

HIGHER THAN AVERAGE IPO FEE

Sebi probes 6 local investment banks

REUTERS

Mumbai, 24 September

Securities and Exchange Board of India (Sebi), worried about malpractice in a frothy initial public offering (IPO) market, is investigating six domestic investment banks that have worked on offerings by small businesses, two sources with direct knowledge of the matter said.

The probes by the Sebi began earlier this year and are focused on the fees that the banks have charged, according to the sources 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 per cent of funds raised via their IPO, they added. That's much higher than the standard practice of 1-3 per cent 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.

In India, smaller businesses with annual turnover of ₹50 million to ₹2.5 billion 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 sources. 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 source 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 source



UNDER THE SCANNER

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- At least 6 small investment banks have charged companies fees equivalent to 15% of funds raised via their IPO
- The standard practice is charging companies fees of 1-3%
- Higher fees were likely being charged to ensure the offerings get oversubscribed

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 financial year ended in March, 205 small firms raised ₹60 billion, a sharp jump from the 125 companies that raised ₹22 billion a year earlier, according to PRIME Database, a capital markets data provider.

For the April-August period this year, 105 small firms have raised ₹35 billion with more than two-thirds of the offerings oversubscribed.

The regulator in July capped share gains for a small firm's first day of trade at 90 per cent.