

A welcome step towards standardisation of disclosure of Key Performance Indicators

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1. Introduction

1.1 The Securities and Exchange Board of India (SEBI) issued a circular dated 28 February 2025 on '*The Industry Standards on Key Performance Indicators (KPIs) Disclosures in the draft Offer Document and Offer Document*'. The Circular mandates compliance with industry standards formulated by the Industry Standards Forum ("ISF" and such standard the KPI Standard), to ensure uniform approach for identification and disclosure of KPIs in draft offer documents and offer documents (Offer Documents) by issuer company (Issuer). The Circular is applicable to all Offer Documents filed with SEBI / stock exchanges on or after 1 April 2025.

2. Background

2.1 Pursuant to an amendment to the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations), SEBI introduced the requirement of disclosure of KPIs, as approved by the audit committee of the Issuer (Audit Committee) and certified by the statutory auditors / chartered accountant or firm of chartered accountants / cost accountants (Certifying Professional). Consequently, the Auditing & Assurance Standards Board of the Institute of Chartered Accountants of India (ICAI) issued the '*Technical Guide on Disclosure and Reporting of Key Performance Indicators (KPIs) in Offer Documents*' (Technical Guidance) to provide guidance to practitioners on reporting requirements for KPIs disclosed under the "*Basis of Issue Price*" section of the Offer Documents.

3. Need for standardisation

3.1. While SEBI ICDR Regulations stipulated the requirements for disclosure and certification of KPIs, SEBI recognised the need for standardisation due of lack of clarity on various aspects, including: (i) the process of identifying relevant KPIs from a large pool of data; (ii) lack of clarity on definition of 'investor'; and (iii) the process of certifying and approving KPIs by the Certifying Professional for inclusion in Offer Documents. Consequently, there was a disparity in the manner of disclosure of KPIs in the Offer Documents within the same industry.

3.2. To gather inputs from the industry and facilitate the standardisation of identification and disclosure of KPIs in Offer Documents, SEBI constituted the ISF comprising of 3 industry associations, namely, Associated Chambers of Commerce & Industry of India (ASSOCHAM), Federation of Indian Chambers of Commerce and Industry (FICCI) and Confederation of Indian Industry (CII).

4. Key aspects of standardisation

4.1. Definition of KPI

The SEBI ICDR Regulations did not provide a definition for 'key performance indicators' which aligned

with the rationale of such disclosure. The KPI Standard has attempted to define KPI to include numerical measures of an Issuer's historical financial and/or operational performance:

- a. which the management of such Issuer evaluates and tracks to monitor its performance; and
- b. which provides information to investors to make an informed decision with respect to valuation of the Issuer.

4. 2. **Classification of KPIs**

4.2.1. The KPI Standard provides the following indicators for classification of KPIs:

- a. GAAP financial measures;
- b. Non-GAAP financial measures including financial ratios; and
- c. Operational measures, which are not included in #(a) or #(b) above.

4. 3. **Disclosure of Operational Measures**

4.3.1. Given the nature of Operational Measures, the KPI Standard provides flexibility of disclosure of key operational measures, tailored to the business model and industry within which it operates, such that:

- a. only those operational measures that are relevant to the valuation of the Issuer are required to be disclosed in the "*Basis of Offer Price*" section of the Offer Documents; and
- b. operational measures which reflect the understanding of the business performance, drivers of growth are required to be disclosed in the "*Our Business*" section of the Offer Documents.

4.3.2. Given that the SEBI ICDR Regulations require disclosure of KPIs of the industry peers corresponding to KPIs disclosed in the "*Basis of Offer Price*" section of the Offer Documents, the above bifurcation eliminates the process of identifying and disclosing KPIs of the industry peers corresponding to operational measures disclosed in the "*Our Business*" section of the Offer Documents.

4. 4. **Data Collection and Compilation:**

4.4.1. The KPI Standard has expressly pegged the responsibility of identification and compliance thereof to the Issuer in addition to providing specific guidance on collection and compilation of information that reflects the true measures of the Issuer's historical financial and operational performance.

4.4.2. A notable aspect under the KPI Standard is the clear definition of the term 'investor'. An 'investor' has been defined as a holder of equity shares or securities convertible into equity shares, including warrants (Relevant Securities) and excludes promoter, members of promoter group, directors and employees of the Issuer and its subsidiary(ies) in respect of any information received by them in the course of business. Further, the KPI Standard also defines the scope of data shared with an 'investor' which will be considered as KPI, by restricting it to data shared on account of:

- a. any allotment of Relevant Securities in any primary issuance (excluding ESOPs), during the 3 years prior to the date of filing the Offer Documents;
- b. any secondary sale of the Relevant Securities, only if the Issuer was involved in facilitating such sale and had shared data with the transferees at the time of such secondary sale during the 3 years prior to the date of filing the Offer Documents; and
- c. information rights they may have or through any manner of a similar nature, during the 3 years prior to the date of filing the Offer Documents.

