

# Domestic MFs anchoring more listings as issue sizes shrink

Have subscribed to shares worth ₹2,850 cr as 'cornerstone investors' in 20 IPOs so far in FY24

ABHISHEK KUMAR  
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Domestic mutual funds (MFs) have underpinned demand for most public floats this year, dominated by small- and mid-sized initial public offerings (IPOs).

Of the 24 IPOs that have hit the market so far this financial year (2023-24, or FY24), MFs have played the role of 'anchor investors' in 20. They have subscribed to over 40 per cent, or ₹2,850 crore, worth of shares of the ₹6,900 crore on offer in the anchor category, according to data provided by PRIME Database, a firm that tracks primary market data.

In most cases, fund managers have also subscribed to more shares during the three-day offer period that follows the anchor allotment. Anchor investors, also referred to as 'cornerstone investors', are institutional investors who are allotted shares in a firm ahead of its IPO. This helps demonstrate demand and boost the confidence of other investors.

Anchor allotment can be made only to so-called qualified institutional buyers (QIBs), which include entities such as sovereign wealth funds, MFs, pension funds, and foreign portfolio investors (FPIs) registered with capital markets regulator Securities and Exchange Board of India (Sebi).

On most occasions, FPIs corner the

bulk of shares in the anchor category. However, with the average IPO size shrinking this year, the role of MFs as anchor investors has gained more prominence. The average IPO size for the 24 issues that have hit the market in FY24 is about ₹530 crore, down from about ₹1,500 crore for 2022-23 (FY23).

"FPIs don't typically participate in issues that are less than \$200 million (₹1,500 crore) in size. Domestic funds, on the other hand, have been garnering encouraging flows in their small and midcap funds. That leaves them with a lot of dry powder to invest in new companies coming through the IPO route," said an investment banker.

In some IPOs, such as Rishabh Instruments, Aeroflex Industries, and Netweb Technologies, MFs have subscribed to more than half of the shares reserved in the anchor category. According to Sebi rules, a maximum of 60 per cent of the shares reserved for QIBs can be allotted to anchor investors. A third of the shares available in the anchor book are reserved for MFs. Typically, 50 per cent of the shares on offer in an IPO are reserved for QIBs. However, for companies failing to meet the profitability and networth criteria, at least 75 per cent of the shares on offer have to be compulsorily subscribed by QIBs.

IPOs that have seen the highest subscription by MFs in absolute terms are Mankind Pharma, RR Kabel, and

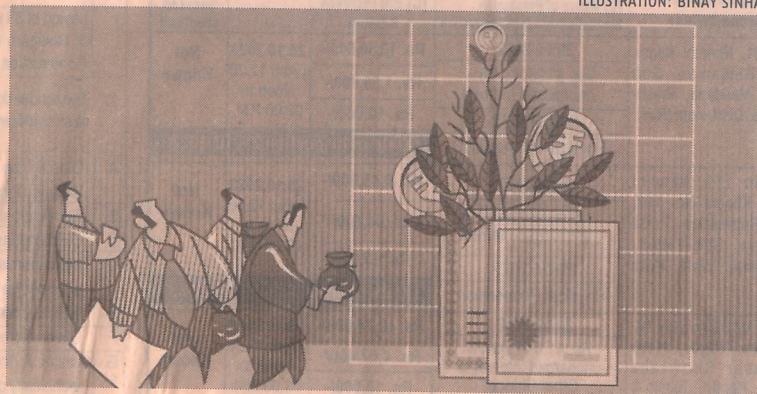
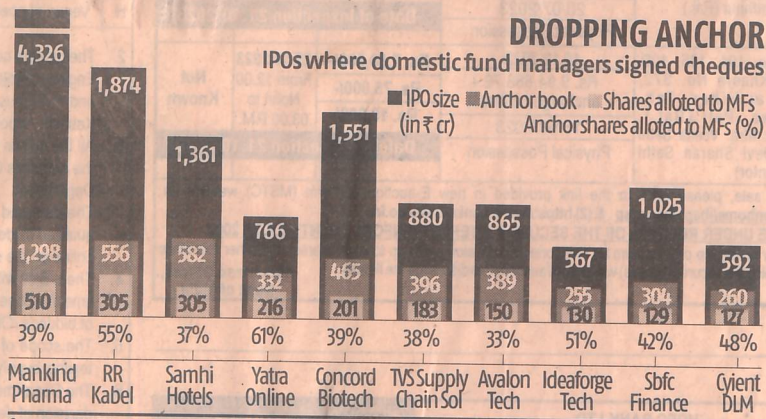


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Source: PRIME database.com

SAMHI Hotels. They together cornered over ₹1,000 crore of the total anchor investments by MFs. Eleven other IPOs, including Yatra Online, Concord Biotech, TVS Supply Chain, and Avalon Technologies, raked in over ₹100 crore as anchor investment from MFs.

Last financial year (FY23), MFs subscribed to shares worth over ₹8,000 crore in the anchor category, with almost 50 per cent going into LIC. The return scorecard for IPOs has been better in FY24, with all but two issues listed trading over their issue price.