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Pre-IPO structuring

Making corporates ready for IPO

January 2026

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From our CEO and Chairman

Going public marks a major milestone for a company that requires strategic preparation well ahead of the IPO, often spanning several months or even years prior to the IPO. Pre-IPO structuring is a complex process involving legal, financial, tax, accounting and regulatory planning, designed to maximize the company's readiness for listing and support long-term growth and sustained value creation.

Pre-IPO structuring covers everything from choosing the right group structure and reviewing tax positions to planning the capital structure, shareholding, and employee incentives. It involves aligning with regulatory requirements and investor expectations. It's about telling the right story to the market, building confidence, and setting the stage for long-term value creation.

The timing and need for an IPO are also influenced by broader macro-economic factors such as market conditions, investor sentiment and industry trends. Choosing the right moment is just as important as being structurally ready.

It may seem like an IPO is the grand finale, but in reality, it's just the beginning. Once listed, a company steps into a new world of public scrutiny, regulatory obligations, and shareholder expectations. The way you operate changes, and so does the way you're measured. A solid pre-IPO structure helps ensure you're not just ready to go public, but ready to perform and grow in the public spotlight.

India, with a growing economy, rising investor interest, and a vibrant startup and enterprise ecosystem is witnessing more companies looking to tap public markets, providing an opportunity to build not just financial value, but boost visibility, reward early investors, and take the business to the next level. With the right planning and structuring, leading private companies can become tomorrow's market leaders, helping shape India's growth story on the global stage.

With that background, we at Dhruva Advisors India Private Limited are delighted to present our Pre-IPO structuring: Making corporates ready for IPO. In this thought leadership publication, we've tried to break down the key aspects of pre-IPO structuring from tax and regulatory standpoint in a way that's clear, practical and offers insights - whether you're a founder, CEO, CFO or advisor.

We hope you will find this thought leadership publication useful and would be delighted to have your inputs/suggestions.

Warm regards,

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IPO Strategy: Key Considerations

An Initial Public Offering (IPO) marks a defining step in a company's growth story. The decision to go public is not simply a financial one; it is strategic, requiring extensive preparation and clear intent. The journey to an IPO is complex, time-consuming, and not without challenges. Before even initiating the process, promoters and management must reflect on a number of strategic, financial, accounting, regulatory, and operational questions. A successful IPO requires thoughtful planning and structuring well in advance, especially structuring the core business appropriately prior to listing, simplification of group structure, aligning shareholders and making sure the company is IPO-ready. Several critical factors and strategic decisions need to be addressed in the IPO planning during pre-IPO structuring, which can directly impact valuation, investor perception, regulatory compliance, and post-IPO performance.

A few key considerations to be evaluated when planning for an IPO can be as under:

Some of the key decisions and focus areas that typically come up during IPO planning and pre-IPO structuring are discussed as part of this chapter.

IPO Readiness

Before moving forward with an IPO, companies must ask themselves some fundamental questions such as:

- Is this the best route to raise capital, compared to other funding options such as private equity or debt funding (domestic or foreign)?
- Are we prepared for the responsibilities that come with being a listed entity?
- Does this align with our long-term vision?

An IPO can offer several benefits:

- It provides access to a wide pool of capital without increasing debt burden.
- It often brings improved visibility with customers, lenders, and business partners.
- Listed company enjoys enhanced brand credibility and can leverage its equity as a consideration for future mergers and acquisitions.

However, following key considerations should be analysed before going public:

- It brings increased scrutiny, ongoing regulatory compliance, and the pressures of quarterly performance expectations.
- The company's affairs come under regular scrutiny from analysts, investors, and regulators.
- The cultural shift from private control to public accountability can be challenging for promoter-driven businesses.

Ultimately, the decision to go public should be driven by strategic clarity, not just market opportunity. Companies that take the time to assess their readiness - financially, operationally, and culturally, are far more likely to see a successful and sustainable outcome from their IPO journey.

Platform for listing – India vs. Overseas

A critical strategic decision lies in choosing between a domestic listing in India or an overseas listing. The choice of listing venue must reflect the company's business profile, investor base, and long-term strategic direction rather than short-term valuation differentials.

India listing	Overseas listing
• A domestic IPO requires alignment with regulatory frameworks (such as SEBI, Companies Act, 2013 etc.) and resonates strongly with companies whose core operations and brand equity are rooted in the Indian market. • For businesses generating the majority of their revenue in India, a local listing can amplify market visibility and customer confidence. • The evolving regulatory landscape and increasing investor appetite within India have prompted many high-growth startups to prefer domestic listings. Notable examples include Zomato, Nykaa, and Mamaearth, all of which tapped into their strong local demand and brand recognition.	• An overseas listing on global exchanges such as NASDAQ or NYSE is often preferred by companies with international operations and aspirations. • Global platforms provide exposure to a sophisticated investor base, enhanced liquidity, and the potential for premium valuations. • These platforms can offer access to a larger capital pool, stronger analyst coverage, and better alignment with global peers. • Indian companies have traditionally faced regulatory complexities around direct foreign listings such as round-tripping restrictions and other FEMA related challenges. While recent initiatives such as GIFT City listing are gradually easing these barriers, this process requires careful evaluation and navigation. • Companies like Freshworks, having a more global customer base, have opted for overseas listings to better match their international scale.

Fresh Issue vs. Offer for Sale

Fresh issue	OFS
• IPO can be undertaken as a fresh issue, wherein the company issues new shares to raise capital that is utilized for its growth and operational ambitions.	• An Offer for Sale (OFS) enables existing shareholders, such as promoters or early investors, to divest their holdings to the public, providing liquidity to the existing shareholders without infusing new funds into the business.

Often companies adopt a hybrid approach, combining fresh capital infusion with partial shareholder exits.

- This balanced approach allows the company to raise capital for its own use while simultaneously offering an exit opportunity to existing investors.
- The proportion between fresh issue and OFS should be carefully determined based on the company's capital requirements, the investment horizon of current shareholders, potential negative perception of the promoters reducing their stake at high prices and the overall market appetite.

Choice of stock exchange

India listing	Overseas listing
• Companies typically list on the National Stock Exchange (NSE), and/or the Bombay Stock Exchange (BSE), both of which offer broad investor access and deep market liquidity. • While NSE tends to have higher trading volumes and is often preferred by institutional investors, BSE offers its own strengths, including quick processing and specific sectoral indices. • For smaller enterprises, the SME platforms (BSE SME and NSE Emerge) provide a suitable gateway to the capital markets. They have lower entry thresholds and more flexible requirements, making them ideal for businesses at an earlier growth stage.	• Companies with global footprint and international investor interest also explore overseas listings on exchanges like NASDAQ, NYSE, or the London Stock Exchange. • These platforms can offer access to a larger capital pool, stronger analyst coverage, and better alignment with global peers.

The following considerations should be kept in mind while evaluating the choice of stock exchange:

- Each exchange has its own listing requirements, regulatory frameworks, and post-listing obligations.
- Whether the company meets the listing criteria of the stock exchange and whether the platform supports their long-term goals.
- Potential inclusion in major indices, the investor mix, sectoral focus and time zone alignment.

Quantum of fundraise

Determining the quantum of funding required is crucial.

- If the capital requirement is overestimated, it may lead to unnecessary dilution of ownership.
- On the other hand, raising inadequate funds can constrain the company's ability to deliver on its post-IPO commitments.
- A balanced approach based on robust financial modelling, valuation benchmarking, and realistic capital forecasting helps achieve the right equilibrium between growth capital and shareholder value retention.

Purpose of fundraise

- Having clarity on how the funds will be utilised not only supports internal decision-making but also builds confidence among investors.
- The purpose of fundraise should be aligned with the company's business objectives, such as funding expansion, reducing debt, investing in research and development, or strengthening working capital.
- Specific allocation of proceeds to projects, acquisitions, or expansion initiatives signals strong planning, while a vague "general corporate purpose" may create uncertainty around efficiency of capital use.

