

Tighter norms may rein in wild HNI bets in IPOs

Earmarking a third of the NII portion for small-ticket investors can help democratise allotments, say experts

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The Securities and Exchange Board of India's (Sebi's) diktat to reserve a third of the portion for non-institutional investors (NII) for bids that fall between ₹2 lakh and ₹1 million may help democratise the way shares are bid for in this category during initial public offerings (IPOs), according to experts.

Until now, those bidding in the NII category with a lower value typically lost out to those who placed high-value bids of ₹20 crore-₹50 crore. This was especially the case when the grey market premium for an IPO was high and the issue was expected to list at a sizable premium. The one-third reservation means that NIIs bidding for amounts lower than ₹1 million will have a much higher chance of getting allotment now. This also means that the total amount that can be bid in the HNI category may reduce.

The allotment dynamics will change and become the same as that for retail investors. According to the new norms, the allotment of securities for the NII category will be on "draw of lots" in order to allot minimum application size to applicants in case of oversubscription. The balance allotment will be done on a proportionate basis.

"Earlier if an IPO was oversubscribed 100 times than meant, one would get a hundredth of the application size. The interest cost was then added to the issue price and HNIs invested based on how much the grey market premia exceeded this price. Now those calculations might not work and there could be a negative impact on the funding side. This seems to be one of the objectives of Sebi as investors have been blindly investing in IPOs purely for listing gains," said Pranjal Srivastava, partner (ECM), Centrum Capital.

The regulator's diktat -- along with another recent one from the Reserve Bank of India restricting non-banking financial companies from lending



ILLUSTRATION: AJAY MOHANTY

IPOs THAT SAW MOST SUBSCRIPTION BY HNIs

25 of 63 offerings got subscribed over 100 times

	Times subscribed (x)		Listing day gain/loss (%)
	HNI/NII	Total	
● Paras Defence & Space Technologies	955	214	185
● Latent View Analytics	876	185	148
● Tega Industries	662	152	60
● Mtar Technologies	643	139	88
● Tatva Chintan Pharma Chem	503	125	113
● C.E. Info Systems	424	108	35
● Nazara Technologies	387	96	43
● Easy Trip Planners	383	88	11
● Rolex Rings	356	90	30
● Shyam Metalics & Energy	334	85	23

Source: PRIME Database

more than ₹1 crore to IPO investors from April 1 — is expected to curtail speculative borrowing and adversely impact subscription levels, putting a lid on the frenzied bidding process during IPOs.

"This Sebi norm will only have a minimal impact on subscription levels in the NII category. What will truly hit HNI subscriptions, however, is the RBI rule restricting NBFCs from lending more than ₹1 crore to borrowers wanting to invest in IPOs from April 1," said Pranav Haldea, managing director, PRIME Database.

"There shall be a ceiling of ₹1 crore per borrower for financing subscription to initial public offering (IPO). NBFCs can fix more conservative limits," the RBI notification in October last year stated.

According to Haldea, the new norms are a step in the right direction and shall lead to better price discovery and reduce volatility on listing day. "Most HNIs invest only for listing gains and this leads to selling pressure on the day of listing," he said.

Two of five IPOs last year saw its NII portion getting subscribed more than 100 times. Six of these firms listed with gains of over 100 per cent, while another six ended with gains of over 50 per cent on Day One.

IPO financing is a lucrative business for NBFCs as the lending period is for a short duration of 7-10 days. The funding demand and interest rates charged (6-10 per cent per annum) largely depend on the subscription figures that build up during the course of an IPO.