



ILLUSTRATION: AJAY MOHANTY

NOT SO LISTLESS

The market in shares of unlisted companies is buzzing. And contrary to what you might think, it is all kosher

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On May 10, after a typical workday, three young colleagues walk into a bar to catch the Indian Premier League (IPL) match between Gujarat Titans and Chennai Super Kings (CSK). While ordering their favourite drinks on a humid Mumbai evening, the finance sector executives discuss how turbulent the secondary market has become amid the start of the marathon general elections.

The points of discussion revolve mostly around investing — will the turbulence continue, what if Prime Minister Narendra Modi fails to bag a third term, and will a knee-jerk fall in the markets be a good buying opportunity? As they get a bit tipsy, one of them laments: “Imagine the money we would have made if, instead of guzzling beer every week, we had invested in Bira or AB InBev’s unlisted shares?”

He went on: “Imagine the money that has gone down the drain to catch up on IPL matches, placing bets on the CSK stock would have been a more prudent decision.”

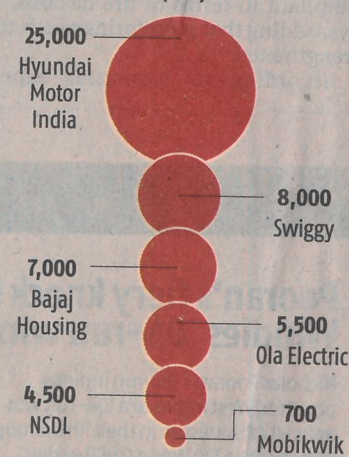
One cannot be blamed for wondering that the conversation has gone into dream land. Except that it is rooted in reality. Buying and selling of unlisted shares of popular brands such as Bira, AB InBev (maker of Hoegaarden and Budweiser), CSK, Tata Capital, and the National Stock Exchange of India (NSE) has become as easy as dealing in shares of listed companies, thanks to the services of more than a dozen online platforms that specialise in it.

“If the IPO pipeline is strong, there

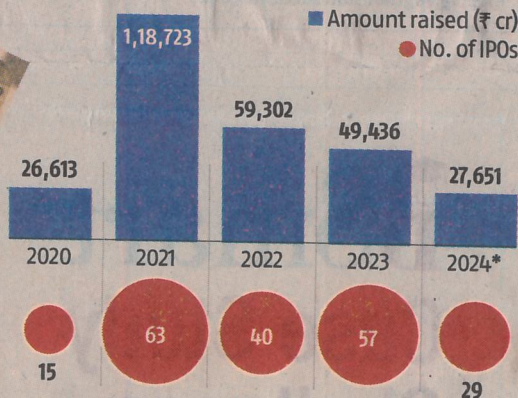


KEY IPOs IN THE PIPELINE

Estimated size* (₹ cr)



ROBUST IPO ACTIVITY IN RECENT YEARS



...that pipeline is strong, there is buoyancy in the unlisted market. Profitable trade for several years has been scooping up shares of the companies ahead of their IPO," says Dinesh Gupta, director of Unlisted Zone, a leading platform for buying and selling of unlisted shares.

IPO boost

Each month, shares worth about ₹1,000 crore of NSE get traded in the unlisted market. The trading volume at the counter are greater than several listed stocks. Though not all clock similar volumes, several unlisted companies witness decent volumes for one to easily get in and out.

The winning trades often involve identifying and investing in a high-growth company months or years before they go for an initial public offering (IPO). When a company goes public, it typically helps unlock value and the early investors tend to benefit. This has happened in several cases. Some of the companies that were actively traded in the unlisted market before they went public and turned out to be winning bets include Tata Technologies, Bikaji Foods, Five Star Business Finance, and the just-listed Le Travenues (Ixigo).

As a result, while the secondary market is currently buzzing with the Sensex, Nifty, and even the small- and mid-cap indices hitting new highs, it is the IPO market that acts as a harbinger for the unlisted market. As the primary market has been abuzz with activity after the Covid-19 pandemic receded, the unlisted market has gained traction.

