

After losing QIB tag, wealthy investors to take pre-IPO route

NEW COURSE. Those relying on AIF to get QIB benefits will need to recalibrate strategies

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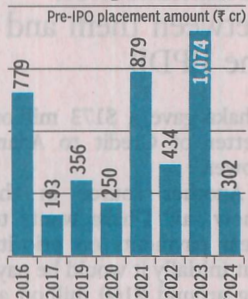
Wealthy investors who invested in initial public offerings (IPOs) through alternative investment funds (AIFs) as qualified institutional buyers (QIBs) may now take the pre-IPO route.

This comes after a SEBI diktat last month said that necessary due diligence would be required for AIF investors who belong to the same group, contribute 50 per cent or more to the corpus of the scheme, and want to avail of a QIB status.

Large family offices and ultra high-networth individuals, who typically establish their own AIFs and invest via the QIB route but are otherwise ineligible for QIB status individually, will be affected by the guidelines, said experts. Such investors may no longer have access to opportunities via the QIB route.

“SEBI’s guidance emphasises the need for transparent and rigorous due diligence processes within AIFs, especially for investors seeking

Coming in early



Source : primedatabase.com # (Till 8th Nov)
*Figures based on cos' final offer documents

QIB status. This move supports fair access to QIB-linked benefits and may prompt individual and family office investors, who may otherwise be ineligible, to reassess their current structures within AIFs and explore increased interest in pre-IPO funds,” said Hardik Mehta, Lead - Tax, Angel One Wealth.

COULD BOOST SUPPLY

The changes in the Budget this year — where long-term shares sold in the pre-IPO phase are now taxed at the same rate as listed shares at 12.5 per cent — could boost

the supply of shares in the pre-IPO market as well, added Mehta.

Afcons Infrastructure recently raised ₹2,967 crore from individual and institutional investors in a pre-IPO placement.

Quadrant Future Tek raised ₹48 crore from Ashish Kacholia, Capri Global, and other prominent individual investors through the pre-IPO route.

Spark Capital is reportedly planning to launch a pre-IPO fund, and more such funds could come to the market now.

NOT OPEN TO ALL

“Those relying on AIF structures to get QIB benefits will now need to recalibrate their strategies. One possible option would be to enter into the company prior to the IPO.”

“This may not be the best scenario, however, since pre-IPO opportunities are more on the private side and access to such opportunities may be limited,” said Divaspati Singh, Partner, Khaitan & Co.

Not everyone can invest

through the pre-IPO route since the shares are unlisted, and the deals are private. Besides, investors will need to find the right seller and negotiate the appropriate price, either directly or through the wealth managers involved, said Singh.

An IPO, on the other hand, is a public offering and all those with a QIB tag can bid through the QIB route.

Fifty per cent of the shares in an IPO are reserved for QIBs, much higher than that for retail and non-institutional categories.

QIBs can also participate as anchor investors a day before the IPO.

AIFs are exempt from post listing lock-in, provided the fund is not a promoter and the shares have been held for a period of at least six months.

“If I do a pre-IPO investment as an individual, the shares will have to be locked-in for six months after the IPO. If the same pre-IPO investment is done through an AIF, I can avail of an exemption. So families may continue to use AIFs for pre-IPO investment,” said Singh.