

***RECLASSIFICATION OF PROMOTERS UNDER SEBI (LODR)
REGULATIONS EXPLAINED***

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ABSTRACT

This paper explains promoter group reclassification in a listed company after a control change and shows why one should treat it as a transaction closing work-stream. It describes the legal route under Regulation 31A of the SEBI LODR, that merge with SAST disclosure duties. The paper sets out a practical sequence from deal drafting and rights clean up to board review, stock exchange filing, shareholder approval where required, query management, and post approval compliance updates. It identifies the evidences that exchanges test in practice, like the promoter request, board views, shareholder materials, shareholding data, and confirmations. It then tracks recurring failure points such as retained control rights, nominee board links, and weak coordination in open offer cases. The paper closes with a lean transaction timeline that can be run inside a listed company to move faster and avoid any contingencies or gaps.

Keywords: Promoter reclassification, promoter group, listed company, Regulation 31A, SEBI LODR, SAST disclosures, stock exchange approval

PROMOTER GROUP RECLASSIFICATION IS OF RELEVANCE IN A TRANSACTION

Promoter group reclassification looks like a shareholding pattern clean up. In deals, it behaves like a closing condition in disguise.

We see it most often after a control change. A new acquirer comes in. The old promoter group exits management. The acquirer wants the shareholding pattern to show a clean break. The old promoter group wants the market to stop treating them as “in control”.

The market reads “promoter” as a control signal. Analysts, lenders, proxy firms, and even counterparties build decision making around it. A company’s disclosures, related party tagging, pledge disclosures, and shareholding pattern narratives often hang off that tag.

Here is the part that catches teams off guard. Reclassification is not a board decision alone. The recognized stock exchange decides it. Even if every commercial person agrees, the exchange still tests the file against the rule text and its checklists.

So one should treat promoter group reclassification like a mini regulatory work stream. It should be planned early. Shareholder agreements, board composition, and reserved matters should be aligned early. Enough time is to be kept for exchanging queries.

THE RULEBOOK TO ACTUALLY APPLY

This work stream can’t be run from one regulation book. It is run it from two, plus exchange checklists.

Start with the SEBI LODR framework on reclassification. It sets the route and the gating conditions for moving a promoter or promoter group member into the public category.

It also decides the disclosure sequence. The rule treats main steps as material events. The listed entity is expected to disclose those events to the stock exchanges within the set time windows.

The gating conditions are the real heart of this topic. They read simple. In files, they become the real fight. The outgoing promoter side needs to show all of this:

- They and persons related to them, measured the way the rule seeks to measure, do not hold more than the voting rights cap. They do not exercise control, direct or indirect.

- They do not enjoy special rights. The rule calls out formal and informal arrangements and shareholder agreements.
- They do not sit on the board. That includes nominee directors.
- They do not act as key managerial personnel.
- They are not tagged as a wilful defaulter under the RBI framework.
- They are not tagged as a fugitive economic offender.

The listed entity side needs to show basic compliance hygiene too, in these steps:

- The listed entity meets minimum public shareholding.
- The stock exchange has not suspended trading in its shares.
- The entity does not carry outstanding dues to SEBI, stock exchanges, or depositories.
- Now add the newer process nuance that many people miss.

The rule now supports a route where shareholder approval does not become a mandatory gate in a narrow set of cases. We can see this in SEBI's own board notes and later commentary. Stock exchange processing is still needed, but one can skip the general meeting step if the facts fit the exception.

The same rule set treats some reclassifications as “automatic” or near automatic outcomes. Death related exits and certain recipient tagging rules can change the promoter label even noting that nobody filed a reclassification request.

Then bring in SAST. People treat SAST as a takeover and open offer only. That is a mistake.

SAST touches reclassification in two ways.

- I. It uses “promoter” in multiple disclosure duties, and it uses “control” as an idea. The reclassification file rests on proving lack of control. The control idea in SAST is part of the way the ecosystem reads control.
- II. SAST disclosures can still apply even after reclassification, based on shareholding thresholds. If the outgoing promoter still holds above key thresholds, acquisition and disposal disclosures can still be filed under SAST, without caring what the shareholding pattern column says.

So reclassification can change who files a given disclosure in one framework, yet the same person might still file disclosures in the other framework.

