Key Challenges for Potential Mid Cap IPOs

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Since christening of SEBI office in 1992, it has always kept ethos of protection of investor interest in their mind and actions and at the same time they have established and constantly focus on having a robust environment for fund raising by corporates through various instruments over the period. With an intent to ease capital raising environment for corporates in India and protecting investor interest against any unscrupulous 'fly-by-night' operators, SEBI introduced various regulatory frameworks and brought in relevant amendments thereto basis various iterations over the period. To catch pace with the evolving economic trends in India, with the introduction of various fund raising products for large corporates on main board, we have seen alternate capital raising platforms being introduced by SEBI such as SME IPO platform and Institutional trading platform for SME and start-ups/growth platforms, respectively.

While the SME IPO platform typically see issue sizes upto Rs. 100 crores, we have witnessed an increasing shift in the typical issue sizes of IPOs on the main board from Rs. 600-800 crores during 2012-2018 to a new normal of around Rs. 1,300 -1,500 crores post 2018. The quench for capital of corporates during the covid period and thereafter was clearly visible from the fund raisings during the period from 2021 till recently, which saw a slugfest of IPOs in the Indian Capital Market history from various aspects such as conglomerates raising capital, start-ups turned unicorns hitting the capital raising ring and largest public issuances by public or private corporates so far. Amidst the slugfest of fund raising involving large corporates, we saw some mid-cap IPOs in the range of around Rs. 600-800 crores (which was erstwhile considered to be a normal range) which although did not get the requisite attention for various reasons at the start of their IPO process, however their remarkable debut in the primary markets and strong investor confidence reposed in such companies post listing have created an interesting sweet spot on main board for niche segment companies (companies such as specialised chemical, IT services, digital space and manufacturing)

Give the recent success stories, we are very optimistic that we will be seeing many more mid cap IPOs in the coming times. While we foresee a strong craving of investors for mid-cap IPOs,however, the key challenge for all mid-cap companies planning for an IPO would be to develop an effective risk management strategy that strikes a balance between probable risks and opportunities. The key challenges would entail astute planning, managing increased regulatory responsibilities and investor expectations.

Robust planning and preparation

Planning and execution is critical. Preparation for an IPO should begin with building a qualified team of both external and internal professionals. Success is dependent to a great extent on a coordinated effort of the internal management and the advisory team. Before kick starting the IPO process, it is important to consider various aspects, inter alia, requirement of restructuring of business, optimising the capital structure, right pricing, regulatory requirements for IPO and post listing, financial requirements for the IPO and post listing, building a well thought business model which should resonate with the trailing numbers on one hand and captures the deployment of proceeds of the IPO and growth potential on the other hand.

Deciding optimum dilution

Right pricing of the IPO and the holding benchmarks are a key to leverage future fund raising opportunities. While listing may lead to induction of some marquee investor names in the shareholding pattern, however, on the other hand fresh infusion of funds from investors would also lead to dilution of promoter stake in the company thereby leading to compromising on autonomy in decision making to some extent. Having an optimum holding in the company post completion of IPO should be imperative for any promoter keeping in mind the future funding requirements to meet future growth plans and the interest of all stakeholders.

Increased Regulatory vigilance

When a company goes public it gets listed on the exchanges where its shares can be traded freely. Such companies are required to adhere to regulatory standards and certain disclosure norms. Thus, going public comes with additional compliance responsibilities and increased regulatory oversight along with added reporting requirement. As a listed company, it would be imperative to have dedicated resources to plan, establish, monitor and necessary infrastructure to ensure compliance with various regulatory requirements in timely manner.

Adhere to Corporate Governance requirements

Strong and effective corporate governance helps to cultivate a culture of integrity, leading to positive performance and a sustainable business overall. When a company has solid corporate governance, it signals to the market that the organization is well managed and that the interests of management are aligned with external stakeholders.

Corporate governance typically starts with having an optimum mix of the board of directors. They have a fiduciary responsibility which is important in company governance hence having a proper combination of independent and non-independent directors having experience in relevant domains is very key in over governance of the company affairs. Further, with the increasing number of discerning stakeholders including proxy firms it is imperative to have a robust board and management team to adopt and adhere to the various corporate governance standards introduced by the regulator, regulatory bodies and which may be market practice.

Investor expectations

Founders tend to have a long-term view, with a vision of what their company will look like years from the present and how it will impact the world. In order to satisfy current expectations of the investors (including important business updates, continued research coverage and commentaries on financial results), the company might need to achieve the short-term operational goals at the expense of the longer-term strategic prospects. Even if leadership is doing what may be best for the company in the long-run, failing to meet the public's short-term goals may cause the company to achieve confidence of the investors. Founders who do not like the idea of being constrained by short-term public goals should think carefully before going public.

The decision to undertake an IPO is a huge step in the lifecycle of a company. Companies, specifically midcap companies, need to analyse the key question – '*Whether we are ready to deliver?*'. To be mildly put, although the transition to be a listed company and the life thereafter could be tedious on certain aspects *vis-à-vis* the life as a private company, but it could be seen as a structured transformation for the organization and the management team as a whole and when coupled with strong execution could open up a window of opportunities for enhancing value creation for all stake stakeholders going forward.