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IPO readiness: A governance stress test for boards

Board leadership center (India)

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As capital markets grow more discerning and regulatory standards tighten, going public is no longer just a funding event, it’s a governance milestone, it demands institutional readiness, internal discipline and long-term accountability.

In FY 25, India’s capital markets recorded **80 mainboard IPOs**, raising approximately INR 1,630 billion, up from INR 619 billion a year earlier.[1] Yet, while IPO filings, known as **Draft Red Herring Prospectus** (DRHP), soared to 118 in H1 2025 (more than double over H1 2024), **only 24 listings closed, compared to 36 during the same period last year.**[2] This stark gap between intent and execution signals more than market hesitation, it underscores a board-level reality: **governance is the gatekeeper to listing success.**

Yet behind multiple successful listing lies a deeper story, one shaped by how early and how effectively the board engages with the company’s governance transformation.

Why governance is so critical at pre-IPO stage?

- Investor confidence
- Regulatory compliance
- Risk management
- Strategic oversight

Board stewardship in pre-IPO enterprises

An IPO marks a pivotal shift for a company and its board, transitioning from entrepreneurial agility to institutional discipline and public accountability. Beyond regulatory disclosures, it requires a strategic overhaul of governance, culture, and risk management to align with heightened stakeholder scrutiny. Boards must reassess their roles, structures, and responsibilities to uphold trust and meet evolving expectations in a time-sensitive transformation.

At this critical juncture, boards must ask:

- ? Have we institutionalised governance beyond minimum compliance thresholds?
- ? Is board and committee composition aligned with investor expectations and regulations?
- ? Are our audit and risk committees actively overseeing emerging risks?
- ? Do our reporting and financial controls stand up to market and media scrutiny?
- ? Are we ready to handle reputational risks and stakeholder activism from day one?

1. IPOs in India, KPMG India, May 2025
2. India sees record DRHP filings in 2025, but IPO launches plummet. Outlook business, May 2025

Pre-IPO governance lens

Contrary to common belief, IPO-readiness is not triggered by a singular event or filing. It is a continuum - a journey of progressive institutionalisation. Companies often evolve through three broad governance phases before becoming IPO-ready. Every phase brings a distinct set of expectations, tensions, and board-level responsibilities.

Stage one: The early preparation phase (24 -18 months prior to listing)

This stage lays the foundation for governance maturity, marking the transition from a founder-led enterprise to an institutionally governed organisation. As investor interest intensifies and operational complexity increases, the board's focus must:

- Extend beyond composition to embedding independence that transcends compliance
- Strengthening sectoral and capital market expertise
- Ensuring IPO-tested leadership
- Establishing functional committees, and
- Institutionalising structured onboarding and orientation.

Key board considerations at this stage

01	**Board composition:** Initiating conversations around board renewal, onboarding independent directors with relevant industry, finance, and governance experience
02	**Committee formation:** Setting up key committees like audit, NRC, and risk—even if not mandatory at this stage—to instill discipline
03	**Internal controls and systems:** Strengthen financial systems, documentation, and control environment, with robust mechanisms for related party transactions across complex group structures
04	**Tone at the top:** Board members may assess whether the organisational culture is aligned with long-term governance expectations of public shareholders
05	**Governance framework:** Establish clear authority, accountability, and succession protocols, ensuring governance readiness aligned with public market standards.

Stage two: The IPO readiness phase (18–12 months prior to listing)

This is a phase of operational and governance intensification. External advisors come on board, financial audits are completed, and the board must now lead the charge on aligning governance with regulatory and investor scrutiny. This is where public-market muscle is built through dry runs, stress tests, and early exposure to compliance rigor.

Key board considerations at this stage

01

Quarterly closing and reporting:
Ensuring financial close processes (quarterly and annual) mimic listed company standards.

02

Benchmarking disclosures:
Driving disclosure benchmarking - are business risks, strategy narratives, and ESG claims consistent and credible? Boards may review governance practices of listed peers and adapt best practices.

03

Risk and compliance:
Overseeing risk committee activations, particularly on cyber, regulatory, and reputational fronts. Formalising enterprise risk frameworks and ensuring early identification of material risks.

04

Investor preparedness:
Directors may reflect on the clarity and strength of the equity story, especially from a governance and risk lens.

05

Audit committee oversight:
Conducting internal dry runs for audit committee meetings, whistleblower investigations, and investor questions. Greater scrutiny of revenue recognition, cost allocation, EBITDA metrics, and internal audit findings.

06

Governance gaps:
Proactively addressing governance gaps, RPTs, controls, decision protocols—while formalising promoter/related party identification and aligning shareholding structures for compliance and listing readiness.

Stage three: The final stretch: filing and public (zero - six months before IPO)

The final leg of the journey demands precision. The board moves from shaping readiness to certifying it. This is when DRHP filing occurs, regulator interactions begin, and institutional investors scrutinise the company in detail. The board is no longer behind the scenes; it is front and center.

01

DRHP review:
Boards, particularly audit committees, must actively review and sign off on the DRHP, ensuring narrative coherence, audit consistency, and accuracy of key financial disclosures, risk factors, litigation summaries, and related party transactions.

02

Auditor coordination:
Facilitating alignment between management and external auditors on audit sign-offs, comfort letters, and key accounting judgments. Validate auditor independence, scope clarity, and absence of reportable concerns.

03

Public company discipline:
Align public company controls — including cyber governance, related-party checks, ESG reporting, and director responsibilities — with SEBI or equivalent expectations.

04

Director responsibilities:
Ensure that the company is prepared to face shareholder activism, regulatory inquiry, and reputational risk from day one of listing.

As governance maturity evolves, so must the board itself. **The next inflection point?** Designing a board that's not just compliant - but **credible, capable, and future-facing.**

Audit committee at the forefront

The audit committee plays a central role in IPO governance—not only in financial reporting, but also in overseeing risk, disclosures, and institutional controls. A proactive committee mitigates risk and builds trust with regulators, investors, and the market, ensuring the IPO is both financially compliant and governance-credible. As scrutiny intensifies, its responsibilities go well beyond statutory checklists.

Evolving responsibilities include:

- Oversee financial reporting integrity and key accounting judgments
- Tracking key KPIs to align strategy and ensure transparency in financial disclosures
- Review internal controls and quarterly reporting readiness
- Conduct dry runs of financial closures pre-IPO
- Ensure auditor independence, coordinate sign-offs and comfort letters
- Monitor whistleblower protocols and vigil mechanism effectiveness
- Scrutinie cybersecurity and ESG-related disclosures.

Leading global practices to consider:

- Adopt public company meeting discipline early
- Audit all investor and disclosure documents internally
- Conduct voluntary board and committee evaluations
- Enable cross-committee governance integration
- Onboard directors with IPO and regulatory context
- Align ESG disclosures to global reporting frameworks
- Oversee cybersecurity and AI risks at the board level
- Benchmark governance practices against global IPO peers

Boardroom Questions

- Is the board composition aligned with future shareholder expectations?
- Are internal controls and compliance mechanisms IPO-ready?
- Has the board reviewed DRHP risks and related KPIs reflecting exposure and mitigation?
- Are whistleblower and grievance redressal mechanisms in place?
- Have past financials been stress-tested for consistency and audit scrutiny?
- Is there clarity on related party transactions and promoter arrangements?
- How is succession planning and key management continuity being addressed?

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