

A loophole lets retail investors skirt bar on SME IPO bidding

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Regulations barring retail investors from the high-risk initial public offerings of tiny businesses have failed to prevent the category from participating in at least a few such issues. The reason: a loophole in the rules.

National Stock Exchange and BSE Ltd, in consultation with the Securities and Exchange Board of India (Sebi), amended rules to raise the minimum bid for the IPOs of small and medium enterprises (SMEs) to more than ₹2 lakh for offers filed with the exchange after 8 March. The change in Regulation 267 of the Issue of Capital and Disclosure Requirements effectively bars retail or small individual investors from such issues, since they cannot invest more than ₹2 lakh.

However, IPOs approved before the 8 March cut-off can still offer small investors a

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- **ALL** bids in small and medium enterprises IPOs post March 8 have to be above ₹2 lakh

- **THIS** restricts small retail who bid up to ₹2 lakh from applying for such IPOs

- **PROSPECTUSES** okayed before cut-off can offer small chance to bid below ₹2 lakh

- **EXCHANGES** will have to specify whether such IPOs can be open to small investors

chance to bid below ₹2 lakh. That's because exchanges give companies a window of one year from the date of approval to launch their maiden offer.

Unless the bourses issue circulars offering clarity, retail investors may be unable to participate in fresh SME IPOs but

may be able to bid in older offers, according to analysts.

"A handful of SME IPOs that filed their prospectus before March 2025 are yet to open for subscription. These IPOs still allow applications for around ₹1 lakh to ₹1.2 lakh amounts that are significantly more accessible for individual investors," said Rohit Jain, managing partner at law firm Singhania & Co. "However, it's a narrow window, as most of these IPOs are expected to hit the market in the next few weeks."

Small firms whose IPO prospectuses were filed before the cut-off include 3B Films Ltd, LGT Business Connexions Ltd, Mahendra Relators and Infrastructure Ltd, and Everstim Technologies Ltd.

3B Films' offer, which is open for subscription from 30 May to 3 June, has received 177 applications from the retail category and is planning to raise ₹33.75

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crore from the offer. Its minimum bid quantity is 3,000 shares, which means a minimum investment of ₹1,50,000 as the offer price is ₹50.

Nikita Papers and Blue Water Logistics' offers, which closed on 29 May, also received bids from retail investors.

Around 348 companies have announced their intention to raise money on the SME platform, according to Prime Database. However, exchanges reveal the names of the companies launching offers a couple of days before an issue opens.

Sebi tweaked the rules as retail participation surged in SME IPOs even as the regulator found cases involving misuse of proceeds and misconduct. Small businesses raised ₹9,120 crore through IPOs in FY25 against ₹5,971 crore in FY24, ₹2,235 crore in FY23, and ₹965 crore in FY22, according to data shared by Prime Database. That mirrors the record ₹1.62 trillion mop-up from the main board IPOs in FY25.

Sebi regulates the main-board IPOs, while exchanges oversee the SME offers in con-



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sultation with the regulator.

"We are still seeing DRHPs getting filed, which have a quota for retail applications. However, it will depend on the exchange to either accept or reject the retail quota," said a senior executive at an investment management firm, requesting anonymity.

The exchanges are said to be working to address this gap, according to a person aware of the development, who spoke on the condition of anonymity.

Queries emailed to the NSE and BSE on this loophole

remained unanswered.

Retail investors were excluded from the IPO of NR Vandana Tex Industries Ltd., with a minimum bid amount of ₹2.44 lakh. The cotton textile company filed its red-herring prospectus on 21 May.

The company's offer, which closed for subscription on Friday, received bids from 33,597 individual investors who are not retail investors.

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