Beyond the Mechanics – Building IPO Readiness

While regulatory and financial considerations dominate the planning process, successful IPOs are also about organisational readiness, which involves:

- Strengthening its governance framework
- Establishing transparent reporting, accounting and internal audit systems
- Building a strong internal control environment
- Reviewing board composition, independence of directors, audit committee functioning, and management accountability
- Strengthening investor confidence
- Ensuring that management teams, processes, and systems are capable of this transition which is fundamental to long-term success

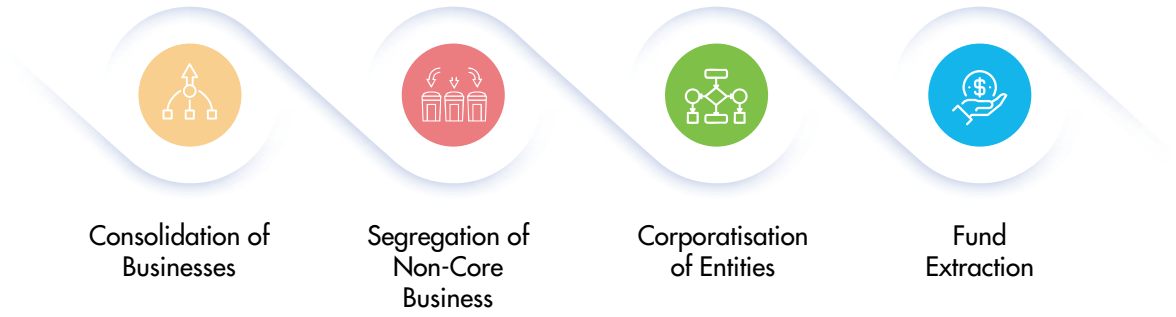
Promoters must also prepare for the shift in mindset from owner-driven decision-making to a culture of professional management driven decision making, disclosure, compliance, and performance communication.

The company will now operate under the constant gaze of analysts, regulators, and shareholders.

Corporate Business Restructuring

As companies prepare for an IPO, corporate restructuring becomes a critical step in enhancing business readiness, investor confidence, and long-term value creation. It is not just a compliance formality but a strategic exercise to present a clear, efficient, and investor-friendly organisation.

As part of the broader IPO readiness roadmap, companies should typically focus on the following key areas:



Each of these components plays a vital role in creating a clean, scalable, and investor-friendly corporate structure, setting the stage for a successful listing and long-term capital market performance.

Consolidation of Businesses

Over time, many companies grow into complex groups with multiple subsidiaries, joint ventures, and partnerships—often created for operational, regulatory, or tax reasons. While such structures may be feasible in the private phase, complex structures can create confusion for public investors and at times may not even be sustainable for a listed company. One of the first and most important steps when the company is gearing up for an IPO is to take a hard look at the current group structure and focus on consolidation of business value.

Consolidation means bringing together these various entities with different legal structures under the main company that shall be listed. The goal is to create a unified structure where most of the business value is held directly by the entity proposed to be listed. This makes it easier for investors to understand the company's operations, financials, and growth story. From an investor's point of view, it helps them see where revenues are coming from, how costs are managed, and how risks are controlled, without navigating through layers of related parties or other such transactions.

From management's point of view, consolidation also brings greater control and visibility across the business. It streamlines decision-making and helps in presenting consolidated financial statements that reflect the true scale of the company and command better IPO valuation.

However, consolidation of businesses and ownership may require regulatory approvals, re-negotiation of contracts, and potential tax / financial considerations.

Consolidation can be undertaken through several key methods, depending on the group's existing structure, business rationale, and long-term strategy. A few methods of consolidation are discussed as under:

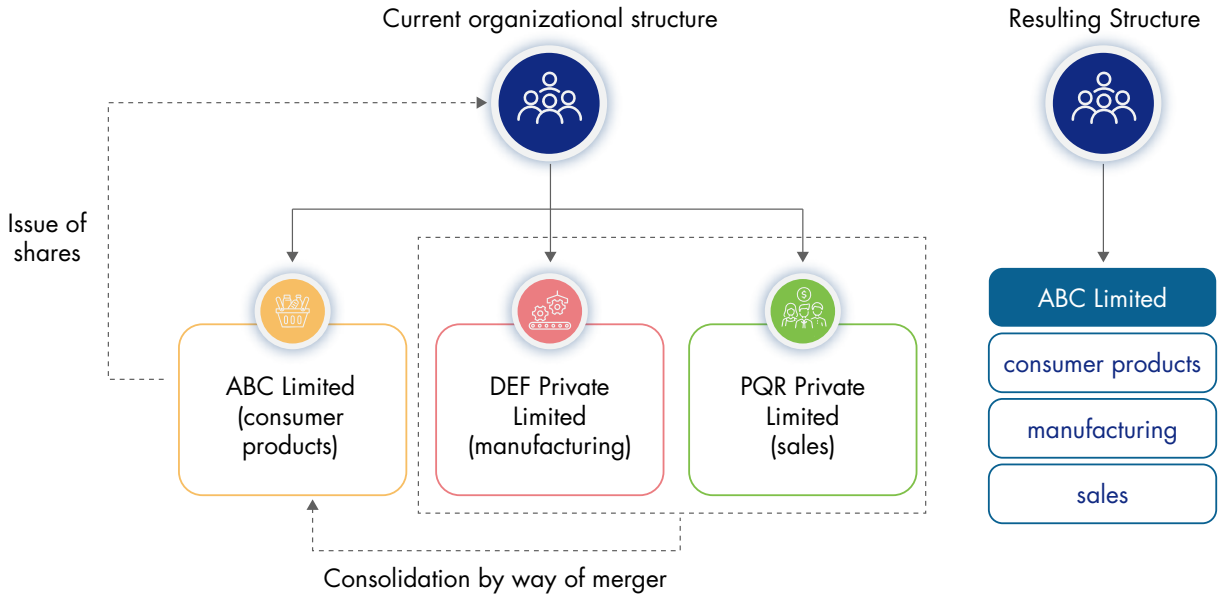
Mergers

A merger refers to the consolidation of two or more companies into a single unified company, typically with the goal of aligning under the main company that is preparing for an IPO. This strategy is one of the most effective ways to streamline a group's corporate structure.

Mergers can unlock substantial operational synergies, reduce overheads, and enhance overall organizational efficiency, apart from tax optimization. As a result, they play a crucial role in ensuring that the business is structurally and operationally optimized for a successful IPO.

Illustration

For a better understanding, consider a group with separate parallel company structures including a consumer products company, and other separate entities for manufacturing and sales.



- Initially, this structure may have helped the group manage different regulatory requirements and allowed the business to focus on each function separately.
- However, as the company (ABC Limited) plans to go public, this setup creates unnecessary complexity since there are multiple sets of financials, duplication of functions like administration and finance, multiple inter-corporate transactions that slow down decision-making and add compliance costs.
- Merging these parallel companies into the main company simplifies the organisational structure, provides a single, consolidated entity that is easier for investors to evaluate and avoids issues related to pricing transactions between related parties.

However, it is important to carefully undertake a cost benefit analysis since a merger is a long drawn process that involves significant timelines for regulatory approvals, potential stamp duty costs and professional and legal costs. A cost-benefit analysis is essential to ensure the strategic advantages of consolidation outweigh the associated implementation costs.

