Regulator's move aimed at safeguarding retail investors and will help in better price discovery, say experts

Seven IPOs to make the cut under Sebi's retail quota plan

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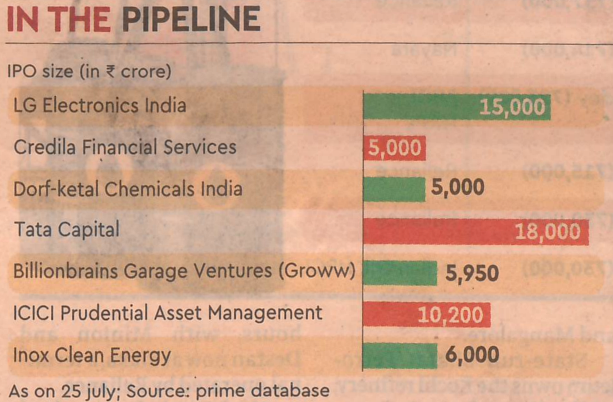
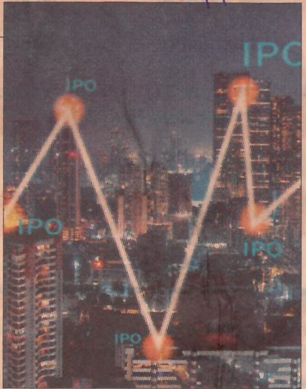
SEVEN INITIAL PUBLIC offerings (IPOs) in the pipeline will qualify under the latest proposal of the Securities and Exchange Board of India (Sebi) to reduce reservation for retail investors and increase portion for qualified institutional buyers (QIBs).

According to data from Prime Database, these IPOs include the ₹15,000-crore offer of LG Electronics and ₹5,000-crore fundraise each of Credila Financial Services and Dorf-Ketal Chemicals India that have already received the regulator's approval. The companies that are awaiting the regulator's nod are Groww's parent Billionbrains Garage Ventures (₹5,950 crore), Tata Capital (₹18,000 crore), ICICI Prudential AMC (₹10,200 crore), and Inox Clean Energy (₹6,000 crore). Other big names planning to launch their IPOs include the National Stock Exchange and Jio Infocomm.





Last week, a Sebi consultation paper had proposed various changes in the IPO structure, including discretionary anchor investor allotment and the reservation for institutional and retail categories. It said that for large IPOs above ₹5,000-crore size, the allocation to the retail category may be reduced from the existing 35% to 25% in a graded manner, while the allocation to the QIB category may be increased from 50% to 60% (up to ₹8,000 crore) in a graded manner.

It noted that in QIB there is reservation for mutual funds (MFs) in both anchor and non-anchor portions which also represent retail individual investors indirectly. Reducing the retail portion and increasing the QIB share better reflect market realities, ensure demand stability, and enhance issuer confidence in volatile or clustered market conditions.

Sebi's paper stated that despite market fluctuations, retail investors have continued to invest in the capital markets through MFs. While direct participation by retail investors has remained flat over the last three years, their participation through MFs has seen a secular uptick, it said, and thus, the lower allocation to the retail portion would be compensated by the higher reservation for domestic MFs in QIB portion.

Experts believe that if implemented, this move will help in better price discovery. Vikram Jain, deputy vice president at IDBI Capital Markets and Securities, said that this move is aimed at safeguarding retail investors and increasing transparency.

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THIS WILL ALSO help companies to get listed at a fair market price. Subhayu Sen, partner, Khaitan & Co, said it is very difficult to get retail commitment in large volumes in large IPOs above half a million dollars. But retail investors have more faith in mutual funds, partly because the markets are choppy, he added.

The Sebi paper said, in case of large IPOs, the size of the retail portion increases substantially and requires significant retail participation.

This is especially challenging in tepid or uncertain markets. Due to global situations and conflicts in different parts of the world, equity markets have been volatile resulting in launch windows becoming narrower. While overflow of demand is permitted in IPOs from retail to QIB category, under-subscription has a negative impact on the sentiment for the IPO and also creates a negative perception.

Sebi took into consideration IPO subscription data of sizes more than or equal to ₹5,000 crore since 2022 and observed that retail and non-institutional investor (NII) subscription has remained muted. "While conglomerate and popular PSU IPOs like Bajaj Housing Finance, Tata Tech, LIC, Bharti Hexacom, etc., saw robust response from retail/NII, other issuers coming to the equity market with large sized IPOs saw an under subscription in both categories," it said.

The retail portion of HDB Financial Services's IPO was only subscribed 1.5 times, and Hexaware Technologies was only 0.1%.