In 2023, the mainboard saw 57 IPOs worth almost ₹50,000 crore, up from 40 in calendar year 2022. So far this year, nearly 30 companies have launched IPOs, worth almost ₹30,000 crore.

The promoter group's track record, financial performance, valuations, and the space the company operates in are some of the considerations while buying shares of unlisted firms, adds Gupta of Unlisted Zone. Artificial intelligence (AI), electric vehicles (EV), and solar energy are themes in high demand currently.

Thanks to the supportive equity markets, the IPO pipeline is robust and so is the activity in the unlisted market. At present, there are more than a dozen IPO applications, looking to raise a combined ₹10,000 crore, with valid approval

als by the Securities and Exchange Board of India. Another three dozen, looking to raise ₹82,000 crore, have filed their offer documents. These include Hyundai Motor India, Swiggy, and Ola Electric Mobility.

How does the unlisted market operate?

Is it even legal?

The first question that comes to mind is, how does one buy shares in a company that is not listed? Is this even legal?

Typically, companies that are available for trading in the unlisted markets are those that have issued shares to their staffers under any employee stock ownership plan (Esop). As employees look for liquidity, they often resort to selling their Esops. Also, companies that have made huge private placements, such as NSE, are available in the unlisted market. There is sanctity to these trades as these shares get traded to one's demat accounts.

To be sure, fresh fund raising is not permitted in the unlisted market. A company cannot use the unlisted market to issue new shares for raising fresh capital, because this would be in contravention of the Companies Act and Sebi Act. But as long as the trades are secondary in nature, there are no legal issues, say market players.

Typically, dealers who facilitate the buying and selling charge a commission, usually between 1 per cent and 5 per cent. Industry players say shares can be easily bought and sold as long as they are of popular companies. Otherwise, the impact costs can be high. Many platforms display the latest stock prices and recent stock and financial performance, providing cues to potential buyers and sellers.

Umpteen dealers

The dealers operating in the space have jumped nearly three times over the past two years. A simple Google search, "buy unlisted" shares, throws up links to a dozen such platforms. Among the big popular platforms are 3A, Unlisted Zone, Stockify, Analah, Wealth Wisdom, Altius Investech, and Abhishek Securities. Many of them offer companies that are available only on their platform, which helps them stand out in a crowded market. Some claim to

handle more than 50,000 investors and hundreds of thousands of transactions. Besides unlisted shares, these platforms offer other services such as buying fractional real estate. They offer investment advice and a list of top unlisted scrips for anyone who expresses interest in their platform.

"It is not just the individual investors who deal in this space, big companies and foreign investors are also participants," says Rajan Shah, Managing Director, 3A Capital Services, which has been operating in this space for more than two decades.

Trade with caution

Just like the listed market, not all trades can be profitable in the unlisted space. For instance, the crash in startup stocks after the Paytm IPO in November 2021 led to huge losses for investors who had acquired shares of other popular startups such as Oyo, PharmEasy, and Mobikwik.

"The risk is that information about the scripts traded in the unlisted space is quite limited. So due diligence before investing is very much required," advises Shah.

Two recent episodes sent shockwaves in the unlisted market. Following an unsuccessful attempt at launching an IPO, online medicine retailer PharmEasy decided to issue new shares in a rights issue at a 90 per cent discount to its previous valuations. Also, Reliance Retail's move to buy back and cancel shares held by public investors led to huge losses for investors who had bought shares at high valuations.

Both the stocks were very popular in the unlisted market at one point, with savvy investors cornering them with the objective of benefiting from their listing.

Gupta says both were temporary setbacks and the unlisted market activity has bounced back. "Such episodes can even happen in the listed market. There you have some recourse with Sebi. But in unlisted markets, there is no such option and hence, one has to be more careful," says Gupta.

Shah is not worried. "There will always be big challenges for the market in the short run but for the long term, if investment is done in good stocks, then it is always worth the while. Such stocks always bring growth to the market," he says.