IPO shares: Small investors vie for more but get less in allocations

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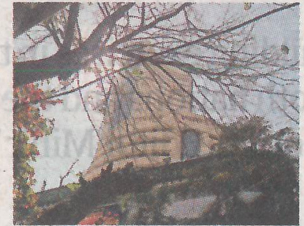
AT A time when applications from small investors for shares in initial public offerings (IPOs) have been skyrocketing, their share in allocations has actually fallen by 25 per cent. Data from the National Stock Exchange (NSE) shows that retail investors have received a share of 19.6 per cent in IPO share allocations as compared to 26.2 per cent in FY24, with some of the bigger offerings allocating a larger share to qualified institutional buyers (QIBs).

According to Pranav Haldea, MD of PRIME Database Group, the allocation for retail was lower as



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"in the last 4-5 months, we have had more tech companies coming to the market."

According to the Securities and Exchange Board of India (Sebi) regulations, issuers can allot a minimum of 35 per cent of their IPO shares to retail investors only if they meet certain eligibility criteria, including net tangible assets of at least Rs 3 crore and a net worth of at least Rs 1 crore in each of the preceding three years, and an average operating profit of Rs 15 crore during the preceding three years. If a company does not meet these criteria, then it has to allot a minimum of 75 per cent of the IPO shares to QIBs, a maximum of 15 per cent to non-institutional investors and 10 per cent to retail investors.

Of the 26 companies that came to the primary market till August this year, 17 companies met Sebi's eligibility criteria. However, they only accounted for 39 per cent of the total IPO consideration, according to NSE data. As a result, the share of QIBs in the IPO allocation has risen to 65.3 per cent so far in FY25 as against 55.8 per cent in FY24, the data showed.

Between April and August, these 26 companies mobilised Rs 36,197 crore through their IPOs.

The scales could tilt in favour of small investors since the robust primary market pipeline has several traditional companies such as Hyundai India and Afcons Infrastructure. "... the allocation to retail should rise," Haldea said.

"The surge that we have seen in demat accounts has majorly come on the back of retail investors. So, the current regulation does reduce the opportunity for retail investors... There is scope to relax these norms," said Naveen Vyas, executive director and fund manager at Microsec Wealth Management.

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