

**ANNEXURE A - EXCHANGE CRITERIA FOR RETURN/ REJECTION OF DRAFT OFFER DOCUMENT FILED ON BSE -
SME PLATFORM**

1. Introduction:

- It is imperative for the merchant bankers and/ or the issuer to make adequate and complete disclosures which are compliant with Schedule VI of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“**ICDR Regulations**”).
- The Exchange has observed that at times, the draft offer documents filed with the SME – BSE platform (“**Exchange**”/ “**BSE**”) lack in compliance with the disclosure requirements as required under Schedule VI of ICDR Regulations.
- In order to ensure consistency and completeness of the information for the investors to take an informed decision, it has been decided to issue broad criteria specified as under and accordingly, the draft offer document shall be returned/ rejected to the Issuer and/ or the merchant bankers for resubmission in accordance with the following criteria.

2. Criteria for return of draft offer document:

2.1. Disclosures made in the draft offer document do not satisfy one or more of the following requirements:

(a) Draft offer document is drafted in simple language with visual representation of data, so as to ensure ease of understanding of its contents and which substantially complies with the following principles:

- (i) Use of short sentences,
- (ii) Use of definite, unambiguous and conventional words,
- (iii) Use of active voice,
- (iv) Use of tabular presentation or bullet lists, where required; and
- (v) Avoidance of multiple negatives.

(b) The information in the draft offer document is presented in a clear, concise, and intelligible manner, adhering to the following standards:

- (i) Clear and concise sections, paragraphs and sentences,
- (ii) Descriptive headings and subheadings wherever necessary,
- (iii) Avoidance of legal and technical terminology, and
- (iv) Clarification of technical and complex terms, if any, used to explain the business of the issuer/ other matters in simple terms.

(c) The draft offer document avoids:

- (i) Complex presentations that may make the substance of the disclosures incomprehensible,
- (ii) Vague, ambiguous and imprecise explanations which may lead to more than one interpretation,
- (iii) Complex information quoted or copied from legal documents, unless accompanied with clear and concise explanation of the provision(s) therein,
- (iv) Repetition of disclosures in different sections of the document which may increase the size of the document but does not improve the quality or efficacy of information, unless the context requires otherwise; and
- (v) Inconsistency in the numbers/ data/ facts provided in different sections of the offer document or between the draft offer document and subsequent submission(s) made in response to clarifications sought.
- (vi) In case of financial statements, there is an inadvertent omission of Unique Document Identification Number (**UDIN**).

(d) The risk factors are appropriately worded in simple, clear and unambiguous language to bring out clearly the risk to the investor, without undermining the same.

- (e) The issuer is not in compliance with the eligibility requirements of Chapter IX – Part I of ICDR Regulations in addition to the Exchange criteria for new listing.
 - (f) The merchant banker to the issuer has become ineligible to act as such, due to any material non-compliance observed under SEBI (Merchant Bankers) Regulations, 1992 or any other applicable circulars/ regulations/ guidelines issued by SEBI/ Exchange/ such other regulatory authority, or pursuant to any regulatory/ disciplinary action against the merchant banker.
- 2.2. The draft offer document requires:
- (a) Substantial revision or addendum on key disclosures, in accordance with the clarifications/ explanations sought on the draft offer document; or
 - (b) Corrective measures on account of regulatory interpretation.
- 2.3. The information required to be included in the draft offer document is not clearly understandable without the necessity of referring to the general rules and regulations.
- 2.4. Where any other regulatory authority/ enforcement agencies have expressed material concern with regard to issue/ draft offer document filed by the issuer.

On return of the draft offer document, the issuer shall ensure to seek/ undertake remedial measures with the relevant regulator prior to resubmission of the document.

- 2.5. Where there are any pending litigation matters in any court or tribunal having an impact on the issue with regard to eligibility criteria provided under ICDR Regulations for the issue/ draft offer document filed by the Issuer.

For purpose of eligibility criteria as mentioned in above para, Regulation 228 of ICDR Regulations and BSE – Criteria for new listing may be referred.