Key implications

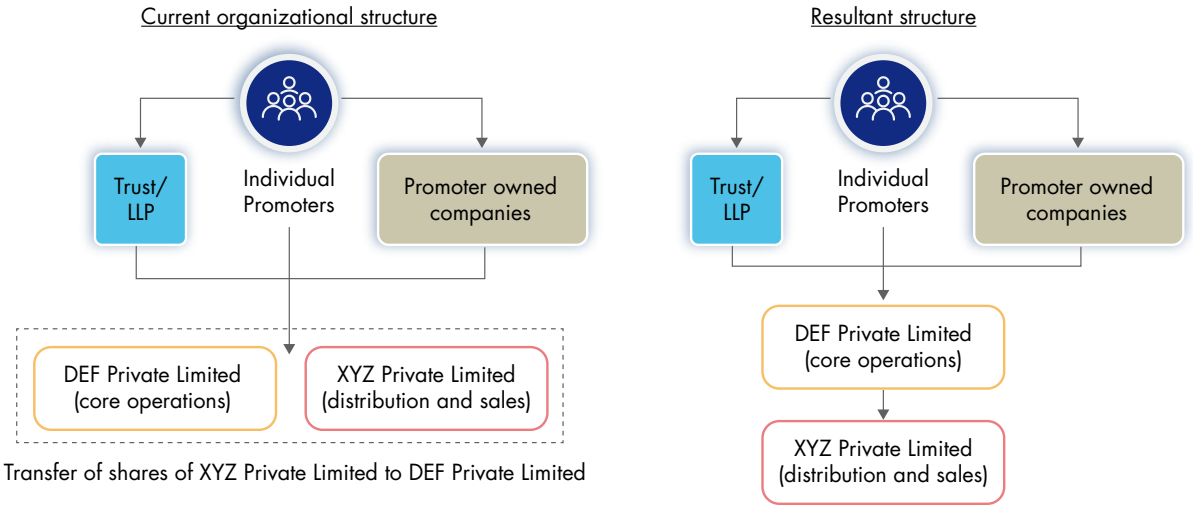
- Typically, domestic mergers are tax neutral in the hands of the transferee company, transferor company and its shareholders subject to satisfaction of certain conditions.
- Mergers can be implemented through approval by the National Company Law Tribunal (NCLT) or the Regional Director (Fast Track) and are subject to stamp duty at applicable rates depending on the jurisdiction of immovable properties and registered offices of the companies.

Share acquisitions

Consolidation of the business can also be achieved by way of share acquisition, where the IPO-bound company acquires the shareholding of other group entities to bring them under its direct control. This approach is particularly useful in cases where a merger is not immediately practical due to operational, legal, or timing considerations, but a unified ownership structure is still desired before the IPO.

Illustration

A group may have several operating companies held directly by the promoters, their family trusts, or other holding entities (such as companies or LLPs). One company may house the core operations and a second company may manage distribution and sales.



Transfer of shares of XYZ Private Limited to DEF Private Limited

- Instead of merging all these businesses immediately, the group may choose to consolidate ownership by transferring the shares of these companies to the IPO - bound company.
- As a result, these group companies become subsidiaries of the IPO-bound company, even though they continue to operate as separate legal entities.
- This method allows the group to present a simplified ownership structure to potential investors, centralizing control and aligning value under the company that will be listed.
- It also avoids immediate disruption to ongoing contracts, regulatory licenses and approvals or customer relationships, which may otherwise be affected in a merger.
- The promoters of the IPO bound companies may also adopt the route of share acquisition of operating companies within the group to utilize the excessive funds available in the IPO bound company, which is otherwise not aiding the IPO valuations, particularly when the tax impact on such transfers to the IPO bound company is not significant in the overall process.

However, a share acquisition requires careful evaluation supported by appropriate valuations, due diligence and other documentation.

Key implications

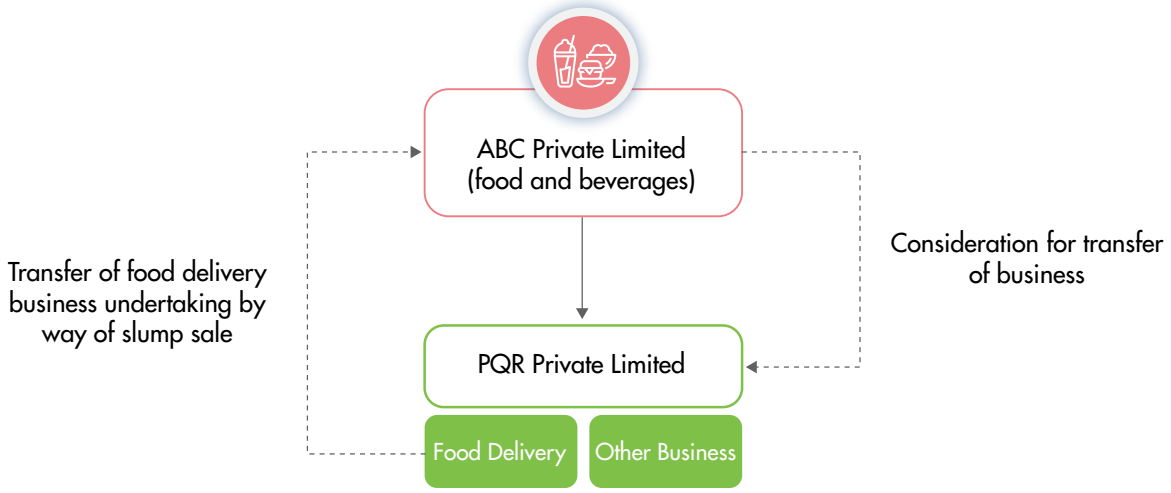
- Share transfer may lead to tax implications in the hands of the transferors and/or transferee, which need to be evaluated upfront in case of share transfer by promoter group.
- If consideration is involved, the IPO bound company must have sufficient liquidity or a funding plan for such acquisition.
- Stamp duty at the rate of 0.015% of the consideration shall be payable on transfer of shares, irrespective of whether shares are held in physical or dematerialized form.

Strategic acquisitions (slump acquisition / asset acquisition)

Another mode of consolidating businesses is through acquisition of business or specified assets.

Illustration

Consider the case of a company engaged in the food and beverage sector, which has a subsidiary having a food delivery division.



Ahead of a proposed IPO, the group can consider consolidation of the food business by transferring the food delivery business to the parent company on a going-concern basis for a lump-sum consideration.

Slump sale is a transaction where the business is acquired as a going concern on a lump sum basis, as against an asset acquisition where specific assets and liabilities are selectively acquired. Each mode has distinct legal, tax and regulatory implications. Key considerations during such strategic acquisitions include the quality of underlying assets and business, customer and supplier relationships, contractual obligations and potential legal exposures.

Key implications

- Slump sale and asset sale can be implemented by the execution of a Business Transfer Agreement and Asset Purchase Agreement respectively.
- While the taxation in case of slump sale is prescribed under the tax laws through specific provisions towards computing consideration as well as the net worth, asset sales do not have specific computation methodology and are taxable like any other capital assets are taxed depending on the nature of asset and its period of holding.
- While both the mechanics of slump sale and asset sale also need to consider the deemed valuation considerations for specified assets, assets sale are also subject to GST.
- Stamp duty shall apply on transfer of assets based the jurisdiction of companies and assets.

Segregation of Non-Core Business before IPO

As companies evolve, they often diversify into multiple business lines or accumulate assets that may not align with their long-term strategic focus, particularly from a listing perspective. When preparing for an IPO, it becomes essential to simplify the corporate structure and clearly define what the company stands for. Segregation essentially involves distinguishing between **core** and **non-core** business lines.

- **Core business** represent the main operating business—activities that drive revenue, growth, and brand value. These form the foundation of the company's growth story to investors.
- **Non-core business** typically include investments, surplus real estate, or ancillary businesses that are not central to the company's long-term strategy of accessing public funds.

Retaining both businesses within a single entity may blur financial performance indicators and distort valuation. By transferring or isolating non-core business, the company ensures that the proposed listed entity represents only the sustainable, high-growth segments investors are most interested in. This clarity often translates into stronger investor confidence and improved market perception.

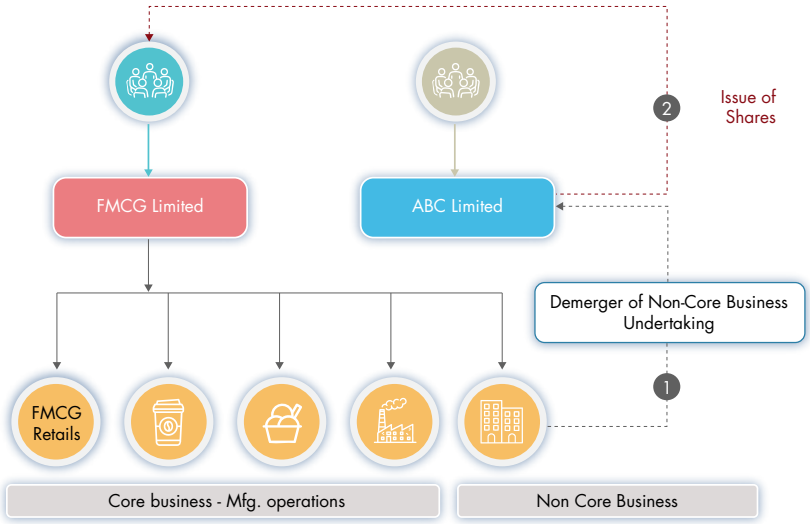
The segregation of business can be carried out through multiple mechanisms, depending on commercial intent and tax considerations. Among these, **demerger, slump sale and reorganisation of shareholding** amongst subsidiaries are the most widely used approaches. Each method carries distinct legal and tax implications and must be carefully evaluated to ensure regulatory compliance and alignment with investor expectations.

