

# LIC IPO bankers quote base fee of ₹1 cr

## 10 investment banks to divide fee pool; opt to go out-of-pocket

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Mumbai, 6 September

Investment bankers have quoted a fee of ₹1 crore — the minimum floor set by the government — for handling the share sale of the Life Insurance Corporation of India (LIC), said four people with knowledge of the development.

The fee will be divided between 10 banks selected to handle the share sale, potentially leaving each of them with out-of-pocket expenses on the transaction. However, the initial public offering (IPO) — which will by far be the biggest ever to hit the domestic markets — will boost the league table standings for the banks involved in the share sale.

According to sources, the Department of Investment and Public Asset Management (DIPAM) has selected Goldman Sachs, Kotak Mahindra Bank, ICICI Securities, JP Morgan, Citigroup, Axis Capital, Nomura, Bank of America, SBI Capital Markets, and JM Financial to manage the IPO.

A total of 16 investment banks were in the race to handle the mega share sale. Sources said DIPAM selected the final set based on their financial bid and their track record.

“Some of the banks that missed out didn’t bid at the floor that was set by the government,” said one of the investment bankers, who was in the race. “Banks that have handled

## TROPHY IPO

- Total 16 banks shortlisted by Dipam
- Of this 10 bankers selected
- Those picked include Goldman Sachs, Kotak Mahindra Bank, ICICI Securities, JP Morgan, Citigroup
- Those that missed out include HSBC, IIFL, BNP, Dam Capital
- Fee pool of ₹1 crore to be divided among the 10 bankers
- Industry sources say banks will have to incur expenses out of pocket
- Besides financial bid, track record on handling insurance IPOs considered
- LIC IPO size could be over ₹50,000 crore

IPOs in the insurance sector have been given prominence.”

For the first time, the government announced a minimum fee for share sale in a public sector undertaking (PSU). According to LIC’s RFP, bidders had to submit a financial bid of ₹1 crore or higher. In the past, because of the absence of a floor, bankers had bid a token fee of ₹1 to handle big-ticket share sales such as Coal India.

“Considering this is a fairly large transaction, the government has decided to offer some fees to the investment bankers. LIC being a trophy mandate, bankers would have still agreed to do the share sale for free. Even on this transaction, they will lose money as the basic issue expenses for this scale of deal

could be anywhere between ₹10-20 crore,” said another investment banker, who has previously worked on government IPOs.

Typically, investment banks charge between 1 per cent and 3 per cent of the amount mobilised for handling large private sector IPOs.

The insurer’s prospectus mentions the cost incurred to organise road shows for the IPO, including travel, will have to be borne by the investment bankers, except the tour expenses of government and LIC officials. Further, the costs that bankers have to fund include preparation of statutory advertisement, printing and distribution of stationery.

“Given LIC’s brand and also the fact that it will be India’s largest IPO



## Tamilnad Mercantile Bank files DRHP

The hundred-year-old Tamilnad Mercantile Bank (TMB) has filed a draft red herring prospectus with the market regulator Securities and Exchange Board of India (Sebi) for an initial public offering (IPO).

In April, the bank’s Managing Director and Chief Executive Officer K V Rama Moorthy had said that it was planning a ₹1,000-crore IPO this fiscal. According to the documents, the IPO will include issue of 15.83 million fresh equity shares at a face value of ₹10 each and an offer for sale of up to 12,505 shares by promoters and existing shareholders.

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ever, it is definitely an extremely prestigious mandate to be a part of. The fee takes a backseat in light of the league table credit that bankers shall get. LIC, besides being a market leader and a huge brand, is and has been the first financial investment for many Indians for several years. As such, the IPO shall not require a lot of marketing. However, a lot will depend on how the issue is priced,” said Pranav Haldea, managing director, Prime Database, a primary market tracking firm.

Depending on the market conditions and investment bankers’ feedback, LIC’s IPO size could be in the range of ₹50,000 crore to ₹1 trillion. Earlier this year, market regulator Securities and Exchange Board of India (Sebi) relaxed the mini-

imum 10 per cent dilution criteria for mega floats like LIC. Under the new rules, companies with post-IPO market capitalisation of up to ₹1 trillion still have to dilute a minimum of 10 per cent. However, for incremental market cap beyond ₹1 trillion, the dilution is only 5 per cent.

Insurance behemoth LIC’s market value is pegged at ₹10 trillion. Therefore, the company will have to come out with an IPO of at least ₹55,000 crore (₹10,000 crore mandatory + ₹45,000 crore incremental).

At present, the biggest IPO to hit the Indian market is that of Coal India at ₹15,200 crore. One97 Communications, operator of digital payments major Paytm, filed for a ₹16,600-crore IPO with Sebi in July.