Why retail investors should tread the IPO market with extra caution

Chasing quick gains in IPOs can backfire if investors don't do their due diligence to understand business risks

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Navigating the risks of IPO market

Decoding a company's potential through IPO disclosures is not easy; retail investors need to watch out for several factors before making their bets.

Funds raised through IPOs

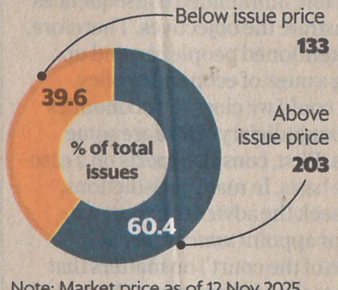
	Number IPOs	Issue amount (₹ trillion)
2021	63	1.18
2022	40	0.59
2023	57	0.49
2024	91	1.59
2025	90	1.51

2025 data is as of 13 Nov 2025

Why IPOs are high-risk bets

- Company disclosures are limited in terms of historical track-record
- Valuations may be stretched, leaving little upside for investors
- All risks may not be clear at the IPO stage
- Retail investors may not have the expertise to analyse

How many IPOs listed between 2021-2025 are trading above or below issue price?



Note: Market price as of 12 Nov 2025 versus issue price

Source: primedatabase.com

How many IPOs gave steep listing day gains?

Gains	2021	2022	2023	2024	2025
Negative	12	7	6	10	12
0-10%	7	10	9	13	31
10-20%	7	8	10	17	22
20-30%	11	6	8	6	3
30-40%	3	2	6	12	10
Above 40%	23	7	18	33	7

Note: The analysis is based on highest price on listing day versus the issue price; 2025 data as of 12 Nov 2025

Source: primedatabase.com

Flipping for listing day gains

42.7%

Between April 2021 and December 2023, retail investors on an average sold this percentage of shares (in value terms) allotted to them within a week, showed a Sebi study.

Reading red herring prospectus for red-flags

- Steady profits, but negative cash flow
- Sharp swings in sales and profits
- Sudden spike in profit ahead of IPO
- Weak internal control; auditor remarks
- High frequency of related-party transactions
- High promoter pledging
- Customer or supplier concentration
- **IPO objective:** business growth or only promoter exit

Toolkit of a conservative IPO investor

- Prefer companies with track record of dividend payouts
- Avoid loss-making companies
- See RHP disclosures, compare valuations with peers
- Use simple metrics like P/E, P/B

Note: RHP or red herring prospectus is publicly disclosed by the company ahead of its IPO

P/E is price-to-earnings ratio, P/B is price-to-book ratio and EV/Ebitda is enterprise value-to-earnings before interest, taxes, depreciation and amortization

Retail investors continue to bet heavily on IPOs

Retail subscription (average times of reserved quota)

Note: 2025 data is as of 12 Nov 2025; retail investors are investors with bids below ₹2 lakh

Source: primedatabase.com

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It's a galore of initial public offers, or IPOs, on Indian equity markets. The 90 IPOs so far in 2025 have cumulatively raised ₹1.51 trillion (up to 13 November 2025) marginally behind the ₹1.59 trillion vacuumed up by issuers in all of 2024, according to IPO tracker Prime Database.

More recently, Lenskart's IPO was in the news for its IPO at ₹70,000 crore-valuation, which was roughly ten times its sales and 230 times its FY25 earnings.

Unfazed by such high valuations, retail investors lapped up the shares of the eyewear retailer, with the retail book getting subscribed 7.56 times. The appetite of retail investors for IPOs has remained strong, with the average subscription of retail book being about 24.28 times in 2025.

Such an appetite doesn't, however, take away from the fact that IPO investing comes with its own set of risks. An issuer's valuations, for instance, may not align with how the market prices it after listing. Nearly two-fifths of IPOs between 2021 and 2025, for instance, are trading at below issue price, data from Prime Database shows.

Key risks may remain unclear as the firm's disclosure cycle has only just begun.

