I N F O R M A T I O N   G L O S S A R Y

SEBI Framework: Return & Rejection of Draft Offer Documents

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Regulatory Background

SEBI has established a structured framework to ensure high-quality, investor-friendly, and complete disclosures in Draft Offer Documents (DRHP/RHP). Two key instruments underpin this framework:

- SEBI Circular (Feb 2024): Guidelines for Returning of Draft Offer Document and its Resubmission
- SEBI General Order (2012): Framework for Rejection of Draft Offer Documents
- Together, these form a two-level regulatory filter: Stage 1 (Return for resubmission) and Stage 2 (Outright Rejection)
- SEBI does not approve IPOs on merits — its focus is on ensuring disclosure quality and investor protection

Both instruments operate together and may apply to the same filing, making DRHP quality a critical gateway to capital market access.

Grounds for RETURN of DRHP (2024 Circular)

SEBI may return a DRHP where it does not meet disclosure standards or requires substantial revision before it can be processed. Key triggers include: poor drafting quality (failure to use plain English, overuse of legal jargon, vague or repetitive disclosures, inconsistent numbers across sections), the need for major substantive revisions on key disclosures, concerns raised by other regulators, and pending litigation that must be resolved prior to resubmission.

On return, no additional filing fee is required for resubmission. The issuer must make a public announcement within 2 days, inform the sectoral regulator, and clearly label the document as resubmitted.

Two-Level Regulatory Filter:

STAGE 1 — RETURN

DRHP returned for resubmission. Moderate severity. No refiling fee. Public announcement required. Company may refile after addressing concerns.

STAGE 2 — REJECTION

Outright rejection of DRHP. Severe regulatory action. Company barred from capital markets for minimum 1 year. Filing fees not refunded. Rejection may be publicly disclosed.

Key Grounds for Rejection (2012 Order)

Rejection is a serious regulatory action with significant consequences. SEBI may reject a DRHP on the following grounds:

- **Capital structure red flags:** circular transactions inflating net worth, unidentifiable ultimate promoters, or non-compliant promoter contribution
- **Problematic objects of issue:** vague use of funds, loan repayment without trail, unjustified brand-building spend, or projects without regulatory approvals
- **Financial statement concerns:** sudden revenue/asset spikes pre-filing, qualified audit reports, aggressive accounting changes, or heavy related-party transactions
- **Litigation & governance failures:** hidden or undisclosed litigation that threatens company survival, documentation gaps, or non-cooperation with SEBI queries

Return vs. Rejection: At a Glance

A return is moderate in severity — it delays the IPO timeline but allows resubmission without additional fee, with a public announcement required within 2 days. A rejection is severe: the company is barred from capital markets for a minimum of one year, filing fees are forfeited, SEBI may take enforcement action, and the rejection details may be made public.

What IPO Companies Must Avoid

SEBI's focus has decisively shifted from technical compliance to quality of disclosure. Companies must proactively address the following risk areas:

- **Drafting mistakes:** copy-paste legal language, overly technical DRHP, repetition, inconsistent numbers, or weak risk factors
- **Financial red flags:** sudden revenue surge pre-IPO, heavy related-party dependency, qualified audit reports, or frequent accounting policy changes
- **Capital structure issues:** last-minute restructuring, artificial boost in net worth or revenue, or complex promoter holding structures
- **Governance & litigation risks:** pending major litigation, regulatory investigations, vague use of IPO proceeds, or non-cooperation with SEBI queries

Early IPO readiness and thorough pre-filing due diligence remain the most effective defence against SEBI's two-level regulatory filter.

> **BOTTOM LINE:**
> *SEBI's two-level filter — return and outright rejection — reflects a decisive shift toward quality-first disclosures. Poor drafting alone can trigger a return; financial, governance, and capital structure issues can lead to rejection and a market-access bar of at least one year. IPO-bound companies should invest in investor-friendly DRHP drafting, clean financial records, and robust governance well ahead of filing.*