A PRACTICAL SEQUENCE THAT CAN RUN

A sequence is needed to treat this as a controlled workflow, not a single request letter. I am going to describe it as a clean sequence one can run inside a listed company after a stake sale or control change.

1. Step one: lock the end state in transaction documents

Parties should agree on the reclassification story early. This means one needs to decide the end state, not just the deal consideration.

Check if the outgoing promoter will keep any board seat, board observer, information right, veto right, or reserved matter. If yes, either remove it or accept that reclassification may fail, or accept a delayed reclassification timeline after those rights fall away.

Check if the outgoing promoter will keep any rights that smell like control. People often call them protective rights. The exchange and SEBI test the real effect, not the label.

Check if the outgoing promoter and persons related to them remain under the voting rights cap. This needs group level tests.

2. Step two: prepare the outgoing promoter request pack

The outgoing promoter sends a request to the listed entity. The best files show this request as a mini memo.

- It states the reason for seeking reclassification.
- It states how each condition is satisfied, point by point.
- It provides a snapshot of shareholding and voting rights, including persons related to the outgoing promoter, in the way the rule expects.
- It confirms resignation from board seats and KMP roles, if any.
- It confirms the absence of special rights and the absence of control.

- It discloses any shareholder agreement and confirms amendments or termination where needed.

3. Step three: run a board meeting that creates an evidence trail

- Board meeting should record that the board reviewed the request.
- It should record the board's views on each condition, in plain words.
- It should approve filing the application with the stock exchanges.
- It should confirm listed entity compliance, like minimum public shareholding.

Boards that write a one-line resolution often face exchange queries later.

4. Step four: disclose the material events to stock exchanges

Treat the reclassification work stream as a set of material events. The regulation treats key points as material.

Disclosures usually include these events:

- Receipt of reclassification request.
- Board meeting outcome, with the board's views.
- Submission of the reclassification application to the stock exchanges.
- Decision of the stock exchanges.
- Shareholder approval, when the case needs it.

Disclosure drafting matters. It protects the company against a later claim that the promoter still holds influence.

5. Step five: decide if shareholder approval is needed

Many people lock shareholder approval as a default. That is safe, yet it wastes time in cases where the rule relaxes it.

Test if the fact pattern matches the exception, like a small voting rights level for the outgoing promoter and related persons, or reclassification linked to a divorce fact pattern.

If a shareholder vote is needed, plan it like a voting control exercise.

- Draft the notice to shareholders.
- Include the board's views.
- Block the promoter and persons related to them from voting for the resolution, as the rule requires.
- Keep voting records clean.
- Respect the timeline for disclosure of the shareholder approval event.

6. Step six: file the stock exchange application fast

The rule expects the listed entity to file the reclassification application with the exchange within a narrow period from the board meeting. Stock exchange checklists repeat this expectation. Teams wait for shareholder approval even when they do not need it. Teams miss the filing window after the board meeting.

So set filing date before the board meeting.

7. Step seven: manage exchange queries like an investigation file

- Exchange will ask questions. Most questions fall into a few buckets.
- What rights does the outgoing promoter still keep, direct or indirect?
- Does any shareholder agreement survive?
- Does any person related to the outgoing promoter exceed the cap.?
- Does the outgoing promoter have any board link through a nominee, a director relative, or a person with a long term voting arrangement?
- Did the listed entity meet minimum public shareholding before and after?
- Are there any unpaid dues to the exchange?

Reply once, with a full pack.

8. Step eight: close out the work stream after exchange approval

Once the exchange approves, update the shareholding pattern under Regulation 31.

- Update websites.
- Update internal promoter group list used for disclosures, pledge monitoring, and PIT compliance tagging.
- Keep a reclassification dossier file, since auditors and secretarial auditors ask for it.

DOCUMENTS AND EVIDENCE THE STOCK EXCHANGE TESTS

Exchange checklists show what the exchange wants as a standard.

These are the documents that keep showing up in checklists across exchanges.

A certified copy of the outgoing promoter request, with rationale and a condition by condition compliance statement.

- A certified copy of the board resolution, including the board's views.
- A copy of the shareholder notice and explanatory statement, where one takes the shareholder approval route.
- A certified copy of the shareholder resolution or postal ballot results, where needed.
- A certified confirmation that the outgoing promoter and related persons hold voting rights under the stated threshold, where shareholder approval exception is claimed
- Latest shareholding pattern and post reclassification shareholding pattern, in the SEBI format.
- A compliance confirmation on minimum public shareholding, trading status, and dues.
- Undertakings from the outgoing promoter on non-control and no special rights.
- Copies of amendments or termination deeds for shareholder agreements, where relevant.

