on-minimum-information-to-be-provided-for-review-of-the-audit-committee-and-shareholders-for-approval-of-a-related-party-transaction-_92843.html**
3	**Disclosure of holding of specified securities in dematerialized form**	SEBI Circular dated 20 March 2025 - Disclosure of holding of specified securities and Holding of specified securities in dematerialized form **https://www.sebi.gov.in/legal/circulars/mar-2025/disclosure-of-holding-of-specified-securities-in-dematerialized-form_92797.html**

VIEW SHARED IN MEDIA - FOR THE MONTH OF MARCH 2025

Sr. No.	Topic for Media Comment	Link
1.	**SEBI consultation paper reviewing minimum application size for contribution towards subscription of Zero Coupon Zero Principal instruments issued by NPO**	Within a period of two months, SEBI has released a second consultation paper on the Social Stock Exchange. The current proposal on reducing the application size for NPOs is in line with the same objective." He further noted that simplifying processes is a welcome step and called for greater visibility for NPOs once listed on BSE and NSE. "Providing easy accessibility to an NPO's work, social impact, and financial performance will encourage more participation," he added. https://www.cnbctv18.com/market/how-sebi-plans-to-boost-retail-participation-in-the-social-stock-exchange-19570540.htm
2.	**SEBI (ICDR) Regulations**	PTI (Press Trust of India) service is subscribed by 20,000 small and large publications across the countries...Hence the copy has gone viral. Further Sebi has increased the minimum application size for SME IPO to two lots making entry stricter to avoid unnecessary speculation in SME IPO. This would help protect the interest of gullible investors who generally invest looking at the escalating share price," Makarand M Joshi, founder and Partner of corporate compliance firm MMJC and Associates, said. Joshi said DRHP pertaining to IPO on the SME segment, which was till now cleared by the stock exchange, would now be available for public comment on the SME exchange, website of the issuer and merchant banker to the issue. The public would be made aware by way of a public advertisement that SME IPO DRHP is available for public comment. Sebi Tightens SME IPO Rules: Profitability, OFS Cap, Stricter Entry - News18 https://www.etvbharat.com/en/!business/sebi-amends-rules-to-tighten-sme-ipo-norms-enn25031003502

		https://www.deccanherald.com//business/sebi-tightens-norms-for-sme-ipos-3439930 https://www.outlookbusiness.com/markets/sebi-tightens-norms-for-sme-ipos https://www.moneycontrol.com/news/india/sebi-tightens-norms-for-sme-ipos-12960688.html https://www.theweek.in/wire-updates/business/2025/03/10/dcm22-biz-sebi-sme-ipo.html https://economictimes.indiatimes.com/markets/ipos/fpos/sebi-tightens-norms-for-sme-ipos/articleshow/118840545.cms?from=mdr https://timesofindia.indiatimes.com/business/india-business/sebi-tightens-norms-for-sme-ipos/articleshow/118840631.cms https://timesofindia.indiatimes.com/business/india-business/sebi-tightens-norms-for-sme-ipos/articleshow/118840631.cms https://www.thehindu.com/business/sebi-amends-rules-to-tighten-sme-ipo-norms/article69312781.ece https://www.rediff.com/business/report/sebi-tightens-norms-for-sme-ipos/20250310.htm#:~:text=The%20amount%20allocated%20for%20general,parties%2C%20whether%20directly%20or%20indirectly. Telegraph India | Latest News, Top Stories, Opinion, News Analysis and Comments
3.	**SEBI notifying amendments to definition of Unpublished price sensitive information (UPSI) under SEBI PIT Regulations.**	With this amendment now events that are deemed to be UPSI have increased from earlier five events to 16 events. This will lead to a decrease in litigations on point whether a particular event is UPSI or not? Also this will further reduce appeals that were successful on the basis of identification of UPSI. Sebi expands the scope of unpublished price-sensitive information | Markets News - Business Standard https://money.rediff.com/news/market/sebi-expands-upsi-scope-fundraising-restructuring/23450420250313

		https://cfo.economictimes.indiatimes.com/news/governance-risk-compliance/sebi-expands-scope-of-unpublished-price-sensitive-information/118979581 https://www.theweek.in/wire-updates/business/2025/03/13/dcm43-biz-sebi-upsi.html