


Basecamp To Summit: The Pre-IPO Roadmap For Promoter Families

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Image: Pexels

Like climbers preparing to conquer the majestic summit of Mount Everest, India's promoter families preparing for an IPO face an ascent that will permanently reshape their business journey. Just as mountaineers train, study weather conditions, and ready their gear, families must align ownership, governance, and succession well before listing.

Expeditions succeed through planning, risk awareness, and teamwork, likewise, pre-IPO planning is not mere paperwork but an integrated strategy to unite family branches and withstand public market scrutiny.

Studies show that roughly 24.9% of the cumulative net worth of India's top 38 billionaires is now held via trusts. Promoter trusts help ring-fence the business from family disputes and provide continuity of control even if something happens to the current leader.

Based on a review of Draft Red Herring Prospectus (DRHPs) filed with Securities and Exchange Board of India (SEBI), in 2015, only approximately 12% of DRHP involved a family trust as promoter / promoter group. By 2025, this figure has

risen to approximately 37%. Over the decade, the usage of pre-IPO trust structures has more than tripled, showing clear institutionalisation of promoter family shareholding.

Camp I: Reorganising the Team Structure

Pre-IPO succession planning involves both structural steps (reorganizing ownership via trusts, holding companies, etc.) and governance steps (family agreements, shareholders agreement (SHA) between family members), ensuring family's interests are consolidated and future-proof by the time of listing.

Streamlining the Cap Table

A first priority is to align the shareholding with the desired post-listing control map. This means deciding who holds shares and in what proportions, key managerial positions, etc. well before the DRHP is filed. Key considerations include:

- Active vs. passive family members: Families should distinguish members in active management or board roles from those who are passive shareholders. This links to SEBI's and the stock exchanges' promoter identification process, where active members are more likely to be classified as promoters.
- Resident vs. non-resident branches: Pre-IPO planning must factor in Indian foreign exchange control rules, for any ownership change involving non-resident family members or even foreign citizens.
- First-generation vs. next-generation ownership: In many IPO-bound companies, the founding generation seeks to gradually transition leadership to the next generation or re-align ownership amongst family branches. But doing any corporate restructuring to this effect after the IPO can be costly and complicated due to higher valuations and tax implications.

Hard-wiring Control and Governance

Families typically use trust deeds and SHAs to achieve a consolidated promoter voting bloc, allocate board seats by branch, and embed succession protocols. A widely adopted model combines professional management under a family-appointed chair, reassuring investors while preserving strategic influence.

Finally, many business families accumulate a maze of entities i.e. private companies, partnerships, LLPs and Hindu Undivided Family (HUFs), resulting in fragmented ownership. A growing trend is to migrate holdings into private

family trusts, often with a streamlined holding company in certain cases for regulatory ease. This is critical for the IPO process, as it presents a clean, transparent, and easy-to-understand ownership structure to regulators, investors, and analysts in the DRHP.

Camp II: Streamlining Gear and Logistics

In a listed company, those who manage it need not be the same as those who benefit economically. This separation allows the business to be run professionally, while family members continue to share wealth fairly. The key is to build a structure that preserves the promoter family's control post-listing, while comprehensively complying with SEBI's regulatory framework.

Balancing Continuity, Liquidity, and Governance

A family trust (or trust-owned holding company) acts as the promoter shareholder, while the trust deed governs dividend sharing and cash flows. This ensures continuity across generations: ownership remains consolidated as a single bloc, while internal governance manages the fair distribution of wealth.

Liquidity for non-active branches is usually provided through trust-level payouts or structured buy-outs, rather than additional control rights. To further safeguard unity, most families embed Right of First Offer (ROFO) or Right of First Refusal (ROFR) provisions, giving existing family members or the trust priority before any shares are sold externally. The special rights available to promoter shareholders must be terminated prior to listing of a company.

