

A new IPO playbook? What GIFT City offers that SME exchanges don't

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While listing costs on GIFT City are similar to SME IPOs, liquidity and regulatory clarity remain challenges as the market infrastructure evolves.



GIFT City

- XED to be first company to list via GIFT City route
- GIFT City provides relaxed regulations, tax perks, and foreign access.
- Liquidity and regulatory clarity challenge GIFT City

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As the executive education platform XED gears up to be the first company to list through the GIFT City route, more small companies may begin evaluating this pathway to the secondary markets instead of looking at the SME exchanges.

This marks a significant test case for the International Financial Services Centres Authority (IFSCA), as it oversees the exchanges at GIFT City, as compared to the long-established governance of the Securities and Exchange Board of India (SEBI).

While the cost arbitrage to list on GIFT City as compared to locally may not be dramatic, the regulatory structure, investor base and long-term positioning offer companies a very distinct alternative, especially for those companies that aim to target foreign capital.

Process

From the process point of view, experts suggested that listing on GIFT City benefits the firms, with easier regulations. "I think since the government is also promoting this, the approval process is very fast and smooth," said Saahil Kinkhabwala of Monarch Network Capital.

The framework hasn't been set in stone, and is still evolving. As a result, regulators are seen as more facilitative at this stage as they build the ecosystem. However, market participants caution that while the process may be efficient, the market infrastructure, particularly liquidity, is still developing.

"It's a process," Kinkhabwala said, drawing parallels with the early days of SME exchanges. "If you recollect, in 2012 SME exchanges were started and faced similar issues. Over time, liquidity was built up." Still, he did note that liquidity could remain limited in the initial years.

Difference in regulations

The most meaningful divergence between a GIFT City listing and a domestic IPO lies in disclosure standards, governance prescriptions and lock-in requirements.

According to Richa Choudhary, Partner – Capital Markets at Trilegal, the IFSCA framework differs across "pricing, financial eligibility, corporate governance, disclosure requirements, treatment of convertible securities, lock-in and investor access."

Domestic IPOs that are regulated by SEBI require highly granular disclosures which include detailed promoter and promoter group information, capital structure break-ups, and specific end-use disclosures. On the flip side, the current IFSCA regime "prescribes disclosure under broad heads, but does not mirror the detailed restatement and granular level disclosure requirements mandated by SEBI," she said.

Corporate governance requirements also differ. SEBI requires the firm to share detailed board composition norms at the time of filing the draft offer document. "In contrast, the IFSCA has not yet prescribed specific corporate governance requirements for companies proposing to list," Choudhary noted, though this is likely to evolve.

The lock-in requirements are light in GIFT City as compared to SEBI's rules. On the domestic front, 20 percent of promoter shareholding is locked in for three years or 18 months depending on the issue structure. Under IFSCA, the promoter and controlling shareholders have a six-month lock-in, with no mandatory lock-up for the other shareholders.

Similarly, domestic IPO regulations typically require conversion of outstanding convertible instruments prior to filing. "The IFSCA regime does not prescribe an equivalent mandatory pre-filing conversion requirement," she said.

Tax advantages

One of the strongest draws for a company to list on GIFT City is its positioning as a foreign currency and tax-efficient jurisdiction. Funds raised are typically in US dollars rather than the Indian rupee, which makes it more attractive for companies targeting offshore investors.

While domestic IPOs tap Indian mutual funds, HNIs and retail investors, GIFT City listings are structurally more attractive to foreign funds seeking tax efficiency and currency certainty. "These are generally dollar-denominated securities," Kinkhabwala said. "It would be much easier for them to participate and there is no currency volatility risk for them."

He added that the absence of securities transaction tax (STT), stamp duty and the availability of capital gains exemptions for the non-residents participating on IFSCA exchanges make the structure compelling. "It becomes easy repatriation. It's a free foreign currency trade for them."

However, this also shapes the kind of companies that would opt for the GIFT City route. "If there are profitable companies, there is a very good appetite for Indian fund houses," he said. "Why would someone opt only for GIFT City?"

Instead, Kinkhabwala expects earlier-stage or loss-making companies to explore the platform, which faces less scrutiny from regulators and investors. Further, the sophisticated class of investors that would invest via GIFT City would be more comfortable with early-stage or non-profitable companies.

Issue expenses

Data suggests that listing expenses on GIFT City are broadly comparable to SME IPOs. An analysis of the top 100 SME IPOs by size compared to the costs that XED incurred indicates that the additional expenses to list are roughly the same.

Companies going for an SME IPO are required to contract the services of a market maker to ensure that a buyer or seller has liquidity and fair price discovery. Being the first GIFT City issue, XED allocated five percent of its issue to a market maker, while on average, around six percent of SME issues go to market makers.

Listing costs are also roughly similar. The total issue expenses for XED are around \$1.2 million, approximately 10 percent of its total issue size. On average, SME firms incur expenses of around nine percent, with a wide range of 1 to 17 percent depending on the issue.

The difference, therefore, is not so much in upfront cost, but in regulatory structure, investor access and strategic positioning.

Delisting process

Delisting and exit mechanics remain an area where the domestic regime is more mature, with little information from IFCSA's end. SEBI's framework provides detailed procedures for voluntary and compulsory delisting, which also includes structured exit pricing mechanisms. "The IFSCA framework is more flexible at this stage and granular requirements are yet to be prescribed," Choudhary said.

As liquidity deepens and transaction volume increases, more standardised approaches to exit and minority protection are likely to evolve within the IFSCA ecosystem. For now, issuers considering the route must factor in how future exits, may be handled under a developing regulatory regime.

Outlook

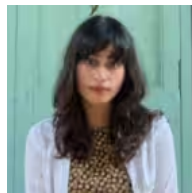
Whether GIFT City listings gain scale will depend largely on the success of early issuers like XED. "It all depends upon how this XED also will be successful," Kinkhabwala said. If the issue trades well and attracts foreign participation, the

chance that more companies could follow are higher. He estimates that 50 listings "could be there in a couple of years" if investor traction builds in GIFT City.

On the flip side, some argue that GIFT City has taken time to gather momentum. "Gift City as a concept has not taken off. Even physically, it has not taken off," said Yatin Singh, CEO, Investment Banking at Emkay Global Financial Services. "I think it is an idea which is ahead of its time. While there is a regulatory framework which supports a lot of business interest in Gift City, ancillary things are missing."

For the smaller companies weighing the trade-off between listing on domestic SME markets and an offshore-facing, lighter-touch regime, GIFT City offers not necessarily a cheaper route. The real challenge for firms aiming to list on GIFT City will be liquidity and investor confidence, along with seeing if regulatory clarity will evolve quickly enough to sustain a new equity market ecosystem.

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first published: Mar 4, 2026 04:46 pm