

WHEN SEBI TRIES TO GET YOU A PIECE OF THAT HOT IPO

In an increasingly institutionalised market, the regulator means to find space for the individual investor

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Have you tried to buy shares in a coveted company entering the market for the first time and were disappointed? Sebi will help you. The market regulator, in a recent consultation paper, proposed a rule tweak to ensure that you get some stocks. Noble intention, but an analysis of international trends suggests that it could be swimming against the tide.

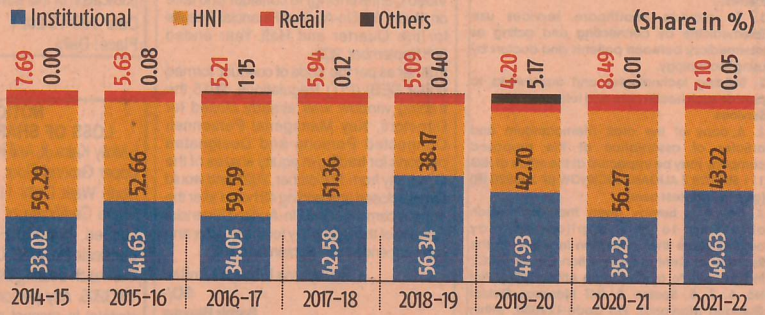
First, let's look at what's happened. Companies have gone big on initial public offers (IPOs) in the coronavirus pandemic. Rules reserve a portion of shares for retail and non-institutional investors: if they don't bid the shares can be allocated to other applicants. Retail investors are those who bid for shares worth up to ₹200,000. Bids over that fall under the non-institutional investor category. Wealthy high net worth individuals (HNIs) often account for the bulk of bids in this category.

Companies sold, through 25 IPOs, shares worth ₹51,979 crore this financial year. They received bids worth ₹10.3 trillion, or 19.9 times the value of shares being offered. HNIs accounted for a big part of this bidding (as seen in chart 1).

Sebi found that oversubscriptions often crowd out those on the lower side of bids of over ₹200,000. It suggested reserving one-third of the non-institutional investor quota for those investing between ₹200,000 and ₹1 million, so that they are not crowded out by moneybags bidding larger amounts. Conversations with market experts suggest that the wealthy borrow money and invest in IPOs to make a profit on companies expected to rise after listing. Lower interest rate appears to power this trend (chart 2).

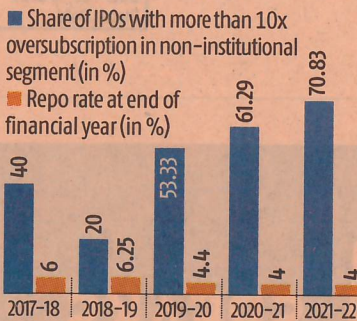
A quota for individuals through reservations for retail and non-institutional investor categories was supposed to bring in new investors to the market. However, retail investors often burn their fingers in IPOs. In international markets, wider equity ownership is happening increasingly through institutional means (like mutual funds). Trends for roughly

1. HNIs CONTRIBUTE MOST TO IPO BIDS BY INDIVIDUALS



Note: Data for 2021-22 is as of September 2021. Others covers investors such as employees.
Source: primedatabase.com

2. LOWER RATES FUELLED OVERSUBSCRIPTIONS



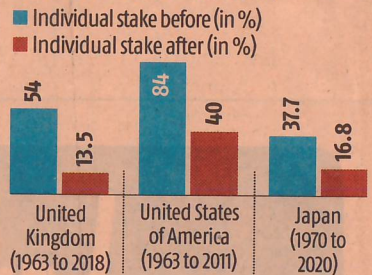
Note: Data for current year is as of September 28, 2021.
Source: Sebi, RBI

50 years show individual ownership going down in favour of institutional ownership (chart 3).

Institutions, because of size and organisation, can better assert their rights as shareholders. Institutional investors' stake has risen from 62.39 per cent by value of India's publicly available shares (or free float) in June 2009 to 70.35 per cent in June 2021. Individual shareholding has dropped from 19.66 per cent to 18.74 per cent (chart 4).

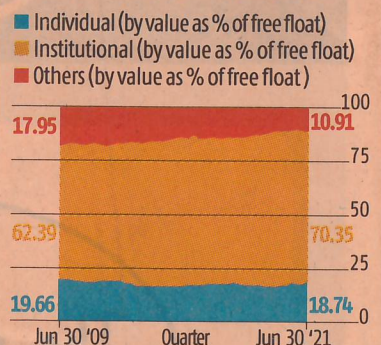
This could mean institutional shareholders will be the dominant providers of equity capital. Such ownership can create its own challenges: such as a bias towards large listed firms. Meanwhile, a debate on at what point individual quotas would have outlived their utility in an increasingly institutionalised market may well be worth having.

3. DIRECT HOLDINGS FELL ELSEWHERE OVER TIME



Source: Office for National Statistics (UK), Japan Exchange Group, US statistics from OECD Journal: Financial Market Trends Volume 2013/2 'Institutional investors and ownership engagement' by authors Serdar Çelik and Mats Isaksson

4. INSTITUTIONAL SHARE-HOLDING HAS BEEN RISING



Note: Shows ownership patterns for companies listed on the National Stock Exchange. Individual ownership includes retail and high networth individuals. Institutional includes domestic institutional investors and foreign portfolio investors.
Source: primeminbase.com