Demerger – Creating Focused Business Verticals

A typical demerger is implemented through a scheme approved by the NCLT under the Companies Act, 2013. Under this scheme, the identified undertaking — including its assets, liabilities, contracts, employees and other rights and obligations — is transferred "as a going concern" to a resulting company. Shareholders of the demerged company receive shares in the resulting company, and the demerged company continues with its remaining businesses.

Illustration

Consider a case of a company engaged in FMCG business being its core business along with a in-house non-core business within the same IPO - bound company.



Ahead of the IPO, the group can consider transferring its non-core business to a separate company on a going concern basis through a demerger.

Several Indian companies have undertaken demergers in the run-up to their IPOs to streamline operations and enhance investor appeal. For instance, Indegene Limited, before filing its DRHP, demerged its healthcare software undertaking into a separate entity to ensure the listed company focused exclusively on its core life-sciences business.

Key Implications

- Typically, demergers are tax neutral in the hands of the demerged company, resulting company and its shareholders subject to satisfaction of certain conditions.
- Demergers can be implemented through approval by the NCLT and are subject to stamp duty at applicable rates depending on the jurisdiction of immovable properties and registered offices of the companies.
- A Fast Track Demerger (approved by the Regional Director instead of the NCLT) may be explored for eligible cases, though its tax neutrality remains uncertain under current law.

Slump Sale

As discussed in earlier section, slump sale is a transaction where the business is transferred as a going concern on a lump sum basis.

Through a slump sale, an entity can separate its core and non-core businesses by transferring non-core units as a single undertaking, thereby enabling the core business to continue independently. This enables the group to ring-fence non-core operations and streamline the portfolio in preparation for listing.

The key implications of such transfers would correspond to those outlined under **Part A (iii) – Strategic acquisitions (slump acquisition / asset acquisition).**

Key differences between strategic demerger and slump sale are summarised below:

Parameters	Demerger	Slump sale
Outcome	Non - core business carved out from IPO bound company	
Tax neutrality	Subject to fulfilment of conditions	Taxable in the hands of seller company
Approval from NCLT	Required	Not required
Mode of transaction	Scheme of Demerger	Business Transfer Agreement
Cash involvement	Non-cash transaction	Involves cash
Stamp Duty	Based on jurisdiction of companies and assets	

Corporatisation of Entities

Corporatisation marks the transition from informal or closely held structures—such as sole proprietorships, partnership firms, or LLPs—to a company governed by the Companies Act. The need for corporatisation before IPO arises from both regulatory and strategic considerations. From a regulatory perspective, only companies—and specifically public limited companies—are permitted to issue shares or other securities to the public and list such securities on a stock exchange. Entities other than a company—such as partnership firms, LLPs and sole proprietorships—are not permitted to issue shares or securities. Corporatisation therefore becomes a prerequisite for accessing equity markets.

From a strategic standpoint, corporatisation enhances business legitimacy, improves access to institutional funding, introduces a clear ownership and management structure, and strengthens governance and financial discipline.

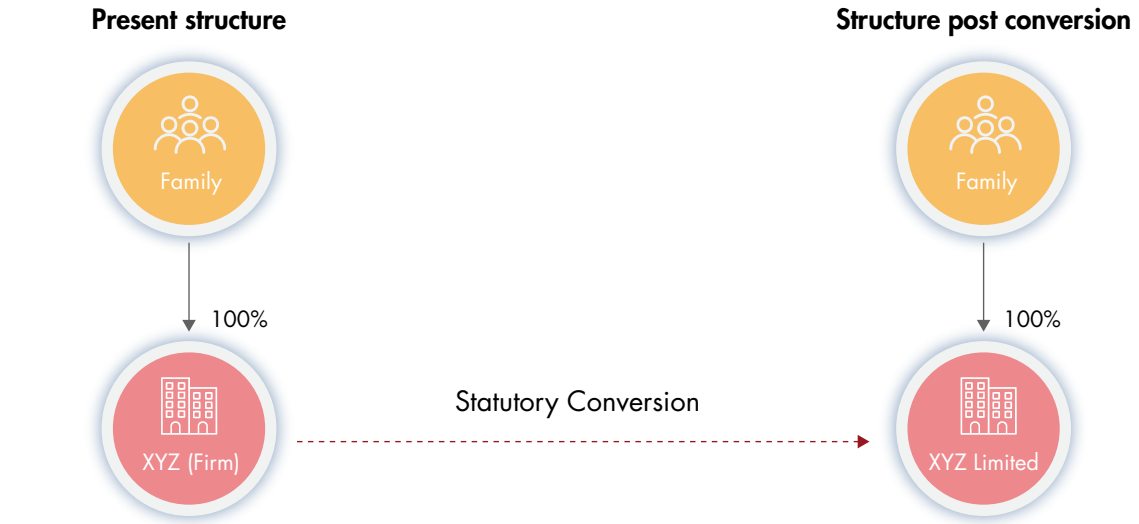
Corporatisation can be implemented through various mechanisms, depending on the entity's existing structure and commercial objectives. These may include statutory conversion of an LLP or partnership firm into a company or transfer of business to a company. Each approach carries distinct legal, tax, and commercial implications that must be carefully assessed in light of the company's IPO objectives and investor expectations.

Mechanisms of Corporatisation – Choosing the Right Path

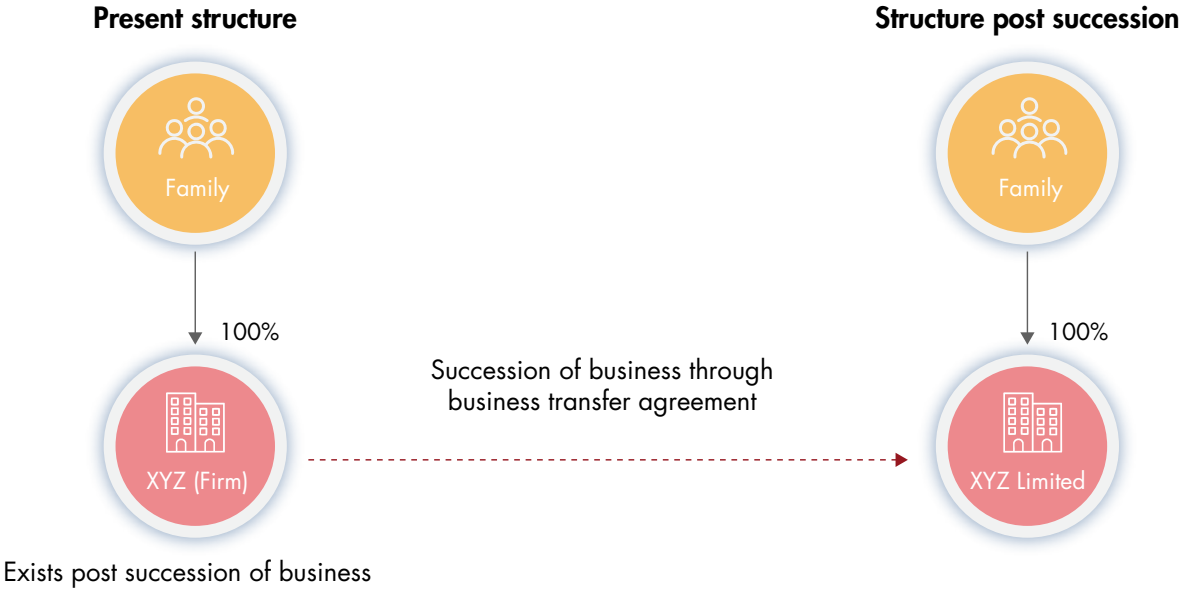
Non-corporate entities such as partnership firm, LLPs, and sole proprietorships can transition into companies using either of the two primary approaches:

1. Statutory Conversion, or
2. Business Succession through Business Transfer Agreement (BTA)

Statutory conversion: It involves converting the legal form of a partnership firm or LLP into a company — without changing the underlying ownership. Under Chapter XXI of the Companies Act, 2013, such conversions are carried out through a legal process in which all assets and liabilities vest in the new company automatically.