3. Resubmission of draft offer document:

- 3.1. There shall be no refund of the filing fees on account of non-submission of draft offer document by the issuer after return.
- 3.2. The Issuer and the merchant banker shall ensure that the draft offer document is resubmitted only after addressing insufficiency for which the draft offer document was returned, and such draft offer document is in compliance with provisions of ICDR Regulations and other applicable laws.

4. Criteria for rejection of draft offer document:

4.1. Where Capital Structure involves any of the following:

- (i) existence of circular transactions for building up the capital/ net worth of the issuer.
- (ii) where capital built-up is not satisfactory and there has been misutilisation of proceeds raised from prior funds which have been raised prior to 3 (three) yeas from the date of filing of the draft offer document.
- (iii) where the ultimate promoters are unidentifiable.
- (iv) promoters' contribution not complying with ICDR Regulations in letter or in spirit.

4.2. **Where Object of the Issue:**

- (i) is to fund working capital requirements and there is a sudden and exponential spurt in the working capital estimates and/ or the revenue projections vis-à-vis past trends and the issuer is unable to provide substantial reasons for the same.
- (ii) is repayment of loan or inter corporate deposit or any other borrowing of similar nature, and the issuer is not in a position to disclose the ultimate purpose for which the loan was taken or demonstrate utilization of the same for the disclosed purpose.
- (iii) is towards capital expenditure and no concrete steps have been taken to achieve the same.

Illustration: The object is to set up new manufacturing facility and issue proceeds will be utilized towards purchase of plant and machinery; however, the land is not yet identified.

- (iv) is to set up a plant and the issuer has not received crucial clearances/ licenses/ permissions/ approvals from the required competent authority which is necessary for commencement of the activity and because of such non-receipt of clearances/ licenses/ permissions/ approvals, the issue proceeds might not be utilized towards the stated objects of the issue.
- (v) is vague for which a major portion of the issue proceeds are proposed to be utilized.
- (vi) is such where the time gap between raising the funds and proposed utilization of the same is unreasonably long.

4.3. **Where business model of an issuer is:**

Exaggerated, complex or misleading and the investors may not be able to assess the risks associated with such business models.

4.4. **Where scrutiny of Financial Statements shows:**

- (i) Sudden spurt in the business just before filing the draft offer document and reply to clarifications sought is not satisfactory. This will include but will not be limited to spurt in line items such as income, profits, debtors/ creditors, intangible assets, etc.
- (ii) Qualified audit reports or the reports where auditors have raised doubts/ concerns over the accounting policies. This would also be applicable for the subsidiaries, joint ventures and associate companies of the issuer which significantly contributes to the business of the issuer. This would also be applicable for the entities where the issue proceeds are proposed to be utilized.
- (iii) Change in accounting policy with a view to show enhanced prospects for the issuer in contradiction with accounting norms.
- (iv) Majority of the business is with related parties/ group entities or where circular transactions with connected/ group entities exist with a view to show enhanced prospects of the issuer.
- (v) The auditors have not obtained the UDIN for the financial statements to be included in the offer documents, and/ or the financial statements have not been signed by the personnel as required under the companies act.

4.5. **Where there exists litigation including regulatory action:**

- (i) which is so major that the issuer's survival is dependent on the outcome of the pending litigation.
- (ii) which is material, undisclosed and wilfully concealed.

(iii) any pending enquires of Enforcement Directorate (ED), Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and/ or any other authorities against the Promoters/ Directors/ KMP of the issuer company.

4.6. Other General Criteria:

(i) The issuer does not satisfy the conditions of Chapter IX of ICDR Regulations as on the date of filing of the draft offer document with the Exchange or alternatively, relevant exemptions have not been obtained from SEBI.

Illustration – The shares of the promoters are not in dematerialized form.

(ii) Failure to make all the disclosures required as per Schedule IX of ICDR Regulations or alternatively, relevant exemptions have not been obtained from SEBI.

Illustration – Any specific chapter is missing OR Restated Audited Financial Statements for last 3 (three) years have not been disclosed OR complete details of material litigations have not been provided instead only the name of the parties, court name and amount is provided OR the issuer has not obtained exemption from SEBI u/r 300 of ICDR Regulations for not disclosing any individual / entity as 'Promoter group'.

(iii) Material non-compliance / violations of any of the provisions of the Companies Act, 2013 read with companies rules and such other applicable laws, which have not been rectified and which has a bearing on the listing of the securities of the Company.

