

Sebi restricts MFs from investing in pre-IPO shares

Cautions on risks of holding unlisted shares if listing fails

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The Securities and Exchange Board of India (Sebi) has restricted mutual funds (MFs) from participating in pre-IPO placements of equity shares. It clarified that MFs can invest in unlisted shares only as anchor investors ahead of an IPO.

An anchor allotment takes place a day before an IPO opens to the public, while pre-IPO placements are made in the months leading up to the listing.

MF regulations state that MFs can invest in listed and to-be-listed shares. However, since the regulations do not mention pre-IPO placements, and these allotments occur before listing, there had been ambiguity over whether MFs could participate in them.

In a letter to the Association of Mutual Funds in India (Amfi), Sebi has said that allowing MFs to take part in pre-IPO placements is risky, as it could lead to MF schemes ending up holding unlisted shares.

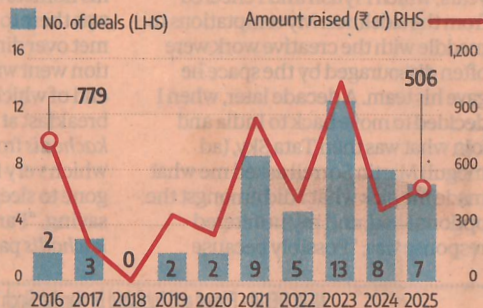
Although pre-IPO placements take place after the filing of the offer document, IPOs can still face delays or even cancellation. In such cases, investors may end up holding unlisted shares indefinitely, which MFs are not allowed to do.

Queries sent to Amfi and Sebi remained unanswered until press time.

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Losing momentum

Sebi restriction comes amid a declining trend in pre-IPO placements



Note: Data for 2025 until August
Source: PRIME Database

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"If the schemes of MFs are allowed to participate in pre-IPO placements, they may end up holding unlisted equity shares in case the issue or listing cannot be concluded for any reason, which would not be in compliance with the said clause," stated the Sebi letter that Amfi has forwarded to all its members.

Pre-IPO rounds are lucrative for fund managers as they generally happen at a discounted price compared to IPOs. Such investments often help boost the performance of the schemes.

While MF participation in pre-IPO rounds has been limited due to regulatory ambiguity, some fund managers were exploring the option. Recently, SBI MF participated in the pre-IPO round of Urban Company.

The restriction comes at a time when pre-IPO placements are already on a declining trend. The move could create an opportunity for other pooled investment



vehicles, such as alternative investment funds and family offices, to capture a larger share of these deals.

In 2023, 13 firms raised a record ₹1,074 crore through pre-IPO placements. This dropped to eight firms raising ₹387 crore in 2024. So far this year, seven firms have raised ₹506 crore.

The decline in both the number and value of these deals over the past years is largely attributed to the narrowing valuation gap between pre-IPO and IPO prices.