

Mutual funds step up IPO play

Absorb nearly a third of issue amounts since Iran war, the highest in recent years

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Mutual funds (MFs) have absorbed an increasing share of the stake sold by companies in initial public offerings (IPOs) since the beginning of the Iran war. In fact, their share hit a multi-year high in June.

Companies raising money from the public for the first time on the stock market do it through IPOs. There have been 13 such IPOs since the Iran war began at the end of February, show numbers from primedatabase.com. MFs absorbed 32.3 per cent of the total amount that they raised. The corresponding figure before the Iran war was 20 per cent.

The analysis looked at data since 2023. The June numbers have been among the highest during this period.

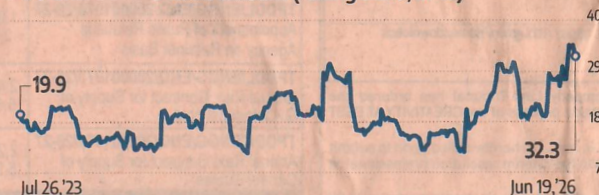
The trend also holds if one looks at annual figures. MFs absorbed 17 per cent of the 2023 IPO issue amount. It was 20 per cent in 2024, 22 per cent in 2025, and 29 per cent in 2026 as of June. The trend accelerated, as mentioned earlier, for the 13 IPOs during the period of the Iran war when it



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Higher share

MFs' share of IPO issue amount (rolling basis, in %)



Note: There have been 13 IPOs during the period of the Iran conflict between February and June. The analysis reflects mutual fund share of these IPOs, and the same number of issues on a rolling-basis in previous periods since 2023

Sources: primedatabase.com, BS calculations

touched 32.3 per cent.

The IPOs of smaller companies have outperformed larger ones recently, and asset managers are now willing to selectively consider firms with market capitalisations below ₹4,000 crore, according to Yatin Singh,

chief executive officer (CEO)-investment banking at Emkay Global Financial Services, which has the mandate for several such issues.

"They are open to looking at smaller companies," he said.

Companies with a market valuation of less than ₹4,000

crore had a median gain of 6.2 per cent since February-end, based on the closing price of their respective listing days. Companies with a market capitalisation of greater than ₹4,000 crore had median gains of 3.1 per cent. MFs absorbed nearly half of the amounts on offer in these large IPOs and less than a 10th for companies valued at less than ₹4,000 crore.

Many large companies that have been in the pipeline received their approval from the Securities and Exchange Board of India (Sebi) before the worst of the tariff-related market decline and geopolitical tensions. The valuations that they may have expected earlier may need to be reset and one will have to see how many companies are willing to list at cheaper valuations than before, Singh added.

The median gain based on the closing price on listing day has been coming down for IPOs. The IPOs since the Iran war have seen single-digit gains on a median basis. It was in excess of 12 per cent on a similar rolling basis for IPOs which opened for subscription in

2023, hitting as high as 49.2 per cent in the September quarter of the same year.

Globally, there has been evidence of MFs shying away from smaller IPOs due to liquidity concerns after the market turmoil caused by Russia's debt default in 1998. The increasingly larger size of MF schemes also played a role, according to a 2017 study — The small IPO and the investing preferences of mutual funds — from authors Robert P Bartlett III and Steven Davidoff Solomon of the University of California, and Paul Rose from Ohio State University.

"In light of this trend, a large fund's position in even a successful small IPO would require considerable effort to trade efficiently yet yield a vanishingly small contribution to the fund's return. The combined result of these dual concerns about illiquidity and return contribution was a swift and prolonged exodus of large mutual funds — once a core source of demand for smaller IPOs — from the small IPO marketplace, which only enhanced the real and perceived illiquidity of small IPOs," the study said.