

# Sebi probes six local investment banks over small listings

Reuters

feedback@livemint.com

MUMBAI

Securities regulator, worried about malpractice in a frothy IPO market, is investigating six domestic investment banks that have worked on offerings by small businesses, two people with direct knowledge of the matter said.

The probes by the Securities and Exchange Board of India (Sebi) began earlier this year and are focused on the fees that the banks have charged, according to the people who declined to be identified as the

investigations are confidential.

It has found that at least half a dozen small investment banks have charged companies fees equivalent to 15% of funds raised via their IPO, they added. That's much higher than the standard practice of 1-3% in India.

Reuters was not able to learn the names of the banks under investigation. Sebi did not respond to requests for comment.

The investigations follow efforts by Sebi to warn investors about the dangers of investing in some small businesses as well as plans for tighter rules for such IPOs.



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In India, smaller businesses with annual turnover of ₹5 crore to ₹250 crore (\$600,000-\$30 million) list on separate sections of the BSE

and National Stock Exchange of India (NSE). There are fewer disclosure requirements and the offerings are vetted by the exchanges as opposed to large

IPOs which have to be cleared by Sebi.

Sebi's preliminary findings suggest that the high fees are being charged to ensure the offerings are oversubscribed, according to one of the people.

The regulator is looking to curb coordinated activity between banks and some investors who break rules to place huge bids both as high net-worth individuals and as ordinary retail investors, the second person said.

"These bids are not genuine and are cancelled at the time of allotment but the high subscriptions end up attracting more bids and investments

from other investors," the people added.

India has more than 60 investment banks that actively work on IPOs for small businesses - a segment that like the rest of India's IPO market has been booming. In the last fiscal year ended in March, 205 small firms raised ₹6,000 crore, a sharp jump from the 125 companies that raised ₹2,200 crore a year earlier, according to PRIME Database, a capital markets data provider.

For the April-August period this year, 105 small firms have raised ₹3,500 crore with more than two-thirds of the offerings oversubscribed.