Thus, retail investors need to tread the IPO market with utmost care. Here is how you can use the company's disclosures to take a more calculated risk when betting on an IPO.

What to look for

Experts say retail investors should begin by examining the basics—valuation and business maturity. Deepak Jasani, an independent market expert, says most retail investors neither have the time nor the expertise to decode a company's draft prospectus in depth. "Start with simple metrics such as the price-to-earnings (P/E) and price-to-book (P/B) ratios and compare them with listed peers in the same industry. Metrics such as EV/Ebitda are slightly more complicated. Investors can find details of comparable peers in the company's red herring prospectus (RHP)," he advises.

The RHP is required to be made publicly available. But there is a caveat here, the RHP may compare the company with highly-valued peers. So, investors should also try and dig around on their own to see how other peers are valued.

For loss-making companies, traditional valuation metrics don't work because earnings are negative. In such cases, analysts often turn to the EV/Ebitda multiple, as it focuses on a company's operating performance. This helps gauge the business's underlying earning potential, even when net profits are yet to materialise. EV stands for enterprise value, which represents a company's total value—including its market capitalization, debt, and minority interest, minus cash and cash equivalents.

Jasani adds that retail investors should rather be conservative when looking at IPOs even if it means missing out on some opportunities. "Look for businesses with strong fundamentals. Check whether the business has a dividend distribution policy. The track-record of dividends means that the company has gone over its big investment phase and the company can now partly share its profits with shareholders," he explained.

Flipping behaviour

Retail investors are often looking at IPOs just for the day listing gains and not so much for the company's long-term potential. A study by Securities and Exchange Board of India (Sebi), found that 54% of IPO shares allotted (in value terms) to investors on an average—excluding anchor investors—were sold within a week. The study analysed IPOs between April 2021 and December 2023. In the same period, retail investors sold 42.7% of shares allotted to them within a week.

According to G. Chokkalingam, founder and head of research at Equinomics Research, investors just looking for listing gains, should still take precautions. "You may be keen to invest in IPO of a company, despite its steep valuations, but then limit your exposure. If the business is listing at discount to its IPO prices, cut losses immediately. If there is a listing day gain, quickly book profits."

"We need to acknowledge that retail investors are inherently attracted to IPOs. Having said that, they should be clear about their strategy. Are they coming for listing gains or as a long term investment? If coming in only for listing pop, they should also exit in case the issue lists at a discount," said Pranav Haldea, managing director of Prime Database.

The same Sebi study showed that individual investors exited only 23.3% of allotted shares when returns were negative in the first week of listing. This is one of the reasons why investing in IPOs for quick gains is not recommended.

Reading RHP

As mentioned earlier, RHP can give a lot of clues about the company's business operations.

You can go through various sections of the RHP. Start with the 'About our company' section. "This will help you learn about the company's business model—what products or services it sells, who its customers are, and how it plans to grow," said Pankaj Pandey, head-retail research at ICICI Direct.

This is also the section where you can see the dividend policy.

Next, check the company's 'Financial information'. "Look for steady revenue and profit growth over the past few years. Commentary on expansion plans—capacity additions, new geographies, product launches, customer acquisition strategy," he said.

Also, look out for these red-flags. "If the company shows profits on paper but negative cash flows year after year, that's a red flag. Similarly, a highly leveraged balance sheet or frequent refinancing of loans could mean underlying stress," Pandey explained. Check how the company plans to use IPO proceeds. Raising funds to expand capacity or reduce debt is healthy; using it to allow existing investors to exit entirely could be a concern.

What should investors do

If directly investing in stocks is risky, unless you are well-versed in stock research, investing in IPOs is even riskier because the company's disclosures are limited. Current regulations require companies to disclose just three years of financial statements. Mutual funds are one option where investors can get exposure to IPOs in an indirect manner.

Investing and researching for an IPO is like a maze as there are many factors that could impact how the IPO performs after listing, which may be difficult for retail investors to decode. The best approach for retail investors is through a diversified mutual fund that may participate in select IPOs.

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