Business Transfer Agreement: By contrast, business succession involves the transfer of the ownership and control of the business or undertaking into a separate successor company, while the predecessor firm / LLP continues to exist. It is the business — and not the predecessor itself — that is succeeded by the company.



Migration from Private Company to Public Company

Apart from corporatisation, the migration or conversion of a private company into a public limited company is a critical step in IPO preparation. While corporatisation establishes the legal and governance foundation, conversion to a public company ensures the entity meets all regulatory requirements for listing and raising capital from the public through issuance of shares. This transition is more than just a formal change—it reflects the company's readiness to operate on a larger scale with broader ownership. The process involves updating the company's articles of association, aligning its governance and operational practices with public company norms.

Key Considerations : While corporatisation offers numerous benefits, the transition must be carefully planned to avoid pitfalls. Stamp duty and registration costs are important factors. The transfer of immovable properties, contracts, or licenses may attract duties or require novation, which can add to the cost of transition. The structure should also remain compliant with FEMA regulations and India's FDI policy.

Fund Extraction

In the run-up to an IPO, promoters and existing shareholders often reassess the capital structure and internal reserves of the company. One key aspect of such pre-IPO planning involves evaluating whether surplus funds or accumulated profits should be extracted from the company before listing.

Extraction of funds serves multiple purposes —

- providing liquidity to promoters,
- simplifying the balance sheet,
- aligning capital structure with regulatory expectations, and
- enhancing return ratios such as Return on Equity (RoE) and Return on Capital Employed (RoCE).

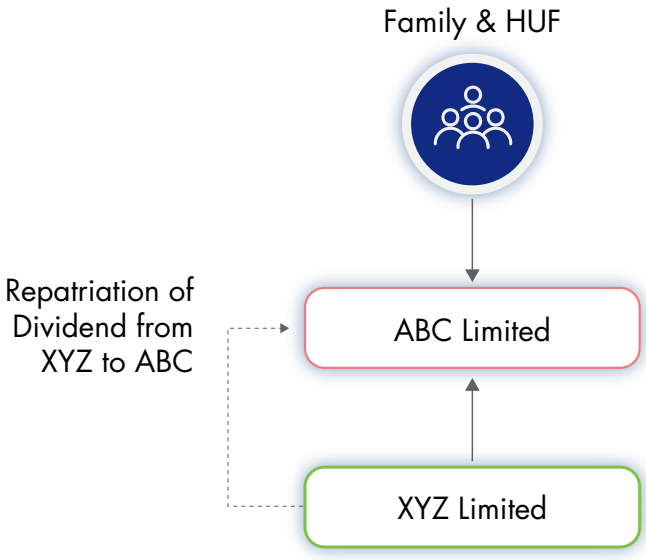
However, timing and method of extraction must be carefully planned to avoid adverse tax consequences, regulatory hurdles, or negative perception among prospective investors. Ideally, such steps should be completed well before filing the draft red herring prospectus (DRHP) so that the impact is fully reflected in audited financials.

There are several mechanisms through which cash can be extracted before listing. These include declaration of dividends, buy-back of shares, repayment of shareholder loans, capital reduction, etc. Each method has its own commercial and tax implications. Among all the methods, Dividend and Buy-back are the two prominent methods which are widely used.

Dividend

Dividend refers to the distribution of profits by a company to its shareholders from company profits or free reserves, allowing promoters and early investors pre-IPO liquidity without altering ownership or undertaking complex transactions.

They also assist in capital structure management but reduce retained earnings and cash reserves, which must be balanced against growth plans.



Key corporate law considerations

A dividend can be declared and paid by a company only out of its profits, either for that year or out of previous financial years, arrived at after providing for depreciation. A dividend shall be declared or paid by the company out of its free reserves.

Key tax implications

Under the Income-tax Act, the term dividend has a broader meaning to include various types of distributions to the shareholders to the extent the company has accumulated profits. Dividend income is taxable in the hands of shareholders as income from other sources, at respective slab rates. Additionally, where a domestic company's gross total income includes dividends from another company, it may claim a deduction for the amount of such dividends in-turn distributed to its own shareholders within prescribed timelines so as to shift its tax burden on dividend to the ultimate recipient of dividend. Dividend payouts are also subject to tax withholding at specified rates depending on the status of the shareholder and exceeding the minimum thresholds of payout.

Buyback

Buyback allows a company to repurchase its own shares from existing shareholders. For promoters and early investors, buybacks serve as an effective liquidity tool while enabling companies to optimize capital structure by deploying excess cash. Buybacks can enhance financial metrics such as earnings per share (EPS) and return on equity (ROE) .

Key corporate law considerations

- Buyback can be undertaken only out of free reserves, securities premium account or out of proceeds of any shares or specified securities, except the same kind of shares or securities.
- Quantum paid on buyback shall be restricted to:
  - 10% of the total paid-up equity capital and free reserves (including securities premium account) of the company by passing board resolution; or
  - 25% of the total paid-up capital and free reserves (including securities premium account) of the company by passing a special resolution at a general meeting of the company.
- Post buyback, the debt-to-equity ratio should not exceed 2:1;
- There should be no further issue of the same kind of shares or other securities including allotment of new shares within a period of six months except by way of a bonus issue or in the discharge of subsisting obligations.
- There should be gap of at least one year between two buybacks.
- The company should have no default in repayment of deposits, redemption of debentures or preference shares or such default is remedied and a period of three years has lapsed after such default ceased to subsist.
- Buyback should be authorized by the Articles of Association of the company.

Key tax implications

The Finance Act, 2024, effective 1 October 2024, shifted the tax burden from the company to shareholders. Buyback proceeds are now treated as deemed dividends under Section 2(22)(f) of the Income Tax Act, taxable in shareholders' hands without deduction for cost of acquisition. While the cost of acquisition of shares tendered in buyback is not deductible against dividend income, it is allowed to be treated as a deemed capital loss, which can be utilized / carried forward to future years for set-off against capital gains.

Illustration

Particulars	Effective 1 October 2024
No. of shares bought	100
Acquisition cost per share	₹6,000
Buyback price per share	₹10,000
Total consideration received	₹10,00,000 (₹10,000 x 100)
Tax base	Entire ₹10,00,000 treated as dividend income
Taxpayer	Shareholder
Capital loss treatment	₹6,00,000 (100 x ₹6,000) acquisition cost treated as capital loss for set-off against capital gains

Withholding obligations are same as dividend. Stamp duty applicable.

Share Capital Structuring

Before an IPO, companies often evaluate how their share capital is structured to ensure the offering is attractive and accessible to investors.

- Consider a company planning an IPO with a valuation of ₹1,000 crore and 10 lakh equity shares (of face value INR 100 each), resulting in a per-share value of ₹10,000.
- At this price level, retail investors may find it difficult to participate.

There arises a need to reduce the per-share price in order to align it to optimal levels for IPO pricing and lot size determination. This makes shares more accessible to retail investors for IPO subscription, thereby encouraging broader retail participation.

To achieve this, the company may consider a **bonus issue** or a **share split.**

Bonus Issue

A bonus issue involves the allotment of additional fully paid-up shares to existing shareholders, in proportion to their current holdings, at no cost.

In above illustration, if the company declares a bonus issue in the ratio of 9:1 (i.e., shareholders receive 9 additional shares for every 1 share held), the total number of shares will increase to 1 crore post-bonus. Consequently, the per-share value will adjust to ₹1,000 (₹1,000 crore ÷ 1 crore shares), making the shares more affordable for retail investors and better aligned with the desired IPO lot size.

Income-tax considerations for shareholders:

- Cost of acquisition of Bonus shares: Deemed NIL; the entire sale proceeds are taxable as capital gains (assuming the shares are not held as stock-in-trade).
- Period of holding for Bonus shares: Computed from the date of allotment of bonus shares.