Illustration: Non-compliance with the provisions of Section 42 of the Companies Act, 2013 for issuances made in the past thereby triggering deemed public issue provisions OR Subsidiary company holding shares in the subsidiary company OR Violation of provisions of Section 34 (1) of the SEBI (Delisting of Equity Shares) Regulations, 2021

(iv) Failure to provide complete documentation in terms of requirements of ICDR Regulations.

(v) Furnishing of incorrect/ vague/ misleading/ incomplete/ false/ inconsistent/ non satisfactory information to the Exchange.

(vi) The site visit, if any, conducted by the Exchange is found to be unsatisfactory including raising questions on the existence of the issuer.

(vii) Where any other regulatory authority/ enforcement agencies have expressed material concern/s with regard to the proposed issue / draft offer document filed by the issuer.

(viii) Where any auditor (including any previous auditor during the last 3 (three) financial years) has expressed material concern with regard to the issuer/ the issue / draft offer document filed by the issuer.

(ix) Where any complaint/ concern has been received by the Exchange against the issuer/ with respect to the issue and the same has not been satisfactorily addressed.

(x) Non-receipt of no-objection/ clearance from any relevant internal department of the Exchange, wherever applicable on account of observations.

(xi) The draft offer document requires:

(a) Substantial revision or addendum or corrigendum on key disclosures, in accordance with the clarifications / explanations sought on the draft offer document; or

Illustration – Substantial revision in Object Chapter OR Substantial revision in more than two chapters of the draft offer document may trigger the above requirement.

(b) Revision due to inconsistency in the numbers/ data/ facts provided in different sections of the offer document or between the draft offer document and subsequent submission(s) made in response to clarifications sought.

(c) Corrective measures on account of regulatory interpretation.

(xiii) There is a failure to resolve conflict of interest, whether direct or indirect, between the issuer and merchant banker appointed by the issuer to undertake the book building process or such other matter.

(xiv) The names of entities which are unregistered with SEBI are mentioned in the draft offer document as an 'Advisor to the issue' or such other unrecognised category of SEBI.

(xv) Where the draft offer document is pending for approval for a period which is more than the specified timelines, as may be determined by the Exchange, due to non-furnishing of information/ documents or delay in furnishing of information/ documents or such other reason, the Exchange shall give sufficient notice to the issuer requiring them to submit a satisfactory response, failing which the draft offer documents shall be returned.

5. Applicability of the Criteria:

- 5.1. These criteria issued herein shall be applicable to all the draft offer documents filed with the Exchange for public issue of securities on the Exchange's BSE – SME Platform (SME Platform) and the approval is not yet granted by the Exchange.
- 5.2. The criteria specified herein are illustrative / indicative and prescribe only general standards. The Exchange shall reserve the right to return the draft offer documents filed with the Exchange for any other reason, as deemed appropriate, after providing opportunity to the issuer/ merchant banker to be heard.
- 5.3. It is clarified that mere triggering of any or few criteria mentioned herein would not be considered as an automatic case for return and in all such cases a final view on return shall be taken by the Exchange after considering the materiality of the findings and facts and circumstances of each case.
- 5.4. In case of return of draft offer document, the Exchange shall communicate the same to the issuer/merchant banker with the reasons therefor.

6. Consequences of Rejection of Draft Offer Documents:

- 6.1. In case of any draft offer document is rejected in terms of these criteria, the applicability of any cooling off period as per the eligibility criteria of the Exchange for listing on BSE, shall be a minimum period of 6 (six) months from the date of rejection by the Exchange.
- 6.2. Issuers / merchant banker to the Issue, whose draft offer documents are rejected in terms of these criteria and who wish to resubmit the draft offer document (subject to compliance with cooling-off period, if any) shall ensure that the draft offer document is resubmitted only after addressing insufficiency for which the draft offer document was rejected and such draft offer document is in compliance with provisions of ICDR Regulations, other applicable laws and requirements of the Exchange.
- 6.3. In cases where the Exchange rejected a draft offer document or where an issuer or a merchant banker to an issue chooses to withdraw the draft offer document, there shall be no refund of processing fees paid to the Exchange.
