

IPO fee jumps as issue sizes shrink

Investment bankers have charged an average 3.2% of issue size this year compared to 3% last year

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Mumbai, 18 October

The fee charged by investment banks to manage initial public offerings (IPOs) have increased to an average 3.23 per cent of the issue size this calendar year, the highest since 2020.

The average fee is up 8 per cent compared to last year, when it stood at 2.99 per cent. The investment banking fees have increased as the average IPO size has shrunk this year.

During the first nine months of 2022, as many as 34 IPOs mopped up ₹26,933 crore, translating into an average issue size of ₹750 crore. In the entire 2022, a total of 40 IPOs had mobilised ₹59,302 crore. While this IPO mobilisation during the first nine months is less than half of last year, the fee pool has shrunk by just 25 per cent as banks have managed to eke out higher fees.

The IPO fee pool this year stands at ₹750 crore compared to nearly ₹1,000 crore in 2020, shows data compiled by Prime Database, a primary market tracker.

Industry players said the efforts required to work on an IPO is similar, irrespective of the issue size. As a result, they look to charge higher fees in percentage terms for smaller issues. Bankers said they work with minimum fee thresholds.

"If the issue size is small, bankers will have to increase the fee percentage to make that minimum fee they have in mind," said Munish Aggarwal, managing director (MD) & head-equity capital markets, Equirus Group.

In percentage terms, investment bankers' fee was the highest at 7 per cent for the ₹155-crore IPO of Global Surfaces. Vishnu Prakash Pungalía (6.37 per cent), Ratnaveer Precision (5 per cent) and Aeroflex Industries (4.7 per cent) were some other issues where investment banking fees were the highest. In absolute terms, bankers pocketed the highest fee of ₹102 crore by managing Mankind



Pharma's ₹4,326-crore issue.

Pranjal Srivastava, partner, investment banking, Centrum Capital, said in large issues, even a 1 per cent fee is a huge amount. But it is not the case with smaller-sized issues.

"For large floats there are multiple investment bankers. For everyone to get a decent chunk of money, one has to charge a higher fee. And at times, bankers have to share the fee internally between the sales and the institutional broking teams," said Srivastava.

Some bankers said smaller issues require more effort as the company is relatively unknown and needs more convinc-

ing with the investor community. Going forward, bankers are likely to continue charging a higher percentage of fees for IPOs as smaller sizes are likely to dominate.

Bankers said the outperformance of small and midcaps has made investors look for opportunities in these companies. Moreover, the returns from largecaps, which had listed, have been tepid.

"Investors are more bullish on smallcap stocks, and that is reflected in the flows towards smallcap funds. Thus, there was higher prevalence of IPOs with issue sizes of up to ₹2,000 crore. In keeping with the healthy inflows into markets and investors

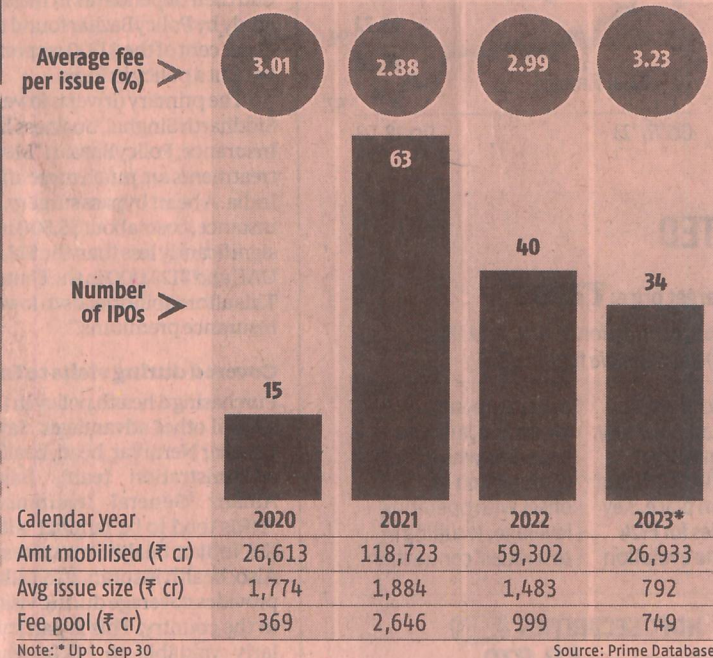
expecting smallcaps and midcaps to do better, we expect a healthy issue pipeline dominated by mid-sized transactions," said Aggarwal.

IPOs were off to a slow start in 2023, with not one getting launched in the first two months. However, the momentum gathered pace as the Nifty and the Nifty Midcap100 and Nifty Smallcap100 indices touched new lifetime highs.

The sharp rebound in the markets from their March lows, coupled with ample liquidity from both foreign and domestic investors boosted primary market activity. The encouraging post-listing performance kept the momentum strong.

COST OF GOING PUBLIC

Fee charged by bankers to manage an IPO has ranged between 0.6% and 7.1% this year



Note: * Up to Sep 30

Source: Prime Database