Illustration (from the perspective of shareholder)

Particulars	Details
No. of shares bought	100
Acquisition cost per share	₹6,000
Date of Acquisition	1 Apr 2022
Bonus shares ratio	9 bonus shares for every 1 share held
Date of issue of bonus shares	1 Apr 2025
Date of Sale of all shares (including bonus shares)	1 October 2025
Sale price per share	₹10,000 per share
Total consideration received	₹1,00,00,000 (₹10,000 x 1000 shares)

Calculation of capital gains

Particulars	Original Shares	Bonus Shares
Holding period	>24 months (viz. 1 Apr 2022 to 1 Oct 2025)	<24 months (viz. 1 Apr 2025 to 1 Oct 2025)
Nature of gain	Long-term capital gain	Short-term capital gain
Sale consideration	₹10,00,000 (₹10000 X 100 shares)	₹90,00,000 (₹10000 X 900 shares)
Cost of acquisition	₹6,00,000 (₹6,000 X 100 shares)	₹0
Taxable gain / (loss)	₹4,00,000 [i.e. ₹10,00,000 (-) ₹6,00,000]	₹90,00,000 [i.e. ₹90,00,000 (-) ₹0]

This example highlights that while bonus shares increase liquidity, the differential holding periods can lead to varying tax treatments between original and bonus shares.

Regulatory considerations:

- Companies Act: A company may issue fully paid-up bonus shares to its members out of free reserves, share premium account, or capital redemption reserve account.
- SEBI Regulations: Shares offered in OFS must be held for at least one year. However, this one-year holding period requirement does not apply to bonus shares issued on securities that were held for at least one year as of the end of the financial year preceding the year in which the DRHP is filed with stock exchanges for listing.

Share Split

A share split (also known as stock split or subdivision of shares) involves dividing existing shares into multiple shares of smaller face value, without any change in the total shareholding value or ownership percentage. This is another effective way to make shares more affordable and attractive for retail investors ahead of an IPO.

Illustration

In the aforementioned illustration, if company decides to split its shares in the ratio of 1:10 (i.e., each existing share is subdivided into 10 shares), the total number of shares increases to 1 crore post-split. The face value reduces proportionately (post-split face value ₹10 per share from original ₹100), and the per-share value adjusts to ₹1,000 (₹1,000 crore ÷ 1 crore shares).

Income-tax considerations for shareholders:

- Cost of acquisition of shares issued on split: Proportionately divided among the increased number of shares; total investment cost remains unchanged.
- Period of Holding of shares issued on split: Generally, in the case of shares received pursuant to a subdivision/split, the holding period should be regarded as continuing from the date of acquisition of the original shares.

Illustration (from the perspective of shareholder)

Particulars	Details
No. of shares bought	100
Acquisition cost per share	₹6,000
Date of Acquisition	1 Apr 2022
Split ratio	1:10
Date of split of shares	1 Apr 2025
Date of Sale of all shares	1 October 2025
Sale price per share	₹10,000 per share
Total consideration received	₹1,00,00,000 (₹10,000 x 1000 shares)

Computation of gain/(losses)

Particulars	Details
Original Holding	100 shares
Post-Split Holdings	1000 shares (100 shares × 10)
New Cost per Share	₹600 (₹6000 ÷ 10)
Holding Period	>24 months (viz. 1 Apr 2022 to 1 Oct 2025)
Nature of Gain	Long-term capital gain
Sale Consideration	₹1,00,00,000
Cost of Acquisition	₹6,00,000 (1000 shares x₹600)
Taxable Gain	₹94,00,000

Key Advantage: Unlike bonus shares where original and bonus shares have different holding periods, all split shares maintain the same holding period as original shares.

Regulatory considerations:

- Companies Act : Unlike bonus issue, the Companies Act does not require utilisation of any reserve for shares split.
- SEBI Regulations: One-year holding period requirement for IPO applies to split shares computed from original acquisition date.

Tax and regulatory implications must be thoroughly evaluated while determining the most suitable capital structuring approach.

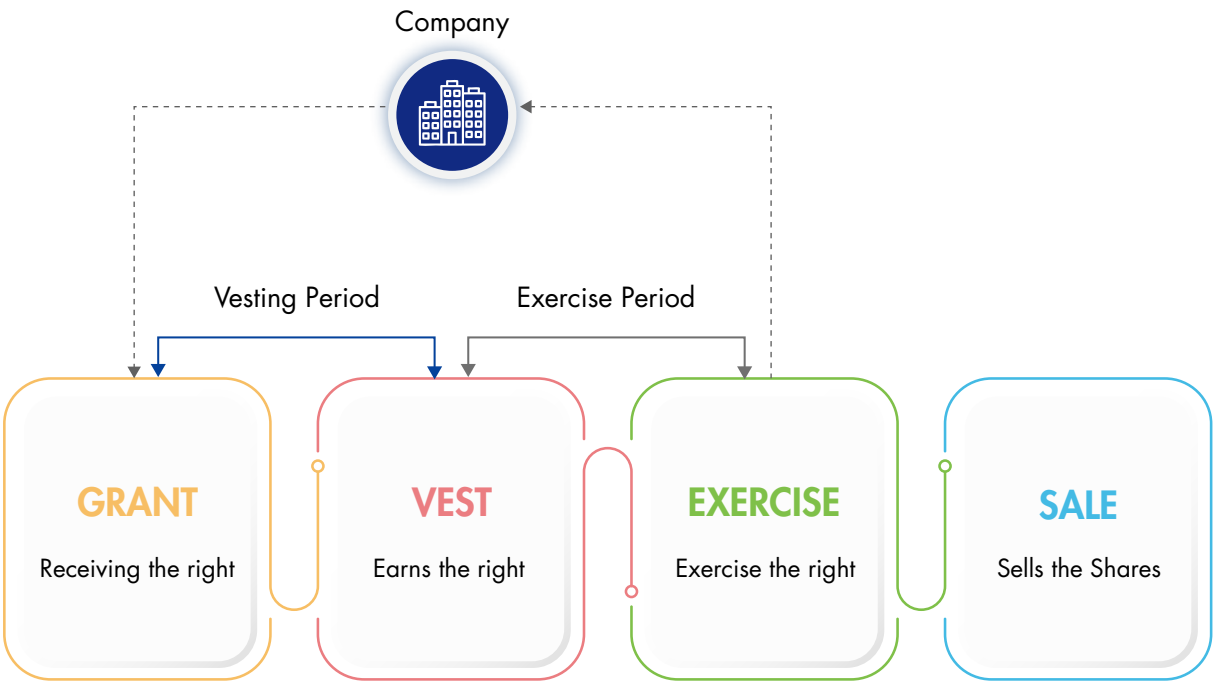
Employee Stock Option Plans (ESOPs)

An ESOP gives employees the right (but not obligation) to purchase company shares at a predetermined price (known as exercise price), usually during a defined vesting period and at a discount to the fair market value.

An ESOP structure allows companies to attract and retain skilled talent without high immediate cash outflows, while still providing meaningful compensation.

ESOPs are generally structured with a vesting schedule of four to five years, ensuring long-term engagement of key personnel.

They foster a strong sense of belongingness and enable employees to participate in the company's growth, benefiting from potential financial gains as its valuation increases.



Planning ESOPs well before the IPO ensures alignment of employee interests with the company's long-term growth. It also helps employers retain key talent and allows employees to benefit from potential wealth creation as the company's valuation rises post-listing.

Promoter Level Structuring

Capital Gains in OFS

Corporate shareholders offering shares under OFS: Key Considerations

When an Indian operating company prepares for a public issue, it is common for its shares to be held through an intermediate holding company, which may have resident or non-resident shareholders. In such scenarios, it becomes essential to optimize the shareholding structure ahead of the proposed IPO, especially where the offer involves a sale of shares through an OFS.

- When the holding company sells shares under OFS, capital gains tax applies to the holding company in India.
- After taxes are paid, repatriation of sale proceeds (as dividends or otherwise) from the holding company to its shareholders may create a second tax incidence, depending on residency and applicable tax laws for both India and the shareholder's country.
- This two-layered taxation may result in leakage of value and administrative complexity.

To address these concerns and create a more IPO-ready structure, companies may consider the following approaches.