Post listing, such rights can be re-instated through an SHA with the approval of shareholder by way of a special resolution, subject to periodic renewal. However, in respect of board nomination rights, SEBI allows such rights to survive post listing, provided amendments to the articles to entrench such nomination rights are approved by the shareholders post listing.

These mechanisms keep promoter control intact and prevent unwanted third party ownership from entering the family bloc. It further mitigates fragmentation and family disputes by providing a clear framework for managing the economic interests of all beneficiaries, separating ownership from day-to-day management.

Camp III: Coordinating the Summit Team

Under SEBI regulations, the classification of family trusts and related individuals as "Promoter" or "Promoter group" carries wide-ranging consequences, including liability for prospectus misstatements, disclosures, lock-in requirements, and ongoing compliance obligations.

Private Family Trusts and Control

Based on recent guidance received from the stock exchanges, we note that a private family trust holding $\geq 10\%$ to be classified as a promoter. Trustees are generally treated as promoters. Settlor will be a promoter if he/she retains powers over trustee appointments or beneficiaries. Beneficiaries can be classified as promoters if they hold special rights, such as appointing/removing trustees or superior voting rights.

Immediate Relatives and Exemption Application

Under sebi regulations,[5] immediate relatives of promoters must be disclosed as part of the promoter group in the drhp, even if estranged. The IPO process mandates members of promoter group providing certain eligibility related confirmations to the issuer company. This can create practical challenges if they refuse cooperation. In such cases, the company must demonstrate to sebi that it has made all reasonable efforts to obtain the required confirmations before seeking an exemption. Sebi's approval (or rejection) is required prior to filing the drhp. Accordingly, this step should be planned well in advance, as it can potentially delay IPO timelines.

Camp IV: Crossing over the Critical Death Zone

Earmarking Minimum Promoter Contribution (MPC) and Offer for Sale (OFS)

Promoters must hold at least 20% of the company's post-issue capital (excluding shares bought in the year before listing at below the offer price) (MPC). This MPC is locked in for 18 months from the date of allotment in the IPO, while promoter shares above the MPC are locked in for 6 months. If issue proceeds are used for capex, the MPC lock-in extends to 3 years (and 1 year for the balance). Shares sold through an Offer for Sale (OFS) must also have been held for at least one year before filing the offer documents.

For families, this means carefully evaluating how much promoter shareholding can be migrated into a private trust before the IPO, considering:

- the timing of setting up the trust,
- the MPC requirement, and
- the size of shares being offered to the public.

Takeover Code Considerations

Under SEBI's (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (Takeover Code), transfers to a family trust after listing do not automatically qualify for open-offer exemption unless the trust has been disclosed as a promoter for three continuous years. Without this seasoning period, such transfers may trigger an open-offer obligation.

A specific exemption under Regulation 11 of the Takeover Code is possible, but SEBI imposes strict conditions, such as no layering of trustees or beneficiaries is permitted, and only individual promoters and their immediate relatives may act as trustees or beneficiaries.[6] Failure to meet these conditions risks triggering a costly and impractical open offer to public shareholders.

Families that prepare their ascent gain more than liquidity. They earn a governance dividend, stewardship that preserves family influence while enabling professional managers to drive growth. The best summit view is strategic clarity and the ability to look ahead across generations, not just quarterly results.

By contrast, families that delay face rushed transfers, regulatory roadblocks, higher tax costs, and fragmented ownership. These distractions often surface just when the business needs undivided focus on integration, expansion, and market positioning.

Today, proxy advisors and shareholder activists watch promoter behaviour closely, scrutinising related-party transactions, share pledges, and special arrangements. Agreements that once functioned as private expedition strategies, such as family arrangements or SHAs within the family, must now be disclosed if they affect the management and control of the listed company.

What will define your family's IPO expedition? A masterclass in foresight and flawless execution, or a cautionary tale of inadequate preparation and summit-day setbacks. The acclimatisation window is brief, but for those who plan carefully and coordinate with discipline, the summit of generational wealth offers a view that can endure for decades.

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