



## YOUR MONEY

### HIKE IN IPO FINANCING LIMIT

# Don't compromise on issue quality amid access to more funding

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The Reserve Bank of India (RBI) has raised the ceiling for individual initial public offering (IPO) financing from ₹10 lakh to ₹25 lakh. This is intended to increase participation by providing investors with access to higher leverage for new issues.

“The higher limit will enable larger applications without switching to non-banking financial companies (NBFCs) and allow funds to become recurrently available after repayment,” says Trivesh D, chief operating officer (COO), Tradejini.

#### How it works

IPO financing is a short-term loan provided by brokers, banks and NBFCs. Investors pay a margin, and the lender provides the rest.

After loan approval, customers deposit the margin amount. “Higher-risk investors or volatile IPOs attract higher margins,” says Shalibhadra Shah, group chief financial officer

(CFO), Motilal Oswal Financial Services. “Ultra-HNIs contribute 1-2 per cent margin, smaller HNIs put in 15-20 per cent, and retail investors about 40-50 per cent,” says Trivesh.

The amount remains blocked for three to five days. “Repayment includes principal and interest for the days the loan is used,” says Shah. Upon allotment, shares are credited to the investor's demat account with lender liens attached. “Lenders enforce immediate liquidation after listing to recover the principal, interest and charges, and transfer the remaining profit to investors,” says Trivesh. The interest rate depends on the lender and the borrower's profile. “It ranges from 7.5-18 per cent annually,” says Trivesh. Interest applies to the full loan amount, irrespective of allotment.

#### Higher chances of allocation

IPO financing allows investors to apply for larger lots. “It increases the chances of allotment,

especially in oversubscribed issues,” says Harsh Vira, chief financial planner and founder, FinPro Wealth. Several IPOs are launched simultaneously. “Retail investors with limited liquidity will find it easier to apply for multiple IPOs that are live at the same time,” says Yatin Singh, chief executive officer (CEO) – investment banking, Emkay Global Financial Services.

#### Bigger losses

IPO financing can at times backfire. “If the listing price is below the subscription price plus interest cost, investors could end up with a loss,” says Nipun Lodha, head of investment banking, PL Capital. Even when there are listing gains, interest and processing charges eat into the final returns.

If the IPO lists at a discount, the investor bears the loss and the financing cost. “The investor may choose not to sell on listing day. In that case, the allotted shares can be taken as collateral by the bank,” says Pranav Haldea, managing director, PRIME Database Group.

Existing demat holdings generally serve as collateral.

“Lenders protect their position

#### Key features

- Short-term loan of 3-5 trading days
- Margin ranges from 1-2% for ultra-HNIs to 40-50% for retail investors
- Interest ranges from 7.5-18%
- Interest applies to full loan amount, regardless of allotment received

through margin money or collateral. If required, they can liquidate positions to recover funds,” says Singh. Higher liquidity in the equity markets can have other harmful consequences. “Increased liquidity can create temporary asset bubbles and lead to eventual value erosion,” says Singh.

#### Mixed blessing

Experts regard the increased limit as a mixed blessing. “It provides borrowers an opportunity to scale exposure and potentially secure larger allotments in oversubscribed IPOs,” says Vira.

However, the increased limit will also increase leverage risk. “Losses get amplified if the listing is poor,” says Haldea.

#### Run these checks

Compare the cost of funding with expected listing gains. Vira advises evaluating IPO fundamentals, subscription demand, and grey market trends, but warns against relying blindly on grey market premium numbers.

“Assess the rate of interest, loan tenure, and security in IPO financing,” says Lodha.

Singh warns against lowering quality thresholds for IPO investing just because financing is available. Vira suggests maintaining adequate liquidity to meet repayment obligations. Haldea warns against retail investors going for IPO financing. “This strategy is better suited for HNIs and ultra-HNIs capable of handling larger exposures,” he says.

The writer is a Mumbai-based independent journalist