Merger of Holding Company cum operating company into IPO - bound Operating Company:

- For savings of cost, attain operational and financial synergies, operational efficiency, etc.
- The merger is usually tax-neutral for both the companies and their shareholders, provided that statutory conditions under Indian tax law are met.
- Shareholders of the holding company receive shares of the operating company as consideration for merger.
- This process requires NCLT approval, creditors' and members' consents, and compliance with regulatory provisions.
- After the merger, shareholders hold shares directly in the operating company, with the holding company dissolved, making future OFS in the IPO simpler and more efficient.

Capital Reduction of Holding Company cum operating company and Distribution of Shares of IPO - bound Operating Company as Consideration:

- To enable direct promoter participation in the listed company, ensuring transparent shareholding for investors.
- In a capital reduction, the holding company cancels its shares and distributes operating company shares to its shareholders as consideration.
- This distribution would be treated as a dividend to the extent of the accumulated profits of the holding company, and any amount in excess thereof may be taxed as capital gains in the hands of the shareholders of the holding company.
- The holding company continues to exist post-reduction.

Criteria before undertaking any of the above restructuring exercise

Approach	Tax Neutrality	Holding Co. Status	Tax Implications to Shareholders	Regulatory Process	Resulting Structure
Merger	Yes	Dissolved	No tax, if conditions met	NCLT process, consents from creditors and members required	Direct holding in operating co.
Capital Reduction	No	Continues	Dividend tax (upto profits); capital gain tax (over and above profits)		

Tax and regulatory aspects must be carefully evaluated while selecting the appropriate approach.

Individual shareholders offering shares under OFS: Key Considerations

When a company comes out with a public issue, promoters selling their shares through an OFS often face substantial capital gains tax. Let's look at a practical example.

Consider the case of ABC Pvt. Ltd., which is planning a public issue. Mr. Raj, a promoter holding 10,00,000 shares (acquired in his individual capacity at ₹200 per share), decides to offer 25,000 shares under OFS at a price band of ₹3,000–₹3,500 per share. The shares are sold on 1 April 2025 at ₹3,500 per share.

- Sale consideration: ₹8.75 crore (₹3,500 × 25,000 shares)
- Cost of acquisition: ₹0.5 crore (₹200 × 25,000 shares)
- Capital gain: ₹8.25 crore

Accordingly, appropriate considerations may be taken into account while planning to offer shares under OFS.

Exemption under section 54F of the Income Tax Act, 1961:

Under Section 54F of the Income Tax Act, 1961, capital gains from the sale of shares can be fully or partially exempt if the sale proceeds are invested in one residential house:

- **Purchase:** A residential house costing an amount equivalent to the sale proceeds (in this case, ₹8.75 crore) must be purchased within 1 year before or 2 years after the sale (in this case, between 1 April 2024 and 31 March 2027).
- **Construction:** If constructing a residential house, the amount invested must equal the sale proceeds and the house should be completed within 3 years of the sale (1 April 2025 to 31 March 2028).

Therefore, if Mr. Raj invests the entire ₹8.75 crore in a qualifying property, the full capital gain of ₹8.25 crore is exempt, resulting in no tax liability.

If the investment in the residential house is less than the sale proceeds, say ₹5 crore, the exemption is proportionate:

- Exempt capital gain: ₹4.71 crore (Capital gains ₹8.25 crore X Cost of house ₹5 crore ÷ Sale consideration ₹8.75 crore)
- Taxable capital gain: ₹3.54 crore (Capital gains ₹8.25 crore - Exempt ₹4.71 crore)

Certain points of consideration for claiming exemption

- The person claiming exemption must not own more than one residential house on the date of sale, excluding the house purchased under this section;
- The person claiming exemption cannot purchase another residential house within 1 year, or construct one within 3 years from the date of sale of shares under OFS.
- New asset purchased for claiming exemption should not be transferred within a period of 3 years from the date of its purchase / construction
- Maximum exemption which can be claimed :₹10 crores

Mr. Raj may realign his shareholding amongst the family members (by way of gift, inheritance, or transfer) or may transfer their shareholdings to a trust. Each shareholder must carefully consider the provisions of Section 54F of the Income-tax Act, 1961, and remain mindful of all statutory conditions and compliance requirements. Further, it is important that re-alignment is done before the company's listing, as any transfer of shares post-listing may trigger additional regulatory approvals and compliance requirements.

Succession Planning

As businesses prepare for a public listing, promoters often turn their attention to succession planning — ensuring that control and ownership transition seamlessly across generations. For family-owned enterprises, this exercise becomes particularly crucial since a public issue brings the group's ownership and governance structures under intense public and regulatory scrutiny.

Traditional Methods of Succession in India

Historically, Indian families have relied on conventional methods for succession planning, such as:

- **Gifts:** While effective for immediate transfer, gifts may result in the loss of control and ownership during the donor's lifetime.
- **Joint ownership:** This structure may cause ambiguity over rights and responsibilities, often leading to family disputes after the demise of the patriarch or matriarch.
- **Nominations:** Nominations can create confusion between legal ownership and beneficial entitlement, especially in financial assets.
- **Hindu Undivided Families (HUFs) or family arrangements:** Though widely used in the past, these are increasingly seen as rigid and difficult to adapt to the realities of dispersed and professionally diverse families.
- **Wills:** Although simple in concept, wills are vulnerable to legal challenges and often require probate in specific jurisdictions.

Why Private Trusts are Gaining Prominence

Private trusts have emerged as a sophisticated, legally robust, and tax-efficient alternative. They enable families to achieve inter-generational wealth transfer in an organized and dispute-free manner, while preserving control, confidentiality, and asset protection.

Private trusts offer unique advantages over traditional modes of succession. They help **ring-fence assets,** ensure **continuity of management,** and may provide **protection against potential estate duty or creditor claims.** For families with complex family trees or cross-border interests, a trust structure can bring stability and governance that other methods lack.

Using a trust structure can provide long-term stability and facilitate smooth succession within the promoter family. However, it is important that the succession planning exercise is done before the company's listing, as any transfer of shares post-listing may trigger additional regulatory approvals and compliance requirements.

