More Improvements needed to the IGP

What is the issue?

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The revamped Innovators Growth Platform (IGP) set up by the SEBI to support start-ups and investors can broaden its mandate apart from facilitating easier exit.

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Why was the ITP revamped to IGP?

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- The Institutional Trading Platform (ITP) started in 2013 helped investors in start-ups divest their holdings without making a public offer.
- The profitability and other disclosure requirements are less stringent compared to the SME platform or the main board of exchanges.
- In the five years since its launch, only a handful of companies have listed on the ITP of both the BSE and the NSE.
- The primary factor hampering growth of this platform appears to be its narrow mandate.
- Following a review in 2018, the rules governing ITP were tweaked in December.
- The Indian regulator has shown salutary initiative in launching the Innovative Growth Platform (IGP), with the widened participant base and some of the difficulties faced by companies ironed out.
- While the ITP was launched with the sole intention of providing exits to Qualified Institutional Borrowers (QIBs) such as angel investors and venture capital funds.
- The regulator is now conceding that start-ups can be funded by other investors too besides QIBs such as family trusts.

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- The regulator is also willing to accept start-ups funded by individuals or other companies, by forming a new category of pre-listing investor accredited investors.
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- SEBI has now laid down that exiting investors should have held stake in the company for two years prior to the listing.
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- This ensures that investors do not use the IGP platform to make quick exits from their investments.
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- The ICDR (issue of capital and disclosure requirements) regulations which lay down that no individual or collective group, could hold more than 25 per cent of the post-issue capital, has now been removed.
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What improvements can be done further in the IGP?

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- **Funding growth** - Besides providing exit to existing investors, the IGP can become an avenue for funding future growth of start-ups.
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- If a robust ecosystem is created on the IGP where investors of all hues (foreign, domestic, retail, HNI and institutions) participate actively, this investor base can be tapped on a regular basis by start-ups through public issues.
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- Besides providing greater visibility, it will lower their dependence on Private Equity and Venture Capital.
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- **Investments for retail -** IGP can showcase eligible start-ups in which investors can park some money.
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- Purchasing stakes in new businesses through an exchange platform may be a better alternative compared to buying through other avenues, as basic information is made available on the exchange website and periodic disclosures are mandatory.
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- In this regard, the recent move to reduce the trading and application size on the IGP to Rs. 2 lakh, down from Rs. 10 lakh earlier, can turn out to be a game-changer.
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- However care also needs to be taken to protect the more vulnerable investors from this platform, since many of these start-ups are yet to break even or turn profitable, they do carry greater risk.
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Source: The Business Line

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