It is advisable to read a few real company disclosures. Many listed entities publish the exact board minutes' extract for the reclassification approval. That style tends to survive exchange scrutiny.

SAST DISCLOSURES TO STILL HANDLE AFTER RECLASSIFICATION

Promoter tag changes do not wipe out SAST duties that attach to holding levels. If the promoter still holds above the SAST disclosure thresholds, one should still file.

Regulation 29 type disclosures care about the holding and the movement. This is also true for Regulation 30, as the annual disclosure catches promoters, and it catches other holders at the stated holding thresholds.

Encumbrance disclosures sit in a tricky place. Under SAST, the promoter has a disclosure duty for encumbrance. Under LODR, promoters have pledge and encumbrance disclosures too. If one reclassifies, the duty label may be shifted, but the lender side still expects reporting hygiene. The secretarial team should not assume the reporting duty vanished overnight.

Do not let reclassification create a gap in disclosure ownership inside the company. If nobody owns the threshold tracking, SAST timelines can be missed even when the shareholding pattern looks clean.

STOCK EXCHANGE REVIEW, REAL FAILURE POINTS AND FIXES

Most reclassification failures are avoidable if the common traps are spotted early.

1. The outgoing promoter retains negative control rights

People treat negative control rights as “just protections”. Exchanges and SEBI tend to look at effect. If those rights block decisions, it is a struggle to show lack of control.

Fix: remove those rights fully, or delay reclassification until the rights lapse, or accept that reclassification will not happen.

2. The promoter keeps a board seat through a nominee or a friendly director

The rule tests representation on the board. One cannot keep a nominee and still claim a clean exit.

Fix: remove the nominee appointment right and record the resignation

3. The shareholding cap fails once related persons are aggregated

The cap aggregates related persons in a defined way.

Fix: do a related person count once in the start of the project and again just before filing, since trades happen.

4. The filing timeline is missed after the board meeting

This looks like a process error, not a legal debate. Exchanges still care.

Fix: finish the pack and internal sign offs before the board meeting date. File right after the meeting.

5. Open offer reclassification is treated as an afterthought

Open offer cases bring a separate level of scrutiny. It is often seen that outgoing promoters file reclassification under the open offer linked sub regulation route. Companies even state this in their application letters.

Fix: connect the open offer timeline, the SPA closing, and the reclassification timeline. Disclosure story should not contradict letter of offer story.

6. The listed entity fails minimum public shareholding or has pending dues

These are simple checks, yet teams forget.

Fix: run an early compliance check on minimum public shareholding and dues before scheduling the board meeting.

A LEAN TIMELINE THAT CAN RUN IN A TRANSACTION

One can run this like a disciplined sequence, without bloated paperwork.

Day zero to day ten

- Lock the reclassification end state in transaction documents.
- Clean control rights and board rights.
- Prepare the outgoing promoter request and draft the board note.
- Count related persons and voting rights.

- Board meeting window
- Place the request before the board.
- Adopt a detailed board resolution with board views.
- Draft the stock exchange filing letter and annexures.
- Immediately after board meeting
- Disclose the board outcome as a material event.
- File the exchange application within the stated short window.
- Shareholder meeting window, where needed
- Send the notice with board views.
- Run the vote with voting restrictions for outgoing promoter and related persons.
- Disclose the shareholder approval within the required disclosure timeline.

Exchange decision window

- Answer queries in a single consolidated file
- Track the exchange decision timeline.

After approval

- Update the shareholding pattern.
- Update internal compliance lists and disclosure trackers.

Close the reclassification dossier file.

CONCLUSION

Promoter group reclassification is a control and disclosure exercise, not a cosmetic shareholding update. It is needed to lock the end state in the deal documents, remove control rights, build a complete evidence file, and file it on time. One should keep the reclassification file tied to SAST tracking and internal disclosure ownership after approval. The promoter tag can change in the shareholding pattern, yet threshold based SAST disclosures can continue. If

one integrated work stream is run, it cuts delays and, and closes the transaction with a cleaner compliance record.

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