

IPO Rush Amid Market Rally Boosts Demand for Independent Directors

Former bureaucrats & regulators are valued as independent directors and are highly sought after

ET ANALYSIS

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ET Intelligence Bureau: Rallying markets augur well for those interested in becoming independent directors. The companies making a beeline to roll out IPOs amidst the rallying stock market have spurred a demand for independent directors.

As per data sourced from Prime Database, 166 companies that have listed in the last three fiscal years have altogether appointed 513 independent directors in the two years leading to their IPO.

For instance, Zomato appointed two independent directors in March 2021 and three independent directors in April 2021 ahead of its IPO in July 2021. Doms Industries appointed four independent directors in July 2023 ahead of its IPO in December 2023.

Similarly, Bharti Hexacom appointed three independent directors last

Raising the Bar

Independent directors onboarded by IPO-bound Companies

FY	No. of companies rolling out IPO	No. of independent directors appointed in two years leading to the IPO
FY22	53	155
FY23	37	124
FY24	76	234
Total	166	513

Source: primeinfobase.com

December - four months ahead of its IPO in April this year.

"Currently, 65% of the companies that we are engaging with for onboarding independent directors are pre-IPO companies," said Shweta Rao, head of Vahura OnBoard, who recently facilitated the appointment of three independent directors for the IPO-bound Hyundai Motors.

"Companies have to ensure they establish a robust board before filing the draft red herring prospectus (DRHP). Onboarding of independent directors typically commences anywhere from eight months to just a

few months before filing the DRHP. Pre-IPO companies often engage professional search firms to assemble their entire board, while other times they seek specific skill sets crucial for their growth and rely on specialist search firms to identify and onboard such professionals. Former bureaucrats and regulators are valued as independent directors and continue to be highly sought after. Women independent directors are often preferred to chair the nomination and remuneration committees and the CSR committees." Rao elaborated.

Listing regulations demand that

the board of most listed companies must have not less than six directors with half of them being non-executive. At least one independent director must be a woman. Besides, one-third of the audit committee and its chairperson must be independent. Given such legal requirements, medium to small companies gearing up for listing typically scout for one female and two male independent directors.

"Small and medium sized companies typically onboard independent directors from their network just a few months before the IPO when merchant bankers start their due diligence", said Divya Momaya, founder of startup Mentor My Board. "The directors are not necessarily identified based on their skill sets and competencies. It is generally seen that merchant bankers, auditors or existing directors play an important role in nominating independent directors for the IPO-ready companies. As a result, the new pool of people who are trained and ready to be independent directors are not able to get board seats based on their capabilities and competencies", she said.

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