



Initial Public Offering Insights: Impact of restructuring on restated financial information



Heart of the matter

Many companies preparing for an Indian initial public offering (IPO) undertake group re-organisations or restructurings in the period immediately preceding the IPO. These restructurings are typically aimed at consolidating businesses that have been under the common control of a promoter or same ultimate parent for several years, thereby enabling the company to raise capital based on the historical performance of the restructured group as a whole.

In accordance with the requirements of Ind AS, in the latest statutory financial statements, the corresponding

amounts for previous year reflect the combined results of both the businesses, even though the transaction did not occur until the current year.

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, require an IPO offer document to include restated financial information for the last three financial years, along with the relevant interim period, where applicable. This gives rise to a recurring question in practice as to whether the effects of such group restructurings may be reflected in the restated financial information for all three preceding financial years.

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Example

Entities A and B have been wholly owned subsidiaries of Entity C since their incorporation in 2005. Entity A is in the process of undertaking an Indian IPO and proposes to file its Draft Red Herring Prospectus (DRHP) with SEBI, including restated financial statements for the financial years ended 31 March 2023, 31 March 2024, and 31 March 2025, as well as a nine-month stub period ended 31 December 2025.

During the nine-month stub period ended 31 December 2025, Entity B is merged into Entity A pursuant to a scheme of merger approved by the National Company Law Tribunal (NCLT), with an appointed date of 1 April 2025.

For the purpose of preparing restated financial information, Entity A prepares special-purpose interim financial statements for the nine-month period ended 31 December 2025 without comparative information, as comparatives are not required under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. The merger is accounted for in these interim financial statements with effect from 1 April 2025.

A question, therefore, arises whether the merger of Entity B into Entity A should be reflected in the restated financial statements with effect from 1 April 2025, or from an earlier date.

Ind AS 103, Business Combinations, Appendix C requires business combinations under common control

to be accounted for using the pooling of interest method. Further, it requires that financial information for prior periods be restated as if the business combination had occurred from the beginning of the earliest period presented in the financial statements, irrespective of the actual date of the combination. In the present case, however, since no comparative information was presented in the special-purpose interim financial statements, the merger was reflected therein only from 1 April 2025.

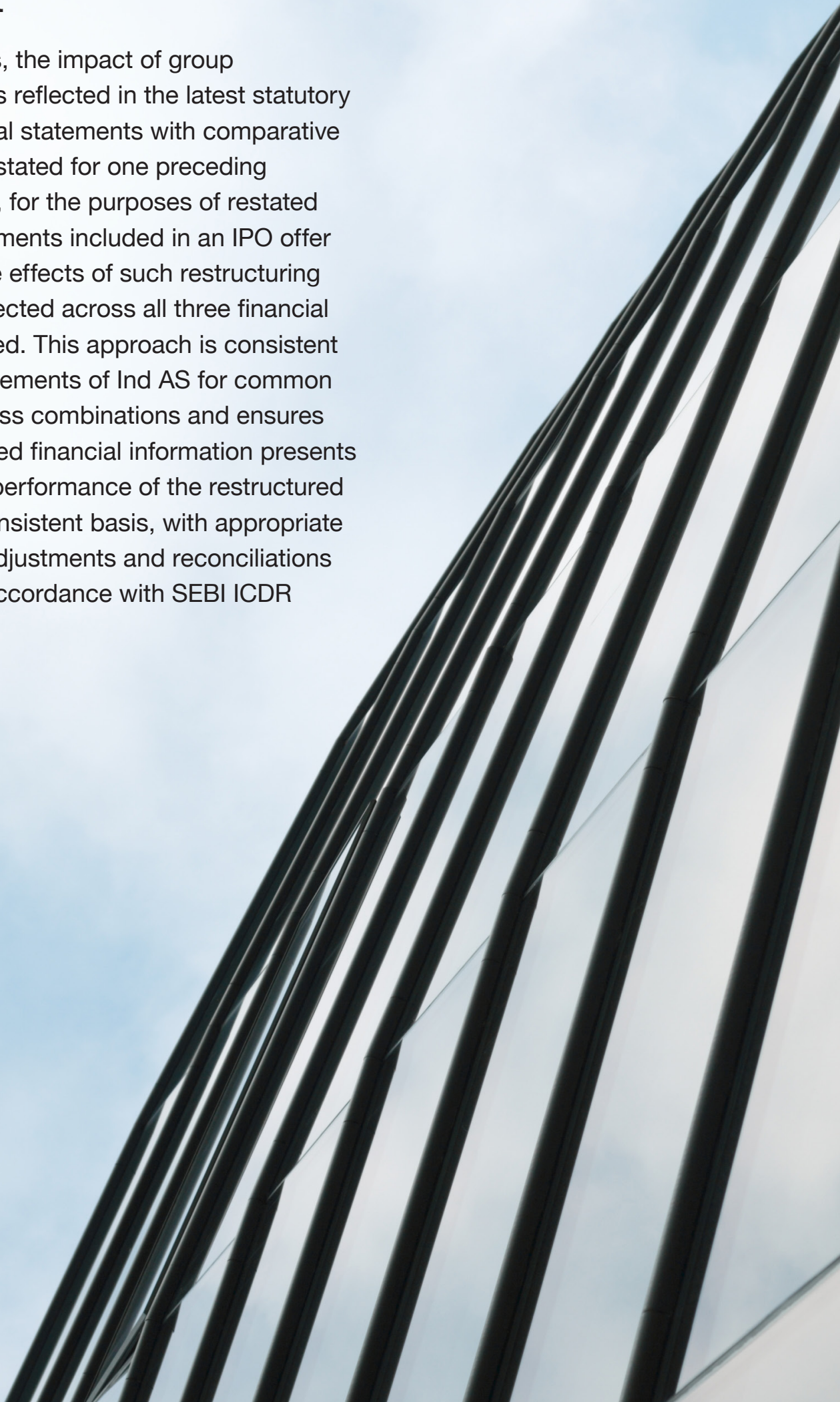
The restated financial statements included in the IPO offer document are prepared based on audited financial statements that comply with Ind AS and present financial information for the years ended 31 March 2023, 31 March 2024, and 31 March 2025, along with the nine-month stub period ended 31 December 2025.

Accordingly, for the purposes of the restated financial statements, the merger of Entity B into Entity A should be reflected with effect from 1 April 2022, being the beginning of the earliest period presented, in accordance with the requirements of Ind AS 103, Appendix C.

The impact of the merger for periods prior to 1 April 2025 should, therefore, be reflected through restatement adjustments in the restated financial information, together with appropriate reconciliations, as required under the SEBI ICDR Regulations.

The insight

In some cases, the impact of group restructuring is reflected in the latest statutory annual financial statements with comparative information restated for one preceding year. However, for the purposes of restated financial statements included in an IPO offer document, the effects of such restructuring should be reflected across all three financial years presented. This approach is consistent with the requirements of Ind AS for common control business combinations and ensures that the restated financial information presents the historical performance of the restructured group on a consistent basis, with appropriate restatement adjustments and reconciliations disclosed in accordance with SEBI ICDR Regulations.





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