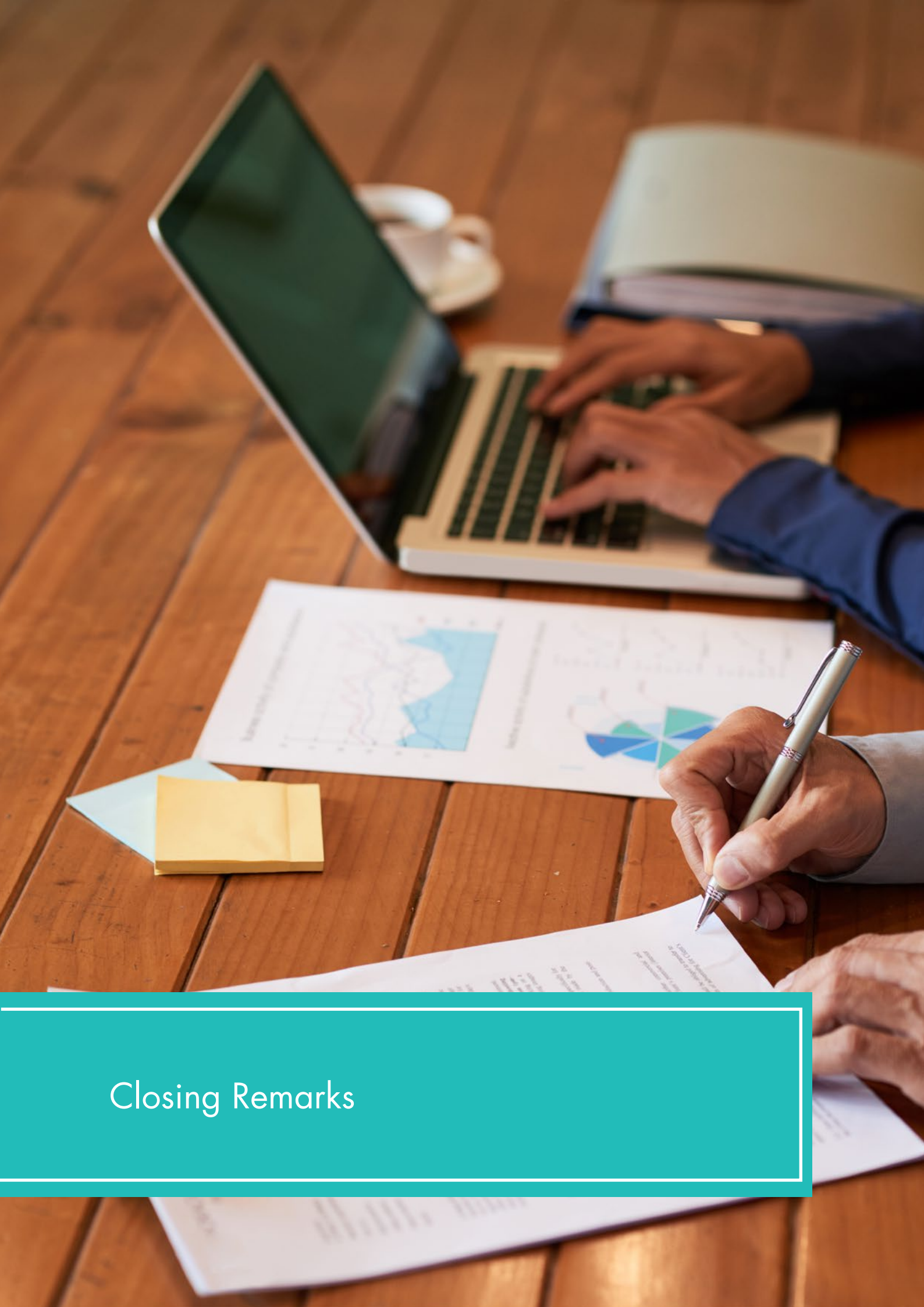
Key SEBI Related Aspects

When an Indian company decides to list its shares on the main board of the NSE or BSE, it embarks on a complex regulatory journey governed primarily by the SEBI. The IPO process is not only about making disclosures or preparing a prospectus; it also involves careful compliance with several pre-listing structural and regulatory requirements that determine a company's eligibility, shareholding configuration, and overall readiness for public markets.

SEBI's regulations are designed to ensure that companies going public maintain transparency, fairness, and stability in their ownership and governance structures. These norms shape the way promoters participate, how share capital is organized, how pre-IPO transactions are treated, and how the company transitions from being privately held to publicly listed. Understanding these aspects early allows promoters and management to avoid last-minute compliance hurdles and structure the IPO in a way that aligns with long-term business and investor interests.

Particulars	Key Points
Eligibility Requirements	• The issuer must comply with SEBI (ICDR) Regulations, 2018 to list on the Main Board. • Under the profitability route, the company should have: – Net tangible assets of ₹3 crores in each of the last 3 years (≤50% monetary assets). – Average operating profit of ₹15 crores and positive profit in each of the 3 preceding years. – Net worth of at least ₹1 crore in each of those years. • If criteria are not met, listing may still be possible under the QIB route with 75% of the issue to Qualified Institutional Buyers. • Promoters, directors, and the company must not be debarred or classified as willful defaulters. • All securities must be in dematerialized form.
Lock-in and Promoter Contribution Requirements	• Promoters must contribute at least 20% of post-issue capital (Minimum Promoter Contribution - MPC). • MPC is locked in for 18 months from allotment; balance promoter shareholding is locked in for 6 months. • If IPO proceeds (excluding OFS) are used mainly for capex, lock-in extends to 3 years (MPC) and 1 year (excess shares). • Locked-in shares may be transferred within promoter group, subject to continuation of remaining lock-in period and compliance with SEBI (SAST) Regulations.

Particulars	Key Points
Shares to be offered under OFS	• Only fully paid-up shares held for at least one year before filing the DRHP can be offered in an OFS, subject to certain exemptions such as shares issued under bonus or court-approved schemes.
Minimum Public Shareholding (MPS) & Free Float	• Every listed company must maintain 25% public shareholding on a continuous basis. • SEBI permits phased compliance for large issuers to reach MPS thresholds. • Locked-in promoter shares do not count toward public shareholding; requiring careful pre-IPO structuring of holdings.
Outstanding Convertible Instruments & ESOPs	• No outstanding convertible securities or instruments altering equity structure are allowed before filing DRHP. • All such instruments must be converted or exercised prior to DRHP filing, except ESOPs compliant with Companies Act, 2013. • SARs (Stock Appreciation Rights) may remain outstanding till DRHP but must be settled before RHP filing.
Amendments to Charter Documents (MOA & AOA)	• The MOA and AOA must be amended to align with governance norms for a listed public company. • MOA should ensure the objects clause accurately reflects business activities and authorised capital is adequate. • AOA must remove private company restrictions (e.g., share transfer limits, private invitation clauses). • Introduce provisions for Independent Directors, Board Committees (Audit, NRC), and e-voting procedures.



Closing Remarks

Preparing for an IPO is one of the most significant milestones in a company's growth journey. While raising capital and gaining visibility are the most visible outcomes, the process leading up to listing on the main board involves a series of crucial regulatory, financial, and governance preparations under the SEBI (ICDR) Regulations, 2018. These requirements are not merely procedural—they serve as the foundation for building investor trust and ensuring that only credible, well-governed companies enter the public markets. Compliance with SEBI's eligibility, disclosure, and structural norms helps the company present a transparent and stable picture to investors. Early alignment with these rules, whether it involves promoter contribution and lock-in obligations, ensuring adequate public shareholding, restructuring promoter holdings, or settling outstanding instruments; reduces the risk of delays or rejections during SEBI's review process. It also helps management focus on communicating their business story effectively once the IPO marketing phase begins.

While implementing any structuring exercise required to facilitate an IPO, companies must remain mindful of the anti-avoidance provisions under the Income-tax Act and ensure that strong commercial substance is in place.

Companies planning to go public should ideally start preparing well in advance by reviewing their financial performance, ownership structures, charter documents and internal controls to ensure full regulatory readiness. Coordination among promoters, legal and financial advisors, and merchant bankers is key to achieving a seamless transition from a privately held to a publicly traded company. Ultimately, adherence to SEBI's framework is more than a compliance requirement—it reflects the company's commitment to good governance, fairness, and accountability. A well-prepared and compliant issuer not only enhances its prospects for a successful IPO but also builds a strong foundation for sustained performance and investor confidence in the years following its listing.

About Dhruva Advisors

Dhruva Advisors India Pvt. Ltd., a Ryan LLC affiliate, is a leading tax and regulatory advisory firm delivering high-impact solutions across India and key global markets. In a rapidly evolving tax environment, we help clients navigate complexity with clear, practical, and insight-driven guidance.

Founded in 2014, Dhruva has grown into one of India's most respected tax firms, operating from 12 offices across India and international locations in Dubai, Abu Dhabi, Saudi Arabia, and Singapore. Our leadership team includes 24 Partners, 8 Senior Advisors, 15 Associate Partners, and 50 Principals, supported by nearly 500 professionals with deep technical expertise and a strong commitment to client outcomes.

Dhruva Advisors has been consistently recognized by International Tax Review, earning the 'India Tax Firm of the Year' award for five consecutive years (2017–2021) and maintaining a 'Tier 1' ranking through 2026. These accolades reflect our focus on accountability, innovation, and a client-first mindset.

Our expertise spans tax disputes, global structuring, advisory, and regulatory strategy. We support clients across industries including Aerospace & Defense, Agro & Chemicals, Automotive, Conglomerates, Education, Energy & Resources, Financial Services, Healthcare, IT & ITeS, Manufacturing, Pharma & Life Sciences, Private Equity, Real Estate, Transportation, Telecom, and Media.

Wherever tax complexity exists, Dhruva delivers clarity.

Our recognitions

Dhruva Advisors has consistently been ranked as 'Tier 1' firm in General Corporate Tax, Indirect Tax, and Transfer Pricing, maintaining top-tier rankings through 2026.

Awarded 'India Tax Firm of the Year' at the ITR Asia Tax Awards for five consecutive years (2017–2021).

Recognized as the 'India Disputes and Litigation Firm of the Year' at the ITR Asia Tax Awards in 2018 and 2020.

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- Tier 1 – Indirect Tax
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- Other Notable: Tax Controversy

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