4.4.3. Further, the KPI Standard defines other sources of data to be considered for evaluation of KPI, *inter alia*, key financial or operational information included in any private placement offer-cum-application letter or any rights issue offer letter for issuance of Relevant Securities during the 3 years prior to the date of filing the Offer Documents.

4. 5. **Identification of KPIs for industry peers**

4.5.1. The KPI Standard provides certain criteria which need to be considered while selecting the industry peers such as comparable size, companies belonging to same industry and operating in similar line of business or business model as the Issuer, with appropriate explanation should one-to-one comparison, basis the specified parameters, is not possible. The KPI Standard also stipulates the hierarchy of preference for selection of industry peers and mandates disclosure of explanations for choosing fewer than 3 peers. Each of these aspects intend to ensure like-to-like comparison and facilitate the decision-making of investors based on valuation and pricing of the Issuer.

4. 6. **Shortlisting KPIs from Selected Data**

4.6.1. The KPI Standard provides guidance on shortlisting KPIs from the pool of data selected in the manner prescribed under the KPI Standard (summarised in paragraph 4.4 above). In particular, (i) projections; (ii) data that cannot be verified, certified or audited; (iii) information that is no longer relevant or does not reflect the current business situation; (iv) data that is subsumed within the KPIs proposed to be disclosed in the Offer Documents, unless such data is routinely disclosed by industry peers; and (v) confidential or sensitive data that could affect the competitiveness of the Issuer, unless such data is routinely disclosed by industry peers.

4.6.2. For each exclusion indicated above, the Issuer is required to provide rationale in the audit committee note, as described in 4.7.1(b) below.

4.7. **Certification and Approval Process**

4.7.1. The KPI Standard provides a chronological order of certifying and approving the KPIs. Set forth below is a summary of the process:

a. Step 1 – Management certificate

The KPIs selected for disclosure in the “*Basis of Offer Price*” and “*Our Business*” sections of the Offer Documents are required to be certified by the managing director or executive director or chief executive officer or chief financial officer or manager on behalf of the management of the Issuer.

b. Step 2 – Management note for Audit Committee

A note, specifying the following, is required to be prepared by the management of the Issuer to facilitate approval of the KPIs by the Audit Committee:

- i. KPIs classified in accordance with the indicators provided in paragraph 4.1.1 above;
- ii. details of process and factors considered in preparing the list of KPIs along with relevance of such KPIs;
- iii. explanation for exclusion of KPIs; and
- iv. information which do not qualify as KPIs as per the KPI Standards but is proposed to be disclosed in the Offer Documents.

c. Step 3 – Initiation of the certification process by Certifying Professional

To facilitate the approval of the identified KPIs by the Audit Committee, the Issuer is required to initiate the certification process by Certifying Professional, for validating the accuracy of the KPIs identified by the management. A draft of such certificate is required to be placed before the Audit Committee, during the meeting for approval of KPIs.

d. Step 4 – Approval of the Audit Committee

All KPIs identified and certified by the management of the Issuer for disclosure in the Offer Documents are required to be approved by the Audit Committee. The management of the Issuer is required to present to the Audit Committee the note with details specified in #(b) above, along with certain additional information and confirmations as prescribed under the KPI Standard.

The Audit Committee is required to evaluate the details presented by the management of the Issuer and approve the KPIs for disclosure in the Offer Documents, with necessary alterations, deletions or additions.

e. Step 5 - Certification of the KPIs approved by Audit Committee

The KPIs approved by the Audit Committee should be certified by Certifying Professional in terms of the Technical Guidance or any other similar standard issued by ICAI or Institute of Cost Accountants of India, for this purpose.

A copy of such certificate is required to be included in the list of material documents for inspection in the Offer Documents.

4.8. Format and presentation standards for disclosing KPIs

4.8.1. The KPI Standard provides illustrative formats and manner of presentation of the KPIs in the Offer Documents, including the format for comparison of KPIs with industry peers.

4.9. Standards for continuous disclosure requirements of KPIs

4.9.1. The KPIs disclosed in Offer Documents are required to be reported periodically (but at least once a year) post-listing. The KPI Standard prescribes the duration of reporting and provides an option to discontinue disclosure of KPIs if they are not relevant or do not reflect the current business model (or any other reason).

4.9.2. Such KPIs are required to be approved by the Audit Committee and the board of directors of the Issuer and certified by Certifying Professional as indicated in paragraph 4.7 above.

5. Conclusion

5.1. The KPI Standard is a welcome initiative of industry participation in development of disclosure standards. It provides clear and lucid framework for data collection, KPI identification, KPI certification, role and responsibilities of management and Audit Committee and identification of industry peers. This, coupled with directions for disclosure framework for KPI, has resulted in a holistic standardisation of the KPI requirements stipulated under SEBI ICDR Regulations.

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